

ZERO POLLUTION MOTORS, INC.
DRAFT BUSINESS PLAN

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CEO

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EXECUTIVE SUMMARY

The Company:

- Zero Pollution Motors, LLC (ZPM)

The Business Concept:

- To build and operate the first MDI automobile production facility in the U.S. in a Northeast location that will produce affordable, zero pollution and ultra-low-level emissions automobiles powered by compressed air engines. The facility will have the capacity to produce 4000 vehicles per year, per each 8-hour shift. The first shift will employ 80 people and when fully operational with two shifts the plant will produce 8,000 vehicles and employ 138 people. To lease/acquire 4 acres of land to locate a 1.1 acre plant that will produce up to 8,000 vehicles per year and will offer 18 management and 120 manufacturing jobs.
- The Zero Pollution Motor's production facility also serves as a distribution center as part of a unique, eco-friendly business model from MDI. The MDI production concept calls for the building of many small turnkey plants serving nearby regions rather than the building of a massive production plant located in a single place serving many regions or an entire country. The result is a car that is 80% locally built and sold in the same region. Furthermore, the business model reduces the large carbon emissions typically associated with vehicle manufacture and distribution.

The Product:

- ZPM will produce an automobile powered with a Compressed Air Engine (CAE) that runs solely on air. The CAE-powered vehicle does not emit any pollutants from its tailpipe, and thus is classified as a "zero pollution vehicle" by the Environmental Protection Agency (EPA).
- The \$18,000 compressed air car sticker price is very competitive with standard gasoline and diesel- powered automobiles and priced far below other vehicles in the fast-growing alternate fuel vehicles¹ (AFV) market (particularly electric and hybrid vehicles).
- The ZPM automobile uses the latest materials technology to maximize safety and fuel efficiency and has an estimated range of over 800 miles and maximum speed of 90 mph.

¹ Alternate fuel vehicles are motor vehicles that are powered by means other than gasoline or diesel fuels.

- The CAE was created by inventor and MDI President and CEO, Guy Negre. Mr. Negre and his staff have more than 40 patents associated with automobile engine concepts. CAE technology uses electricity to power compressors that compress air to 4,500 pounds per square inch (psi) into a pressure tank contained in the vehicle. The compressed air is then used to power the engine.
- The prototype CAE technology air car has been tested and demonstrated and featured in numerous media since its introduction in the late 1990s. Recently, it was recognized as one of *Time* magazines “Best Inventions of the Year” in 2007 and it was featured in Discovery Channel’s 2007 “Future Cars” series. In January and February 2008 alone, *Popular Mechanics*, BBC, Reuters and numerous other new sources have published articles announcing the manufacture of the compressed air car in the US, India, France and elsewhere.
- The multi-million dollar, February 2007 license agreement between MDI and No. 1 Indian vehicle manufacturer Tata Motors has allowed MDI to complete development of the next generation CAE technology that will be utilized in the U.S. production vehicle.
- MDI recently introduced the Compressed Air Multiplier (CAM) to its CAE technology. The CAM substantially increases the range of the compressed air car to over 800 miles. It allows the car to use a minimum quantity of energy - fossil or biofuels – to heat the compressed air before it enters the engine. CAM is employed either when the vehicle’s speed exceeds 35 miles per hour or when the compressed-air tanks are empty. When in CAM mode, the car's motor-alternator-generator will refill the tank with compressed air as the vehicle moves and the vehicle will achieve over 106 MPG equivalent at its optimum efficiency speed of 51 mph.
- Zero Pollution Motors and MDI are official contenders for multi-million dollar Automotive XPrize competition. The goal of the XPrize competition is to inspire a new generation of viable, super-efficient vehicles with over 100 MPG equivalent.

The Market:

- The zero pollution vehicle is ideally suited for the small to mid range automobile market. It can also be marketed in the fleet market, which could use the vehicle running only on compressed air. This market includes government motor pools, limousine and taxi services, courier services, etc.
- The relatively low number of vehicles that will initially be produced by ZPM in the United States,² compared to the size of the potential market for small and midrange vehicles means that demand will significantly exceed production capacity.

