Zipcar, Inc.

Revised August 1, 2000

Report Summary and Investment Recommendation

Company:	Zipcar, Inc.
Location:	Cambridge, Massachusetts
Industry:	Car sharing
Use of Funds:	Program launch, marketing expenses, hiring, and working capital.
Social Return:	Women entrepreneurs, environmental benefits, increased mobility for lower-income populations.
Projected Financial Return:	Estimated at 34.1% annually
Recommended Investment:	$500,000 in Series A Preferred Stock Convertible to Common Stock. This amount is to be disbursed in two stages of $250,000 each. The first half will be disbursed at the initial closing. The second half will be disbursed upon the Company achieving milestones. An additional $250,000 to be reserved for future financing.

I. Background

Robin Chase and Antje Danielson are the founders of Zipcar, Inc. (the Company"). Zipcar utilizes the car sharing concept to provide a convenient, economical, and environmentally sensitive transportation alternative for urban residents and workers. Zipcar members have 24-hour access to shared automobiles in their neighborhoods. Reservation, billing, and vehicle tracking are conducted using Internet and wireless technologies.

The car sharing concept has been practiced in Europe for over a decade, most notably in Switzerland. In the U.S., programs more recently have been launched in Portland, Oregon and Seattle, Washington. For the most part, car sharing programs are grass roots efforts, less than five years old, and operating on a small scale. Some are cooperatives and not structured to be profit enhancing enterprises. Zipcar aims to become the first U.S. company to provide commercial car sharing services nationally. The Company launched its first vehicle in late April and currently has nine vehicles operating on the streets of Boston and Cambridge with over 60 members. The Company is seeking $1.3 million in initial financing to further extend its Boston/Cambridge operation. The proposed uses of funds for $1.3 MM are below. Upon validation of this first region, Zipcar plans to raise additional funding for the national roll-out.

Uses of Funds	***Amount***
Infrastructure Development and Testing	$650,000
Boston/Cambridge Setup Expenses	$250,000
Working Capital	$400,000
TOTAL	$1,300,000

II. Business Description

Daily transportation choices can be categorized broadly into public and private alternatives. Public modes of transportation include trains, buses, ferries, and subways. Private modes of transportation include automobiles, bicycles, and motorcycles. Within the U.S., however, private transportation typically means the personal automobile. Rental car companies further supplement the aforementioned transportation alternatives by offering personal vehicles on a temporary, *i.e.* daily basis.

Car sharing offers yet another alternative; it is one that blends characteristics from both personal car ownership and rental car usage. Users of car sharing arrangements pay an annual membership fee for access to the vehicles. There are also mileage and hourly charges. In Zipcar's case, the annual fee is $75 and usage charges are $4.50/hour and $0.40/mile. The car sharing company in turn places cars in designated parking spaces close to members' neighborhoods, maintains and fuels the

vehicles, and provides insurance coverage. For users, particularly in dense urban neighborhoods, car sharing not only eliminates the need for vehicle purchase and insurance, it also eliminates the costs and hassles of maintenance and parking. Relative to traditional car rental companies, car sharing can be viewed as micro-rentals. Members can reserve usage of a vehicle for as short as one hour. Car sharing also offers more convenient vehicle pick-up locations and includes fuel. For people who drive only occasionally (<6,000 miles/year), car sharing is significantly less expensive than private car ownership. While car sharing incurs time and mileage charges, this arrangement is also less costly relative to traditional rentals for people who require a car for only a few hours.

Car sharing's sensible usage economics make it a highly marketable concept. However, car sharing companies have not yet become a major component of the transportation infrastructure. We believe the major reason for this is that current car sharing organizations have not been set up with scaling in mind. Management systems, including reservation and administrative methodologies, are not capable of monitoring a large vehicle fleet or a large membership base. Limited financial capacity also has limited growth.

