

**Proposal to Restructure VTT, LLC
(d/b/a Global Center for Automotive Performance Simulation)**

October 27, 2025

Background

VTT, LLC (VTT) was organized in 2012 and housed the National Tire Research Center operations. Today, Virginia Tech Transportation Economic Development, Inc. (VTTEDI) is the single member of VTT, LLC (d/b/a Global Center for Automotive Performance Simulation (GCAPS)) and a subsidiary of the university's affiliated entity, Virginia Tech Innovations Corporation (VTIC). The corporation provides the automotive industry with testing capability that is necessary to engineer and develop tires optimizing performance, increasing traction, reducing noise, improving fuel economy, and lowering pollutants. The company also performs advanced simulation and modeling, with core expertise in tire model development and simulation environments, applied primarily to the testing and validation of automated vehicle control systems. Since its founding, GCAPS has generated more than \$58 million in revenue, contributed significantly to the university's research activities, and strengthened the university's reputation for transportation innovation. Its one-of-a-kind FlatTrac LTRe tire characterization machine serves clients ranging from motorsports customers like Formula 1 and NASCAR to a large global network of top-tier automakers and suppliers. GCAPS's modeling and simulation expertise fills a critical gap within the Virginia Tech Transportation Institute's (VTTI) current research portfolio and directly advances Virginia Tech's Global Distinction. The GCAPS activities are centered in the Southside Virginia region where they continue to support economic development and local education.

Operations and Activities

The tire testing services generate an average annual revenue of \$4 million. In addition, VTT is a sub-contractor of VTTI on multiple funded research grants, with associated revenues of \$0.7 - \$1.5 million annually. Lastly, VTT has invested in the development of tire modeling software generating corporate interest and some sponsorships. VTT leadership believes there is potential for commercialization of the software with additional investments required to complete the offering.

Status of Financing Activities

Consistent with the initial business plans, the funding for the initial phase of the operations and the investment in equipment and specialized facilities was provided by an economic development grant of \$5 million from the Virginia Tobacco Indemnification and Community Revitalization Commission to assist in the purchase and installation of the tire machine in an economically depressed region of the state, industry commitments, and a

loan of up to \$4 million from the university under authorities granted by the Restructuring Act and authorized by the Board of Visitors in its September 2012 meeting. VTT anticipated that an expanding external business base over several years would provide the cash needed for operations and repayment of the loan. Further, VTT, initially set up under the Virginia Tech Foundation (VTF), executed a \$500,000 loan with VTF in October 2014 to support startup operations. VTT increased the principle borrowed from VTF in December 2020 to \$1 million as the LLC experienced revenue shortfalls at the beginning of the COVID pandemic. On June 30, 2025, VTT had outstanding loans and accumulated interest over \$5.1 million and lease liabilities more than \$2 million. There was insufficient cash to make the principal and interest payments due to the university and the VTF on June 30, 2025.

VTT continues to operate as an entity under university affiliated organizations. In August 2025, the Corporation's board directed VTT management to form a working group with the university to evaluate the future structure of VTTEDI/VTT given the ongoing financial challenges of VTT and insufficient funding to support ongoing research and development activities and debt payments. In October 2025, the working group recommended a strategic transition of VTT into Virginia Tech Transportation Institute (VTTI) beginning as early as December 1, 2025, to reduce the Corporation's financial obligations, gain efficiency in administrative operations, and fully leverage research talent.

Proposed Restructuring

The strategic integration of VTT, LLC (d/b/a Global Center for Automotive Performance Simulation (GCAPS) into the Virginia Tech Transportation Institute (VTTI) provides benefits to the Institute. Through consolidation into the university, VTTI will streamline administrative and financial oversight while improving resource utilization, compliance, and accountability. The proposed restructuring aligns with Virginia Tech's institutional priorities of Global Distinction and Regional Impact and presents a financially sustainable pathway to enhance research capacity, streamline operations, and resolve legacy liabilities. Immediate action is critical to retain talent, protect VTTI's research capacity, and decrease university financial exposure. The restructuring supports Virginia Tech's commitment to high-performing research units and adds long-term institutional value.