² 2,000 vehicles during the first year of production, rising gradually to 8,000 vehicles during the third year of production.

- According to a July, 2007 survey by Greenberg Quinlan Rosner Research, there is strong consumer interest in purchasing 100 mpg cars. Nearly two thirds of all Americans, 62 percent, are “extremely” or “very” interested in buying one some-time soon (over half of these, 34 percent, are “extremely” interested).
- Zero Pollution Motors has not yet advertised or launched its online reservations campaign yet the exuberant pre-sales consumer interest in the vehicle indicates that the first two years of production pre-sales will sell quickly. Site traffic at www.zeropollutionmotors.us increased ten-fold in February 2008 as consumer and media interest intensified. At March 6, 2008, ZPM had a list of 3,400 consumers waiting for compressed air car updates and information about when they could reserve a car.

The Financials:

- The assumptions made with regard to investment, production costs, and particularly, revenues are conservative.
- Using a sales price of only \$18,000 per vehicle, the project has an internal rate of return (IRR) of more than 35% and begins to earn a profit in the second year of production.
- Although the plant that ZPM will build in the Northeast is the first of its kind in the United States, it will benefit from the expertise acquired by MDI staff in building a similar plant in Nice, France. Thirty nine production facilities are also planned for construction in other cities in France, Switzerland, Mexico, South Africa, Australia and New Zealand and other countries.
- Approximately \$18 million will be required during the construction phase of the Northeast plant project. Construction is expected to take less than one year. An additional \$1.3 million will be required during the first year of production. It should be pointed out, however, that \$1.3 million can be taken in the form of short-term debt since it can be repaid by the end of the second year of production.
- The project has a payback period of less than four years.

The Management:

- At present, the two principle managers of ZPM are:
 - Mr. Shiva Vencat, President and CEO of ZPM, LLC., and VP of MDI, Inc.

- Mr. Guy Negre, CEO and founder of Motor Development International (MDI), the company that produced and operated prototypes of the zero pollution engine powered automobile.
- A board of directors is currently being established by Messrs. Vencat and Negre.
- A management team is presently being established by Messrs. Vencat and Negre that will be responsible for building the Northeast facility. Several management positions will initially be occupied by Motor Development International experts.

Summary of Project Characteristics:

- Innovative technology requiring a relatively small investment.
- Pro environment
- The compressed air powered automobile has the potential to be the *disruptive technology*³ of the 21st century.

The Business Opportunity: Seed Capital Investment

- Opportunity: Zero Pollution Motors is seeking seed capital (to supplement partner resources) for business development activities prior to securing equity investment partners for the building and operation of the manufacturing plant and direct product marketing and distribution phases.
- Funds Sought: \$300,000
- Disposition of Funds:

Business Development

| | |
|--|--------|
| - company structuring/equity search consultation costs | 60,000 |
| - board development | 15,000 |
| - business planning, investment prospectus development | 42,500 |

Market Development and Communications

| | |
|--|--------|
| - marketing campaign (online & traditional media) | 55,000 |
| - press relations and corporate communications | 15,000 |
| - ZPM Roadshow: tradeshow, exhibits, presentations | 60,000 |

³ The *disruptive technology* concept is delineated in “The Innovator’s Dilemma: When New Technologies Cause Great Firms to Fail.” by Clayton M. Christensen, Harvard Business School Press, 1997

Manufacturing Planning

| | |
|----------------------------|--------|
| - research and survey | 15,000 |
| - site feasibility studies | 22,500 |
| - planning and logistics | 15,000 |

- Objectives:

- generate 3,000 pre-sales reservations of vehicle by December 30, 2008
- appointment of ZPM Board by October 30, 2008
- appointment of Chief Financial Officer and Plant Engineer by November 2008
- approach to venture capitalists beginning December 2008
- factory site options identified by November 30, 2008

COMPANY ANALYSIS

Zero Pollution Motors, LLC. (ZPM), was established and incorporated in Nevada by Mr. Shiva Vencat in 2006 to represent Motor Development International (MDI), a Luxembourg corporation, in the United States. Mr. Vencat is the sole shareholder. ZPM is headquartered in New Paltz, NY. MDI has also established a wholly owned subsidiary, MDI, Inc. in the State of Delaware.

