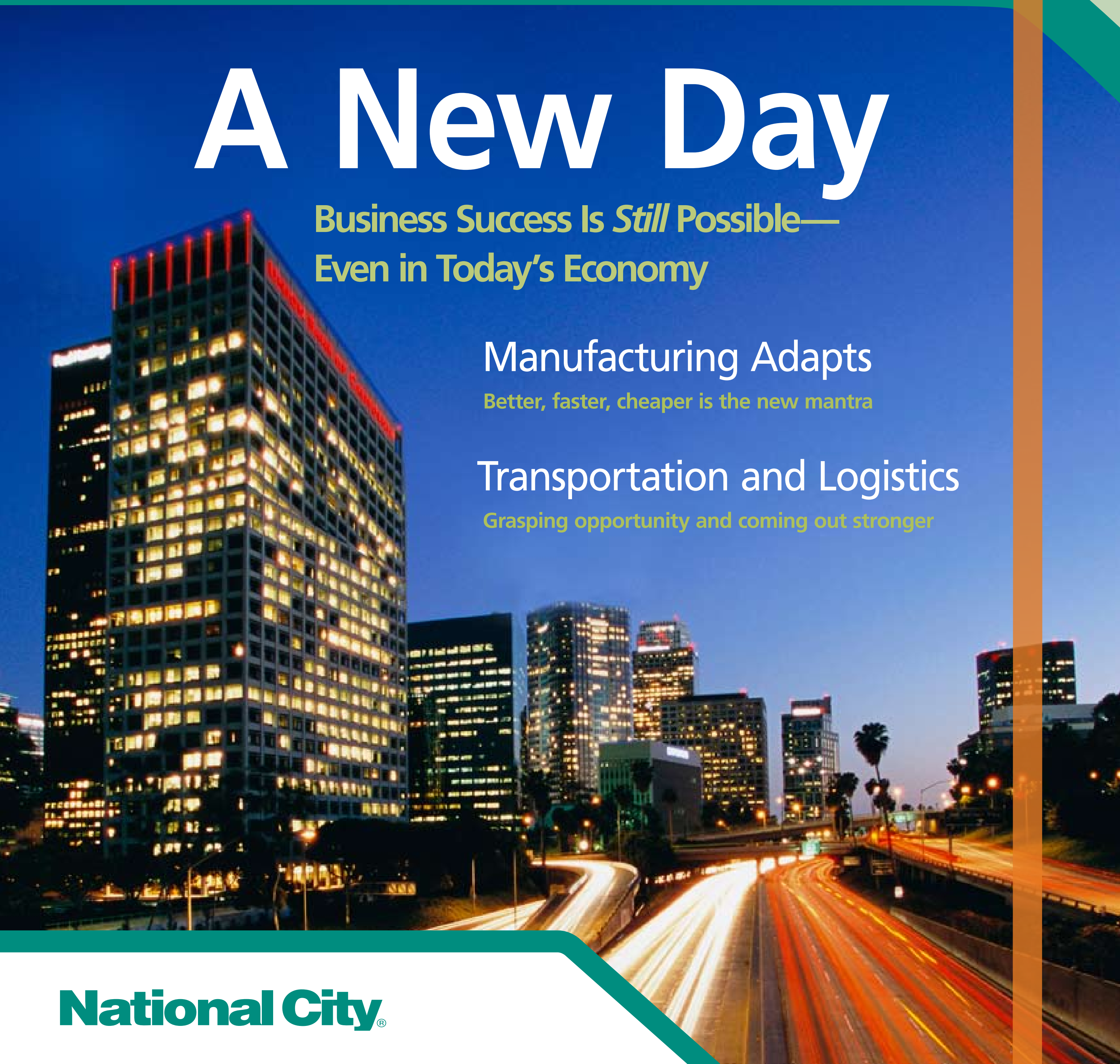
CORPORATE INSIGHTS

INFORMATION AND STRATEGIES FOR CONTINUED FINANCIAL SUCCESS

FALL 2008



A New Day

Business Success Is *Still* Possible—Even in Today's Economy

Manufacturing Adapts

Better, faster, cheaper is the new mantra

Transportation and Logistics

Grasping opportunity and coming out stronger

National City®

CORPORATE INSIGHTS

Fall 2008

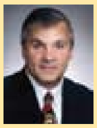
Corporate Insights is published periodically for National City by McMurry. The publisher, not the sponsoring institution, is solely responsible for the accuracy of articles in the magazine. National City does not endorse any of the organizations, stated positions or opinions appearing in this publication. Articles should not be considered legal interpretations; neither the publisher nor any other party assumes liability for loss or damage as a result of reliance on this material. Appropriate legal, accounting or other expert advice should always be sought before making personal or financial decisions.

