

# Insights

FOR MANUFACTURERS

## Manager's Insights



### Through the Glass Darkly

Lawrence Summers, former Treasury Secretary and current head of the National Economic Council noted in a recent address, "All financial crises end – and when

they end, they end in ways that create spectacular opportunity."

We also know that not every business will be around to enjoy the spectacular opportunities. How do we strike a sensible balance between what cynics characterize as fear and greed?

Experience tells us that hard times do indeed create business opportunities. But is it prudent to even think about opportunities when survival might be at risk? Virtually all sectors of the economy are experiencing a sales slowdown and earnings pressure. And, everyone's feeling the cash pinch of aggressive suppliers and lethargic customers when it comes to paying and sending invoices. It could be that hanging on is the very best we can do. But, wouldn't it be nice to come out of the current recession as a stronger, and better business?

To survive, and perhaps to thrive, requires an honest assessment of the financial, administrative, and production capabilities of your business. Have you really looked at your particular cash cycle? Would "firing" a couple of customers help your overall

profitability? How about lean manufacturing? It was developed as a response to hard economic times. Is the office as efficient as it could be? Do you have the capability to take on a struggling competitor's customer base without heavy capital expenditures? Are there errors that continually crop up and cost money? These types of questions have to be added to the normal tests of cycle time, scrap rate, etc. Hard times can also be a good time to look at the advisory services provided by your local Industrial Resource Center.

Having analyzed your capabilities, how cash constrained are you? At a minimum, you need a cash flow budget for the next 12 months. What are your fixed costs, and how fixed are they? How are your margins holding up? What would you do if your largest customer or supplier filed for bankruptcy?

The answers to these questions, should guide your next steps. In any case, a thorough understanding of the business and openness to small improvements, as well as large, brings those spectacular opportunities a little closer to reality.

### Ric Sarfert

Senior Vice President,  
Manufacturing Group Head

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of making things.

We're in the business of

making things happen.®



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# Insights

FOR MANUFACTURERS

CLIENT  
INSIGHTS

COMPANY: **Bassett Industries, Inc.**

LOCATION: **Pottstown, PA**

EMPLOYEES: **50 FTE**

2008 SALES: **15% higher than 2007**

[www.bassettinc.com](http://www.bassettinc.com)

## Investing in the future.

Bassett Industries provides high-end manufacturing of tube, sheet and plate assemblies for several OEM markets. They are the largest tube fabricator on the east coast with core

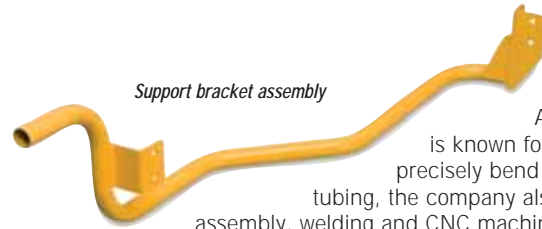


*Bill Hirst, National Penn Manufacturing Group Relationship Manager, stands with David Milks, President and Bret Milks, Engineering Manager, Bassett Industries, Inc. Bret is holding a grab handle in front of an all electric tube bender.*

competencies of bending and cutting of all cross-sections and sizes of tubing. They can run "lights out" in their laser cutting and robotic welding cells.

Founded nearly 60 years ago as a tubing supply house, Bassett was purchased by David Milks, the current president, in 1991. Since that time, the company has experienced continuous growth in part due to long-term clients and a terrific supply base. Most recently, they expanded their manufacturing space by about 30% to increase production, relieve congestion and allow a more efficient plant layout. The additional space, along with the company's commitment to lean manufacturing, will generate increased production efficiencies and lower costs. The company feels that the quick turnaround and efficiency of lean manufacturing has also helped it gain new sales. While advocating the common sense techniques of lean, Bassett has also been quick to adopt cutting-edge equipment, such as touch screen tube bending, when it fit the company's needs.

