

Insights

FOR MANUFACTURERS

Manager's Insights



This past fall the Chief Economist of the Chicago Federal Reserve, William Strauss, delivered a powerful presentation reviewing the viability and importance of the U.S. manufacturing base.

In the course of his talk, Mr. Strauss pointed out that manufacturing output in this country has never been higher than it is today.

This surprising fact is driven by the continuous increases in manufacturing productivity over the past 60 years, far surpassing other areas of the economy. Further, he noted that the rate of productivity increase has actually accelerated in the past 20 years.

We are all well aware of the role technology and increasingly sophisticated capital equipment have played in this trend. What may not be as clear is the critical role of our workforce. It is beyond question that each new machine or process requires our people to adapt and become quickly proficient. I wonder sometimes if we have such a high regard for the skills of the old-time tool maker that we risk undervaluing the skills demonstrated every day on our shop floors. Perhaps we aren't doing enough to develop and improve these skills.

We routinely talk about equipment upgrades, but rarely talk about upgrading our workforce. The skilled people we want and need if we are to prosper are the very ones who would take advantage of an after-hours workshop put on by one of the equipment manufacturers, or a certification program at a vo-tech or community college. Are we encouraging them? Have we thought about what those programs or certificates might be – the ones that would really benefit the company? Do we have a company culture that values and rewards getting better at your job?

Competition is fierce and seems to get more savage every day; can we afford to ignore the returns from investing in our people?

Ric Sarfert
Senior Vice President,
Manufacturing Group Head

Brickhouse Environmental

Brickhouse Environmental is a full-service, environmental engineering and consulting firm located in West Chester, Pennsylvania. Since the company's inception in 1977 (formerly as Walter B. Satterthwaite Associates), we have been a trusted advisor to our clients, providing proactive and creative solutions in an ever-changing regulatory environment.

The company maintains a team of experienced and highly qualified and licensed professionals, specializing in regulatory compliance and permitting, waste management and treatment, systems design, water resources management, and remediation.

As a result, Brickhouse Environmental has built a strong industrial and commercial client base in the mid-Atlantic region.

We understand that *today's marketplace doesn't allow for wasteful spending or unforeseen costs or liabilities.* Through our expertise in waste management and permitting, we have helped manufacturing and processing clients to

reduce or avoid costs by identifying alternative waste management and/or permitting options, or through creative waste minimization strategies, without increasing liability.

Our clients also rely on us for "big picture" value. Operational efficiencies are essential to the profitability of any company. However, a good regulatory and OSHA compliance record cannot only avoid regulatory fines, but avoid the loss of valued clients or employees. We understand that good community relations can help to offset perceived harms associated with certain types of manufacturing or processing operations, paying long-term dividends.

Brickhouse Environmental has built a strong reputation with industry and regulators alike, allowing us to work for our clients to achieve expedited approvals and/or favorable negotiations in many situations. These relationships, combined with our strong technical capabilities, are an asset to completing projects in shorter timeframes and at lower overall costs.

Brickhouse Environmental is your trusted advisor for your engineering and consulting needs.

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COMPANY: **Bracalente Manufacturing Group**

LOCATION: **Trumbauersville, Pa.**

EMPLOYEES: **170**

2007 SALES YTD: **\$22.5 million**

www.bracalente.com

A corporate culture of continuous improvement, on-the-job training, and real time feedback to employees is a commitment that Bracalente Manufacturing Company focuses on every day. It's the foundation on which the contract manufacturing company was built and is the center of their core values and practices.

Bracalente was founded by Silvene Bracalente in 1950 as a screw machine shop. Today, the family business is run by grandson and company president,



Company president Ron Bracalente, left, demonstrates a Motoman Robotic Welding Machine to National Penn Manufacturing Group relationship manager Bob McCrillis, center. Joining them is chairman Tom Bracalente, right.

Ron Bracalente. Although in his eighties, Silvene is still involved with the company along with his son and Ron's father, Tom. Bracalente provides global contract manufacturing solutions with customers all over North America including well-known brand names Harley Davidson, Case New Holland, and Streamlight.

Bracalente recognized early that its diverse client base, ranging from medical equipment, through agricultural, aerospace, to transportation, needed the benefits of offshore production for some components without losing control of the quality or timeliness of the supply chain. Bracalente Global was formed to not only accept the responsibility for sourcing components overseas, but also for managing the supply chain that delivers them.

