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HOW ARE YOU PERFORMING VERSUS YOUR COMPETITION?

RSM McGladrey recently conducted the Web cast, “**How do you measure up to your competitors: benchmarks for trailer manufacturers.**” In case you missed it, we’d like to offer this brief overview.

Our knowledgeable and experienced presenters – Tim Koch, a managing director whose work with trailer manufacturers spans 13 years; Jim Morton, a managing director in our transportation group whose work with trailer manufacturers spans over 25 years; Tom Murphy, executive vice president of RSM McGladrey’s Manufacturing and Wholesale Distribution group; and Matt Arnold, board member of the National Association of Trailer Manufacturers – not only covered the current state of the trailer industry, but also ways to check how you compare to your competition as well as the industry as a whole.

After you review the following, we think you’ll agree that participating in this year’s study is a great opportunity to get a free copy of the updated information. You’ll also have the benefits of seeing all the data in one report and our professionals will meet with you one-on-one to discuss your business issues, how you stack up versus your competition, and regulatory changes that could impact your accounting and tax structures.

About RSM McGladrey and McGladrey & Pullen

RSM McGladrey Inc. is a leading professional services firm providing accounting, tax and business consulting. McGladrey & Pullen LLP, a leading national CPA firm, delivers audit and attest services. We provide a wide range of services to a variety of industry sectors, including manufacturing, wholesale distribution, construction, financial services, technology, communications and professional services.

Together, the companies rank as the fifth largest U.S. provider of accounting, tax and business consulting (source: Public Accounting Report), with 8,000 professionals and associates in more than 120 offices.

RSM McGladrey and McGladrey & Pullen (a partner-owned CPA firm) have an alternative practice structure. Though separate and independent legal entities, they can work together to serve clients’ business needs. RSM McGladrey Inc. and McGladrey & Pullen LLP are members of RSM International, an affiliation of separate and independent accounting and consulting firms.

2006 BENCHMARK RESULTS SUMMARY

We completed the 2006 edition of the benchmarks in August. It represents the averages for participating companies for their years ended 2005. Here are some highlights from the study:

- Revenue growth was about 11 percent, down from 23 percent in 2004
- Average operating cycle* was 58 days
- Companies generally paid 58 percent for materials, 11 percent for direct labor and almost 13 percent for manufacturing overhead expenses, as a percentage of revenue
- Average operating income was about 5.5 percent of revenue, up 1 percent over 2004
- Sales per production employee (based on a quarterly average of employee counts) were about \$194,000, which is up slightly from 2004 and 2003
- Participating companies paid about \$2,791 per employee for group health insurance-related costs, an increase of 34 percent over 2004
- 73 percent offered group health insurance as an employee benefit, with 37 percent using a partially self-funded strategy to lower insurance costs
- On average, production workforce was paid \$15.93 per hour, up 10 percent over the prior year
- Companies generated about \$270,000 of revenue per production square foot
- The average salesperson was responsible for maintaining a relationship with 12 dealers
- The return of total assets as pre-tax income averaged 12.7 percent

*Measures number of days it takes to convert cash payments for inventory to cash collections from sales of that inventory

NATM INSIGHTS INTO INDUSTRY BENCHMARKS AND ISSUES FACING MANUFACTURING

Matt Arnold, board member of the National Association of Trailer Manufacturers, shared his thoughts on the use of the benchmarks and the importance to the industry. He indicated that although many of us get caught up in the management of day-to-day operations and never look at the overall picture, as business owners, it is important to realize that there is always room for improvement within your business. The benchmarks are an outstanding program that will allow you to concentrate on the items with the biggest payoffs. For example, because many manufacturers within our industry source common parts, the survey data will help give you an idea of your purchasing performance relative to your competitors. If you notice a large variance, it can lead you into a new strategy with your suppliers. Other areas such as labor allow you to compare your labor efficiencies or inefficiencies versus the competition. Rather than hiring an expensive consultant with no experience in our industry to evaluate your company, it is by far more beneficial to participate in this survey and have the knowledgeable staff at RSM McGladrey assist you in interpreting the results. The differences can be eye opening.