Mr. Guy Negre, the President of MDI, has designed and built successful prototypes of a zero pollution compressed-air-powered automobile. MDI is incorporated in Luxembourg and has its research and production facilities located in Nice, France. MDI presently is in the process of building the model factory in Nice France.

This business plan relates specifically to ZPM, and the facility it plans to build in the Northeast. However it is important to note that although ZPM is a separate entity from MDI, the product ZPM will be producing will be under license from MDI. Furthermore, ZPM has been supported both technically and financially by MDI.

Motor Development International (MDI):

MDI was established by Mr. Guy Negre in Luxembourg in 1991. The company holds over 40 automobile engine-related international patents, with more in the process of being registered.

This technology is based (but not limited to) the following worldwide and US patents:

| <u>Patent Number</u> | <u>Date</u> | <u>US Patent Number</u> | <u>Date</u> |
|----------------------|----------------|-------------------------|--------------|
| WO 94/25743 | Nov. 10, 1994 | 4506636 | Jul 25, 1983 |
| WO 96/27737 | Sept. 12, 1996 | 6311486 | Sep 1, 1999 |
| WO 97/39232 | Oct. 23, 1997 | 4574749 | Apr 19, 1984 |
| WO 97/48884 | Dec. 24, 1997 | 4788945 | May 21, 1987 |
| WO 97/12062 | Mar. 26, 1998 | 6094915 | Sep 5, 1997 |
| WO 98/15440 | Apr. 16, 1998 | 6363723 | Jun 7, 1999 |
| WO 98/32963 | Aug. 30, 1998 | 6305171 | Jul 20, 2000 |
| WO 99/20881 | Apr. 29, 1999 | 10/524,541 | Aug 13, 2003 |
| WO 99/37885 | Jul. 29, 1999 | 10/512,156 | Apr 22, 2003 |
| WO 99/63206 | Dec. 09, 1999 | 10/830,005 | Apr 23, 2004 |
| | | 6397579 | Apr 19, 1999 |
| | | 4810201 | Jul 21, 1986 |
| | | 4781605 | Jan 21, 1987 |

The company built a prototype vehicle to make use of its zero pollution engine in 1997. Several of these vehicles have operated successfully in Nice, France.

THE PRODUCT

Zero Pollution Motors, Inc. will produce compressed air powered automobiles for urban and highway use. The automobiles have a range of over 800 miles and a maximum speed of 90 miles per hour. Acceleration is 0 to 30 miles per hour in 3 seconds. The vehicles when running under 35 mph are pollution free. In fact, due in part to its filter system, the compressed air powered engine actually emits air cleaner than ambient air. Above 35 mph, the vehicle will be emitting an ultra-low level of CO₂ as the Compressed Air Multiplier (CAM) acts to increase the volume of the air entering the Compressed Air Engine (CAE). Under the CAM system, the vehicle will emit an equivalent of 64g (0.141lbs) of CO₂/mile, less than half as much as today's most efficient hybrid vehicle (source: hybridcars.com).

MDI's CAE is a technology that has been operating successfully in prototype for more than 10 years. The prototype MDI compressed air car has been tested and demonstrated and featured in numerous media since its introduction in the late 1990s. Recently, it was recognized as one of *Time* magazine's "Best Inventions of the Year" in 2007 and it was featured in Discovery Channel's 2007 "Future Cars" series. In January and February 2008 alone, *Popular Mechanics*, *Financial Times*, *Business Week*, BBC, Reuters and numerous other new sources have published articles announcing the manufacture of the compressed air car in the US, India, France, Australia and elsewhere.

CAE technology uses electricity to power compressors that compress air to 4,500 psi into pressure tanks contained in the vehicle. The compressed air is then used to power the engines.

A report by Dr. Sabine Dembkowski (*Financial Times Automotive Environment Analyst*, Issue No. 44, dated September 1998) states that the compressed air engine is 50% more efficient than electric and diesel-powered engines, and twice as efficient as gasoline powered engines.

