

July 13, 1961.

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Dear Sir Roy:

I have just finished a long conference with Ted Emmert and am enclosing a letter he has written to me in reply to my letter of July 5th which contained the comments you forwarded me in your letter of June 30th. I have a copy of his letter. If you have occasion to refer to it, I will be able to follow your comments.

Clause 3 - Ted agrees with your remarks however, we must keep this clause entirely separate from Clause 13.

Clause 5 - Ted's letter explains the reason for the ninety day option. In addition he has given me a copy of the memorandum of agreement between himself and Massey Ferguson Limited which outlines the general conditions of such stock options. Ted also had a similar one with the Ford Company of Canada and I believe A. V. Roe's stock option agreement gives a six month period after the death of the employee before the option has to be taken up. This permits time for an estate to be wound up and as some estates are more difficult to settle than others, the three months suggested may be running it a bit short.

Clause 9 - In addition to Ted's remarks he points out that any incentive plan would be at the discretion of the Board and that in the operation of the plan the amount stipulated by the Board would normally go into the fund. When some external or abnormal circumstances made it possible for the company to enjoy larger profits, then the Board would naturally regulate the amount that should be set aside. There is an additional paragraph on Ted's views at the end of his letter to me. The main thing he wants to establish is that A. V. Roe Canada will institute an "incentive plan" when conditions warrant.

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Paragraph 10. Ted was not familiar with the U.K. interest in A.V.Roe Canada and he mentions later on that possibly the best way to cover this separate agreement would be to have it signed by both Racair and the Hawker Siddeley Company.

I am having our solicitors look into the possible effect of the change suggested in paragraph 10 and hope to be able to give you their opinion shortly.

No. 20 - the point you raised here - this probability seems to be taken care of in Clause 21 where it states the Vice-Chairman shall perform all the duties of the President in the absence or the disability of the Chairman of the Board and the President.

In regard to Clause 12 - Ted has pointed out that at his present age of 45 he would have no worry about looking for a new job if he found himself in that position however, he says after the age of 50 it is not quite so easy for a man to change employment and this situation increases with each year therefore there should be some fixed amount that he would be able to count on in the way of a pension.

Normally, according to the Canadian Income Tax Act, when a cash settlement is made in connection with a pension it is taxable. Mr. Emmert had this experience when he left the Ford Company two and a half years ago and the same would apply if he leaves Massey Ferguson. This means that he is getting older and his pension position is deteriorating. We have just settled Allan MacDonald's pension and out of some \$32 thousand he receives about \$17 thousand which does not buy anything like the amount of pension that was intended.

Doug Ambridge had a very satisfactory arrangement made when he went with Abitibi. He was about 45 years of age at that time and the agreement they entered into was that he would receive 100% pension at the age of 65 and that if he severed his connection with the company for any reason whatsoever before that time $1\frac{1}{3}\%$ would be deducted from the total amount of the pension for

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each year of service less than 65. If he severed his connection at the age of 55, he would receive 85% of the agreed pension, if at the age of 50, he would receive 77½% of his pension. I think some such arrangement would be satisfactory to Ted - it would mean that if for any reason he did leave our company that from the age of 50 he would not have to take cash, but could count on a definite amount of money coming to him at the age of 65. If the Abitibi Company made such an arrangement fifteen or twenty years ago, I think it would be reasonable for us to follow a similar plan.

Regarding the third last paragraph on page 4 of your letter which I believe refers to the very last line on page 7 and the top line on page 8 of the proposed agreement. Ted explained to me that he has seen it happen where a change in company policy or management of the controlling group has resulted in the officers being asked to take a lower position such as Secretary rather than President - this is done as a means of avoiding paying termination pay. It actually happened in the Ford Company to two different friends of his and could have happened to him however, he was young enough to resign rather than take a position in some other part of the world or one that was un-attractive to him. He resigned after nine years of service with the company, just one year short of having a vested interest in his pension.

The P.S. in ink at the bottom of your letter regarding a special clause covering the incentive plan in the event of war is quite agreeable and would be taken care of in the separate agreement.

To summarize, in addition to the contract there would be two additional documents agreeing:-

- (1) first to the change in the By-laws
- (2) an agreement that there will be an incentive plan

Also, that we would agree to a pension arrangement similar to the one Doug. Ambridge has with Abitibi.

The matter of Canadian Directors - Ted wants to have a strong active Board in which he has absolute confidence.

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The retirement of one Director would be necessary to strengthen the Board and is a major consideration. Ted would prefer this to take place before he joins however, he would not want to embarrass you or hurt the individual or the Company. I suggested that we carry on as is until the end of the year and not invite the Director to stand for re-election. This would be acceptable as the second choice.

If Ted's reply to your comments, supplemented by my comments, cover the points to your satisfaction I would appreciate your advising me by telephone by Wednesday of next week. I will then have a new draft agreement prepared along the lines you have suggested, leaving out the clause regarding the By-laws also the clause covering the incentive plan and will send you a separate report and agreement on the By-laws.

I feel that this is now reasonably close to what you both have in mind also that we are at a crucial point in the negotiations and that if this is satisfactory to you, we can complete the arrangements this next week. The timing is right and I am absolutely convinced that this is the right step to take and that the terms and conditions are now as good as we can achieve.

Sincerely,

Sir Roy H. Dobson, C.B.E.,
Managing Director,
Hawker Siddeley Group Limited,
18 St. James's Square,
London S.W.1., England.