Zipcar has developed a business model that addresses these weaknesses within existing car sharing organizations. In particular, the Company is leveraging the rapidly developing Internet and wireless technologies. Zipcar members will be able to use the Company's website to check on vehicle availability and make reservations. There are also online billing and payment capabilities. Wireless devices installed in each vehicle will automatically update mileage and duration information in Zipcar's offices. With this same technology, the Company also can send information to the vehicle. One application is to reset the vehicle's access code for each usage period so that only those members possessing the correct code for their particular time slot will be able to enter and start the vehicle. Zipcar's differentiating strategy is described in more detail below.

A. Target Market

Zipcar is targeting markets with a population density of no less than 10,000 per square mile and a well-established public transportation system. Car sharing is designed to extend a community's public transportation capabilities and not to replace it. This filter means Zipcar will be most viable in metropolitan areas with an average population of 3.3 million people each. This figure can be lower in areas where people are particularly concentrated and/or where the use of public transportation is particularly high (*e.g.* college towns). Zipcar estimates there are at least 20 cities in which its car sharing concept can be successfully implemented. Its aggregate target population is 66 million people. It is yet unclear what the adoption rate will be. In Europe, the prediction is that between 9-12.5% of urban drivers will use car sharing. Zipcar has looked at more conservative adoption rates ranging between 0.25% to 3%.

The financial projections are based on a conservative adoption rate of 0.25%. This translates into a national user base of 165,000 members.

Zipcar will be marketing into two segments: residential and corporate. The target residential markets are individuals that drive less than 6,000 miles a year and/or have an available alternative to a personal car to commute to work. In other words, car sharing users are those that take public transportation to work and only require a car occasionally and those that have a car already and require a second vehicle only occasionally. Typical residential users are urban professionals, graduate students, and empty-nesters. The Company also anticipates a corporate market in which employees can use shared cars to visit remote sites or customers. This market is large. In 1998, the U.S. corporate car rental industry generated $12 billion in revenues. The in-town corporate car rental market is approximately $3.6 billion of this amount. Car sharing should be a very competitive alternative for this slice of the rental market. The residential and corporate markets are complementary. Individuals that use public transportation for work may choose car sharing for personal and recreational use. However, these same public transportation users also will benefit from car sharing by having access to a car at work should the need arise for corporate travel.

Public relations will be a major facet of the Company's marketing strategy. Already, Zipcar has been positively profiled in numerous media outlets including The Wall Street Journal, CNN, NPR, Fox News, NECN, and Channel 7. A copy of the CNN article can be found in *Exhibit A*. The idea is to have the media present and explain the car sharing concept rather than the Company having to educate potential users individually. This approach not only reduces marketing costs but also provides for an instant sense of credibility in the market. Web-related marketing will also be emphasized since Zipcar is both supported by Internet technology and caters to Internet-savvy people. Once the early adopters are retained, it is anticipated that strong word-of-mouth will develop.

B. Technology Infrastructure

Zipcar is developing a set of proprietary technologies that will allow the Company to achieve the type of national scale operation yet unseen in the industry. One key technological component is the Internet. Unlike other car sharing companies, Zipcar will have an online reservation system that allows members to check in real-time vehicle availability, make reservations, and access billing information. Another major technology advantage is Zipcar's wireless vehicle tracking system. Through this setup, each vehicle can automatically send data to Zipcar's offices regarding its mileage, availability, and location. Because each member will have an individualized smart card to enter and start the cars, the Company in turn can send data to each vehicle to allow vehicle access only to the member who has reserved the car at that particular time.

This technology infrastructure provides benefits for both the Company and its customers. For Zipcar members, the website in particular enhances car sharing's convenience. The wireless technology means vehicle usage information can be automatically recorded for the users. For the Company, the technology reduces operating expenses by minimizing the need for telephone operators and manual data entry. Furthermore, the information systems embedded as part of the Internet and wireless data collection should lead to more efficient fleet management. In short, the investments in technology and infrastructure developments not only will allow for a more appealing car sharing service but also will allow the Company to establish a scaleable operating model.

