

DIAL COMM•

DATE• August 6, 1973

COPIES•

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DEPT• Outdoor Power Equipment Operation

Bldg. 702, Corporations Park

ADDRESS• Schenectady, New York 12345

SUBJECT•

MINUTES OF DR. T. A. VANDERSLICE'S VISIT - 7/30/73

Accompanied By: T. Doty
D. S. Bates
B. W. Wyman

The original agenda for the visit was altered to devote the time to the business discussions requested by Dr. Vanderslice. The plant tour was conducted as well as a brief visit to engineering to see the rider and the rest of the time was devoted to discussions with Don White and myself about the state of the business, the receivables problem and what to do to put the business in the most attractive shape for possible combination or transfer.

Dr. Vanderslice's chief concern revolved around the receivables total which has not come down as originally predicted. This appears to be a major barrier in the possible sale to Simplicity who has run into the same market downturn in the middle of May and presently is suffering from high receivables also. (This was later confirmed by the feedback on Simplicity's Florida meetings in which they announced a 5 day trip to Nassau as a prize for fall orders only if shipped and paid for by October 1, 1973.)

We discussed additional possibilities for transfer of the business, including the Gould Company which was my strong recommendation based on their high contributed value potential and obvious commitment to the electric vehicle business. Dr. Vanderslice said that he knew the Chairman of Gould personally and would make a direct contact with him. Don Bates also noted that he was in touch with Clark-Gravely to determine their interest.

We carefully went over the details of what would result from a strategy of maximum receivables reduction this fall. The three primary alternatives were to continue to attempt to meet the forecasted \$13.9M sales which would result in receivables of at least \$12.5 million; to hold receivables at \$11 million, the same as year end 1972, which would result in sales of \$10.2M and a loss of \$1.8 million or double the budgeted amount; or to reduce receivables to about \$7.9 million by year end which

would mean practically no new shipments this fall, sales for the year of \$7.1 million and a loss of about \$2.4 million after taxes.

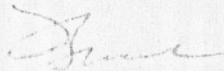
Dr. Vanderslice decided that we should follow the third course with no additional shipments unless absolutely necessary, maximum collection efforts, and he accepted my suggestion that we "destock" dealers and bring the units back to the plant to be retrofitted into 1974 models to use for filling the fall orders.

Additional instructions by Dr. Vanderslice were as follows:

1. Slow down AVCO production and extend as much as possible.
2. Cut production back to an absolute minimum and use retrofitting of destocked tractors to keep the factory going.
3. Begin defranchising of marginal dealers and destocking of overstocked dealers as soon as possible.
4. Do not ship additional new tractors except for those which are retrofitted from existing stocks and hold off as many shipments as possible until later this year when a better idea of retail sales can be seen.
5. Build new tractor units only to utilize materials which are presently in stock or committed and only use materials as necessary to balance off the material in stock.
6. Proceed with the rider development and introduction to the dealers.

Dr. Vanderslice said that he would join us for the August 15 meeting with Mr. Tomasetti, and I said that we would have the programs and estimates for the above plans put together by that time for a complete analysis.

Subsequent to the visit, Dr. Vanderslice called and said that he would be visiting us again on August 13 with Oscar Dunn and several of his people and wanted the same kind of tour and review which we provided to him on July 30.



Bruce R. Laumeister

Outdoor Power Equipment Operation
1974 Alternative Forecasts
Calendar Year

	<u>Preliminary Budget</u>	<u>Alternate Budget</u>	<u>Present Recommendation</u>
Shipments (\$ Million)	\$19.0	\$15.0	\$11.0
Collections	19.0	16.5	13.0
Receivables 12/31/73	11.0	12.5	8.0
12/31/74	11.0	11.0	6.0
Net Income (Loss) Budget	\$(450)	\$(900)	\$(1400)
Target	-0-	\$(450)	\$(900)

p/c

OUTDOOR POWER EQUIPMENT OPERATION

BUSINESS STATUS

AS OF 7/30/73

GROUP VISIT

7/30/73

INITIAL OBJECTIVES

- Establish a Battery-Electric Garden Tractor Business,
As a Base Upon Which To Build An Electric Vehicle
Business For The Company
 - Technology
 - Organization
 - Distribution
 - Facilities
- Capture A 10% Share Of A Rapidly Growing (8-15%
Annually), GT Market (\$200 Million Plus Sales)