MDI's recently introduced CAM-enabled CAE substantially increases the range of the compressed air car to over 800 miles. It allows the car to use a minimum quantity of energy - fossil or biofuels - to heat compressed air to add volume as it enters the engine. The CAM is employed either when the vehicle's speed exceeds 35 miles per hour or when the compressed-air tanks are empty. When in CAM mode, the car's motor-alternator-generator will refill the tank with compressed air as the vehicle moves and the vehicle will achieve over 106 MPG equivalent. The typical vehicle will be equipped with an 8-gallon fuel tank.

A multi-million dollar, February 2007 license agreement between MDI and No. 1 Indian vehicle manufacturer Tata Motors has allowed MDI to complete development of the next generation, CAM-enabled engine that will be utilized in the U.S. production vehicle.

Four prototype vehicles powered by the 25 HP CAE engine have been operating successfully in Europe for the last 10 years. Three different prototype versions have been developed by MDI: a taxi, a van, and a pick-up.

In both concept and reality the non-combustion part of the CAE system is simple:

- Air is compressed to a pressure of 4,500 psi using electricity from a standard outlet to drive the compressor. The compressed air is stored in a pressure tank that is a part of the vehicle.
- The compressed air from the pressure tank is injected simultaneously into each of the two cylinders of the CAE engine.
- Having driven each cylinder, the compressed air, now expanded, is released by each cylinder.

The model vehicle which will be produced in the United States has the following basic characteristics:

- Six seats: Driver and five passengers.
- A luggage compartment volume of 35 cubic feet
- Overall length: 161 inches
- Overall width: 71 inches
- Overall height: 69 inches
- Wheelbase: 114 inches
- Avg Weight: 1874 pounds
- Engine: 41P01/4 and 41PO1/6
- Power 50 and 75 hp
- Efficiency: 106 mpg
- MRSP: \$ 18,000

Standard Features will include:

- Computer based screen display of vehicle control parameters
- Full CFC-free A/C
- Driver Airbags
- Fully reclining driver's seat
- Power windows, door locks and mirrors
- Deluxe AM/FM stereo with cassette and cd player, optional GPS
- Rear window defogger
- Concealed spare tire
- All season 13-inch radial tires
- A cold weather package will be available

Engine And Transmission Characteristics include:

- Horsepower: 75

- Power source: Electronically injected compressed air
- Oil volume and oil change interval: 0.8 liter at 50,000 miles
- Engine mount: Rear
- Transmission: Automatic, Continually Variable Transmission. Rear wheel drive.
- Suspension: Front coil spring, rear pneumatic.
- Steering mechanism: Rack and pinion.
- Chassis and body materials: Aluminum and fiber glass.
- Tanks: Thermoplastic lining and carbon fiber.

Fuel Characteristics:

- Compressed Air: 3200 ft³ @ 4500 psi
- Charger: On board 5.5 kwh 110/220 v compressor generating 812 ft³ /hr.

Performance Data:

- Range: 800 miles
- Maximum speed: 90 mph
- Acceleration: 0-30 mph in 3 seconds

FINANCIAL ANALYSIS

Financial Overview:

- The assumptions made with regard to investment requirements, production costs, and, particularly with regard to revenues that are based on a low \$18,000 vehicle ticket price, are conservative.
- The project has an internal rate of return (IRR) of more than 35%.
- Approximately \$18 million will be required during the construction phase of the project. An additional \$1.3 million will be required during the first year of production.
- The project has a payback period of four years.

Risk Reducing Factors:

- Although Zero Pollution Motors, LLC. will produce an automobile new to the U.S. market, the vehicle has been produced and tested in Europe by Motor Development International since 1997.
- The production facility planned by MDI for Nice, France will have the same layout and production schedule as the facility to be built by ZPM in the Northeast.
- MDI's Nice facility will be finished just prior to the start of construction of the ZPM facility. The same personnel involved in building the plant in Nice will be involved in the construction of the U.S. facility.
- It should also be pointed out that over 39 other MDI compressed air car production facilities around the world, in addition to the Northeast U.S. plant, are planned for construction within one year of the successful completion of the Nice facility.