C. Strategic Partnerships

One of Zipcar's major competitive strengths is its early realization that car sharing must be integrated with the existing transportation infrastructure and market system. Furthermore, the Company understands that this integration is critical to advance car sharing from an appealing environmental concept to one that is also a sustainable business undertaking. Zipcar has addressed this need through concerted efforts to establish relationships with municipalities, landlords, and transportation authorities. Zipcar is working with the Cities of Boston and Cambridge to secure a number of municipal spaces for the Company's use. As part of the strategy to integrate car sharing with existing public transportation, the Company is also working with MBTA to place Zipcar vehicles at T-owned parking facilities. Any improvements in parking and traffic clearly will benefit cities and their residents. Finally, Zipcar is working with large institutions and landlords like Harvard, MIT, and Equity Offices to secure spaces on their premises. BCVF believes that this undertaking will be particularly powerful in growing Zipcar's membership base. Not only can these large institutions provide much needed parking spaces, they are also in the position to promote the use of car sharing within their population. For example, one can see landlords like Equity Office including Zipcar services as part of its buildings' amenities. The benefits of such partnerships will be mutual. By encouraging public transportation and car sharing, these institutions can allocate more of a particular real estate project to usable office space instead of parking. Not only can the economics of a particular project be improved but it also presents a stronger proposal during the real estate permitting process.

III. Social Return

BCVF sees three major areas of social return with an investment in Zipcar. First, we will be supporting a women-owned and managed enterprise. Second, the Company is promoting an environmentally sensible transportation alternative. Based on the experiences of existing car sharing organizations, Zipcar anticipates that each shared car will replace 4-8 private vehicles. This will lead to decreased road and parking congestion, a serious problem in urban areas around the world. Furthermore, historical data indicate that the miles driven will decrease by 50% since car sharing

effectively complements public transportation. This then leads to many facets of environmental benefits including pollution reduction and energy conservation.

Third, car sharing can bring mobility to segments of the population without adequate access to private vehicles and/or are underserved by public transportation. With the help of BCC, Zipcar is exploring ways to bring car sharing to economically disadvantaged urban areas. Part of this initiative is to bring better Internet access to the communities in order to more fully integrate users into the Zipcar infrastructure.

IV. Management Team

Robin Chase is serving as the CEO of Zipcar, Inc. She has laid the groundwork for car sharing in Boston and continues to shape the overall direction for the Company. She also will spend time developing strategic partnerships with municipalities, corporate clients, and commercial real estate operators. Antje Davidson currently focuses her efforts on Zipcar's technology development and system implementation. Once the Company hires a VP of Technology, she plans to concentrate on promoting Zipcar's environmental benefits to new customers.

The two founders have begun hiring a number of key managers. Keefer Welch, a former executive in the hospitality industry, has joined Zipcar as President and COO. In addition to overseeing the day-to-day operations, Keefer take the lead in building the management and financial systems. Mark Chase is the Director of Business Development and is responsible for integrating Zipcar's services into a city's broader transportation network. Part of his responsibilities includes negotiating cost-effective and well-located parking spaces as Zipcar expands. Chris Evans is serving as the Controller. In additional to cash and cost management, Chris' responsibilities includes continually updating the Company's financial models and pricing policies in response to market feedback. Stephen Oakley will be joining the Company in September as the Boston-area general manager. He will be taking over the day-to-day operations in Boston/Cambridge as the senior management team focuses on national rollout.

Zipcar has also retained several consultants in the area of software development and marketing. As the operation grows, the Company intends to hire a VP of Sales and Marketing and VP of Technology. The Company is also actively interviewing for the position of Office Manager. Biographies for the current key managers can be found in *Exhibit B*.

V. Potential Risks

As with any startup, Zipcar faces a series of market, operational, and financial risks. BCVF believes that the Company has taken several steps to minimize these risks. Each major risk area is discussed in more detail in the next sections.

