IMA fights for new energy tax credit ■ Tips for a litigation-free holiday season

The Illinois Manufacturer

www.ima-net.org

Winter 2007

$aving alone won't do it . . . $elling will

Inventory trends: the "Wal-Mart" effect

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The Illinois Manufacturer is underwritten by Constellation NewEnergy

Winter 2007

Cover story: $aving alone won't do it. . .

$elling will

Motley's Law: **Nothing happens until somebody sells something.** Manufacturers should take note of Motley's Law. Selling drives the enterprise. Always has. Always will.

Columns

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Mission Statement

The object for which the Illinois Manufacturers' Association was formed is to strengthen the economic, social, environmental and governmental conditions for manufacturing and allied enterprises in the state of Illinois, resulting in an enlarged business base and increased employment.

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Share your company news with IMA . . .
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GREGORY W. BAISE

Illinois' economy is stuck in neutral

While the State of Illinois insists we're having an economic boon, the reality is that Illinois has not experienced sustained performance in more than a decade.

Earlier this fall, I participated in a public policy forum hosted by the City Club of Chicago. As I prepared my talk about issues facing our state, I discovered I had a lot of questions. I also discovered I had very few answers.

For instance, why didn't Illinois get the new Honda plant in Fithian? What was lacking from Illinois' proposal that convinced Honda officials that Greensburg, Indiana, was the place for them?

Why did major companies building new ethanol plants go to Iowa, Indiana and Nebraska and not Illinois? Why did another company choose the gulf shore for a new automotive related plant when we have the trained workforce and transportation system they needed right here?

Since 2000 Illinois has lost nearly a quarter of all manufacturing jobs in the state. That's nearly 200,000 people. If all of those individuals lived in one city in Illinois, it would be the second largest in the state. And these were good-paying jobs that offered benefits and middle-class lives to families.

Why has so little concern been expressed about this? Have we become so immune to job losses that we no longer care?

I want to know why our state government can't seem to enact cogent public policies that create an environment where entrepreneurs want to come here and set up shop and thrive and expand and create new products and jobs.

Why do we have a state government with leadership — on both sides of the political aisle — who stand idly by as our state pension debt grows to the largest in the nation?

Why do those leaders, who without a moment of concern, ignore our state's constitution by passing and implementing a budget that is millions of dollars out of balance? Fifty-eight billion dollars . . . all carved up and packaged by a group so small they could have held their meetings in a phone booth.

Where is the outrage over that? The press dutifully reported it. But again, we just shrugged.

Is that why no one questions when government's actions contribute to the loss of hundreds of thousands of the best jobs — those that come with good wages and benefits — only to "discover" we have uninsured people living here?

I want to know why it's good to expand the Medicaid-base but not the tax-base?

I could go on and on, but you get the idea. Illinois is in a rut. Our economy is stuck in neutral.

According to the U.S. Departments of Commerce and Labor, Illinois ranks just 48th in job growth for the ten-year period 1995–2005 . . . growth in gross state product, we rank 41st . . . growth in personal income, we're 49th!

While the State of Illinois insists we're having an economic boon, the reality is that Illinois has not experienced sustained performance in more than a decade.

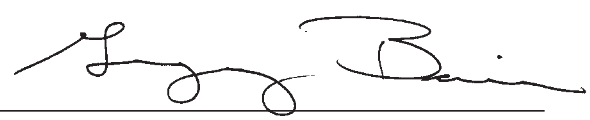
Is it any wonder that manufacturers turn a blind eye to making the multi-million dollar investments necessary to locate here? Likewise, why shouldn't our existing companies look to greener pastures?

Next year's legislative session promises to be unlike any we've seen in recent memory. We already know that the legislature and the governor, emboldened by their recent re-elections, will be pushing employer-paid universal health care for every person in Illinois, more tax and fee increases on businesses and a "trade" proposal that seeks to impose Illinois' environmental standards on foreign countries, and their manufacturers, as a condition for those countries to export their goods to our state.

As an association, we can no longer standby and let state government erect more obstacles to stymie the business community. The IMA plans to advance an agenda that is pro-growth. We are going to ramp up the policy discussion and demand answers to the hard questions nobody else is asking. If government wants a free lunch at our expense, we will speak quickly and forcefully.

Illinois cannot continue on its current path. It must embark on a new direction that encourages the entrepreneurial spirit — one that forces government, business and labor to put aside their differences and work together in unison – not just to bring new jobs to Illinois, but to also keep and expand the opportunities we already enjoy.

It isn't that difficult, but it will take people of good will to succeed. It's time we did that. The future of our state's prosperity depends on it.



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PRAIRIE STATES

Leading at every level

SCOTT WOODBURY, CPA, MST

Tax planning for 2006 and beyond

Most manufacturers are taking advantage of tax benefits provided by the Internal Revenue Code (IRC) and its regulations. The IRC contains predominately all U.S. tax laws. It also provides many *block and tackling* tax planning areas for manufacturers.

Manufacturers generally face similar tax issues. While an in depth study of all tax accounting methods should be considered, companies can get more bang for the buck by looking at some key ideas for tax year 2006 and beyond.

LIFO inventory

One of the largest assets a manufacturer has is inventory. In recent years inflation has increased for several industries such as the steel, plastics and petroleum products industries. The IRC provides for a simplified tax method of accounting for inventory for manufacturers in inflationary industries which hold inventory. This method is called the Inventory Price Index Calculation (IPIC) LIFO method. LIFO stands for Last-In-First-Out, which in periods of rising prices pushes increasing costs into cost of goods sold and creates a LIFO reserve.

The IPIC LIFO method for inventory utilizes external indexes published by the Bureau of Labor Statistics to compute annual inflation by major categories of a companies' inventory. Whereas this is a simplified method, there are still various tax sub-methods that must be adopted to complete the calculation.

To elect the IPIC LIFO method, manufacturers must complete either a first time election Form 970, or a change in method of accounting Form 3115. Also, for companies not already on LIFO, there is a book to tax conformity requirement that must be met.

The IPIC LIFO method offers benefits to manufacturers by accelerating tax deductions, increasing cash flow, reducing risk of IRS adjustments and obtaining back year audit protection for any existing LIFO reserve.

Research and experimental credit

The IRC provides a research and experimental tax credit to encourage U.S. businesses, primarily manufacturers, to increase investments in developing new and improved business processes through technology. Many manufacturers incur significant research and developmental/experimental expenses relating to new or improved products. An analysis of these expenses can allow businesses to identify and document any qualified research expenditures (QRE's)

Companies with QRE's can then take a prescribed credit for increasing research and development activity above a certain base level. Additionally, plant process activities, self-constructed assets, software developed for internal use and package design activities may also qualify for the credit. This credit is essentially a tax-free refund for developing new products.

The research and development tax credit offers manufacturers permanent tax savings, and increased tax flow. State research tax credits may also be available. The research and experimental credit has not yet been extended by Congress beyond December 31, 2005, but is expected to be extended in the next tax bill. However, prior years that are still open by the statute of limitations can be amended to take any eligible credit.

Fixed asset studies

Another large area of concern for manufacturers is the investment in plant, property and equipment. The IRC prescribes depreciation methods depending on the class life of fixed assets placed into service. While depreciation is not very exciting in itself, a fixed asset or cost segregation study to maximize depreciation may offer significant benefits.

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Scott Woodbury, CPA, MST, is a tax senior manager for BDO Seidman, LLP in Chicago. He has helped manufacturers with their tax compliance, planning and accounting methods needs for over 16 years. Scott is a member of the AICPA and Illinois CPA Society.

Chicago Manufacturing Renaissance Council teams up with Chicago Board of Ed

Austin Polytechnical to train youth for modern manufacturing

The Chicago School Board approved a recommendation in November giving Austin Polytechnical Academy permission to begin training students next fall for high-skill modern manufacturing jobs. The program was created and designed by the Chicago Manufacturing Renaissance Council, a cooperative effort between the Illinois Manufacturers' Association, the Chicago Federation of Labor, Mayor Richard M. Daley's administration, and other business groups, educational and community leaders.

Project Lead the Way

The Academy will open with "Project Lead the Way," a pre-engineering curriculum to train high school students for jobs in Illinois' industrial sector. Partnering with 20 Chicago-area manufacturing companies, which have committed to provide internships, the curriculum features business owners as mentors who will coach students to become future managers and owners of industrial enterprises.

Nearly two-thirds of all manufacturing jobs in Illinois are located in the Chicago-area. In the next ten years, experts predict 40 percent of the manufacturing workforce will retire. Local manufacturers already say they have been impacted by a lack of skilled workers, which reduces their ability to maintain production levels and meet customer demands.

"We run our companies to be number one and we have to challenge our communities to do the same," said Glen Johnson, co-chairman of the council and past Board Chairman of the Illinois Manufacturers' Association. "Project Lead the Way represents what I call 'intelifacturing' and sets forth a new paradigm where business and labor can successfully find common ground and create programs to prepare our children for the world of work."

According to 2003 Census Bureau data, the average annual earnings for manufacturing workers, including benefits, was more than $64,000, significantly higher that most other occupations in Illinois. Manufacturing provides one of the few true middle class lifestyles where workers can realize the American dream of home ownership, sending their children to college and assuring a comfortable retirement.

Today, the manufacturing economy is threatened by a widening gap between the availability of skilled workers and the needs of modern manufacturing, according to the *2005 Skills Gap Report – A Survey of the American Manufacturing Workforce* by the National Manufacturing Association. The report calls involvement by public and private stakeholders, such as the Council, "urgent" to reverse the trend.

Locating the new program at Austin Polytech in the Austin community, which was devastated by de-industrialization, was a strategic move. It gives access and hope to people living in blighted communities, and will make an important contribution to ongoing efforts to end poverty, sustain families and rebuild communities.

"We are confident that this new type of school that prepares students for great careers in modern manufacturing will prepare youth to enter lucrative careers, as well as attract manufacturing companies to Austin," said Dan Swinney, Executive Director of the Council. "We believe Austin Polytech will serve as a model for the development of similar schools in Chicago."

The program will start with an incoming freshman class in Fall 2007.

More information can be found on the Council's website: www.chicagomanufacturing.net. ■

MARK DENZLER

IMA playing offense on energy

Fights for new energy tax credit

According to the Department of Energy, Americans will spend over $200 billion more on energy this year than they did last year, totaling over $1 trillion. That's an increase of 24 percent. According to the Secretary of Energy, prices will continue to rise for the next three years. Increased energy costs are taking a toll on the American economy, businesses, consumers and families. Major sectors of the Illinois economy, including manufacturing, agriculture, trucking and the airline industries, have been hit particularly hard.

