

mergers & acquisitions

2008 FINANCIAL OUTLOOK

I have been following the state of the economy for the past year.

- The 2008 projections from the stock analysts are dim;
- **The 1st and 2nd quarter of 2009 do not look much brighter;**
- Trucking bankruptcies rose 11.5% in October of 2007 from the previous months, as carriers struggled with weak freight demand and sharply rising fuel costs;
- **The investment banking industry has indicated that we should expect significant trucking bankruptcies the 1st quarter of 2008;**

These statistics verify what I have been stating in my newsletters for months;

- The economy is "in the toilet";
- Trucking failures will continue to rise, and;
- Many lenders will start taking a tougher position on extending credit to trucking companies.

Apparently, banks are taking a hard look at their trucking portfolios and they don't feel comfortable. Delinquencies are on the rise and a loan is considered delinquent when payments are more than 60 days past due.

It is important to understand that bankruptcies are "event" driven and not the result of a general deterioration in finances. It is a condition of the market. My point, the trucking industry is in for a rough 2008.

- In November of 2007, diesel fuel rose to a record high of \$3.42 a gallon;
- For the week ending November 19, 2007, diesel prices rose 12.2¢ a gallon, and;
- In November, many of the major public trucking companies took substantial "hits" on their stock.

Historically, performing companies took huge swings on their stock value. In other words, the industry "took a pounding" and it is a direct result of the economy.

Trucking, as well as other industries, is directly affected by real estate. A dark cloud has parked itself over commercial real estate. This segment of the market, which finances about 25% of new investments, has started to show a market "meltdown". We all know what has happened with the residential market. **Conditions are rapidly worsening, and even though commercial real estate doesn't suffer from the reckless lending problems seen in residential housing, the analysts are predicting that commercial real estate will be severely curtailed.**

That, coupled with the secondary mortgage fiasco, indicates big problems for our economy. There is currently a plan (pending) in the White House that is "spearheaded" by Treasury Secretary, Henry Paulsen. The goal is to turn the foreclosure process into less of a "case-by-case slog".

However, the plan is voluntary. Lenders and mortgage service providers have broad discretion on who qualifies and there are plenty of restrictions including mortgage holders with credit scores above 600 are not eligible. It is interesting, since Paulson came from the business sector where he packaged a lot of the secondary money in the brokerage firm that he worked for.

Additionally, OPEC didn't hand out any holiday presents to holiday consumers and the auto industry sales forecasts have been curtailed; we are in for another year of challenges. To an industry such as ours, that means that;

- We need to control our cost;
 - We have to plan our expenses to our profits;
 - We have to eliminate all excess waste (immediately);
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MERGERS • ACQUISITIONS • DIVESTITURES • OPERATIONAL REVIEWS • MANAGEMENT CONSULTING

THE AHERN ADVISORY

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Ahern & Associates.

editorial – Ethics in Business

“ *Ethical business behavior begins with honest communication* ”

Ethics is defined in Webster’s Dictionary as a principal of right for good behavior. A system of moral principals or values. The study of the general nature of morals and the specific moral choices an individual makes in relating to others. The rules or standards of conduct governing the members of a profession. Since business ethics are moral ethics, it is dealing with the principals of right or wrong in relationship to human actions and character.

As a Chief Executive Officer, you need to teach, display and demand proper character and behavior from your employees. As leaders, you have to set an example of what is right and what is wrong arising from a conscience or the sense of right and wrong.

As many of you know, I have authored articles on business ethics as they’re perceived.

- I have discussed the way businesses conduct themselves today verses the “good old days”.
- Ethics are a totally different concept than the way they were conducted in the “good old days”;
- In the “good old days”, a hand shake was your bond.

A written contract was only as good as the person that entered into that contract and regardless of the financial circumstances, once a person shook another person’s hand, they lived up to those ethical and moral obligations – regardless of the financial impact. In the “good old days” when a person told you his word was his bond, he meant it.

In today’s society, when somebody tells you that his word is his bond, you better grab your wallet because you can anticipate that he is going to try and take advantage of you. Today we are in a very litigious society.

- We want instant gratification;
- **A contract is a contract only if it achieves our expectations,** and;
- Many businesses do not live up to their

contract/bond, and they justify why they didn’t live up to that agreement.