Tom Murphy, executive vice president of RSM McGladrey's Manufacturing and Wholesale Distribution group, said one of the most significant challenges facing manufacturers in the U.S. is rising health care costs. Cost containment initiatives include working to help prevent and manage chronic diseases, especially heart disease, diabetes and cancer, which together represent 75 percent of all medical costs. High-dollar claims can be managed by working more closely with insurance carriers, third-party administrators or brokers. Employees should be encouraged to look into better quality service providers and incentives such as gym memberships can help employees become and stay healthier. Jim also encourages using health savings accounts (HSAs), health reimbursement accounts (HRAs) and flexible spending accounts (FSAs).

Commodity pricing is another major issue for manufacturers. Significant cost increases with chemicals are being driven by worldwide demand and the rising costs of natural gas. Some stabilization appears to be on its way given a recent slowdown in demand.

METHODOLOGY

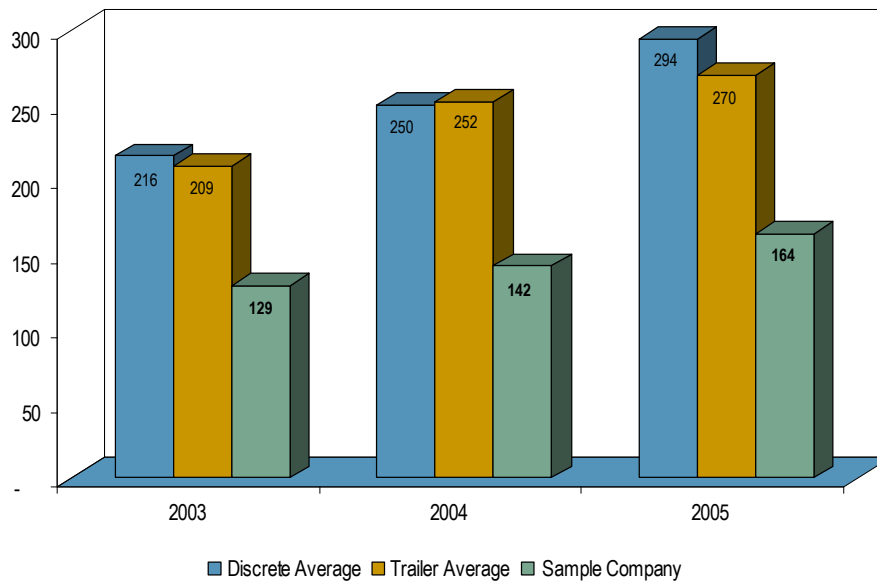
RSM McGladrey has been collecting trailer industry benchmark information for more than 15 years. We produce a comprehensive report that includes more than 60 financial and operational ratios and data measures.

Our benchmarks are grouped into three categories:

- **Working capital and fixed asset management** covers primarily financial ratios such as current ratio, sales to total assets, working capital to sales and operating cycle
- **Productivity and profitability** encompasses expense-to-sales analysis and operational benchmarks, including sales per employee, group health costs per employee and advertising expenses per dealer
- **Revenue, direction and company value** include return on ending assets, return on invested capital, sales growth, EBITDA growth and more

The study allows companies to compare their information against a discrete average (combined data from the pleasure boat, recreational vehicle, trailer and related industries because their production and distribution methodologies are similar) and the trailer average. Three years of data allow participating companies to examine trends. We also include a quartile component to help participants determine how they are performing against others in the industry. Below is a sample graph from our study.

Sales per Production Square Foot
(in thousands)



If you have questions or would like more information on our Benchmarks for Trailer Manufacturers, please call Whitney White, director, at 574.283.2714 or e-mail: whitney.white@rsmi.com.