Rupp Industries, Inc., 1776 Airport Road, Mansfield, Ohio 44903 (419) 522-5732

Rupp Industries, Inc. Annual Report 1973

CENTAUR Half Cycle...Half Economy Car

To Our Shareholders:

In April, 1973, Rupp Industries, Inc. underwent a change of control. With that change has come a new management team with new goals.

Our first goal was to bring expenses in line with revenues. We have made significant progress towards accomplishing this goal, as can be shown by the reduction in our expenses in the sales, general and administrative areas. These expenses had been increasing over the years at a rate greater than sales. Comparable expenses were reduced from $6,200,000 in 1972 to $2,800,000 in 1973. We expect a further reduction this year. It should be noted that most of the expense controls were put into effect in the second half of 1973. Thus, their impact was not fully reflected in the 1973 figures. For example, of our $2,300,000 pre-tax loss for 1973, less than $200,000 occurred in the last six months. A shift in personnel has helped us increase our production output/administrative cost ratio. A year ago we had 125 administrative and 90 production employees. At this time we have 65 administrative and 120 production employees. We feel we are now approaching the proper balance between direct and indirect labor.

Our second goal was to reduce inventory and long-term debt. We did not do as well as we had hoped in 1973. The implied seriousness of fuel shortages, as stated by federal officials in October and November, brought a premature halt to our snowmobile sales. Since 75% of our sales occur during the last four months of the year, the timing of the statements concerning the energy crisis was critical to Rupp Industries. It was fortunate, as the year went on, that consumers adjusted to the crisis and found gasoline available. This enabled retail sales to pick up and to reduce our dealer/distributor inventory levels.

Presently, the inventory level in our distribution network is much reduced. The factory inventory has been cut in half. With our planned production for this year, we expect to be able to move all of our inventory. The monies received from this inventory reduction will be used to reduce our long-term debt.

Our third goal was to diversify the company to become less dependent upon any one product. Our diversification efforts included broadening of our product line and procuring contract work from other manufacturers.

A logical product for us to produce is a street legal motorcycle. It is the perfect seasonal complement to the snowmobile. Since we have been producing trail motorcycles, our facilities already lend themselves to the production and assembly of street legal motorcycles. We are hoping to introduce several full size, street legal motorcycles for the 1975 season. The limiting item is engine availability. We are presently talking with several engine manufacturers about supplying a line of engines for street legal motorcycles.

In the meantime, we are introducing a street legal vehicle this summer. It has been named the Centaur, and is shown on the cover of this annual report. The Centaur is a three-wheeled vehicle taking the form of half economy car and half motorcycle, with an automatic transmission and trunk in the rear. This one passenger vehicle derives its name from the fabled half-man, half-horse of Greek mythology. We introduced the Centaur at the Daytona Motorcycle Show in March. Dealer and consumer response was very favorable.

Also scheduled for introduction this fall is a new, Nitro "free air" snowmobile built primarily for racing. This model will be our top of the line snowmobile, and will complement our other models. After the shake out in the snowmobile industry, which we believe will be completed this winter, sales of snowmobiles should again be profitable. Estimated industry sales figures for snowmobiles of a few years ago proved to be overstated. In the past two years a number of snowmobile manufacturers have ceased production including several as large as Rupp. Therefore, with fewer manufacturers producing, we expect to obtain a larger percentage of the market.

In the area of contract work for other manufacturers, we are fabricating and stamping for the automotive, trucking and appliance industries. In addition, we are currently producing a mini-Gremlin for American Motors which they are using for promotional purposes. We intend to increase this type of outside contract work.

There have been many questions concerning the trading status of Rupp Industries Common Stock this past year. The Company has reviewed this situation and decided that the interests of the shareholders could best be served by requesting the Securities and Exchange Commission to strike our common shares from listing on the American Stock Exchange. Assuming approval, the Company plans to request quotation of its common shares on the NASDAQ system. The common shares are presently traded in the over-the-counter market.

There are three groups we wish to thank for bearing with us during the management transition last year. The first is our dealers, who would not accept the story that Rupp Industries was going out of business, even when many things pointed that way early last year. This conviction and dedication allowed us enough time to put the Company back on its feet. We gratefully thank each and every one of them.

The second group deserving our thanks is our employees. We have changed the makeup of our administrative and production work force, encouraging many employees to assume additional duties and responsibilities. All have accepted the challenge given them. Each one wants Rupp Industries to once again be a viable and profitable company, one in which they can be proud.