¼ inch thick  
laser cut shield



*Support bracket assembly*

Although Bassett is known for its ability to precisely bend and fabricate tubing, the company also provides assembly, welding and CNC machining services for their customers. The company's precision laser cutting, press brake and sawing capabilities are also in demand, both by OEMs and other contract manufacturing customers on a stand-alone basis.

The diverse industry base Bassett serves include agricultural, auto, appliance, healthcare, retail, HVAC and petroleum to name a few. Some of the tubes are used in alternative energy systems, hospital carts, tractors, store displays, athletic equipment, tents and grenade launcher bases.

The majority of Bassett's clients are east of the Rockies, but they also ship to Europe, Central America, Canada and China.

Bassett's competitive advantage lies in the integration of multiple technologies, such as tube bending, laser cutting, press brake operations and welding, into a turnkey product deliverer. It also provides engineering expertise and consulting for all outsourcing needs.

When *Insights* asked David what his greatest business challenge is, he explained that government needs to provide a more level playing field between U.S. manufacturers and foreign countries in order to survive in a global economy. Expense items such as worker's compensation, unemployment compensation, and healthcare insurance make a huge difference in its competitive position.

Besides utilizing state-of-the-art machinery and technology, David also invests in his employees by utilizing WEDnetPA, a government program which offers qualified employers the opportunity to train new and existing employees. Bassett employees receive continuous training on robots, SPC training, GDI (geometric dimension intelligence) training and lean manufacturing, for example.

Bassett also makes continuous investments in upgrading its plant with new hardware & software, new robots and cutting technology. Its most recent purchase can do cutting on both ends of a tube in one operation.

David was introduced to National Penn's Manufacturing Group by his accountant. Bassett had been going through some growing pains with its former bank, which didn't seem to really understand his business. More importantly, they didn't seem to care much about it; Bassett was just another customer among many.

The lean certified Manufacturing Group understands manufacturing and the local manufacturing economy, as well as the objectives and principles of an entrepreneur like David. After networking with team members at several DVIRC events (Delaware Valley Industrial Resource Center), a relationship was formed and David moved his business and personal accounts to National Penn.

*Cont'd on last page.*

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## DEREGULATION OF ELECTRICITY

### What will happen to energy rates when the caps come off?

By Steve A. Bobick, President of UtiliTech, Inc.

Pennsylvania deregulated electricity in 1996. The promise, at the time, was that competition would keep rates down because consumers could choose from a number of power generating companies. The power generating companies liked deregulation because the market would allow them to price their product based on their costs instead of on restrictions imposed by a regulating body. As part of an agreement to pass deregulation, the regulated delivery companies agreed to rate caps imposed for a period of time.

These rate caps come off at different times. They have already been lifted in western Pennsylvania where generation rates increased significantly. In the eastern portion of Pennsylvania, the caps will come off PPL on January 1, 2010, and Met-Ed and PECO on January 1, 2011.

New generation rates will depend on what it costs the electric companies to buy power and no one knows what that will be. To add to the confusion, electric companies must submit their rates to the PUC for approval, and that can take time – up to one year.

Looking at what happened in other states provides little comfort. When caps were lifted in Illinois, Maryland and Delaware, the rates increased by 65% to 85%. In some cases, rates doubled. For companies paying hundreds of thousands of dollars for electricity each year, this could be catastrophic.

#### What can we do in preparation for the changes about to occur?

**Conserve** – Cut down on the energy we use. Replace incandescent bulbs with compact fluorescent bulbs. Update old, inefficient equipment with EnergyStar or energy- saving equipment. Spread your usage of power to various times of the day to lower your peak usage. Take a hard look at your energy consumption and eliminate everything that isn't absolutely necessary.

**Actively Participate in Deregulation** - Other than conservation, the only answer is to participate actively in deregulation. By proactively purchasing electric generation competitively, you can mitigate some of the anticipated increase. Instead of a 45% increase, you may be able to bring it down to 30%.