Send change-of-address correspondence to National City, P.O. Box 5756, c/o *Corporate Insights* Loc. 01-2147, Cleveland, OH 44101-0756.

Questions or comments should be sent to Lissa Pifer, Editor, at lissa.pifer@nationalcity.com.

WEBCASTS: LEARN REMOTELY

National City invites you to participate in the remainder of this season's informative and interactive webcasts. It is free to join—simply register at nationalcity.com/seminars.



U.S. ECONOMIC OUTLOOK & UPDATE

Richard J. DeKaser, Senior Vice President and Chief Economist for National City, presents his final 2008 quarterly webcast on the U.S. Economic Outlook and financial market analysis.

Thursday, Nov. 6, 2008

IN-PERSON SEMINARS: INTERACT WITH EXPERTS

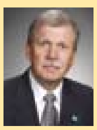
National City in-person seminars provide you with the opportunity to learn more about the financial industry's hottest topics and see how they will affect your business. Join us in these unique one-day events where you can interact with some of the nation's top financial experts.

CHINA: THREAT OR OPPORTUNITY

Help in understanding China to develop a fitting business strategy. Presented by Alfred Ho, Vice President and Director of China Advisory Services

Cleveland, Ohio
Friday, Nov. 14, 2008.

> "People don't usually think of the bank as a place to help find suppliers or customers in China or India, but that's exactly what my bank, National City, did for our business. Working with National City's China Advisory Services and its consulting partners, we were able to identify and establish a business relationship with key suppliers in China. The service saved us time and money and, more importantly, gave us confidence and peace of mind that the supplier was 'vetted' by someone we trusted."
>
> Lou Vilardo, President
> PDI Communication Systems, Inc.



INSIDE TRADE FINANCE

This one-day seminar quickly takes you from the basics of trade financing through advanced techniques that will help you succeed in the international marketplace. Presented by Craig Schurr, Senior Vice President, Global Trade & Supply Chain Solutions.

Louisville, Ky.
Thursday, Oct. 23, 2008

St. Louis, Mo.
Wednesday, Nov. 5, 2008

Cincinnati, Ohio
Thursday, Nov. 13, 2008

> "I just wanted to let you know much Larry and I enjoyed the Inside Trade Finance seminar. It was very fast paced, but also very informative, and I came away with a knowledge and a basis for tools to assist us in moving to the next level of business growth. You did an excellent job of teaching, explaining and showing of examples. After the seminar, I firmly believe any company that is in the international trade business, or thinking about doing it, should attend your seminar."
>
> Irene Wunderle, Controller
> DAI Ceramics, Inc.

For more information or to register for an upcoming seminar or webcast, please visit nationalcityseminars.com.

Trusted Financial Partner

Many companies talk about partnerships with their financial institution, but ASI, Ltd. lives it.

Every business goes through peaks and valleys, but ASI, Ltd., an Indianapolis, Ind.-based contractor that specializes in creating building facades and enclosures, has gone through more than its share the past six years. The company had steady sales revenue of around $8 million a year for 10 years until 2002, when they embarked on an ambitious growth plan that saw revenue nearly triple in three years to $23 million.

"And that was our worst year ever," says Ken Smith, President of ASI. "Our sales went way up, but our margins went down. So we re-examined how we made money and decided to lower our volume and rebuild our gross margin." Sales dropped to $12 million the following year as ASI stabilized and Smith and his management team analyzed what went wrong.

PUTTING THE CART BEFORE THE HORSE

The problem, they realized, was that in their quest to grow sales, they put the sales "cart" before the infrastructure "horse." "We didn't put the proper infrastructure and people in place before we ramped up sales," he explains. So they decided that before making another big sales push, they would hire the right people and build the necessary infrastructure first.

"We decided that if we're confident we can win the new business," Smith continues, "we should go ahead and hire the people we'll need ahead of time and get them in position to manage the business when it comes in. You have to prove to customers

Ken Smith, President of ASI

that you are equipped with the necessary resources to do the job."

The result has been nothing short of spectacular. Sales volume is now growing by more than $10 million a year "almost seamlessly," says Smith, "and things are in better control than when we were doing $12 million a year." The company has recently been awarded a number of high-profile jobs—including Riverfront Stadium in Cincinnati; Lucas Oil Stadium, the new home of the Indianapolis Colts; and the new Marriott hotel in downtown Indianapolis—and is on track to reach $70 million in sales in 2008.