A. Market Issues

Although current car sharing organizations are usually small, car sharing nevertheless has proven to be a workable concept with strong user interest. *Mobility*, the leading Swiss car sharing company, has 33,000 members and 1,200 vehicles. The *European Car Sharing Network*, a pan-Europe consortium of companies, has 40,000 members. U.S.-based operations in Portland and Seattle, while much younger and smaller, have also experienced high market interest. The limits to growth appear to be less related to membership interest and much more with infrastructure and management capacity. Most car sharing organizations are poorly capitalized grass root efforts with minimal operational capabilities. Zipcar's strategy is specifically aimed at avoiding these shortcomings by laying the groundwork for rapid scaling and commercialization.

Even though market demand seems high, Zipcar has wisely built its business model with more conservative adoption rate assumptions. For example, based on data from existing car sharing organizations and public policy studies, a 1% market penetration rate of the population is achievable. If we focus on just urban centers, a much higher penetration rate (~10%) is achievable. In Seattle, for example, an initial mailing to 400 target members elicited a 12.5% sign-up rate. While this figure certainly is not representative of the entire population, it does indicate that there is strong interest within certain segments. In particular, there is strong demand from urban professionals and graduate students. Zipcar has assumed a much more conservative figure in its business plan. The Company has used an adoption rate of only 0.25% in estimating its potential national membership base. One rationale behind this assumption is that while some regions (*e.g.* Boston and Cambridge) are likely to have higher adoption rates, others may be less receptive and thus pull down the overall adoption figure. A rate of 0.25% should be well within the reasonable range. Another rationale is to demonstrate that a sustainable car sharing organization can be established with a fairly small number of members within each city.

While Zipcar assumes a low market penetration rate in each city, it is aggressive in its national rollout plan. The Company expects to offer its car sharing services in 13 U.S. cities by the end of its third full year of business with 23,000 members and 1,400 vehicles. By the end of year 5, the Company expects over 99,000 members and 5,800 vehicles. While BCVF does not question the market demand supporting this membership base, we have concerns about the Company's ability to effectively manage a nationwide organization in this time period. In short, we see that within each city, strong market demand is likely to be found and may prove to exceed the 0.25% market penetration rate. However, the Company's operational infrastructure may lag in its ability to cope with this usage level. We therefore expect a more limited rollout and membership base.

B. Operational Issues

As mentioned above, BCVF believes that operational capacity and not market demand will limit Zipcar's growth. As of July 7, there are 62 members. Approximately 30 more applicants are waiting to be processed. Since the Company began its public promotion during the last week of June, sign-up rates have been approximately 20 per week. This figure is consistent with the Company's projections. Bottlenecks to building the membership base appear at several points. Part of the cause is the continuing adjustments management is making to the technology and business process. The other reason is that the Company has yet to fully staff the organization. As a result, there are limits to how fast Zipcar has been able to process incoming applications. This would include obtaining credit reports and having each driver qualified by the car insurance carrier. A second bottleneck is at the new member orientation stage. As new members sign on, the Company needs to review membership regulations and vehicle operating information with the new members. Finally, there is the task of outfitting each new vehicle with Zipcar's suite of electronic upgrades (*e.g.* smart card slot). Zipcar should be able to resolve these operational blocks as it increases hires, trains its staff, and grows to scale. Nevertheless, BCVF believes this ramp up stage will prove to be more time consuming than the Company expects. We believe a thirteen-city rollout in a 3-year schedule to be optimistic.

In addition to adequate staffing, a key operational risk is the ability to obtain municipal support and establish corporate partnerships in the other cities. While car sharing should be a welcome transportation solution in these new markets, we may see governments opting to support local car sharing organizations instead of an outside one. This decision may be made even it Zipcar is the superior organization through which car sharing can be delivered. Similarly, local businesses and landlords may have a greater incentive to partner with a local car sharing company instead of Zipcar. A potential consequence is that Zipcar may have more difficulty seeking low cost parking spaces, corporate contracts, and strong local media coverage. Certainly, these obstacles can be overcome. In Washington D.C., which Zipcar has identified as the most likely second market, the Company has taken steps to form alliances with local car sharing activists. The strategy is to leverage the knowledge and contacts of these organizations to facilitate Zipcar's market entry. Nevertheless, there is no guarantee that these alliances can be formed. More importantly, this issue again highlights the 3-year launch period as unlikely.

