

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

Moller International Inc. (MLER)



PAUL MOLLER is Chairman of the Board of Moller International Inc. In 1972 Dr. Moller founded Supertrapp Industries and was Chief Executive Officer as Supertrapp became the most recognized international name in high-performance engine silencing systems. Supertrapp Industries was sold in 1988. In 1983 he founded Moller International to develop powered lift aircraft. Dr. Moller has served as the company's President since its formation. Under Dr. Moller's direction, Moller International completed contracts with NASA, NOSC, DARPA, NRL, Harry Diamond Labs, Hughes Aircraft Company, California Department of Transportation and the U.S. Army, Navy and Air force. These contracts included the development and deployment of numerous unmanned aerial vehicles and Wankel-based engines. Dr. Moller has received 43 patents including the first US patent

on a fundamentally new form of powered lift aircraft. He is a world renowned feature lecturer and guest speaker on next-generation transportation systems. He holds a Master's degree in Engineering and PhD from McGill University. Dr. Moller was a professor of Mechanical and Aeronautical Engineering at the University of California, Davis, from 1963 to 1975, where he developed the Aeronautical Engineering program.

(ABJ603) TWST: We would like to begin with a brief historical sketch of the company and a picture of the things you are doing at the present time.

Dr. Moller: Moller International was formed in 1983, and incorporated at that time to develop vertical takeoff and landing technology. It could be applied either to UAVs (unmanned aerial vehicles) or, at some point, to create a replacement for the automobile. The company has had a number of government contracts over the years. We have built unmanned vehicles for the Army, Navy, Air Force and California Department of Transportation (Caltrans) for bridge inspection. We have flown a number of these manned vehicles for application as a personal transport, including an earlier version flown in 1989 before the international press. That particular aircraft flew over 200 times. More recently we have been developing a four-passenger vehicle called a Skycar volantor, which I have tested unmanned and plan to test this summer in a manned version.

The company itself is a relatively small technology-driven company, but it is forming alliances with a number of larger organizations which are better positioned to move this technology into the

marketplace. We will continue to be a technology developer, as we have in the past and expect to continue generating numerous patents. In some cases we license our technology; in others we enter joint ventures as we have done recently with Boeing Rocketdyne for engine/generator production.

TWST: When you tested the vehicle in its unmanned version, how well did it fly?

Dr. Moller: The various aircraft we develop are usually designed for the customers' goals. In the case of Caltrans, that was a vehicle that could go up with a camera and inspect bridges. In the case of the Air Force, it was a vehicle that was designed to go out and assess nuclear damage following a nuclear attack where they didn't want to send people in. In the Army's case, it was a commander's observation vehicle, something that could be carried on a tank and used in the field to look over the next hill to see if an enemy tank was there prior to actually bridging the hill. All of these were demonstrated, and they were all successful. In fact, many of them are still in use in those applications. Again, we are technology driven, so we will be partnering with other companies to put those vehicles into volume production.

I've also developed other mechanical products that have been licensed and manufactured. But even though my company created hundreds of millions of dollars in capital, the problem is that this technology costs hundreds of millions of dollars to develop, so the net consequence of that is zero. Only now are we in a position to move our products into the global economy.

TWST: And your colleagues?

Dr. Moller: I have, of course, various talented people within my company because while I'm a mechanical and aeronautical engineer, I'm not an electronics engineer. This is a technology that requires expertise in many other areas like materials and composite construction. So I have had some of the best people working with me over the years, and have hired the very best as consultants. Today we probably have every significant expert in rotary engines working for us as consultants except those employed by Mazda.

TWST: Looking back over the years as you've worked on these things, has there been any controversy? I read that the SEC issued a complaint.

Dr. Moller: That's correct.

TWST: Could you explain that?

Dr. Moller: Yes. Any non-public company (which we were early on) that raises money from what we would call angel investors or any investors has to raise it under certain SEC regulations that require you to determine that you are dealing with sophisticated investors. The problem is that sometimes people who want to become investors in your company will exaggerate their own net worth or sophistication, and it's really up to us to determine whether that's valid or not. We did have some investors come on board that the SEC argued were not sophisticated. Normally this kind of issue

the SEC, they learn quickly enough that, as a small company, you don't have the government resources to legally fight it. The few who try always lose.

TWST: Do you get around much lecturing and talking about what you're doing?

Dr. Moller: I get invited to talk at many different forums, but the only thing I do consistently is give a paper every year at the World Aviation Congress. Periodically during the year, I may give a talk to various groups. I was recently invited to be on a panel of a major FAA sponsored discussion in Atlantic City on the future of aviation. I had to decline because I am scheduled to meet in China to discuss the production of the Skycar there.

TWST: Around the globe I assume there are some people doing things that are somewhat similar.

Dr. Moller: Some smaller companies are trying. But I'm actually protected by the enormous cost of doing this. On one hand, you have the big organizations like the aerospace companies working on military VTOL aircraft, but their solution is always the same one: put a large turbine engine in it, take off vertically, and yes, that's doable, but you have a product that costs \$25 to \$100 million. On the other hand, you have people who, if they do not possess our engine technology, have no serious way of achieving their goals inexpensively. The bottom line is that no matter how successful you are at vertical takeoff, if it's not economic, it doesn't have a market. So that is where we have a great advantage with our engine. It is low-cost and powerful, and makes all our products possible. In addition we have a number of patents that give us a lead. We won't keep this lead forever, but for the time being, we certainly are ahead of everyone else in the world by at least five years.

"It is only a matter of time, and someday at some point, everybody in the world is going to have access to Skycars. They may not own it, but they'll be able to get it and go wherever they want, whenever they want at 300 miles an hour and up to 25,000 feet altitude."

is resolved by providing a rescission agreement so that the investor can get his money back plus 12% interest. We have used this before successfully when any issue came up. The individual we were dealing with within the SEC resisted this approach. We believe he did so knowing that the investors in question did not want their money back and this would have voided his case. Any small company that has faced off against the SEC will tell you that you do not fight this powerful government agency. You accept a fine to settle. You don't accept guilt. You're not claimed to be guilty, but a fine is a way of getting rid of something that you could never win if you really try to defend yourself. If anybody has experienced a fight with the IRS or

TWST: I read that when Skycar is completely ready, in today's money you could purchase one for \$50,000 to \$60,000. Is that correct?

Dr. Moller: Yes, in volume production probably less. I don't promote this potential because it may sound unrealistic. I will state as others have stated after reviewing this technology that it should be as inexpensive as a modest priced car at high production volumes. The basic vehicle itself is not expensive, but its ultimate cost is colored by the fact that you're dealing with the FAA, and you have maintenance issues, reliability issues and some things that cars don't face. Still it is only a matter of time, and someday at some