

UNITED STATES VOTING MACHINES, INC.

USVM

For Information Contact:

Ken Malpass

P. O. Box 3377

Boulder, Colorado 80307

(303) 750-6660

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EXECUTIVE SUMMARY

United States Voting Machines, Inc., (USVM) has developed a unique and proprietary voting system — the Mark I™ Voting System. This solution is clearly superior to any voting system currently on the market. It is designed to meet contemporary demands for a fast, secure, and dependable system.

Investment

USVM is seeking \$500,000 to \$1,000,000 to support production and national marketing of its voting system. As of August 1993, \$975,000 has been invested to develop the Mark I™ Voting System. The additional funds now being sought are required to set up production and carry the company through its first sale of \$1,000,000 or more within 9 months.

Market

Most of the 3,105 counties in the United States will purchase new voting systems by the year 2001. The 189,000 precincts each require two or more voting booths, which USVM can provide for \$8,000 per precinct—significantly less than any competitor. USVM intends to be the dominant force in this \$150 million annual marketplace. A recent market survey has confirmed the urgent need for modern voting systems.

Marketing

USVM will use its expertise with the political process to gain access to the key decision makers in each county. An aggressive marketing campaign and modern sales management will ensure effective concentration of the marketing effort.

Manufacturing

Control of manufacturing costs is essential to preserving USVM's pricing advantage. By contracting the manufacture of the Mark I™, USVM need not incur on-going plant or inventory costs. Engineering calculations predict that direct costs of production will be less than one-third our price, giving healthy profit margins on each sale.

Management

USVM's management team is experienced in electronics, financial management, customer support, and political marketing. We have excellent contacts in all 50 states.

The Mark I™ Voting System

USVM's advanced electronic design surpasses all systems available today. Its modular design will permit up to four voting stations in a precinct for significantly less than the price of the nearest competitor. Its flexible, natural design ensures rapid acceptance. Our advanced security system provides a clear advantage over all other systems.

Milestones

Completed alpha prototype , August 1993
Establish contract manufacturing and produce 50 demonstration systems, December 1993
Test and demonstrate units in small elections, January - April, 1994
Sign first contract, June 1994
Install first system and hold successful election, November 1994
Use marketing network and references to grow through 2005.

COMPANY HISTORY

USVM was formed by Ken Malpass and Larry Sarnier to exploit an opportunity to replace obsolete technologies (computer punch cards and mechanical lever machines) with modern digital electronics for voting. The idea followed the unsuccessful replacement of Denver's lever machines with "an electronic system", which used a Number 2 pencil to blacken a hole next to a candidate's name on a piece of paper. Since the co-founders had experience in both politics and electronics, the correct strategy for penetrating this market was discovered. Extensive market research showed: customers eager to modernize their systems; two clumsy competitors selling overpriced, heavy, un-secure pushbutton systems; low-cost components which could be combined to completely solve the problems of voting; and a national network of high-credibility individuals willing to represent USVM in making sales.

Early financing was obtained from friends and family, with operations beginning in 1989. Although the initial focus was on implementing the "functional specification" cleanly, marketing and manufacturability were incorporated from day one. The strategy of contract manufacturing and commission selling has minimized capitalization requirements, and USVM anticipates positive cash flow from first revenue. Surprisingly, the existing competitors have not used their early sales to redesign their system, nor to build credibility with other customers. Thus, USVM will be first to market with a low-cost, networked, secure voting system--a system easy to administer and easy to use--and the first to utilize high-credibility community leaders to represent them.

While USVM has been approached by jurisdictions around the world, and by U.S. jurisdictions wanting additional products and services, we have maintained our strict focus on introducing our system into the United States. Future growth will rely mainly on the huge U.S. equipment needs (189,000 precincts!), and will add new markets and product lines as appropriate.

The 189,000 precincts in which nearly 110,000,000 Americans cast their ballots are located in 3,105 counties. The local officials of these counties are responsible for administering an average of 3 elections every year, and are responsible for the selection and purchase of election equipment and supplies. Many systems have been in place since the 1950's and are not equal to the requirements placed on them by a voting population which has more than doubled; they have become expensive, or impossible, to keep running. Many newer systems have not proven capable of delivering accurate and timely results; they are also logistical nightmares, some requiring the transport of literally tons of supplies on election day.

