

Power Torque, Inc.  
EXECUTIVE SUMMARY – PHASE II

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**Initial Development:**

The initial development of this business was a simple endeavor to design a workable timing belt drive system that could be applied to all BMX bikes.

This undertaking was prompted upon discovering that the main cause of a BMX rider "Faulting Out" of a race is due to chain failure.

*(A rider can "Fault Out" of a race [not finish] for numerous reasons, but over half of the time, it is due to chain failure... either de-railing or breaking a link)*

Our Patent-Pending Belt Drive System has a Timing Belt which incorporates a full-looped, Twaron-core membrane and has teeth designed to aggressively engage the sprockets, a front toothed sprocket that has been designed to accept a more aggressive belt tooth, a rear gear sprocket with free-wheeler (or Cassette) and a BMX bike frame capable of having either a Belt Drive or a chain drive installed, without having any modifications made to it.

**Phase II**

After successfully achieving our Phase I goals with the Belt Drive Conversion Kits, Phase II project is for the manufacture and marketing our own brand of BMX Belt-drive bike.

With proper funding, Assembly Facility will be in Rogers City, MI

Robot TIG weld of Frame is in proposal stage.

**Current Phase II Status:**

Complete belt drive BMX bike has been developed; waiting production phase start-up.

Patent Pending status obtained Dec. 08, 2004 – New Full Bike patent applied for.

Patent includes Motorcross MX cycles and chain-driven ATV's.

BMX-MX.com is a registered dba.

Power Torque, Inc. registered as a Full Michigan Corporation June 06, 2004

Drive Belt, Front Sprockets and Rear Sprockets/Freewheel, have been successfully manufactured to meet our specifications.

BMX bike frame has completed prototype stage; tooling quotes are forth-coming.

All related purchase hardware: Seats, Handlebars, Front Forks, Rims & Tires, Brake Assemblies, Cranks & Pedals have been initially quoted, Final quotes and P.O.'s still required.

**Business Objectives:**

Control manufacture and marketing of our Belt Drive BMX bikes through web site, retail outlet sources and BMX Tracks.

To promote the use of our Belt Driven BMX bike as a more reliable source of power transmission (Belt vs Chain) with eventual media coverage at the 2012 London Summer Olympics.

### **Market Analysis: Why the need for Belt Drives?**

A stronger, more reliable power transmission system (belt vs chain) is a long awaited necessity for the BMX industry. Nearly every BMX rider, at one time, has been leading a race when they have "Faulted Out" (*not finished*) due to chain failure. This has been a problematic area for the entire BMX industry since its inception. (*To date, no manufacturer has successfully accomplished the conversion of a pedal bike to belt drive for BMX usage.*) Currently, there is no power transmission system available to the riders, other than chain.

### **Market Forecast:**

As of October, 2003, there were approximately 2,090,000 BMX riders in the U.S. Available BMX data (*Recorded since 1985*) reflects a healthy Ten percent (10%) increase in BMX related sales per year. New bike sales attributing to nearly 35% of that market. However, for purposes of this report, and to reflect on the current economic trend in the U.S., a 7.5% annual increase is used.

The current year (2009) BMX bike market, therefore is being denoted as 2.4 million (*U.S. only*) The company anticipates capturing a conservative 0.5% to 1% of that market in the first year. (*12,000 to 24,000 unit sales.*)

Anticipated second year market share is 6% to 8%. (*144,000 to 192,000 unit sales – negating BMX industry annual growth*)

Anticipated third year market share is 12% to 15%. (*288,000 to 360,000 unit sales – negating BMX industry annual growth*)

(*There are approximately 185 BMX race tracks in the continental U.S. as of October, 2003. NBL & ABA combined, they run approximately 1,990 sanctioned races a year.*)

### **Market Strategy:**

The company will sponsor a "4-person Rider Team" to tour the race tracks; promoting the use of our belt driven BMX bike. The team will endeavor to qualify for the 2012 London Summer Olympics. (*Requires UCI ranking in the top 50*) The more exposure this bike has at the race level atmosphere, the more demand there will be for it.

NBL's "Today Magazine" (*most popular BMX magazine*) has previously published an article about our belt drive systems. (*Nov., 2005 issue*) The magazine intends to test the Belt Drive BMX bike and write an evaluation of same in their magazine. A favorable evaluation will result in another positive article and an almost immediate flourish in sales.

ESPN has already witnessed the prototype stage belt drive system and is awaiting the production of these units to do a story.