Assumptions:

- Conservative estimates were used throughout the business plan. (See Table I for greater detail.)
- Receipt of 10% of sales revenues has been assumed to be delayed by one year from the year they are due. Payments for taxes, etc., on the other hand, have been included in the year the vehicles were produced rather than in the year revenues are actually received. Again, this is a relatively conservative assumption.

- Estimated maintenance charges, at \$500,000 per year, mean that initial machinery and equipment is renewed every 8 years.
- Average salaries, including health and retirement benefits, of \$40,000/yr for office workers, \$53,000/yr for shop workers, and \$80,000/yr for managers.

MANAGEMENT ANALYSIS

The ZPM management team in the United States is presently being put together by Mr. Shiva Vencat, President of ZPM. Several U.S. executives are being interviewed for positions at ZPM and, at the appropriate time, will be sent to Nice, for training. In addition to Mr. Vencat, who will head the U.S. operations, the success of the U.S. facility will depend to a large extent on the support of Mr. Guy Negre, the President of MDI, and leader of the MDI management team.

THE ZPM MANAGEMENT TEAM

Shiva Vencat:

Mr. Vencat, President and founder of ZPM is the driving force behind the company's efforts to build a compressed air powered automobile in the United States. Mr. Vencat is an independent businessman who believes that the future of the transportation industry lies in zero pollution vehicles.

Mr. Vencat's interest in compressed air engines comes from his ten-year association with Mr. Guy Negre, President of MDI. Mr. Vencat will be responsible for establishing the ZPM management team and working with that team to set goals and objectives for the company and, as the company begins operations, ascertain that these goals and objectives are being met. The Chief Financial Officer and Plant Manager will report directly to Mr. Vencat.

THE MDI MANAGEMENT TEAM

Guy Negre:

Mr. Negre, the President of MDI, is an internationally recognized automotive engineer who has over 30 years' experience working on high performance engines and racing cars. He has designed more than 40 engines. These include gasoline engines he designed with and for Renault; aircraft engines he designed for SACMA SA; and Formula 1 engines designed for MGN SA. Mr. Negre has been involved in the filing of more than 100 engine-related patents. He presently holds 24 engine-related international patents in the name of MDI. In the last ten years he has directed his efforts away from solely maximizing engine performance to addressing the problems of "power with less pollution." To achieve this, he created MDI in 1991 to develop zero pollution vehicles. As detailed already, MDI has successfully developed a low cost, easily maintained, 25 HP CAE powered automobile based on Mr. Negre's patents that has been operating in Nice, France since 1997.

In 1991, MDI was established in Luxembourg with the capital of 160 shareholders.

Mr. Negre presently has 30 engineers and technicians conducting research and development, production design, and production on the vehicles and the technology MDI has patented. Three prototype vehicles exist in the form of a taxi, a van, and a pick-up.

With regard to the ZPM project, Mr. Negre's company, MDI, will supply most of the technical support required to build the Northeast facility and will train U.S. personnel.

Cyril Negre:

Mr. Cyril Negre heads MDI's research facility. He has an engineering degree from the Ecole Nationale d'Ingenieur de St. Etienne (ENISE) and has done extensive research on a variety of automobile engines. Before joining MDI, Mr. C. Negre did research on automobile engines at Bugatti's Campogaliano, Italy facility; he joined his father's company in 1994.

Daniel Vannier:

Mr. Vannier has been associated with Mr. Guy Negre, and served as his right hand man since 1974. His experience in the last 26 years, therefore, follows a similar pattern to that of Mr. Negre. In his present position he manages new engine development. He holds a Brevet de Technicien Supérieur degree.

In addition to the management staff listed above, there are more than 30 engineers/technicians who are involved in the ongoing research and development in Nice.

Role of MDI:

An important part of the plan is the role to be played by MDI:

- MDI will supply the technical expertise needed to construct the plant and air compressor stations.
- MDI will supply the engineers and technicians who will train the shop workers and mechanics employed by ZPM. MDI will also supply the instruction manuals.
- MDI will participate in all technical aspects of their vehicles' performance.

