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LOTUS

Lotus Cars USA, Inc.

EXECUTIVE SECRETARIAT

2003 AUG 27 P 3: 22

NATIONAL HIGHWAY
TRAFFIC SAFETY ADM.

VIA FEDERAL EXPRESS

August 25 , 2003

Administrator
National Highway Traffic Safety Administration
Department Of Transportation
400 7th St. SW
Washington DC 20059

NHTSA-03-16341-1

**RE: Petition Of Group Lotus Plc For Temporary Exemption From
Portions Of FMVSS 108 and the bumper standard, Part 581**

Dear Sir or Madam:

Pursuant to 49 USC 30113 and 49 CFR Part 555, Lotus Cars seeks temporary exemptions for its Lotus Elise vehicle from FMVSS 108 S7(as regards headlighting), as well from the bumper standard in Part 581.

Three copies of the required petition are enclosed. Kindly direct all questions and information to our US representative:

Lance Tunick
PO Box 23078
Santa Fe, NM 87502
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Fax 505 986 8695
Email: lancetunick@comcast.net

Please note that portions of the petition are Confidential. The confidential version of the petition has been separately sent to the Chief Counsel's Office per Part 512. The copies enclosed herein are the non-confidential version.

ES03-006345



Your prompt attention to this matter would be greatly appreciated. We have urgent need of NHTSA's decision. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read 'Arnold Johnson', written over a horizontal line.

Arnold Johnson

CEO

Lotus Cars USA, Inc.

cc. Lance Tunick
Taylor Vinson, Esq., NHTSA Office of Chief Counsel

Docket No.

NHTSA-03-16341



**PETITION OF
GROUP LOTUS Plc
FOR TEMPORARY EXEMPTION FROM
PORTION OF FMVSS 108
AND THE BUMPER STANDARD
ON THE BASIS OF SUBSTANTIAL ECONOMIC HARDSHIP**

NONCONFIDENTIAL VERSION

August 25, 2003

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**Petition for Temporary Exemption
From
Portion of FMVSS 108 and Bumper Standard**

APPLICANT: Group Lotus Plc

Group Lotus Plc (Lotus) is a corporation organized under the laws of England. It is a producer of technically innovative sports cars and was founded in England by Colin Chapman in 1955. The company has always provided performance coupled with efficiency achieved through technology and weight reduction. The company has exported vehicles to the US for more than 30 years.

Lotus was owned by Mr. Chapman until his death in 1982. Thereafter, the company was owned by several joint companies until 1986, when General Motors acquired ownership. In 1993, Bugatti International, a Luxembourg company, purchased Lotus from GM. Bugatti was itself a small volume auto manufacturer, manufacturing a few hundred exotic sports cars in Italy. In 1996, Bugatti sold a controlling interest in Lotus to DRB HICOM group, a Malaysian company. In 2002, Perushan Otomobile Nasional Berhad (Proton), a part of the HICOM group, became the 100% owner of Lotus (through the intermediary holding company Lotus Group International, Ltd.).

Lotus is a very small volume automobile producer, manufacturing fewer than 5000 cars per year. The current Lotus product-line for the US market includes only the Esprit two-seat sports car. The Esprit will cease production on or before December 31, 2003, and during early 2004, Lotus intends to import into the US its Elise model, which is the subject of this petition.¹

Lotus has a wholly-owned US subsidiary, Lotus Cars USA, Inc., which imports and distributes Lotus vehicles in the US.²

STANDARDS FROM WHICH TEMPORARY EXEMPTION IS SOUGHT

Pursuant to 49 USC 30113 and 49 CFR Part 555, a temporary exemption is sought for the Lotus Elise from:

1. **FMVSS 108, S7, headlighting requirements;** and
2. **The bumper standard in 49 CFR Part 581.**³

¹ This petition includes both the Elise convertible and Elise hardtop versions.

² Lotus anticipates that the number of exempted Elise vehicles (both hardtop and convertibles) imported into the US will be approximately as follows: CY 2004: 2200; CY 2005: 2500; CY 2006: 2200.

³ Although, for reasons of efficiency, the request for the FMVSS 108 exemption and the request for the bumper exemption are being combined in this one document, we respectfully request that the two requests be considered separately so that the granting or denying of one does not affect the other. We nonetheless expect that the two requests can be dealt with in one Federal Register notice and thus decided at the same time.

REQUESTED TERM OF EXEMPTION: Three years, starting as regards all Lotus Elise vehicles built on or after January 1, 2004 and until December 31, 2006.

ELIGIBILITY FOR EXEMPTION:

Petitions for exemption from a Federal Motor Vehicle Safety Standard or the Bumper Standard on the basis of economic hardship are limited to manufacturers that manufacture fewer than 10,000 passenger automobiles in the preceding model year.

