PLAINTIFF'S EXHIBIT

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STRICTLY CONFIDENTIAL

STRATEGY ALTERNATES AND RECOMMENDATIONS FOR THE LELAND/GRIZZLY BUSINESS

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• Background

We were asked to submit to you, this paper on the alternatives considered viable for the Heavy Duty (Leland/Grizzly) Products.

The Leland/Grizzly business, as it is currently structured, and the competitive environment that it presently operates within, leads us to believe that this business would operate most effectively and competitively as an entrepreneurship. However, we feel that under this type of operational environment (entrepreneurship), the business would not be able to grow sufficiently to meet Maremont Corporate objectives. Also this aftermarket segment is beginning to attract greater attention and participation from large corporations such as Rockwell, Dana, Bendix, etc. Consequently, because of the perceived greater stability these companies offer in the marketplace, our customers will probably start to depend on these larger companies as their primary source and, more and more, use Leland/Grizzly, as it is currently structured, to fill-in during the peaks of the business cycle (which would probably give us more business volume than we could handle). However, during the valley's of the cycle, the major sources would probably be more than able to take care of all of their business, which would probably leave very little for Leland/Grizzly to pick up.

With this brief description of the background and probable future operating environment, we have determined that there are basically two alternatives available for Maremont to pursue. Either the business product line and market must be expanded for completeness and then given the opportunity to grow or, the business should be sold. These two alternatives are presented and discussed in the next sections. A summary section then follows where we make our recommendation of which strategy to pursue.

• Strategy Alternate #1 - Expand the product line for completeness and grow the business.

The Leland/Grizzly line basically offers every major part concerned with the wheel except the axle. If we are to effectively compete with Rockwell, Euclid and Dana, we must add the axle line for a complete offering. Also, we need this addition to enhance our place in the heavy duty aftermarket.

no — we have mfg'ing base to pursue OEM business

Since timeliness is very important, this addition to the product line would have to be obtained by acquisition. Possible candidates are:

- C & M Axle Division of Dana Corporation (formerly the Kershaw Mfg. Company, Montgomery, AL).
  Sales: approx. $10 - $15 mm (std. & Poor's based on 1974 est.) $15-20 mm (est. today by us).
- Kay Brunner Axle, Alhambra, CA
  Sales: approx. $8-10mm
- Standard Forge and Axle Co., Montgomery, AL
  Sales: approx. $6-9mm (Std. & Poor's based on 1974 est.) $15-30mm (est. today by us).

The possible acquisition of Standard Forge and Axle is at most remote. Because of their tremendous profitability, they have been admired and sought by many other companies, including Budd, without success.

Dana could be interested in selling or buying. They might be interested in selling because they bought Kershaw in 1973 or 74 and the heavy duty market nose dive in 1975 was reflected in the results of their new acquisition. Also, to make them really competitive in the aftermarket, they need something like the Leland/Grizzly line to go with Kershaw axles and have previously expressed an interest in our line for this reason. Hence, we feel that they would have an interest in selling or buying.

We do not have a lot of current information on Kay Brunner. We do know that they are privately owned and have an reputation with their major customers (such as) ?

If Maremont were to pursue this alternate, we would need to:

- Start now to screen potential candidates and make the acquisition of at least a $10 million axle company by the end of the year. The cost would probably be between $5-15 million.
- Would then need about 3 years and some investment in inventory and receivables to make it a $15-30 million division that would meet or exceed corporate return criteria.

• Strategy Alternates #2 - Sell the business now.

If the money is not available to acquire an axle company to complete the product line, then we should sell the business. If we are willing to accept some sort of financing package including a Maremont held note, we can probably sell it today to an entrepreneur for close to book value. The risk of course, would be whether or not Maremont would get its money in future payments from the entrepreneur. Even so, if he did not make a go of it over the next two or three years, we would still have a reasonable period of time over which to take the write-off. However, chances are pretty good that an entrepreneur who knows the business would make it go.

Another possibility is that we can probably sell it to a corporate entity like Dana. They could use it to complete their product lines and get them further into the aftermarket. We could probably get them to take it for, at most, about $1 million less than book value. Book value today is about $ ✓ million. ~~4.1~~

I May ending 4.1

Standard Forge and Axle is also another candidate possibly interested in acquiring Leland/Grizzly. The acquisition would help them obtain a position in the aftermarket. This is something they do not have at present but seem to be highly interested in pursuing. The acquisition would save them time, money and effort in trying to diversify into the aftermarket from within.

$3.0

Maremont should consider selling it today rather than waiting until year end because inventories are now down to $ ✓ million and we probably cannot do too much more running down without adversly affecting order-fill. Also, division personnel has just about been cut to or possibly below bare-bone levels.

The only possible reason for waiting until December to try to sell would be that by then we would be shipping to Mack, ~~and~~ Brockway + Budd which would make the customer list more impressive. Also we might by then be able to ~~have gotten~~ get an additional $200,000 out of inventory. These things might allow us to get an additional $500,000 in selling price.

If Maremont were to pursue this alternate, we would need to:

- Start now to make contact with several entrepreneurs and companies to determine interest.
- Sell as soon as possible and no later than year end with a minimum selling price of $1 million less than book value.

- <u>Summary</u>

Considering the current corporate environments towards investing in Leland/Grizzly, and if the business has to meet the corporate criteria requiring at least a 22% pre-tax return on working capital and 40% on fixed assets for 6 to 12 months before additional cash investment can be made, we recommend strategy alternate #2 - sell the business now. NO

(1) With accurate write-down of inventory, we can deliver minimum 20-25% ROA

(2) But, we can't build business

(L) beyond $7-10 KK

(LG) " $12-15 KK