Under the proposed restructuring of VTT, the working group projects that GCAPS's tire testing activities have a viable life span of four or more years, pending equipment upgrades and market competition/technology advancements. VTTI will strategically redeploy human resources and operational bandwidth previously allocated to research activities and software development at VTT to support other VTTI-externally funded research initiatives. As such, the restructuring is accomplished through the following actions:

1. Through reduction in administrative and managerial overhead and reassignment of research talent to Institute funded research initiatives, the Institute projects net revenue from tire testing after full transition to be \$500,000 annually in fiscal years ending 2027 through 2030. The priority for net tire testing revenues will be the debt obligations.
2. VTT employees and operations transition to the university beginning December 1, 2025, protecting existing operations and driving new revenue streams through more efficient integration of resources and talent across VTTI and GCAPS. VTTI has developed a supporting workplan allocating assignments across the existing research portfolio.
3. VTT owned tire testing machinery (i.e. the FlatTrac LTRe tire test machine and capitalized components and parts) is exchanged with the university for relief of outstanding loan principal and accrued interest up to the VTT net book value ($\text{Purchase Price} - \text{Accumulated Depreciation} = \text{Net Book Value}$), resulting in an estimated reduction of corporate liabilities of \$4.2 million (NBV) as of December 2025.
4. VTTI assumes all remaining debt of VTT, including an outstanding loan of \$775,000 plus accrued interest due to the Virginia Tech Foundation and remaining balance due to Virginia Tech after asset exchange (see #3 above) estimated at \$200,000. The Institute projects all debt to be repaid over the next four years from net tire testing revenues (see #1 above) and backs the debt by contingency repayment plan from the overhead resources of the Virginia Tech Transportation Institute.
5. The university assumes a long-term lease for the tire testing facility in Alton, Virginia, booking a right to use asset and estimated NPV lease liability of \$2 million.
6. After resolution of contractual and operational dependencies, the LLC and VTTEDI will be decommissioned, eliminating recurring costs and governance overhead of maintaining separate legal and administrative structures.

Asset Exchange and Restructure VTT Outstanding Liabilities

As mentioned above, in September 2012, the Board of Visitors authorized the university, at the President's discretion, to loan VTT up to \$4 million from nongeneral fund sources to be repaid by VTT in accordance with terms to be established by the Vice President for Finance and Chief Financial Officer. Subsequently in April 2020, the university reported to the Board of Visitors updated loan terms extending the repayment period to 2039; and in June 2021, the university modified the terms of the note to defer principal and interest payments until December 2022; and in April 2024, the university modified the terms of the note to defer principal and interest payments until June 2025 extending the repayment period to 2041; and in June 2025, VTT had insufficient cash on hand to make the payment. The university requests board approval to:

1. Waive up to \$4.4 million of VTT's obligation to repay the university through the combination of 1) an asset exchange transaction of VTT's tire test machinery for relief of outstanding loan principal of \$3,824,403 and accrued interest due to the university up to the VTT net book value (Net Book Value = Purchase Price – Accumulated Depreciation), and 2) an internal loan agreement with VTTI for the repayment of any remaining accrued interest due to the university; and
2. Transition tire testing activities to the university and execute a promissory note in the amount of \$775,000 plus accrued interest due to VTF on the condition that tire testing revenues be used only for tire testing operations and facility expenditures with any net revenues being used to repay VTF, resulting in an estimated reduction of VTT's liabilities of \$775,000 as of December 2025; and
3. Enter a long-term lease for the tire testing facility located at 1020 Lotus Drive, Alton, Virginia, resulting in an estimated NPV lease liability of \$2 million as of December 2025.