Since its inception, Lotus has never manufactured in any year (calendar or model) more than 5000 vehicles. Set forth below is the Lotus production figures for the last five years: During the period 1999 through 2002, Lotus produced the following:⁴

1998	3335
1999	2569
2000	2993
2001	5181
2002	4810

Over the same period, US imports of Lotus vehicles were as follows:

1998	108
1999	112
2000	162
2001	48
2002	120

Thus, Lotus is therefore eligible for the exemption requested herein.⁵

⁴ In September 2000, Lotus started assembling at its Hethel, UK factory an extremely limited-production Opel / Vauxhall vehicle. The above figures for 2000-2002 include 127, 3046, and 2075 of such cars for those three years respectively. Although assembled by Lotus, these cars are labeled and certified as Opel and Vauxhall vehicles. Lotus does not anticipate long-term continuation of this production.

⁵ The issue of Lotus' eligibility was recently confirmed at 68 Fed. Reg. 10066 (March 3, 2003). The facts essentially remain as stated in that matter. Several events that do not bear upon Part 555 that have occurred since that date include: i) Proton's taking its ownership of Lotus Group International, Ltd, from 95.65% to 100%; and ii) Proton's approving a reorganization whereby a new company would be formed in Malaysia and Proton would become a subsidiary of the new corporation (via a share exchange) and Lotus Group International would become another subsidiary of that new corporation. The new corporation (as yet without a name) at present does not involve any other auto interests other than those in the current corporate organization.

BASIS OF PETITION: Substantial economic hardship. All production of the Lotus Esprit ends on or before December 31, 2003. The requested exemptions are needed to allow Lotus to sell the only vehicle it will be producing -- the Elise -- in the US market.

FACTUAL BACKGROUND

In August 1995, Lotus was owned by the Italian owners of Bugatti. Bugatti was in bankruptcy, and Lotus was facing its own difficult economic challenges.

In 1996, a new Lotus model was introduced, the Elise. But it was a model not designed or intended for the US market. The decision not to homologate the Elise for the US was in large part due to the fact that the Bugatti Group had developed the Elise on a very small budget and on a very fast schedule (due to pressing economic problems), neither of which permitted US certification.⁶

When Lotus was sold to its current Malaysian owners in late 1996, the only Lotus model sold in the US was the aging Esprit. Stopping US sales entirely was seriously considered, due to US losses over a 2 year period in an amount approaching \$2 million. Moreover, brisk Elise sales in markets other than the US created additional indecision as to the company's future in the US.

Although tempted to pull out, the new Malaysian ownership decided to continue in the US market. US losses then continued through 1997.

In early 1997, Lotus had plans to expand the Elise model-line. The hope was to create new coupe and roadster versions, and making the Elise a "world car", including for the US market. The plan was to introduce the new and improved Elise into the US market in early 2000.

But later in 1997, this plan collapsed. Significant management and ownership issues plagued Lotus on both sides of the Atlantic. New policies were set as a result of the change of key personnel, and the appointment of new CEOs in both the UK and the US. There was a complete "fresh look" at the direction in which the company was headed. Part of the "fresh look" included the re-emergence of the idea of closing US operations. In addition, the expanded Elise model-line plans were being questioned because introducing the Elise in the US was viewed by many as financially too difficult.

In 1998, Lotus officially cancelled the "expanded Elise model-line" (on the basis that it was not financially achievable), and the company continued to reconsider its product plans. Serious economic problems in the Far East also complicated Lotus' financial picture.

⁶ We note that, like the Esprit which was the subject of the March 3, 2003 Federal Register notice, the Elise was designed and introduced (in 1996) while Lotus was owned by Bugatti International, before the current owners acquired Lotus

Later in 1998, the company made the official decision to proceed with a new vehicle, more up-scale than the Elise, code-named M250, to be introduced into the US in calendar year 2002.

In early 2001, however, the M250 project was canceled for lack of capital. At the same time, the then CEO of Lotus was removed, and it came to light that approximately \$60 million borrowed by Lotus to finance the M250 project had been spent, without achieving meaningful progress on the car. In FY 2000 alone (ending April 2001), the company lost over \$69,000,000.

An alternative plan was then conceived. Under the new strategy, the next Lotus vehicle would be smaller and cheaper than the M250, and would be based on the Elise vehicle (and its progeny), with an entirely new drivetrain. In June 2001, this new project was code-named M260. It was anticipated that the M260 would be introduced in early 2003 and would provide the continuity in the US after the ceasing of Esprit production. An M250-type vehicle was still anticipated, but its arrival time was unknown.

Unfortunately, Lotus was unable to launch the M260 project due to continuing financial hardships. The problems were threefold: First, upon the revelation that the \$60 million borrowed to finance the M250 was not going to bring the car to reality, Lotus was having trouble finding a means of capitalizing the M260 project. Second, Elise sales in Europe had dropped off, with a distinct negative effect on revenue. Third, September 11 occurred followed by an economic downturn, throwing in doubt the nature of the US market.