The culture at Bracalente is not just an awareness of history or tradition; it is imbedded in the company's strategic plan, developed with the assistance of the Manufacturers Resource Center, with culture given as much priority as financial performance. To help align and engage employees so they understand, support, and are supported by the company's culture, several programs have been established:

- Quarterly all-employee planning meetings to discuss the company's performance, threats, opportunities and areas that need improvement.
- GAINshare, a set of controllable performance metrics for each function in the shop, developed to support the strategic plan.
- Specific initiatives to address specific areas. Currently, quality improvement, measured by customer returns, is targeted.
- At Bracalente, it isn't always about money. The Drop Project is a Culture Committee project based on the book "How Full is Your Bucket" by Tom Rath and Donald Clifton. It allows an employee to recognize a coworker by putting a "drop" in his or her bucket. The Culture Committee is staffed and run entirely by employees.
- The Culture Committee also helps communicate needs to management. For example, it was instrumental in the introduction of TWI - Training Within Industry - which allows each employee to receive 40 hours of training. Not only on machines and methods, but also on job relationships.

"Our employees use these tools to run the company, said Ron Bracalente. They also help to closely connect us with our customers. We are truly a customer-centric



A Bracalente employee is using a Formtester, model Formscan 6100 supplied by Mahr Federal, in order to test for roundness.

company. Because of our training programs and performance-related initiatives, we landed more new clients in the first half of 2008 than we have in the past several years. In order to retain them, we have to be at our best and to keep the promise of the Bracalente brand - quality, innovation, customer focus and continuous improvement."

Ron commented, "I firmly believe our employees are our most valuable asset and are the best at what we do. And that helps to make our customers successful."

When Bracalente was creating Bracalente Global in 2004, Ron realized he wasn't hearing much from his banker. "But I was seeing Bob McCrillis and other National Penn bankers at industry events I was attending. Then I ran into Bob at seminars and meetings. He sent me periodic educational and manufacturing information. After I received an article Bob authored about not being afraid of China (the big bad wolf), I knew I had to talk more seriously with him.

"I quickly learned that the Manufacturing Group at National Penn truly understands the manufacturing industry. The fact that the team is trained in the same manufacturing methodologies that we employ is important to me. Plus National Penn has a small bank feel with big bank technology.

"The Manufacturing Group's vision and National Penn's brand are a terrific fit with my company," Ron concluded.

How We're Handling the Current Economic Turmoil

By Mike Reinhard, Chief Financial Officer,
National Penn Bancshares, Inc.



These are indeed interesting times! While all astute business people knew that 2008 would be a difficult year, few would have predicted that one of the nation's largest banks would fail, or that the government would need to bail out Fannie Mae and Freddie Mac or the need for a \$700 billion economic bailout package.

Unfortunately, the bad times are far from over. With ongoing turmoil in the markets, high energy prices, and our country's leadership yet to be determined, all of us - businesses and consumers alike - will continue to struggle.

You as manufacturers and we in the financial services industry are being especially hard hit. For us, the cause is a combination of two factors: 1.) fallout from the subprime mortgage crisis, which has clouded our entire industry and lowered the price of our stock, and 2.) a need for increased capital levels during these tumultuous times, which impacts our earnings.

This double whammy has caused a number of financial institutions with pre-existing problems to fail, and that has prompted negative publicity questioning the safety of all banks and the security of customers' deposits.

As a result, I and many of my colleagues have received calls from clients asking for reassurance about their funds. Here is what we have said:*

- While it's possible that additional banks that have been hard hit by the subprime crisis may fail, that number is expected to be very small - just 1% of total financial services companies (about 8,500 nationwide).
- National Penn has had minimal exposure historically to subprime mortgages and no exposure in the last quarter.
- Over our long history, we have consistently controlled our risks and protected the interests of our customers and shareholders.
- Like many banks, we have a prudent credit culture, diverse assets and a broad revenue stream, all of which contribute to our financial stability.
- National Penn is one of only 307 out of 19,000 U.S. public companies to have many consecutive years of increased dividends and earnings per share.
- Like other banks, we are highly regulated. In addition, to protect against potential losses, we are "well-capitalized" as defined by the government.

In spite of these positives, and as strong as our first half-year earnings were, we do not believe that National Penn can remain immune to the developments in the overall marketplace. Like you, all we can do is be prudent with our resources, continue to seek out new business, demonstrate the value of strong relationships to our clients, and steer National Penn with a steady hand through this turbulent economy.

*For other questions about National Penn and FDIC coverage, we ask customers to visit our Web site home page to see our "Learn More" document, which links to the FDIC Web site.

Learning to Eliminate Downtime

by Barry Miller, DVIRC

It is no surprise that parts of the manufacturing sector took a sizable hit during this recent economic downturn. However, consensus states that the overall sector is of vital importance to our economic competitiveness and ...the current storm clouds will soon pass.