USVM expects to be a major player in this market niche on the strength of the Mark I™ Voting System and our marketing team. A clearly superior product and a highly focused marketing strategy will yield a 30 percent market share. In addition, a rapid transition to electronic systems in the next five years could significantly increase USVM's revenues.

Leasing

Over half the customers surveyed requested that leasing be offered as part of their voting equipment acquisition. Because of the low cost of the Mark I™ voting solution, and because of the tremendous savings available from scrapping existing systems, most or all of the lease payments would come from the existing budget. For many customers, buying our system (over time) is a way to *save money!*

Numerous leasing companies have approached USVM to become our leasing partner. None have been chartered to invest in our growth directly, and USVM has not yet made any commitments for lease financing. However, we are confident that leasing will play a significant role in boosting our market penetration and adding to our profitability.

MARKET OPPORTUNITY

The United States has over 189,000 precincts where Americans cast ballots for offices ranging from President of the United States to city councilman. Election officials are experiencing pressures to modernize. Because of these pressures, it is likely that, by the year 2001, nearly every precinct in the United States will be using a different voting system than it is using today.

A recent survey commissioned by USVM determined that 48.9% of jurisdictions plan to buy new systems within 5 years. Those seeking new systems "immediately" totalled 28.4%; those seeking systems "in two to five years" totalled 11.4%; and those "possibly" seeking new systems and requesting more information totalled 9.1%.

Such a marketplace means that over \$1.5 billion will be spent by American election officials just to purchase and maintain election systems this decade. With major jurisdictions expected to buy electronic systems, a significant portion of the country may purchase within the next five years, well in excess of this average. The company which establishes market leadership during this period of technology changeover will retain its position through the end of the century.

Jurisdictions actively seeking new voting systems include New York City, Louisiana, Delaware, Hawaii, Philadelphia and other counties in Pennsylvania, and several counties in Colorado. We anticipate that many other jurisdictions will enter the market in the near future.

USVM has developed the voting system which election administrators, voters, the press, and candidates have long wanted. With the introduction of the MARK I™ Voting System, elections will step into the computer age and USVM will become the major player in a \$150 million annual market.

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Other Markets

MARKET ENVIRONMENT

Our projections are limited to U.S. customers only. The rapid embrace of democracy around the world has opened up huge market opportunities for USVM. A typical sale might be for an entire country and may involve licensing our design technology to a local company for production. USVM has been approached by the Philippines, 8 Eastern European countries, South Africa, and several other democracies needing election equipment. We have strong international expertise and expect to compete successfully in this arena.

The Mark I™ voting system can be easily adapted to handle elections in other countries. The design goals of ease-of-use, cost-effectiveness, and absolute reliability are sought by all customers. In addition, the flexibility of our ballot layout (any alphabet, symbol, or picture) is a crucial advantage for system acceptance. We expect to redesign the ballot surface for elections with fewer choices than Americans are used to, such as 9 candidates for premier or a single yes/no decision of a constitution. Whatever the requirements, we will use our technology expertise and ability to establish credibility to meet the needs of our customers.

Punch Cards

Use of these began in the 1960's with the advent of the computer. Officials print ballots in the shape and size of computer cards, voters use styl to punch holes in the cards to indicate their choice, and officials count votes by running the cards through card-counting machines. While punch cards eliminate many of the problems introduced by mechanical systems, they reintroduce many of the problems of paper ballots. Granted, the mechanical counting of the cards speeds the counting process, but it adds requirements for precision and restricts ballot layouts. The city of Chicago found this out in 1982, when moisture on election day caused its card-ballots to swell, rendering the counting equipment useless; the holes in a half-million cards had to be interpreted by hand, taking days to complete. On top of everything else is the problem of "chad" — the part of the card punched out in making the little holes — some of it comes out when it shouldn't, some of it doesn't come out when it should. Punch card systems require expensive ballot printing. Hawaii found that out in 1996 when it spent \$1,000,000 to print punch card ballots.