Zipcar's final major operational risk lies in its ability to develop its technology infrastructure. The Company's Internet reservation and customer invoicing systems are in operation. While some tweaking of these systems are expected to continue, they are essentially operating as expected and already do represent a major leap over other car sharing organizations. The wireless technology is still undergoing development. The Company has contracted with an outside engineering firm to develop this system and expects the first vehicle installation to occur in January or

February of 2001. BCVF expects a lengthy period of troubleshooting with this technology before it can fully deliver its designed benefits. We believe the wireless technology will be critical in maximizing vehicle utilization and managing a national car sharing company. However, it does not necessarily prohibit individual city operations from functioning or achieving profitability. The lack of wireless technology means that the Company needs to build in bigger safety margins in reservation scheduling and maintenance frequency. Furthermore, some data (*e.g.* mileage) need to be manually collected instead of automatically updated. The Zipcar's fleet utilization rate will not be as high as it will otherwise be and hence the Company will achieve a lower gross margin.

Still, we believe a solid car sharing operation can be built in a particular city. The issue as before, is that a 13-city rollout is unlikely until the Company can fully launch and test its operational infrastructure. The wireless vehicle tracking technology is one important component. Not only can it improve operational efficiency and margins, it underpins the crucial leap of car sharing from a city to a national scale. With real time fleet utilization information, Zipcar will be able to better plan its vehicle acquisition program, more effectively deploy its vehicles to serve users, and more efficiently collect usage and billing data.

C. Financing Issues

Zipcar's recognized operational risks hold financial implications. In the short term, Company's technology development budget may be higher than expected. In the longer term, if Zipcar's fleet utilization is below expectations, operating margins will be adversely affected. The Company's aggressive 13-city rollout schedule will also be curtailed. Because of the longer and more costly than expected ramp-up stage, Zipcar may find it requiring additional rounds of financing sooner and in greater amounts. BCVF believes that with a successful Boston/Cambridge launch, the Company should be able to access additional rounds of financing at attractive terms. Nevertheless, we think that Zipcar's projected growth will occur over a longer time period and have revised the financial forecasts to reflect this view.

Another financing issue is the Company's ability to put a member's $300 security deposit towards general corporate use. Zipcar currently sets aside 30% of the security deposit in reserve while releasing the remaining 70% for working capital needs. While there appears to be no law in Massachusetts barring Zipcar from accessing the security deposit, there may be consumer protection regulations that may have ancillary implications. Furthermore, states other than Massachusetts may have more stringent laws governing security deposits. Should Zipcar be required to set aside these deposits in an escrow account, we would expect the Company to have higher financing needs than it predicts. In its revised projection, BCVF has assumed that deposits will not be available for general corporate needs.

VI. Projected Performance

The Company has provided a set of financial projections that can be found in *Exhibit C*. Financial statements for actual performance until June 30, 2000 can be found in *Exhibit D*. Management expects to achieve revenues of approximately $120.3 million in five years. EBITDA and Net Income are projected to be $35.3 and $21.6 million, respectively. Positive operating income and positive EBITDA are achieved in the third and fourth year, respectively. On a city-basis, Zipcar expects Boston/Cambridge to become profitable one year after the first vehicle is placed in service. Because of the know-how created in Boston/Cambridge, the Company expects the subsequent cities to become profitable six months after launch.

