

# The Strange Saga of Excelsior-Henderson

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The glass atrium over the great hall of the former Excelsior-Henderson building rises up over Belle Plaine, Minnesota, marking what was once a motorcycle factory, but now is just an extravagant warehouse for rotting manufacturing equipment. That equipment was supposed to be auctioned off December 6, 2001. On that day, the parking lots around the building, empty since Excelsior-Henderson filed for Chapter 11 bankruptcy December 21, 1999, were filled, mostly with trailers hitched to vans and pickups. A fleet of semi trucks idled around the periphery of the parking lot, their drivers waiting for a cargo of E-H booty. More than 800 people registered to bid in the auction, and it seemed that for every bidder there were two or three bystanders who came to Belle Plaine just for the spectacle.

Company cofounder Dan Hanlon attended the sale. Cofounders, Dave Hanlon (Dan's brother) and Jennie Hanlon (Dave's wife) were absent. Hanlon had no idea where they were. "We haven't spoken with each other in some time," he said. Hanlon mingled with the crowd, answering questions, watching as the carcass of his lifelong dream was about to be sold to the highest bidder. Hanlon's presence at the sale surprised some attendees. Many investors and suppliers who lost money when Excelsior-Henderson filed bankruptcy harbor ill-will toward anything associated with the Hanlons. Stockholders lost every cent they invested, and several E-H suppliers lost hundreds of thousands of dollars when the company filed for bankruptcy. But at the auction Hanlon was treated with respect. Most seemed to empathize with his loss and offered condolences when they spoke with him. While E-H related bulletin boards indicate there are many people who are disgusted with the Hanlons, for the most part those people seem to have stayed away from the auction.

Many who did attend were there to buy something. Some people, like Bob Bennett, a motorcycle collector from Iowa, came to bid on the collection of classic motorcycles that decorated the lobby in happier times. Or at least what remained of that collection-several notable bikes had gone AWOL. Bennett had his eye on the 1914 Excelsior board-track racer. Bennett's first motorcycle was an Excelsior dirttrack racer, "I paid \$10 for it," said the 81-year-old Bennett. He expected this perfectly restored example to sell for a bit more than that.

Other bidders owned Henderson motorcycles, and they hoped to leave the sale with stockpiles of spare parts. They had no choice but to buy in bulk quantities. Individual parts were not being sold. Everything was to be sold in lots. Rather than buying single frames or transmissions, for example, bidders would have purchased a lot of 17 frames or 31 transmissions. Some E-H owners banded together to form buying clubs. They pooled their resources to buy entire lots, perhaps a pallet containing 29 cylinder heads or 43 front fenders. But hard-core business people outnumbered such enthusiasts. Many attendees were professional liquidators. Some, like Rick Igo from St. Paul, Minnesota, were also motorcyclists, but Igo was there primarily to buy easily resold items, such as telephones and other office equipment. There is a much larger market for cubicle furniture than there is for a pallet of Super X gas tanks. Owners of manufacturing facilities comprised another large group of bidders-people like Larry Hewitt who was considering buying a robot to use at his dock-building plant located in central Minnesota.

Then there were the folks hoping to buy cheap motorcycles. In addition to the antique bikes, there was a small selection of new E-H models, including a couple of Deadwood Specials, and two American X prototypes, which featured standard telescopic forks in place of the exposed-spring fork that became Excelsior-Henderson's trademark. In addition, there was a larger collection of well worn test bikes and experimental mules. Keith Unger, from Jordan, Minnesota, looked over this lineup with hungry eyes. He had all the biker trappings-the mullet hair cut, the leather jacket, the chain wallet. Now he was hoping to

get a motorcycle to complete his ensemble. He never got the opportunity to make a single bid. The auction was scheduled to start at 11AM. At 10:30AM, EH Partners, the current owners of Excelsior-Henderson's assets, filed for Chapter 11 bankruptcy protection in a Florida federal court, getting a stay of sale. It seemed the strange saga of Excelsior-Henderson was not finished quite yet. The scene following the halt of the sale was chaotic. People had driven to Belle Plaine from all over the United States and most would not be able to return if the sale was rescheduled.

The one person who didn't seem surprised by this turn of events was Dan Hanlon. Though he's not been a part of Excelsior-Henderson for more than a year and has no hand in the operation of the company, he is familiar with the way EH Partners operates. He describes the halt of the sale as "a shot across the bow."

To understand how things got so out of hand, it is important to understand the history of the company. According to official company mythology, Excelsior-Henderson's inception occurred during a bull-session-between the cofounders as they chugged brewskis on a balcony overlooking the main drag of Deadwood, South Dakota, during the 1993 Sturgis motorcycle rally. These days, Hanlon has little time for such tales, preferring a version he says is closer to the truth, Hanlon says that by the time Dave Hanlon came on board, he'd already developed a business plan, At that time, the motorcycle press was abuzz with stories about businessman Phillip Zanghi's efforts to revive the Indian brand, Today, old marques are resurrected on a regular basis, but back in 1992 this was big news, and Zanghi managed to raise millions of dollars to get Indian rolling once again. This inspired Hanlon to attempt a similar venture. With the Harley-Davidson and Indian brands accounted for, the logical choice was Excelsior-Henderson. The company, which had been owned by Ignatz Schwinn, the famous bicycle manufacturer, had been the third-largest American motorcycle manufacturer before Schwinn pulled the plug in 1931, Hanlon quietly went about developing a business plan, and by 1994 he was ready to issue his first press release.

