

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

***Consideration of Leyden Energy Inc.’s Request to Waive a 25% Purchase Requirement under
the SB 71 Program***

Tuesday, January 17, 2012

Prepared By: *Heather Williams*

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 Amount¹ – \$118,894

Amount of Time Requested: 5 months (July 1, 2012)

SUMMARY

Leyden Energy, Inc.’s (“Leyden” or the “Applicant”) Application was approved by the CAEATFA Board on January 25, 2011 for the purchase of \$1,306,525 in Qualified Property for a new lithium ion battery manufacturing line for electric vehicles in Fremont, Alameda County. The SB 71 Program (“Program”) requires that Leyden purchase 25% (\$326,631) of the total approved Qualified Property within the first year (Regulation Section 10035(c)(1)), the “25% Purchase Requirement.” This requirement serves as an indicator of readiness and assists in incentivizing timely economic activity. The 25% Purchase Requirement can be waived by the Board upon a finding that it is in the public interest and advances the purposes of the Program (Regulation Section 10035(c)(1)(A)).

As of January 1, 2012 Leyden has conveyed \$121,519.20 in Qualified Property (9.3% of total amount approved). On November 9, 2011, CAEATFA staff sent the Applicant a courtesy reminder of the 25% Purchase Requirement Leyden responded by requesting an extension of the 25% Purchase Requirement to July 1, 2012 to accommodate unforeseen delays in purchasing equipment due to a change in its customer base and subsequent delays in the financing timelines under its grant from the California Energy Commission (CEC) (Attachment A).

About the Applicant

Leyden 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

¹ This amount is calculated based off of the average statewide sales tax rate of 9.1% at the time the Application was approved by the Board. The current anticipated STE is \$105,829, calculated at 8.1%.

cell technology.” According to Leyden, its products are ideally suited for consumer electronics, electric vehicles and grid storage project industries.

Project Description

Leydens’s Application approved by the CAEATFA Board was for the manufacturing of lithium ion cells, modules and batteries for California’s electric vehicle manufacturing industry. Specifically Leyden planned to manufacture a new generation of 10 ampere-hours cells and assemble them into 22 kilowatt hour battery systems to power full electric drive vehicles. According to Leyden, this Project would 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.

Waiver Request

Leyden has requested a waiver of the 25% Purchase Requirement due to unforeseen delays in purchasing equipment due to a change in its customer base, and subsequent delays in the financing timelines under its grant from the California Energy Commission.

At the time of Leyden’s initial Application to CAEATFA, Leyden had anticipated that it was going to produce batteries for full electric drive vehicles for its primary customer, Green Vehicles of Salinas. In mid-2011 Green Vehicles became insolvent and ceased operations. Leyden is now working with a number of US based electric transportation manufacturers to find replacement customers and intends to manufacture batteries for hybrid and plug in hybrid vehicles. This unanticipated change in its customer base impacted Leyden’s timeline for purchasing equipment. Leyden was unable to purchase equipment under its grant with the CEC until its modified equipment list/schedule was approved by the agency, delaying the project for several months. The equipment purchasing is now on track, just several months behind the initial schedule.

Staff Evaluation

According to the Program’s evaluation process at the time of initial Board approval, the Project is anticipated to produce a net benefit of an estimated \$847,260 with an anticipated fiscal benefit of \$944,754 and anticipated environmental benefit of \$21,400 over the life of the equipment (weighted average of 6.31 years). The approved Project is anticipated to support a total of 11 permanent jobs and 15 temporary construction jobs.

As noted above, Leyden’s Project approved by the Board anticipated Leyden producing its batteries for electric vehicles, but due to market conditions, it now plans to initially produce batteries for hybrid and plugin hybrid vehicles. While this is a minor modification in Leyden’s business plan, this change could affect the anticipated environmental benefits of the Application at the time it was initially evaluated, however, not significantly.

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Leyden has represented that a five month time extension will allow the Project to move forward. Leyden has further represented that the delays in purchasing equipment were unanticipated and could not be reasonably avoided. Leyden has also represented that the Project remains substantially the same as it was at the time of initial Board Approval. Based on the foregoing, staff believes that extending the 25% Purchase Requirement is consistent with the intent of the Program, is in the public interest, and advances the purposes of the Program.

Staff Recommendation: Staff recommends that the Board find it is in the public interest and advances the purposes of the Program to extend the 25% Purchase Requirement to July 1, 2012 pursuant to Regulations Section 10035(c)(1)(A).

