BUSINESS SOLUTIONS TO ENVIRONMENTAL ISSUES

A model solution to resource conflicts in the powersports industry

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BUSINESS SOLUTIONS TO ENVIRONMENTAL ISSUES

A model solution to resource conflicts in the powersports industry

Introduction

The last 50 years has witnessed a growing concern for dramatic environmental and social disturbances that threaten the stability of the planet’s ecological, political, economic and social systems. More recently, awareness has emerged within the business community, the customers it serves, and the governments under which it operates that sustainable business practices along financial, social and environmental dimensions are critical for the long-term viability of firms. Fortunately, business is in the business of developing and delivering solutions to perceived problems. It is not surprising then that a new breed of business enterprise has developed; a business enterprise focused on developing and delivering environmentally friendly, socially responsible and financially rewarding products and services. This new perspective is commonly referred to as the triple bottom line.

Current struggles within the powersports industry provide a terrific opportunity to explore the application of this new business model that focuses on the triple bottom line. The powersports industry is comprised of personal watercraft (i.e., jet skis or PWC), snowmobiles, and all-terrain vehicles, and has been at odds with large blocks of the population because of safety, noise and fuel pollution issues. It is a $22 billion industry that has seen PWC sales plummet 50% in the last five years and snowmobile sales plummet 20% during this same period. While a small proportion of the decrease can be attributed to macro-economic forces, the overwhelming opinion of industry analysts is
that the fall-off is caused by the rise in powersport bans and threat of future restrictions. At current prices, these powersports bans and the associated decreases in sales equate to a $1.2 billion annual lose in sales. Needless to say, capturing this lost sales opportunity by addressing the issues underlying the powersports bans presents a very attractive business opportunity.

This project explores the use of a for-profit business model and emerging technologies to resolve resource conflicts in the powersports industry. While the business will ultimately address all three segments of the powersports market, initial business development will focus on the PWC segment. A complete 40-page model business plan is provided with supporting investor presentation slides. In addition, the complete financial models are provided with the accompanying floppy disk. The hope is that this project can be used as a baseline for future students to address environmental issues through the creation of for-profit products, services, or complete businesses. This business plan was one of five finalists in the 2002 Duke Startup Challenge, and is being pursued as a potentially viable venture.

**Powersport Bans**

Conflicting uses for scarce resources are nothing new, and sit at the heart of most environmental debates. The recent battles over oil drilling in the Arctic National Wildlife Reserve are a perfect example of the ongoing struggle to make the “best” use of resources. Recreational uses of resources are no less contentious when it comes to conflicting uses. Be it battles between hunters and hikers, golfers and naturalists, or beachgoers and jet skiers, people take their recreation seriously and fight vehemently to maintain their recreational rights.
The predominant approach to resolving recreational resource conflicts is to separate the differing parties through regulation. This separation may take the form of space, time, age or ability restrictions. For example, many states isolating hunters from other users by designating state game lands. Many states also separate the parties by establishing hunting seasons.

In the powersports industry, conflicting resource users are working to resolve the conflict by enacting restrictive powersports regulations globally. For example, Norway and Sweden have completely banned PWC use. In the United States, 67 of 88 National Parks have been closed to PWCs with the remaining 21 parks under review. Exemplifying the contentious nature of such regulations, this decision is under tremendous pressure to be rolled back by the Bush administration. California, Hawaii, Maine, Massachusetts, New Hampshire, New York, North Carolina, Oregon, Rhode Island, Vermont, Washington, and Wyoming have all adopted legislation that facilitates local restrictive ordinances. In Vermont, 9% of the state’s surface water is closed to PWC use with 50% at risk to new regulations. In New Hampshire, 96 lakes are completely closed and 336 are restricted (e.g., horsepower restrictions).

The powersports industry is primarily under attack for three reasons: safety, noise pollution, and fuel pollution. As mentioned previously, the business model provided in the following business plan will initially address the PWC market. While the entire powersports industry is vulnerable to criticism for all three issues, the PWC segment under particularly fierce pressure. Along the safety dimension, PWCs injury rates are 8.5 times that of motorboats. Despite being only 8% of the watercraft, PWCs are attributed

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1 Bluewater Network personal communication.
3 New Hampshire Department of Safety: http://webster.state.nh.us/safety/ss/bodies.html
to 52% of the accidents. PWCs cause more than 25,000 accidents, 5,000 hospitalizations, and 50 deaths per year.\(^4\) Along the noise dimension, PWCs generate noise levels four to eight times the comfort level for humans.\(^5\) In addition, the Noise Pollution Clearinghouse released a study in April 2000 that found the economic costs of noise pollution from PWCs exceeded $900 million per year.\(^6\) Along the fuel pollution dimension, PWCs (which are 80% two-stroke models) release 25% of their fuel and oil directly into the water. This equates to 1.2 times the amount of petroleum released by the *Exxon Valdez* per year. Perhaps most damning, a seven-hour joyride on a PWC is equivalent to driving a modern passenger car 100,000 miles.\(^7\)

As mentioned above, the solution to the PWC problem has been to ban their use. The problem with the regulatory approach is that it often incurs large legal and regulatory costs. More importantly, it presents a distributive solution where one party gains at the expense of the other party. This creates pressures for each party to expand their access and contain the expansion of the opposing party. This pressure forces each party to become further entrenched in their positions, and escalates the conflict. The parties never learn to work together and lose appreciation for the other party’s perspective.

The provided business plan details another solution to the powersports problem. It leverages new clean fuel cell technology and a novel safety system that controls speed and operation of the equipment. The plan is written as a “selling” document that sells a vision of what the company could be. As such, it uses very direct and assertive language

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\(^7\) Bluewater Networks: [http://www.earthisland.org/bw/jetskipos.shtml](http://www.earthisland.org/bw/jetskipos.shtml)
despite the very uncertain prospects for such a risky venture. All effort is being made to turn the business plan into a functioning business.

**Methods**

This project focused almost exclusively on creating a viable business plan for an environmentally oriented business. Building the business plan involved six basic steps: 1) identifying a market need, 2) developing a solution and researching the technology, 3) investigating the industry and competitive landscape, 4) building a team, 5) identifying customers and suppliers, and 6) building out the financial models.

Identifying the market need was a serendipitous event. During a trip to Burlington, VT, I learned of a woman that failed to get a business license to open a jet ski rental business on Burlington Harbor. Being a technology enthusiast, I believed there was a better solution.

Developing the fuel cell technology solution at the most basic level involved simply being aware of what technology existed. Further research was conducted through online sources such as the Hydrogen & Fuel Cell Investor, www.h2fc.com, press releases by companies such as General Motors and Ballard Power Systems, and networking within the fuel cell research and investment fields. An online search also identified a company capable of producing a functional prototype.

Investigating the industry and competitive landscape relied heavily on equity analyst reports available through Multex Investments and Industry Reports and Investext Reports (both available at the Fuqua School of Business). Company annual reports also provided great insights into current initiatives within the industry and financial metrics such as operating margins.
Building the team was purely a personal networking activity.

Identifying potential customers and suppliers was a blend of leaning on the industry expertise of the team and online research. This clearly will be an ongoing process, and has not been truly tested through actual purchase orders and sales agreements.

Finally, the financial models were built using a base model provided by the FastTrak Program at the Council for Entrepreneurial Development in Durham, NC. The model was modified to forecast four years of sales. The model generated complete financial projections including detailed statements of income, balance sheets and statements of cash flow. As previously mentioned, the complete financials for the business plan are included in the accompanying floppy disk.

**Literature Cited**

Business plans do not normally make extensive use of literature citations. As such, you will not find a robust list of citations in the plan itself. I have provided the relevant citations here for your review.

*Company Annual Reports*

1) Honda Corporation 2001 Annual Report  
2) Polaris 2001 Annual Report  
3) Bombardier 2001 Annual Report  
4) Sonic Jet 2001 Annual Report  
5) Yamaha 2001 Annual Report  
6) Kawasaki Heavy Industry 2001 Annual Report  
7) Arctic Cat 2001 Annual Report

*Equity Analyst Reports*

Positions & Regulations


Technology Information

2) General Motors PEM Fuel Cell Technology: [http://www.gm.com/cgi-bin/pr_display.pl?2512](http://www.gm.com/cgi-bin/pr_display.pl?2512)
4) FutureCar Program at University of Maryland: [http://futurecar.umd.edu/ArchivePage/99tech_rep%20final.DOC](http://futurecar.umd.edu/ArchivePage/99tech_rep%20final.DOC)

Miscellaneous

1) Peregrine facts: [http://raysweb.net/specialplaces/pages/falcon.html](http://raysweb.net/specialplaces/pages/falcon.html)

Business Plan

The 40-page business plan follows in its entirety.

Investor Presentation

The 22-slide investor presentation used to pitch during the 2002 Duke Startup Challenge follows the business plan.

Financial Models

The four-year financial projections are provided on the accompanying floppy disk.
Business Plan

April 2002

Electrifying Progress | Purifying Pleasure

Smart Powersports for Smart Communities
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Company Overview

Peregrine PowerKraft designs and sells quieter, cleaner, safer and more responsible powersport equipment by integrating fuel cell powertrains, radio frequency (RF) governed speed management, and mandatory safety accessories. Through thoughtful engineering and community outreach, Peregrine is capitalizing on a growing trend towards stiff powersport regulations and a stubborn refusal by the established industry to embrace community concerns. Powersports include personal watercraft (PWC), snowmobiles, and all-terrain vehicles (ATV). Peregrine offers complete powersport solutions or individual component solutions that address the various community concerns. Peregrine is a development stage business currently focusing on product prototyping and initial customer acquisition, and intends to fund its initial development through government grants, limited angel seed capital and customer sales.

The Need

A battle is on in this country between the rights of Americans to enjoy the quiet serenity of natural areas and the rights to enjoy a day pounding through the surf, snow, or fields on high-powered, high-thrill machines. The current approach to resolving the conflict is to battle it out in courts until one party is defeated or to stubbornly increment through limited technological improvements. This antagonistic approach is costing the powersports industry and communities dearly in lost revenue from closed areas, legal fees, and immeasurable lost goodwill. With the U.S. Park Service closing parks and lakes to powersports and progressive communities enacting restrictive ordinances, industry executives estimate hundreds of millions of dollars of lost business each year.

With the established players locked in a high testosterone, high horsepower race to produce the biggest, brawniest machines at the expense of concerned communities, there is a secure and growing window of opportunity to capture business that focuses on quiet, clean, safe and responsible machines.

A Real Solution

Peregrine PowerKraft has developed a thoughtful and sustainable solution through intelligent engineering and a deep respect for the concerned communities.