Businesses will have the opportunity to choose alternate suppliers and even specify the type of the electric generation source. Note: The existing utility company will continue its responsibility to reliably deliver electricity to local business facilities.

Purchasing deregulated electricity presents both opportunity and risk to business. Accurate comparison of potential suppliers and competing proposals is nearly impossible for most business leaders due to the complexity and dynamic nature of the industry!

#### What You Will Need To Do

- Generate a detailed consumption history.
- Develop goals and access risk tolerance.
- Translate your goals and risk tolerance into the most desirable contract length, terms, pricing options and potential suppliers.
- Fully understand all pricing options: fixed, variable, index, full block, partial block, on-peak, off-peak, etc.
- Determine if you want to include renewable energy source options and/or Renewable Energy Certificates (RECs).
- Negotiate with multiple suppliers to obtain the best pricing and contract terms possible.

This is an extremely complex market. If you don't feel comfortable doing this yourself or don't have an in-house expert, you may want to outsource this project and seek the help of a consultant who is involved in this kind of work every day.

The most important thing to remember is that this change is coming. Planning for it now will give you the time you need to take the necessary steps to mitigate the increase as much as possible and to incorporate the higher rates into your business plan.

You can find additional information from the Pennsylvania Public Utility Commission at [www.puc.state.pa.us/](http://www.puc.state.pa.us/).

**One other important note, especially for manufacturers: if your production is significantly reduced because of the economic downturn, you should have your electric and gas bills reviewed by an independent consultant who specializes in this field - even if you had a review in the last year. Temporary or extended reduction in energy consumption may have an opposite negative impact on your bottom line.**

*Steve Bobick is the President of UtiliTech, Inc. in West Lawn - utilitech.com. UtiliTech's services include analyzing customers' electric, gas and telecommunications bills and looking for billing errors and opportunities for future savings, as well as management services, to support future energy procurement decisions. If you would like an introduction to UtiliTech, please contact your Manufacturing Group Representative.*

## Significant Tax Benefits Are Available for Manufacturers

### R & E Tax Credits Help U.S. Manufacturers Stay Competitive in the Global Economy

by Thomas J. Price, CPA

Partner, Herbein + Company

Despite reports to the contrary, manufacturing remains a critical part of the U.S. economy. According to the Alliance for American Manufacturing, manufacturing in the U.S. generates about \$1.6 trillion, or 12%, of the U.S. gross domestic product. Manufacturing accounts for nearly three quarters of the nation's industrial research and development (R & D), produces two-thirds of our nation's total exports of goods and services - and the industry supports more than 20 million high-paying jobs.

Federal, state and local government units realize that manufacturing jobs must be preserved in order to have a healthy and diverse economy. As federal and state levels seek to incentivize manufacturers to retain and expand manufacturing jobs in this country, one of the major tax incentives is the revised research and experimentation (R & E) credit.

The R & E tax credit has been around since 1980, but until recently the credit was geared towards high-tech companies and entailed very complicated documentation and calculation requirements. With the growing realization that this credit should be made available to all sizes and kinds of manufacturing businesses, Congress passed changes in 2001 to the original law which significantly reduced the complexity of the credit. Documentation standards were reduced and the scientific requirements were simplified. No longer does a manufacturer have to create a new process or product unique to the world; the credit can be taken simply to keep up with the competition.

In 2007, Congress changed the rules again and created a more simplified calculation method. The new method essentially compares the prior three years of research and experimentation expenses with the current year expenses to calculate the credit. This method creates an opportunity for smaller businesses to calculate the credit without the complicated formulas required by the prior law.

Now for a brief overview of what is required to take advantage of the credit. The federal credit equates to 13% to 20% of qualified wages, supplies and outside consulting services. Payroll is defined as Box 1 of the W-2 of all eligible employees that participate in the research and experimentation process. Expendable supplies are also eligible for the credit. Supplies and materials related to prototype units, initial product runs and experimentation of new processes are examples of qualified expenses. Capital equipment purchases are not eligible, but may provide excellent documentation for projects. In addition, all outside consultants that are utilized in research and experimentation are included in the calculation.