While different sectors of the economy have varying volume and purposes for energy usage, all industries, especially manufacturing, rely heavily upon energy to transform raw materials into finished products. According to a 2006 Congressional report, the raw consumption of energy is projected to grow at least one percent annually over the next quarter century. Until a comprehensive energy policy is created in the United States, the energy supply will continue to increase in cost and be subject to market volatility which will result in inflationary pressures on all aspects

The energy supply will become increasingly costly and subject to volatility, resulting in inflationary pressures that will burden all aspects of the economy. A recent PNC Financial Services Group Economic Outlook survey of small businesses indicated that the rising cost of energy is a top concern among employers. This national study mirrors studies conducted by the IMA. Whether it was a survey of members of the Small Manufacturers' Action Council (SMAC) or roundtables hosted by the IMA around the state, energy is a key issue.

Manufacturers of all sizes, particularly small and medium-sized companies, say that higher energy prices lead to deflated expectations for growth. These businesses expect that rising energy costs will result in higher production costs and tighter profit margins. Small firms and companies struggling in today's economy may be unable to handle the increased costs because they do not have the ability to tap into reserves. A Business Roundtable study indicated that 23 percent of businesses were unable to pass along any of the energy cost increase to consumers and absorbed all of the cost. This places Illinois jobs at risk.

According to economists at the Federal Reserve Board, a 10 percent increase in the price of oil will likely increase the unemployment rate by 0.1 percent over the course of the following year. Based on statistics supplied by the Bureau of Labor Statistics, a 0.1 percent increase in unemployment will result in a loss of 151,000 jobs. Illinois has lost more than 200,000 manufacturing jobs in the past few years and cannot afford additional job loss.

In addition to the lost jobs, the spike in energy costs is also taking a big bite out of employees' wallets. In a statement accompanying the National Association of Manufacturers' Labor Day report, president John Engler asserts that the increase in energy prices has resulted in a reduction of 0.5 percent in real wages.

When the next jump in prices will occur is anyone's guess. So far this fall, luck has been on the side of businesses and the consumer. The hurricane season is passing without a major storm and the U.S. is addressing concerns with Iran through diplomacy. A predicted warmer winter will help ease the pressure on natural gas supplies. However, the IMA and its member companies cannot place their hope on factors out of their control.

So, in the 2007 legislative session, the IMA plans to strongly advocate for an energy tax incentive that will provide a credit for the cost of energy used in the manufacturing process. This legislation will give manufacturers real tax relief and provide true cost savings. Businesses in the thirty enterprise zones across the state already enjoy this benefit but its time we expand it to manufacturers statewide. We cannot afford not to. ■

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LEV GOLDBERG

Power challenges for manufacturers

Dave Bumbar has found his power. The President of Aurora Metals is a discerning decision maker and cost-conscious customer and had serious concerns when he heard about the changes headed towards the Illinois electric market. With new utility rates about to become effective based on the results of the September auction, Bumbar was not about to gamble with his energy budget. "I had concerns about [utility] prices being set based on the results of a market-based auction," said Bumbar, "and there were too many unknowns that could still evolve and cause the market-based prices to rise."

From January through April of 2006, the 107-year-old foundry's electricity had been served through ComEd's Interim Service Supply, also known as ISS. So, when Bumbar started to look for a new supply solution he chose Constellation NewEnergy to supply their facility through the end of the year. ComEd's 10-year rate freeze and current wholesale supply products will expire on January 1, 2007 and new market-based rates and distribution classes will then go into effect. Bumbar next turned his attention to securing his electric supply and budget for 2007 and beyond.

Aurora Metals' 95,000 square foot Montgomery, Illinois, facility contains a 5,000 square foot pattern shop and 20,000 square foot sand foundry. The multiple all electric induction furnace facility houses vacuum die casting, permanent mold casting, and sand foundry casting processes. And with a multitude of NC Production Lathes and NC Machining Centers dedicated to specific high-production operations finding an electric supply partner with dependable service and financial stability was critical to Bumbar's operations and budget.

After reviewing their options, Bumbar and Elmer Schelling, the Controller, landed on renewing Aurora Metal's contract with Constellation NewEnergy instead of switching back to ComEd. With electricity such a major part of Aurora Metals' cost structure, major factors in the decision were the trust in Constellation NewEnergy, Bumbar's strong relationship with his Business Development Manager YaLonda Lockett and the supplier's competitive pricing. Constellation NewEnergy, the leading competitive supplier of electricity in Illinois and throughout North America, has also been teaming up with the Illinois Manufacturers' Association (IMA) to offer energy educational seminars for manufacturers throughout the state. As a 63-year IMA member, Aurora Metals takes advantage of the association's various member services. Bumbar, specifically, attended a PowerSeries seminar in Springfield co-produced by the IMA and Constellation NewEnergy. According to Bumbar "I liked the seminar a lot and found it very valuable to gather information about the upcoming [Illinois] electricity market changes and the fluctuating electricity market".

By engaging an informed and strategic plan, Dave Bumbar and Aurora Metals have found their electricity supply solution and strategic

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Lev Goldberg is Marketing Manager for the Great Lakes region of Constellation NewEnergy. He formerly worked as Marketing Manager for an Illinois manufacturing company. He may be reached at 312-704-1360 or via email at lev.goldberg@constellation.com.

POWER

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partner. And now, thanks to the IMA and Constellation NewEnergy, they have the power to take control of their electricity budget.

Making heads or tails of electric quotes

With the new utility electricity rates soon to become effective, now is the time to do your homework. For many Illinois businesses understanding the various charges and line items on your electricity quotation can appear to be a daunting task. Terms, definitions and components of charges can vary by electricity supplier. These differences may make it difficult to accurately select your best option and can affect your monthly bill amount. Here are some common traps to avoid when reviewing quotations:

Energy Charges. Be careful not to simply compare one supplier's $/kWh Energy Charge to another. Contrary to what many may think, not all Energy Charges are the same. Some suppliers' Energy Charge includes costs like Capacity Charges and charges to cover expected congestion costs while others may not.

Capacity Charges. The Capacity Charge is the premium required to reserve capacity from power plants for their customers. Ask if the Capacity Charge on your quote is a fixed charge or just an estimate. A fixed charge will provide you with budget certainty. If it's just an estimate, you might be paying more than you think and your cost can vary on a monthly basis.

Congestion Charges. Your electricity provider may be assessed a "congestion charge" by the regional transmission organization (RTO) to address constraints of moving power over long distances through the transmission network. Some quotes may include the Congestion Charge in the Energy Charge which gives you additional budget certainty versus others that charge a separate variable fee.

Usage Bandwidth. If you go over or under your estimated usage, you may receive a "backdoor" charge with other suppliers. Generally, usage over or under the determined bandwidth is charged or credited at a market rate. Find out what the supplier's bandwidth is, if it's a restrictive or generous policy, and if there is an excess usage adder. Beware of suppliers that add a $/kWh charge, in addition to the market rate, for usage in excess of the bandwidth.

Peak Energy Hour Convention. Your energy charges may look easy to compare but do you know when your Peak hours start and stop? Suppliers using the NERC convention begin charging you the higher Peak Rates at 6 a.m. whereas the ComEd convention Peak Rates begin at 9 a.m. or 10 a.m. for Ameren convention. Quoting based on the NERC convention is like playing a shell game with your money. A lower $/kWh price does not necessarily translate to lower overall energy costs.

What manufacturers should be doing in the next 30 days

If you have not yet determined your company's strategic energy plan, you need to start preparing for your 2007 electricity supply today. How you purchase electricity will soon become more complex but you will also be offered more options and prices customized to meet your specific usage requirements. The New Year is just around the corner. Waiting to secure your electricity contract can leave you vulnerable to costly market shifts. So, here's what you need to do to obtain your best electric supply option for your dollar.

Get the power of knowledge

The very first thing you can do to get control of your energy costs in the restructured electric market is learn about what's happening to prices and options, how these changes will effect your type of business and what are your supply options

Understand your electricity usage and budget requirements

Understanding how you currently use electricity and what your demand needs are is a necessary step. Examine during what hours, days, and months you use the most electricity. If you have multiple facilities, look at each facility's usage pattern. Under the utility service, you had few options. With a competitive supplier you can have your electricity contract match your fiscal calendar or multi-year business goals.

Compare your supply options

Since you can now select from a wide array of product and service options it's important to identify which will best fit your company's usage, meet your budget requirements and fit your company's risk profile. There are many options from which to choose and your selection should depend on what works best for you. Fixed-price products are the most desired since they offer the most energy price certainty and budget assurance and allow you to see the same basic price on your bill every month. If you are evaluating fixed-price offerings from different vendors, make sure you are comparing apples to apples. For larger manufacturers uncertain of the market direction, there are other options including a layered, dollar-cost-averaging approach which hedges energy prices over time.

Find a strategic partner

Finding the right partner will allow you to make purchasing decisions that follow a strategic plan designed for your business. The right partner will help you analyze your usage, map a strategic plan for you, and keep you informed. A key differentiator when evaluating potential partners is their stability and experience. Separate partners with energy experience and financial stability from lesser known marketers. The financial risks to you can be considerable if your supplier makes a wrong wholesale transaction or goes bankrupt. Your supplier should be experienced enough to make the right transactions and financially strong enough to absorb day-to-day market shifts.

To learn more about the changing electricity market and compare your supply options go to www.electricityIQ.com/illinois. ■

How to prepare a plant energy profile

By Ray Chapala

In manufacturing there is: A) building energy and B) process energy. Plant energy profiles are used to: 1) buy energy and 2) manage energy. And there are different kinds of energy: Gas; Electric; Solar; Wind; etc.

Energy use (kWh, therm, Btu, etc.) in manufacturing is measured in two ways, 1) by time and 2) by units (kWh/piece produced, or kWh/sales $, or kWh/employee). Building energy is measured by time period (kWh/minute, hour, week, month), and don't forget that a building profile will differ seasonally, summer and winter especially. Presently, measurement of energy is performed by utility meters for billing. Normal manufacturing plants have but one (maybe two) meters for electric and one for gas.

An energy profile made for purchasing should accommodate terms of supplier rates. When negotiating, knowledge provided by profiles provides an advantage. Job descriptions, background checks, and personality assessments are procedures used to hire people. Energy profiles are used to hire (buy, actually rent) energy.

The energy profile can, also, be used to project future energy use. This information can be used in strategic budgets which, in turn, can influence purchase contracts of energy. If you regard energy (gas, electric, etc.) as an employee, it is not advisable to hire energy blindly.

Information that is necessary for developing a good understandable "profile" is as follows because it has to represent the plant:

- Types and amounts of energy being used
- Production information
- Major Operations
- Distribution of energy use (major operations, building, etc.)

Up to this point it may seem complex, and it is, but there is a simple start. The simplest energy profile that can be derived is from the utility company's billing meter at your plant site. That billing information is in their database and is represented in the billing statement. A spreadsheet with the data contained in the billing statement can yield an adequate profile. Care should be taken to avoid combined billing statements and bills that just show flat use and cost. Conversely, the more complex the plant is the more complex, and useful, the profile is. The information should yield a sine wave graph representing a use pattern over time.