SlipStreamPT™ & VaporsPWK™ — At the heart of the solution is the Peregrine SlipStreamPT™ powertrain. The patentable powertrain design couples a PEM fuel cell to any number of high-horsepower electric motors. The electric motors in turn drive the jet propulsion of PWCs, the tread of snowmobiles or the axles of ATVs. The SlipStreamPT™ powertrain also contains control and safety features built in with a RF controlled speed governor. The SlipStreamPT™ will be integrated into Peregrine's fully functional personal watercraft (PWK™) product, VaporsPWK™.

AirKontrol™ — To bring control back to the communities, Peregrine has developed AirKontrol™, a RF devise that controls speed governors in the SlipStreamPT™ or other powertrains. Communities and other resource users (e.g., other boaters) can dictate responsible PWC, snowmobile, and ATV use in and around sensitive areas by establishing AirKontrol™ base stations. The AirKontrol™ system is comprised of the base stations, RF receivers and speed governors.

ProtektorPG™ Personal Protection Gear — Safety is a critical concern of communities and concerned parents, and is an essential element of Peregrine's designs. The main element of Peregrine's ProtektorPG™ System is a simple magnetic chip (RF EAS tags) that activates the SlipStreamPT™ powertrain through the AirKontrol™ speed governor.
ELECTRIFYING PROGRESS AND PURIFYING PLEASURE - SMART POWER CRAFT FOR SMART COMMUNITIES

ProtektorPG™ chips can be required (and easily affixed) in helmets, life preservers, chest protectors, and other safety gear (e.g., emergency radios).

Habitat GIS – Critical to the success of Peregrine is the ability to observe trends in restrictive laws. In order to monitor this critical dimension, Peregrine is developing the Habitat GIS database. This highly proprietary geographic information system (GIS) permits Peregrine to visualize hot spots for product penetration and lobbying by overlapping variables such as hydrology, income, population density, and restrictive laws.

Community Outreach Programs – Peregrine understands that the company must offer more to communities than simply quieter, cleaner, safer and more responsible machines. By working with communities to address their remaining concerns through community outreach programs, Peregrine establishes an invaluable relationship with the communities. Peregrine believes the power is in the community’s hands, and a strong and supportive relationship with the communities will provide sustainable advantage for years to come.

The Market

The powersport industry is currently a $23.5 billion industry in the United States, and is projected to grow at more than 10% per year. The PWC, snowmobile and ATV segments have annual craft/vehicle revenues of $0.9 billion, $1.2 billion and $5.0 billion, respectively. The remaining revenues are generated from accessory sales (e.g., life preservers, trailers, etc.), maintenance, and rentals. Each segment is under pressure from concerned communities to manage the growth of the industry responsibly. And this pressure is only increasing as the stresses of urban sprawl accelerate.

Peregrine will initially focus on the PWC market in the Northeast and Mid-Atlantic. Discussions with the ex-Northeast District Representative for Yamaha PWC sales indicated that there was tremendous pent-up demand for PWCs in these two regions because of the growing restrictions. These are also regions preliminarily identified in the Habitat GIS as hot spots for initial sales.

Peregrine will work closely with local PWC rental businesses to secure initial sales commitments for complete Peregrine VaporsPWK™ plus AirKontrol™ and ProtektorPG™ accessories. In additional, Peregrine will work with local retailers to sell SlipStreamPT™ conversion kits for competing PWC offerings plus AirKontrol™ and ProtektorPG™ accessories. Peregrine will also work closely with the U.S. Coast Guard, the U.S. Park Service, and local municipalities to ensure access for Peregrine designs.

Future opportunities exist for snowmobile sales in western states with large national parks, and ATV sales throughout the country. Peregrine believes the ProtektorPG™ System will be particularly popular with parents of ATV-riding children and health and safety departments of corporations with ATV use.

The Competition

The existing hegemony in the powersports markets find themselves ensnared in a confounding situation. They are competing for the mass market along attributes that are squarely opposed to those of the offended communities. Bombardier, Kawasaki, Yamaha, Sea Doo, Tiger Shark and all of the other primary players are battling to build the biggest, brawniest machines. This is a high-testosterone environment where the thought of a kinder, gentler machine is met with jeers. Not surprisingly, there are no established firms selling fuel-cell powered powersports equipment. The arrival of Honda into the PWC market and its history of safety and environmental stewardship should begin to legitimize Peregrine’s line of products.

Discussion with local retailers and an ex-Yamaha rep indicate that Peregrine’s approach of giving control to the communities is 180° opposed to the current industry efforts. As such, the current industry will not attempt to embrace the Peregrine model until it has gained traction and proven itself in the market. This is a perfect scenario for Peregrine, allowing Peregrine to 1) grow into a market leading, independent company or 2) offer itself as a highly prized acquisition target.
The Team

Peregrine PowerKraft has built a core founding team with great clarity into the market need and great passion for the business. The founding team is still building the management team, and will clearly supplement its vision and passion with seasoned management as the business concept proves out.

Peter Woodson – Lead Integrator of Business, Technology & Environment – Peter brings eight years of technology and business consulting expertise to the development of Peregrine PowerKraft. During his years as a Principal Oracle Consultant, Peter designed and implemented complex business intelligence systems for Fortune 100 companies. Peter is a joint MBA and Masters in Environmental Management (MEM) student at Duke University, and one of the first Gates Foundation University Scholars.

Devyani Kar – GIS & Political Affairs – Devyani brings 5 years of international urban planning experience and GIS work to Peregrine. Working as an urban planner for rural areas around the world, Devyani has tremendous experience blending technology and relationships to direct local development. Devyani is a MEM student at Duke University.

Jeff Frank – Lead Engineer – Jeff brings 10 years of contract engineering experience to Peregrine. Jeff was responsible for some very early CAD work on advanced PWC frames as a student at Michigan State, and continues to provide his contract CAD expertise to high-tech manufacturing facilities.

In addition to the founding team, Peregrine has enlisted a world-class advisory team. Several of the highlights include: Phil Davey – ex-Yamaha Northeastern Regional Rep; Nathaniel Woodson – ex-President of Westinghouse Energy Systems; Milton Heath – UNC Professor of Public Law and Government and principal draftsman of most of North Carolina’s environmental and natural resources legislation; and Tanja Lechner – Software engineer with Ericsson’s advanced mobile software group.

The Financials

Peregrine is committed to controlled, customer-funded growth. As such, the financial projections are extremely conservative and designed for realistic management of the firm. If the business concept proves wildly more attractive than anticipated, the financials will be updated at that time to reflect a more aggressive position.
Peregrine PowerKraft Business Plan

Electrifying Progress, Purifying Pleasure – Smart Powersports for Smart Communities.

The Company

Company Overview

Peregrine PowerKraft designs, assembles and sells the world's quietest, cleanest, safest and most responsible powersport equipment by integrating fuel cell powertrains, radio frequency (RF) governed speed management, and mandatory safety accessories. Through thoughtful engineering and community outreach, Peregrine is capitalizing on a growing trend towards stiff powersport regulations, and a stubborn refusal by the established industry to embrace the community concerns. Powersports include personal watercraft (PWC), snowmobiles, and all-terrain vehicles (ATV). Peregrine's vision is to offer complete powersport solutions and individual component solutions that address the various community concerns. Peregrine is a development stage business currently focusing on product prototyping and initial customer acquisition, and intends to fund its initial development through government grants, limited angel seed capital and customer sales.

Peregrine Business Model

Peregrine PowerKraft designs, assembles and markets fuel cell powertrains and safety equipment for the powersport market. Utilizing the latest fuel cell technology to power high-efficiency electric motors and a proprietary speed governor and safety gear design, Peregrine brings to market a powersport solution that addresses both the communities' and powersport enthusiasts' interests. Peregrine's products put control back into the communities' hands, permitting them to reopen areas and reduce the pressure for future restrictions or closure. With little loss in performance, Peregrine delivers a significantly safer, quieter, less polluting, and far more responsible powersport product at a lower cost.

Peregrine initially generates revenue through the sale of four product lines: 1) complete Personal WaterKraft (PWK), 2) SlipStreamPT powertrain conversion kits, 3) AirKontrol wireless speed governor networks, and 4) ProtektorPG personal protective gear. Peregrine assembles readily available OEM technology into each of these product lines. The products are sold to rental businesses, retailers, government authorities, and direct to consumers. Ultimately, Peregrine looks to grow its market share globally and reduce its exposure to external suppliers by developing in-house those components that are least commoditized and most value-adding.
Peregrine is focusing its initial product development and commercialization on the PWC market in the Northeast and Mid-Atlantic region of the United States. There are four reasons for this: 1) the clear need in the PWC market, 2) Peregrine's expertise in the PWC market, 3) the enormous breadth of the powersport market, and 4) Peregrine's current limited resources preclude attacking more than one market. Refer to the Marketing Plan section later in this plan for complete details on segmentation and Peregrine's product offerings.

**Figure 1. Generalized Revenue Model**

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**Keys to Success**

The critical factors that will determine Peregrine's success are as follows:

**Management** – Peregrine is building a world-class management team that combines a seasoned understanding of the technology, market, and governmental nuances of the powersports market.

**Product Performance** – Peregrine will deliver powersport machines that still provide a thrill while eliminating noise, air and water pollution, ensuring rider safety, and enforcing speed and usage regulations.

**Community Acceptance** – Peregrine will work closely with communities and local authorities to ensure the best level of restrictions that favor Peregrine's products.
Low Cost Assembly – Peregrine will secure competitive agreements with OEMs to provide the sub-assembly components. Well-negotiated agreements will allow Peregrine to respond quickly to changing market needs and technological advancement.

Distributor acceptance – Peregrine will develop strong relationships with distributors by creating new business by mitigating the impact of closures and other restrictions.

Brand Image – Peregrine will look to base its operations in Vermont, and leverage Vermont’s image of strength, responsibility and wilderness. The Peregrine Falcon, the world’s swiftest bird reaching nearly 200 mph when diving, will lend its image of power, agility and purity.

Funding – Peregrine will initially lean heavily on customer-based funding to validate the business opportunity. Once validated, Peregrine will secure sufficient funding from venture funding and other capital sources to facilitate rapid development of greater distribution, manufacturing/assembly, and brand building capabilities.

Strategic Alliances – Peregrine believes strongly in the ability of partners to provide scale quickly, and will aggressively pursue alliances with strategic supply and demand side partners.

Management Team

Peter Woodson, Devyani Kar and Jeff Frank founded Peregrine PowerKraft to bridge the rift between concerned communities and powersport enthusiasts by leveraging innovative technology, regulatory influence, and targeted marketing. This founding team will execute the initial product development and customer validation efforts over the next six to nine months. As the true market opportunity emerges, Peregrine will augment this founding team with seasoned executives that can tap the capital markets, provide additional organizational leadership, and contribute extensive domain expertise.

