

**CALIFORNIA ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION FINANCING AUTHORITY**

Request to Approve Project for SB 71 Sales and Use Tax Exclusion (STE)¹

**LEYDEN ENERGY, INC.
Application No. 11-SM001**

Tuesday, January 25, 2011

Prepared By: *Heather Williams*

SUMMARY

Applicant – Leyden Energy, Inc.

Location – Fremont, Alameda County

Industry – Lithium Ion Batteries

Project – New Manufacturing Line for Lithium Ion Batteries for Electric Vehicles

Value of Qualified Property – \$1,306,525

Estimated Sales and Use Tax Exclusion Amount² – \$118,894

Estimated Net Benefits - \$847,260

Application Score -

Fiscal Benefits Points:	7,946
<u>Environmental Benefits Points:</u>	<u>180</u>
Net Benefits Score:	8,126

<u>Additional Benefits Points:</u>	<u>20</u>
Total Score:	8,146

Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

² This amount is calculated based off of the average statewide sales tax rate of 9.1%.

THE APPLICANT

Leyden Energy, Inc. (“Leyden” or “Applicant”) was incorporated on April 27, 2007 in Delaware and is headquartered in Fremont, California. Leyden manufactures what it refers to as “heat resistant, energy-dense Lithium-Ion cell technology.” According to Leyden, its products are ideally suited for consumer electronics, electric vehicles and grid storage product industries.

The major shareholders (10.0% or greater) and board members of Leyden are:	The corporate officers of Leyden are:
Aakar Patel, Chairman (17.2%)	Aakar Patel, President
Andy Kau, Managing Director (24.69%)	Marc Juzkow, CTO
Wade Woodson, Managing Director (23.93%)	Nick Cataldo, VP of Business Development
Peter Nieh, Managing Director (23.94%)	Bill Tinsley, CFO

THE PROJECT

Leyden will be installing a new line to assemble and supply advanced lithium ion cells, modules and batteries to California’s electric vehicle manufacturing industry. Specifically, Leyden will be manufacturing a new generation of 10 ampere-hours (“AH”) cells and assembling them into 22 kilowatt hour (“kWh”) battery systems to power full electric drive vehicles. According to Leyden, this Project will enable the Applicant to introduce new, safer, higher energy content and ultimately less costly products which in turn may spur additional sales by California-based electric vehicle manufacturers.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Anode Cathode Feed & Chop	\$ 93,600
Cathode Tab Stake	84,825
Cathode Clamp Placement	23,400
Anode Gang Weld	52,650
Cathode Gang Weld	44,460
Cathode Encapsulation	61,425
Simple Stacker	46,800
Serpentine Stacker	70,200
Pouch Form Station	17,199
Multi Side Seal	22,815
Electrolyte Fill	39,488
Formation	128,700
Vacuum Seal	22,815

Agenda Item – 4.A.1
Resolution No. 11-SM001
Application No. 11-SM001

Anticipated Qualified Property Purchases Continued:

Beta Gage	70,200
Slitter for Substrate	234,000
Solvent Recovery	30,000
Dry Room	252,500
Mix Room	11,448
Total	<u>\$1,306,525</u>

Note: The Qualified Property purchases reported in the Application and shown here in staff's report are estimated costs. At the termination of the conveyance/reconveyance agreement a finalized Project equipment list will be prepared detailing the value of the Project equipment conveyed and reconveyed and detailing the actual tax benefit realized pursuant to Revenue and Tax Code Section 6010.8. Variations from the costs shown in the Application and in this report may occur prior to the closing due to increased costs of certain components of the Project from original estimates, and other reasons. In addition, such costs may vary after closing due also to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in law or regulation or for other reasons.

TIMELINE

The expansion of Leyden's plant will be made possible by a California Energy Commission grant. Leyden anticipates it will be under contract by the end of January 2011, at which time it will order all the Qualified Property. Leyden anticipates that all equipment will be delivered, installed and qualified in 2011, and plans to begin pilot production in 2011.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated at \$1,306,525 and the total net benefits are valued at \$847,260 for the Project. The Project received a Total Score of 8,146, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 180, which exceeds the 100 point threshold.

- A. Fiscal Benefits (7,946 points).** The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant's sales taxes, personal income taxes paid by the firm's employees, firm taxes on profits, property taxes and other indirect fiscal benefits of the Applicant which amounts to \$944,754, resulting in a Fiscal Benefits Score of 7,946 points for the Project.

- B. Environmental Benefits (180 points).** The Project will result in \$21,400 of total pollution benefits over the life of the Facility resulting in an Environmental Benefits Score of 180 points for the Project. These benefits derive from the manufacturing of lithium ion batteries for electric vehicle as these vehicles deliver a net reduction in

energy consumption and CO2 emissions relative to a comparable gasoline powered vehicle.