IT'S NOT JUST "BANKING"

Smith credits National City for a large share of the company's recent success. "Our growth has been largely due to our partnership with National City," he says. "It's not just a banking relationship—we run ideas by each other all the time."

As an example of this relationship, Smith says National City encouraged him to create a management team several years ago and to delegate more responsibility to them. "The growing maturity of this team over the past few years has freed me up to do the big-picture planning that has led to our recent success. Before, I was micro-managing at 100 feet; now, I'm macro-managing at 5,000 feet. Our managers have been empowered in their areas of responsibility, and the whole company has been elevated as a result.

"(National City Relationship Manager) Tania Deng is much closer to us than a relationship manager," he continues. "She works with lots of other successful companies—if I don't utilize her knowledge, I'm a fool."

A LONG-STANDING RELATIONSHIP

ASI has been banking with National City since 1990, starting out as a branch deposit customer and opening a small line of credit five years later. Now, Smith says that all of the company's banking services are with National City, including business deposits, loans, leases, Work Perks employee benefits, treasury management and capital markets products, and personal deposits and loans with the Private Client Group.

"Some companies spread their banking business around, but not me," says Smith. "I like having all my banking business with National City and I want them to know I'm committed to them."

Smith adds that true relationships aren't forged during good times, but rather when you hit bumps in the road. "We were struggling a few years ago but National City stuck with us, and we turned it around. We have full disclosure and are completely open and honest with each other.

"I view National City as my trusted financial partner," he continues. "My belief in ASI permeates to the bank, and I think they take pride in being part of our success."

Meeting the Challenges—He

Following National City's $7 billion capital raise earlier this year and recent announcement of second quarter results, Chairman, President and CEO Peter Raskind takes time to address customer questions about National City's strength, stability and outlook for the future.

Q. What do second quarter results from National City tell you about the company's ability to manage the current challenges facing the banking industry?

A. Our results reflected the challenging economic conditions, as well as our aggressive efforts to manage through them and position the company for the future. But they also provided strong indications that with the highest Tier 1 capital ratio of all major U.S. banks, National City is effectively managing through today's turbulent credit markets and will emerge a stronger institution.

The fact that our core retail banking, commercial banking and wealth management businesses remain profitable further demonstrates the success of our business strategy to develop direct and integrated relationships with our customers. These businesses have been isolated from liquidating portfolios, and we're continuing to invest in them as the credit cycle turns. We are just as committed as ever to providing the industry-leading products and superior service our customers deserve and expect, and continue investing in and growing our core businesses.

Q. Is the recent volatility in the stock price of National City reflective of the company's stability?

A. Absolutely not. The changes in our stock price are in no way reflective of the company's stability. With $7 billion in added capital, National City has the highest capital Tier 1 ratio among its peer group and among all major U.S. banks, exceeding what ratings agencies and regulators require by a fair measure.

We can't predict or dictate changes in our stock price because they're based on many factors outside of our control, including the overall economy and market perception. Instead we continue to focus on what we can control: the fundamentals of our business. That means continuing to take aggressive steps to position the company to meet the challenges ahead and deliver strong performance in our core businesses. We believe that our second quarter results demonstrated the progress we're making on both of these fronts, and we look to the future with confidence.

Q. Will the bank's capital levels remain adequate in the face of losses from its liquidating portfolio?

A. We have evaluated our situation carefully in terms of potential losses and stress scenarios and we're very confident that our capital levels are more than ad On

adequate. There are no plans to raise additional capital. The liquidating portfolio poses a challenge to us, there's no question of that, but the loans are isolated and contained.

Q. Beyond the capital raise, what has National City done to strengthen the bank and position it for success in the future?

A. We've made significant investments in our risk management processes, talent and technology. As a result, we've been able to make solid progress in actively managing liquidating portfolios, which are isolated and.

In terms of growing the business, we've been aggressively re-focusing our efforts on our core commercial banking, retail banking and wealth management businesses, which remain solid and profitable. We are continuing to invest for growth in these areas.

Finally, we've put in place a management team that is intensely focused on managing risk, controlling expenses and improving profitability, with new senior executives including a new chief risk officer and new heads of the mortgage and corporate banking units—as well as a new board member.

Q. Explain how National City's business strategy has changed because of the turn in the credit cycle and market challenges this past year?

A. We have a clear and direct path and have chosen the business mix that's going to carry us forward. And we've chosen the fact that we want to be a predominantly footprint-oriented bank, competing in retail banking, including mortgage, commercial banking and wealth management. We have moved away from indirect businesses and are focusing our efforts on businesses in which we have a direct relationship with our customers. Those are the types of businesses that will determine the long-term value of National City.

