

XP Vehicles – ATVM Loan Program Experience

After a year of waiting and being assured that their loan application was complete and good, XP Vehicles received a letter in August stating simply that their loan application under the Advanced Technology Vehicles Manufacturing (ATVM) Program had been rejected. No reasons were given in the letter and only after several attempts at phoning the ATVM office were they able to receive the reasons orally. Most were not even applicable to the loan application and did not reflect what was included in the submission or what, in fact, was available for review, clearly visible on our website and in the extensive media about our company.

The rejection appears to have been driven by political and competitive market interests and not technical or innovative valuation.

The XP Vehicles car goes an almost unlimited range via hot-swap cartridges, costs less than \$20,000, uses no gasoline, is easy to repair and build, saves lives better than any other car, is faster than competing solutions, does not require an extension cord, uses electricity and creates green jobs. The factory can be built quickly and at very low cost and, in fact, partially already exists via our manufacturing partners. The company already has thousands of customers lined up who want to buy our unique and very “green” car. The company hand delivered letters from those customers to the DOE ATVM office in Washington DC in 2008. The company currently has no significant debt and the company leaders have been contributing their time and resources for many years based on positive feedback received repeatedly by Department of Energy (DOE) loan reviewers and staff. The company won a semi-finalist position in the ***Forbes: America’s Most Promising Companies*** contest.

Certainly company officials are not claiming that their vehicles will solve all of our energy problems. However with each car that is sold, we will help reduce our reliance on imported fuel by putting a vehicle on the road that uses absolutely no gasoline. This vehicle is truly using “advanced technology” – a major goal of this loan program. In addition, with a company that has no current debt, several patents, and thousands of interested customers, the company asserts that DOE’s financial risk in investing in our technology would be extremely low.

We would understand a rejection of this loan application if legitimate reasons were given, but they were not. One of the reasons given was that our car does not use E85 gasoline. No, this car uses NO gasoline which we thought is a goal our country should want to attain. Another reason was that we were not making millions of cars. Our marketing plan did not support that nor did the funding levels we requested, AT THIS STAGE. But we stated that we hoped to grow to make as many cars as Ford, GM or any other competitor but that we intended to grow, “in stages” as any smart business would. DOE also stated that XP was not planning to sell cars to the government which is 100% false and clearly stated in our application that the core sales plan of the company is based on government fleet sales. We cannot help but wonder if DOE even read the application. Finally, and another example of a failure to read the application, was that DOE asserted our factory cost estimates were too low because the metal body fabrication systems were not calculated high enough. XP Vehicles use no metal fabrication in its bodies.

XP Vehicles sent a follow up letter to Energy Secretary Steven Chu with the following questions that still remain unanswered and unexplained:

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1. DOE reviewers never even talked to the founder, inventor, engineers, project leads or primary contractors to obtain additional information. We even were told over and over

that everything in our application was complete and that nothing was needed. "Everything is on track" was an expression repeated to the company by DOE reviewers. This is despite the fact that the reasons given for our rejection did not reflect the technology being used and therefore the ATVM reviewers did not understand our concept and product. Why was no one at XP Vehicles contacted? Why was the staff at DOE during the course of the year positive about the outcome and never asked for additional information?

2. Rejection comments supplied by Chris Foster of DOE and third party press seem to be unrelated to the business of the company and have no foundation in fact. Why is that?
3. One of the main reasons given for the rejection was the fact that our vehicles do not use E85 gasoline. If that was true, why did competitors Tesla & Nissan get approved funding? Their vehicles also do not use E85. Additionally, in reviewing the transcripts of the two Public Meetings held to brief stakeholders on the loan program, **not one DOE speaker stated that E85 was a required component.**
4. While it is true that we do not wish to use carcinogenic gasoline, (Here in California we have a sticker on every gas pump that warns that filling your tank is likely to expose you to cancer), at no point was E85 gasoline ever mentioned, discussed, commented on or requested. In fact the topic was particularly avoided by DOE staff. Why not?
5. Another rejection point was that we were not planning to make enough cars. This is false. The company would like to build and sell more cars than any other car company. We are fully willing to produce millions of vehicles if provided with the appropriate funding as it has quantified millions of fleet buyers for its vehicles. However, no DOE entity ever asked us to adjust, discuss or amend our numbers and we were more than willing to adjust those numbers if anyone had even bothered to ask. One must start out with small steps and we planned to ramp up to a massive number over time. To suggest that one do otherwise would demonstrate questionable judgment. What is the validity of this comment by the reviewers based on?
6. We provided \$100 million+ of asset collateral opportunity for only a \$40M loan. To repeat, we provided over TWICE the collateral of the value of the loan. How is this not as secure of a structure as any of the other applicants?
7. We had selected a primary, secondary and additional back-up factory buildings that DOE said would be fully NEPA compliant yet Tesla had no building, planned to build a structure which was not possible to meet Section 136 parameters in time, still does not have a building yet they received funding. How did that happen if the Section 136 rules required a NEPA compliant building upon application filing?
8. We were told that we were rejected because we were not planning to sell cars to the government. **This is 100% false.** The core sales plan of the company is based on government and commercial fleet sales. Why did your reviewers say this?