STRATEGY

- o Develop Initially A High Performance, Full Range, Top-Of-The-Line Product Gradually Moving Into Lower Price And Performance Ranges
- o Franchise 2000 Of The Best Outdoor Power Equipment Dealers In Key Market Areas, Nationwide (Rapid-Entry Strategy)
- o Offer Terms of Sales Sufficiently Competitive To Encourage Dealers To Maintain Adequate (Competitive) Stocks of Elec-Trak Tractors
- o Price Competitively To Quality Gas Machines With Long Range Movement To Top-Of-The-Line Pricing As Benefits Established

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B/C

CONSTRAINTS

- Original Plan - Live Within The Corporate Finance Forecast of Initial Year's Losses

\$ Million
(Excluding Imputed Interest)

1970	1.2
1971	1.4
1972	1.0
1973	.4
1974	.3

- Subsequent Plan - Get The Business In The Black As Soon As Possible

CURRENT STATUS

	<u>Target</u>	<u>Actual To Date</u>		
Market	8-15% Growth	No Growth		
Elec-Trak Share	10%	4%		
Dealers	2000 High Quality	900 Direct 400 Distributors Good to Average Quality		
Product Line	Tractors and Riders	7 Models (Middle to Upper End) Private Brand Line Rider Mower (1974)		
Terms of Sale	Competitive	Nearly Competitive		
Shipments	\$17-22 Million (1973)	\$11 Million (Fiscal '72 & '73)		
Retail Sales	50% Growth Per Year (Minimum)	No Growth - Fiscal 1973		
Receivables 8/31/73	\$5.0	\$9.5 Est.		
Net Loss (\$ Million)	<u>Target</u> (Excluding Imput Int.)	<u>Actual/Estimate</u>		
		<u>Before</u> <u>Imput Int.</u>	<u>Imput Int.</u>	<u>Total</u>
1970	\$1.2	1.1	.1	1.2
1971	1.4	1.0	.3	1.3
1972	1.0	1.5	.5	2.0
Subtotal	3.6	3.6	.9	4.5
1973	.4	Budg. .4	.5	.9
		Fcst. 1.3+	.5	1.8+

Outdoor Power Equipment Operation
Fiscal Year History
 (Industry Year Ends 8/31)

	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>
Shipments (\$ Million)				
Sept-December	\$ 4.7	\$ 4.5	\$ 2.8	\$ -
Jan-August	6.2	6.4	5.9	2.9
TOTAL	\$ 10.9	\$ 10.9	\$ 8.7	\$ 2.9
		25%	200%	

	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>
Collections (\$ Million)				
Sept-December	1.7 \$ 1.7	\$ 2.6	\$ 1.0	\$ -
Jan-August	3.8	2.5	3.3	.7
TOTAL	5.5	5.1	4.3	0.7
	(1.0%)	121%	514%	

	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>
Receivables (\$ Million)				
August 31	\$ 9.5	\$ 8.0	\$ 6.6	\$ 2.2
%	19%	21%	200%	

-a) Assumes shipments of \$.7 Million in July and August 1973

-b) Assumes collections of \$ 2.0 in July and August (1.2 Actual thru first 4 weeks of July)

BASIC PROBLEMS

- Lack of Widespread Consumer Conversion to The Electric Tractor, Despite The \$1.3 Million Advertising Campaign of 1973
- A Garden Tractor "Only" Business Is Not Viable Below A \$20-25 Million Sales Volume

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CONTRIBUTING PROBLEMS

- o Lack of Growth in the Total Garden Tractor Market, And the Trend to High-Priced Riders and to 16-20 HP "Work-Horse" Tractors
- o Quality of the Average Dealer is Below That Forecast By Original Studies
- o Product Problems, Attributable in Part to Rapid Entry, And Efforts to Meet Ambitious Sales And Profitability Targets
- o Calendar Year Profitability Pressures Have Required Aggressive Fall Dealer Stocking Programs, to Help Force Increased Spring Retail Sales
- o Persistent Rumors of GE Not Staying in The Garden Tractor Business