Founding Team

Peter S. Woodson, Lead Integrator of Business, Technology & Environment

Peter brings eight years of technology and business consulting expertise to the development of Peregrine PowerKraft. During his years as a Principal Oracle Consultant, Peter designed and implemented complex business intelligence systems for Fortune 100 companies. Peter is a joint MBA and Masters in Environmental Management (MEM) student at Duke University, and one of the first Gates Foundation University Scholars.

Devyani Kar, Geographic Information Systems & Government Affairs

Devyani brings 5 years of international urban planning experience and GIS work to Peregrine. Working as an urban planner for rural areas around the world, Devyani has tremendous experience blending technology and relationships to direct local development. Devyani is a MEM student at Duke University.

Jeff Frank, Lead Engineer
Jeff brings 10 years of contract engineering experience to Peregrine. Jeff was responsible for some very early CAD work on advanced PWC frames as a student at Michigan State, and continues to provide his contract CAD expertise to high-tech manufacturing facilities.

**Future Management**

Peregrine will work with a skeleton crew on initial product development and pilot customer acquisition and servicing. However, Peregrine is preparing to build a more robust organization, and will be working to fill key positions as the business demands it. These key positions include CEO, CFO, VP Product Development, VP Market Development, VP Sales, VP External Affairs, VP of Operations, HR Director, and IT Director. The CEO will set overall strategic direction, provide organizational leadership, and act as the public figurehead for Peregrine. The CFO will tightly manage Peregrine's risk exposure and financial health. The VP Product Development will head Peregrine's engineering efforts. The VP Market Development will head Peregrine's inbound and outbound marketing efforts. The VP Sales will head Peregrine’s customer acquisition efforts. The VP External Affairs will head Peregrine's regulatory efforts and community and industry outreach programs. The VP of Operations will head Peregrine’s procurement, assembly, distribution, and service efforts.

**The Industry and Competition**

**The Industry & Market Segmentation**

The $23.5 billion powersport market consists of personal watercraft (PWC), snowmobiles, and all-terrain vehicles (ATV), and is dominated by industrial powerhouses such as...
Yamaha, Kawasaki, Honda, Bombardier, and Polaris. Each is competing fiercely to produce the biggest, brawniest machines to feed the growing demands of thrill seekers. In the process, the industry is generating a backlash from communities that demand increased safety and respect for the lands and waterways they share with powersport enthusiasts. This backlash has manifested itself in various bans and restrictions on powersport usage across the country. Despite recent setbacks by the Bush administration, the United States Park Service has been working hard to close or severely restrict use of powersports machines within the nation's public parklands. Similar restrictions are growing at all levels of government from local municipalities to state legislatures. A recent discussion with an ex-Yamaha regional manager (and member of Peregrine's advisory team) indicated that these restrictions -- and the threat of them -- had single-handedly depressed his New England regional sales by 25-30%. Solomon Smith Barney echoed this trend in their April 2001 coverage of Bombardier Incorporated stating, "We believe that the [unit sales] decline in the United States reflects widespread attempts to ban personal watercraft for a variety of reasons, including noise reduction, air and water pollution, and public safety concerns."

The total powersport market is segmented into the three primary segments: PWCs, ATVs and snowmobiles. Within each primary segment, the market is further divided into vehicles/crafts, services, and accessories. The vehicles/crafts are further divided into the uses: commercial, rental and personal units. Services are further divided into maintenance, storage and rentals. The accessories segment captures the business generated from sales of fuel, trailers, helmets, goggles, life vests, and the likes.

As mentioned previously, Peregrine will initially target the PWC market. The chart below summarizes the 2001 distribution of revenues between the segments. The PWC market accounted for $3.9 billion (17%) of the total powersports market. Of the $3.9 billion, $3 billion was generated from services and accessories and $900 million was generated from craft sales. Of the $900 million craft sales, $580 million was generated from sales to individuals, $268 million was generated from sales to rental businesses, and $45 million was generated from sales for commercial (non-rental) uses.

Figure 3. Powersport Segment Summary
PWC Market

The PWC market has suffered five years of declining unit sales due to issues of safety and access restrictions. North American sales have dropped from a high of 210,000 units in 1995 to 97,000 units in 2000. However, sales are projected to grow rapidly once the industry addresses public concerns about safety and noise and fuel pollution, which are at the heart of the access restrictions. The ATV market experienced a similar trend in the early 1980s when the industry struggled with concerns over the safety of three-wheelers. Once the industry acknowledged the danger and shifted to four-wheel versions, the ATV market rebounded sharply and continues to growth strongly today. Adding emphasis to the belief that the PWC market will rebound once safety and pollution concerns are addressed, Honda is preparing to enter the PWC market in 2002 with a four-cylinder model. And, the PWC market is still developing with first-time buyers purchasing 48% of the annual sales.

The EPA has enacted stiff pollution restrictions on the PWC industry. PWC manufacturers must reduce emissions from their products by 75% by 2006. California has accelerated this schedule and is requiring 75% reductions by 2002, 82% reductions by 2004, and 92% reductions by 2008. The current two-stroke technology will not be able to meet the tougher standards, and is being replaced by more expensive four-stroke technology. However, Peregrine's designs provide the greatest pollution reduction at comparable costs and integrate significant enhancements in safety. The established players are not pursuing Peregrine's fuel cell and usage control approach for two reasons: 1) it requires a step backwards in overall performance to sell a "worse" product, and 2) it requires the industry to turn on itself and reverse years of brutal debate about the safety and access concerns. Peregrine is perfectly comfortable selling a "worse" product and contradicting the PWC industry positions on safety and access. This is classic disruptive business model as described by Clayton Christensen. The established industry is primarily competing along a power curve. It is not focused on competing along pollution or safety curves because the market for customers that emphasize these attributes is not large enough to justify the investment of the large established firms. However, a startup like Peregrine with its limited overhead and smaller initial financial targets is more than happy to serve these niche markets. The beauty of the disruptive business model is that the underlying technology that may initially underperform on the primary attribute that is driving the established industry (i.e., power) will eventually mature to the point where it satisfies the needs of the larger market. It is at this point that Peregrine can begin stealing significant market share from the established market because the established companies' products have exceeded the true demand for power, and the majority of customers will be satisfied with the power available with Peregrine's products.

The charts below illustrate the transition of Peregrine from niche player in 2002 to mass market player in 2005. In 2002, Peregrine's products are inferior to the standard products in horsepower, but are superior in safety and pollution control. In 2002, Peregrine can only sell to the niche market indicated by the circles. However, by 2005, Peregrine's fuel cell technology will have advanced to the point of satisfying the mass market needs for power, and Peregrine will be begin stealing share from the mass market with its superior product.
Christensen also provides some guidance on differentiating a disruptive business from a bad business. He applies three tests: 1) Do the products compete against non-consumption; 2) Are customers happy with a poor quality product; and 3) Do the products address existing priorities? Peregrine initially competes with non-consumption in areas where strong restrictions prevent (or threaten to prevent) use of PWCs. The initial customers will be happy to get an underpowered craft if it allows them to regain access. And, Peregrine is selling access and safety — clearly of value and priority to the consumer. Overall, Peregrine is nicely positioned to be a powerful disruptive business.

Finally, Peregrine believes that 2002 is the perfect time to complete product development and initial customer acquisition, since the market has not yet started to grow again. As Peregrine completes development in late 2002, the market should be entering a rebound period. This timing is also consistent with the turn of the overall economy and an increase in discretionary spending. Peregrine will use the first few years to capitalize on customers that place great value on safety and access, and are satisfied with a 25% reduction in performance. Further discussion of growth plans can be found later in the plan.

ATV Market

The demand for ATVs has been the strongest within the powersports industry. Unit sales have grown at a CAGR of 18.5% over the last five years up to 723,716 units in 2000. With the strong growth in the ATV market, there has been a recent spur of new entrants to
compete with Honda, Yamaha, Polaris, Kawasaki, Arctic Cat, and Suzuki. Bombardier and Cannondale have both entered with full feature ATVs, and a handful of Asian manufacturers have entered the youth market selling through mass merchandisers and independent dealers.

Unlike snowmobiles and PWCs, ATVs generate a significant portion of their sales from non-recreational uses such as ranching, farming and construction. Large non-recreational opportunities and relatively untapped opportunities with the 15 million hunters have convinced analysts that the ATV market will continue to grow at a CAGR of 10-12% over the next three years.

ATVs are not being targeted initially by Peregrine because management has greater expertise in the PWC market, and because the engineering involved in serving the ATV market is far more challenging. ATVs operate in very rugged terrain and high horsepower conditions that cannot be adequately addressed by current fuel cell technology. This presents problems for the SlipStreamPT powertrain and AirKontrol technologies (unlike the open surface of a body of water, rough terrain will create significant interference for the AirKontrol signal). In addition, the ATV market has not faced the same public outcries about noise and fuel pollution that have impacted the snowmobile and PWC markets.

Peregrine believes that the ATV represents an attractive future expansion market for Peregrine's products. In particular, Peregrine believes that the safety products will be particularly attractive to concerned parents of ATV-riding children and applicable to corporate health and safety policies for ATV use.

**Snowmobile Market**

The snowmobile market has been plagued recently with poor snowfall in North America. This has resulted in poor unit sales growth (approx. 4% annually), and manufacturers have been fighting fiercely to grow their businesses through market share. Unit sales have recovered to 200,000 units in 2000 after falling to 74,000 units in 1983. The slow growth has severely depressed profits in the segment, but the future is looking brighter. Inventories are at a ten-year low, and the industry is preparing to roll out four-cycle engines. With 80% of snowmobile purchases coming from repeat buyers, the move towards four-cycle engines could stir industry growth as existing owners upgrade to the newer technology.