Third, we want to thank our senior lenders—Society National Bank of Cleveland, Prudential Insurance Company, Chemical Bank of New York, and First National Bank of Mansfield. This group has worked very closely with us this past year and have done everything possible to arrange a realistic payment schedule in view of the current problems.

In summary, the year 1973 showed significant progress in all areas of our Company. We have demonstrated our ability to control expenses, diversify production, develop new products and strengthen our distribution network. Even though we will continue to show a loss for the first half of 1974, we expect to show a profit in the second half and for the year as a whole. With the continued dedication and hard work of our employees, Rupp Industries will be returned to a position of profitability and respectability in the business community.

Sincerely,

Edmund L. Fochtman, Jr.

Edmund L. Fochtman, Jr.
President

Five Year Summary

Rupp Industries, Inc.

	1973	1972	1971	1970	1969
Net sales	$13,156,652	$23,235,396	$39,159,295	$29,276,219	$18,054,461
Other income	8,068	7,645	55,945	12,320	6,580
Total income	13,164,720	23,243,041	39,215,240	29,288,539	18,061,041
Deduct					
Cost of products sold	11,888,422	21,295,320	31,253,333	22,531,404	14,371,242
Selling and administrative expenses	2,791,138	6,196,798	5,862,584	3,396,568	1,358,106
Interest expense	797,923	926,975	762,793	312,206	195,249
	15,477,483	28,419,093	37,878,710	26,240,178	15,924,597
(Loss) income before income taxes	(2,312,763)	(5,176,052)	1,336,530	3,048,361	2,136,444
Income taxes	—	—	645,000	1,525,000	1,128,000
Income tax credit	360,000	2,600,296	—	—	—
Net (loss) income	$ (1,952,763)	$ (2,575,756)	$ 691,530	$ 1,523,361	$ 1,008,444
Net (loss) income per share	$(1.15)	$(1.52)	$.41	$.92	$.66

Rupp Industries Management

Officers

Edmund L. Fochtman, Jr.
President and Treasurer

Fred W. Wagenhals
Vice President—Operations

James L. Radovic
Vice President—Administration & Secretary

General Counsel
Calfee, Halter, & Griswold, Cleveland, Ohio

Auditors
Arthur Andersen & Co., Cleveland, Ohio

Transfer Agents and Registrars
Society National Bank, Cleveland Ohio
Chemical Bank, New York, New York

Statements of Operations and Retained Earnings

FOR THE YEARS ENDED DECEMBER 31, 1973 AND 1972

Rupp Industries, Inc.

STATEMENTS OF OPERATIONS

	Year ended December 31 1973	1972
Net sales	$13,156,652	$23,235,396
Cost of goods sold	11,888,422	21,295,320
Gross profit	1,268,230	1,940,076
Selling, general and administrative expenses	2,791,138	6,196,798
Operating loss	(1,522,908)	(4,256,722)
Other income (expense):		
Interest expense, net	(797,923)	(926,975)
Other, net	8,068	7,645
	(789,855)	(919,330)
Loss before federal income tax credit	(2,312,763)	(5,176,052)
Federal income tax credit (Note 4)	360,000	2,600,296
Net loss	$ (1,952,763)	$ (2,575,756)
Net loss per common share (based on the weighted number of shares outstanding during each year)	$ (1.15)	$ (1.52)

STATEMENTS OF RETAINED EARNINGS

	1973	1972
Balance beginning of year	$ 1,970,756	$ 4,546,512
Net loss	(1,952,763)	(2,575,756)
Balance end of year	$ 17,993	$ 1,970,756

The accompanying notes are an integral part of these statements.

Balance Sheet

FOR THE YEARS ENDED DECEMBER 31, 1973 AND 1972

Rupp Industries, Inc.

Assets

	December 31 1973	December 31 1972
CURRENT ASSETS:		
Cash	$ 794,146	$ 1,234,003
Accounts receivable, less allowance for doubtful accounts of $210,000 in 1973 and 1972 (Notes 2 and 3)	1,454,525	1,587,031
Refundable Federal income taxes (Note 4)	300,000	2,650,000
Inventories (Notes 1, 2 and 3)—		
Finished goods	5,501,355	7,994,677
Raw material and service parts	3,238,120	2,647,930
	8,739,475	10,642,607
Prepaid expenses	34,479	344,665
TOTAL CURRENT ASSETS	11,322,625	16,458,306
PROPERTY, PLANT AND EQUIPMENT, at cost (Notes 1, 2 and 3):		
Land and land improvements	358,984	311,675
Building and building improvements	2,386,727	2,402,161
Machinery and equipment	3,146,945	3,150,797
Transportation equipment	175,498	634,111
	6,068,154	6,498,744
Less—Accumulated depreciation and amortization	2,358,915	2,303,025
	3,709,239	4,195,719
OTHER ASSETS	21,127	99,055
	$15,052,991	$20,753,080