Imagine this horizontal sine wave graph. This is a normal representation of energy use. The distance from the bottom (horizontal line) of the graph to the bottom of the sine wave usually represents building energy (fixed costs). The distance from the bottom of the sine wave to the top of the sine wave usually represents process energy (variable costs). This profile can be a good start in studying plant energy use. Other billing charges must also, be studied, such as taxes, transportation charges, demand charges, etc.

Gone are days when utility bills are blindly paid. Now, and forevermore, energy costs have to be treated just as labor costs and material costs.

Demand energy charges must be viewed with the greatest of care. It's a short interval measurement carried throughout a long billing period. For example, if a short interval demand period is 15 minutes and a long billing period is 30 days, then there are 2,880 short interval periods in a 30 day month. The highest electric use (kW) in any one of these short interval periods sets the demand charge for that month (or any period designated by the utility). Care must be taken to make sure that no rogue plant behavior causes a high amount of electric use. It's just good management.

Benefits of having an energy profile

- Cost control (Who can't use a good management tool?)
- Competitive pricing and customer service (Marketing people should salivate at this.)
- Benchmarking (industry, departmental) for constant improvement
- Savings (Cost avoidance)

Gone are days when utility bills are blindly paid. Now, and forevermore, energy costs have to be treated just as labor costs and material costs. An example of this is that cost of energy, as a line item in the income statement, has to be separated into fixed and variable elements. Another example is that energy use has to be reported in the daily production report. Energy becomes a responsible item for management just as labor and material. If management is good at controlling labor and material costs then inclusion of energy into the production report will mean energy will, also, be well controlled. Energy standards, then, join the ranks of labor and material standards.

In Illinois this year, the changes in the purchase of electric energy offer an opportunity to make changes in the basic management structure of organizations. When prices rise, we tend to cut back use or increase efficiency. Plant energy profiles are representations of energy use within a plant just as production reports are representations of labor and material use.

Develop your plant energy profile today. You'll find it to be an invaluable tool to help you make power supply decisions for your company. ■

Chapala Consulting, Inc. (www.chapalaconsults.com) performs energy audits for new and existing homes, industrial/commercial buildings, manufacturing facilities, and farms. Ray Chapala can be reached at 618-692-0901.

TIMOTHY W. MARTIN

CREATE: Economic benefits through rail infrastructure improvements

Over one hundred years ago, Carl Sandburg wrote of Chicago as a "player of railroads and the nation's freight handler." Not much has changed since Mr. Sandburg put those words on paper. Almost a century later, the same holds true today. Railroads are inextricably linked to the history and development of Illinois. To this day, Chicago remains the freight rail hub of the nation.

However, while businesses become more efficient, and as globalization of the economy progresses, the rail infrastructure that underpins our national transportation system has not changed with the times. We have a 21st century economy running on a 19th century rail system, and that creates real problems for Illinois and the nation.

It is often said that it takes a train two days to get from California to Chicago and another two days just to get through Chicago. One third of all U.S. freight rail shipments pass through Chicago, valued at nearly $350 billion annually. With freight traffic expected to double by 2020, even more freight rail traffic is on the way. In today's global economy, this represents an inefficient bottleneck, which increases costs to manufacturers, and ultimately consumers. If we stand idly by and do nothing, analysts predict that the region could potentially lose out on 17,000 jobs and $2 billion in annual economic production.

The Chicago Regional Environmental and Transportation Efficiency Program (CREATE) is a landmark public-private partnership that will alleviate congestion on regional rail lines and enhance the efficiency of our transportation infrastructure. Chicago is the rail hub of the nation, and an efficient passenger and freight rail network is crucial to the local, regional and national economy. CREATE promises to increase safety, reduce motorist delays, improve air quality and create jobs, which will help Chicago to retain its preeminence as the country's transportation center. This historic rail project will alleviate the rail transportation bottleneck in the region, allowing for continued economic growth both locally and nationwide.

The CREATE partners include the Association of American Railroads (AAR) and its member railroads, the Chicago Department of Transportation, and the Illinois Department of Transportation. We worked collaboratively to identify critically needed improvements to the region's rail infrastructure. In Washington, D.C., we worked closely with Federal officials, such as Administrator Rick Capka of the Federal Highway Administration and Administrator Joe Boardman of the Federal Railroad Administration. Collaboration and cooperation have been key elements of this unique public-private partnership, and our efforts have paid off.

CREATE's importance to the national transportation system has been recognized by Norman Mineta, former Secretary of the U.S. Department of Transportation. The U.S. Congress, through the leadership of Congressman Daniel Lipinski and other key members of the Illinois congressional delegation, including Speaker J. Dennis Hastert, Senator Dick Durbin, and Senator Barack Obama, designated it as a project of national and regional significance in

see **CREATE** *page 26*

Timothy W. Martin is Secretary of the Illinois Department of Transportation.

Business owners–
switch on lower electric costs
for your company.

Energy costs are rising, and electricity is no exception.

If you own a mid-sized business or a light-industrial company, energy costs are a big line item in your budget. There is a way to manage these increasing costs and get the best rate on electricity.

Exelon Energy could save you 20% or more.

Exelon Energy is a competitive and trusted energy retailer, serving commercial and industrial customers in Illinois since 1998. We will help you to find creative solutions that work for your business – and save you 20%* or more on electricity.

You have a choice.

Before you choose your next supplier, remember that you have an option of alternative providers. Exelon Energy is the company preferred by many business owners like you.

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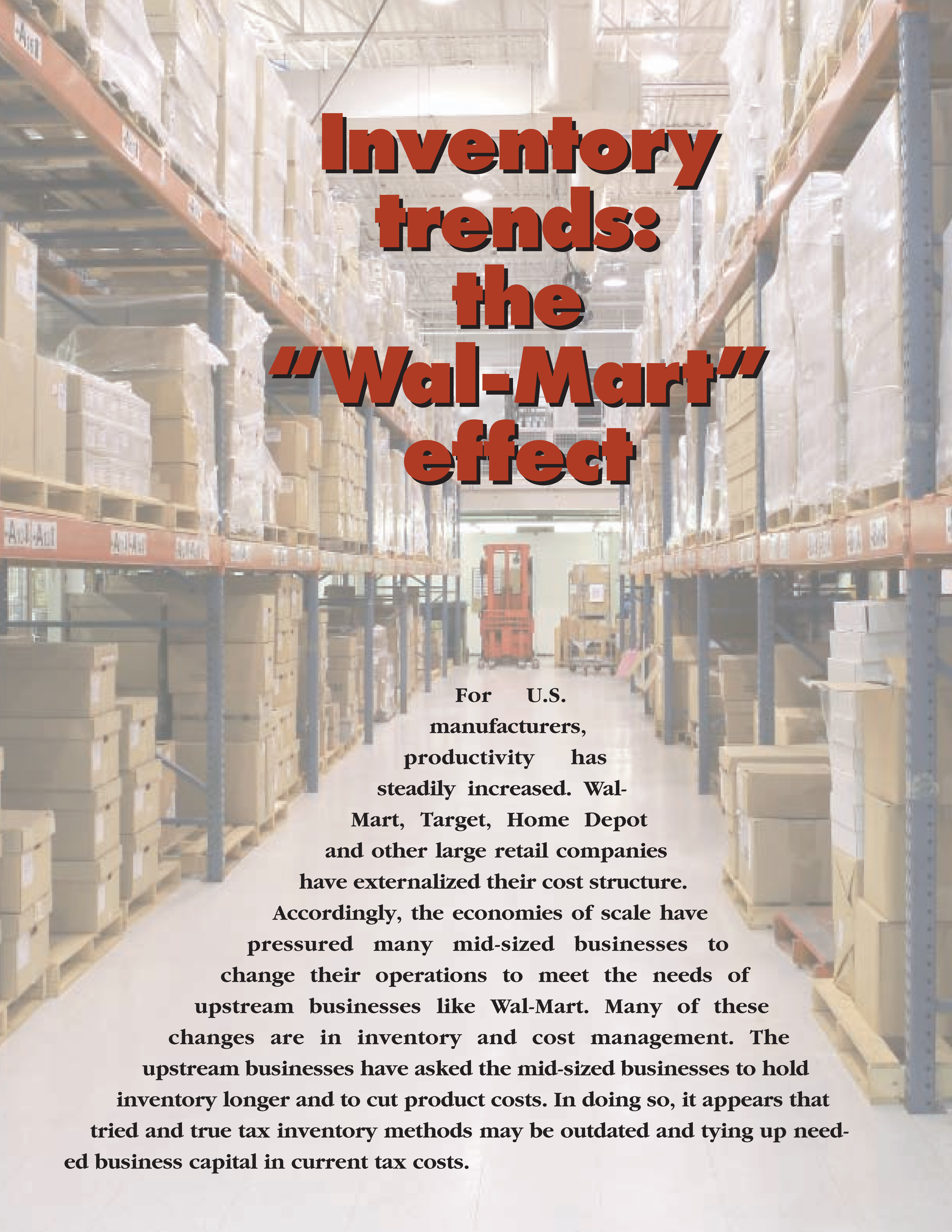
Exelon Energy can save you money.

Call 1-877-592-4275 or visit us online at www.exelonenergy.com

*Discounts may vary for each customer and are based only on the generation cost component of a customer's Commonwealth Edison (ComEd) electric bill. The estimated 20% discount is applicable to the ComEd CPP-A 17-month generation price that was set in the Illinois Auction, as certified by the Illinois Auction Manager on September 15, 2006. Exelon Energy's generation price will depend on the usage characteristics of each individual customer, including, but not limited to, load factor and peak demand. The other components of ComEd's electric bill, such as distribution costs, will be billed by ComEd and are not subject to discount. The Illinois Auction will occur each year and the price that will be set in each auction may vary from year to year.



Inventory trends: the "Wal-Mart" effect

For U.S. manufacturers, productivity has steadily increased. Wal-Mart, Target, Home Depot and other large retail companies have externalized their cost structure. Accordingly, the economies of scale have pressured many mid-sized businesses to change their operations to meet the needs of upstream businesses like Wal-Mart. Many of these changes are in inventory and cost management. The upstream businesses have asked the mid-sized businesses to hold inventory longer and to cut product costs. In doing so, it appears that tried and true tax inventory methods may be outdated and tying up needed business capital in current tax costs.

By Tim O'Shaughnessy and Dustin Petersen

Two tax inventory methods, LIFO and uniform capitalization (UNICAP), provide opportunities to decrease the tax carrying cost of inventory and improve cashflow in the face of these inventory trends.

LIFO

In general, LIFO inventory is calculated by comparing current-year costs to base-year costs to determine an inflation factor (index). The index is used to convert the current-year inventory costs on a FIFO basis to base-year costs.

Taxpayers can calculate their own internal indexes or use indexes published by the Bureau of Labor Statistics (BLS). If taxpayers choose the published indexes, they must elect to use the Inventory Price Index Computation (IPIC) LIFO method as described in Regs. Sec. 1.472-8.