As with ATVs, snowmobiles represent a tougher engineering feat for Peregrine, and will be addressed later in the company's development. For the same reasons as with ATVs, the AirKontrol and ProtektorPG will likely be marketable to the snowmobile segment before the SlipStreamPT.
Table 1. Summary Statistics for Powersports Industry

<table>
<thead>
<tr>
<th></th>
<th>PWC</th>
<th>ATV</th>
<th>Snowmobiles</th>
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<tbody>
<tr>
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<td>118,966</td>
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<td>960,072</td>
<td>206,406</td>
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<tr>
<td><strong>CAGR</strong></td>
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<td>18.5%</td>
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<tr>
<td></td>
<td>(last 5 yrs)</td>
<td>(last 5 years)</td>
<td>(next 5 yrs est.)</td>
</tr>
<tr>
<td></td>
<td>12-16%</td>
<td>10-12%</td>
<td>3-5%</td>
</tr>
<tr>
<td><strong>Competitors</strong></td>
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<td>Honda (32%)</td>
<td>Polaris (35%)</td>
</tr>
<tr>
<td>(share)</td>
<td>Yamaha (35%)</td>
<td>Yamaha (27%)</td>
<td>Bombardier (27%)</td>
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<tr>
<td></td>
<td>Kawasaki (13%)</td>
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<td>Arctic Cat (1%)</td>
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</tr>
<tr>
<td></td>
<td>Honda (6%)</td>
<td>Suzuki (5%)</td>
<td></td>
</tr>
</tbody>
</table>

The Competition

There are five major competitors in the PWC market: Bombardier (Sea Doo), Yamaha (Waverunner), Kawasaki (Jet Ski), Polaris, and Arctic Cat (Tigershark) with shares of 41%, 35%, 13%, 10%, and 1% of the $900 million craft sales, respectively. With the arrival of Honda in 2002, it is expected that Arctic Cat will abandon the PWC market. Honda has targeted an aggressive 10% market share for its first year of sales, and will likely emphasize the company’s strength with low emissions technology and a history of proactively addressing safety issues. Because of this, Honda is likely to represent the biggest threat to Peregrine in the long-term. In the short-term, Honda’s entry into the PWC market should invigorate the PWC market and legitimize Peregrine’s high safety and low pollution strategy. Bombardier is the only established manufacturer that has taken major steps to address safety and pollution concerns. Bombardier’s D-SEA-BEL system lowers operating noise by 40% and its “learning key” governs top speed for beginners when inserted in the ignition.

All of the firms mentioned above are large, credible threats to Peregrine. Their Achilles heel lies in their positioning in the consumers mind. It is a position of big horsepower, high-thrill, anti-liberal regulation, and no wimps allowed. Their confrontational approach to addressing community concerns severely hinders them from offering a slower, cleaner, quieter and safer solution. And, as mentioned above, the niche market Peregrine is initially addressing is not large enough for the large established players to defend vigorously. Peregrine should have significant breathing room for the next two to three years to prove its design and close the power gap. At that time, Peregrine should be a very enticing acquisition target for any of the players that is looking to leapfrog Honda.

There is another sector that presents a limited threat. There is an extensive network of very small electric boat manufactures that service the leisure yachting and harbor touring market. These manufacturers have experience designing, building and selling electric boats. Peregrine does not view these players to be a significant threat because none have the deep financial resources of the large powersport manufacturers and all target a very different customer than Peregrine. If anything, they can provide a pool of potential employees and a source of knowledge and expertise.

Finally, there are the various multinational automakers and their web of partnerships and joint ventures. All of the major automakers are deeply involved in fuel cell research and working hard to produce low/no emission vehicles. Any one of these could establish a unit to address the powersports market (just as Honda has done). While Peregrine acknowledges the possibility, it does not consider the major automakers (aside from...
Honda) to be major threats. They are more than occupied fighting for vehicle sales, and will not likely distract themselves with the expensive and risky process of entering the powersports market directly. However, they are likely to be eager to license their technology to firms outside of the vehicle market. To this point, Peregrine is working to establish contacts with Ford's THINK group, XCELLSiS (a Ballard/ DaimlerChrysler/Ford joint venture), GM's Global Alternative Propulsion Center (GAPC), and Mitsubishi's Fuel Cell Vehicle (MFCV) group to license their leading edge fuel cell and electric powertrain technologies.

Advancements in fuel cell technology are likely to accelerate rapidly in the coming years with the Bush administration's recent announcement of the Freedom CAR (Cooperative Automotive Research) initiative. Freedom CAR is a joint development program involving DaimlerChrysler, Ford, General Motors, the U.S. Department of Energy and the U.S. Council for Automotive Research. Freedom CAR reallocates $1.5 billion from the Clinton-era Partnership for a New Generation Vehicle (PNGV).

Licensing fuel cell technology to Peregrine helps the automakers by priming the consumer market for fuel cell technologies. Fuel Cell technology is new to the average consumer, and automakers are facing significant hesitation by consumers to adopt such a radical change to their transportation. Peregrine provides a lower risk opportunity for consumers to gain exposure to the new technology. Unlike a $20,000 car with many critical uses, Peregrine's PWK products cost around $5000 and are used for leisure activities. In addition, rental businesses will initially be targeted, so end-users will not have to concern themselves with refueling and hydrogen distribution. Development of fuel cell power powersports will clearly ease the arrival of the fuel cell powered automobile, and Peregrine is working hard to get the automakers to embrace this message.

Unlike Honda with its 10% market share in year one, Peregrine has based its financial projects on very small market share in its first few years of business (less than 2%). Peregrine will worry about fighting for significant market share after the company and its product lines have been battle tested in the niche markets.

**Competitive Advantages**

Clearly the existing powersport industry presents the primary competitive threat. However, Peregrine is in a terrific position to capture an underserved niche market of concerned communities that emphasize responsible use and greater safety. Today, Peregrine's competitive advantages are limited:

1. **Scale** – Peregrine can target niche markets because it does not need to support a large organization. Peregrine will grow as its products address broader markets.

2. **Patience** – Peregrine has the patience to stop and listen to the concerns of communities, and mold its products and services to them.

3. **World-class advisory team** – Peregrine has recruited an impressive collection of strategic and technical advisors to guide the growth of the company.

However, as the company matures Peregrine will work hard to enjoy significant competitive advantages:

1. **Exclusive technology licensing** – Peregrine will work to negotiate exclusive (within the powersport industry) technology licensing agreements.
2. Cost Structure – Peregrine plans to run a very lean “assembly” operation leveraging an online semi-direct distribution model. This cost structure should provide Peregrine with great agility in responding to changing market conditions.

3. Responsible positioning – Contrary to the established industry, Peregrine is dedicated to responding to an irritated public and building strong relationships with communities.

4. Political and regulatory relationships – Peregrine will work with its External Affairs team to build key relationships with political and regulatory authorities at all levels of government. Peregrine believes it provides a win-win by presenting government officials with a pro-business and pro-environmental position.

5. Head Start on Advanced technology – Peregrine believes its experience bringing advanced technologies like fuel cells to market will give it tremendous advantages as the technologies become ever more mainstream.

## Marketing Plan

### Marketing Plan

Peregrine will pursue three very distinct marketing phases over the next three to five years. The first phase is designed for the initial product development and pilot customer acquisition phase of the company over the next 9-12 months. The second phase is designed for the initial public launch of the company and products. The third phase is designed to expand the company into new markets. Most of the company’s attention is currently directed to Phases I and II. The Phase III is highly dependent on the learnings gathered during the first two phases.

### Phase I

Phase I involves consumer, community, and distributor surveys, marketing the company and its designs to potential partners, pilot agreements with select rental businesses, building a geographic information system (GIS) marketing database, and endorsements from regulator agencies, political leaders, and celebrities. With assistance from a contact at The Gallup Organization, Peregrine will perform extensive surveys to better understand which attributes of Peregrine’s products to emphasis (i.e., clean, quiet, safe, governed, price, power) to the consumer. This information will also be compiled into collateral material for rental businesses and distributors to target their customers. Rental firms will be surveyed to understand how Peregrine can add greater value to their businesses, be it increasing ease of maintenance, improving durability of product, providing leasing arrangements, etc. Distributors will be surveyed to understand how Peregrine can make the best use of the independent dealerships. Peregrine’s current plans are to utilize an Internet-based kiosk model of distribution through the independent dealerships (see detailed discussion below).

It is critical that Peregrine market itself well initially to potential fuel cell partners, since Peregrine intends to license the core technologies and assemble them into complete solutions. Peregrine does not have an established record of sales and essentially no...
public profile. Peregrine must convince the technology partners to license their highly valuable fuel cell technology to an unknown company. To ease this process, Peregrine intends to leverage its network of advisors to secure key endorsements from federal and pseudo-governmental agencies, political leaders, and celebrities. Peregrine is working to secure preliminary endorsements for its designs from the Environmental Protection Agency, the U.S. Coast Guard, the U.S. Park Service, and the Consumer Product Safety Commission. Peregrine is also approaching Al Gore, Ralph Nader, Senator James Jeffords of Vermont, and Energy Secretary Spencer Abrahams (who oversees the Bush Administration’s Freedom CAR initiative) for their support of Peregrine. Finally, Peregrine is reviewing options to enlist a public celebrity such as David Hasselhoff of international Baywatch fame to promote the concept. Peregrine is not looking to compensate individuals early on for their support, but is willing to consider limited enticements such as campaign contributions or free product, if necessary.

Peregrine is targeting select rental businesses in Vermont, Virginia and North Carolina to pilot the PWK over the summer of 2002. The pilot rental businesses will be leased 2 or 3 PWK units at cost (or below cost) to experiment with under real-world conditions for one year. Part of the lease agreement will be the right for Peregrine to gather direct feedback from renters about their experience on the craft. In addition, Peregrine will ask for the right to collect renter profiles to begin building a customer profile and potential customer list.

As for the pilot locations, Vermont is particularly attractive because of the recent battles over the closure of Burlington Harbor, Lake Champlain, by Burlington City Councilmen Chapin Spenser and Tom Smith. Vermont also provides the right mix of concern for community rights and desire to allow the public to enjoy their natural resources. Peregrine believes Vermont will be most accommodating to straddling the very fine line between restricting all PWC use and permitting Peregrine’s progressive designs. Vermont also provides pockets of tremendous wealth that get little attention from companies targeting large markets. Virginia and North Carolina both provide tests in states with greater PWC usage and growing conflict on uses of public waterways. Both states have well-developed Coastal Zone Management programs and legislative power to work with Peregrine’s designs.

Peregrine is actively building a marketing GIS database called Habitat GIS to help target Peregrine’s launch and growth in future phases. Critical to the success of Peregrine is the ability to observe restrictive ordinances opportunities and trends. It is the movement to more restrictive control of recreational areas that presents the secure and growing opportunity for Peregrine. In order to monitor this critical dimension, Peregrine is developing the Habitat GIS database. This highly proprietary geographic information system (GIS) permits Peregrine to visualize hot spots for product penetration by overlapping variables such as hydrology, income, population density, and restrictive movements. It also provides Peregrine’s External Affairs (EA) Team valuable insight into areas where they need to concentrate their substantial lobbying efforts. As the EA Team interacts with communities, their findings are fed back into the Habitat GIS to better define the opportunities. Needless to say, the Habitat GIS contains extremely valuable and highly sensitive information, and will be a critical value component of the organization going forward.