Liabilities and Shareholders' Equity

	1973	1972
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 3)	$ 5,001,500	$ 5,051,200
Accounts payable	1,293,975	2,094,833
Accrued expenses	768,738	1,368,460
Accrued Federal income taxes (Note 4)	—	140,249
TOTAL CURRENT LIABILITIES	7,064,213	8,654,742
LONG-TERM DEBT, net of current portion above (Note 3)	5,594,878	7,604,775
DEFERRED FEDERAL INCOME TAXES (Note 4)	—	146,900
SHAREHOLDERS' EQUITY (Notes 3, 5 and 6):		
Common shares without par value, 3,000,000 shares authorized and 1,700,000 shares outstanding, stated at (no change during each year)	1,700,000	1,700,000
Paid-in capital (no change during each year)	675,907	675,907
Retained earnings	17,993	1,970,756
	2,393,900	4,346,663
	$15,052,991	$20,753,080

The accompanying notes are an integral part of these balance sheets.

Statements of Changes in Financial Position

FOR THE YEARS ENDED DECEMBER 31, 1973 AND 1972

Rupp Industries, Inc.

	Year ended December 31 1973	Year ended December 31 1972
SOURCE OF FUNDS:		
Retirement of property, plant and equipment	$ 294,888	$ 16,655
Long-term borrowing and refinancing	—	3,200,634
Decrease in other assets	77,928	—
Total funds provided	372,816	3,217,289
APPLICATION OF FUNDS:		
Net loss	1,952,763	2,575,756
Items not requiring outlay of working capital in the current period—Depreciation and amortization	(802,440)	(862,452)
(Increase) decrease in deferred taxes	146,900	(31,900)
Working capital used in operations	1,297,223	1,681,404
Reduction of long-term debt	2,009,897	381,387
Additions to property, plant and equipment	610,848	636,433
Increase in other assets	—	30,062
Total funds applied	3,917,968	2,729,286
INCREASE (DECREASE) IN WORKING CAPITAL	$ (3,545,152)	$ 488,003
CHANGES WHICH RESULTED IN WORKING CAPITAL INCREASE (DECREASE):		
Cash	$ (439,857)	$ (150,700)
Accounts receivable	(132,506)	(2,078,815)
Refundable Federal income taxes	(2,350,000)	2,650,000
Inventories	(1,903,132)	2,116,604
Prepaid expenses	(310,186)	52,891
Current portion of long-term debt	49,700	(4,670,200)
Notes payable to banks	—	4,250,000
Accounts payable	800,858	(1,282,835)
Accrued expenses	599,722	(472,014)
Accrued Federal income taxes	140,249	73,072
INCREASE (DECREASE) IN WORKING CAPITAL	$ (3,545,152)	$ 488,003

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

DECEMBER 31, 1973 AND 1972

Rupp Industries, Inc.

(1) Summary of Significant Accounting Policies:

BASIS OF CONSOLIDATION. The financial statements for 1972 included the accounts of the Company and its two wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. In 1973, the two subsidiaries were liquidated into the parent.

INVENTORIES. Inventories are stated at the lower of cost or market, cost being determined on a first-in, first-out basis.

PROPERTY, PLANT AND EQUIPMENT. The policy of the Company is to provide for depreciation and amortization over the estimated useful lives, utilizing the straight-line method for financial statement purposes, except for tooling which is depreciated by an accelerated method. The principal lives used for depreciation purposes are—Buildings, 40 years; Building improvements, 3 years; Machinery and equipment, 8 years; Furniture and fixtures, 10 years; Autos and trucks, 3 years; Tooling, 3 years. Expenditures for maintenance and repairs are charged to expense. Additions, major improvements, and renewals are capitalized and depreciated.

RESEARCH AND DEVELOPMENT. Research and development expenditures, including development costs of products, process and product applications, are expensed in the year incurred rather than deferred.