The federal credit can be a dollar for dollar reduction of federal taxes for the company; for example, if the credit generates \$30,000, it will reduce the tax bill by this amount.

Many activities may qualify, such as:

- Manufacturers that have engineering departments
- Lean manufacturing studies and implementation
- Development of new products
- Improvement of existing products
- Discussions and meetings with customers concerning potential new products
- Testing prototype units
- Process improvements with purchase of new equipment
- Obtaining patents

A wide variety of manufacturers may qualify for the credit, including:

- Food and beverage processors
- Software developers
- Tool and die
- Foundries
- Plastic blowmolders
- Test measurement equipment
- Medical and healthcare manufacturers
- Metal shops
- Sheet metal manufacturers
- Metal plating companies
- Manufacture of just about any type of product

Benefits are not limited to the federal level. In addition, many states have a credit, which can significantly reduce the state tax burden. The state of Pennsylvania has a research and experimentation tax credit, which is based on the federal tax credit calculation. You must apply for the federal credit in order to be eligible for the Pennsylvania credit. This credit can directly offset Pennsylvania taxes dollar for dollar. As with some other tax credits, the Pennsylvania credit can be sold to other businesses if it cannot be utilized by the company.

*Cont'd on last page.*

## Gazing Into the Crystal Ball...Again!

By Dean P. McDermott, Ph.D.

Of all the *Insights for Manufacturers* columns I have written over the past seven years, perhaps the most often cited was the Winter 2005 article titled "Gazing Into the Crystal Ball." As I stated in that column, writing a forecasting column of any type puts you on the line. You can make 20 predictions and get 19 right, but your audience always remembers the one you got wrong. Luckily, I was four for four in that one.

While gazing into the crystal ball this time, I had visions going out to the end of 2011. The four main areas, I believe, which will have the greatest impact on the manufacturing sector are: 1) the housing market, 2) the investment markets 3) the governmental stimulus packages and interest rates and 4) raw materials prices.

For those readers who read only the first and last paragraph I offer my "visions" now:

- 1) The housing market is bottoming out right now and history will show the first and second quarters of 2009 were a great time to purchase residential real estate.
- 2) In 2011, we will look back and say the investment markets were great values in the first quarter of 2009 – we shouldn't have stayed away!
- 3) The initial TARP program last October will be viewed as a brilliant move. The subsequent governmental interventions will be viewed as excessive and inflationary.
- 4) We will see significant inflation starting in the fourth quarter of 2010 and continuing into 2011. Accompanying the inflation we will see an increase in interest rates starting late in 2010 into 2011.
- 5) A corresponding rise in commodities prices will start at the end of 2009 and continue into 2011.

### The Housing and Real Estate Sector:

As predicted in several previous columns, we have seen housing prices crash and burn. Although it is too early to proclaim a turn around in the residential real estate market, we are seeing some bottoming in different markets across the country. Sales of new homes rose 4.7% in February over January numbers, the first monthly gain since July 2008. Existing home sales were up 5% in February as buyers took advantage of distressed sales and historically low interest rates.

In addition to housing sales on the upswing, we have seen mortgage applications rise which will help some cash stretched consumers as they take advantage of low rates.

We still view commercial real estate as an area to be cautious. A glut of commercial space due to corporate cost cutting and overbuilding in some markets will still present problems for the foreseeable future. If you are looking to expand production facilities, now is a great time to go shopping for space and take advantage of rates.

### The Investment Markets

Typically, I avoid addressing the investment markets like the plague in these articles; however, as the markets in this instance will help the economy, I thought it appropriate.

The stock and bond markets for the past several months have been trading on fear, not on fundamentals. We have seen almost all stocks devastated and the corresponding reduction in investment accounts, particularly 401(k)'s, have left many people in a panic. People have increased their savings and we are seeing a significant increase in the M2 measurement of money supply (M2 measures the amount of money in checking accounts, savings accounts and balances in retail money market funds). In January the M2's annualized growth was a robust 17% compared to an August figure of 3%.