Plant Operations:

During the first year of production, ZPM will produce 2,000 vehicles and have a total of 100 employees constituted as follows:

- 50 Shop workers/foremen (working 1 shift).
- 2 Office employees/Clerical workers.
- 4 Managers.

- The number of employees will (along with production) increase gradually to 147 workers until, during the third year of production, ZPM will produce 8000 vehicles in two shifts.

MARKETING & SALES ANALYSIS

The zero pollution automobile that will be built by ZPM will target the U.S. small and midrange automobile as well as the fleet market. The fleet market is comprised of government, limousine and taxi operators, courier services, and rental auto companies, who buy automobiles in lots of at least ten -- but generally in far larger numbers.

For cars running exclusively on compressed air, easy refueling of these vehicles, compressed air stations will be built at fleet sites, airports, and other convenient locations.

Although the ZPM CAE powered vehicle is, by definition, an alternate fuel vehicle (i.e. it is not powered by gasoline or diesel fuels) ZPM expects to obtain most of its sales in the standard small and midrange automobile market. A recent article in the May 26th 2007 article in the *New York Times*, mentioned that with gas prices well over \$3 a gallon nationwide, many drivers are lining up to buy small cars. But hundreds of thousands of consumers aren't giving up anything to downsize. Instead, they are simply adding efficient vehicles parked alongside their S.U.V. or pickup.

According to CNW Marketing Research which tracks industry trends (the national average is just over two cars per household; America was a one-car-per-family nation a generation ago). These growing fleets suggest an approach to conservation that is more addition than subtraction. For three small cars, the Toyota Prius and Corolla and the Honda Civic, more than 500,000 were sold last year as second or third cars in a household, CNW data shows.

According to a 2007 survey by Greenberg Quinlan Rosner Research, there is strong consumer interest in purchasing 100 mpg cars. Nearly two thirds of all Americans, 62 percent, are "extremely" or "very" interested in buying one some-time soon (over half of these, 34 percent, are "extremely" interested).

Fleet owners have already been approached by ZPM staff in the United States and have expressed strong interest in test driving the vehicles when these become available. Private fleet owners are particularly interested in the low operating costs and potential longevity of the ZPM automobile, whereas the management of City, State, and Federal Government owned fleets have expressed particular interest in the zero polluting aspects of the vehicles they will be purchasing in the future.

Zero Pollution Motors and MDI are official contenders for multi-million dollar Automotive XPrize competition. The goal of the XPrize competition is to inspire a new generation of viable, super-efficient vehicles with over 100 MPG equivalent. Participation in the XPrize will continue to boost visibility and assist marketing of ZPM and the compressed air car through 2008 and 2009 as the XPrize promotes and conducts a series of competitive tests and races throughout the U.S.

Zero Pollution Motors has not yet advertised or launched its online reservations campaign yet the exuberant pre-sales consumer interest in the vehicle indicates that the first two years of production pre-sales will sell quickly. Site traffic at www.zeropollutionmotors.us increased ten-fold in February 2008 as consumer and media interest intensified. At March 6, 2008 ZPM had a list of 3,400 consumers waiting for compressed air car updates and information about when to reserve a compressed air car.

ZPM's online reservations campaign will start in the second quarter of 2008 and will accept \$1100 reservations for vehicles manufactured in the new plant. The reservation funds will be used to finance part of the plant construction.

Pricing:

The \$18,000 compressed air car sticker price is very competitive with standard gasoline and diesel- powered automobiles and priced far below other vehicles in the fast-growing alternate fuel vehicles⁴ (AFV) market (particularly electric and hybrid vehicles). When the reasonable price point of the compressed air car is factored with the relatively low number of vehicles that will initially be produced by ZPM in the United States⁵ (when compared to the size of the potential market for small and midrange vehicles), it is expected that demand will significantly exceed production capacity.

⁴ Alternate fuel vehicles are motor vehicles that are powered by means other than gasoline or diesel fuels.

⁵ 2,000 vehicles during the first year of production, rising gradually to 8,000 vehicles during the third year of production.