More and more manufacturers are seeing opportunities in the big picture. They are using this slowdown period to re-energize themselves through training their workforce and focusing on innovative solutions for a more robust and sustainable growth.

When incoming orders begin to taper off, the impact of continuous improvement and organizational development can become an often overlooked opportunity. Training employees when new business is light is not part of a typical standard operating procedure for most businesses.

Conventional wisdom would suggest when the going gets tough...the tough cut their costs. It's an instinct as old as business itself. Unfortunately, operational cutbacks tend to focus on the most visible costs and things like training and organizational development are the first to go.

Today's best practice training programs have been created to stimulate an immediate impact and get businesses on track toward a positive outlook. Generally speaking, these programs rapidly transfer the skill sets required for a business to define its areas of waste, eliminate product variation, get lean, grow the top line or even focus on innovation.

One example that comes to mind is a lean program that trains workers to differentiate value added from non-value added activities. The format features a "learn and do" element to optimize its impact and highlight opportunities for participants to eliminate waste in their organization. In the midst of an economic downturn, it is a simple and cost effective way to identify tangible savings

and reduce both lead and delivery times. Ultimately, the program works to improve operational activities and increase customer retention levels from the inside out.

Investing in training like this can yield a tremendous return on invested capital. The take away can save a business hundreds of thousands of dollars with a relatively small investment of resources. Regrettably, for most businesses, the initial cost associated with an investment of this type becomes prohibitive when revenue streams begin to fall off. In other words, it is hard for individuals to justify spending one dollar in an effort to save five. But that is just poor fiscal planning!

Using an off-season or downtime to introduce new training programs is a great idea. Each year new programs are created at federal, state and local levels to support our local manufacturing community. For manufacturers located in Pennsylvania, there are specific programs available to support your training needs.

The most important aspect of training is to clearly define the business issue and/or opportunity that will result from the training effort. If a business is willing to invest in the development of their work force and would like to learn more, newpa.com is a great resource. Take a moment and explore some of the many resources available. After all, there is nothing to lose from exploring the tools that were designed to stimulate top line growth and bottom line improvements during this turbulent period in our nation's economy.

Barry Miller is the President and COO at the Delaware Valley Industrial Resource Center. The DVIRC is an economic development organization that has helped over 2,000 manufacturers with the training and best practice business solutions required to affect a positive change and support top line growth.

Owning your own business has its perks!

As a business owner with accounts at National Penn or any of our division banks, you can qualify for a FREE personal ValuePlus Checking account. Our premier interest-bearing checking account includes security features, rebates and financial & travel discounts.

Enjoy discounts on banking products such as a safe deposit box, \$250 off mortgage closing costs, and ATM surcharge rebates.

You can also enjoy the following value-added services and discounts:

- Companion airfare vouchers
- Rebate rewards
- Discounted gift cards from well known merchants
- ID theft insurance with fraud assistance
- Payment card protection
- Document & personal property registry

For more information about ValuePlus Checking, talk to your Manufacturing Group relationship manager or visit any National Penn, FirstService, HomeTowne Heritage or KNBT community office. You can also get the same great benefits from our affiliate bank in Delaware, Christiana Bank and Trust.

The Road to Recovery

By Dean P. McDermott, Ph.D.

"It is our feeling we will be in a full-blown recession in the third and into the fourth quarter of 2008. The severity will depend on the governmental stimulus packages for bailouts currently being orchestrated..."
(Economic Commentary Spring 2008)

Much of the recently occurring economic turmoil was forecasted previously in these Manufacturing Insights columns. The housing market downturn and the problems associated with it were forecasted in spring 2006. The volatility in the commodities and foreign markets were forecasted in fall 2006 and in articles in 2007 as well. Forecasting of a severe decline in the economy in the third and fourth quarters of this year was outlined in my previous two columns. Caution was given when times were good, and in some cases was heeded, but unfortunately in many cases ignored. Many people in Washington, DC and on Wall Street had thought the good times were never going to end. Regular readers of this column knew otherwise.

In my last column I stated that the government finally had realized cheap credit and free spending was an addiction which had to be dealt with. Over the past three months, we have seen frantic interventions taking place. Large Wall Street financial institutions were taken over with "Government Assistance", banks forced to merge at the direction of the FDIC and lastly, who will be able to forget the Troubled Asset Recovery Plan (TARP) proposed by Treasury Secretary Paulson.

Many consolidations and mergers in the business world, which were brokered by the forces in Washington, helped to reduce competition in the financial world. Unfortunately it helped increase unemployment to levels not seen in years.