“Screw or be screwed” is the motto of some businesses – not all, but some. And that sets the stage for what is wrong, not only in our business environment, but our moral environment today. As the baby boomers are exiting the workforce, **it is more important than ever, as a Chief Executive Officer,** that you instill ethics and moral character into your employees.

- Your employees are your company’s future;
- **Our children are the future employees of companies; we need to instill that honesty is the best policy.**

Ethical business behavior begins with honest communication. You need to always tell the truth, even if it means losing a customer because people judge your actions by your integrity. You need to never, ever compromise your integrity and you should never compromise a customer’s integrity. In the early 1990’s I was involved in public speaking through Pepperdine University and conducted business ethics seminars. The purpose of the seminars was to create an awareness of how values can be compromised and how easily a person’s economic and moral situation changes by operating in “the gray zone”.

I have had the pleasure (and sometimes displeasure) of working with some of the largest corporations in the world;

- Some of those companies have the highest integrity and moral convictions that I have ever experienced;
- **Others, are strictly concerned with the bottom line profitability of their company,** and;
- **Regardless of what their contract states,** you can anticipate that they are going to take advantage of you, if you allow that to happen.

When I am presented with circumstances such as that, I simply cancel their contract.

- I refuse to do business with them,

regardless of the economic impact;

- I don’t care how large they are;
- **I don’t care whether they believe that their reputation preceeds them, but I have a code of ethics in my company.**

I expect my employees to follow Ahern’s Code of Ethics. If my employees violate the code of ethics, no matter how long they have been with my firm, I terminate them. At the end of the day, a business legacy or an individual’s legacy, is;

- How he conducted himself in a business environment;
- If he had sound moral values, and;
- If he lived up to his promises.

My grandfather had a saying that went something like this: “A man is not a man if he does not keep his word.” Today, we are in a very fast-paced environment; it is a very impersonal environment with the introduction of the internet. **We are a global economy and unfortunately, we have let our moral and ethical values compromise themselves because of this globalization.**

As a Chief Executive Officer;

- **You need to lead by example;**
- You need to instill a code of ethics in your people, and;
- **You should never, ever compromise values,** regardless of the financial impact.

You may not be the richest individual in the world, but you will certainly gain the admiration of your customers and your employees.

In closing, Ahern has a Code of 17 Ethics that each new employee, when hired, must review and sign. It is made very clear to them that if they ever compromise those values, regardless of their tenure with the company, they can be subject to termination. I would encourage each of you to instill such processes in your company. I would also encourage you, if you are compromising your values, to “wake up” and recognize

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- We need to hold our employees accountable for job performance;
- We need to provide our employees with specific goals, objectives and specific time frames in which to accomplish those objectives, and;
- Performers are to be rewarded; the non-performers are to be eliminated.

Our government, in its infinite wisdom, is also trying to generate more tax dollars because the government is broke! They have the largest trade deficit ever, and the dollar has weakened significantly. Therefore, IRS has a big push on re-classifying Independent Contractors as employees. IRS agents will soon get plenty of new leads for payroll tax exams, which mean added cost to the taxpayer.

To further complicate matters is the stock market! Analysts are stating

potential threats to the stock market (over the next 12 months), including a recession, slowing corporate profits, rising commodity prices and a meltdown in the financial services industry are enough to make investors think twice about keeping their money in stocks. Analysts are also predicting the dollar will continue to weaken.

Most of the talk is about fast-growing economics which center on China, India and Brazil. However, central and eastern Europe have been a huge beneficiary of globalization as well, and the economies of countries such as Romania and Ukraine have grown at an average 5% clip or higher each year since 2002.

Although the dollar is losing its value, in comparison to other countries, all the overseas economic activity is creating disposable income for millions of

people and they want the same things as everybody else: Good food, nice clothing and a chance to earn more money. Those trends will continue in 2008, regardless of what happens in the United States, which means that companies that are deploying their assets in China, India and Brazil have a good opportunity for growth and profits.

The trucking industry has always been a "pennies" business. Fortunately, over the last 3 to 4 years the trucking industry has been fortunate enough to have demonstrated solid financial performance. Now, it is time to go back to the basics and focus, and look under every "rock" for every penny and practice Basic Trucking 101. The companies that treat each truck as a profit center and continue to hold their people accountable for performance will be the companies that succeed/survive in 2008.