Peregrine is currently modeling Vermont and New Hampshire in Habitat GIS, and will move to Virginia, North Carolina, and Florida in the coming months. Vermont has 241 lakes closed to PWC use, representing over 20,000 acres of water surface. Vermont has over 54,000 acres of lake surface at risk of closure with large areas of Lake Champlain
coming under scrutiny. Habitat GIS is of lower importance during Phase I, but will become critical as Peregrine starts to bring its products to market in the most efficient way possible.

Figure 5. Vermont Habitat GIS Target Areas

The EA Team will also be deeply involved in working with communities that have already passed complete bans (or similarly extreme restrictions) on powersport activity. Peregrine understands that in many instances the company must offer more to communities than simply quieter, cleaner, safer and more responsible machines. Clearly many communities have achieved this by simply banning the machines. However, many within these communities enjoy partaking in powersports and would agree that the bans are an unfortunate, but necessary, result of limited alternatives. By working with communities to address their remaining concerns, Peregrine establishes a relationship with the communities that can ultimately protect Peregrine from competitive threats. Since each community may have its own special needs, community programs will be crafted individually to meet them. In many cases they will share similar concerns such as water safety. A subsidiary 501c3 nonprofit organization called Peregrine Community Programs will be established to distribute a share of Peregrine's profits to support such efforts as local swim lessons, water safety courses, and shoreline restoration projects. Peregrine believes the power is in the community's hands, and a strong supportive relationship with the communities will provide sustainable advantage for years to come.

During Phase I Peregrine will purposefully maintain a low public profile as the company works with the pilot customers to refine the PWK, AirKontrol and ProtektorPG products. Peregrine personnel may attend industry tradeshows as attendees, but not exhibitors. Tradeshows would be used to 1) scout out the best shows for Phase II, 2) further query buyers and manufacturers about the opportunity for Peregrine's products, 3) keep abreast of industry trends.

Phase I is all about putting the fundamental pieces together to permit Peregrine to bring its products successfully to market. Market entry and initial revenue growth is managed as Phase II of the marketing plan. Phase II is all about the market ready products, the launch and pricing strategies.
Product, Launch & Pricing Strategies

Peregrine PowerKraft has developed a thoughtful and sustainable solution through intelligent engineering and a deep respect for the concerned communities. Peregrine is initially planning to design, assemble, and sell four related product lines: a complete personal waterkraft (PWK) called VaporsPWK built on the SlipStreamPT platform (a fuel cell based powertrain), a wireless speed governor system called AirKontrol, and personal protective gear called ProtektorPG.

Figure 6. Generalized Product Components

![Product Components Diagram]

VaporsPWK

VaporsPWK is a complete personal waterkraft built on the SlipStreamPT platform, and initially assembled from rehabilitated Sea-Doos and Waverunners to keep costs very low during startup. VaporsPWK is a fully operational PWK requiring 50% less maintenance than its combustion-based competitors due to 80% fewer moving parts. Overall, VaporsPWK generates a 35% reduction in total cost of ownership from reduced initial purchase price and reduced maintenance. Fuel costs differences should net out. Hydrogen fuel is cheaper to produce than gasoline, but is currently more expensive to distribute. Peregrine estimates that it will cost $1.00-$1.10 per gallon equivalent. The recycled bodies will be replaced by custom manufactured and assembled components as Peregrine's business grows and greater resources become available. However, it is currently possible to purchase complete decommissioned PWC frames with blown engines for under $800 (complete cost details provided below).
VaporsPWK comes in three power configurations: VaporsPWK 70, VaporsPWK 90, and VaporsPWK 125. They have peak performances of 70 hp, 90 hp, and 125 hp, respectively, and continuous power of 55 hp, 70 hp, and 100 hp.

Peregrine's current plans are to retail VaporsPWK 70 for $9195.00, VaporsPWK 90 for $9895.00, and VaporsPWK 125 for $10895.00.

Distributors will be paid a tiered commission for assisted Kiosk sales. The commission starts at 15% for the first 3 units sold per quarter, rises to 20% for the next 5 units, and levels out at 25% for each additional unit. In addition, a quarterly inventory management bonus commission of 10% of quarterly sales will be paid to distributors that reach within ±10% (10% above and 10% below) of their quarterly forecasted unit sales. Falling short of the ±10% results in no bonus commission. Exceeding the ±10% results in a 3% bonus commission.

**SlipStreamPT**

At the heart of the solution is the Peregrine SlipStreamPT powertrain. The patentable powertrain design couples a PEM fuel cell to any number of high efficiency, high-horsepower electric motors. The electric motors in turn drive the jet propulsion of PWCs, the tread of snowmobiles or the axils of ATVs. The SlipStreamPT powertrain reduces fuel pollution from usage to zero, and cuts noise pollution 80% from that of a standard two stroke engine. The fuel pollution reduction comes from the replacement of the fossil fuel with hydrogen fuel. The noise reduction comes from the replacement of the combustion engine with the electric motor. The SlipStreamPT powertrain also contains control and safety features built in with a RF controlled power governor (see AirKontrol products below).

SlipStreamPT comes in three power configurations: SlipStreamPT 70, SlipStreamPT 90, and SlipStreamPT 125. They have peak performances of 70 hp, 90 hp, and 125 hp, respectively, and continuous power of 55 hp, 70 hp, and 100 hp.

Peregrine's current plans are to retail SlipStreamPT 70 for $6695.00, SlipStreamPT 90 for $7395.00, and SlipStreamPT 125 for $8395.00.

Distributors will be paid the same tiered and bonus commission as described for VaporsPWK.

**AirKontrol**

To bring control back to the communities, Peregrine has developed AirKontrol, a RF devise that controls power governors in SlipStreamPT or third-party powertrains. Communities and other resource users (e.g., other boaters) can dictate responsible powersporting in and around sensitive areas by setting up AirKontrol base stations. AirKontrol could be used to dictate that craft may not operate before 10am or after 6pm (i.e., governor set to 0 or 2 MPH across entire area), or they could be used to set speed limits to 5 MPH in high-traffic areas. In the absence of a signal from an AirKontrol base station, SlipStreamPT powertrains and the AirKontrol system can be configured to allow operation of the craft unhindered, allow operation at reduced power, or prevent operation. The highly flexible AirKontrol governor system puts control back in the hands of the community and promotes responsible use. The AirKontrol system is comprised of the base stations, RF receivers and speed governors.
The AirKontrol base stations (BS) come in three power configurations: AirKontrolBS 200, AirKontrolBS 800, and AirKontrolBS 2500. They have maximum ranges of 200 meters, 800 meters and 2500 meters, respectively, under clear conditions. The AirKontrolBS 200 is designed for personal use around a personal dock or property. It comes with three controls: a programmable timer with speed settings and a range setting (up to 200 meters). The AirKontrolBS 800 is designed for basic public space use around marinas or sensitive areas. It comes with three controls: a programmable timer with speed settings and a range setting (up to 800 meters). The AirKontrolBS 2500 is designed for local authorities to manage large areas such as an entire lake or reach of shoreline. It comes with five functions: an upgradeable programmable timer with speed settings, a range setting (up to 2500 meters), remote wireless programming, and base station networking. The AirKontrolBS 2500 is best operated from a transmission tower, which is not supplied by Peregrine. Peregrine does supply a standard 4 foot tall support with all AirKontrolBS models.

Peregrine’s current plans are to retail AirKontrol Kits – one standard base station and one rider-side (RS) setup (antenna, speed governor, and RF transceiver and electronics) – for $695.00. AirKontrolBS base stations can be purchased separately: AirKontrolBS 200 for $429.00, AirKontrolBS 800 for $995.00, and AirKontrol 2500 for $3895.00. AirKontrolRS rider-side setups can be purchased separately for $349.00. Upgrades to the embedded base station software can be downloaded from Peregrine for free with valid product registration.

Distributors will be paid the same tiered and bonus commission as described for VaporsPWK.

**ProtektorPG Personal Protection Gear**

Safety is a critical concern of communities and an essential element of Peregrine’s designs. The main element of Peregrine’s ProtektorPG System is a simple magnetic chip that actuates the speed governor in the SlipStreamPT powertrain. The microchips are similar in design to those used to reduce shoplifting (i.e., RF EAS tags), and the operation of the SlipStreamPT powertrain is only possible in the presence of the ProtektorPG chip, or set of chips. ProtektorPG chips will be required in helmets and life preservers, and will be embedded within the gear.

The ProtektorPG System is extensible. If communities dictate that radios must be carried on all craft, then ProtektorPG chips can be purchased separately and secured to radios. In this case, the SlipStreamPT powertrain will only activate when helmet, vest and radio chips are sensed.

Peregrine will offer premium ProtektorPG Helmet and ProtektorPG Vests, but will also sell the ProtektorPG chips individually so they can be attached to third-party gear.

Peregrine’s current plans are to retail ProtektorPG Helmets for $98.00 and ProtektorPG vests for $159.00. Packages of ten ProtektorPG microchips can be purchased for $28.00.

Distributors will be paid a 10% commission on ProtektorPG gear.
AirKloak (concept phase only; PWCs only)

To achieve further noise reduction in PWCs, Peregrine is developing an AirKloak hull design. AirKloak is a proprietary method of enveloping the hull in a cloak of air. AirKloak dampens the considerable slapping sound made by PWCs as they skip across the water. AirKloak is a side project that is not part of Peregrines go-to-market plans. It is highly conceptual at this point, and would require that Peregrine manufacture its own hulls. However, it is another example of Peregrines innovative solutions to the market needs.

Peregrine does not currently plan to sell AirKloak.

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<tr>
<th>Product</th>
<th>Release Date</th>
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<th>Discount Breakdown</th>
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<td>$9195.00</td>
<td>15% (1-3); 20% (4-8); 25% (9 &amp; up) bonus: 10% (+10%); 0% ↓; 3% ↑</td>
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<td>Jun 2003</td>
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</tr>
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<td>Mar 2003</td>
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Licensing to Other OEMs

In the future, Peregrine will also work with other manufacturers to license Peregrine’s designs. Peregrine will monitor its intellectual property (IP) position, and determine if there are opportunities for significant licensing deals. Currently Peregrine's IP position does not present such opportunities.

Product Launch

Peregrine plans to have primitive PWK prototypes available for pilot customers by mid-July 2002, and will complete initial product development of baseline PWK, SlipStreamPT, AirKontrol, and ProtektorPG products by December 2002. Peregrine currently plans to launch its first versions of products in March 2003. Assuming positive feedback from pilot customers, Peregrine will begin generating collateral material for initial product launches in October 2002, and begin approaching rental businesses and resorts about closing March 2003 deals in December 2002.