When suppliers to large retailers face significant pricing pressure from their customers, they are forced to keep their costs as low as possible to maintain profitability. They generally want to keep inflation low as they strive to "trim" costs where possible. By keeping costs and internal inflation low, the benefits of LIFO may be reduced when using internal indexes. The use of external indexes that may not consider company-specific pricing pressures can lead to significant tax savings when the published indexes show a higher inflationary factor, as their use produces a lower ending inventory value, resulting in a decrease to taxable income.

Another advantage in using the published indexes over calculating an internal index is the lesser administrative burden; taxpayers do not have to track actual individual item costs needed to compute internal indexes (as required by Regs. Sec. 1.472-8(e)(1)).

While software has been an asset in calculating internal indexes, the variability of products can make valuing base-year costs of new products an undue administrative burden. The IPIC method groups products into similar product classes, taking the hassle out of valuing base-year costs of new products.

By electing to use the IPIC method of LIFO, the taxpayer can choose the method of calculating the cumulative LIFO index, either link-chain or double-extension. The double-extension method extends base-year costs and current-year costs to compute an increment or decrement and index for the year; see Regs. Sec. 1.472-8(e)(2)(i). The link-chain method compares base-year costs (prior-year costs) to current-year costs, but goes one step further and takes a cumulative index into account; see Regs. Sec. 1.472-8(e)(3)(iii). Taxpayers electing the link-chain IPIC LIFO method do not have to justify its use. In contrast, in electing to use internally generated indexes, they must justify the use of the link-chain method to the IRS for computing the index prior to its adoption. In the first year LIFO is elected, the link-chain and double-extension methods would yield the same result. However, over time the link-chain method has the effect of smoothing out inflationary trends, while the double-extension method can result in wild swings in LIFO values (and thus in taxable income) from year to year.

Lastly, taxpayers using dollar-value LIFO must group their separate inventory items into LIFO pools. Each LIFO pool represents a similar group, type or class of inventory items. Pools are important to dollar-value LIFO; inflation indexes are computed at the pool level using a weighted average of the individual items in that pool. Internal index methods require the taxpayer to establish pools based on natural business divisions. Accordingly, this subjectivity of pool selection can be challenged by the IRS. The IPIC method allows the taxpayer to elect to establish dollar-value pools based on the two-digit commodity codes as detailed in the BLS product codes (either from the Producer Price Index or Commodity Price Index) as an approved pooling method, which minimizes IRS scrutiny; see Regs. Sec 1.472-8(b)(4).

UNICAP (Sec. 263A)

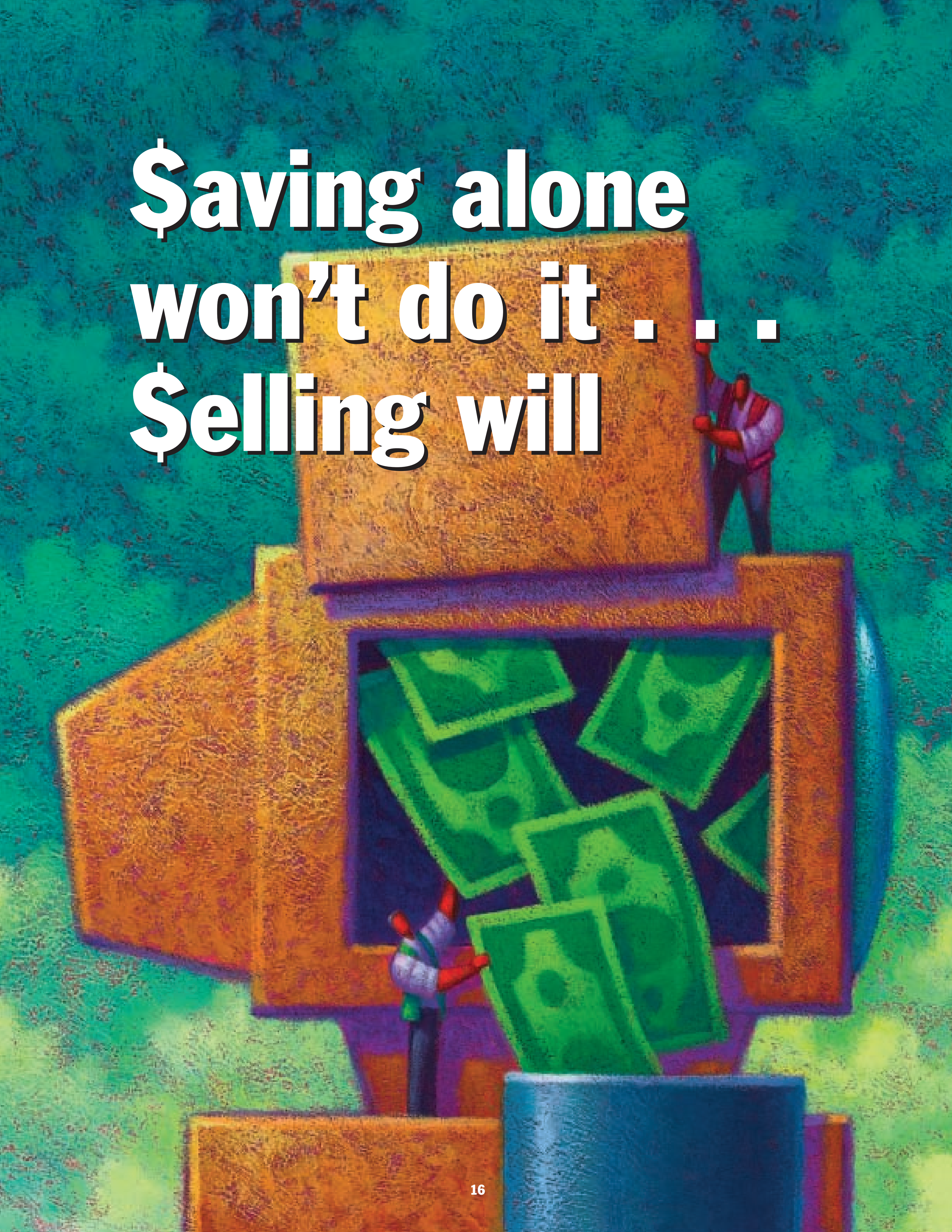
Current inventory trends also affect calculations used to capitalize and include certain costs in ending tax inventory as required by the UNICAP rules under Sec. 263A. In practice, many companies' UNICAP calculations have remained the same since the late 1980s when the Sec. 263A rules were first enacted. Due to trends and changes to cost structures, the calculations should be analyzed to determine whether other methods will produce a better result from a tax liability perspective. Taxpayers should also consider evaluating whether they are in compliance with the regulations to lower IRS audit risk.

Direct costs as determined under Sec. 471 are generally capitalized for GAAP purposes and, among other items, include direct labor and direct materials. General and administrative (G&A) expenses typically contain overhead expenditures that are generally not capitalized for GAAP purposes; however, they may have to be capitalized for tax purposes. To analyze a Sec. 263A calculation, an understanding of the GAAP capitalization calculation is important, to ensure that costs are not being missed or counted twice due to changes in the taxpayer's cost structure.

An example of a UNICAP method that may not match current inventory trends is the simplified production method provided in Regs. Sec. 1.263A-2(b). This method uses a rela-

see **INVENTORY** *page 27*

$aving alone won’t do it . . . $elling will



By Roy Koppenhofer and Phil Koppenhofer, Pennswood Partners

Red Motley's career was a checkered one. From manure, he moved to selling brushes door-to-door. He sold cure-alls with a traveling medicine show. He sold ad space for *Collier's Magazine*. Ultimately he earned fame and fortune as the publisher of *Parade,* the magazine supplement still found in Sunday newspapers from coast to coast. Motley increased the circulation of *Parade* from two million in 1946 to more than 19 million by the time he retired in 1978.

Prudent manufacturers of industrial products should take note of Motley's Law. Selling drives the enterprise. Always has. Always will.

In the last decade, American makers of industrial products have had to confront many challenges to their profitability, indeed in some cases to their very existence. The winds of change blow wherever they will, overturning existing markets and creating new opportunities. Manufacturers who attempt to avoid the challenges of change in the futile expectation that the storm will move away and conditions will return to "normal" risk their own eventual decline.

First Mexico, then China and India demonstrated real power as serious competitors — capable of producing a variety of quality products at drastically lower cost. Their unrelenting competitive pressure resulted in eroding margins and a shrinking customer base for many American manufacturers who attempted to counter the opposition primarily by drawing inward and trying to "think lean."

The result? Fewer customers and declining market share for those American manufacturers who slashed their marketing and sales budgets too deeply. There is no question that significant cost-trimming was needed — the fat had to go. Yet far too many over-zealous cost cutters eliminated muscle and bone too. The crucial importance of sustaining a growing top line was overlooked in favor of exclusive attention to squeezing additional costs.

"Thinking lean," mapping value, eliminating waste and creating continuous flow within an organization in an effort to reduce expenses is a terrific strategy when balanced with proper attention to producing more revenue. Manufacturers who thrive in the perfect storm of global competition are those who give proper attention to the top line. Cost containment alone cannot assure the long-term health of an enterprise.

Focus on fundamentals was a key theme in the writing of the late Peter Drucker, often described as the father of professional management. More than 60 years ago he observed, "The only reason a business exists is for the purpose of creating a customer."

It makes no difference if you drill, bend, inject, mold or otherwise fabricate. Your new plant and equipment, your ISO certification, your improved production process are all for nothing — until you've created a customer.

Too often, owners and managers of manufacturing establishments view themselves as operators of "widget-making" businesses rather than "customer-creation" businesses. Upon this basic misconception they build a faultless chain of geometric logic that leads to a host of inappropriate business decisions.

Plants are built, equipment purchased and processes improved in order to squeeze costs. Yet precious little investment is made in the marketing practices that actually lead to new streams of revenue. Yes, you may build it. But chances are that new customers will not come unless they are actively pursued.

It is true. Increasing sales while suppressing a corresponding increase in SG&A expense can present a real dilemma. One strategy that owners and managers can effectively exploit to overcome this difficulty is to make use of manufacturers' reps rather than direct salespeople.

When Wayne Gretsky, the ice hockey great, was asked about the secret to his success, he said:

"I don't skate to where the puck is. I skate to where it's going to be." In a dynamic market where competitive forces are arrayed on a global scale, manufacturers' reps are uniquely qualified to provide the critical information you must have concerning where your prospects are going and where your future customers will be.

"Nothing happens until somebody sells something."

The credit for originating this oft-repeated saying belongs to a master salesman who began his business career selling manure in Minnesota. Arthur H. (Red) Motley (1900-1984) coined this legendary sales proverb while serving as one of the most highly-regarded sales trainers of the 40s and 50s.

If properly conceived and put into practice, a "rep strategy" offers many advantages over a direct sales approach for manufacturers who recognize the need to accelerate the process of creating new customers and diversify their sales base geographically or by type of account.