TABLE I
ASSUMPTIONS

- The basic assumptions are:

| | Year 1 | Year 2 | Year 3 | Year 4 | Years 5 to 15 |
|-----------------------------------|-----------|----------|----------|----------|---------------|
| No. of Vehicles Sold | 2,000 | 4,000 | 8,000 | 8,000 | 8,000 |
| No. of Shop Workers/Shop Stewards | 50 | 75 | 120 | 120 | 120 |
| No. of Managers | 4 | 4 | 5 | 6 | 6 |
| No. of Office Workers | 4 | 8 | 12 | 12 | 12 |
| Sales Price Per Vehicle | \$ 18,000 | \$18,000 | \$18,000 | \$18,000 | \$ 18,000 |

- The **number of workers/managers** is based on an analysis made by IMD and is thought to be fairly close to the mark.

| | Avg. Annual Base Salary | Benefits | Total |
|----------------------|-------------------------|----------|--------|
| Managers | 60,000 | 19,800 | 79,800 |
| Shop Workers/Foremen | 40,000 | 13,200 | 53,200 |
| Office Workers | 30,000 | 9,900 | 39,900 |

- The **sales price** per vehicle of \$18,000 is conservative.
- The **materials costs** per vehicle are estimated to be \$5,325.
- Freight** is projected to be 3% of vehicle material costs, or \$160 per vehicle.
- Sales Commissions** are computed to be 2½% of automobile sales revenues.
- Royalties** are 10% per vehicle sold.
- Production equipment maintenance** is estimated at \$500,000 per year. This means that machinery tools & equipment and assembly line & fixtures, which have been estimated at \$5.7 million (See Table II) will be completely replaced every eight years.
- Depreciation** is calculated as follows:
 - Machinery and Equipment: Straight line for seven years.
 - Buildings: Straight line for forty years.
 - Organization costs: Straight line for 15 years.

- Federal and local **income taxes** are estimated at 40% of net income.
- **Bad debt** is estimated at 5% of sales revenues.
- **Cash inflows from revenues** are estimated at 90% of yearly sales, with the remaining 10% received the following year.

TABLE II

PRE-PRODUCTION YEAR EXPENDITURES

| | |
|--|---------------|
| Construction of 48000 sq. ft. Building | \$ 2,300,000 |
| Machinery, Tools and Equipment | 2,700,000 |
| Assembly Line and Fixtures | 3,000,000 |
| License Fee | 9,000,000 |
| Inventory | 400,000 |
| Organizational Costs | 100,000 |
| Working Capital | 450,000 |
| Miscellaneous | 50,000 |
| TOTAL | \$ 18,000,000 |