Peregrine will use a direct sales force to manage the growth of the firm. Peregrine will not be positioned in March 2003 for mass production, and will not attempt to generate
enormous public awareness at that time. Peregrine plans to work closely with select customers for 6 to 9 months, gauging demand and build up the company's operations, before working with independent distributors and direct customers. Tentatively, Peregrine anticipates attacking the broader public market in time for holiday shopping in 2003. By that time, Peregrine will have a full service e-commerce sight, configured kiosks, and should be producing the second generation of products, which will incorporate the latest advancements in fuel cell technology and quality improvements learned from the initial rental sales.

Product Cost Analysis

Peregrine will initially act as an assembler or bundler of technology. As such, Peregrine will have limited fixed production costs. Almost all of the variable costs are well established in various electronic and technology marketplaces. Peregrine has identified the following basic product specifications and unit cost, but understands that the exact components and prices will vary over time.

Table 3. Product Components Specifications

<table>
<thead>
<tr>
<th>Major Components</th>
<th>Specifications</th>
<th>Supplier</th>
<th>Unit Cost</th>
<th>Volume Discount</th>
</tr>
</thead>
</table>
| PWC Body & Basic Components | Initially: used Yamaha & Sea Doos
Ultimately: manufactured in China | Various used PWC dealers & exchanges | $700 to $900 | none |
| H₂ Fuel Tank | 2 x Compressed Gas, 621SCF, 15'x30', 62lbs. | DynaTek Industries
Ergenics
Fuel Cell Store | $500 | negotiable |
| PEM Fuel Cell | 67kW continuous, 22SLPM, 180 lbs, 32'x5.5'x20" | 1° GAPC (GM)
2° XCELLSIS
3° UTC Fuel Cells | $3800 | n/a |
| Electric Motor | 8" DC 23hp Series Wound Motor, 106lbs | NetGain, Ecostar,
Baldor, Various | $1300 to $1500 | 10% / 500
20% / 1000 |
| Speed Governor | 72-120V, 400 amps | Various Auto parts
and electronics dirs. | $100 | negotiable |
| AirKontor Electronics | Various Configurations | Various electronic component distributors | Variable, ~ $150 | various |
| Microchip | Standard EAS Swept-RF tags | Checkpoint Systems,
DB-Tronics,
many others | minimal | n/a |
| Life Vest | USCG Type II PFD | Horta (Taiwan),
many others | $45 | 10% / 250 |
| Helmet | Certified to CE 1385 Standard | Qilin Sports (China),
many others | $35 | 10% / 350 |

Development and Operations Plans

Product Development

Peregrine is actively involved in the design and prototyping of the baseline VaporsPWK and related SlipStreamPT products. While Peregrine’s designs do not require any new advancements in existing technology, they do require that Peregrine secure rights to certain key technologies, in particular fuel cell stacks. For example, both Ballard and General Motors Global Alternative Propulsion Center (GAPC) have fully developed fuel cell stacks that more than meet Peregrine’s needs, however Peregrine has yet to secure
development or licensing rights to the technologies. In September 2001, GAPe announced the successful development of Stack 2001 that produces continuous power of output of 102kW (134 hp) and peak output of 129kW (173 hp). It weighs 180 pounds, measures 32.25 x 5.5 x 20 inches, and reaches full power in 30 seconds at temperatures as low as -4°F. Both Stack 2000 and Stack 2001 surpassed Ballard's most recent fuel stack that produces 75kW (100 hp) of continuous power, yet even Ballard's system is more than sufficient for Peregrine's purposes.

Peregrine is working with contacts through the Fuqua School of Business, Pratt School of Engineering, and Peregrine's Strategic and Technical Advisory boards to gain access to the fuel cell technology. In the mean time, inferior (in both price and performance) fuel cells stacks from readily available online markets will be acquired to allow prototyping to continue.

Peregrine has not begun physical development of the AirKontrol or ProtektorPG systems, but is very comfortable with its designs. These product lines are all based on standard technology and well developed protocols. Peregrine will delay development of both product lines until the PWK and SlipStreamPT product lines are proven out in working prototypes.

Four additional engineers from The Fuqua School of Business have indicated their interest to join the Peregrine team in March for the initial prototype production. They have mechanical and electrical engineering experience at the graduate level, and one has worked specifically with PWC designs in the past.

Operations: Production & Distribution

Production

Peregrine will initially run its assembly operations out of low-rent industrial space available in Durham, NC. Peregrine will also look into renting after-hours machine shop space from local businesses and universities. Production of the first prototype and pilot customer units will require low volume custom orders of all of the necessary components. Currently, Peregrine has budgeted $10K for assembly equipment for the first prototype, $20K for assembly equipment for the first 9 pilot PWKs, and $200K for assembly equipment for the first generation of products. As the viability of the business becomes clear, Peregrine will work to secure significantly greater capital to expand the assembly facilities. Peregrine will work with politicians and venture capitalists in Burlington, VT to secure a more permanent assembly facility in northern Vermont. Vermont provides a highly skilled workforce, low cost of business, high quality of life for employees, and progressive, environmentally friendly, and rugged corporate image. It also provides a climate that accommodates all three segments of the powersports industry.

When Peregrine has developed sufficient sales and its designs require specialized production, Peregrine will shift away from pure assembly and look to Asia for manufacturing support. Peregrine has identified the nearly insolvent SonicJet and its Chinese manufacturing partner as a possible low cost supplier of custom hulls and accessories.
Distribution

ATVs, PWCs and snowmobiles are distributed primarily through independent dealers who generally carry many product lines and brands. However, Peregrine will use a direct sales effort during the initial product and market development efforts targeted on a select group of rental businesses. The direct sales effort will provide a direct link to the pilot customers and provide rapid feedback and service. As Peregrine's products mature, Peregrine will turn to a kiosk model of dealer-assisted distribution. In this model, Peregrine will install PC-based Internet sales kiosks on the sales floors of independent dealers. The strength of sales at a dealer will determine if floor demonstration models or salable inventory will be provided to aid the sales process. Regardless, the vast majority of sales orders will be taken online via the kiosks, and assembled to customer selected configurations. Peregrine will initially target order turnaround times of 14 business days, and continue to monitor customer demands for speedier turns. The kiosk model allows Peregrine to minimize its risks by only assembling equipment after a sale is secured. Peregrine will still need to keep an inventory of assembly components, but can quickly swap in updated components with each advancement in technology. Ultimately, Peregrine would like to achieve many of the legendary advantages Dell Computer enjoys in the PC and server markets.

Peregrine believes dealers and customers will quickly embrace the kiosk model because it will help deliver the highest quality product at significant cost savings. The kiosks avoid costly negotiations with dealers for displacing their existing product lines and brands from their shop floors. Instead Peregrine can quickly and easily gain a position within dealerships by delivering a highly visible, interactive kiosk. Customers gain the flexibility of online customization with dealer support and great values.

The kiosk model will operate on an e-commerce platform that is accessible outside of the dealership from any web browser. This truly direct to consumer ability will allow direct sales, service and order tracking.

Management and Organization

In addition to the management team detailed earlier, Peregrine’s advisors are key to a successful development of the business.

Strategic Advisors

Peregrine has the support of a distinguished group of business leaders with an impressive blend of relevant business experience, each of whom will advise Peregrine management on strategic planning and business direction issues:

Phil Davey

Ex-Regional Director for Yamaha PWC, Boston, MA. Mr. Davey has over 25 years of industry sales and business development experience, and provides Peregrine with keen insights and connections in the PWC market. Mr. Davey currently lives and works in electronic sales in Chapel Hill, NC.
Nathaniel Woodson

Chairman and CEO of United Illuminating, New Haven, CT and ex-President Westinghouse Energy Systems, Pittsburgh, PA. Mr. Woodson has over 30 years of international business operations experience and endless contacts within the energy sector. Mr. Woodson current lives in New Haven, CT.

Milton Heath

UNC Professor of Public Law and Government and principal draftsman of most of North Carolina’s environmental and natural resources legislation. Mr. Health has over 35 years of environmental and water rights law experience throughout the Southeast, and is tremendously valuable in leveraging the regulatory process for Peregrine. Mr. Health currently lives in Chapel Hill, NC.

Open - Political Authority

Peregrine is still searching for an appropriate political champion.

Technical Advisors

An eminent group of professionals with varied backgrounds and relevant experience who will advise Peregrine management on targeting, product development, system architecture and technology direction issues:

Open - Fuel Cells

Peregrine is working with contacts at the Fuqua School of Business and through Nathaniel Woodson to secure a technical advisor from within the fuel cell industry. An advisor from Ballard, GM’s GAPC, or the California Fuel Cell Partnership tops the list.

Jimmy Gurney - Production Engineering

Jimmy Gurney, son of legendary racecar drive and racecar builder Dan Gurney, provides unparalleled production and engineering expertise to Peregrine. Mr. Gurney works with Dan Gurney’s All-American Racers building the world’s fastest formula one racecars with space age materials and precision engineering. Mr. Gurney is a long-time friend of Phil Davey.

Tanja Lechner - RF Networking

Engineer with Sony-Ericsson’s advanced mobile software group. Ms. Lechtner provides over 7 years of experience in advanced wireless communications.

Open - Trade Association

Stephen Andranian, Government Affairs Manager at the American Watercraft Association, has been used on a limited basis. Mr. Andranian provides Peregrine with a link to both the established watercraft industry and efforts to influence the regulatory process.
Open – U.S. Coast Guard

The President of The Ocean Conservancy and ex-U.S. Coast Guard Admiral Roger Rufe has been suggested as a great resource for understanding how to work with the U.S. Coast Guard to promote Peregrine and its products.

Open – U.S. Park Service

Peregrine is working with the Nicholas School of the Environment at Duke University to identify an appropriate resource in the U.S. Park Service.