B/U

RESULTS OF STALLED RETAIL MARKET ACCEPTANCE

- o High Dealer Inventories (And Receivables)
- o Dealer Concern About Future Growth
- o Higher Costs
 - Imputed Interest (Partially Off-set By Finance Charges To Dealers, Which In Turn Contributes To Dealer Dissatisfaction)
 - Increased Advertising and Promotional Programs
 - Increased Dealer Hand-Holding
 - Additional Collection Efforts
 - Costs of Defranchising Dealers
 - o Discounts on Transfers and Sales of Old Stock
 - o Costs of Refurbishing Returned Equipment
 - o Costs of Disposing of Used Equipment
 - o Concessions on Restocking Charges
 - To Effect Collections of Problem Accounts
 - Legal Delays
 - o Collection Fees and Legal Costs

POSSIBLE ALTERNATIVE COURSES OF ACTION

- Sale of Business
 - Competitor
 - Business With Similar Distribution & Service
 - Company Committed To Electric Vehicles

- Acquisition
 - Wheel Horse

- Merger/Joint-Venture/Take Public

THE MARKET

Tractor Market Changing to Two Diverse Segments

- High Price/High Performance 16-20 HP *gen*
(4.4M → 47.1M Units in 9 Months)
- 10 HP Price Leaders
(50M Units +10% in 9 Months)
- Remainder of Market Down 23%

Quality Rider Mowers Are The Growth Market

- Total Market Up 20% - 695,000 Units
- 8⁺HP Market Up 59% - 380,000 Units
- 8HP - 36" Mower Up 83% - 135,000 Units

Conclusion

- Constantly Escalating Price of Tractors Is Changing Market To Riders For Grass Only Function, And This Is Now The Major Volume And Growth Segment.

OUTDOOR POWER EQUIPMENT OPERATION

INDUSTRY AND COMPETITION

	<u>Est. Market Share</u>	<u>Est. No. of Dealers</u>	<u>Units Per Dealer</u>
	<u>%</u>	<u>000 Units</u>	
Deere	17%	42.5	4000
Sears/Roper	16	40.0	NA
Harvester	15	37.5	3500
Simplicity/Allis Ch. /Homelite	13	32.5	3900
Bolens	8	20.0	2000
Wheel Horse	7	17.5	2200
Jacobsen/Ford	6	15.0	2300
Elec-Trak -a)	4	8.0	1300
Others	14	37.0	8000
Total	100%	250.0	27200
			(Plus (Excl. Sears) Sears)

<u>(a-Elec-Trak</u>			
Direct Dealers	6800	900	7.5
Distributor & Export	1200	400	3.0
	<u>8000</u>	<u>1300</u>	<u>6.2</u>

7/23/73

8/10

POSSIBLE ALTERNATIVE COURSES OF ACTION

- Retrench To Slow Growth Strategy
 - Cut Advertising and Promotion
 - Cut Dealer Incentives and Terms of Sales
 - Minimize Fall Shipments
 - Defranchise Marginal Dealers
 - Adjust Production To Order Rate/Minimum Inventory
 - Further Reductions in Personnel Wherever Possible

- Effects
 - Higher Current Year Loss Due to Lower Sales
 - Potentially Lower 1974 Retail Sales, Due To Reduced A&SP And Dealer Stocking
 - Reduction In Investment
 - Reduced Risks for 1974
 - Potential Dealer "Bail-Out"

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POSSIBLE ALTERNATIVE COURSES OF ACTION

● Phase-Out Business

- Shut Off Production After Honoring AVCO Commitment
- Eliminate Marginal Dealers Immediately
 - Update Products and Transfer to Active Dealers
- Cut Back Sales Efforts/Emphasize Collections
- Reduce Organization to Caretaker Group
- Do Not Renew Facilities Leases
- Change to Direct Selling to Minimize Losses
- Transfer Service Responsibility to Major Appliance

● Effects:

- Heavy Loss in 1973
- Possible Total Dealer Network Collapse
- Heavy Discounting At Retail
- High Collection Losses
- Cost of Spare Parts Availability
- Adverse Reaction of Present Users

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POSSIBLE ALTERNATIVE COURSES OF ACTION

- Continued Aggressive Marketing Programs
 - Expansion of Distribution - Dealers, Distributors, Private Brand, Mass Merchants
 - Continue Strong A&SP Programs for 1974
 - Active Dealer Stocking in Fall 1973
 - Continued Floor-Planning and Inventory Financing
 - Expanded Industrial Line
- Effects:
 - Continued High Marketing Costs
 - Higher Receivables Risks
 - Improved Chance of Reaching Break-Even Sales Volume
 - Lowest Possible Loss for 1973.