As discussed before, BCVF believes the Company is capable of establishing profitable car sharing operations within each city. In the Boston/Cambridge market, management is effectively leveraging its local expertise and contacts to rapidly scale up operations. The Company should be able to transfer the operating guidelines emerging from this initial market to the other cities. While each city will present different challenges, the initial Boston/Cambridge experience will nonetheless offer invaluable insight. BCVF's concerns center around the Company's ability grows its operational capacity quickly enough, to manage a multi-city organization, to maintain its profit margin within each city as new cities are added, and to control its corporate overhead costs. We expect Zipcar to require more time than it anticipates to effectively ramp up its operations. Consequently, we deem the Company's projections to be optimistic. We should note that this set of Company-provided projections is already much reduced from the first iteration. Zipcar had originally projected a 20-city rollout with revenue of over $209 million in five years. Nevertheless, BCVF believes there is still some downside risk that should be more fully accounted in the financial model.

Zipcar's financial model is built around the individual city's performance. The initial Boston/Cambridge market, not surprisingly, is the most extensively documented and serves as the template for the subsequent cities. Projections for Boston/Cambridge incorporates a ramp-up period during which Zipcar's technology and operating protocol are deployed. The Company projects much shorter ramp up times for the subsequent cities since it assumes that much of Boston/Cambridge's experiences are transferable. The Company's corporate performance is simply an aggregate of the individual cities' numbers with an additional layer of corporate overhead costs on top. Zipcar, Inc. has begun its car sharing service in areas of Boston and Cambridge. Experiences from this initial launch are being used to validate and fine-tune the Company's business model. As the Company awaits the close of this financing round, it has been forced to slow down its launch somewhat. Nevertheless, the Company has experienced strong market interest. As mentioned earlier, the current run rate of its membership drive is in line with its projected 20-25 new users per week.

BCVF believes the Company will continue to strongly attract users to its service. However, we believe the vehicles' usage level will be less than predicted as users get more comfortable with the car sharing concept. Revenue will therefore be lower than projections. At the same time, BCVF believes that the Company will need greater number of vehicles and personnel to service its membership base. Costs will therefore be higher than projections. BCVF has reviewed the Company's projections and has made revisions to reflect our differing risk assessments. These revisions are discussed in the following sections. We should also note that BCVF and Zipcar have taken different approaches to building up the numbers. In Zipcar's model, the independent variable is the number of vehicles. From this figure, membership growth and revenue are then derived. In BCVF's approach, the independent variable is the number of members. We then add vehicles to the fleet in order to meet market demand. Zipcar's approach is particularly useful for budgeting purposes. However, we believe BCVF's approach yields clearer insights into the potential risks.

A. Number of Members

BCVF believes that Zipcar has estimated realistically the size of the market and its long-term adoption rate. However, we think that the rate of membership growth will be slower than Zipcar's projection. One major reason for this assessment, as discussed before, is that there are operational bottlenecks that preclude Zipcar from absorbing new users as quickly. There is also a question of whether the Company will be able to establish its services in as many cities as planned. While we do not doubt that Zipcar can be deployed nationally and even internationally, we do question how quickly the Company can move into new markets. Our revisions are designed to take into account these factors. In short, we believe Zipcar can achieve the membership base it projects but it will happen over a period longer than five years. With a five-year horizon, we expect membership numbers to be as indicated in the next table. We should note that if the close of this financing round is significantly delayed, these figures will need to be adjusted to reflect this delay.

Number of Members	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*
Zipcar	680	5,449	23,104	60,489	99,549
BCVF	500	3,500	15,000	30,000	50,000

B. Member Usage Pattern

The area in which BCVF and Zipcar most diverges is the vehicle usage assumptions. The Company's assumptions are based on data culled from the existing car sharing organizations. The Swiss and Quebec undertakings have particularly well

documented data. BCVF believes that Zipcar's assumptions, though supported, are optimistic. Since car sharing is not as established in the U.S. as in Europe, we believe that users may exhibit more conservative usage patterns. There may also be market, geographical, and cultural differences that can lead to lower usage levels.