By Spring 2002, Lotus had laid-off some 430 employees and another Lotus CEO had been relieved of duty. Lotus' only hope for keeping the US market alive was to build additional Esprits, stretching production to December 31, 2003, and to find financing for the M260 so that its sales could start in the US in 2004.

During mid-2002, the company was verging on trading while insolvent, placing, under English law, a fiduciary and statutory duty upon the directors to take action to permit the company to continue operating and return to solvency.

In view of this situation, the company was recapitalized (in the amount of \$57,000,000) to allow it to pay off certain debt and thus to continue operations. This also permitted the M260 project finally to commence. The US portion of the M260 project was code-named "Croft". The launch date for Elise in the US market was set for April-May 2004.

After 5 years of consideration and aborted efforts, the USA Elise program was finally underway, notwithstanding the substantial economic hardships the company still faced. A description of the current European Elise is set forth as Exhibit 1. For additional information, see Lotus' USA web site at www.lotuscars.com.

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UNDER THE FOREGOING SET OF FACTS,
AN EXEMPTION IS PROPER UNDER 49 USC 30113 BECAUSE
COMPLIANCE WITH THE STANDARDS WOULD CAUSE LOTUS
SUBSTANTIAL ECONOMIC HARDSHIP

1. Lotus is clearly suffering from substantial economic hardship:

Lotus' substantial economic hardship has previously been established before NHTSA in 1999 (64 Fed. Reg. 61379) and in March 2003 (68 Fed. Reg. 10066). Unfortunately, Lotus continues to face significant financial problems, as discussed below, and thus continues to meet the substantial economic hardship criterion of Part 555.

As seen from the financial statements set forth as Exhibit 2, only if the exemptions are granted would the company return to profitability in FY 2004. Without the exemptions, extensive losses are predicted through FY 2006. If the exemptions were not granted, the company would be out of the US market at least until 2006, but more importantly, would have a virtually insurmountable problem trying to fund the US-specification vehicle, and even staying afloat at all.

In 1999, Lotus' cars division forecasted a considerable profit during the period following April 1999 (based on continued Esprit production, which in fact occurred, and the start of US Elise production, which did not). However, the profits never materialized and the financial reality experienced by Lotus has been far, far worse than anticipated. The causes for these financial woes were the delay in US Elise production and very soft Elise sales in the rest of the world. In fact, from April 2000 through April 2003 (FY 2000-2002), the company lost an enormous \$102,000,000. (All dollar values are based on an exchange rate of 1 GBP = \$1.60.)⁷

The FY 2000 loss was about \$69,000,000. For FY 2001, the loss was approximately \$29,000,000. In FY 2002, the company lost about an additional \$4,000,000 (even though as recently as mid-2002, a profit of \$960,000 had been forecasted).

In short, Lotus has been significantly in the red for at least the last 4 years – a hallmark of substantial economic hardship.

In 2002, Lotus had forecasted FY 2003 profits of \$5,300,000 (on the assumption that the Esprit production would continue through the end of 2003 and USA Elise production would start somewhere near January 2004). Already, this forecast is much less optimistic. More specifically, if the Elise exemptions requested are GRANTED, Lotus now forecasts a FY 2003

⁷ Lotus' losses stated in submissions made to Lotus prior to 2002 referred to losses in the unincorporated Cars Division. In 2002, NHTSA requested Lotus' balance sheets, which are kept on a corporate Group Lotus Plc basis. The Group losses were even greater than the Division losses, and for consistency with 2002 submissions, Group figures are cited herein.

profit of only \$975,000. If the exemptions are DENIED, a loss of \$1,700,000 is forecast. The granting of the exemptions therefore translates into a difference of \$2,675,000 for FY 2003 alone.

For FY 2004 and 2005, Lotus' forecasts depend dramatically on whether the exemptions are granted:

<i>FY</i>	<i>Forecast; Exemp Granted</i>	<i>Forecast; Exemp Denied</i>	<i>Difference</i>
2004	\$12,520,000	(\$15,402,000)	(\$27,922,000)
2005	\$11,749,000	(\$22,718,000)	(\$34,467,000)

The difference, therefore, between Lotus receiving the requested exemptions and not receiving the requested exemptions means a reduction in Lotus' bottom line over the period 2003-2005 in the amount of a staggering \$62,000,000. The company simply cannot survive such a result.⁸ This sum is the difference between success and failure, especially for a company in such difficult financial straits as Lotus.

2. The additional cost of taking the Elise to full compliance – that is, to compliance with the headlighting requirements of FMVSS 108 and the bumper standard, is beyond the company's current capabilities.