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POSSIBLE ALTERNATIVE COURSES OF ACTION

- Develop and Market Personal Transporter
 - Present Technology, Organization and Facilities
 - Highly Similar Distribution and Service
 - Strong Market Evidence of Need
 - High Probability of Competitive Leadership
 - Very High Volume Potential

OUTDOOR POWER EQUIPMENT OPERATION

ESTIMATED COST OF TERMINATION OF BUSINESS 12-31-73

(Decision by 9-1-73)

(Internal Announcement 10-1-73)

		<u>Before Tax</u>	<u>After Tax</u>
<u>1973</u>			
Loss Currently Forecast (7.1 Sales)			\$2 700
Receivables @ 12-31-73	7 900		
Est. Loss	70%	\$5 500	2 850
Inventories @ 8-30-73 (Excl. AVCO)			
Finished Stocks	1 450		
Est. Loss	50%	725	370
Raw and In-Process	2 200		
Est. Loss	85%	1 870	950
Plant and Equipment Book Value	700		
Est. Loss	50%	350	180
Vendor Cancellation Charges		500	260
Termination of Lease		55	30
Income Extension Aid (As of 12-31-73)		300	160
Total Loss - 1973			<u>\$7 500</u>

OUTDOOR POWER EQUIPMENT OPERATION

ESTIMATED COST OR TERMINATION OF BUSINESS 8/31/74

(INTERNAL ANNOUNCEMENT 7/1/74)

(DECISION BY 11/30/73)

		<u>BEFORE TAX</u>	<u>AFTER TAX</u>
<u>1973</u>	Loss Incurred in 1973 (Sales of \$7.1 Mil.)		<u>\$2 700</u>
<u>1974</u>	Estimated Loss - 1st 8 montsh 1974		\$1 000
	Discounts and Promotions to Assure Collections	600	310
	Receivables @ 8/31/74	3 800	
	Est. Loss	70%	2 650
	Inventories @ 8/31/74		
	Finished Stock (300 units)	300	
	Est. Loss	50%	150
	Raw and In Process (700 Units)	500	
	Est. Loss	85%	425
	Plant & Equipment		
	Est. Book Value	700	
	Est. Loss	50%	350
	Vendor Cancellation Charges	100	50
	Termination of Lease	20	10
	Income Extension Aid at 8/31/74	<u>350</u>	<u>180</u>
	TOTAL 1974 LOSS		<u>\$3 430</u>

OUTDOOR POWER EQUIPMENT INSTITUTE

INDUSTRY STATISTICS

<u>Fiscal Year Ended 9/1/72:</u>	<u>000 Units</u>		<u>\$ Million</u>	
Lawn Tractors & Riding Units	650		\$185	
Garden Tractors	235		172	
Attachments & Accessories -a)	—		<u>50</u>	
Total Riding Units	<u>885</u>		<u>\$407</u>	
<u>8 Months Ended April:</u>	<u>'73</u>	<u>'72</u>	<u>'73</u>	<u>'72</u>
Lawn Tractors & Riding Units	589	498	\$171	\$142
Garden Tractors	188	186	144	135
Attachments & Accessories -a)	—	—	<u>45</u>	<u>37</u>
Total Riding Units	<u>777</u>	<u>684</u>	<u>\$360</u>	<u>\$314</u>

(a-Primarily for Garden Tractors)

HDW
7/17/73

OUTDOOR POWER EQUIPMENT OPERATION
TRANSPORTATION SYSTEMS DIVISION
SUMMARY OF OPERATIONS -a)