	Zipcar	*BCVF Pessimistic*	*BCVF Realistic*	*BCVF Optimistic*
Trip per Month	3.5	2.8	3.2	3.5
Number of Hours per Trip	4.0	3.5	3.5	4.0
Number of Miles per Trip	21.0	15.0	18.0	21.0
Users per Vehicle	18	23	20	18
Vehicle Utilization Rate	51.8%	45.5%	45.5%	51.8%

In addition to the usage inputs, the Company also assumes one vehicle will be sufficient to serve 18 members. Given the Company's expected usage figures and assuming a nominal 16-hour operating day, the 1:18 ratio in practice means that each vehicle will be utilized at 51.8% of its availability. This utilization rate is typical in existing car sharing organizations. Anything significantly higher than 50% may compromise the car sharing service's availability and convenience.

BCVF believes that Zipcar's 51.8% utilization rate is a reasonable target. Once the wireless fleet monitoring technology has been installed, the Company may even improve upon this figure. Currently, because BCVF expects usage to be lower than Company projections, each vehicle in theory should be able to support more than 18 members and still be below the 50% utilization threshold. However, there is a geographical limit to the number of members for each vehicle. The Company's goal is to have its cars within a five-minute walk of each user. Hence, unless an area has a particularly dense membership population, BCVF believes it is unlikely for each vehicle to support more than 20-25 people.

We have assumed 23 and 20 members per vehicle for BCVF's pessimistic and realistic scenarios, respectively. Utilization rate is 45.5%, over 6% lower than Zipcar's assumption. One reason for this difference, as mentioned above, is the geographical constraints in vehicle location. Another reason is that we expect demand for vehicles to be clustered during certain times of the day and week. During this time, the Company should experience full fleet deployment. For Zipcar to succeed, we believe it is critical for the Company to thoroughly demonstrate car sharing's reliability and convenience. Extra vehicle capacity is needed to ensure users' satisfaction. As Zipcar becomes more attuned to its membership base's usage patterns, this safety factor can be reduced. For BCVF's analysis, however, we have adopted a conservative stance and have provided for excess capacity within the system. It should be noted that BCVF did not make modifications to the Company's proposed membership fee ($75/year) or the usage fees ($4.50/hour for standard

vehicles, $9.00/hour for premium vehicles such as station wagons and minivans, $0.40/mile for both vehicle classes). We believe these rates are reasonable and so far well received by the users. Furthermore, we believe users have an elastic response to pricing. BCVF thus expects its modified member usage patterns to adequately reflect pricing sensitivity.

C. Operating Expenses

Besides the revenue inputs, BCVF also has made revisions in operating expense assumption. We expect higher vehicle preparation and maintenance costs than Zipcar's projections. Vehicle preparation refers to the cost of installing into each vehicle the wireless tracking, key card entry, and security systems. Vehicle maintenance refers to the cost of vehicle upkeep but excludes the insurance and fuel costs. Furthermore, we expect higher staffing requirements in both the customer service and vehicle maintenance areas. The variables in question are listed in the next table.

	Zipcar	*BCVF Pessimistic*	*BCVF Realistic*	*BCVF Optimistic*
Preparation Cost per Vehicle	$600	$1200	$800	$600
Annual Maintenance Cost per Vehicle	$480	$600	$525	$480
# of Vehicles per Customer Service Person	150	75	100	150
# of Vehicles per Maintenance Person	60	40	50	60

D. Revised Financial Projections

With the above modifications, BCVF is able to construct a set of revised projections. Some other expense categories, *e.g.* lease payments, insurance premiums, and fuel costs, BCVF has left unaltered because we feel the Company has adequately accounted for potential risks in those areas. General, sales, and administrative expenses for individual cities as well as for the overall corporate organizations have been appropriately scaled to match the revised operating figures. The key performance figures are listed in the table below.

Principal Performance Measures in Year 5

	Zipcar.	*BCVF Pessimistic*	*BCVF Realistic*	*BCVF Optimistic*
Revenue	$120,265,700	$40,137,500	$47,855,000	$59,690,000
Operating Profit	$38,992,623	$6,431,740	$10,705,183	$19,290,831
Operating Margin	32.4%	16.0%	22.4%	32.3%
EBITDA	$35,318,081	$3,931,740	$8,205,183	$16,790,831
EBITDA Margin	29.4%	9.8%	17.1%	28.1%
Probability of Occurrence	-	0.20	0.60	0.20

Through the assigned probabilities of occurrence, we can calculate a consolidated BCVF scenario that we feel represents a risk-adjusted view of the Company's future performance.