Unfortunately the business climate had changed substantially by that time, Zanghi had been exposed as a fraud, ultimately ending up in prison for bilking investors, and the Indian name was dragged through a series of failed ventures. Eventually it wound up affixed to a Harley-Davidson clone, The press, which had been supportive of Zanghi initially, became extremely skeptical of other attempts to revive historic marques, When the Hanlons issued their first press release, it was greeted with cautious neutrality at best. At worst, the announcement of Excelsior-Henderson's rebirth was met with outright hostility, with a few members of the fourth estate openly calling it another Zanghi-like con job. This set the tone of the company's relationship with the press throughout much of its short life. Journalists saw any signs of delay in building the bikes as evidence that the venture was indeed the work of con artists.

For their part, the Hanlons treated some members of the press with something nearing contempt. Brother Dave had an especially rocky relationship with them. At first glance Dave seems the quieter of the two brothers, but one soon realizes Dave's soft-spoken demeanor masks a volatile nature.

A difficult relationship with the press didn't help Excelsior-Henderson's cause, but given the enormity of the task of starting up a motorcycle company, it was one of the Hanlons' lesser worries. More important was securing financing. When starting up a motorcycle manufacturing company from scratch, Dan Hanlon explains, it's going to take six years to get the motorcycle into production. "It's very difficult to get investors if you tell them they won't see a return on their investment for six years," Hanlon says, He explains that in a startup venture like this, the only way to get funding is through milestone-driven financing, a process where the business plan calls for certain amounts of financing to come in at set intervals. The company sets goals, and it depends on rounds of financing to meet those goals. At first Hanlon provided all the financing himself, "It doesn't cost a lot of money at first," he says, "but as you progress, costs increase exponentially," This means that the further along a project gets, the more critical it becomes to meet financing goals. For the first few years, Hanlon proved remarkably adept at meeting those goals, eventually getting over \$100 million in investment capital, but designing the bike and getting production off the ground still proved extremely difficult. "Several times we had to put the company in a stall"

Hanlon says, "because there was no guarantee that we were going to get the next round of financing."

With the benefit of hindsight, it's easy to see points where things might have been done differently, Detractors say the Hanlons spent far too much money on elaborate promotions, money that would have been better spent developing the product. Dan Hanlon counters that promotion was necessary from an investment perspective, since the company's existence depended on future financing. Critics

point to the expensive building housing the state-of-the-art factory and lavishly equipped offices. They compare Excelsior-Henderson to Buell Motorcycles which Erik Buell started in his garage. Hanlon said they projected a market for 20,000 bikes per year, so it made sense to build an infrastructure capable of meeting that production, As for the stylish office space, as investor and former E-H Board Member Butch Donahue said, "People wouldn't invest in a barn." Excelsior-Henderson finally began production in the spring of 1999, several months past its target date of December 1998. The company sold nearly 2000 motorcycles over the following summer and fall, but the cash was flowing out faster than the sale of product could bring it back in, and that fall the company laid off a large portion of its workforce. In December came the bankruptcy. "I made mistakes," Hanlon says. We started production late, and our costs were higher than planned. Hanlon said they analyzed costs and within 10 months of starting production had brought them down to within \$1000 per bike of their original target, but by then it was too late. The problem was financing. While Hanlon had been wildly successful in securing financing early on, in 1999 he was unable to procure a single cent. At this point, according to his original milestone driven financing plan, the need for additional capital was at its most critical. Without another round of financing, the company didn't stand a chance.

Hanlon blames his inability to procure additional funding on the dotcom boom of 1999. "All investors were putting their money into dotcoms," Hanlon said. Perhaps he's correct, but undoubtedly questions about the Hanlons' stewardship of the money already invested combined with the company's missed initial production dates hindered his later fundraising efforts.

None of which changes the fact that, nearly two years to the day after the initial Excelsior-Henderson bankruptcy filing, a couple of thousand people found themselves milling about the ruins of the factory, waiting to see if the auction would proceed. It wouldn't. Late in the afternoon, the auction company announced the sale had been canceled.

The seeds of this debacle were sown after the first bankruptcy filing, and they are as convoluted as the history of the company itself. After the filing, the Hanlon clan became personae non gratae with Excelsior-Henderson's major secured creditors, Minnesota-based Dakota bank and Finova, a financial institution based in Phoenix, Arizona. "They wouldn't even talk with us," Hanlon says. "The situation was like being in a war." The creditors searched for a buyer and in March 2000 a Florida-based investment group made an offer that sounded too good to be true. Rather than paying 10 to 40 cents on the dollar, as is common when buying out a failed company, this group offered to pay one dollar on the dollar.