Growth in M2 typically predicts growth in the overall economy. It gives a good indication of what will happen in the economy six to nine months in the future. Banks have more money to lend and money markets have more capital to inject into the short-term capital markets.

The markets reversed themselves in March posting the first monthly gain since the third quarter of 2009. One reason is the affect of the TARP funds entering the markets beginning in October. (Generally, governmental economic moves take six to nine months on average to work their way into the economy.) Stock market gains usually have a great psychological affect on the consuming public as they see increases in their investment portfolios and retirement accounts and they start shifting money out of savings and into consumption.

Although we will still see some sectors of the investment world continue to be on thin ice, the overall markets should have the worst behind them.

*Cont'd on next page.*

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

#### Facts about DeAna:

- DeAna is a Vice President and Manufacturing Group Relationship Manager in our northern region based in Bethlehem.
- DeAna graduated from Cedar Crest College, Allentown, PA, with a bachelor's degree in accounting and a minor in economics.
- She has 11½ years of banking experience. Prior to joining National Penn, she worked for Unity, Summit and Fleet Banks as an underwriter, a credit analyst and a lender.
- DeAna was born in Phillipsburg, NJ, and now resides in Stroudsburg, PA. She is married to Joe and they have two boys, Rocco and Jack.



- Zodiac sign: Libra
- Favorite movie: "Good Will Hunting"
- Last book read: I read a book about outer space to my children last night. Other than children's books, I read fashion and economics articles.
- Favorite food: Anything Italian
- Favorite type of music: '90s Grunge is my favorite, but I like almost all music with the exception of country.
- Favorite sport/sports team: Basketball is my favorite sport.
- Favorite vacation spot: Hatteras Island
- Hobbies: Exercising, playing with my kids
- A person you would most like to meet: Ronald Reagan
- Something that would surprise everyone to know about you: When I was a child, I aspired to be a Radio City Rockette. I was not tall enough or talented enough to pursue that as a career choice.

*ECONOMIC INSIGHTS -Cont'd from Page 5*

#### Stimulus, Stimulate Stimu-NO

Alright Congress, will you stop spending already and do a Stimulus Package which historically has worked – TAX CUTS!!!

Economic history will show Hank Paulson was a genius. Last October, there was a need for governmental intervention in the capital markets. A bailout was needed and very much warranted. The original package proposed by Secretary Paulson would have corrected many of the problem children in the system and restored confidence. Unfortunately, it has turned into a political circus and the circus has gotten bigger and is lasting longer than it should.

Since the original TARP, we have seen Congress pass other bailouts and stimulus packages at the cost of our future. In the past when we have seen governmental spending of this magnitude, it resulted in significant inflation, which we feel, will rear its ugly head domestically starting in the middle of 2010 and be very apparent in 2011.

The Chinese and Brazilian economies have slowed but they are still in a growth mode. Therefore, we are seeing a slight rise in commodities prices such as copper. The rest of the world continues in recession. The United States will start to lead the world economy out of the global malaise by the end of 2009 and we will see a stronger global economy in 2010. The United States will regain its standard of living and more importantly, consumption will rise from current levels.

As manufacturers, take advantage of inexpensive capital and use this downtime to rework, repair and remodel production facilities. Make yourself more efficient to be more competitive when this economy turns around in 2010. Also, be diligent in purchasing your commodities and hedge where possible starting in the end of 2009.

# Manufacturing Businesses For Sale

## Corrugated Box Manufacturer - E2653

Manufacturer of custom corrugated containers and related products. Has one of the most versatile and efficient collections of container making equipment in the industry. This is a high net margin business with excellent future growth opportunities. Presently, the company generates approximately \$20 million in annual revenue with approximately \$3 million in Normalized EBITDA.