The TARP Act, which was stunningly defeated in its first go around in Congress, was finally passed after the politico's in Washington realized their choices to salvage the American economy and to maintain their leadership position in world markets would demand the significant intervention proposed by Treasury Secretary Paulson.

September unemployment numbers showed an astonishing loss of 159,000 jobs, the worst drop in five years. Current unemployment is at approximately 6.1% and when factoring in the anticipated job cuts through consolidation in the financial sector, it is expected to rise to around 6.7 to 6.8%. Although no one likes to hear of someone losing their job, in the grand scheme of the economic world it is not necessarily a bad thing. The source of many of the recently unemployed came from some highly paid positions on Wall Street and in the corporate world. This indirectly will help to keep inflation for the costs of goods and services lower as some bloated components of payrolls were cut. Unemployment also expands the labor pool thus keeping wage inflation at bay. Wage inflation occurs when employers must increase salaries to above standard rates to retain or bring in new hires when there are not enough available workers.

According to recent ISM numbers, manufacturing has slowed considerably in the United States. Exports have

declined due to the threat of global recession and the strengthening of the U.S. dollar. Global consumption of American manufactured goods is expected to decline for the next two to three quarters as the world works out their own difficulties and exposure to the American financial meltdown. The effectiveness of the TARP Act is being closely monitored by financial institutions and governments around the globe with exposure to American credit instruments.

We have seen a dramatic decrease in the price of a barrel of oil and the corresponding decrease in gasoline and fuel oil as discussed and anticipated in the spring 2008 article. Natural gas and liquid propane have declined as well giving consumers a little relief in the pocketbook and on the corporate expense ledger as well. Enjoy it as manufacturers capitalize on it. I see oil stabilizing near term in the \$80 to \$110 trading region. Longer term we see \$60 a barrel and a corresponding percentage reduction in the price of a gallon of gas. Worldwide consumption is being slowed due to conservation, efficiencies and the utilization of alternative fuel sources. This will also help in an economic recovery due to displaced spending out of the gas tank into other discretionary items. This is a significant reversal of spending from several quarters ago.

Currently we have many Americans who have significantly reduced their spending, some because they want to and some because they have to. Many Americans listening to the doom, gloom and crisis talk in the media have stopped spending to conserve. They do this even if they have stable assets and excellent credit. It is our anticipation, if history is any indicator, that after we see stabilization in the stock and credit markets (and less crisis talk in the media), that these people will begin to spend again, moving the economy in an upward pattern. There is a significant amount of pent up demand in certain sections of the economy which have been particularly hit, namely the home building, home sales and consumer durable sections. We believe these sectors will start a slow recovery in the second quarter of next year and lead us out of the recession.

A few weeks ago we had some of the uncertainty and indecision taken out of the economic process with the passage of the TARP Act. The economy historically does not like indecision, and in times of indecision, it goes on hold or declines. It is my feeling in the second quarter of 2009 we should see direction returned to our markets, and our economy as a whole. By this time, we will see how the financial recovery act is working and we will have a new president who should be guiding us through the economic morass with a definitive plan.

In conclusion, as forecasted in my last column, we are expecting the bottom of the economic cycle to be in the third and fourth quarters of this year and start recovery at the end of the first into the second quarter of 2009. We still hold firm in those projections.

Slowly we expect the housing market to lead us out of this economic downturn and return us to gradual prosperity towards the end of 2009. It's a good time for manufacturers to enjoy the decline in commodity and raw materials prices and employ lean practices.

Keep in mind one thing: in either good times or bad times, one thing is certain....they will come to an end!

In every issue, we spotlight a Manufacturing Group team member, giving you the opportunity to get to know us better. Our next profile is John Troutman.

Facts about John:

- John is a Vice President in our eastern region, based in Doylestown.
- John graduated from West Chester University with a B.S. in finance and a minor in accounting. He is currently studying at the DVIRC to become lean certified.
- John previously worked at National Penn for 14 years for both the retail and commercial sides of the Bank. Prior to leaving National Penn, he was a relationship manager in Chester County. John then spent five years with a global commercial real estate finance, investment and servicing company where he managed the company's secured debt by pledging blocks of commercial real estate loans to large investment banks.
- John was born in Plymouth Meeting, Montgomery County and currently resides in Lansdale. He is single and has a 2 year old chocolate lab named Guinness.



