



TECUMSEH PRODUCTS COMPANY

(Ticker: TECUA; TECUB)

Activist Investor: Herrick Foundation

24 April 2009

CATALYST SUMMARY

On February 20, 2009 The Herrick Foundation announced their intention to run a slate of four candidates for election to Tecumseh's seven person board. The company recently announced that May 8 will be the record date for the stockholders entitled to vote at its upcoming 2009 annual meeting. **We anticipate the company will hold its annual meeting in early June.**

If elected, Herrick - who will then control a majority of the board, intend to pay shareholders a substantial cash dividend and examine a sale to possible strategic and financial buyers.

Our current shareholder analysis suggests it is more than likely the Herrick Foundation's candidates will obtain the necessary support needed to be elected.

Background to the Proxy Campaign

In early 2007 the board of directors replaced Todd Herrick as President & CEO and removed Kent Herrick (Todd's son) from his senior management position with the company. Shortly after the Herricks' removal, the Herrick family commenced litigation against the company. The litigation was ultimately settled with Todd Herrick leaving and Kent Herrick joining the board. In addition, the Foundation appointed one other director on the seven person board.

In June 2008 Herrick demanded Tecumseh call a special meeting of shareholders for the purpose of replacing two additional directors. If elected, Herrick's nominees announced their intention to (i) implement an exchange offer to collapse the dual class share structure (*see Comments about the Share Recapitalization Proposal below*), (ii) pursue using excess cash to pay dividends to all shareholders, and (iii) explore whether a sale of Tecumseh as a whole or in parts is desirable to enhance shareholder value. In addition, the Herrick family announced they would not reassume officer positions with the company and have no intentions of replacing the CEO or his new management team.

In November, with more than 91% of the Class B shareholders participating in the special meeting, (Class A shareholders do not have voting rights) Herrick narrowly failed to get the votes necessary to remove and replace the two directors. **Note:** At the special meeting Herrick needed to obtain 50.1% of the company's shares outstanding in order to remove the two directors (e.g. $5,077,746 \times 50.1\% = 2,543,951$ votes needed). 2,423,769 shares voted for the removal of one director and 2,108,961 shares voted for the removal of the second. At the upcoming annual meeting Herrick will only need 50.1% of the votes cast (e.g. assuming 91% of the Class B shares are voted again: $5,077,746 \times 91\% \times 50.1\% = 2,314,995$ votes needed to replace each director).

On February 20 the Herrick Foundation nominated four individuals to replace four of the seven directors up for election at the next annual meeting. During the past several weeks Tecumseh and Herrick have been engaged in various settlement discussions. However, based upon our understanding of these deliberations, it seems both parties are at an impasse and a settlement is unlikely.

COMPANY PROFILE	
Previous Close:	
TECUA (Class A shares)	7.60
TECUB (Class B shares)	8.30
52 -week Range:	
TECUA	3.00 – 37.79
TECUB	3.70 – 34.14
Revenues:	969M
Market Cap:	140M
Enterprise Value:	70M
Net Cash:	82M
Net Cash per Share:	4.45
EBITDA:	-5M
EV/EBITDA:	Negative
INVESTOR PROFILE	
Principal Activist	Herrick Foundation
Shares Held by Activist:	
TECUB (Class B Voting)	1,679,445
Percent Outstanding:	
TECUB	33.1% *
Cost Basis:	Not Available
CAPITAL STRUCTURE	
Common Shares Outstanding	
TECUA	13,401,938
TECUB	5,077,746
Preferred Shares:	0
Short Term Debt	30.4M

* Ownership includes 15.2% controlled by The Herrick Foundation, 17.5% controlled by the Herrick family Trusts and the balance owned directly by Todd Herrick.

ACTIVIST INVESTOR PROFILE

The Herrick Foundation is one of the largest charitable foundations in Michigan and is controlled by the Herrick family. Herrick once controlled Tecumseh and Todd Herrick, the grandson of Tecumseh's founder, was Chairman & CEO until 2007 before being replaced in a management overhaul.

Hedge Fund Solutions, LLC

40 West Evergreen Avenue · Philadelphia, PA · 19118 · Tel 215.325.0514 · research@hedgerelations.com

COMPANY PROFILE

Tecumseh Products Company (<http://www.tecumseh.com>) is one of the largest manufacturers and distributors of hermetically sealed compressors. Tecumseh's products, which are sold worldwide, are used in commercial and residential freezers, refrigerators, dehumidifiers, air conditioning units, commercial central air conditioners and heat pumps. Organized in 1930, Tecumseh sold its engine and power train business, and much of its electrical components business in 2007.

HEDGE FUND SOLUTIONS' VALUE ANALYSIS (IRRESPECTIVE OF THE ACTIVIST'S INVOLVEMENT)

Perhaps most well-known for its engine business, the company sold that unit in 2007 for \$51 million, following the sale of much its electrical components business earlier in the year for \$220 million. Tecumseh now concentrates on its compressor business, which generated \$968.9 million in sales during 2008.