Reps rarely get paid until they sell something. And they absorb their own expenses. As a result, a manufacturer's sales costs are variable, as opposed to fixed in the case of direct salespeople.

Reps have in-depth relationships with purchasing decision-makers and influencers in accounts that manufacturers need to penetrate. These relationships are becoming harder and harder for manufacturers to establish "de novo."

Reps are in the territory on a daily basis. They can spot new buying opportunities or solve customer problems more readily than a manufacturer's home office. Reps "know

see **$ELLING**, *page 18*

$ELLING

Cont. from page 17

the territory." Like Gretsky, reps are able to anticipate where future opportunities will be.

Reps offer customers "one-stop shopping" — a line card that comprises a number of complementary capabilities that sell well together. They provide real service to "their" customers as well as to you, their principal.

Reps know how to sell (if they didn't, they would starve to death). More important, many possess an engineering or technical background. They fully understand their principals' capabilities and how these capabilities can solve their customers' problems.

In short, reps offer manufacturers of industrial products the most cost-effective way to expand and diversify the sales base. The key is to select the right reps and then manage and motivate them to be an effective extension of the marketing team.

The "hidden" benefits of using manufacturers' reps versus fielding a direct sales force

Members of a direct sales force are classified as employees who must have taxes withheld. These include: federal taxes, Social Security taxes, Medicare taxes and all applicable state and local taxes. Employers are responsible for remitting the payroll taxes of their employees to the IRS and to their state and local taxing authorities. In addition, all Social Security and Medicare taxes withheld must be matched by employers dollar for dollar and paid to the IRS.

Employers must also pay into the federal unemployment tax fund on behalf of their employees as well as pay unemployment taxes to their state unemployment fund. These tax rates vary state by state from less than one percent up to 10 percent.

Manufacturers who opt to go to market using independent manufacturers' reps eliminate all these requirements and all the compliance costs associated with them.

However, employers must exercise care in choosing this option. Under federal and most state laws, a company that engages an independent manufacturer's representative may not control the means and methods the manufacturer's rep uses to achieve the company's desired result. If the company does control all aspects, federal and state taxing authorities are likely to hold that an employee performs the services.

It is also useful in most cases to save documentation showing the manufacturer's representative has his/her own business entity. For instance, does the manufacturer's representative have:

- printed business forms, like letterhead, invoices, etc.;
- their own contract (signed by you) accepting their offer for services (some courts have ruled that requiring the manufacturer's rep to sign your contract is a demonstration of direction and control over the work);
- their own FEIN number . . . workers' compensation policy . . . unemployment insurance account number . . . other certificates of insurance;
- advertising that has appeared in public showing the manufacturer's rep is holding themselves out to the public.

These items will go a long way to help companies obtain the benefits of independent manufacturer's reps.

Conclusion

As a manufacturer, the three major steps on your path to a more secure future are:

1. Always keep your eye on the top line.
2. Use reps to increase and diversify the sales base without devastating SG&A expenses.
3. Select the right rep agency, then manage and motivate effectively.

Carry out all the action assignments required to profit from the insight of our manure salesman from Minnesota, the legendary Red Motley: "Nothing happens until somebody sells something." ■

About the authors

Roy Koppenhofer established Pennswood Partners in 2000 to serve manufacturers of industrial products in the building, expanding or strengthening of their rep network(s).

Phil Koppenhofer joined the firm in 2001. He has more than 20 years of senior level experience selling industrial products and capital equipment through manufacturers' reps and distributors, as well as direct to OEMs and end users.

Pennswood Partners, based in Wyomissing, Pennsylvania, is a professional firm that assists manufacturers in marketing more effectively through independent selling organizations, particularly independent manufacturers' reps. A core competency of the firm is rep search. More information is available at www.pennswoodpartners.com.

Checklist of proven rep motivators

1. **Ask for advice from your reps. Acknowledge that your reps probably know more about their territories than you do. Extend appropriate consideration to their insights and opinions.**
2. **Share your marketing goals openly. A realistic mutual appraisal of expected sales volume will invariably produce better sales performance.**
3. **Pay commissions on time. Offer escalating commission rates for increased sales.**
4. **Reject envy. Never cut commissions, even if they exceed your own salary and compensation. Be certain your CFO has no problem with writing a big check. Pay your hard-working rep promptly.**
5. **Send letters of praise for good work.**
6. **Provide product training. Explain your products, product applications, and technical support processes in encyclopedic detail.**
7. **Provide sales manuals and professionally designed sales literature. Make sure all your catalogs, samples, data sheets and other sales support materials lend themselves to fostering successful sales outcomes.**
8. **Ask your reps about other ways you can support their efforts in the field more effectively.**

JAMES A. SPIZZO & JENNY FRIEDMAN KOERTH

Tips for a litigation-free holiday season

The holiday season is traditionally a time for employers to show their appreciation for employees' hard work, celebrate with employees in the workplace, and demonstrate to employees and customers alike that they grasp the holiday spirit. 'Tis the season to be jolly, but only for those employers who heed these guidelines to successfully avoid legal pitfalls and potential litigation that can frequently arise during the holidays.

Restrict alcohol consumption and take measures to hinder employees from driving under the influence after holiday functions

We have all heard of the CEO who becomes a disco machine after three vodka martinis. Then there's the administrative assistant who drinks a few beers and details some of his supervisor's more personal quirks to everyone within earshot. It seems that most employers who host holiday parties involving alcohol have tales of employees who get a little too engrossed in the holiday spirit (or at least the eggnog).

However, a fun holiday celebration can quickly turn tragic if an intoxicated employee becomes ill from too much alcohol or gets behind the wheel and injures himself or others. While Illinois generally will not hold an employer legally responsible for its intoxicated employees' actions, many courts have held employers liable for accidents and injuries caused by overly-served employees after company events. Employers also risk liability for enabling underage employees to consume alcohol at company-sponsored events.

Employers can take various measures to increase the safety of employees during and after the holiday party. Providing a specific number of "drink tickets" to employees can help control the amount of alcohol each employee consumes. Employers can also manage employee alcohol consumption by instructing bartenders to check employees' identification to ensure they are old enough to drink, limit the number of drinks provided at each trip to the bar, decline to pour shots or exotic multiple-liquor drinks, and refuse to serve employees who appear intoxicated. Employers should provide ample food to go along with the drinks, and should think about terminating alcohol service at a certain time prior to the end of the party.

To prevent employees from feeling like they have no choice but to drive home, regardless of their lack of sobriety, employers should pre-order a sufficient number of taxis, arrange a car service, and/or encourage sober drivers to step in to help their colleagues get home safely.

Obviously, the safest parties are those that do not involve alcohol. Employers committed to providing alcohol at holiday functions, however, must also commit to taking measures to ensure that their employees do not become a danger to themselves or others.

Reiterate that the company's code of conduct, discrimination, and harassment policies remain in full effect at the holiday party and afterwards

The holiday party is a great opportunity to foster working relationships and improve employee morale by allowing employees and

see **HOLIDAYS** *page 28*

James A. Spizzo is a partner in the employment law group at Vedder Price, Chicago. Jim is an experienced advocate representing management in EEO and traditional labor law matters, and is outside General Counsel to IMA. Vedder Price has been an IMA member for over fifty years. He can be reached at 312-609-7705 or by email at jspizzo@vedderprice.com.

Jenny Friedman Koerth is an attorney practicing with Vedder Price in the labor & employment law group. She is well-versed in employment law and litigation issues. She can be reached at 312-609-7786 or by email at jkoerth@vedderprice.com.

IMA MIT

MANUFACTURERS' INSTITUTE FOR TRAINING

The Illinois Manufacturers' Association (IMA) is pleased to announce the newly created Manufacturers' Institute for Training (MIT).

Regardless of where your company is located or what your employee training needs are, the IMA-MIT can help.

The IMA-MIT offers quality, customized, results-oriented training for your employees. Manageable class sizes ensure participants leave with the skills they were seeking. Attendees will have the opportunity to interact with presenters to address specific questions regarding the subject matter.

It is our commitment to customized, focused training that sets IMA-MIT apart from the others. Training is available where and when you need it. If the third shift needs to update OSHA certificates, IMA-MIT can schedule sessions that are convenient for everyone.

Listed below are just a few examples of training that can be designed to fit your needs. A host of other products and educational offerings are available.

IMA-MIT provides quality training, unsurpassed in Illinois

Raise the bar and improve your bottom line, with IMA-MIT training programs.

Some popular training topics include:

- **Design of Experiments (DOE):** A two-day program designed for anyone involved with quality, design, manufacturing, research, development and process improvement, this session provides hands-on opportunities to perform actual experiments and apply DOE methodology.
- **Leading and Managing Through Change:** A one-day interactive workshop designed to provide strategic and tactical skills to help leaders respond in today's changing and competitive environment.
- **Project Management Fundamentals (PMF):** Designed for those with little or no formal project management training, but whose jobs demand that they compete in today's fast-paced business environment, IMA-MIT instructors set the stage for participants to manage multiple projects. PMF is guaranteed to give your team the edge they need to perform with confidence, efficiency and success.
- **Effective Presentation Skills:** An energetic, interactive workshop that provides the business presenter with the skills necessary for memorable, effective presentations. Having participants deliver videotaped presentations will reinforce skills learned.

