



Moller International  
1222 Research Park Drive  
Davis, California 95616 USA  
Facsimile (916) 756-5179  
Telephone (916) 756-5086

July 11, 1996

Mr. Christopher R. Beskar, President & CEO  
Stavatti Corporation  
1061 Tiffany Drive  
Eagan, Minnesota 55123-1877

Dear Mr. Beskar,

Thank you for your letter of July 2, 1996. Enclosed is additional information about our rotapower engines. The engines are not yet in production but we are making progress toward that goal and expect to have production start-up early in 1997. Our first 100 Beta II test engines will be produced at McClellan Air Force Base in Sacramento, which is about 20 miles from our plant. McClellan is scheduled to close in 2001 and is in the early stages of privatization. We have an agreement to work with their "foundry of the future" to produce engine castings, machine them here, and return them to McClellan for assembly. Most of those engines will be placed in the hands of the government agencies which are potential users. We will also receive some of them for testing and evaluation by the several companies which have provided us with letters of intent to use them in their equipment. The initial target markets are mini-jet boats, hybrid-electric automobiles, pumps and generator sets. We also have a preliminary agreement with a production firm in England which plans to put the engines into production at a high rate in an automated factory capable of turning out 100,000 engines per year per shift. We expect that Dr. Moller will be flying to England near the end of this month to finalize an agreement. Their plan is to start production early next year.

We have done some preliminary work on adapting the engines to automobiles and conventional aircraft. Each of those uses will require a considerable engineering effort to optimize the engines for each vehicle and couple it with an appropriate gearbox, exhaust system, instrument package, mounting hardware, etc. We have a contract under way now to install one of our engines in a hybrid-electric automobile and test it. We anticipate 0 to 60 in less than six seconds, better than 70 mpg and smooth, quiet operation.

We will be pleased to work with you toward your aircraft and automobile goals. Perhaps the next step should be an exchange of non-disclosure agreements.

Sincerely,

A handwritten signature in black ink that reads "Jack G. Allison". The signature is fluid and cursive, written over a white background.

Jack G. Allison  
Vice President