Major Near-Term Milestones

Peregrine has three goals over the next nine months – prove the technology, prove the market, and prove the company. Peregrine will prove the technology by building fully functional prototypes. Peregrine will prove the market by surveying customers and completing a series of pilot projects. Peregrine will prove the company by attracting and retaining talent, hitting milestones, and negotiating key partnerships. The milestones for the next two years are as follows:

Prototype Development

- Technology licensing from GAPC or Ballard
- Assembly facility secured
- PWK 90 and SlipStreamPT 90 prototype
- AirKontrolBS 200 prototype
- ProtektorPG Vest & Helmet prototype

Target Date
2Q, 2002
2Q, 2002
2Q, 2002
3Q, 2002
3Q, 2002

Pilot Projects

- 3 pilot rental customer commitments
- Delivery of 6-9 pilot PWK units

Sales & Marketing

- Customer, Rentals, and Distributor Survey
- Product Collateral
- Web Presence and e-commerce capabilities
- Habitat GIS coverage of entire east coast
- Rental and resort sales

Company and Product Validation

- USCG/USPS/EPA Endorsement
- Political Endorsement
- Celebrity Endorsement

Key Staffing

- Founding team and advisors
- CEO, VP Product Development
- CFO, VP Ext. Affairs, VP Mkt Dev
- VP Sales
- VP Ops, Dir. IT, Dir. HR

Target Date
2Q, 2002
3Q, 2002
1Q, 2003
2Q, 2003
3Q, 2003
1Q, 2002
3Q, 2002
2Q, 2002
3Q, 2002

Funding
- Bootstrap ($5K) 1Q, 2002 (√)
- Seed ($550K) 3Q, 2002
- First round ($3M) 1Q, 2003
- Second round (conditional) 1Q, 2004

Financial Summaries

Peregrine is committed to controlled, organic growth. As mentioned above, Peregrine is looking for customer validation before investor validation. As such, our financial projections are extremely conservative and designed for realistic management of the firm. If the business concept proves more attractive than anticipated, the financials will be updated at that time to reflect a more aggressive position.

P&L Statement

Table 4. P&L Statement

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Sales</td>
<td>89,055</td>
<td>1,784,721</td>
<td>7,289,685</td>
<td>14,217,240</td>
</tr>
<tr>
<td>Total Cost of Sales</td>
<td>68,792</td>
<td>1,332,357</td>
<td>5,021,849</td>
<td>9,223,633</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>104,107</td>
<td>1,261,354</td>
<td>2,406,840</td>
<td>3,960,312</td>
</tr>
<tr>
<td>Net Income (Loss)</td>
<td>(79,078)</td>
<td>(737,821)</td>
<td>(127,594)</td>
<td>(623,377)</td>
</tr>
<tr>
<td>Market Share</td>
<td>0.00%</td>
<td>0.04%</td>
<td>0.17%</td>
<td>0.32%</td>
</tr>
</tbody>
</table>

Revenue Summary

Revenue is generated from sales of VaporsPWK, SlipStreamPT, AirKontrol and ProtektorPG units. Revenues are only $90K in 2002 as Peregrine works with a select few customers to refine the product lines. Revenues increase in 2003 as Peregrine begins to penetrate the rental and resort sectors. Revenue growth accelerates in 2004 and 2005 as Peregrine begins to sell its second generation of product, and reaches the general public. Figures 7 and 8 highlight the growth in revenues and units by product line.
Figure 7. Projected Revenues by Market Segment

Figure 8. Projected Units by Market Segment

Figure 9 summarizes Peregrines earnings and cash position by month from April 2002 to December 2005. Peregrine shows its first profits in October 2004 and sustained positive cash flow before equity in February 2005.
Financial Statements

See Appendices for Peregrine PowerKraft's projected financial statements, including projected Statement of Operations, Statement of Cash Flows, and Balance Sheet.

Major Challenges and Risks

Challenges

Technology – While all of the technology needed for Peregrine’s products exists today, integrating them in a cost effective way will present both business and engineering challenges. Peregrine will lean on its advisory teams to overcome these challenges in the early days.

Market – Peregrine must overcome Americans dislike of command and control approaches. Peregrine’s products remove control from the individual and put it in the hands of the community. This is a tough sell when compared to free use, but is a terrific sell if compared to complete bans. Peregrine must walk a very fine line.

Company -- Recruiting and keeping top talent will be Peregrine’s toughest challenge. This is particularly true during the initial development when resources are scarce. However, Peregrine’s success in attracting a very strong advisory team suggests that Peregrine may find itself with a wealth of staffing options. Managing cash and growth of a company will present challenges during the early resource-constrained startup phase.

Risks

Licensing Technology – Peregrine will not succeed without key technology licensing agreements. However, Peregrine believes that there are sufficient suppliers and sufficient momentum to bring the technology to market that agreements can be reached.
Competitive Response – The established industry has taken a very hard line on addressing community concerns. While highly unlikely, they could reverse their positions and embrace the communities. This is not likely because it jeopardizes a tremendous amount of business.

Cost Structure – Peregrine intends to run a lean assembly operation. Forecasting and supply chain problems could force Peregrine to concede much of this advantage.

Customer Acceptance – Customers may reject Peregrine’s kinder, gentler approach to the powersports market. Peregrine believes this to be unlikely because any access is better than none.

Distribution – Peregrine is planning to use a dealer assisted kiosk model of distribution. This will be a new mode of distribution for them, and will require initial training and encouragement. In addition, they will likely receive pressure from the established industry to lockout Peregrine. However, the distributors are independent and the kiosk presents an easy way for them to add product diversity to their shop floor without additional inventory or space. Peregrine believes distributors will readily adopt the kiosk model.

## Long-Term Development and Growth Plans

### Four Gates of Development

Peregrine is structuring its development against four gates:

**Idea/Technology to Product**

The Technology to Product gate is the prototyping phase over the next 9 months that proves out the technology. This phase is primarily funded through customer sales of pilot product, bootstrapping, and limited seed funding. Peregrine will also actively pursue government grants to support the development efforts.

**Product to Customer**

The Product to Customer phase is the post-launch phase starting in 2Q 2003 and running until the product is ready for sale to the broader public at the end of 2003. This phase is primarily funded by revenue and a venture investment.

**Customer to Growth**

The Customer to Growth phase is the scale up and product expansion phase where Peregrine brings an increasing array of products to a growing list of markets. This phase is primarily funded by revenue and potentially additional investments from partners and institutional investors.

**Growth to Liquidity**

The Growth to Liquidity phase is the time when Peregrine evaluates how to best leverage its successes to truly scale to a be a global player. If Peregrine executes well on its plan, it should make for a very attractive acquisition target for any one of the large established
powersport companies. Peregrine will also give consideration to the public equity markets, and possible growth through Peregrine's own acquisitions. Regardless of the exact liquidity event, Peregrine management is focused on the short term in creating value by designing and selling powersport products that excite consumers.

**New Markets, Products and Partnerships**

As discussed previously, Peregrine will initiate business in the PWC market along the east coast of the United States. As Peregrine products begin to gain market acceptance, Peregrine will expand its PWC offerings to the entire US and ultimately globally. Peregrine will also begin modifying and marketing its products for the ATV and snowmobile markets in 4Q 2003 or 1Q 2004. This is the Customer to Growth phase described above. The order of expansion is envisioned to be as follows:

1) Base PWK product  
2) Base AirKontrol product  
3) Base ProtektorPG product  
4) Base Customers in N.E. & Mid-Atlantic  
5) Expand all PWK products to Total US  
6) Expand AirKontrol & ProtektorPG to regional ATV & Snowmobile mkts.  
7) Expand all PWK products to global PWC mkts  
8) Expand AirKontrol & ProtektorPG to national ATV & Snowmobile mkts  
9) Expand SlipStreamPT to regional ATV & Snowmobile mkts  
10) Expand SlipStreamPT to national ATV & Snowmobile mkts  
11) Expand all products to global ATV & Snowmobile mkts

Peregrine will continue to nurture its relationship with its suppliers and government regulators. Peregrine will also evaluate producing a line of commercially oriented products aimed squarely at government agencies and corporations.

**Growth, Capital & Ownership**

Peregrine anticipates two external cash infusions during its four-year growth plan. These cash investments are expected to get Peregrine to a positive earning and cash position. From that point, Peregrine will be in a strong position to access additional capital in a broad range of markets. The first infusion will be $50K prize money from the Duke Startup Challenge. This capital will be used for the initial prototyping of the base products. Peregrine has also attracted the attention of several angel investors through an ex-Citibank executive, his brother (the CEO of a Fortune 50 private company), and his network of high net worth individuals that could contribute up to $175K during the prototyping phase. Peregrine would prefer to complete prototyping on the $50K, and leverage these individuals for a $500K seed round in 3Q 2002. This capital would be used to attract senior management, ramp up production, marketing and internal systems for broader sales efforts to rental businesses and resorts in 2Q 2003. Finally, a $2 million first round investment is planned for 1Q 2003 to fully support the production, marketing, and sales effort necessary to generate revenues from rental and resort business throughout the East Coast.

Using a valuation of 3X year-four revenues, Peregrine is valued at $45.7 million. This valuation creates the following projected ownership:
Table 5. Capitalization

<table>
<thead>
<tr>
<th>Contributor</th>
<th>Investment</th>
<th>Date</th>
<th>Purpose</th>
<th>% Owner</th>
<th>Value of Ownership (end of year 4)</th>
<th>4-year ROI</th>
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</thead>
<tbody>
<tr>
<td>Founders</td>
<td>$50,000</td>
<td>Apr. 2002</td>
<td>Design, Prototyping &amp; Pilot Customers</td>
<td>35%</td>
<td>$14,928,102</td>
<td>298X</td>
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<tr>
<td>Reserved</td>
<td></td>
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<td>15%</td>
<td>$6,397,758</td>
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<tr>
<td>Seed</td>
<td>$500,000</td>
<td>Sep. 2002</td>
<td>Hiring, production, marketing, &amp; sales</td>
<td>10%</td>
<td>$4,265,172</td>
<td>BX</td>
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<tr>
<td>Series A</td>
<td>$2,000,000</td>
<td>Feb. 2003</td>
<td>Full production, marketing, &amp; sales</td>
<td>40%</td>
<td>$17,060,688</td>
<td>BX</td>
</tr>
</tbody>
</table>

Appendices

Financial Statements

Statement of Operations
Balance Sheet
Statement of Cash Flows
2002 -- Detailed Monthly Statement of Operations
2003 -- Detailed Monthly Statement of Operations
## STATEMENT OF OPERATIONS