Mark-Sense Ballots

This method came on the heels of the punched card as an alternative way to "automate" ballots. Officials print paper ballots, voters mark their choices in designated spots (sometimes using a special pen or pencil), and officials count votes by running the ballots through special mark-sense counting equipment. This technology is similar to that of standardized tests given by schools. It eliminates the problem of chad experienced with punched cards and requires fewer ballot format restrictions. However, it has a different set of precision problems than cards. Election officials in Denver discovered this, also in 1982, when they accused Denver voters of not being able to follow directions and mark a ballot correctly. (Many Denver voters took a dim view of this criticism. Also not unusual were the stoney election judges who waited for hours in the snow, each with side of wire pencils of ballots, while officials tried to get their machines to count all those "mis-marked" ballots. The election officials — and their machines — were booted out of office the following year.)

To be successful, USVM must prey on the weaknesses of its competitors' technologies. Those technologies fall into five general categories:

Paper Ballots

This is the oldest voting system. Officials print ballots, voters mark the ballots by hand, and the officials count them by hand. The obvious drawbacks are the speed and accuracy with which the ballots can be counted; these are compounded in recounts where every ballot must be scrutinized. Problems include fraud, marking errors, and printing costs.

Mechanical Systems

These came along in the 1890's. Officials place candidates' names under levers, voters indicate their choices by pulling those levers, and officials count votes by inspecting counters to see how many times each lever was pulled. Voting "machines" eliminated many of the problems arising from paper ballots, but introduced the problems of mechanical failure (some machines have 3,000 moving parts), tampering, storage and transportation, and high initial costs. Maintenance, particularly the availability of spare parts, is becoming a problem as the machines age. The leading manufacturer of mechanical voting machines, AVM, Inc., went bankrupt and has been liquidated, unable to keep up with changing technology. Mechanical systems are particularly expensive. Chicago saves over a million dollars in annual storage and transportation costs because it switched from mechanical systems to punch cards.

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Electronic Systems

In the late 1970's and early 1980's, some "electronic" voting systems began to appear. Officials program an electronic "box," voters push buttons or use a device to point to a name on a computer screen, and officials count votes by getting a printout of results which they then add to the results from other machines. These entrants have eliminated the problems with punched cards and mark-sense, but have done so by introducing an electronic version of the mechanical voting machine, with its problems. Two updated electronic efforts are now being marketed. Shouptronics offers a fingertouch design (similar to the Mark I™) priced at \$6,500 per machine. Sequoia Pacific is marketing a system for \$7,000. Both weigh in excess of 180 pounds, over six times as much as the Mark I™. Over 90% of Sequoia's machines experienced difficulties in a 1986 Colorado primary election. The New York Times reported that, although Sequoia Pacific had been selected as the best of existing competitors (not including USVM), it met only 63% of New York's specifications.

Others have even tried to sell home computers — with appropriate software, of course — as voting machines. The problems with such systems are "bugs" in their software, outdated components, high price tags, fragility (try dropping your TV set on the floor), inflexibility, and thinking that videogame techniques can be applied to voting.

Election officials have been having difficulty with mechanical systems, punch cards, and mark-sense ballots for years. The current offerings in electronic systems, however, are only half a loaf to these officials; the systems introduce as many problems as they solve. Officials are still searching for an "ideal" voting system. With the Mark I™, USVM intends to provide it.

The Mark I™ not only competes on price, but solves the many problems of older systems. Because it is electronic, there are no moving parts to wear out. There are no paper ballots or cards to warp, no excessive printing costs. Its advanced "ergonomic" design is simple and obvious (just push an "X" next to a candidates' name.) And fraud is nearly impossible, even for the most sophisticated computer "hacker." USVM's proprietary protection method prevents or detects any attempt to corrupt the vote.

The Mark I™ uses proven technology to ensure that the machine will not lose votes in the event of power failure. The machine tests itself to be sure it is functioning correctly. Modular construction means that if a malfunction does occur, the entire unit can easily be "swapped out" (replaced) by untrained personnel in a matter of minutes. The lightweight panels mean the machine is easily transported and set up by people of any age.

