

MEMORANDUM

Date: April 6, 2009

To: Michigan Economic Growth Authority Board Members

From: Martin Dober, Vice President
New Markets

Valerie Hoag, Director
Packaging Team

Subject: Briefing Memo – Compact Power, Inc.
Standard MEGA Credit, Battery Cell Manufacturing MBT Credit and
Anchor Jobs MBT Credit

APPLICANT

Compact Power, Inc.
1857 Technology Drive
Troy, Michigan 48083

COMPANY BACKGROUND

Compact Power, Inc.(CPI) is a 100% owned U.S. subsidiary of LG Chem, Ltd. LG Chem established CPI as part of its battery business in 2000, which began as a small research and development center in Colorado. Shortly thereafter, in 2001, CPI began developing lithium ion battery packs and electronics for hybrid electric vehicle and light electric vehicle applications. In 2005 CPI relocated its headquarters and research center to be in close proximity to the Big 3 automakers. Since then, CPI has grown from five employees working in 15,000 square feet of space to 75 employees working in 22,000 square feet of space in 2008.

LG Chem, based in Korea, is a \$13.2 billion company with 15,000 employees. It is one of the world's largest producers of advanced chemical materials and a leading supplier of lithium ion batteries. LG Chem's business is divided into four operating units: chemicals and polymers; industrial materials; information technology and electronics and batteries.

PROJECT DESCRIPTION

This project entails a joint venture between LG Chem and Compact Power (hereinafter known as LGC-CPI) to establish a presence in the U.S. for the production of lithium ion battery cells. LGC-CPI are working closely with General Motors to develop a partnership that will undertake this endeavor in the U.S. It is anticipated that this 660,000 sq. ft. facility will include cathode, anode, separator, and assembly lines. CPI estimates that it will invest approximately \$244 million and create up to 443 new jobs over the next five years paying an average weekly wage of \$1,001. The company will also offer health care benefits and pay a portion of the benefit costs.

STANDARD MEGA CREDIT

Benefit To State:

According to the economic analysis done by the Michigan Economic Development Corporation utilizing Regional Economic Models, Inc. software, it is estimated that this facility will create a total of 1,261 jobs in the state by the year 2026. We also estimate that the project would create total state government revenues through the year 2016, net of MEGA cost, of \$81,714,981 (current dollars) due to the creation of these new jobs.

Business Case:

LG Chem has a plan of record assuming that all production lines be located in South Korea. The MEDC incentive package, including cell manufacturing credits, has enticed them to consider locating a new facility in Michigan.

Other State And Local Assistance:

Currently, there is currently no local support for this project; however, the company will pursue the maximum local assistance available in the form of a P.A. 198, P.A. 328 or an MSF designated renaissance zone.

LGC-CPI is new to Michigan and brings a wealth of cell manufacturing and battery system development experience and influence that will attract significant interest from supply chain partners in bringing their business in proximity to this new facility. The Michigan Economic Development Corporation plans to recommend approval of an Anchor Jobs MBT Credit related to this project at a future date.

BATTERY CELL MANUFACTURING MBT CREDIT

As mentioned previously, CPI is considering the construction of a 660,000 sq. ft. facility which will include cathode, anode, separator and assembly lines. House Bill 6611 of 2008 P.A. 580 (aka - Michigan's Advanced Battery Credits) Subsection (5) offers a tax credit equal to 50% of the capital investment of expenses for construction of an integrated cell manufacturing facility that includes anode and cathode manufacturing and cell assembly. The credit shall not exceed \$25 million per year for no more than 4 years. The maximum value of the credit is limited to \$100 million.

The CPI project was competitively reviewed by a panel consisting of the following individuals:

- Paul Skalny, Director; National Automotive Center US Army Tank Automotive Research Development & Engineering
- Dr. Ray Boeman, Director; Transportation Program, Oakridge National Laboratory
- Doug Parks, Michigan Economic Development Corporation; Senior Vice President of New Markets

The panel reviewed the CPI proposal utilizing the grading criteria approved by the MEGA Board on March 17, 2009 (see attached).

CPI is a subsidiary of LG Chem, a global battery leader. LG Chem has patented ceramic coated separator technology that is reported to have very high performance in preventing internal shorts making the cells extremely safe and durable. LG Chem has investigated many cell chemistries and is positioned well to develop new chemistries/materials based on the strength of its chemical and materials heritage. Their current manufacturing process technology provides them with cost advantages in the market place.

LG Chem is a major supplier of cells to the consumer electronics market which has given them a significant advantage in understanding high-volume battery manufacturing. They were chosen as the supplier for General Motors' Chevy Volt program which will be supplied from this Michigan facility, and are currently working with other auto OEMs to secure programs. They are one of the world's leading battery technology companies.

RECOMMENDATION

Standard MEGA MBT Credit

Based on the factors described above, the Michigan Economic Development Corporation recommends a 100 percent standard employment credit for 15 years for up to 440 net new jobs in excess of the company's established employment base of 0.

Cell Manufacturing MBT Credit

The review panel highly recommends the CPI project based on the factors described above when compared with the six other applications reviewed. It is recommended that CPI receive a Battery Cell Manufacturing Credit in an amount of \$100 million not to exceed \$25 million per year for 4 years subject to the following:

The Legislature amends MCL 208.1434 by May 30, 2009 to allow a fourth battery cell manufacturing credit.

The credit shall not be claimed prior to a tax year beginning 2012.