October 12, 1938.

MEMORANDUM - FINANCIAL REQUIREMENTS

Salsbury Corporation has two financial problems at this time. The first involves financing of sales on a time basis by or through dealers and the second involves financing of production directly.

It is contemplated that with a satisfactory solution of the production problem, which will result in an improved balance sheet, the company will be in a position to obtain necessary "time" financing of sales through regular commercial channels.

The production financing is necessary at this time because of the extended development work which has resulted in the perfected Motor Glide. During the past year the company has spent many thousands of dollars in achieving the product which can be sold with complete confidence as to its performance in the field and as to its appeal for both private and commercial uses.

Having passed through this development period, the company now must embark upon a more expansive merchandising program in order to reap the harvest so carefully planted during the past 3 years.

An assured merchandising program requires an assured production program and the nature of the product and the corollary automotive industry make it essential that production be handled on a quantity basis in order to obtain responsible dealer outlets.

At the present time the company has a balance sheet which reflects the extensive development work accomplished to date. More than $100,000 has been spent on development and approximately this amount appears on the balance sheet. The remaining assets of the company include current assets, equipment and dies and tools utilized in current production. These items have a conservative value of approximately $30,000, represented by $15,000 of inventories, $10,000 of equipment, dies and tool utilized in current production, and $5,000 other assets.

The inventory items substantially offset all liabilities. If the inventory were liquidated, all liabilities could be paid off in full, but naturally this cannot be done while the company continues as a going concern. Beyond this point, in order to produce Motor Glides in more substantial quantities and to capitalize on the 3 years of research and development, it is necessary to place additional funds in production inventories.

The amount required to place the company in proper position to meet the existing market is approximately $25,000 of which about $10,000 should be used to pay certain current obligations and expand working capital, and about $15,000 should be invested in additional raw materials and finished Motor Glides so that immediate deliveries can be accomplished.

The company can properly service the production loan of $25,000 on a basis profitable to the lender. The manufacturing position is such that a bonus of $1.00 per Motor Glide can be paid along with repayment of $12.50 per machine sold and paid for with an interest rate of 6% computed monthly on average balance. Such a loan should yield to the lender a return of better than 20% per annum. This is no more than would be required on public financing and is well within the capability of the company because the expansion of production will make possible absorption of the $1.00 bonus through reduced costs.

The loan can be secured by collateral including all the working materials, dies, tools and equipment, and by the additional materials purchased with the funds furnished.

For ample margin of safety, the term of the loan should be one year.