Year 5	*BCVF Consolidated*
Revenue	$48,678,500
Gross Profit	$11,567,624
Gross Margin	23.1%
EBITDA	$9,067,624
EBITDA Margin	17.9%

VII. Valuation and Expected Returns

Valuation metrics are derived primarily from the rental car industry. Price to EBITDA is in the range of 4 to 4.5. Price to revenue is in the range of 0.8 to 1.1. Applying these metrics to BCVF's projected financial performance yields a Company valuation of approximately $43.6MM in five years.

Metric	*Ratio*	*Company's Value in Year 5*
Price/Revenue	1	$48,678,500
Price/EBITDA	4	$38,537,403
Average		$43,607,951

After much negotiation, the Company has presented a term sheet that is acceptable to investors. A copy of this term sheet can be found in *Exhibit E.* Basically, Zipcar, Inc. is offering a 36% stake in the Company for $1.3 million. This translates to a pre-money valuation of approximately $2.3 million. The proposed capital structure can be found in *Exhibit F*. BCVF recommends a $500,000 commitment with $250,000 disbursed at this time. This first $250,000 will buy 108,696 shares or a 6.92% stake in Zipcar.

BCVF expects Zipcar to raise an additional $5-7 million for its planned national launch. We have accounted for the issuance of additional shares in calculating the potential rate of return. We have taken a conservative stance and have assumed that future rounds of financing will take place at the same valuation as the current round. BCVF expects funding needs to be on the upper end of the range. This belief reflects our view that each city's ramp-up phase is likely to take longer and incur more losses than anticipated. BCVF expects the Company to break even a full year later than management's projection. Accumulated losses will be approximately 30% higher than mangement's projection. We also believe the Company will not have access to

members' security deposits for use as working capital. This will also result in higher funding requirements. Potential future ownership stakes and the pro-forma cashflow can be seen in the following tables. BCVF projects an annual return of 34.1%.

	Scenario 1	*Scenario 2*	*Scenario 3*
Amount Raised in Round 2	$5,000,000	$6,000,000	$7,000,000
Number of Shares Sold ($2.30/share)	2,173,912	2,608,694	3,043,476
Total Number of Shares After Financing	3,743,959	4,178,741	4,613,523
New Percentage Ownership (Round 1 Investors)	15.1%	13.5%	12.3%
New Percentage Ownership (BCVF)	2.9%	2.6%	2.4%
Probability of Occurrence	0.10	0.30	0.60

BCVF Investment Amount	$250,000					
Percentage Ownership Year 0	6.92%					
Percentage Ownership Year 5	2.48%					
Year 5 Exit Enterprise Value	$43,607,951					
	Year	*Year*	*Year*	*Year*	*Year*	*Year*
	0	*1*	*2*	*3*	*4*	*5*
Cash Flow	($250,000)	$0	$0	$0	$0	$1,083,344
IRR	34.1%					

VIII. Recommendation

BCVF recommends a commitment of $500,000 in Zipcar, Inc. Series A Preferred Stock. We will disburse funds in two equal stages of $250,000. The first half will be disbursed at the initial closing. The second half will be disbursed upon the Company achieving the following milestones:

- Signing up 500 members in the Boston/Cambridge area
- Working prototype of wireless technology
- Placing of vehicles with one commercial partner

We also recommend an additional $250,000 reserved for future rounds of financing.

Exhibit A

Article in July 19, 2000 issue of CNN /fn

Exhibit B

Background of Key Management Team

Exhibit C

Summary Financial Projections -
As Provided by Zipcar Management

Exhibit D

Financial Statements As of June 30, 2000

Exhibit E

Term Sheet

Exhibit F

Capital Structure