Cost-Effectiveness. Acquisition costs must be reasonable and operating costs low. Total lifecycle costs (purchase, storage, transportation, supplies, administration, maintenance, etc.) must be within county budgets.

Comparisons. Here are the factors to consider for comparing the USVM Mark I™ voting system to the two established production competitors:

- Price
- Weight
- Networked
- Storage Cost
- Transportation
- Maintenance
- Security
- Credibility
- Focus
- Up-to-date
- Flexibility
- Leasability

Design Innovations

The Mark I Voting System has many innovations, which not only place USVM's products in a superior position to its competition, but address directly and precisely the market success factors. Some of the innovations are:

- No mechanical or moving parts in the Mark I Voting System.
- The machines use off-the-shelf electronics, for proven reliability and competitive pricing. Lower unit costs make the system very price competitive.
- The complete system is "paperless", meaning no transcription or re-entry of data is required for any reason, including write-in votes. This keeps the cost of labor and supplies to an absolute minimum.
- There is complete flexibility in the layout of the ballot.
- Without complication, ballots may include referenda, straight-ticket voting, office lockouts, and multiple-candidate offices.
- The system can sound signals to indicate the time for opening the polls, closing the polls, and when a voter has exceeded time limitations.
- The machine is utterly reliable and no vote, once recorded, can be lost, except by demolition of a machine (and sometimes not even then). In particular, the results are impervious to such electronic hazards as electrical and magnetic fields.
- Use by a voter is simple, "natural," and efficient. A voter's choices are displayed clearly and choices can be made in any order. A voter may even change his or her mind, and is not required to vote for every office.
- Use by all handicapped individuals, save the visually impaired, is possible, usually without requiring the assistance of an election official.
- A complete audit trail is provided without compromising the secrecy of the individual ballot.
- Election officials can obtain totals from precincts electronically over ordinary telephone lines, if desired.
- Final results are rapid and trustworthy. It is possible, with reasonable planning and organization, to have complete, accurate, and final results within one hour of the polls closing. This would be true of a city of any size, including those the size of New York, Los Angeles, and Chicago.
- Recounts are completely electronic and so can be conducted quickly, efficiently, and inexpensively. The possibility for human error is almost completely eliminated.
- Without requiring any transcription, an official canvass of results can be produced for submission to State or Federal officials.

PRODUCT: THE MARK I™ VOTING SYSTEM

Related Products

USVM's entry in the voting machine market is the Mark I™ Voting System. It is a completely electronic system that is small (less than 2' by 3' by 4"), light-weight (about 30 pounds), has a sturdy plastic case, rugged (solid state electronics), and reliable. It will be easy to operate by officials, easy to set up and take down by precinct workers, easy to use by voters, quick and easy to total votes, and virtually tamper-proof. The Mark I™ system includes up to four voting stations per precinct, allowing voters to vote quickly.

Preparation for Voting

The authorities prepare for voting by printing the ballot onto a translucent sheet for each machine and then slipping it on top of an array of electronic switches and lights. The sheet has the names of offices, candidates, referenda, etc., and places where voters are to make their choices (usually a box with an "X" in it, but it can vary according to the desires of the authorities).

The Mark I™ gives complete privacy to the voter with a curtained enclosure.

Voting

To vote, a person presses a finger on the X next to any candidate. The X lights up, showing that the choice has been recognized. A second press on the X turns the light off, allowing an easy correction of any mistake. The panel displays the selected candidate's name for visual verification. Easy "straight-ticket" voting is permitted, as is voting for multiple-seat offices (where more than one person is to be elected). A voter is not required to vote for every office, and, when necessary in some precincts, voters can be "locked out" from voting on certain offices or referenda for which they are not eligible.

Write-ins are accomplished by pressing the "write-in" choice for a given office, then spelling out the name of their candidate for that office. Whatever is spelled out is displayed in a special window with liquid crystal displays (like those in digital watches).

If a voter needs assistance, pressing the Help button summons an election official.

