

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

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

**nanoPrecision Products, Inc.
Application No. 14-SM009**

Tuesday, August 19, 2014

Prepared By: *Alejandro Ruiz*

SUMMARY

Applicant – nanoPrecision Products, Inc.

Location – El Segundo, Los Angeles County and Camarillo, Ventura County

Industry – Optical Ferrule Manufacturing

Project – New Manufacturing Line (Advanced Manufacturing)

Value of Qualified Property – \$7,963,972

Estimated Sales and Use Tax Exclusion Amount² – \$670,566

Application Score –

Fiscal Benefits Points:	1,253
<u>Environmental Benefits Points:</u>	<u>40</u>
Net Benefits Score:	1,293
<u>Additional Benefits Points:</u>	<u>96</u>
Total Score:	1,389

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 on the average statewide sales tax rate of 8.42%.

THE APPLICANT

nanoPrecision Products, Inc. (“nanoPrecision” or the “Applicant”) was incorporated in 2002 in the State of Delaware. nanoPrecision uses complex material forming with nanometer accuracies and tolerances to manufacture complex, nano-scale components. nanoPrecision’s markets include telecommunications, data communications, military and aerospace, consumer electronics, medical devices, automobiles and supercomputers.

The major shareholders (10.0% or greater) of nanoPrecision Products, Inc. are:

Easton Invest AG

The corporate officers of nanoPrecision Products, Inc. are:

Wilford Dean Baker, Chairman
Michael K. Barnoski, President & CEO
Joshua Mendelsohn, Treasurer

THE PROJECT

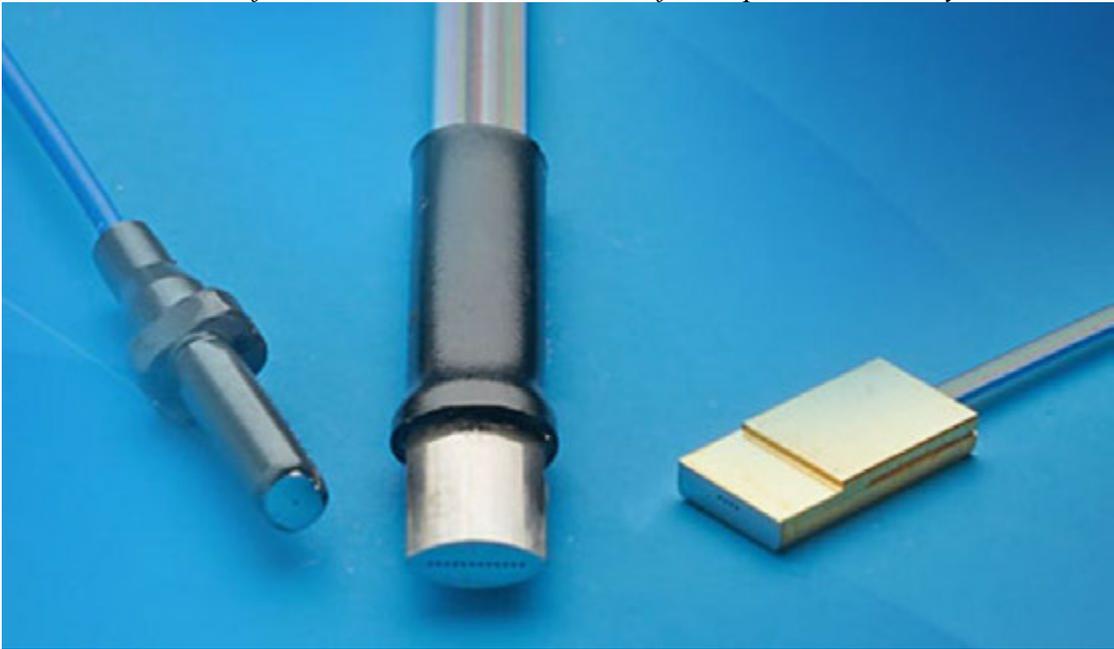
nanoPrecision is in the process of developing a new manufacturing line that will utilize advanced materials and high-precision tools to manufacture optical ferrules (the “Project”). Optical ferrules are used to terminate optical fibers onto optical cables that allow for the fiber to be connected to another interface. Optical ferrules must be manufactured accurately since they align optical fibers to facilitate optimum physical contact between each mated fiber pair.

nanoPrecision’s optical ferrule manufacturing process represents a breakthrough of the current industry standard, according to the Applicant. Traditionally, optical ferrules use a ceramic base that is aligned and glued together with the optical fiber using epoxy, which has to be cured with a heat treatment. The alignment and gluing are normally completed manually by optical ferrule manufacturers. nanoPrecision has eliminated these steps in its manufacturing process by using ultra-high precision metal forming and laser end face polishing.