9. Additionally we were told that electric motors and batteries were considered by the reviewers to be too futuristic of a technology and not developed for commercial use even though they have been in use in over 40 industries for over 20 years, including by NASA. What is the rationale for this argument?
10. Almost every other part of the XP car was to be purchased from existing commercial sources with multiple points of supply so it is not possible to see how a reviewer might think the vehicle had any significant technical acquisition hurdles. Why does DOE assume that the following companies with whom we would be contracting could not perform the following responsibilities:
 - a. Deloitte & Touche to provide auditing and reporting of financial data.
 - b. Autodesk or Microsoft to deliver the process and design software.
 - c. NEC, Intel or the other leading electronics companies in the world to build our controllers.
 - d. Roush Automotive, one of the most successful automobile electronics groups in the world, to build the electronic module.
 - e. US National Lab system to solder a box together.
 - f. Over 100 other major supplier companies that have been building parts for the auto, aerospace and industry for decades to deliver the component parts for our vehicles.
11. The primary purpose of this loan program, XP was told by its authors, was to develop advanced technology and further reduce our dependence on gasoline. The XP Vehicles car uses no gasoline and gets over 125 miles per battery charge. How is this not a direct conflict with the precepts of the Section 136 law?
12. XP was also told that its factory cost was too low because the metal body fabrication systems were not calculated high enough but the reviewers apparently did not even pay attention to the fact that XP uses no metal fabrication in its body. What was the rationale in making such an erroneous comment?
13. Reviewers also stated that the car was a "hydrogen car" which it is not. It is an electric car. Why did they say that?
14. In what ways were the following documents actually reviewed? The ATVM office stated that they "lost our documents" twice. Why?

Documents XP vehicles submitted to DOE:

- Detailed financials that cost the company almost \$200,000 to prepare;
- Metrics that demonstrated that the XP car can save millions of lives per year and that it was safer than any vehicle;
- Metrics that demonstrate that a gasoline/hybrid vehicle is dangerously carcinogenic when filled at a gas station compared to an XP Vehicle;

- Engineering and IP metrics that beat every competitor on price, range, safety, TOC, efficiency, toxic safety and hundreds of other points;
- Examples of work from \$3M of cash and person-hours previously invested by founders, DOE & partners;
- Lists of top auto and aerospace corporate partners, staff and resources, on stand-by, equaling thousands of people in all groups combined;
- Validation of a deep team of core staff that have been developing the project and parts of the project for 3-15 years part time;
- Samples of extensive international positive press coverage;
- Proof of a market opening timed with tax and national imperative incentives that created a dramatic window for success;
- Proof that XP was the lowest overhead car company in the market which equates to the best chance for profit and return funds;
- Samples of an in-house created online process management architecture;
- CAD designs, engineering plans and manufacturing plans;
- A detailed website;
- A detailed path to \$1.5B within 5 years or less from a less than \$100M investment;
- Examples of dozens of prototypes as seen in the photograph on the BUILDS page of our website;
- Numerous patents and issued trademarks;
- Large pending portfolio with third party valuation and validation reports valuing IP at over \$100M;
- People: Senior Scientists, Chemists & Engineers from Top University & Federal Labs, including staff that has built and delivered millions of vehicles to the consumer market;
- Partners: Federal, University, Fortune 500, Private Research Organizations;
- Written Customer inquiries from a massive national customer base of qualified retail leads and 1.2M of commercial unit opportunities equaling a \$1.5B+ opportunity. Also submitted an extensive package of letters from each customer candidate;
- Contracts: Federal Contract fully executed and MOU's executed;
- Awards/Commendations: Congress, DARPA;
- Research Data: Over 200+ technical research documents & 15+ years of research;
- Know How: Over 22,000+ man hours of development;
- Market data, studies and plans;
- Over 100+ documents of industry study;
- Unique access to Federal Labs & leased facility options;
- and other supporting materials.

After several more attempts at receiving more clarification from the ATVM office, the company received a follow up letter of explanation for the rejection. While more explanatory than the first, the reasons still are very questionable and the process greatly lacking in transparency. Below are additional questions that the company is raising, along with the ones above that still have not been answered.

1. In the October 23, 2009 follow up letter, Mr. Lachlan Seward states that the XP Vehicles loan application was deemed Substantially Complete on November 10, 2009. **This is completely false** as XP Vehicles received a letter on December 31, 2008 states that the application was substantially complete.



Department of Energy
Washington, DC 20585

December 31, 2008

The Department of Energy (DOE) has determined that your application for the ATVM loan program is substantially complete.

XP Vehicles, Inc
601 Van Ness Avenue, Suite E3613
San Francisco, CA 94102

The Department of Energy (DOE) has determined that your application for the ATVM loan program is substantially complete. Accordingly your application will now be reviewed to determine whether you are an Eligible Applicant as set forth in Section 611.100 of the Interim Final Rule (IFR) and your proposed project is an eligible project as defined in Section 611.2 of the IFR. DOE will advise you if it needs additional information as it continues the application review process. We are committed to processing your application as quickly and responsibly as possible.