- Favorite movie: "Dazed and Confused" and "It's a Wonderful Life"
- Last book read: *In Cold Blood*, Truman Capote / *Never Enough*, Joe McGinnis
- Favorite food: John is a self-professed "foodie" and likes just about any type of food
- Favorite type of music: rock – U2, Snow Patrol, Coldplay, Grateful Dead
- Favorite sport / sports team: soccer / Liverpool and football / E-A-G-L-E-S
- Favorite vacation spot: Zurich, Switzerland or Saratoga Springs, NY
- Hobbies: hiking, bicycling, grilling
- A person you would most like to meet: Warren Buffett or Howard Stern
- Something that will surprise you to know about John: "I am Batman"

Need help with your holiday shopping?

Do you buy gifts for your employees, vendors or family and end up wondering whether they use what you bought? We have a suggestion for you. It's the perfect gift for everyone and, according to research, actually preferred.

A National Penn Gift Card



We'll save you the anxiety and guesswork about what's the new hot product because the recipient can use the gift card to make purchases at stores, over the phone, or for Internet purchases.

It's the perfect gift for the holidays - or for any special occasion! Talk to your Manufacturing Group team representative for details or visit any National Penn, FirstService, KNBT or Nittany Bank community office.

Manufacturing Businesses For Sale

Consumer & Industrial Products - 1001E

Manufacturer and distributor of consumer and industrial products located in the mid-Atlantic Region. Long-term relationships with customers and suppliers. Exclusive overseas supply contracts with tooling ownership. The company will generate approximately \$20,000,000 in revenue in 2008 with normalized EBITDA in excess of \$3,600,000.

Steel Fabrication Company - 3441E

Primarily involved in steel fabrication, specializing in bridges of all kinds including highway overpass, waterway and railroad type. The company has modern, state-of-the-art facilities and enjoys a great management team and an experienced and stable workforce. In 2007, the company had approximately \$7,000,000 in revenue with \$600,000 in normalized EBITDA

Printing and Fulfillment/Distribution Company - 06032P

A 50 year old full service company specializing in handling high-end, nonprofit clients. Facilities consist of a 27,000 sq. ft. manufacturing and office complex situated on roughly 2.7 acres and two nearby leased warehouses totaling roughly 22,000 sq. ft. The business is located in the mid-Atlantic region and is a niche leader in the eastern/mid-Atlantic market with a heavy concentration of major customers in New York City. Year ending June 30, 2006: \$10.5 million (estimated).

Production Machining/Building - 08061P

High-end, custom/production machining and machinery building operation with engineering, fabrication, and boring mill facilities. The business supplies major customers in the following industries: aerospace, metal working, transportation, automotives, food, agriculture, construction, HVAC, medical, and printing. They have a special focus on vinyl tooling and equipment for the residential housing industry. Located in the mid-Atlantic region. Estimated December 31, 2008 year ending sales is \$3,750,000.

Swiss Turning Manufacturing - 9918T

Located in the southeastern section of the U.S. specializing in Swiss Turning Manufacturing. Has varied customers including the automotive industry. Sales have been increasing over the last four years. Limited competition makes this a niche business with tremendous potential for the future. This company has its (TS16949) certification. Cash flow is \$650,000, sales \$1,650,000 and sales price \$2,590,000.

Custom Dump Truck Body and Trailer Manufacturer - 0104V

Founded in 1966, the company is now one of the most recognized names in dump truck body/frames and trailers in the mid-Atlantic region. As a result of their quality and service record, almost 75% of sales are from repeat customers. Sales growth has been exceptional in the last few years. In 2005, the company generated revenues of \$6.4 million.

Custom Conveyor Manufacturer & Integrator - Food Industry - 0105V

A conveyor design and fabrication company for customized material handling applications in process manufacturing. The company value proposition is to maximize efficiency throughout and eliminate waste thereby reducing production cost. Net sales in 2006 were approximately \$1.1 million.

Consumer Product Manufacturer with Home & Office Delivery Service - 0106V

The manufacturer has built a strong regional brand in the home and office delivery (HOD) business. The company's products are also sold to large retailers and to other delivery service under private label agreements. These three channels of distribution give the company a unique ability to achieve consistent internal sales growth. In addition, the company has grown with selective acquisitions utilizing its strong cash flow. Sales for 2006 were approximately \$9 million.

Commercial/Specialty Mechanical Contractor - 47212VC

Commercial mechanical contractor is seeking strategic opportunities to support continued growth and create a future succession plan for current ownership. The company has a diversified mix of installation and service income. 2007 revenue was \$9,950,000. 2007 adjusted EBITDA \$2,100,000.

Aluminum Foundry - 4047206VC

Casting facility producing products for clients with all grades of aluminum. Founded over 45 years ago, the current owner is approaching retirement. Solid management is in place. 2006 revenue was \$3,500,000. 2006 EBITDA - \$550,000.

For more information on these businesses, please contact your Manufacturing Group relationship manager or call 1.888.248.3654.