Counting

After the polls close, precinct officials remove from each precinct an "electronic ballot box" in which every vote cast has been electronically recorded. The validity of the ballots is ensured by a "digital signature," which can only be read by the authorities with the proper mathematical key. The electronic ballot box is inserted into a simple device which permits it to be read electronically by a computer. The computer validates the data and adds the results to those of other precincts. In this way, four clerks with one computer each can count ballots of a million voters, add them for all the offices and issues being contested, and post the complete, final returns in less than one hour — with sufficient accuracy that not a single vote total will change in a recount.

In addition to the electronic ballot box, the Mark I™ offers two additional methods for counting votes after the polls are closed. With the addition of a telephone interface ("modem"), results can be automatically transmitted to the central counting facility within moments of the polls closing. An optional precinct printer can print a tally for posting at the polling place.

Related Products

USVM intends to use the Mark I™ as the first product in a family of related products.

As a next step, we will offer a complete "Election Administration System" (EAS), which will handle all the functions required of an election administrator. These functions include maintenance of voter registration lists, official reports, and budgeting.

The EAS will be extended to a complete "County Administration System" (CAS). This would provide integrated automation of county functions, such as property taxation, vital statistics, motor vehicle registration, and the like.

In addition, we will produce and market media packages for election-night reporting. This can include electronic retrieval of voting results from jurisdictions utilizing the Mark I™. It can also include graphics, statistical analyses, and projections.

USVM has considered additional uses for a large touch-panel input for computerized data management, including educational testing, job testing, market research, and customer selection, such as the food service business.

Manufacturing

The overall manufacturing strategy of USVM is to keep unit costs down while keeping overhead to a minimum. One key element of cost control is to avoid investment in plant facilities or significant amounts of inventory.

The Mark I™ is a modular design, which permits rapid assembly and repair. Modules will be built and assembled on a contract basis. USVM anticipates entering into a contract with Dover Electronics, which has state-of-the-art contract manufacturing facilities in Longmont, Colorado, and many other locations. Headquartered in New York City (a potential customer), Dover is respected for their sound management, financial strength, and quality manufacturing. Dover's combined assets of \$1.4 billion and annual sales of \$2.5 billion will add credibility to our sales presentations.

Dover has written to us that even large orders, such as 7,000 voting booths required by New York City, could be assembled in a short period of time. For most customers, we will bid 90-day delivery from contract signing, eliminating the need for inventory. We will build 50 demonstration systems initially, and will keep them for sales, testing, and training purposes.

The central processing equipment provided to election authorities (used to program Mark I's, prepare ballot overlays, and count votes) will be purchased from Apple Computer as sales are made.

Warranty and Maintenance

USVM will provide a one-year warranty with all equipment sold or leased. Additional maintenance will be provided under contract at the rate of 6% of the purchase cost per year. Customers receive two benefits: any units found to be defective are "swapped out" for working units, and USVM provides corporate training on an on-going basis. Each component of the Mark I™ voting system is factory sealed for security. This eliminates the need for technician training and for scheduling fix-it experts near voting locations. Each contract includes "Spares", such as additional voting booths, as an additional security blanket during elections. Since all units pass diagnostic tests prior to an election, and again when the polls are opened, the likelihood of electronic failure during the election is small. Nevertheless, USVM provides a simple procedure for replacing any unit which fails, with all steps logged for future audit or recount challenge. The two keys to handling the unexpected are embodied in our design: fast and easy replacement, and maximum security of the voting process.

We anticipate keeping statistical replacement costs and customer support costs well below the maintenance contract revenue, allowing an additional contribution to profit from this operation. In addition, we expect most failures during the first 12 months to be attributable to our contract manufacturing partner (this is their standard policy), further reducing any risk to USVM.

Assuming 80% participation in USVM maintenance, \$10,000,000 of installed equipment would generate \$480,000 of revenue per year (six percent of eight million).

Intellectual Property

USVM's proprietary advantages will be protected through several interlocking strategies: one patent has been applied for and others are being prepared; software copyrights will be registered; and trade secret status on all technical matters has been maintained. It is important to note that voting equipment has traditionally been provided by a small number of vendors, such as two main lever-machine suppliers and two main punch-card suppliers. The customer base is more interested in the integrity and stability of the supplier than in aggressive tactics of imitation, price-cutting, or innovation. Because of the high-profile of voting equipment suppliers, it is unlikely that foreign powers will play a significant role, unlike many electronic markets. Because of the specialized nature of voting equipment and marketing, it is unlikely that a large company can use its resources to out-compete a company dedicated to this group of customers. As an example, IBM retreated from the punch-card voting market because of its inability to satisfy customers.