| TABLE III | | | | | | | |
|--|----------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| PROFIT AND LOSS STATEMENT | | | | | | | |
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Years 7 to 15 |
| Basic Data: | | | | | | | |
| No. of Vehicles Sold | 2,000 | 4,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 |
| No. of Shop Workers/Shop Stewards | 50 | 75 | 120 | 120 | 120 | 120 | 120 |
| No. of Managers | 4 | 4 | 5 | 6 | 6 | 6 | 6 |
| No. of Office Workers | 2 | 8 | 12 | 12 | 12 | 12 | 12 |
| Sales Price Per Vehicle | \$18,000 | \$18,000 | \$18,000 | \$18,000 | \$18,000 | \$18,000 | \$18,000 |
| Revenues: | | | | | | | |
| Automobile Sales | \$ 36,000,000 | \$ 72,000,000 | \$ 144,000,000 | \$ 144,000,000 | \$ 144,000,000 | \$ 144,000,000 | \$ 144,000,000 |
| Parts & Maintenance | 1,080,000 | 2,160,000 | 4,320,000 | 4,320,000 | 4,320,000 | 4,320,000 | 4,320,000 |
| Total Revenues Before Bad Debt | \$ 37,080,000 | \$ 74,160,000 | \$ 148,320,000 | \$ 148,320,000 | \$ 148,320,000 | \$ 148,320,000 | \$ 148,320,000 |
| Less: Bad Debt | 1,854,000 | 3,708,000 | 7,416,000 | 7,416,000 | 7,416,000 | 7,416,000 | 7,416,000 |
| Total Revenues | \$ 35,226,000 | \$ 70,452,000 | \$ 140,904,000 |
| Cost of Goods Sold: | | | | | | | |
| Raw Materials Purchases | \$ 10,650,000 | \$ 21,300,000 | \$ 42,600,000 | \$ 42,600,000 | \$ 42,600,000 | \$ 42,600,000 | \$ 42,600,000 |
| Direct Labor Salaries | 2,000,000 | 3,000,000 | 4,800,000 | 4,800,000 | 4,800,000 | 4,800,000 | 4,800,000 |
| Other Direct Labor Costs | 600,000 | 900,000 | 1,440,000 | 1,440,000 | 1,440,000 | 1,440,000 | 1,440,000 |
| Direct Labor Taxes | 60,000 | 90,000 | 144,000 | 144,000 | 144,000 | 144,000 | 144,000 |
| Freight & Delivery | 319,500 | 639,000 | 1,278,000 | 1,278,000 | 1,278,000 | 1,278,000 | 1,278,000 |
| Parts & Supplies | 162,000 | 324,000 | 648,000 | 648,000 | 648,000 | 648,000 | 648,000 |
| Factory Supplies | 741,600 | 1,483,200 | 2,966,400 | 2,966,400 | 2,966,400 | 2,966,400 | 2,966,400 |
| Payroll Taxes | 240,000 | 360,000 | 576,000 | 576,000 | 576,000 | 576,000 | 576,000 |
| Cost of Goods Sold | \$ 14,773,100 | \$ 28,096,200 | \$ 54,452,400 |
| Raw Materials Inventory | | | | | | | |
| Beginning Raw Materials Inventory | \$ 300,000 | \$ 532,500 | \$ 1,065,000 | \$ 2,130,000 | \$ 2,130,000 | \$ 2,130,000 | \$ 2,130,000 |
| Ending Raw Materials Inventory | 532,500 | 1,065,000 | 2,130,000 | 2,130,000 | 2,130,000 | 2,130,000 | 2,130,000 |
| Increase (Dec) in Raw Materials Inventory | 232,500 | 532,500 | 1,065,000 | - | - | - | - |
| Gross Profit | \$ 20,452,900 | \$ 42,355,800 | \$ 86,451,600 |
| Selling & Administrative Expenses | | | | | | | |
| Selling Expenses | \$ 4,788,000 | \$ 9,576,000 | \$ 19,200,000 | \$ 19,800,000 | \$ 19,800,000 | \$ 19,800,000 | \$ 19,800,000 |
| General & Administrative Expenses | 1,301,000 | 1,681,400 | 2,117,800 | 2,392,600 | 2,585,600 | 2,758,600 | 2,767,600 |
| Total Selling & Adm.Exp | \$ 6,089,000 | \$ 11,257,400 | \$ 21,317,800 | \$ 22,192,600 | \$ 22,385,600 | \$ 22,558,600 | \$ 22,567,600 |
| Income Before Depr.& Taxes | \$ 14,363,900 | \$ 31,098,400 | \$ 65,133,800 | \$ 64,259,000 | \$ 64,066,000 | \$ 63,893,000 | \$ 63,884,000 |
| Less: Income Tax | | | | | | | |
| Income Tax | \$ - | \$ 17,626,844 | \$ 25,774,482 | \$ 25,424,562 | \$ 25,347,362 | \$ 25,278,162 | \$ 25,274,562 |
| Depreciation | | | | | | | |
| Depreciation | 697,595 | 697,595 | 697,595 | 697,595 | 697,595 | 697,595 | 697,595 |
| Total Inc Tax and Deprec. Exp | \$ 697,595 | \$ 18,324,439 | \$ 26,472,077 | \$ 26,122,157 | \$ 26,044,957 | \$ 25,975,757 | \$ 25,972,157 |
| Net Income <Loss> | \$ 13,666,305 | \$ 12,773,961 | \$ 38,661,723 | \$ 38,136,843 | \$ 38,021,043 | \$ 37,917,243 | \$ 37,911,843 |