GLOBALIZATION IS A FACT OF LIFE IN TODAY'S ENVIRONMENT

China and India are growing countries that we must watch;

- Many people believe it will take years for China and India to approach America's position as the largest economic power, but that's group thinking.

There are several facts, about China that indicate what that country is doing and where that country is going.

1. The first Starbucks opened in China approximately 3 years ago. There are now more Starbucks in China than in the United States.
2. In the 1970's, Shanghai had exactly one skyscraper. It now has close to 800.

My point, China is a big force. Its population is such, that 1 in every 5 people on the entire planet is Chinese;

- China has a vibrant economy and workforce and has adapted very well to the new technology;
- The Chinese are industrious and disciplined.

This means we can either close our eyes and be blown aside, or we can study China and position ourselves to benefit from their changes.

In reference to India:

- India is the world's largest, oldest, continuous civilization;
- In the last 10,000 years, India has never invaded any country;
- India is the world's most populous democracy;
- India is one of the few countries in the world that gained independence without violence;
- The art of navigation was born in the river, Sindh, 6,000 years ago;
- Sanskrit is the mother of all the European languages;
- India was the richest country on earth until the 17th century when the British invaded;
- Chess was invented in India;
- India invented the number system;
- Algebra, trigonometry and calculus originated in India;
- The value of "pi" was first calculated by a mathematician in India; he discovered it in the 6th century;
- India is the largest English speaking nation in the world.

38% of doctors in the United States are of Indian decent and 12% of scientists are of Indian decent. They represent the wealthiest of all ethnic groups in the United States as well as globally.

My point, the United States has very strong competition, specifically in China and India.

General Motors is stated to be one of the largest automotive manufacturers in the world, yet, General Motors is losing its market share to companies overseas, such as Toyota. Why?

When you look at GM's numbers, you don't have to be an MBA to understand them; 6th grade math will do;

- How can a company that earns \$17.92 a share pay out a dividend of \$20.62 a share and stay in business?
- Anyone can tell you that if you have \$17.92 in cash, you cannot afford \$20.62;
- How can a company spend \$102.34 a share when it only earns \$17.92 a share? That just doesn't make sense.

Yet, even though it does not make economic sense, millions of people are investing in GM; betting their retirement on GM's future and listening to stockbrokers and financial planners advise them to invest in blue chip companies like GM.

Donald Trump has a saying, which I think is funny. He stated, "Wall Street is the only place that people ride to in a Rolls Royce to get advice from those who take the subway."

NYK LOGISTICS (AMERICAS), INC. ACQUIRES BRUNI INTERNATIONAL

NYK Logistics, (Americas) Inc., has acquired Bruni International, located in Laredo, Texas. Bruni International operates as an air freight forwarder, customs broker, warehouse and distribution company. Terms of the sale were not released. Ahern & Associates, Ltd. assisted in a management consulting capacity and acted as acquisition advisor to NYK Logistics (Americas), Inc.

UNIVERSAL TRUCKLOAD SERVICES, INC. ACQUIRES GLENN NATIONAL CARRIERS, INC.

Universal Truckload Services, Inc. purchased specific assets of Glenn National Carriers, Inc. located in Little Rock, Arkansas. Glenn National Carriers is a \$25MM van carrier that is predominantly a non-asset based, agent driven company.

Ahern & Associates, Ltd. assisted in a management consulting capacity and acted as acquisition advisor to Universal Truckload Services, Inc.

SMART MOVE TO ACQUIRE STAR ALLIANCE

Smart Move stated it has entered into a letter of agreement to acquire the assets of Star Alliance, a privately owned operating division of Arpin Group.

Smart Move may also acquire assets relating to Star Alliance's real estate brokerage and third party relocation operations.

Arpin is a moving firm that handles household goods, corporate, government and military relocations.

Smart Move is expected to provide an upfront payment in common stock and

to receive an earn-out portion based on Star Alliance's performance.

SUN CAPITAL ACQUIRES MARK VII INDUSTRIES

Private equity firm, Sun Capital Partners, acquired Mark VII Industries, a manufacturer of automotive and truck components, mobile communication equipment and small gasoline engines.