Since your application has been reviewed by DOE and is substantially complete, we will now proceed to the next stage in the review process. To enable DOE to more efficiently proceed with its review, please submit your application (with any changes included to reach the substantially complete level) in electronic form. Please send your documents to Brent.Peterson@hq.doe.gov in their original format (i.e., Word and/or Excel files). Do not submit PDF files for this review.

Additionally, the NEPA for XP Vehicles had been reviewed, edited and approved by DOE National Environmental Protection Act (NEPA) staff (Matthew McMillen) at the beginning of 2009

2. The letter also states that “extensive review” was conducted yet (as mentioned above) not one XP Vehicle company official, engineer, designer, investor, technician or anyone else who had designed and developed the car was contacted by DOE to answer questions and provide more information. It seems incredulous that after conducting an extensive review that DOE would not have at least one question about the application for any of the technical staff, or the founder who flew to the DOE in Washington, DC, twice, and was told by DOE staff, on each occasion, that “no additional information was needed and everything was in hand to finalize the application”.
3. The first reason given for the rejection was that the proposed vehicle is at a “development stage” and not ready for commercialization. Yet applications that have already been approved, we have been told, have had less plans or hard development data. These awardees also had the same three-year timeframe in their proposals, and one even went into 2013. We also find this contrary to the Administration’s stated goal about electric vehicles. According to a DOE spokesman, the Administration “shares the goal of ensuring that the program (ATVM) is flexible enough to account for the full range of available technologies.”
4. The second reason was the project’s impact on fuel economy of the US Light Duty Fleet over time was weak. This was never discussed with our team at any point of the process. However, it is surprising to us how a vehicle that is lighter than any other applicant by half, safer than any other applicant by many times and beats the metrics of every other applicants could not have exceeded every applicant on any comparison to Light Duty fleet metrics, a market that was

core to our business plan. Our fleet sales were targeted directly at the Light Duty fleet so we find this reason to be confusing at best.

5. The third reason cited in the letter was about the use of “advanced fuels.” First of all, at no point did anyone from DOE ask about or discuss with our technical staff our fuel plans. The letter further goes on to say that our use of hydrogen was one of the reasons that our application was being rejected. **Yet hydrogen is non-essential to our vehicle.** The hydrogen tank is rather an optional and stand-by power system for our electric vehicles. Further we fail to see how DOE could state that hydrogen is an “impractical and unproven energy source” in light of the fact that Honda and BMW are already shipping cars using that fuel source. But again, we must reiterate that the use of hydrogen is not an essential component of our vehicles and had DOE asked us about this fuel source, we could have explained that to them.
6. Finally, the letter states that the XP Vehicles petroleum use reductions were unrealistic. We are most confused about this point as **our car uses absolutely no gasoline.** How could our reductions be unrealistic? Is this not a goal of the Obama Administration?
7. The company hired Ford Motor Company’s senior systems engineer to validate the final vehicle numbers submitted in the base response and provided numbers in support of that data produced by Sandia National Laboratories. How could those entities have provided numbers which the ATVM office could have interpreted so negatively for a vehicle which weighs less, goes farther and requires less energy storage than any other submitted vehicle in the entire set of applicants to date? How could the ATVM reviewers never even submit a question to the XP technical team about any of these metrics?
8. Why have none of our FOIA requests been responded to?”

In summation, these clarifying reasons for rejecting the XP Vehicles ATVM loan application are still confusing, not applicable in many cases and unwarranted when considering those applications that have been approved. The listed points appear to have no foundation in facts relative to our design and we again question why there was no communication from DOE with the developers of the vehicle over a year.

Further we have been told that competing larger companies were given much counseling, guidance, feedback and opportunity to “tweak” their applications by DOE. These companies submitted their applications later than XP Vehicles and were awarded funding. Our question is then why did Carol Battershell, DOE Senior Advisor state during the December 1, 2008 Public Meeting that “And that might lead one to believe that applying earlier is better than apply later.” When the program was first announced, that indeed was the guidance given – first come, first served – so scores of smaller, electric car companies and suppliers submitted their applications. Yet the rules changed mid-way through the process to allow larger automotive companies who did not submit their applications first to send them in and now they are being funded.

Finally, we were very disappointed to read in the September 23, 2009 issue of E&E News that Secretary Chu had suggested in June that the Administration was hoping that GM and Chrysler would be able to participate in the (ATVM) loan program. "There is money there, I wouldn't say set aside, but let's just say we are trying to stretch those dollars as far as we can." This forces us to ask whether these funds are being set aside at the expense and loss of smaller, more advanced technology electric car companies and suppliers who are requesting billions less in guaranteed loans and who are offering more forward-thinking and advanced projects to help us move away from our dependence on oil.

This is only a partial list of the problematic issues that we experienced with the ATVM group at DOE.

(Draft 1.2)