Lotus has made the decision to go to the US market with the Elise because that is only car that Lotus will be producing as of Jan. 1, 2004, and Elise sales in the rest of the world (ROW) have been declining (FY 01/02 actual Elise sales = 2344 vehicles; FY 02/03 actual = 2044 vehicles; FY 03/04 forecast = 1765 vehicles; FY 04/05 forecast = 1545 vehicles). As a result, the Elise must enter the US market as soon as possible (considering that the Esprit ends 1/04 and ROW Elise sales are insufficient to keep the company in an acceptable financial condition).

The plan behind the US Elise is to re-engineer the Euro-Elise, and in particular combine elements of the Opel/Vauxhall speedster assembled by Lotus. Lotus is investing \$27 million into R&D and tooling. The Opel/Vauxhall driver airbag system is being incorporated into a US FMVSS 208 system and a new passenger air bag is being separately sourced and developed (the Euro Elise does not have any air bags). This air bag work requires much time and money – approximately a \$2 million project --, but the job has been undertaken, and is well towards completion.

Originally, engineering analysis/testing predicted that the US Elise air bag system could not pass the unbelted FMVSS 208 sled test, but Lotus continued into actual testing and obtained passing results. As a consequence, the Lotus will be brought to the US with a fully-compliant US air bag system. This air bag effort, however, involved spending at least

⁸ If the exemptions are denied, Lotus could not bring the Elise to the US until perhaps 2006 at best, with advanced air bags and a retooled body, and Lotus would have to fund those projects without the benefit of any US sales.

a quarter of million dollars more on FMVSS 208 compliance than originally budgeted, and consumed an enormous amount of both time and human resources.

Developing and building compliant US headlamps and Part 581 bumpers cannot be done without redoing the entire Elise body. There is simply insufficient time and money to accomplish this task.

To provide Part 581-compliant bumpers would require redesigning and retooling the body, at a cost of \$6 million dollars over some 2 years. The US headlamp would also require an investment of \$1.1 million. Moreover, a US headlamp would also require body retooling, as there is insufficient space in the current configuration to permit the packaging of a US headlamp. Very significantly, it would be financially suicidal to redesign the body once for headlamps and then a second time for bumpers. Clearly, therefore, both the headlamp and bumpers have to be done at the same time, and that cannot be done until funds are available. Lotus' plan is obtain a large part of these funds from US Elise sales over the next 3 years.

Lotus requires the three year exemptions requested in this petition because the two years needed for the bumpers, together with the development of the headlamp, when done AT THE SAME TIME, necessitates 3 years. Moreover, simultaneously with the development of these two systems, Lotus must also work on an advanced air bag system (to be implemented by September 2006), which is estimated to cost some \$4.5 million and take 2 years.

3. Where Lotus thus finds itself now.

Due to compelling financial problems described above, Lotus must introduce the Elise into the US during the first quarter of 2004. Due to the same financial hardships, Lotus was unable to start work on the US Elise until late 2002 due to the lack of funds. US sales starting in early 2004 are crucial to Lotus' cash flow in general and also to funding the US headlamp and 2006 body redesign and retooling that will give rise to the US bumpers. The total projected cost for the US Elise through the first quarter of 2004 (i.e. for the EXEMPTED car) is over \$27,000,000 for design, engineering, and tooling, with an additional \$2.5 million for US launch and support. Having to spend many more millions on immediate headlamp and body rework projects is simply not feasible.

Lotus thus needs exemptions from the bumper and headlighting requirements of 108. Lotus needs the exemptions to "bridge the gap" – to keep the company in the US market until the headlamp and retooled body can be funded, developed, tooled and introduced. As noted above, Lotus is spending over \$27 million on the US Elise program R&D and tooling (not counting funds already spent on the M250) -- an enormous sum for a small company with annual car sales averaging approximately \$90 million. The only hope for making the program successful is for the exemptions to be granted and the US Elise project to go forward.

4. The exemption requests should be granted.

NHTSA has recognized that the loss of such “gap-bridging” sales as a result of an exemption denial can create economic hardship, which the Safety Act seeks to avoid. See 55 FR 7405 (March 1, 1990). Moreover, the very idea behind Part 555 is to avoid requiring “immediate compliance” of a small manufacturer if such will result in “a cessation of production until compliance [is] achieved.” 59 FR. 11649 (March 11, 1994); see also, 64 FR 6736 (Feb. 10, 1999). In fact, the agency has explicitly stated that if a company “is required to divert its limited resources to resolve a compliance problem on an immediate basis, it may be unable to use those resources to solve other problems that may affect its viability.” 59 FR. 11649 (March 11, 1994). This is precisely the case here. Indeed, NHTSA has recognized that when a manufacturer requesting an exemption produces only one model -- as Lotus will for the US market during the exemption period -- the importance of an exemption is paramount and key to the purpose behind the exemption provision. 55 FR 3786 (Feb. 5, 1990).

Furthermore, in granting exemptions to the new Standard 224, NHTSA has observed that an exemption is proper if, in the absence of the exemption:

- the vehicle price would escalate to the point of pricing the product out of the market,
- the manufacturer would be forced to close;
- time is needed to find a solution that meets both safety and market needs; and
- revenues -- even of a healthy company -- would significantly decline.