Mark VII was located in Amherst, New York, and Turin, Italy.

Terms of the sale were not disclosed. Sun Capital owns more than 175 companies, including truckload carrier Jevic Transportation.

(Excerpts taken from Transport Topics)

business hotline

BABY BOOMERS - THE STATISTICAL REALITY

The first of 75 million baby boomers have begun to retire. Many have inadequate funds to retire. The lack of savings is caused partly by a law known as Gresham's law. Gresham's law states that when bad money enters a system, good money goes into hiding. This has happened throughout history.

As Americans we are living longer with less money, and therefore, will have less opportunity, which leads to the next problem; an entitlement mentality;

- Millions of people lack financial resources;
- They now expect the government to solve their financial problems or take care of them;
- If the government does not take care of them, who will and;

With prices going up, who can afford to take care of themselves? In essence,

you have to recognize and prepare for the problems that we're facing today.

1. A growing trade deficit!
2. A growing national debt.
3. A falling dollar.
4. Baby boomers without money.
5. An entitlement mentality.
6. Higher oil prices, and;
7. Tax breaks for the rich.

As entrepreneurs and investors, there are six things we demand control over:

1. Income.
2. Expenses.
3. Assets.
4. Liabilities.
5. Management.
6. Insurance.

As investors, we want to control these factors. Do the above statistics make you feel comfortable? An aging society, a growing trade deficit and a bankrupt government; sounds like a best selling novel!

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that **in 100 years, nobody is going to care how much money you had or how many cars you drove** or how many houses you lived in. **The real value is how you conducted yourself as a business leader**

and parent. I have enclosed Ahern's Code of Ethics as a supplement to this article.

In closing, never violate your code of

conduct; never misrepresent yourself; never make false promises and never try to take advantage of the situation.

AHERN'S CODE OF ETHICS

First Published January 1995

1. **Honesty is the best policy** - Ethical business behavior begins with honest communication.
2. **Always tell the truth** even it means losing a customer. People judge your actions by your integrity.
3. **Never! overstate Ahern's ability to perform.** Explain fully the pro's and con's of utilizing our services.
4. **Never! use high pressure sales tactics.** Ahern offers quality service, but the client must make a value judgement of our worth.
5. **Never! Never! compromise** Ahern's integrity.
6. **Never! Never! compromise** Ahern's customer's integrity.
7. **Never! attempt to act** as a business broker.
8. **Explain fully and honestly** Ahern's services and fee structure.
9. **Never! try to take advantage** of a prospective client by trying to overcharge because of the situation.
10. **Never! compromise Ahern's client's** confidentiality with family, friends or business acquaintances.
11. **Never! compromise Ahern's client's** confidentiality with other third parties.
12. **Never! Never! disseminate** any confidential information to third parties for financial or personal gain.
13. **Never! make false promises** or performance statements to acquire an account.
14. **Never! misrepresent Ahern or yourself** to any client, prospective client and/or prospect.
15. **Do not buy, sell or trade any transportation stock** and/or equity instrument with any transportation company that has a business relationship with Ahern.
16. **Never! compromise Ahern's values,** integrity and always act professionally and above board.
17. **Never! violate any code of conduct** or ethic on competence as outlined by the **National Bureau of Certified Consultants.**



TAKE ACTION!!!!

- Instead of focusing on whether your business is “family friendly,” ask whether it’s embracing policies that are friendly to “life choices.”
- Adopt singles-friendly culture. Recognize that the types of benefits and work options valued by single and child-free employees likely are different from those valued by married couples or parents.
- Question any benefit offered only to married couples or parents and not to others.

(Excerpts taken from Trend Letter)

ECONOMIC FORECASTS

↓	GDP Slowing to 1.5% - 2% in '08	↑	Crude Oil Averaging about \$78 this year
↓	Interest Rates Prime rate at 6.75% by mid '08, 10-year T-notes yielding 4.25%	↓	Housing Sales Falling 10% in '08
↓	Inflation Easing to 3% in '08	↓	Retail Sales Growth Slowing to 2.5% this year
↓	Job Growth Slowing to 1.1 million in '08	↓	Trade Deficit Easing to 3.8% of GDP in '08

Excerpt from Kiplinger Report

quote of the month

Truth is something you stumble into when you think you are going someplace else

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