The Applicant claims its process will result in a higher quality end product than the traditional process used to manufacture ceramic optical ferrules. With ceramic optical ferrules, a customer will only be able to use some of the ferrules since many will not meet the user’s requirements. With nanoPrecision’s optical ferrules, essentially all of the ferrules will meet or exceed the user’s requirements.

Additionally, by using metal instead of ceramic, nanoPrecision will use less energy to manufacture its optical ferrule. Ceramic ferrules need a sintering process at 2,715° C, whereas metal ferrules are produced at a melting point of 1,650° C.

Figure 1. From left to right, single fiber metallic ferrule connector, “Ferroller,” 12 fiber metallic ferrule connector and hermetic fiber optic subassembly.



ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Vision Inspection System	\$ 34,658
Motorized Stock	175,012
Press	2,097,070
Ultrasonic Cleaner	129,146
Rectifier	420,000
Reflectometer	20,000
Anodization Line	740,396
Manufacturing Line – Servo, Press, Automated Robotic Arms, and Control Systems	1,043,008
Cleanroom	144,998
Precision Tooling and Measuring	2,254,794
Tooling and Support Parts	904,890
Total	<u>\$7,963,972</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 master regulatory agreement a finalized project equipment list will be prepared detailing the value of the Project equipment acquired and detailing the actual tax benefit realized pursuant to Revenue and Tax Code Section 6010.8. Variance 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) over 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 Applicant began acquisition of Qualified Property in October 2013 and plans to begin production in September or October 2014.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$7,963,972 and the total net benefits are valued at \$169,514 for the Project. The Project received a Total Score of 1,389 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 40 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (1,253 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 \$840,081 resulting in a Fiscal Benefits score of 1,253 points for the Project.

- B. **Environmental Benefits (40 points)**. The Project will result in an Environmental Benefits Score of 40. The Applicant received points in the following categories:
 - 1. **Environmental Sustainability Plan (20 of 20 points)**. The Applicant will implement an environmental sustainability plan for its Project that will track energy use and solid and hazardous waste generated. The Applicant will set initiatives to reduce resource use.

 - 2. **Energy Consumption (10 of 30 points)**. The Applicant's manufacturing process will result in a 10% reduction in energy consumption relative to the industry standard manufacturing process.

 - 3. **Solid Waste (10 of 30 points)**. The Applicant's manufacturing process will result in a 10% reduction in solid waste produced relative to the industry standard manufacturing process.

- C. **Additional Benefits (96 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 96 additional points.
 - 1. **Permanent Jobs (40 of 75 points)**. The Applicant's Project will support a total of 40 permanent jobs at its Facility. CAEATFA estimates that approximately three 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 40 points for the Project.

2. **Construction Jobs (20 of 75 points)**. The Applicant's Project will support a total of ten construction jobs at its Facility. CAEATFA estimates that approximately one 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 20 points for the Project.
3. **Unemployment (11 of 50 points)**. The Applicant's Project is located in Los Angeles County which has an average annual unemployment rate of 10%. This is above 110% of the average annual statewide unemployment rate which is currently 8.8% resulting in an Unemployment Score of 11 points for this Project.
4. **Research and Development Facilities (25 points)**. The Applicant has verified that it has a facility located in California that performs research and development functions related to metal forming and stamping.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant has all required permits.

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 \$3,981.99 and will pay CAEATFA an Administrative Fee of up to \$31,855.88.

RECOMMENDATION

Staff recommends approval of Resolution No. 14-SM009 for nanoPrecision Products, Inc.'s purchase of Qualified Property in an amount not to exceed \$7,963,972 anticipated to result in an approximate sales and use tax exclusion value of \$670,566.

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

RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER REGULATORY AGREEMENT WITH THE NANOPRECISION PRODUCTS, INC.

August 19, 2014

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **nanoPrecision Products, Inc.** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized in an Advanced Manufacturing process or 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 to acquire Project equipment with an estimated cost not to exceed \$7,963,972 over a period of three years; 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(a)(8)(B).

Section 2. The requested master regulatory agreement constitutes “financial assistance” within the meaning of Public Resources Code Section 26003(a)(6).

Section 3. The Applicant is a “participating party” within the meaning of Public Resources Code Section 26003(a)(7).

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.

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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 listed in the semi-annual reports 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.