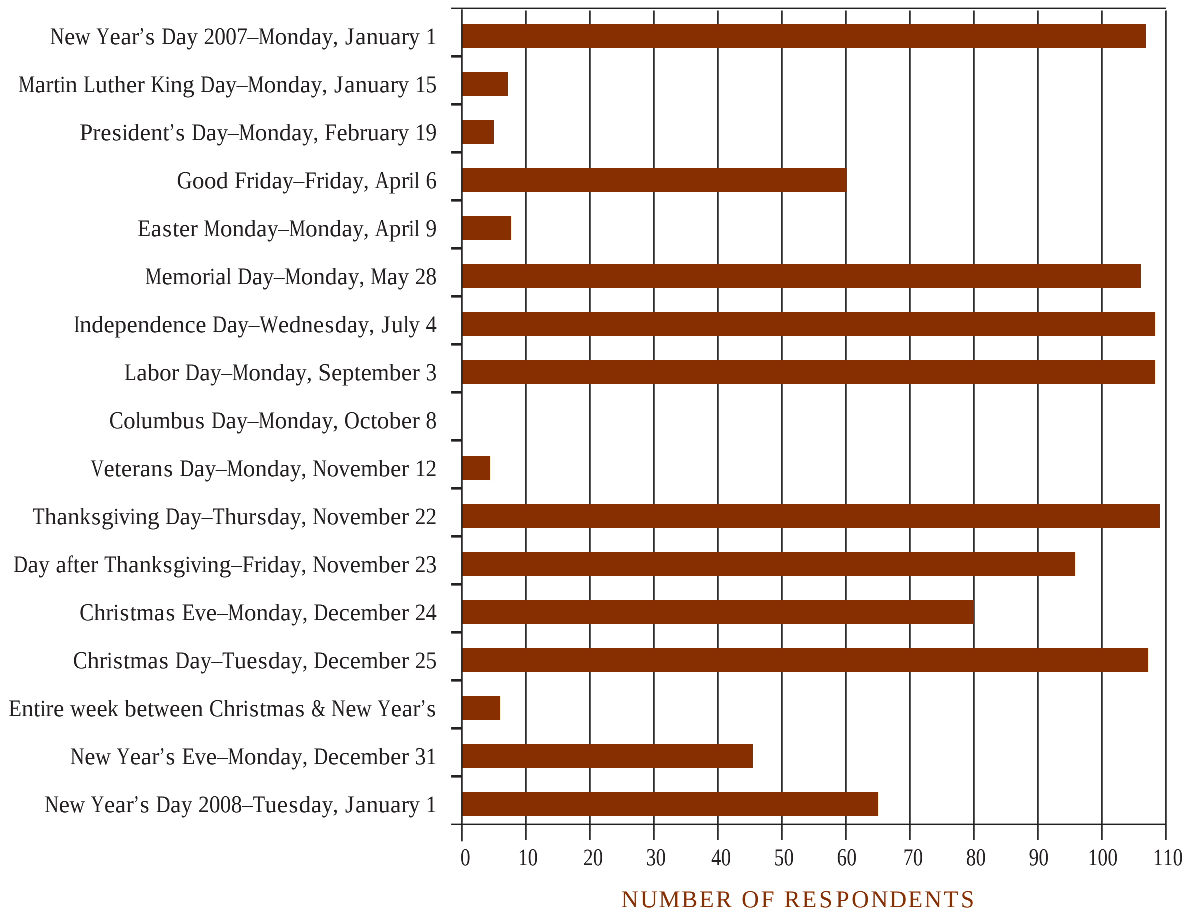
For information, contact Judy Parker, IMA Director of Training
Telephone: 217-522-1240 ext. 3036 • Email: jparker@ima-net.org

2007 IMA Holiday Report

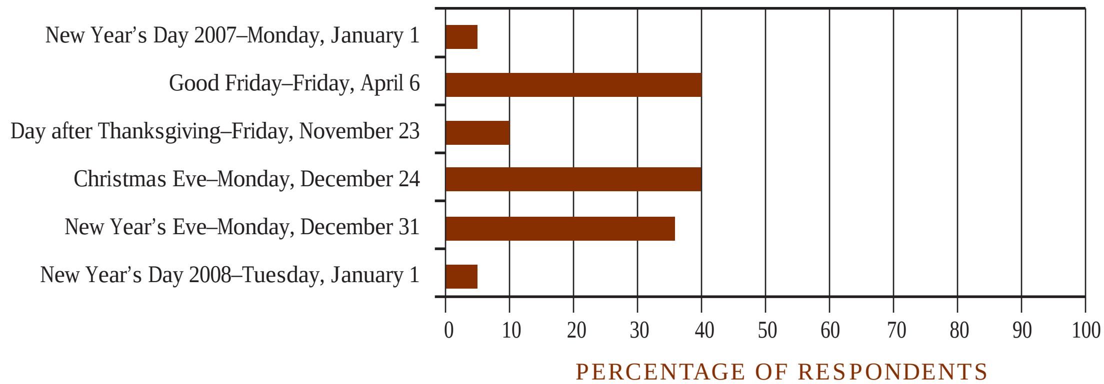
The IMA's Holiday Report highlights employers' plans on select holidays throughout the year. This year's survey was conducted from October 3-30, 2006. Four questions were asked ranging from total number of paid days off to a breakdown of full or half day paid holidays, and on which days the member company is actually closed throughout the year. More than 100 IMA members responded with the following results:

The majority of respondents provide 10 full day paid holidays per year.

FULL DAY PAID HOLIDAYS



HALF (1/2) DAY PAID HOLIDAYS



Historically many manufacturing plants continue to operate with skeleton crews or reduced shifts on paid holidays. However, this does not always represent the majority. The following shows the percentage of respondents who actually close down operations completely:

New Year's Day	95%
Good Friday	52%
Memorial Day	91%
Independence Day	92%
Labor Day	91%
Thanksgiving Day	95%
Day After Thanksgiving	82%
Christmas Eve	69%
Christmas Day	95%
New Year's Eve	74%

Less than five percent of respondents close down on non-traditional holidays such as Martin Luther King Jr. Day, Presidents' Day, Easter, Veterans Day, and New Year's Eve. Only seven percent of respondents actually shut down operations between Christmas and New Year's.

Thanks to all those who responded for making this report possible. If you have any feedback regarding additional information you might like to see in next year's report, or have questions, please contact Donna Rogers, SPHR at 800-875-4462 x3007 or email drogers@ima-net.org.

The IMA's **2005-2006 Benefits Report** contains data on employers' plans for a variety of different benefit plans in addition to holiday information. The IMA's **2006 Compensation Report** contains actual wage rates for 188 job descriptions related to manufacturing.

To order your full copies of the IMA's **2005-2006 Benefits Report** and/or the IMA's **2006 Compensation Report,** contact Janie Stanley at 800-875-4462, x3020 or email jstanley@ima-net.org.

2007 IMA Holiday Report published by the **Illinois Manufacturers' Association**

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TAXES

Cont. from page 6

Manufacturers building or planning to build in the U.S. are good candidates to take advantage of a cost segregation study. Even previous expansions dating back to 1986 can take advantage of a post construction study.

A cost segregation study looks at all of the hard and soft costs of constructing real property and seeks to identify the personal property and real property elements of the building or renovation. Real property is depreciated over 39 years, while personal property is depreciated over much shorter lives. The appropriate class or useful lives are determined based on the IRC, case law and other guidance. Where justified, depreciation lives are adopted or changed to much shorter lives which accelerates depreciation expense.

Cost segregation studies offer tax benefits to manufacturers by reducing taxable income and increasing cash flow. The increased cash flow can then be used to further pay down any outstanding debt, which in turn decreases interest expense.

Domestic production activity deduction

The American Jobs Creation Act created a new permanent deduction relating to income attributable to domestic production activities (also known as the domestic production activity deduction). This deduction is estimated to result in $76 billion dollars of savings primarily for manufacturers of tangible goods.

For years beginning after December 31, 2004, the deduction equals three percent (the percentage increases to six percent in 2007 and nine percent in 2010) of the lesser of: (a) qualified production activities income; or (b) taxable income for the taxable year. The deduction is limited to 50 percent of production related W-2 wages paid and reported during the calendar year that ends in the taxable year.

Generally the production activities income that qualifies is the amount of gross receipts from the qualified production of qualified tangible personal property less the amount of cost of goods sold, and direct/indirect costs allocable to the receipts. Further rules require that the qualified production property be manufactured, produced, grown or extracted by the taxpayer in significant part within the United States.

The new manufacturing deduction decreases taxable income which increases cash flow to help manufacturers stay competitive and keep jobs in the U.S.

Telephone excise tax

On May 25, 2006 the IRS announced it will cease imposing the federal excise tax on nontaxable telephone services billed after May 25, 2006. Non-taxable telephone services are defined generally to include charges for cellular, long distance and pre-paid telephone credit card purchases. Service providers should stop collecting the three percent federal excise tax after July 31, 2006.

The IRS announcement comes after multiple court cases challenged the constitutional basis of the tax. This therefore provides taxpayers the opportunity to file claim for refund on the nontaxable services excise tax for the time period February 28, 2003 through August 1, 2006. The taxpayer must request the refund or credit from the IRS in the manner specified.

The general refund procedures for taxpayers will be to request a refund on a separate line of their first taxable year including December 31, 2006. Manufacturers will have to obtain detailed invoices to calculate the actual excise tax overpaid during the refund period. This information and calculation will need to be retained for substantiation purposes.

The excise tax refund will have to be included as taxable income provided the original excise tax was expensed.

Manufacturers can take advantage of this refund in 2006 and reduce their tax burden.

Commercial building energy deduction

Starting in 2006, manufacturers can take advantage of a new deduction for energy efficient commercial buildings. For property placed into service after December 31, 2005 and before January 1, 2008, businesses can take a deduction for expenses incurred for energy-efficient commercial buildings that meets a 50 percent energy reduction standard. The deduction may be taken by current building owners by upgrading their energy systems, or for companies building new structures designed to be more energy-efficient.

The maximum deduction for energy efficient commercial building expenses is $1.80 per building square foot. A deduction for $.60 per building square foot is available for certain separate building systems. The deduction must be reduced by the aggregate amount of these energy efficiency deductions allowed for the building in prior years.

Some of the requirements are that the building must be depreciable or amortizable and installed on or in any building located in the U.S. as part of (1) the interior lighting systems, (2) the heating cooling ventilation and hot water systems, or (3) the building envelope. The costs must be certified as being installed as part of a plan to reduce energy and power costs with respect to the above mentioned systems by 50 percent or more.

This deduction is only available for a short time period and offers manufacturers a permanent tax reduction and increased cash flow to invest back into the operations.

Meals and entertainment

One final area that manufacturers can look at to find tax benefits is meals and entertainment. Generally only 50 percent of otherwise allowable meals and entertainment expenses are deductible. However, there are numerous exceptions to this 50 percent limitation.

For example, expenses for services, goods and facilities that are treated as compensation and as wages for withholding tax purposes are not subject to the 50 percent limit. Also, recreational expenses, primarily for employees who are not highly compensated such as a company picnic are also not subject to the 50 percent limit. Additionally, certain food and beverage expenses associated with benefits that are excludible from the recipient's gross income as a de minimis fringe are not subject to the 50 percent limit.

An analysis of meals and entertainment can provide tax benefits for manufacturers by increasing the tax deduction for meals and entertainment and increasing cash flow.

In conclusion, the IRC and IRS's interpretation of the IRC provide many basic opportunities for manufacturers to reduce their taxes and invest this money into their operations. Manufacturers need to proactively plan to take advantage of these tax saving ideas. ■

Copresco installs new digital color press

Copresco President Steve Johnson with the new Docucolor 6060 digital color press.

Copresco has added a Docucolor 6060 digital color press at its Carol Stream, Illinois plant.

"The new system helps meet burgeoning customer demands for cost-effective, fast turnaround of color printing," says president Steve Johnson.

Copresco produces a diverse range of short-run books and manuals, from booklets, catalogs, textbooks, handbooks and technical materials to training aids, guidebooks, newsletters, calendars, cookbooks and transparencies.

Digital color printing offers all the advantages of on-demand printing technology. Individual pages, indexes, cover letters and other pieces can be tailored or personalized to meet specific job requirements.

Copresco specializes in digital printing for business clients.

■ ■ ■

Kaplan University launches online Six Sigma Certificate program

Kaplan University has announced the introduction of an online Six Sigma Certificate program for working professionals interested in leading complex process improvement projects. Six Sigma methodologies are designed to help businesses improve productivity and generate tangible savings.