63 FR 16857, April 6, 1998; 63 FR 3748, Jan. 26, 1998.

These criteria are applicable to the Lotus situation.

No less significantly, the agency has specifically noted the importance of considering intangibles when ruling on an exemption petition. The agency acknowledged in an air bag exemption to Shelby that loss of market is an intangible indicating the existence of substantial economic hardship. 64 FR 6736 (Feb. 10, 1999). Lotus, as in the Shelby situation, will suffer a significant market loss -- the USA -- in the event it does not receive the exemption. In addition, the difference between an exemption and no exemption translates into \$62 million, a huge figure and the difference between success and failure. Thus, here, as in the Shelby case, the exemption is proper.

There are also clear precedents for granting a headlamp exemption. See Exemptions granted to Jaguar Cars, Inc., (April 9, 1984, 49 FR 13942); Elswick Special Vehicles, Ltd. (August 6, 1984, 49 FR 31362). Lotus’ bumper exemption request is the first filed with NHTSA since Congress amended 49 USC 30113 in the late 1990’s to permit bumper exemptions.

In case there is any doubt, it must also be emphasized that if an exemption were denied, Lotus could not stay in the US market -- it would not have any product. Lotus USA employees and dealers would disappear, and the company’s image and credibility would be ruined.

Under the above rationales, Lotus is entitled to the requested exemption.

II
**LOTUS HAS MADE AND IS MAKING A GOOD FAITH EFFORT TO DEVELOP
A FULLY COMPLIANT USA VEHICLE**

As explained above, Lotus did not have the financial capability to start work on the US Elise until late 2002. Before this point in time, while the company had desires to build the US-complaint vehicle, the money just was not there. Moreover, Lotus did not have the human resources necessary for development of the US Elise, given the extensive layoffs that the company had been forced to implement.

But once funding occurred in late 2002, work started and the project was to be brought to market in 18 months; no time was wasted.

In order to sell the Elise in the US, Lotus had to find a new engine (for emissions reasons) and that required a substantial economic investment (approximately \$5,000,000). Funding was needed to rework the vehicle for the engine (chassis etc.) and to develop an engine calibration and engine management system (the engine supplier would not take on this development work itself). This powertrain sourcing has been done, and development work is well underway.

Next, an FMVSS 208 compliant air bag system was designed and developed, using a combination of the Opel Speedster driver bag and a VW passenger bag. This development is clear and convincing evidence of a good faith effort to build a US vehicle.

With the good news that Lotus was successful in meeting all FMVSS 208 requirements came the realization that Lotus did not (and will not) have the resources to pursue US headlamp and bumper programs until revenues are obtained from US Elise sales.

As regards both bumpers and headlamps, the Elise body and structure must be re-engineered, with an engineering and tooling cost and timing that is undoable at this point in time (as previously noted, approximately \$6 million and 2 years).⁹

The Elise was introduced outside of the US in 1996. It never was designed for the US market, and never had a conventional bumper system or underlying bumper structure. Rather, it was designed with "clam shell" body parts, one of whose purposes was to reduce repair costs. To fit a US-compliant bumper system today would require redoing the entire body -. Such an expense and such a lengthy project simply must wait until the second generation US Elise, to debut after 3 years of initial US sales.

⁹ It would be necessary not only to redo the body but also the support structure for a US bumper system.

At the same time, Lotus must also devote substantial resources to an advanced air bag program (as noted above, the estimated cost and timing of advanced air bag R&D is in the nature of \$4.5 million and 2 years).

Lotus will introduce the second generation US Elise in late 2006 with US headlamps, bumpers and advanced air bags.

As part of the \$27 million engineering and tooling investment in the US Elise, other significant efforts and monies are currently being expended so that the Elise to be launched in the US in the Spring 2004 will be compliant with all other US standards, besides headlighting and bumpers. Considerable work has been put into achieving compliance with the following FMVSS: 108 (lamps, other than headlamps), 201 (as promised in the previous Esprit 201 waiver request), 208, 210, 212, 214, 219 and 301.

In sum, Lotus has made a good faith effort to achieve US compliance, but it is presently unable to implement headlamps and bumpers, given the time and resources available. Both the headlamp and bumpers must be developed at the same time, when the entire vehicle is redesigned and retooled, something that cannot commence until the 3 year period that the requested exemption will be in effect. It is crucial to remember that the Elise was never designed for the US market, and Lotus needs US sales to fund complete compliance.¹⁰

The required "good faith effort" has been, and is being, made. See 64 FR 6736 (Feb. 10, 1999).

