

MEMORANDUM

Date: April 14, 2009

To: Michigan Economic Growth Authority Board Members

From: Martin Dober, Vice President
New Markets

Valerie Hoag, Director
Packaging Team

Subject: A123 Systems, Inc.
High-Technology MEGA Credit, Battery Cell Manufacturing MBT Credit
and Anchor Jobs MBT Credit

APPLICANT

A123 Systems, Inc.
3850 Research Park Dr.
Ann Arbor, MI 48108

COMPANY BACKGROUND

A123 Systems, Inc. designs, develops, manufactures, and sells advanced, rechargeable lithium-ion batteries and battery systems. A123 Systems, Inc. is headquartered in Watertown, Massachusetts, and acquired T/J Technologies, a Michigan company, in 2006. T/J Technologies is now A123 Systems Advanced Research and Government Solutions Group. Since the acquisition of T/J Technologies A123 Systems, Inc. has significantly expanded their presence in Michigan. The company has facilities in Ann Arbor and Novi.

A123 Systems, Inc. was recently designated a Michigan Center of Energy Excellence to focus on the manufacture of rechargeable lithium-ion batteries in transportation, defense, and alternative energy sectors.

A123 Systems, Inc. currently has 75 employees in Michigan.

PROJECT DESCRIPTION

A123 Systems, Inc. plans to expand its domestic battery manufacturing by building a cost-competitive advanced battery manufacturing facility to produce lithium ion cells for automotive applications manufacturing plant in the State of Michigan. In their largest market, the transportation industry, they are currently working with major North American and European automotive manufacturers to develop and deliver advanced batteries and advanced battery systems for hybrid electric vehicles, plug-in electric vehicles, and electric vehicles.

A123 Systems, Inc. anticipates it will invest approximately \$55.7 million and create up to 844 jobs over the next five years paying an average weekly wage of \$556. The company will also offer healthcare benefits and pay a portion of benefit costs.

HIGH-TECHNOLOGY 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 2,217 jobs in the state by the year 2024. We also estimate that the project would create total state government revenues through the year 2024, net of MEGA cost, of \$108.6 million (current dollars) due to the creation of these new jobs.

Business Case:

A123 Systems, Inc. also considered Massachusetts for this plant. The company is headquartered, and has other operations in that state. The Michigan incentives including the MEGA tax credit will assist in closing the competitive disadvantage with the other location.

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. A123 Systems, Inc. understands that they must select a community that allows them the maximum local commitment for this project.

A123 Systems, Inc was awarded a \$10 million Center of Energy Excellence designation on August 27, 2008.

A123 Systems, Inc. has a substantial footprint in Michigan, with additional committed investment through its Centers of Energy Excellence awards. It will attract significant interest from supply chain partners in bringing their business in proximity to A123's planned facilities. The Michigan Economic Development Corporation plans to recommend approval of an Anchor Jobs MBT Credit related to this project at a future date.

The Michigan Economic Development Corporation plans to recommend approval of a \$4 million Choose Michigan Fund forgivable loan at a future MSF Board meeting.

Qualifying High-Technology Activity:

A123 Systems, Inc. is a qualified high-technology business, whose primary business activity is Advanced Vehicle Technology, as defined in the Act.

BATTERY CELL MANUFACTURING MBT CREDIT

As mentioned previously, A123 Systems, Inc. is proposing the construction of an advanced battery manufacturing facility to produce lithium ion cells for automotive applications. 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 A123 Systems, Inc. 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 A123 Systems Inc. proposal utilizing the following grading criteria that was approved by the MEGA Board March 17, 2009.

A123 reviewed very highly in its core technology through its use of the LiFePO₄ (lithium-iron phosphate) chemistry which has consistently demonstrated superior safety characteristics. The company has also overcome the chemistry's historical performance drawback through novel use of nano-encapsulation allowing it to perform at levels required by the transportation industry.

A123 has signed a significant development and manufacturing agreement with Chrysler, LLC to provide battery systems for the company's ENVI product line. In addition, A123 has major contracts with consumer electronics customers, and military contractor

RECOMMENDATION

High Technology Mega Credit

Based on the factors described above, the Michigan Economic Development Corporation recommends a 100 percent high-technology employment credit for 15 years for up to 844 net new jobs in excess of the company's established employment base of 75.

Battery Cell Manufacturing MBT Credit

The review panel highly recommends the A123 Systems, Inc. project based on the factors described above when compared with the six other applications reviewed. It is recommended that A123 Systems, Inc. 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 credit shall not be claimed prior to a tax year beginning 2012.