RETIREMENT AND PROFIT-SHARING PLAN. The Company maintains a retirement plan for certain of its regular employees. Company contributions to the plan are determined at the sole discretion of the Board of Directors at the end of each fiscal year-end. The Company made no contributions to the plan in 1973 and 1972.

(2) Operations:

During the years ended Decembers 31, 1973 and 1972, the Company incurred significant losses as reflected in the accompanying statement of operations. The financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern. The continuation of the Company as a going concern is dependent upon the success of future operations and its ability to continue to meet its present obligations.

(3) Long-Term Debt:

Long-term debt at December 31, 1973 and 1972, consisted of:

	1973	1972
Notes payable to banks and insurance company	$10,540,634	$12,540,634
Other	55,744	115,341
	$10,596,378	$12,655,975
Less—Current portion	5,001,500	5,051,200
	$ 5,594,878	$ 7,604,775

On December 7, 1972, the Company consolidated its indebtedness to three banks by issuing a term noted dated October 24, 1972, in the amount of $7,000,000 payable December 31, 1972. On December 22, 1972, the Company also borrowed funds from one of the banks under a demand note, the unpaid amount of which was $870,634 at December 31, 1972. This consolidated financing provided that all present and future obligations to an insurance company ($4,670,000 at December 31, 1972) and the three banks ($7,870,634 at December 31, 1972) were to be secured equally and ratably.

The term note for $7,000,000 was not paid by December 31, 1972. Such nonpayment constituted an "event of default" under the agreement with the insurance company. On March 15, 1973, the banks and insurance company demanded payment of the indebtedness to them of $12,540,634.

On April 6, 1973, (1) the Company's principal shareholder sold 1,140,000 of his Common shares to two individuals who became new principal shareholders and (2) the Company entered into new financing agreements effective March 15, 1973, with the banks and insurance company, under which the related indebtedness of the Company was due $5,000,000 on December 31, 1973, $2,000,000 on March 31, 1974, and $5,540,634 on March 31, 1975, with interest on the indebtedness to be computed from March 15, 1973, at the rate of 6¾%, payable October 1, 1973, and monthly thereafter.

The financial statements for 1972 reflect the restatement of indebtedness to the insurance company and the banks in accordance with the financing agreements entered into on April 6, 1973.

In December, 1973, the Company realized that, as a result of the generally light snowfall to date and the fuel shortage and the uncertainties created thereby, sales of snowmobiles had been significantly adversely affected. As a result, the Company contacted its four senior lenders and agreed to pay $2,000,000 of the $5,000,000 payment due December 31, 1973, and entered into discussions with the lenders to renegotiate repayment and other provisions of the loan agreement.

On January 24, 1974, the Company and the lenders agreed to modify the existing loan agreement. Under the revised terms, the Company is obligated to pay $1,000,000 on the last day of July, September, October, November and December, 1974. Additional $1,000,000 payments are due February 28,1975, and March 31, 1975, with the remaining balance due March 31, 1976. The Company has further agreed to maintain working capital (excluding the current portion of long-term debt) of at least $8,880,000 through September 30, 1974, decreasing monthly to $6,880,000 as of December 31, 1974, and $3,880,000 as of March 31, 1975, as monthly payments are made as outlined above. In addition, the Company has agreed to maintain net worth of $2,178,000 through June 29, 1974, increasing to $2,278,000 through September 29, 1974, $2,778,000 through December 30, 1974, and $3,278,000 as of December 31, 1974, and thereafter. This debt bears interest (payable monthly) at 6¾% until March 31, 1975, at which time it increases to 2% over the prime rate.

Substantially all assets of the Company, including accounts receivable, inventory, and items of property, plant and equipment, are pledged as security under the above agreement.

Under the terms of the agreement with the lenders, retained earnings at December 31, 1973, were restricted and were not available for payment of dividends.

The financial statements for 1973 reflect the terms of the financing agreement entered into on January 24, 1974.

(4) Federal Income Taxes:

Refundable Federal income taxes included in the accompanying balance sheet result from carry-back claims of current year operating losses against prior years' taxable income. As a result of losses incurred in 1973 and 1972, the Company has utilized all available net operating loss carry-backs. As of December 31, 1973, the Company has available, through 1978, as a credit against future taxable income a net operating loss carry-forward of approximately $650,000. In addition, the Company has certain accruals and reserves amounting to approximately $440,000 which have been charged against book income but have not been deducted in the determination of taxable income as these items are not deductible for tax purposes until the loss has been actually sustained or applicable amounts paid. The Company also has available investment tax credit carry-forwards of approximately $50,000.