"We would have preferred someone else," Hanlon says, "There was no substance behind the offer. I thought we should find a buyer with a track record of rebuilding companies, a buyer who was creditworthy." But by then the Hanlons' input meant little to the creditors. They chose to go with the offer. Apparently the creditors didn't do much research into the investors who called themselves EH Partners, or their ringleader, George Ward Heaton, a fellow who, according to the NACM (National Association of Credit Management), "is also known as 'the heater' or 'ether breath. (because his smooth talking put people 'in ether')." "

Although Heaton's name doesn't appear on many official E-H documents, he brokered the EH Partners' deal, according to Paul Moe, director of business finance for the Minnesota Department of Trade and Economics. Heaton specializes in acquiring defunct businesses through promissory notes that are never honored, liquidating any assets, then closing down the businesses. He usually operates through holding companies, like EH Partners. A search of outstanding judgment liens found 15 unpaid judgments against Heaton, dating back to 1989 and totaling nearly \$28 million, including a \$1.5 million lien filed by the IRS. The Minneapolis Star Tribune reported that Heaton was the subject of more than 20 civil lawsuits in Minnesota between 1981 and 1993, and he had been found guilty of fraud in Minneapolis in April 1987. It's difficult to fathom how this information could have eluded the folks at Dakota Bank. Dakota Bank accepted the offer from EH Partners, and Excelsior-Henderson emerged from bankruptcy in August 2000. One of Heaton's first moves was to fire the entire Hanlon clan. After that it appears he wasted little time in liquidating company assets. Rather than resuming motorcycle production, he began selling parts for cash and moved approximately \$250,000's worth of motorcycles to Florida, where they were sold. This included part of the company's collection of rare antique motorcycles, even though this inventory was

collateral for the company's Dakota Bank loan. According to former employees, Heaton found other ways to drain EH assets. Heaton collected a management fee estimated at \$25,000 to \$30,000 per month. Allegedly, Heaton ordered the sale of other items for a fraction of their value. His operatives are said to have sold tools for less than one-tenth their actual value and computer equipment for pennies on the dollar.

In February, 2001, the bank learned Heaton was siphoning off company assets, and in April it sued EH Partners. The court issued a temporary restraining order blocking the removal of inventory from the premises. This eventually led to last December's auction. Realizing that, given Heaton's track record the likelihood of collecting any liens against EH Partners in this lifetime was virtually nil-if the IRS can't get its money from Heaton, how can Dakota Bank?-the creditors decided to recover what money they could by selling the remaining assets. Not that there was much left to sell. There were few tools in evidence and the state-of-the-art robotic plant had been gutted. What office equipment remained appeared to be junk and the few computers in the sale sported ominous tags warning of defective hard drives. But George "The Heater" Heaton was about to burn the banks once again. After months of careful planning, coordinating and promoting the auction, Heaton stopped the entire event with a carefully timed court action. The creditors had spent huge amounts of money on advertising, bringing in the auction company and hiring catering services and transportation companies, and hundreds of people had taken time off work to attend the auction. Heaton waited until one-half hour before the start of the auction for EH Partners to file bankruptcy and stop the sale. By stopping the auction at the last minute. Heaton knew it would be impossible for the bank to reschedule the auction anytime soon. When and if the creditors do manage to reschedule the sale, Heaton could very well have more tricks up his sleeve.

"The creditors would have been better off auctioning the assets two years ago when they were still worth something," Dan Hanlon commented after the non-sale. "If they had found a real buyer who offered 10 cents on the dollar they would have been that much ahead."

As for Heaton and EH Partners, Hanlon would only say that events indicate that their abilities and intentions were questionable, and that he was not involved in company operations after Excelsior-Henderson emerged from bankruptcy. For his part, Hanlon wishes things had turned out differently, but he says he's glad he tried to make it work, He is proud of the motorcycles the company built. "I think Excelsior-Henderson was a success for as far as it got," he says, "Every day I was afraid the company was going to fail. You have to consider every day a startup business operates is a success."

As for Excelsior-Henderson, Hanlon says, it's done. It's over," Hanlon is aware that many bike owners hope production will resume. but he says that's just not realistic, "To restart production now would cost between \$50 million and \$70 million, and then you'd be producing an uncompetitive motorcycle that is three years behind the competition."

Excelsior-Henderson's creditors and The Heater will likely be fighting in court for years. Stockholders have either recycled the paper their stocks were printed on or else, like Richard Wyatt, who bought 2000 shares of E-H stock, they've framed them as wall ornaments. "The shares are a piece of history, Wyatt says.

The one concrete thing that will remain of the great Excelsior-Henderson experiment is the motorcycle itself. By now, owners are fully aware of the challenges associated with riding and maintaining a complex and temperamental motorcycle for which parts are no longer available. Even so, many of them seem thrilled with their unique bikes. They've formed support networks to help create the parts and tools they will need to keep their machines on the road. Long after the Hanlons and George Ward Heaton have turned to dust, pristine Super X motorcycles will be displayed in museums and private collections, alongside Heskeths, Vincents, Crockers, Tuckers and DeLoreans, their exotic front suspension units setting them apart from all other vehicles. When our grandchildren ask us about these strange motorcycles, we can tell them the cautionary tale of Excelsior-Henderson.