In addition to the legal protection strategies available to USVM, we will rely on two business strategies to lock-in our profitability: the *share of mind* held by USVM as the leading supplier of reliable election equipment, and the *learning curve* of increased volume as we exploit our advantages over the next two to three years. This prevents a small, innovative competitor from following in our footsteps, and discourages a larger concern with deep pockets from risking a redirection of resources and focus into voting systems. If two to three years of lead-time sounds long to investors familiar with computer industry competition, please compare the existing systems now in use: in voting systems, over half the country relies on punch-card systems, with nearly one-third still using lever machines!

MARKETING STRATEGY

Selling voting machines is a very political process. Having the best machine is not sufficient. Election administration is the responsibility of local governments (cities and counties). Local officials are motivated by a desire to keep everyone happy, including voters, the media, and — not the least — elected officials. Access to the decision-makers is crucial to our marketing strategy.

To assist in gaining the necessary access, USVM has a nationwide network of former governors, mayors, and party officials from both major parties. They, in turn, will identify individuals at the state and/or local level who can help us make our case before the decision-makers. These local contacts either know the decision-makers politically, or will know someone who does. (A sales representative might be a retired county commissioner or state legislator.) The representatives and contacts are compensated by commission.

An active prospect is tracked continuously. Most decisions are made by county governments. Since there are only 3,105 counties in the United States, intensive information gathering and tracking is not difficult.

USVM will handle the national sales efforts, such as advertising, direct mailing, and representative recruiting. When necessary, local representatives are assisted in their sales efforts with references, demonstrations, leasing arrangements, brochures, bid preparation, etc. Important exposure can be gained by renting voting systems to associations, unions, and churches for annual meetings.

With aggressive marketing, together with a clearly superior product, USVM should rapidly move from market penetration to market domination. The ease of use of the Mark I™ ensures favorable demonstrations. We have a competitive price (approximately \$4,000 per voting station, or less, if they require three or four voting stations per precinct). We are flexible in our terms, arranging leasing through local financial institutions where possible and appropriate. And we employ "peer" recommendations to open doors.

Sales efforts will stress early successes, competitive failures, status, cost effectiveness, tallying speed, accuracy and reliability, minimal transportation and storage requirements, flexibility of ballot layout, and voter acceptance. Different advantages can be highlighted to meet the requirements of the customer: for example, party line voting is permitted, unlike some card systems; an electronic audit trail is provided, unlike mechanical systems; strong customer support is available, including full maintenance contracts and videotaped training; a lightweight plug-in module is used for tallying, compared to sixty pounds of ballots; a digital signature based on sophisticated data encryption techniques guarantee accuracy and security.

Mr. [Name] has worked in two businesses in the computer field. In 1969, he started HYDRA in Denver, Colorado, which was in the business of selling computerized voter information to political campaigns, among other interests. His interest was sold in 1976. In 1980, he started International Electronic Technology, Inc. at Fort Collins, Colorado. IEM developed system software, such as compilers, for Hewlett-Packard desktop computers. He sold his equity position in 1982.

Mr. [Name] has worked for Auto-Tel Technology Corporation, Hewlett-Packard, Computer Sharing Services, the University of Colorado, and the Colorado House of Representatives.

At USVM, Mr. [Name] is Vice-President, Research and Development, and has responsibility for product development. He is directly involved with software development, hardware and software integration, and product integration.

Peter Paul Luce

FINANCIAL ASSUMPTIONS

Mr. Luce is an investor in, and director of, USVM. He attended MIT to study engineering, leaving in 1951 to join the Air Force. He is a small plane pilot and active in the Colorado Pilots Association. He has a life-long understanding of political events from his father, a publisher, and his step-mother, an ambassador and member of congress. Mr. Luce has many years experience as a business consultant and land developer in Colorado.