## Manufacturer of Patented Fence, Gate & Railing System - E3446

Manufacturer of patented aluminum fence, gate & railing system located in eastern region. Patented product with excellent future growth opportunities is looking to partner with a larger firm who could broaden product distribution and penetrate new markets. Real estate includes an 80,000 sq. ft. manufacturing facility situated on approximately 20 acres with a recently purchased, state-of-the-art powder coating line. The company has capacity to generate \$25 million in its existing facility. Management expects 2008 revenues to be approximately \$1.5 million and 2009 to be in excess of \$2.5 million.

## Packaging Equipment Manufacturer - E3565

The company specializes in manufacturing automated packaging machinery designed and built for reliability and trouble free performance. It is located in the mid-Atlantic region with an operating history that spans over 30 years. The company offers a complete comprehensive line of automated packaging systems to meet the demands of manufacturers throughout various industries. The company enjoys an experienced, non-union workforce and has excellent future growth potential. It currently generates approximately \$9 million in annual revenue.

## Commercial Printing and Fulfillment Company - P06103

The company specializes in very high quality, multicolor for major advertising/design firms and manufacturing, retail, education, and financial services companies. It is located in the mid-Atlantic region with a heavy concentration of customers in eastern Pennsylvania, Maryland and New York City. Year ending December 2008: estimated sales are \$5 million.

## Contract Machine Shop - P07082

This company is a high-end contract machine shop specializing in quality precision milled and turned parts with critical tolerances. The facilities consist of a 16,000 sq. ft. M/L manufacturing and office complex. It is located in the mid-Atlantic region. Sales revenues in 2008 were approximately \$5.5 million. There is room for expansion.

## Production Machining/Building - P08061

This company is a 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 of \$3,750,000.

## Swiss Turning Manufacturing - T9918

This company is 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.

## High Tech Motor Development Company - V1054

Motor development company that has designed, refined, tested and validated a brushless AC motor and control system with unprecedented power density and system efficiency. One patent and three patents pending protect the technology that can be applied in the HVAC, aerospace, power hand tool, refrigeration, and data center markets. Additional markets include electric vehicles, robotics, motion control, etc. Over six years in development, the current motor control system delivers approximately 2.5 HP with an overall system efficiency of 84% and a power to weight ratio that is half of the equivalent power size motor.

## Consumer Product Manufacturer with Retail Distribution Channel - V6764

This company has developed a quality brand for a specific niche market. The product is sold in large retailers and sporting good retailers across the country. Branding has allowed for further diversification. The company which was started in 1986 has shown steady growth organically and through acquisitions. Revenues for 2008 will exceed \$6.5 million and an adjusted EBITDA of over \$1 million.

## Aluminum Foundry - VC4047206

This company is a 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.*



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*CLIENT INSIGHTS -Cont'd from Page 2*

He has even recommended the Manufacturing Group to another manufacturing colleague. David indicated that Bassett has used a wide range of National Penn's services including equipment revolvers, a working capital line, operating leases, term loans, building financing and online banking services.

David's son Bret has been working at Bassett Industries for eight years now. Bret received his undergraduate degree in mechanical engineering and recently received his MBA. A succession plan between father and son is being developed. Bret brings a fresh, new perspective to the business as he assumes a more significant role in the planning and strategic direction of Bassett.

*TAX BENEFITS -Cont'd from Page 4*

All manufacturers should consider the research and experimentation tax credit to reduce their federal and state tax burdens. Innovation and technological advances are necessary for most U.S. manufacturers to be effectively competitive in the global economy. Heightened awareness and media coverage has helped Congress to recognize that this country does, in fact, need manufacturing to succeed in order to create an economy that is sustainable in the future. By taking full advantage of this credit, manufacturers could fund equipment purchases or hire additional skilled labor. Your tax professional should be able to help you examine the credit opportunity to easily determine the potential benefit for your business.

*For additional information, please contact your Manufacturing Group Representative or call 1.888.248.3654.*

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