¹⁰ Before Lotus concluded that its air bag system would comply with FMVSS 208, it was considering investing time and money in an "interim US headlamp" to use during any necessary air bag exemption (the money for this lamp would have come from money NOT spent on air bags). The idea would have been to have a headlamp without any polycarbonate cover, made from "off-the-shelf" parts. This idea, it turns out, cannot be implemented for the following reasons: i) Though lower in cost, it would still cost \$500,000, which the Lotus budget does not have in view of the funds expended on the air bag system. Further, any such \$500,000 investment would only be for vehicles produced until the Elise body was redone for bumpers in three years, at which point the proper US headlamp would be developed and installed. The number of units over which the "interim headlamp" would thus be used could not justify the investment. ii) The absence of the polycarbonate lens from the interim headlamp significantly decreases forecasted sales. The absence of the lens ruins the design of the body because the Elise styling uses the curve in the lens as part of the overall curve of the fender (see Exhibit 1). Marketing research has revealed that with the interim lamp, sales could fall by as much as 30%. This lack of customer acceptance and resulting decrease in sales could prove fatal for the US Elsie project. Forecasts reveal that the interim lamp means a \$19,000,000 decrease in retained profits over 3 years (see Exhibit 2d); iii) The interim lamp is not aerodynamic (as a result of the absence of the polycarbonate lens) and thus would negatively affect fuel economy. iv) If the interim lamp were used, it would be used only for the US market given its low customer acceptance. This would then mean that Lotus would have two lamps in production, one for the US, and one for the rest of world. Lotus' simple, small volume production system would have a difficult time coping with this situation, due to the problems with suppliers (inventory), the fact that the bodywork for the two lamps is not exactly the same (and thus that vehicles once built could not be shifted from one market to another depending upon demand at the moment) – i.e. advantages of a "world car" would be lost. v) Lastly, though the bodywork for the current headlamp and the interim lamp would not be identical, Lotus would expect many US owners to obtain European lamps from European dealers (given the internet) and to fit the lamps themselves.

III.
**THE EXEMPTIONS WILL BE CONSISTENT WITH THE PUBLIC INTEREST AND
THE OBJECTIVES OF THE SAFETY ACT**

The requested exemptions will be consistent with the public interest and the objectives of the Safety Act for the following reasons:

1. A FULLY-COMPLIANT US AIR BAG SYSTEM IS BEING PROVIDED. Lotus made the decision to use its limited financial and human resources to first build a US air bag system, on the basis that this was the most important priority.

2. THE CURRENT ELISE'S EUROPEAN HEADLAMP DOES NOT POSE A SAFETY RISK.

A. The European headlamp's photometrics are very close to FMVSS 108 requirements. The high beam meets Standard 108's requirements and the low beam misses at only two points (1.5U 1R to 3R, where the Lotus lamp has 89% of the minimum; and 0.5U 1R to 3R, where the Lotus lamp achieves 49% of the minimum).¹¹

B. The European lamp has been subjected to the following environmental testing:

- temperature resistance, 2 hours at -40C, 4 hours at +50C
- storage temperature, 1 hour at +80C, 23 hours at -40C
- heat aging, 144 hours at + 60C
- dust ingress, 10 cycles
- water spray, 25 hours
- vibration, 32 hours
- humidity, 48 hours at +40C 100% orh
- chemical resistance - fuel

C. Aiming - Lotus is still seeking to have the European lamp meet FMVSS 108 visual/optical aiming requirements (the lamp will be aimable in a vertical direction only, as required by 108). In the event that these precise requirements cannot be met, owners and dealers will be given clear, simple, and dependable aiming instructions.

D. The European lamp has an excellent warranty record - of 2200 Elises in warranty with this lamp, only about 1% had to be replaced, and the total headlamp warranty cost experienced by Lotus for this lamp is de minimis.

¹¹ There is a third photometric point where Lotus meets 99% of the minimum. Because all FMVSS 108 failures are due to falling below the required minimum, and because the Elise is a very low sports car, there is no glare issue associated with the European lamp. Lotus did make as many adjustments as possible in an effort to bring the European lamp into compliance with FMVSS 108 photometrics, including examining using the Right Hand Drive European lamp (the one used in the UK) and reaiming it for 108 compliance.

3. INCREASED US UNEMPLOYMENT WILL OCCUR IN THE ABSENCE OF AN EXEMPTION. If the exemption were denied, Lotus USA would be unable to sell any vehicles in the US . Under this situation, management cannot see how Lotus USA could remain open, meaning the abandonment of the US market, putting Lotus USA employees out of work. If Lotus USA closes, about 10 people working there will lose their jobs; if the exemptions are granted and the USA Elise comes to this market, Lotus USA plans to nearly double its workforce, resulting in some 20 people working for the company. The difference between the granting and the denying of the exemption request thus translates into a difference of 20 direct jobs at Lotus USA.

In addition, there will be further unemployment effects on Lotus US dealers if Lotus USA were to close, whereas if the Elise arrives, Lotus plans to appoint 10 to 15 additional US dealers.