Peter M. Neupert

Peter Neupert is an investor in, and director of, USVM. He holds a master's degree in business administration from Dartmouth's Amos Tuck school of business and a bachelor's degree from the Colorado College. He has held significant marketing and financial positions in several high-technology companies, and is currently Director of European Marketing for a major software company.

James M. Roberts

Jim Roberts is an investor in, and director of, USVM. He holds a law degree and a master of tax law degree, and currently serves as a Colorado State Senator. He has taught and practiced law, been a financial consultant, and invested in real estate.

Kermit Lohry

Kermit Lohry holds a bachelor's degree in electrical engineering and computer science from the University of Colorado. He has over eight years experience as an aircraft electrical technician, design engineer, system administrator, and consulting design engineer. He has worked for A and A Aircraft, IBM, Kentek Information Systems, and Soricon Corp. At USVM, he has developed a proprietary chip for data module security and the data module circuit board. He is now chief engineer, integrating prototype hardware components and refining the overall design for manufacturability.

John Parker

John Parker holds a master's degree and has over 15 years of business management and marketing experience, including the sale of his successful Denver-based consulting practice. He specializes in market research, customer analysis, sales compensation and management, and recruiting. At USVM he provides strategic direction and implementation of our sales and marketing plan, including promotion, training, and supervision.

USVM will engage additional expert personal on an "as needed" basis.

Current financial statements are available to qualified investors.

FINANCIAL ASSUMPTIONS

Market research indicates that the voting machine market will spend about \$150 million per year from 1994-2001. USVM intends to capture 50% of that market within 5 years through aggressive marketing, financing of customer sales with leases, and a superior product.

Precincts require two voting machines and a control unit, on average. USVM will charge \$8000 for this configuration. Additional voting machines will be sold for \$3000 to \$4000 each, depending on market conditions. No sales of additional booths have been included in revenue. Competitors charge \$7000 for each voting machine for a heavier, clumsier, and less secure product. Thus, USVM will sell for slightly over half the unit price charged by current competitors.

Sales commissions will be 12% of each sale, and marketing expenses will be 13%, for a selling expense of 25%. Marketing will maintain a database of likely customers and will target resources for optimal results. Communicating with customers is primarily through personal contact, brochures, trade shows, and selected publications. Our sales strategy will concentrate on the reliability of our product and our customer support, so that we build a reputation as the safest product to buy.

Cost of goods sold will be \$2700 per precinct for 1994, and \$2400 thereafter, following a redesign for cost savings. This is based on two voting machines and a control unit per precinct.

General and administrative expenses are estimated to be 15% of revenue, although initially overhead will not cost this much. Direct customer support costs will be covered by separate contracts with each customer, based on 6% of the purchase price annually; warranty expenses are estimated to be 3% or less, with the margin on warranty contracts going to customers support or profit. Manufacturing will be by contract. We will seek cost savings in this category as we proceed!

Taxes are assumed to total 36% of profit, including federal and state taxes.

Total US precincts equals 189,000. These figures do not include any revenue for international sales or follow-on products.

The attached projections cover profit and loss for 1994-1998, and a detailed use of proceeds and cash flow statement for September 1993-January 1995. No balance sheet is included due to the nature of USVM's financial structure: the only meaningful item will be cash. Leases will be handled separately, inventory will consist of 50 demonstration units, and we plan to grow through profitable operations rather than debt.

Current financial statements are available for qualified investors.

United States Voting Machines, Inc. — Confidential

	1994	1995	1996	1997	1998
Precincts Sold	800	2,400	4,000	6,000	10,000
Price	8,000	8,000	8,000	8,000	8,000
Revenue:	6,400,000	19,200,000	32,000,000	48,000,000	80,000,000
Expense:					
(Cost of Goods Sold)	2,160,000	5,760,000	9,600,000	14,400,000	24,000,000
(Selling Expenses)	1,850,000	4,800,000	8,000,000	12,000,000	20,000,000
(General & Administrative)	367,000	2,880,000	4,800,000	7,200,000	12,000,000
(Total Expenses)	4,377,000	13,440,000	22,400,000	33,600,000	56,000,000
Profit Before Tax	2,023,000	5,760,000	9,600,000	14,400,000	24,000,000
(Income Tax)	728,280	2,073,600	3,456,000	5,184,000	8,640,000
Profit After Tax	1,294,720	3,686,400	6,144,000	9,216,000	15,360,000
Precincts Sold Each Year, %	0.42%	1.27%	2.12%	3.17%	5.29%
Valuation, 2 x Sales	12,800,000	38,400,000	64,000,000	96,000,000	160,000,000
Valuation, 7 x Pre-Tax	14,161,000	40,320,000	67,200,000	100,800,000	168,000,000