Attachments

Attachment A: Leyden's Letter Requesting Waiver dated January 4, 2012

Attachment B: Staff Summary/Project Description approved by the CAEATFA Board on
January 25, 2010

**A RESOLUTION OF
CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION
FINANCING AUTHORITY APPROVING A TIME EXTENSION OF THE 25%
PURCHASE REQUIREMENT**

January 17, 2012

WHEREAS, on January 25, 2011 the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”), a public instrumentality of the State of California, approved a Sales Tax Exclusion (“STE”) in the amount of \$1,306,525 of Qualified Property for **Leyden Energy, Inc.** (the “Applicant”); and

WHEREAS, within one year of approval by the Authority, the Applicant must make purchases of Qualified Property totaling not less than twenty-five percent (25.0%) of the total amount listed in the approval resolution (Regulations Section 10035(c)(1));

WHEREAS, upon a finding that it is in the public interest and advances the purposes of the Program, the Authority may waive the requirement that the Applicant purchase at least twenty five percent (25.0%) of Qualified Property within one year of Board Approval (Regulations Section 10035(c)(1)(A)); and

WHEREAS, the Applicant has requested a waiver for the requirement to purchase 25% of Qualified Property within one year to address unanticipated and unavoidable delays in the Project’s financing process, and extend the term from January 25, 2012 to July 1, 2012; and

WHEREAS, granting the waiver will allow the project to proceed and the state to receive anticipated environmental and economic benefits that justified the initial approval of the project, thereby advancing both the public interest and the purposes of the program.

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

Section 1. The Authority finds that it is in the public interest and advances the purposes of the Program to waive the requirement that the first year purchases of Qualified Property are at least twenty-five percent (25.0%) of the total amount listed in the approval resolution, and extend the term to July 1, 2012.

Section 2. This resolution shall take effect immediately upon its passage.

Attachment A: Leyden's Letter Requesting Waiver

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Phone: +1 (510) 933-3800 | Fax: +1 (510) 445-1032
www.leydenenergy.com



January 4, 2012

Christine Solich
Executive Director
CAEATFA
915 Capitol Mall, Rm457
Sacramento, CA 95814

Christine,

The purpose of this letter is limited to obtaining clarification of our project status and requesting an extension waiver. Leyden Energy is providing further detail as requested in phone calls with CAEATFA on December 21st and 28th for a waiver extension submitted on November 11, 2011, as we are not certain of meeting the requirement for purchase of 25% of Qualified Property within the first 12 months ending January 25, 2012, the anniversary date of the CAEATFA approval. However, the Company expects to meet the purchase requirement during the first half of the 2012 calendar year, hence an extension is requested until July 1, 2012 to meet the 25% Qualified Property purchase requirement. Leyden is not requesting a change to the Qualified Property List only an extension of time to meet the 25% purchase requirement.

Status

- Leyden was approved on January 25, 2011 for a sales/use tax exemption for equipment to be purchased for its Fremont CA production facility. Total budgeted value of equipment purchases subject to exemption was \$1,306,525 (see attachment Qualified Property List). As discussed on our last phone call, Leyden has performed a current review of the Qualified Property List and, while not requesting a change, we indicate we are not planning to procure (Item 6) – Cathode encapsulation and (Item 14) – Beta Gage.
- As of December 31, 2011 Leyden has spent in cash and down payment deposits a total of \$284,829; CAEATFA has approved conveyance requests for \$121,519. However, \$326,631 or 25% is required to be spent within the first 12 month period ended January 25, 2012.
- As of December 31, 2011 Leyden has open Purchase Orders for an additional \$79,595; however, the open purchase orders are for delivery over the next 4 to 6 weeks and may not occur prior to the January 25th deadline.
- Leyden has Purchase Order releases planned for: Jan-Mar 2012 totaling \$574,509; Apr-Jun 2012 totaling \$96,210; Jul-Dec 2012 totaling \$131,505. Hence, Leyden expects to satisfy, and exceed, the minimum 25% purchase commitment during the first half of calendar 2012.
- Since the date of CAEATFA approval January 25, 2011 the company has increased its California headcount by 11, and, 2012 California headcount is budgeted to increase by an additional 12 employees. Both 2011 and 2012 employee increases include employees to support manufacturing.
- Green Vehicles of Salinas the customer forecast in the approved application became insolvent and ceased operations in Mid-2011. The Company is working in coordination with a number of US based electric transportation manufacturers and is highly confident a replacement customer(s) will provide the forecast revenue in the approved application to achieve the forecast net financial benefit. Specifically:
 - We have completed the first phase of a funded, confidential, program for a US based, Fortune 500 company for the development of a new generation of Micro-Hybrid batteries based on Leyden technology. The second funded program phase is expected to commence in the first half of 2012. We project that this product alone would generate an initial demand of approximately 60,000 batteries or \$19.8 M in revenue annually.
 - We are in discussions with a US manufacturer of PHEV's for qualification of Leyden Energy batteries for their future vehicles. This program is still in negotiation, but would result in approximately 5,000 to 10,000 PHEV batteries annually with projected revenues of \$15M to \$30M.