Under section 23-38.101 of Restructured Higher Education Financial and Administrative Operations Act of the Code of Virginia, the Board of Visitors has the authority to approve the budget, size, scope, debt issuance, and overall funding of nongeneral funded debt and long-term leases. This restructuring is a strategic investment of university resources to promote research growth, expand economic development opportunities, and advance the university's Global Distinction goal.

The conditions and requirements for the VTF promissory note would include:

- The notes will be in accordance with established university procedures for authorizing external debt and internal loans to operating units; and
- The note will carry an interest rate as negotiated with the VTF; and
- A repayment schedule to be negotiated with the VTF is anticipated to start no later than fiscal year 2026-2027 and to be repaid over a period not to exceed 4 years; and
- The debt repayment obligations would be underwritten by the university's research overhead funds, a nongeneral fund revenue source; and
- The authorization will include a contingency repayment plan from the overhead resources of the Virginia Tech Transportation Institute if repayment is not available as planned from the tire testing net revenues.

The Vice President for Finance and Chief Financial Officer will be responsible for finalizing these terms and may alter the terms as needed in the future to achieve the objectives of this research initiative.

**RESOLUTION FOR AUTHORITY TO EXECUTE
AN ASSET EXCHANGE WITH VTT LLC,
A LOAN AGREEMENT WITH VTF, AND A LONG-TERM LEASE**

WHEREAS, the university's vision to expand research and development through initiatives fostered by the Virginia Tech Transportation Institute is a key strategic initiative for the future of the institution in pursuit of Global Distinction; and

WHEREAS, VTT, LLC ("VTT"), d/b/a Global Center for Automotive Performance Simulation ("GCAPS") (the Corporation), a single member non-stock entity has been established to own and operate tire testing equipment in support of the instructional, research and economic development missions of the university; and

WHEREAS, the working group formed to evaluate the future structure of VTT given the ongoing financial challenges and insufficient funding to support ongoing debt repayment obligations, and research and development activities has recommended a strategic transition of VTT into Virginia Tech Transportation Institute (VTTI) beginning as early as December 1, 2025 to reduce the Corporation's financial obligations, gain operational efficiency, and fully leverage research talent to expand research initiatives; and

WHEREAS, VTT has insufficient cash to make the principal and interest payments due to the university and VTF on June 30, 2025, on outstanding obligations exceeding \$5.1 million; and

WHEREAS, VTT has executed a long-term lease agreement for a tire testing facility with obligations of \$2.2 million as of June 30, 2025; and

WHEREAS, the university desires to integrate the activities of GCAPS to meet current research demand in VTTI and to restructure the activities inside of the university; and

WHEREAS, the Institute has developed a business plan that provides funding for debt and lease payments from future net tire testing revenues, a nongeneral fund source; and

WHEREAS, under section 23-38.101 of Restructured Higher Education Financial and Administrative Operations Act of the Code of Virginia the Board of Visitors has the authority to authorize such transactions

NOW, THEREFORE BE IT RESOLVED, that the Board of Visitors authorizes, at the President's discretion, the negotiation and execution of an Asset Exchange

transaction waiving up to \$4.4 million of VTT's obligation to repay its outstanding loans due to the university; and

BE IT FURTHER RESOLVED, that the Board of Visitors authorizes, at the President's discretion, the negotiation and execution of debt and a promissory note to the Virginia Tech Foundation for up to \$775,000 principal plus accrued interest from nongeneral fund sources to be repaid from net tire testing revenues, a nongeneral fund source, in accordance with terms to be established by the Vice President for Finance and Chief Financial Officer; and

BE IT FURTHER RESOLVED, that the Board of Visitors authorizes, at the President's discretion, the negotiation and execution of the long-term lease with an estimated Net Present Value of \$2 million for the tire testing facility located at 1020 Lotus Drive, Alton, Virginia.

RECOMMENDATION:

That the resolution authorizing the university to execute an asset exchange with VTT, LLC, a loan agreement with the Virginia Tech Foundation, Inc., and long-term lease be approved.

November 18, 2025