JUNE 1973

	Year-to-Date			Total Year		
	Actual		Budget	Budget		Budget
	Amount	%NSB	Amount	%NSB	Amount	%NSB
Net Sales Billed	5504	100.0	5455	100.0	15000	100.0
Direct Material in Sales	2865	52.1	2757	50.5	7319	48.8
Contributed Value	2639	47.9	2698	49.5	7681	51.2
Cost of Operations:						
Direct Labor in Sales	180	3.3	182	3.3	486	3.2
Manufacturing	1312	23.8	1362	25.0	3047	20.3
Engineering	131	2.4	145	2.7	283	1.9
Dist. & Prod. Serv.	308	5.6	301	5.5	611	4.1
Marketing	1423	25.9	1466	26.9	2197	14.6
Finance	214	3.9	222	4.1	453	3.0
Admin. & Relations	110	2.0	159	2.9	303	2.0
Loss Provisions	169	3.0	164	3.0	450	3.0
Total Cost of Operations	3847	69.9	4001	73.4	7830	52.2
Other Income	75	1.4	100	1.8	200	1.3
Income/(Loss) Before Tax	(1133)	(20.6)	(1203)	(22.1)	51	.3
Federal Income Tax	(546)	(9.9)	(577)	(10.6)	25	.1
Net Income/(Loss)	(587)	(10.7)	(626)	(11.5)	26	.2

	Number at Month End			Year End		
	Actual		Budget	Budget		Budget
	Actual	%NSB	Amount	%NSB	Amount	%NSB
NUMBER OF EMPLOYEES						
Manufacturing - Direct	96		86		208	
- Indirect	69		69		81	
Engineering	14		13		13	
Dist. & Prod. Service	27		27		27	
Marketing	33		33		34	
Finance	26		25		25	
Admin. & Relations	7		5		5	
Total	272		258		393	

(a- Based on GE accounting principles, adjusted for corporate charges.

HDW/RJK 7/3/73

OUTDOOR POWER EQUIPMENT OPERATION
TRANSPORTATION SYSTEMS DIVISION
OPERATING STATISTICS
JUNE 1973

STRICTLY PRIVATE

(\$ in Thousands)

	<u>Year-to-Date</u>	
	Actual	Budget
<u>Orders</u>		
Orders Received	5181	4755
Unfilled Orders	1145	767
<u>Operating Data</u>		
Sales	5504	5455
Contributed Value	2639	2698
Cost of Operations	3847	4001
Net Income	(587)	(626)
Residual Income	(691)	(717)
Average Investment	15319	15479
<u>Operating Ratios</u>		
Contributed Value to Sales	47.9	49.5
Cost of Operations to Sales	69.9	73.4
Net Income to Sales	(10.7)	(11.5)
Return on Investment	(7.7)	(8.1)
<u>Investment</u>		
Receivables	10782	9990
Inventories	3562	3934
Plant & Equipment (Net)	788	880
Other	(1238)	(1175)
Total	13894	13629
<u>Number of Employees</u>		
Hourly Direct	96	86
Hourly Indirect	42	40
Non-Exempt	38	39
Exempt	96	93
Total	272	258

To T.C. Doty
7/18/73

OPEO
INVESTMENT DETAILS

JUNE 30, 1973

<u>RECEIVABLES - GROSS</u>	\$ 10,956
- RESERVE	(355)
- ASSESSED (IGE)	179
<u>NET RECEIVABLES</u>	<u>\$ 10,780</u>

<u>INVENTORIES - RAW W/PROCESS</u>	2203
FINISHED - SCOTIA	989
- VENDORS	155
- DEALERS	236
CONSIGNEE STOCKS	38
TOTAL CARRYING VALUE	3621
REVALUATION - FIFO	66
OBsolescence	(125)
<u>NET FIFO TAX COST</u>	<u>\$ 3562</u>

PLANT & EQUIPMENT & LHC COSTS

<u>P+E - FIRST COST</u>	1169
RESERVES	(490)
<u>NET P+E</u>	<u>679</u>
<u>LHC COSTS - FIRST COST</u>	382
AMORTIZATION	(273)
<u>NET LHC</u>	<u>109</u>
<u>NET P+E & LHC</u>	<u>\$ 788</u>

OTHER INVESTMENT

DEFERRED FED INC. TAX	394
ACCOUNTS PAYABLE	(240)
BATTERIES NOT YET SHIPPED	(132)
COMPLAINT RES. & ACCRUAL	(493)
ACCRUED DISCOUNTS & ALLOW	(261)
LIFO	(139)
VACATIONS	(158)
ALL OTHER LIAB. & RESERVES	(209)
<u>TOTAL OTHER</u>	<u>\$ 1238</u>

MSW
7/18/73