Still, given the difficult economic environment, 2008 sales were down more than 13% from 2007, and the company lost \$50.5 million (-\$79.9 million from continuing operations), versus a loss of \$178.1 million (-6.0 million from continuing operations) in 2007. The fourth quarter was especially challenging as the recession deepened; during the quarter, sales fell 35.1% to \$163.7 million. Not surprisingly given the market environment, Tecumseh's shares have suffered as well, and are currently down 21% year to date, and 80% from their 52 week high.

Yet, the company has maintained a very solid balance sheet. As of fiscal year-end 2008 (December), Tecumseh had \$113.1 million in cash, or \$6.12 per share. With just \$30.8 million in debt (\$30.4 million short-term) the company has \$4.45 in net cash per share, representing 59% of current market cap. On the asset side, there's another \$12.5 million in restricted cash, \$4.8 million in long-term investments, \$81.0 million in prepaid pension expense, and \$37.0 million in recoverable income taxes. With a current book value per share of \$25.83, Tecumseh trades at just 0.29 times book.

There are a number of factors that have been an overhang on Tecumseh's share price, besides the terrible economic climate, including ongoing board representation issues relating to the Herrick Foundations ownership stake in class B shares, and the February announcement by the United States Department of Justice that Tecumseh is one of several companies in the compressor industry being investigated for possible anticompetitive practices. Here, the company was granted conditional amnesty by the DOJ, and will not be the subject of criminal prosecution (in the event there was wrongdoing) as long as Tecumseh offers full cooperation in the investigation. This, however, does not apply to civil lawsuits.

With a current enterprise value (EV) of \$69.6 million, Tecumseh is trading at just .07 times EV to sales. Theoretically, for the current price of \$7.60, buyers are getting \$4.45 in net cash, and getting the rest of the company's assets, with a book value of \$21.38, plus a call option on the future of the company, for \$3.15.

COMMENTS ABOUT THE SHARE RECAPITALIZATION PROPOSAL

Tecumseh currently has a dual class share structure consisting of Class A common stock, which does not have voting rights, and Class B common stock, which has one vote per share in the election of directors and other corporate matters requiring a shareholder vote. The company has included a shareholder proposal in this year's proxy statement requesting shareholders to collapse the dual class structure so that all shareholders have equal economic interest and voting power in the company.

If shareholders approve the recapitalization, each share of Class A stock will be reclassified and converted into one common share and each share of Class B stock will be converted into 1.1 common shares. The additional 0.1 share realized from the conversion of Class B common stock will result in approximately an additional 507,775 shares (approximately 3.0%) of common stock being issued. There will be no change in the overall amount of shareholder's equity but the higher number of common shares will increase the outstanding shares and the weighted average shares outstanding used in the calculation of basic and fully diluted earnings per share. The increased number of common shares will also lower the book value per share, and basic and fully diluted earnings per share will be reduced.

IMPORTANT DISCLOSURE INFORMATION

Jonathan Heller holds a long position in Tecumseh as of the date of this research. Damien Park does not hold any long or short positions in Tecumseh.

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PRINCIPALS

Damien Park, President & CEO



Mr. Park is widely considered an expert on shareholder activism. He regularly advises boards of directors, CEOs and institutional investors on these issues and is a featured commentator on *RealMoney.com* discussing activist investments.

Damien is often quoted in publications like *The Wall Street Journal*, *BusinessWeek*, *CFO Magazine*, *The Deal*, *CNN Money*, *The New York Times*, *The Nikkei* and *Newsweek Japan*.

In addition, Damien is the chairman of the largest activist investing conference in the world and manages *The Official Activist Investing Blog*.

Jonathan Heller, Partner



Mr. Heller, CFA, is an expert on value investing. He is a Partner at Hedge Fund Solutions, the President of KEJ Financial Advisors and a featured commentator on *RealMoney.com* discussing deep value investments.

Previously, Jon was with SEI Investments after spending 17 years at Bloomberg Financial Markets in various roles which included the management of Bloomberg's Equity Fundamental Research Department and Bloomberg's Equity Data Research Department. Jon was also a senior markets editor of Bloomberg's Publishing Group, a writer for Bloomberg Personal Finance Magazine, and an associate editor and contributor for Bloomberg Markets Magazine.

In addition, Jon manages the blog *Cheap Stocks: Below Net Current Asset Value, Real Estate and other Value Strategies*.

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- Ron Orol, Author

Extreme Value Hedging: How Activist Hedge Funds are Taking on the World

OVERVIEW

The *Catalyst Investment Research*™ report was developed by Damien Park and Jonathan Heller, two seasoned professionals with a unique combination of expertise in shareholder activism and deep value fundamental analysis. This professional grade research fills a large void in the underserved small/micro cap research market and is dedicated to uncovering undervalued publicly traded companies that could have the potential to generate outsized returns due to an activist investor's involvement.

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2. The activist's track record for improving value;
3. The likelihood the activist investor will achieve their goals;
4. A deep-value analysis of the company's financial health irrespective of the activist's involvement.

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- Timothy Brog, Managing Director,
Locksmith Capital Management

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Hedge Fund Solutions, LLC

40 West Evergreen Avenue · Philadelphia, PA · 19118 · Tel 215.325.0514 · research@hedgerelations.com

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