Reasons for Change in Schedule Impacting Meeting 25% Purchase Commitment

- Although the CAEATFA program is independent from our CEC grant, our actual equipment purchase schedule was based upon receipt and approval of our CEC grant. This approval was received (April 19, 2011) 84 days after CAEATFA approval. Secondly, the CEC grant agreement required the company to provide an "Equipment Procurement Report" to identify critical pieces of equipment necessary for the manufacturing process. This report was submitted and approved by the CEC

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under the revised schedule associated with the April 19, 2011 start date, on September 13, 2011. As the company could not initiate reimbursement requests for equipment purchases until this report was submitted and approved, our equipment purchase schedule was subsequently delayed by approximately 3 months from the date we envisioned at the time for the CAEAFTA application

Clarification of Project Scope

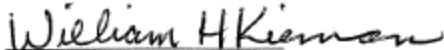
- No change in project scope has occurred; the company has identified, and is working with other more financially solvent customers to offset the loss of Green Vehicles. As these customers are focused on Micro-hybrid and PHEV vehicle architectures, we have revised our equipment specifications to reflect manufacturing of these types of cells and batteries.

Benefits from Extension of Waiver

- Enables the goal of the CAEAFTA program, manufacturer of batteries for electric transportation vehicles, to be met given the delay in our program that resulted from the actual CEC start date.
- Enables Leyden to reduce the cost of equipment procurement enhancing our ability to be competitive and enable Leyden to contribute to California economic and job growth.
- Enables Leyden to efficiently complete the equipment ordering process so as to have the subsequent equipment installation match the process and facility scale-up schedule which help minimize total purchase and operational costs.

We appreciate your support in approving this extension request. We believe that our spending is within the spirit of the CAEAFTA waiver, and we will spend in excess of 25% of the total budget within the 12 month period ended July 1, 2012. Although independent programs, the combination of the CEC grant and CAEAFTA program are supporting Leyden Energy's California growth and ability to support electric vehicle manufacturing.

Sincerely,



William Kiernan – Controller

Attachment B: Staff Summary at Board Approval

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

Request to Approve Project for SB 71 Sales and Use Tax Exclusion²

**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 Amount³ – \$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

² All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

³ 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:												
<table border="0"> <tr> <td>Aakar Patel, Chairman</td> <td style="text-align: right;">(17.2%)</td> </tr> <tr> <td>Andy Kau, Managing Director</td> <td style="text-align: right;">(24.69%)</td> </tr> <tr> <td>Wade Woodson, Managing Director</td> <td style="text-align: right;">(23.93%)</td> </tr> <tr> <td>Peter Nieh, Managing Director</td> <td style="text-align: right;">(23.94%)</td> </tr> </table>	Aakar Patel, Chairman	(17.2%)	Andy Kau, Managing Director	(24.69%)	Wade Woodson, Managing Director	(23.93%)	Peter Nieh, Managing Director	(23.94%)	<table border="0"> <tr> <td>Aakar Patel, President</td> </tr> <tr> <td>Marc Juzkow, CTO</td> </tr> <tr> <td>Nick Cataldo, VP of Business Development</td> </tr> <tr> <td>Bill Tinsley, CFO</td> </tr> </table>	Aakar Patel, President	Marc Juzkow, CTO	Nick Cataldo, VP of Business Development	Bill Tinsley, CFO
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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

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Application No. 11-SM001**

Vacuum Seal	22,815
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.
- a. 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.
 - b. 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,⁴ the Applicant has paid CAEATFA an Application Fee of \$998.42 and will pay CAEATFA an Administrative Fee of \$15,000.

⁴ 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).

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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.