	Sep-93	Oct-93	Nov-93	Dec-93	Jan-94	Feb-94	Mar-94	Apr-94	May-94
Beginning Cash	950,000	896,000	792,000	676,000	560,000	401,000	310,000	225,000	183,500
Precincts Sold	0	0	0	0	0	0	0	0	200
Price Per Precinct	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Revenue	0	0	0	0	0	0	0	0	1,600,000
Cost of Goods Sold	0	0	0	0	0	0	0	0	540,000
Commissions	0	0	0	0	0	0	0	0	192,000
Selling Expenses	1,000	1,000	1,000	5,000	10,000	10,000	10,000	10,000	10,000
Gross Margin	-1,000	-1,000	-1,000	-5,000	-10,000	-10,000	-10,000	-10,000	858,000
Expenses									
Administration									
Ken Malpass, President	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Administration	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Legal & Accounting	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,500	2,500
Product Development									
Larry Sarner, Development	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Kermit Lohry, Electronic Design	4,000	4,000	4,000	4,000	2,000	2,000	2,000	2,000	2,000
Software	8,000	8,000	8,000	8,000	8,000	8,000	8,000	4,000	4,000
Paul Matosky, Mechanical	4,000	4,000	4,000	4,000	4,000	0	0	0	0
Mark Lankton, Software	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Marketing									
John Parker, Marketing	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Linda Wood, Writer	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	2,000
Promotion	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Tooling & Production									
Board Fab & Test	4,000	4,000	20,000	20,000	20,000	6,000	0	0	0
Beta Demonstration Units	8,000	8,000	4,000	50,000	50,000	0	0	0	0
Tooling	0	50,000	50,000	0	40,000	40,000	40,000	0	0
Expense Total	53,000	103,000	115,000	111,000	149,000	81,000	75,000	31,500	29,500
Ending Cash	896,000	792,000	676,000	560,000	401,000	310,000	225,000	183,500	1,012,000

	Jun-94	Jul-94	Aug-94	Sep-94	Oct-94	Nov-94	Dec-94	Jan-95
Beginning Cash	1,012,000	1,840,500	2,473,000	3,105,500	3,078,000	3,050,500	3,023,000	2,995,500
Precincts Sold	200	200	200	0	0	0	0	400
Price Per Precinct	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Revenue	1,600,000	1,600,000	1,600,000	0	0	0	0	3,200,000
Cost of Goods Sold	540,000	540,000	540,000	0	0	0	0	960,000
Commissions	192,000	192,000	192,000	0	0	0	0	384,000
Selling Expenses	10,000	208,000	208,000	0	0	0	0	416,000
Gross Margin	858,000	660,000	660,000	0	0	0	0	1,440,000
Expenses								
Administration								
Ken Maipass, President	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Administration	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Legal & Accounting	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Product Development								
Larry Sarner, Development	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Kermit Lohry, Electronic Design	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Software	4,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Paul Matosky, Mechanical	0	0	0	0	0	0	0	0
Mark Lankton, Software	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Marketing								
John Parker, Marketing	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Linda Wood, Writer	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Promotion	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Tooling & Production								
Board Fab & Test	0	0	0	0	0	0	0	0
Beta Demonstration Units	0	0	0	0	0	0	0	0
Tooling	0	0	0	0	0	0	0	0
Expense Total	29,500	27,500	27,500	27,500	27,500	27,500	27,500	27,500
Ending Cash	1,840,500	2,473,000	3,105,500	3,078,000	3,050,500	3,023,000	2,995,500	4,408,000