- C. Additional Benefits (20 of 200 points).** Applicants may earn up to 200 additional points for their Total Score. The Applicant submitted information and received 20 additional points.
- 1. Permanent Jobs (10 of 40 points).** The Applicant’s Project will support a total of 11 permanent jobs at its Facility. CAEATFA estimates that approximately 1 of these jobs will be attributable to a marginal increase in jobs created due to the approved STE, resulting in a Permanent Jobs Score of 10 points for the Project.
 - 2. Construction Jobs (10 of 20 points).** The Applicant’s Project will support a total of 15 construction jobs at its Facility. CAEATFA estimates that approximately 1 of these jobs will be attributable to a marginal increase in jobs created due to the approved STE, resulting in a Construction Jobs Score of 10 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Leyden is modifying its existing Facility layout to make it more suitable for pilot manufacturing. This will include the construction of a dry room for pouch assembly, a mix room for slurry preparation, and a solvent recovery area to meet environmental and local building code standards. Permits will be obtained from both the Bay Area Air Quality Management District and the City of Fremont for these Facility improvements.

LEGAL QUESTIONNAIRE

Staff reviewed the Applicant’s responses to the questions contained in the Legal Status portion of the Application. The responses did not disclose any information that raises questions concerning the financial viability or legal integrity of this Applicant.

CAEATFA FEES

In accordance with CAEATFA Regulations,³ the Applicant has paid CAEATFA an Application Fee of \$998.42 and will pay CAEATFA an Administrative Fee of \$15,000.

³ California Code of Regulations Title 4, Division 13, Article 2, Section 10036

RECOMMENDATION

Staff recommends approval of Resolution No. 11-SM001 for Leyden Energy Inc.'s purchase of Qualified Property in an amount not to exceed \$1,306,525 anticipated to result in an approximate sales and use tax exclusion value of \$118,894.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A TITLE
CONVEYANCE AGREEMENT WITH LEYDEN ENERGY, INC.**

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Leyden Energy, Inc.** (the “Applicant”), for financial assistance in the form of a conveyance/reconveyance of title agreement (the “Agreement”) regarding tangible personal property for the design, manufacture, production or assembly of Advanced Transportation Technologies or Alternative Source products, components, or systems (“Qualified Property”) as more particularly described in the staff summary and in the Applicant’s Application to the Authority (collectively, the “Project”); and

WHEREAS, the Applicant has requested the Authority to enter into the Agreement transferring title of Project equipment with an estimated cost not to exceed \$1,306,525 over a period of three years; and

WHEREAS, the Agreement will provide that the Applicant will, prior to any use of the Qualified Property, transfer title at no cost to the Authority from time to time as purchases of Qualified Property are made and the Authority will then transfer title back to the Applicant without having taken possession of the Qualified Property; and

WHEREAS, the Applicant believes that this form of financial assistance will enable it to avail itself of the benefits of an exclusion from sales and use taxes relative to the Qualified Property pursuant to California Revenue and Taxation Code Section 6010.8; and

WHEREAS, approval of the terms of the Agreement and authority for the Executive Director, Deputy Executive Director, or Chair of the Authority, to execute the necessary documents to effectuate the Agreement is now sought;

NOW, THEREFORE, BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Project constitutes a “project” within the meaning of Public Resources Code Section 26003(g)(2).

Section 2. The requested conveyance agreement constitutes “financial assistance” within the meaning of Public Resources Code Section 26003(e)(2).

Section 3. The Applicant is a “participating party” within the meaning of Public Resources Code Section 26003(f).

Agenda Item – 4.A.1
Resolution No. 11-SM001
Application No. 11-SM001

Section 4. The Executive Director, Deputy Executive Director, or Chair of the Authority (the “Authorized Signatories”) are hereby authorized for and on behalf of the Authority to approve any changes to the Project as the Executive Director shall deem appropriate, provided that the amount of the Qualified Property to be purchased may not be increased above the amount approved by the Authority.

Section 5. The proposed form of the Agreement between the Applicant and the Authority, as filed with the Authority prior to this meeting, is hereby approved. The Authorized Signatories are hereby authorized and directed, for and on behalf and in the name of the Authority, to execute, acknowledge and deliver to the Applicant the Agreement in substantially the form filed with or approved by the Authority, with such insertions, deletions or changes therein as the Authorized Signatory executing the same, may require or approve, and with particular information inserted therein in substantial conformance with the staff summary and in the Applicant’s Application to the Authority, such approval to be conclusively evidenced by the execution and delivery thereof. The Authority understands and agrees that pursuant to the terms of the Agreement, the obligations of the Applicant may, under some circumstances be carried out or assumed by a successor or assignee entity, or by an affiliate of the Applicant.

Section 6. Each of the Authorized Signatories, acting alone, is hereby authorized and directed to do any and all ministerial acts, including (without limitation) the execution and delivery of any and all documents and certificates they may deem necessary or advisable in order to consummate the Agreement and otherwise effectuate the purposes of this resolution.

Section 7. The Applicant shall assure CAEATFA that all Qualified Property conveyance pursuant to the Agreement shall be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Agreement shall only apply to Qualified Property that the Applicant certifies will be installed, maintained and operated at facilities within the State of California.

Section 9. The adoption by the Authority of this Resolution for the Applicant shall not be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project or in any application for any required permission or authority to acquire, construct or operate the Project.

Section 10. This Resolution is effective immediately and will remain in full force and effect unless the Regulatory Agreement, as defined in CAEATFA Regulations Section 10035(A), is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty days if necessary.