The credit provision for income taxes in 1972 included a $5,200 credit provision for deferred income taxes. Deferred taxes were not provided in 1973 since the Company is in a loss carry-forward position.

(5) Stock Options:

Under a qualified stock option plan adopted in 1970, a maximum of 70,000 shares of common stock have been reserved for the granting of stock options to officers and key employees of the Company at not less than the fair market value at the time the options are granted. These options become exercisable in four equal installments beginning one year from the date of grant. All or any part of the shares not purchased in any year may be carried over to succeeding years but not beyond five years after the date of grant.

Changes during 1973 and 1972 in common shares under option are summarized as follows:

	1973	1972
Balance, beginning of year	7,500	15,500
Options granted	83,000	—
Options canceled	(28,000)	(8,000)
Options exercised	—	—
Balance, end of year	62,500	7,500

At December 31, 1973, options to purchase common shares were outstanding at prices ranging from $2.50 to $3.00 per share.

At December 31, 1973, 7,500 shares were available for the granting of future options under the plan.

(6) Commitments and Contingent Liabilities:
The Company is a defendant in various lawsuits relating to patent infringements, dealer and distributor cancellations incident to past business practices, alleged violations of Federal antitrust laws, personal injury claims and other matters. The ultimate disposition of these actions is not presently determinable.

The Company has product repurchase agreements with a financing institution relating to the financing by dealers and distributors of a portion of the Company's manufactured products. At December 31, 1973, the Company was contingently liable for approximately $1,700,000 under these agreements.

The Company occupies and utilizes certain facilities and equipment under various leases with total annual rentals of approximately $55,000. Aggregate amounts payable to maturity under the leases, which expire at various dates through 1977, are approximately $90,000.

(7) Prior Year Financial Statements:

The financial statements for 1972, which are presented for comparative purposes, were examined and reported on by public accountants other than Arthur Andersen & Co. The auditors' report with respect to the 1972 financial statements was qualified with respect to the realization of the carrying value of assets, the ability of the Company to meet its then present obligations and certain litigation matters then pending.

(8) Reclassification of 1972 Amounts:

Certain amounts for 1972 have been reclassified to reflect comparability with account classification for 1973.

Auditors' Report

To the Shareholders and the
Board of Directors of
Rupp Industries, Inc.:

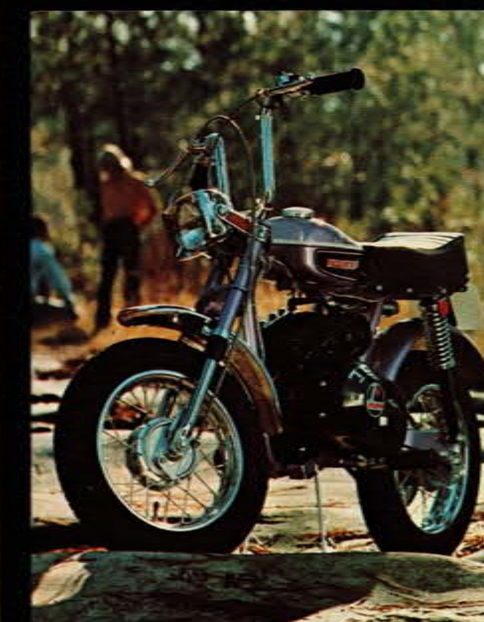
We have examined the balance sheet of RUPP INDUSTRIES, INC. (an Ohio corporation) as of December 31, 1973, and the related statements of operations, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. As discussed more fully in Note 7 of Notes to Financial Statements, the financial statements as of December 31, 1972, were not examined by us; they were examined and reported on with qualification by other public accountants.

As reflected in the accompanying financial statements and as more fully discussed in Note 2 of Notes to Financial Statements, the Company incurred net losses of $1,952,763 in 1973 and $2,575,756 in 1972. Realization of the amounts included in the balance sheet as of December 31, 1973, for accounts receivable, inventories and property, plant and equipment is dependent upon the success of future operations.

In our opinion, subject to (1) the realization of the carrying value of accounts receivable, inventories and property, plant and equipment as discussed in the preceding paragraph, and (2) the ultimate effect, if any, of the settlement of claims and litigation as discussed in Note 6 of Notes to Financial Statements, the accompanying financial statements present fairly the financial position of Rupp Industries, Inc. as of December 31, 1973, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

Cleveland, Ohio,
March 10, 1974.



Rupp Fun Machines