"In today's global economy, large companies increasingly rely on process improvement to maintain quality and manage costs," said Kristina Belanger, Vice President, Continuing and Professional Studies, Kaplan University. "As the demand for the Six Sigma method grows, so too does the demand for Six Sigma-certified professionals."

The Six Sigma Certificate is a self-study program that can be completed in six months for the Green Belt level, and 12 months for the advanced Black Belt level. Six Sigma students will learn to more effectively manage quality improvements in both processes and projects.

Professionals with Six Sigma certification typically earn nearly 10 percent more than those without certification, according to the *American Society of Quality 2004 Salary Survey*. The typical salary for a Six Sigma Black Belt is $88,858. The Six Sigma program can be incorporated into every facet of a business, including production, human resources, accounts receivable and technical support.

Kaplan University will begin enrollment in the certificate program immediately. To learn more visit www.kaplanuniversitynews.com.

■ ■ ■

Chicago's McCormick Place South to host Material Handling Industry of America's ProMat 2007 January 8-11

ProMat 2007 will be a comprehensive international material handling and logistics show and conference expected to draw over 700 exhibitors who will showcase solutions. ProMat exhibits will represent all segments of the material handling and logistics industry, from traditional, manual equipment to computerized, automated systems. To make it easier for attendees to find the solutions they need, the ProMat show floor will be divided into four solution-specific sections: Equipment and components for manufacturing solutions, fulfillment and delivery solutions, information technology (IT) solutions and assembly logistics and support solutions.

ProMat brings together manufacturers, consultants, third party logistics providers, publishers and systems integrators. They will demonstrate their equipment, systems and services to tens of thousands of industry professionals from around the world who are seeking productivity solutions through material handling and logistics. In addition to the actual event, ProMat 2007 will also feature a comprehensive virtual event online at www.ProMatShow.com. Approximately 245,000 visitors are expected to visit the Website before ProMat opens in Chicago.

■ ■ ■

New NAM online "Beagle" system offers easy access to NAM legal data base

More than 400 case filings date back to 1995

The National Association of Manufacturers (NAM) has created a new "Beagle" data base of the association's selection of more than 400 legal cases dating back to 1995 on the NAM web site.

(continued on page 25)

Stefany Henson is editor of *The Illinois Manufacturer* magazine. She may be reached at 217-522-1240, Ext. 3017 or email shenson@ima-net.org.

Send the IMA your company news so that we may share it with other IMA members. Email: shenson@ima-net.org, or mail to Editor, TIM, 220 East Adams St., Springfield, IL 62701

"The NAM is active on a broad range of legal issues affecting manufacturers, business and the economy," said Quentin Riegel, NAM Vice President for Litigation and Deputy General Counsel. "Over the years, we have amassed an impressive track record of effective and influential advocacy for business, and there is growing interest in this case file. With this new system, anyone can now access this data base and quickly find the information sought."

The system was created by David Kralik, NAM Manager of Internet Programs and Web Content. "You can find the case file you're looking for by a variety of criteria — name of litigating party, the topic, the jurisdiction, or the year the case was decided," Kralik said. "By entering more than one criteria, you can more specifically identify the cases you want to view. This system will greatly simplify the legal research function for anyone with an interest in business litigation."

The new data base can be accessed at www.beagle.nam.org.

Illinois' Industrial Material Exchange Service

Eggshells are used for tile pigment . . . dryer lint is used as casket stuffing . . . fish waste is used for asphalt blending . . .

What do eggshells, fish waste, and lint have in common? All have been reused or recycled for new uses through an unusual Illinois EPA industry-oriented program.

The creative reuse of these materials demonstrates the basic premise of the Illinois Industrial Material Exchange Service (IMES), that one company's waste can be a valuable resource material to another. Acting as an information clearinghouse, directory, and marketing facilitator for reusable industrial materials, IMES deals with waste by-products, off-spec items, hazardous and non-hazardous materials, overstock, and damaged or unwanted materials.

IMES can help manage an industry's waste streams when other source reduction or pollution prevention applications are not possible or practical, when on-site treatment or disposal is too expensive, or when no in-house expertise is available for on-site waste treatment.

IMES publishes a bi-monthly directory that goes to 14,000 subscribers nationwide. It lists both materials that are available and materials industries are seeking. Request forms are included in the front of each directory. To respond, or to list a material, firms can send phone or fax requests to the IMES office. Copies of the most recent IMES directory can be obtained, or firms can be added to the mailing list, by calling 217-782-0450.

After a firm responds to a listing, IMES puts the potential user in contact with the generator, with the final transaction and transportation of materials left to the companies involved.

Focus of the IMES program is on services to industrial clients, so the program does not have direct involvement with regulatory bureaus or the Illinois EPA's compliance programs, and does not allow access to its files, or discuss client companies' needs with Agency bureaus.

IMES is readily accessible. To get more information, contact: Industrial Material Exchange Service #24, Diane McClain, program manager, P.O. Box 19276, Springfield, IL 62794-9276, 217-782-0450, fax: 217-782-9142, email: Diane.McClain@epa.state.il.us.

ADM to expand chocolate manufacturing capabilities in Europe

ADM acquires UK's Classic Couverture

Cacao pods

Archer Daniels Midland Company of Decatur has announced the expansion of its industrial chocolate manufacturing capabilities in Europe through the acquisition of Classic Couverture, a Liverpool, United Kingdom-based chocolate manufacturer, from Edward Billington and Son, Ltd.

"This acquisition provides a solid platform for ADM Cocoa's expansion in European industrial chocolate manufacturing, allowing us to better serve our customers' finished chocolate needs," stated Mark Bemis, President-ADM Cocoa. "Classic Couverture's state-of-the-art manufacturing plant in Liverpool complements our existing facilities in Europe, allowing us to maximize synergies between operations."

ADM is a global leader in cocoa processing with plants in North and South America, Europe, Asia and Africa. ADM is a premier industrial chocolate manufacturer in North America, and is building a state-of-the-art chocolate facility in Hazleton, Pennsylvania.

CREATE

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2005 — one of only 25 such designations across the entire country — and allocated $100 million towards it.

This past September, I joined Congressman Lipinski and other government, business and labor leaders to announce a new three-year, $330 million funding agreement for CREATE. The new plan includes $100 million in Federal funds, $100 million from the railroads, $100 million from the State of Illinois in Governor Blagojevich's Jobs for Illinois capital proposal, and $30 million from the City of Chicago.

CREATE will provide its substantial benefits through the completion of more than 70 individual projects, including 25 highway-rail grade separations and six rail to rail grade separations to eliminate interference and delay for motorists and trains. Other improvements such as additional connections and crossovers, track upgrades and signal modernization will improve the speed and efficiency of train movements through the region. This will benefit Metra and Amtrak rail passengers, passenger vehicle traffic and employers who ship goods by rail as well as over the road trucking, that traverse the Chicago region.

In today's environment, where time is money and money is time, where just-in-time manufacturing is paramount in an increasingly competitive global economy, the CREATE program is more important than ever.

Manufacturers are among the biggest beneficiaries of CREATE. Those in the Chicago region, especially those who ship rail carload freight, would benefit directly from reduced rail congestion, making it possible for trains to run more reliably through the region. Essentially this would mean reduced delivery time, which would improve cost efficiency and the bottom line. Similarly, businesses nationwide that rely on inbound or outbound rail carload shipments or supply of empty equipment for loading, and whose shipments traverse the Chicago region would benefit tremendously from the same reduction in rail shipment delays and improved reliability. Additionally, manufacturers in the Chicago region that use over-the-road trucking companies to ship goods would benefit from the reduced congestion as blocked crossings and idling trains are significantly reduced. The enhanced infrastructure will reduce the potential for national freight system gridlock.

> The Chicago Regional Environmental and Transportation Efficiency Program (CREATE) is a landmark public-private partnership that will . . . enhance the efficiency of our transportation infrastructure.

Yet CREATE is not just about Chicagoland. Nor is it just about Illinois. Illinois is at the crossroads of America, and we are *the* transportation hub of the nation. Chicago is the nation's busiest rail freight gateway, as well as the world's third largest intermodal port, handling goods from every region of North America as well as large volumes of import traffic from Asia and elsewhere. Manufacturing companies worldwide are sure to profit from the extensive rail infrastructure improvements as a result of CREATE. Many companies relying on Chicago's freight rail service and the overall business climate in the region suffer economically when rail transportation does not run smoothly and on time. The CREATE program is designed to alleviate much of this concern.

This unprecedented cooperative agreement in the Chicago region is breaking new ground in transportation policy. It is a first on many fronts. It is the first time a rail modernization project has received a large infusion of Federal funds. It is the first such partnership with all of the major Class I freight railroads on a multi-billion regional program of projects. It is one of the first and one of the largest allocations of state funds in Governor Blagojevich's Jobs for Illinois proposal. Collaboration and cooperation are key elements for the success of the CREATE program. The eyes of the nation are watching us, and we are moving forward on CREATE.

The CREATE program will transform the rail system in the Chicago area, not only providing more jobs and reducing traffic congestion and pollution in the area, but also benefiting the national economy by minimizing the freight transportation bottlenecks in this crucial hub.

At the same time, it is important to be realistic. The CREATE program will not be completed overnight. It will not be completed for a number of years. We have only just begun. But, we have taken some bold new steps in the right direction. We created a landmark public-private partnership in an industry where such things are almost unheard of; yet there is still a long road ahead.

It would have been easier to sit on the sidelines. It would have been easier to ignore the growing freight rail congestion in Chicagoland and its implications for commuters and businesses. But we didn't. With the CREATE program, we heeded Daniel Burnham's exhortation to "make no small plans." We thought big and made big plans. Illinois and the nation deserve no less. ■

INVENTORY

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tively simple formula to compute an absorption ratio. The absorption ratio is determined by taking certain includible G&A costs over certain total Sec. 471 costs for a tax year. The resulting absorption ratio is multiplied by the Sec. 471 costs included in ending inventory to determine the additional amount to capitalize for tax purposes. Includible G&A expenses contain mixed service costs, as defined by Regs. Sec. 1.263A-1(e)(4)(ii)(C), or department expenses, which are partially includible in the Sec. 263A calculation.

A taxpayer may also use a simplified method, such as the simplified service cost method provided in Regs. Sec. 1.263A-1(h), to determine the portion of the G&A mixed service department costs to include. Depending on whether the taxpayer is a manufacturer or a reseller, it may choose one of two ratios under the simplified service cost method—the labor-based allocation ratio or the production cost allocation ratio. In either case, the resulting percentage is multiplied by the total mixed service department expenditures to determine the amount includible in the simplified production method formula mentioned above.