Nearly every track has, on its premise, a complete bike, parts and servicing store. We intend to place our belt drive bike in each of these stores (*185*) for future orders and eventual wholesale distribution; while maintaining the web-site sales avenue.

Additionally, we intend to promote the belt drive bike at the retail outlet level via the nearly 9,000 BMX related sporting-goods stores in the U.S.

All members (13) of Power Torque will be involved in the initial Marketing of our bike.

### **Product Manufacture**

Manufacturing sources of the Drive Belt, Front Sprockets and Rear Sprockets/Freewheel have been secured.

Manufacturing of the bike frame has been tentatively secured.

Purchased items have been through initial quotation phase.

Power Torque, Inc. will assemble, package and ship at its own facility.

Current manufacturing costs, for a completed Belt Drive BMX bike, are approximately: \$135.00 per unit, (*Manufactured and Purchased Components*) Packaging, Shipping, Marketing, Operating Costs, Taxes and Misc. expenses additional.

*(Retail price for the complete system will be in the \$679 range - Wholesale pricing will vary with quantity ordered - \$275 to \$325)*

The company intends to be the eventual sole manufacturer of all components, except wheels and brakes, at company owned facilities.

A continued diligent effort will be made to reduce manufacturing costs during the first year of production.

### **Company Management**

James Orr accredits his 44 yrs. of Engineering/Manufacturing background, and his 36 yrs. of self-employment business savvy, to the successful development of this venture.

Intending to be fully active in this venture, his knowledge of manufacturing techniques will enhance the growth and prosperity of this company.

His expertise in Robotic systems and Transfer systems will prove to be useful, along with his knowledge of jigs and fixtures and proper use of same.

A Production Manager will be employed to assist Mr. Orr in all regards.

### **Company Ownership**

Primary ownership will be held jointly by James E. and Carole Lynn Orr.

Member Ownership will consume the remainder of available stock.

Subsequent ownership will be determined through investor negotiations with current members

Patent ownership is held by James E. Orr with assignment to Power Torque, Inc.

### **Funding requirements:**

At present, most of the required funding for this venture is secured via settlement.

Frame Tooling costs; Sprocket Tooling and Robot unit require additional funding.

Possible avenues for obtaining the additional funding required are:

Low-interest loan; SBA guaranteed.

Michigan Development Grant sources.

Private Sector

*(All future (potential) investors will be the result of successful negotiations with current stock holders.)*

### **Net Profit Prospectus: (Pre-tax)**

#### **The following approximate figures are based on:**

Current Manufacturing costs of \$135.00 per system. (Frame and Component Purchases)

Web-Site / PTI Retail Outlet – ave. price: \$679 per system; (50% of Sales)

Wholesale price of \$325 per unit for minimum order of 6 units. (40% of Sales)

Wholesale price of \$300 per unit for order of 7 to 12 units. (7% of Sales)

Wholesale price of \$275 per unit for order of 13 and over. (3% of Sales)

In-house Packaging/Handling and Shipping costs of \$7 per unit.

Misc. costs of \$2.50 per unit.

Marketing Expense will be amortized at \$5.00 per unit.

Operational Expense is amortized at \$34.00 per unit.

Using an Average Sales price of \$498.75 (based on above pricing figures)

Less Manufacturing/Purchased items, Operational costs of \$169.00 per Unit = \$329.75

Less Packaging/Handling, Marketing, Misc., \$14.50 = \$315.25

**Note: Net profit of \$255 per unit is being used in this forecast to depict Retail/Wholesale percentage variations during three year period..**

<b>Sales Period:</b>	<b>Market Share:</b>	<b>Unit Sales:</b>	<b>Net (pre-tax) Profit:</b>
1st. 12 Months	0.5 to 1.0 percent	12,000/24,000	\$3.06 million/\$6.12 million
2nd. 12 Months	6.0 to 8.0 percent	144,000/192,000	\$36.7 million/\$48.9 million
3rd. 12 Months	12 to 15 percent	288,000/360,000	\$73.4 million/\$91.8million

Note: 15% of all revenue will be retained in company for future growth.

### **Summary**

This venture has been ongoing for 9 years in its design, development, prototype and production stages. *(at a cost of \$415,000)*

Our previous web-site [www.bmx-mx.com](http://www.bmx-mx.com) received over 370,000 hits in its 15 months of being live... all through word-of-mouth... Proving the interest in this system is phenomenal.

The NBL officials, who have witnessed our Belt Drive Conversion bikes, have stated that "this full bike system will take the entire BMX industry by storm and eventually... all BMXer's will be riding with the belt drive system"

***We are hoping they are right...***

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