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product Sales</td>
<td>89,055</td>
<td>1,784,721</td>
<td>7,289,685</td>
<td>14,217,240</td>
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<tr>
<td><strong>Total Sales</strong></td>
<td>89,055</td>
<td>1,784,721</td>
<td>7,289,685</td>
<td>14,217,240</td>
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<tr>
<td><strong>Cost of Sales</strong></td>
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<tr>
<td>Direct Costs</td>
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<td>Operations</td>
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<td>256,682</td>
<td>396,775</td>
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<td><strong>Total Cost of Sales</strong></td>
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<td><strong>Gross Profit</strong></td>
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<td><strong>Expenses</strong></td>
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<td>Development</td>
<td>50,295</td>
<td>255,588</td>
<td>444,156</td>
<td>488,424</td>
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<td>Sales &amp; Marketing</td>
<td>2,672</td>
<td>488,119</td>
<td>1,453,909</td>
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<td>Administrative</td>
<td>51,140</td>
<td>517,647</td>
<td>508,775</td>
<td>685,314</td>
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<td><strong>Total Expenses</strong></td>
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<td>2,406,840</td>
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<td><strong>Other Income (Expenses):</strong></td>
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<td>Interest Income</td>
<td>9,460</td>
<td>83,032</td>
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<td><strong>Income Before Taxes</strong></td>
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<td>71,170</td>
<td>39,890</td>
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<td><strong>Income Taxes</strong></td>
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<tr>
<td>Benefit (Expense)</td>
<td>32,391</td>
<td>302,211</td>
<td>40,516</td>
<td>(432,478)</td>
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<tr>
<td>NOL Carryforward</td>
<td>(32,391)</td>
<td>(302,211)</td>
<td>(69,194)</td>
<td>-</td>
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<td><strong>Net Income (Loss)</strong></td>
<td>(79,078)</td>
<td>(737,821)</td>
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<td>623,377</td>
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<tr>
<td><strong>Retained Earnings</strong></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ending</td>
<td>(79,078)</td>
<td>(816,899)</td>
<td>(944,493)</td>
<td>(321,116)</td>
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</tbody>
</table>
## Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets:</strong></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>535,141</td>
<td>1,488,830</td>
<td>1,112,313</td>
<td>1,560,101</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>1,391</td>
<td>193,848</td>
<td>668,657</td>
<td>933,529</td>
</tr>
<tr>
<td>Inventory</td>
<td>-</td>
<td>222,832</td>
<td>622,018</td>
<td>880,300</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>536,532</td>
<td>1,905,510</td>
<td>2,402,988</td>
<td>3,373,929</td>
</tr>
<tr>
<td><strong>Property &amp; Equipment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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### STATEMENT OF CASH FLOWS

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2002 – DETAILED MONTHLY STATEMENT OF OPERATIONS

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## 2003 – DETAILED MONTHLY STATEMENT OF OPERATIONS

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Smart Powersports for Smart Communities

Peregrine PowerKraft is committed to designing, assembling and selling the world's safest, quietest, and cleanest powersport equipment.

The Mission

"Peregrine PowerKraft is committed to designing, assembling and selling the world's safest, quietest, and cleanest powersport equipment."
The Objective

- Describe Peregrine PowerKraft
- Answer your questions
- Get your support!
  - DSC Winner
  - Expertise, Contacts, Services, etc
  - Potential future funding

The Industry

<table>
<thead>
<tr>
<th>Total Segment Revenue</th>
<th>Sub-Segment Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATV 55%  $13,019</td>
<td>$5,019</td>
</tr>
<tr>
<td>PWC 17%  $3,892</td>
<td></td>
</tr>
<tr>
<td>Sleds 28%  $6,610</td>
<td></td>
</tr>
</tbody>
</table>

(millions)
**The Problem**

- PWC sales down 50% last 5 yrs
- Snowmobile sales down 20% l5y
- ATV sales up 120% l5y
  - ATV sales down 77% from 85-89!
- Powersports Bans
  - Lake/Shoreline & Park closures
  - Threats of future bans
  - Safety, Noise and Fuel Pollution

**The PWC Need**

- Safety
  - Injuries 8.5X motorboat rate
  - 52% of accidents; 8% of crafts
  - >25K injuries, >1K hospital, & >50 deaths per year
  - Speed, location, inexperience
The PWC Need

- **Noise Pollution**
  - 85-100dB ≈ 4-8X comfort level
  - Noise annoyance cost to beachgoers ~$900MM/yr
  - Used close to shore
  - Wildlife harassment

- **Fuel Pollution**
  - 7hr ride on PWC ≈ 100,000 miles in car
  - 25% fuel dumped directly
  - Dumps 1.2X more oil/year than Exxon Valdez
  - 80% 2-stroke engines
  - Access to sensitive habitat

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The Peregrine Solution

- VaporsPWK
  - Full Personal WaterKraft Unit
- SlipStreamPT
  - Fuel cell powertrain
- AirKontrol
  - RF Speed Management
- ProtektorPG
  - Personal Protection Gear

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**The Peregrine Solution**

- **Safety**
  - ProtektorPG & AirKontrol

- **Noise Pollution**
  - SlipStreamPT & AirKontrol

- **Fuel Pollution**
  - SlipStreamPT

---

**The Competition**

<table>
<thead>
<tr>
<th>Industry Players</th>
<th>Honda</th>
<th>Sea Doo</th>
<th>Yamaha</th>
<th>Kawasaki</th>
<th>Polaris</th>
<th>Tiger</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mkt Share</td>
<td>0%</td>
<td>41%</td>
<td>35%</td>
<td>13%</td>
<td>10%</td>
<td>1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Peregrine</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>PWK</td>
<td>Gear &amp; Speed</td>
<td>8.5X</td>
</tr>
<tr>
<td>Safety</td>
<td>70dB</td>
<td>90-100dB</td>
</tr>
<tr>
<td>Noise Pollution</td>
<td>0%</td>
<td>25%</td>
</tr>
<tr>
<td>Fuel Pollution</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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The Advantage

- First Mover
  - 1st with fuel cell technology in a market under growing pressure
- Total Solution
  - Safety, Noise & Fuel
- Patentable Technology
  - Provisional patent apps pending
- Company Position
  - With communities, not against
- Government Affairs
  - Working with regulators, not against

The Revenue Model

- Sales of PWK, SlipstreamPT, AirKontrol, & ProtektorPG
  - Initially direct to resorts & rentals
  - Grow to retail kiosks & online B2C

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>PWK Units</td>
<td>9</td>
<td>105</td>
<td>427</td>
<td>833</td>
</tr>
<tr>
<td>Revenue</td>
<td>0.09</td>
<td>1.79</td>
<td>7.29</td>
<td>14.22</td>
</tr>
<tr>
<td>Net Income</td>
<td>(0.08)</td>
<td>(0.74)</td>
<td>(0.13)</td>
<td>0.62</td>
</tr>
</tbody>
</table>
The Assumptions

- PWK Units
  - Peregrine = 9; 105; 437; 847
  - Industry = >120,000/year
- Price
  - Peregrine = $9,200 to $10,900
  - Industry = $9,500 to $10,000
- Gross Margins
  - Peregrine = 23-35%
  - Industry = 23-30%; mean = 26%
- Operating Margins
  - Peregrine = 7% by 2005
  - Industry = 6-8%; mean = 7%

The Revenue Model

- Units in Unrestricted Areas

<table>
<thead>
<tr>
<th>Unrestricted Adoption of Peregrine PowerKraft PWKs</th>
<th>2001</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Autos</td>
<td>17.5 million</td>
<td></td>
</tr>
<tr>
<td>% Truck/Minivan/etc</td>
<td>51%</td>
<td></td>
</tr>
<tr>
<td>Cars</td>
<td>8.575 million</td>
<td>9.454</td>
</tr>
<tr>
<td>HEV Hondas</td>
<td>5,000 units</td>
<td>300,000</td>
</tr>
<tr>
<td>HEV Toyotas</td>
<td>30,000 units</td>
<td>600,000</td>
</tr>
<tr>
<td>HEV Cars</td>
<td>0.035 million</td>
<td>0.9</td>
</tr>
<tr>
<td>Adoption Rate</td>
<td>0.4%</td>
<td>9.5%</td>
</tr>
</tbody>
</table>

PWC 120,000 units targeted
Likely PWK Adopters 490 units (0.4% adoption rate)
PWK Projection 109 units (0.4% adoption rate)
Buffer 381 units (22% likely adopters)
The Revenue Model

- Units in Restricted Areas

<table>
<thead>
<tr>
<th>Restricted Adoption of Peregrine PowerKraft PWKs</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996 PWC Units</td>
<td>228,990 units</td>
</tr>
<tr>
<td>2001 PWC Units</td>
<td>118,966 units</td>
</tr>
<tr>
<td>Lost Units</td>
<td>110,024 units</td>
</tr>
<tr>
<td>% due to Bans</td>
<td>50%</td>
</tr>
<tr>
<td>Potential PWC Sales</td>
<td>55,012 units</td>
</tr>
<tr>
<td>Capture Rate</td>
<td>1.0%</td>
</tr>
<tr>
<td>Likely PWK Adopters</td>
<td>550 units</td>
</tr>
<tr>
<td>PWK Projection</td>
<td>- units</td>
</tr>
<tr>
<td>Buffer</td>
<td>550 units</td>
</tr>
<tr>
<td>% Adopters</td>
<td>0%</td>
</tr>
</tbody>
</table>

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The Team

- Founding Team
  - Peter Woodson: Biz, Env & Tech

- Strategic Advisors
  - 25yrs PWC industry experience
  - 30yrs operational expertise (CEO)
  - 35yrs env. legislation expertise

- Technical Advisors
  - High performance engineering
  - MBARI
  - Trade; USCG; EPA; NPS; FIGS

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The Prototype

- Cloud EV
  - Holds electric boat world speed record of 70 mph, goal of 100mph
  - Verbal agreement to build prototype
    - $5-10K
    - 35-45 mph
    - Ready in 3-4 weeks
    - Battery-based, not fuel cell
      - 5-10 min operating time

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The Funding

- Duke Startup Challenge
  - Fund prototyping
  - Legitimacy to recruit seed money & additional staff
- Seed Round (Q3-02)
  - $500K for complete prototyping
  - Legitimacy to recruit management
  - 8X return in 4 years
- $2MM A Round (Q2-03)
  - 8X return in 4 years

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What do we need from you today?

- $1+BB market w/ growing need
- Total solution w/ multiple rev streams
- Patentable technology
- Realistic profit potential w/ 8x returns
- Capable multi-disciplinary team
- Your support!
  - $50K, Legitimacy
  - Prototype in 4 weeks
Abstract

BUSINESS SOLUTIONS TO ENVIRONMENTAL ISSUES

A model solution to resource conflicts in the powersports industry

by Peter Woodson

May 2002

This project explores the use of technical innovation and market forces to resolve escalating environmental issues. At the heart of the project is a model business plan to address the growing battle in the powersports industry (personal watercraft, snowmobiles and all-terrain vehicles) between powersport enthusiasts and other resource users over safety, noise, and fuel pollution. Competing recreational uses of environmental resources can be a source of intense conflict. The most common solution to such conflicts is to segregate conflicting uses by space or time through regulations. However, segregation is distributive. It results in entrenching positions further and escalating the conflict. Alternatively, an integrative solution can be designed that benefits the various interests. The model business plan proposes such an integrative solution. It describes a company that designs quieter, cleaner, safer and more responsible powersport equipment by integrating emerging technologies such as fuel cells and wireless communications.