Due to the nature of the simplified method calculations, they assume an invariable business flow and disregard the make-up of inventory at year-end. As discussed, upstream businesses forcing manufacturers to hold inventory longer in the business year can cause an overcapitalization of tax inventory and increase taxable income. As an alternative to the simplified methods, the regulations provide actual product flow methods which should be considered even though they may be burdensome to compute. For example, Regs. Sec. 1.263A-1(e)(3) provides a method that uses predetermined rates that approximate the actual indirect (i.e., G&A) costs included in ending inventory. This would benefit companies that have ending inventory that includes, for example, primarily raw materials. Purchasing and storage expenditures may be the only G&A costs that would get capitalized in the ending raw materials tax inventory. Under this example, other G&A expenses directly tied to production would not (and should not) be associated with the raw materials portion of ending inventory. This would not be the case when using the simplified methods.

Filing requirements

Importantly, inventory method changes involving LIFO and UNICAP are considered changes in methods of accounting that require filing Form 3115, Application for Change in Accounting Method, with the IRS. These method changes may be automatic or nonautomatic, depending on the methods being changed. ■

For more information contact, Tim O'Shaughnessy, RSM McGladrey tax manager at tim.o'shaughnessy@rsmi.com.

HOLIDAYS

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managers to unwind and interact outside of the workplace. Problems will arise, however, if an employee or manager engages in inappropriate conduct toward another employee.

Earlier this year, a home security company faced a $1.7 million jury verdict and significant public ridicule after a female employee was among a group of employees publicly "spanked" by a real estate sign during a work function. The company admitted that the conduct had occurred, but alleged that the employee had been a willing participant. Nevertheless, the jury agreed with the employee that the conduct constituted sexual harassment and sexual battery.

The size of the jury award demonstrates how much judges and jurors are willing to punish companies who allow their employees to engage in inappropriate behavior at work or work-sponsored events, even if the recipient of the behavior seems to welcome it at the time.

Employers can take measures to prevent inappropriate holiday party behavior before it occurs. They can circulate memos to all employees in the days before the party, reminding them that the company's zero-tolerance for workplace discrimination and harassment extends to work-sponsored events. Employers should specifically refer to or republish its code of conduct, as well as its policies pertaining to discrimination, harassment, and appropriate dress. If your organization lacks a comprehensive harassment policy, now is the time to establish one and ensure the availability of an affirmative defense to the Company in any harassment case arising at any time in the workplace. Managers should be instructed to pay close attention to behavior at the holiday party, and be prepared to take action if a situation appears to be getting out of hand.

Employers may also want to consider allowing employees to bring their significant others, spouses, and children to the holiday party. Employees are significantly more likely to keep their behavior in check if their significant others and children are within earshot. The cost of the extra guests is far outweighed by the good will generated and litigation avoided.

Ensure that the company has adequate insurance to cover unforeseen events

Even the most perfectly planned parties cannot prevent all potential accidents or slip-and-falls. As a result, employers must make sure they will be sufficiently protected if Susan from accounting breaks her arm after slipping on a dropped piece of shrimp cocktail.

Employers should review their insurance policies for any alcohol-related exclusions, and purchase supplemental or "special event" insurance coverage if necessary. If the holiday party will occur off-work premises, employers can help avoid liability for damage to the property and/or injury to persons at the party by ensuring that the restaurant, banquet hall, or building hosting the party is adequately bonded and insured.

> Employers can take measures to prevent inappropriate holiday party behavior before it occurs. They can circulate memos to all employees in the days before the party, reminding them that the company's zero-tolerance for workplace discrimination and harassment extends to work-sponsored events.

Employers can also find themselves liable for employee injuries under state workers' compensation laws, which generally cover injuries "arising out or in the course of employment." Indeed, some courts have interpreted these laws to include injuries that occur at employer-sponsored holiday parties, including injuries caused by employee intoxication.

The Illinois Workers' Compensation Act generally excludes from coverage injuries that arise from employees' participation in voluntary social events. The exclusion will not apply, however, if employees are required to attend the holiday party or are not clearly relieved of their work duties while attending the event. Indeed, absent clear communications and instructions, it is conceivable that some employees attending a holiday party, including otherwise exempt managers, would remain covered by the workers' compensation statute during the event and possibly thereafter.

Respect and accommodate employee diversity

Employers must also be cognizant of the fact that their workforce likely encompasses a variety of different religions, beliefs, and cultures. Employers can demonstrate their appreciation for and sensitivity to employee diversity in a number of ways. Instead of focusing on Christmas or a specific December holiday, employers can acknowledge the entire holiday season. Indeed, a measure as small as renaming the annual "Christmas" party the annual "holiday" party can do wonders for making employees who do not observe Christmas still feel like a part of the celebration. Employers who choose to decorate the workplace with Christmas-related decorations can also embrace employees who do not celebrate the holiday by incorporating Hanukkah, Kwanzaa, and other seasonal displays.

Employers also must realize that some employees might not want to engage in holiday-related activities at all, either by choice or because their individual religious beliefs prohibit it. Indeed, given generally pervasive cultural pressures during the holiday season, the Company should be vigilant against harassment directed towards non-Christian employees. Do not leave unanswered that unfunny, intra-office memo which could say, "Christmas party tomorrow, all invited except for Ali and Abraham." Conversely, some employers have had to learn the hard way that requiring employees to participate in religious or

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Christmas-related holidays can subject them to liability for religious discrimination.

In *Velez-Sotomayor v. Progreso Cash and Carry, Inc.*, 279 F. Supp. 2d 65 (D.P.R. 2003), for example, a practicing Jehovah's Witness brought suit after her employer terminated her for refusing to wear a Santa hat during her work shift. The Court determined that the employee had a legitimate basis for declining to wear the hat, and refused to dismiss the case. Likewise, in *Kentucky Comm'n on Human Rights v. Lesco Manuf.*, 736 S.W. 2d 361 (Ky.App.1987), the Kentucky Court of Appeals held that an employer who required its practicing Jehovah's Witness employee to answer phone by saying, "Merry Christmas," engaged in discrimination because her religion specifically prohibited her from acknowledging the holiday.

Employers need not ignore the holidays completely for fear of offending a few employees. However, employers should be receptive to employees' individual beliefs, and respect any requests not to take part in holiday-related practices or events.

Remember that certain employee holiday gifts count toward employee wages

The IRS does not treat all gifts to employees equally. For instance, an employer who provides a small holiday turkey or ham to its employees does not need to include the de minimis gift in their employees' year end stated income as extra salary or wages. However, the employer who gives its employees a gift certificate or coupon to purchase a pumpkin pie to go along with a sizable turkey or ham, must include the value.

Employers unsure about whether or not their holiday gifts to employees count as taxable income should consult with a tax professional [or call the IRS hotline] to ensure the Company remains in compliance with all applicable guidelines. ■

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IMA Recycling Expansion and Modernization (REM) grant funds still available . . .

"Manufacturers are finding it increasingly difficult to maintain or increase profits . . ." according to an article on manufacturing.net.

The IMA can help through the Recycling Expansion and Modernization (REM) grant which covers 75% of the cost of a Solid Waste Assessment. With a nominal ($5,000 maximum) cash match, your company can learn to reduce or eliminate solid waste streams and save thousands of dollars.

For more information, contact Judy Parker, IMA Director of Training
217-522-1240, ext. 3036, or email jparker@ima-net.org.

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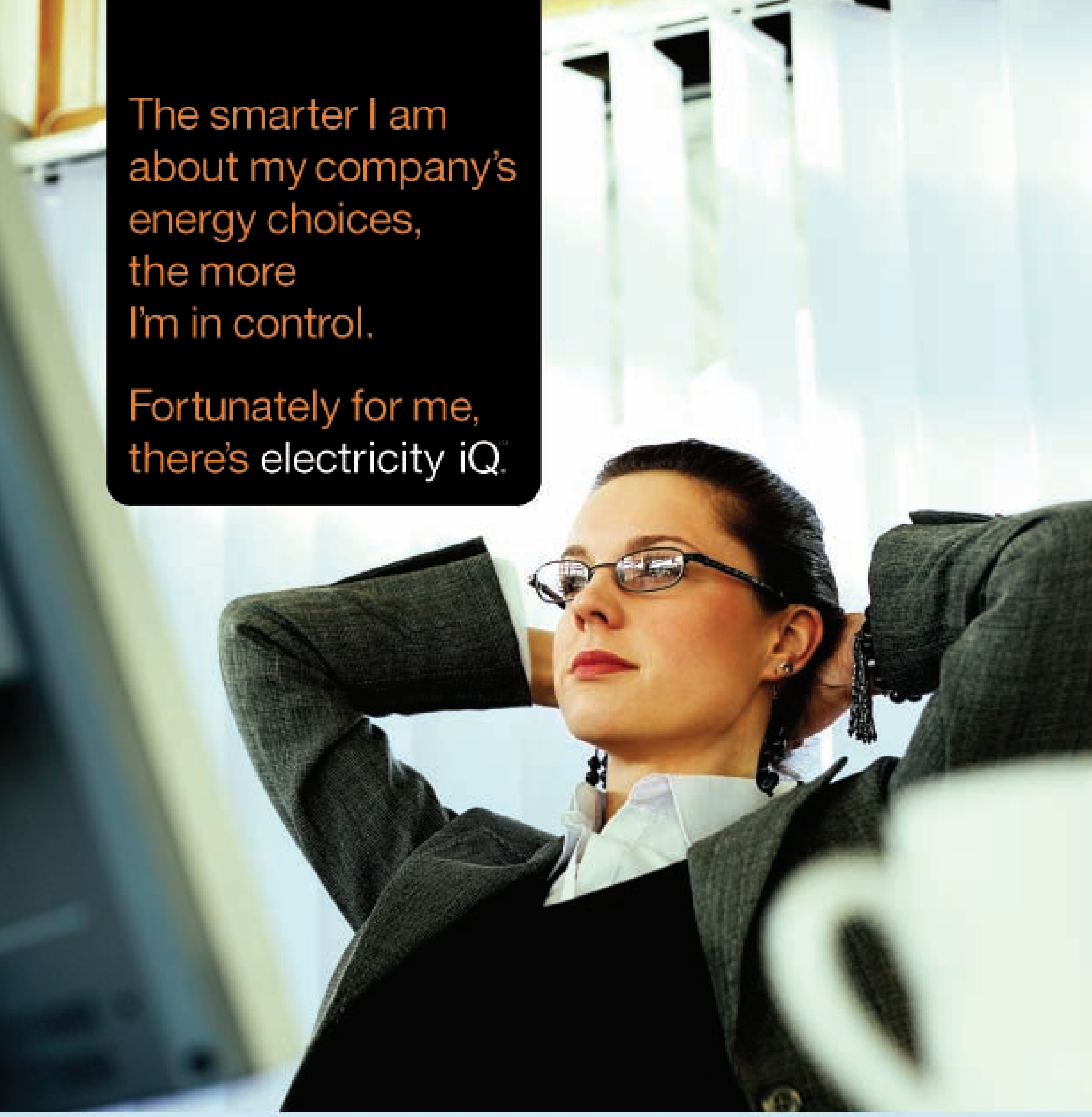
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