Communitas Auto Group: FAQ

As of August 15, 2013

This document was primarily created by the Prison Entrepreneurship Program (“PEP”), a 501(c)(3) nonprofit organization, to educate our friends and the broader community about the Communitas Auto Group (“CAG”) and its relationship to PEP.

About CAG

What is CAG?
Communitas Auto Group LLC is an independent, for-profit company formed by PEP to become the exclusive master franchisee for Auto-Lab Complete Car Care Centers for the State of Texas.

Why was CAG created?
PEP’s strategic objectives include harnessing capitalism to create high quality business and career opportunities for its graduates, a wider variety of engagement opportunities for our supporters and sources of sustainable revenue to support PEP’s core programs. CAG is an important step toward achieving those objectives.

Who is involved?
Mike Humphrey is serving as Chairman and CEO of CAG. Mike is an experienced Houston-based businessman, a long-standing PEP volunteer and currently Chairman of PEP’s Governing Board. Dr. Ben Litalien, CFE will assist in implementing CAG’s strategy for franchise development. Ben is the founder & principal of the specialized consulting practice, Franchise Well, and has more than 20 years’ experience in expanding several successful franchised businesses. CAG expects to name a General Manager in the near future.

How was CAG created?
PEP retained Ben Litalien as a consultant in late 2011 to assist it in evaluating franchised businesses as a means of achieving its strategic objectives. After narrowing the search to general auto repair businesses, PEP and Litalien focused on several promising franchisors and ultimately selected Auto-Lab Complete Car Care Centers as providing the greatest benefits and opportunity.
Corporate Structure

**What is the relationship between CAG and Auto-Lab Complete Car Care Centers?**
As the franchisor, Auto-Lab owns the brand, systems, methods and vendor relationships proven throughout its 30 stores across four states. As the master franchisee for Texas, CAG has the right either to build and operate stores under the Auto-Lab of Texas brand or to sell to others the right to do so anywhere in the state.

**What is the relationship between CAG and PEP?**
CAG is an independent, for-profit subsidiary of PEP.

**Will all employees be PEP graduates?**
No. While qualified graduates of PEP’s rigorous, values-based entrepreneurship program will be eligible for jobs created by these new stores, the primary purpose of CAG is to operate as a successful commercial business, thereby providing not only quality opportunities for graduates but a significant revenue stream to its owners, including PEP.

**What is the relationship between CAG and the individual Auto-Lab stores underneath it in Texas?**
CAG is the master franchisee for Texas. In that capacity, it will provide oversight as well as operations and development support to all other franchisees in Texas.

**Who is managing CAG? Are there any staff, and what are their responsibilities?**
Currently, Mike Humphrey and Ben Litalien are most directly involved. Bert Smith, CEO of PEP, serves on the CAG board and is also significantly involved. CAG plans to hire a full-time General Manager in the very near future and add other personnel as its growth requires. However, most new jobs created will be at the individual store level.

**How is PEP protected from any actions taken against CAG (i.e. law suits)?**
PEP is a member (shareholder) in CAG, which is a limited liability company. The members of limited liability companies, like the shareholders in corporations, are generally not liable for the debts or other obligations of the company. In addition, CAG plans to maintain general liability and other forms of insurance appropriate for companies in its business.
Ownership - CAG

Who owns CAG?
There are 2 classes of equity interests in CAG: common and preferred. PEP owns 100% of the common, and Mike and Janene Humphrey currently own 100% of the preferred.

Are there any conflicts of interest between PEP’s Board/Staff and the owners of CAG? If so, how are these being handled?
Because Mike Humphrey is Chairman of PEP’s Governing Board as well as an investor in CAG, the other members of PEP’s Governing Board considered the transaction and proposed terms of investment in compliance with PEP’s Conflict of Interest Policy. They reached the unanimous conclusion that PEP could not obtain with reasonable efforts a more advantageous transaction or arrangement, and that it was in PEP’s best interest, for its own benefit, and fair and reasonable.

How much has been raised so far?
$800,000.

What is the amount and timing for additional investments needed in the future?
CAG is seeking an additional $350,000 in the initial round of funding, which it expects to close within 6-12 months. Thereafter, the size and timing of additional rounds of investment will be determined by the needs of the business.

What are the conditions under which CAG will become fully owned by PEP?
The innovative structure of the investment currently provides that CAG will buy out all preferred investors over years 8 through 12. Upon full redemption, PEP will own 100% of CAG, except for any common equity interests granted to CAG’s management to incentivize top performance.

Can PEP sell its interest in CAG?
Yes, though it has no intention of doing so.
Ownership – Individual Stores

Who will own the first store(s)?
It is most likely that CAG will own the first store, either directly or through a controlled affiliate, and it may own most of the first half dozen or so stores opened, depending upon market circumstances.

Who are the other potential franchisees underneath CAG?
Most successful Auto-Lab franchises are owned by individuals with good financial capacity and prior success in managing a business, though not necessarily an auto repair business. It is not necessary that franchisees be certified mechanics, and few are.

Can PEP Graduates own franchises underneath CAG?
Yes, they will be eligible to acquire franchises anywhere in Texas!

Goals and Impact

How will PEP benefit from CAG?
Successful development of CAG will create high quality business and career opportunities for PEP graduates, a wider variety of engagement opportunities for people interested in supporting PEP and sources of sustainable revenue to support PEP's core programs.

How will PEP graduates benefit from CAG?
PEP graduates will benefit primarily through the creation of high quality jobs and business opportunities.

What are the goals for CAG?
In the short term, CAG plans to open its first two stores by June 30, 2014. The master franchise agreement with Auto-Lab requires that more than two dozen stores be opened in Texas over 20 years, although our expectation is that there is an opportunity to open three times that many in that time period.

How are PEP’s staff involved in CAG?
Bert Smith, PEP’s CEO, is the staff person primarily involved; he serves as a director of CAG representing PEP.

Is PEP now in the car repair business?
Not directly. CAG is an independent business, and all car repair activities will be conducted through it, by individuals employed by it or its franchisees.