4. IF AN EXEMPTION IS NOT GRANTED, US CONSUMERS WOULD BE ADVERSELY AFFECTED. The agency has long maintained that the Safety Act seeks, if possible, to avoid limiting consumer choice or excluding a marque from the marketplace. If there is no US Elise, consumer choice will be negatively affected. There would be no Lotus vehicle available in the US (especially significant since the Elise is a lower-priced vehicle available to a greater segment of the car-buying public). Moreover, the public comments recently filed in the Esprit 201 exemption docket indicate the need for Lotus' continued presence in the US market in order to provide parts and service for existing Lotus customers.

5. THE ELISE CLAM SHELL BODY SYSTEM SHOULD REDUCE LOW SPEED DAMAGE REPAIR COSTS EVEN IN THE ABSENCE OF CONVENTIONAL BUMPERS. Because the Elise has a fiberglass body, many low speed damage situations can be repaired at low cost. In a situation involving greater damage, where an entire clamshell needs to be replaced, the cost of a clamshell is in line with bumper-related repair costs for other high-end vehicles.¹² Lotus will also put information in its owners manual regarding the need for greater care due to the absence of a conventional bumper system.

6. THE ELISE WILL NOT BE USED EXTENSIVELY BY OWNERS, DUE TO ITS SPORTY (SECOND CAR) NATURE.

7. THE ELISE WILL COMPLY WITH ALL FMVSS OTHER THAN THE PORTION OF FMVSS 108 DISCUSSED HEREIN.

8. THE ELISE IS VERY FUEL EFFICIENT. Though a true sports car, the Elise will exceed the 27.5mph CAFÉ fleet standard.

¹² Based on comparison with the costs of bumper damage repair found by the Insurance Institute for Highway Safety. The IIHS found that mid-sized luxury cars had an average of \$1032 in bumper repairs per IIHS test (IIHS did not test sports cars). See IIHS web site: www.IIHS.org/vehcile_ratings/low_speed_midlux.htm

CONCLUSION

Based upon the foregoing, Lotus respectfully requests an exemption from the provisions of FMVSS 108 S7 and Part 581, as requested herein, for vehicles built on or after January 1, 2004 and on or before December 31, 2006.

Respectfully submitted,



Group Lotus Plc
By: Ken Evans
Manager, Legislation Department
Lotus Engineering

By: Arnold Johnson
CEO
Lotus Cars USA, Inc.

EXHIBIT 1

**SPECIFICATION -- Lotus Elise 111s, Euro-version
(U.S.A. version will be slightly different)**

Engine: Transverse mid engine 4 cylinders in line, 1796cc Double overhead camshaft;
16v All aluminum lightweight construction

Maximum output: 156bhp@7,500r/min
Maximum torque: 129lb.ft 3,500-4,650rpm

Performance:

Max speed 132mph
0-60 mph 5.1 secs
0-100 mph 14.0 secs

Fuel Consumption:

Urban Cold 30.0 mpg
Extra Urban 51.8 mpg
Combined 40.9 mpg

Transmission: Close ratio 5-speed transaxle driving rear wheels

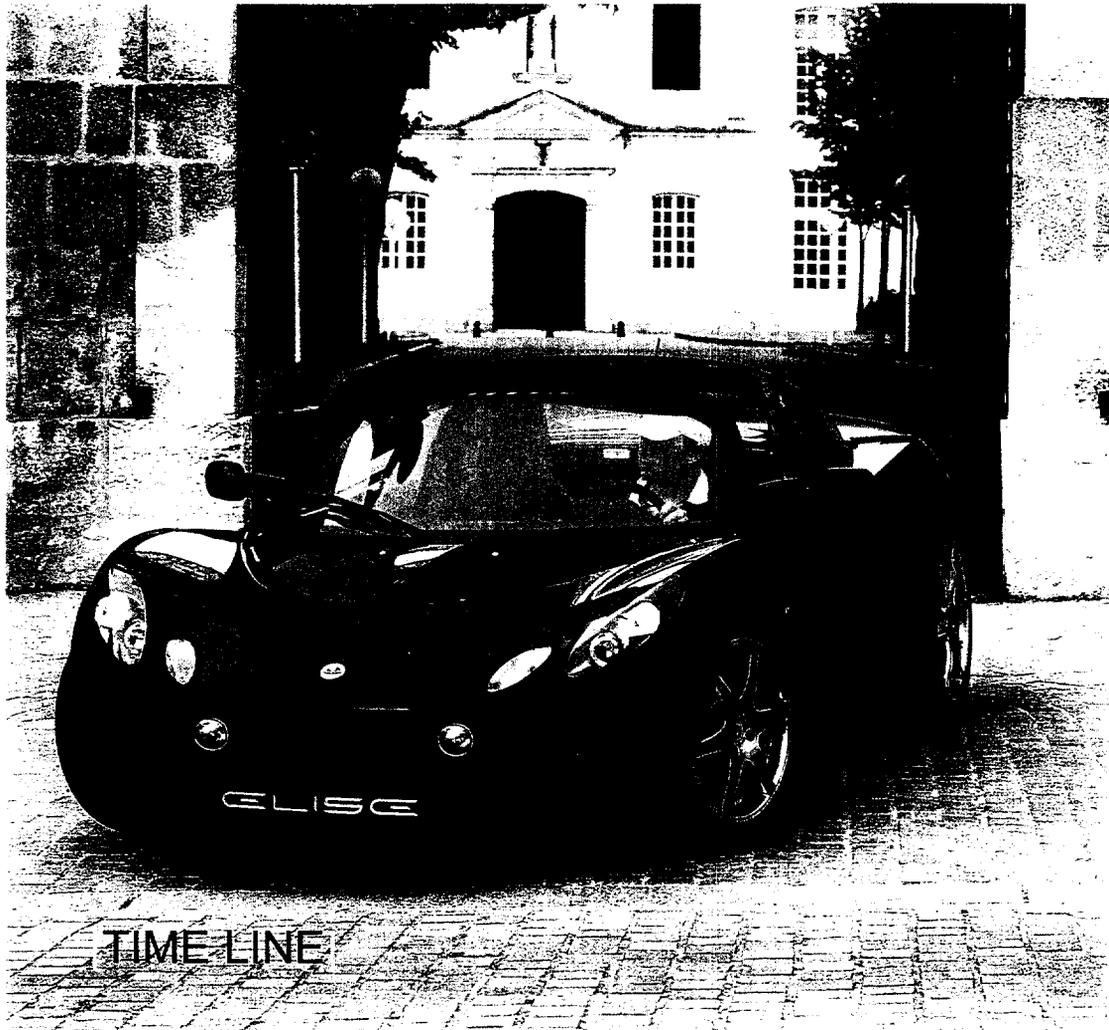
Dimensions:

Wheel base 2301mm
Front track 1457mm
Rear track 1503mm
Overall length 3785mm
Overall width 1719mm (excl door mirrors)
Overall height 1143mm

Weight:

757Kg* [1665 lbs]
Unladen weight 806*
[1773 lbs] (including full tank of fuel)

Weight distribution: 39% front - 61% rear



TIME LINE

[1958] Colin Bruce Chapman builds and races his first competition car

Lotus name makes its first appearance when Colin Chapman forms racing company

Lotus, the company's racing division, is born. Using the Lotus Mark 8 it enjoys considerable and immediate success

Lotus road car legend is born. The Lotus Seven is a no frills, low cost car, delivering staggering performance. Sitting alongside the Lotus on Motorshow is the Type 14 Elise, the first closed-roof Lotus road car. Its bodywork is made from an innovative new composite material

Lotus first milestone - Lotus enters Formula 1 with the front-engined Lotus 25

Colin Chapman decides to try the rear-engined layout. The Type 18 Lotus 25 takes winning form. At Monaco grand prix Stirling Moss, racing the Type 18, its first grand prix win. Later in the year he then wins again at the USA grand prix

Lotus is launched. The Type 26 Elan quickly establishes itself as the Lotus car to be judged against

Lotus wins the Formula 1 Constructor's Championship and Jim Clark takes the Drivers Championship. Both are won with maximum points

Lotus pulls off another double, winning both the Constructor's and Drivers Championships. Jim Clark also wins the famous Indy 500 race

[1966] Lotus moves to a purpose built factory based at an ex-WW2 USAF airfield at Hethel in Norfolk

[1967] The Elan +2 (Type 50) is launched. The Type 49 F1 car becomes the first Lotus car to be powered by the legendary Cosworth-Ford DFV V8

[1968] Colin Chapman introduces commercial sponsorship to Formula 1

[1970] Team Lotus unveils the revolutionary and innovative Type 72 Formula 1 car. Once again Lotus take the Drivers and Constructors World Championships

[1971] Emerson Fittipaldi ensures that black and gold JPS Lotus Type 72 wins another Drivers and Constructors World Championship combination

[1977] James Bond receives a fantastic new company car in the Esprit for 'The Spy Who Loved Me'

[1978] The Formula 1 world once again belongs to Lotus. This time Mario Andretti helps Lotus to another Drivers and Constructors World Championship

[1981] The Esprit is chosen again as Bond's weapon of choice in 'For Your Eyes Only'

[1986] Nigel Mansell is replaced by a young unknown driver by the name of Ayrton Senna as No. 1 driver at Team Lotus

[1995] Lotus produces its 50,000th car. The Elise is unveiled to a stunned audience at the Frankfurt Auto Show

[1998] Lotus celebrates its 50th anniversary with a party involving more than 12,000 people and 2,000 cars

[2000] The Lotus Elise S2 is launched and immediately labelled by the press, 'The best just got better'

EXHIBIT 2
NONCONFIDENTIAL VERSION