Furthermore, we are focusing on our strong regional footprint, our strength in commercial banking, wealth management and the terrific retail bank we have built over the past four to five years.

In retail banking, it's about household growth and household expansion. In commercial banking, it's an increased focus on deeper, profitable relationships. And in private banking, it's very much about new customer acquisition and expanding relationships.

This is the same strategy we identified just prior to the turn in the market. Now, even against the backdrop of certain short-term challenges in the banking industry, it remains our strategy. It's what we said before. It's what we're saying today. I very strongly expect that's what we'll be saying years from now.

Q. How is National City aligning its Commercial Banking business with the corporate strategy?

A. We have sharpened our focus on the core Commercial Banking business by expanding direct relationships with our customers to enable us to better serve their broader financial needs. We are confident in our strong suite of products and services for corporate clients, and we continue to significantly invest in our non-credit solutions with particular focus on our global trade and treasury management capabilities.

Q. Given the current economic and credit environment, are you still committed to lending?

A. National City has a long-standing history in commercial lending. The solid performance of this portfolio continues to reflect National City's commercial lending philosophy, which has produced better-than-industry performance in prior downturns. Our strong commercial franchise includes a full product set for corporate clients, and we are committed to continue disciplined lending to these customers in the context of our relationship banking model.

And, we are still very much committed to consumer lending, including mortgage and business banking. We have restructured our mortgage business, eliminating the nonprime and indirect origination pieces—two areas that caused significant stress on our liquidating portfolios. We are focused on traditional loans and products that directly touch our customers.

Q. What message would you most like to convey to Commercial Banking customers?

A. Our customers should feel confident in doing business with National City. There's no factual reason to feel otherwise. We are very appreciative of the loyalty and support shown to us by our customers, including those with whom we've just begun building relationships with as well as those we've served over the years.

Q. Why should I do business with National City now?

A. Our customers can be confident in our ability to provide industry-leading products and services to meet all of their financial needs. National City has and continues to take aggressive steps to position the company for the future, and with the highest capital Tier 1 ratio of major U.S. banks, we believe we have sufficient capital to ride out the turbulent credit markets and continue investing in our core businesses. We stand ready to serve our customers and our commitment to their success has never been stronger.

Better, Faster, Cheaper: The Manufacturing Transformation

Unprecedented change presents tremendous opportunities as well.

The manufacturing sector isn't so much changing as it is transforming. The impact of globalization on manufacturing over the past decade or so has resulted in transformational changes that have forced manufacturers and investors to adjust to a brand new landscape.

As a result, more and more middle-market manufacturers today are finding themselves in a state of transition. Many of these companies are reinventing themselves in an effort to determine where they fit in a supply chain that is constantly in flux.

TWO DIFFERENT ECONOMIES

Right now, we're seeing two different economies within the overall manufacturing sector. Areas like agriculture, energy, basic metals and technology remain very strong and are playing a vital role in supporting the growth taking place in China, India and some other parts of the world. Many manufacturers are enjoying strong growth by working alongside their multi-national OEM customers that are serving the expanding Asian market.

On the other side, weaker industries—like building products, automotive and consumer discretionary—tend to be ones that are more dependent on the U.S. consumer and industrial markets. If you're heavily dependent on domestic automotive production volumes, you're obviously facing some challenges.

Manufacturers will always be driven by their customers' demands for better, faster and cheaper products. This requires more creativity in terms of what you produce and how you produce it, which often means securing the right talent from both a product development and technology standpoint. We're also seeing more alliances and joint ventures between companies as a way to bring costs down and quality and reliability up.

For example, many manufacturers have chosen to take minority equity stakes in Asian companies that are providing contract manufacturing services as a way of funding capacity expansions, which will ultimately lower the total product costs. We are also seeing manufacturers develop stronger alliances with warehousing and logistics companies to mitigate some of the shipping and transportation risks of importing key components.

At the same time, though, most manufacturers' primary value to their customers lies in their ability to develop the best product design and deliver it in the most reliable and cost-effective manner. This means producing parts overseas while maintaining research and development, product assembly and sales and marketing in the U.S. Or it may mean only providing a distribution function on certain products in order to maintain direct contact and provide other services to the end customers.

With automation, technology advancements and the speed of change required by OEMs, lightning-fast responsiveness and a local presence are often required. This may mean maintaining a manufacturing base here in the U.S. but sourcing components and sub-assemblies on a global scale in order to achieve cost-efficiencies. The acceleration of the pace of change over the past decade has dramatically shifted the thinking of many manufacturers about what is the right operating model to institute for the future.

Compounding the issue for many manufactures is balancing the requirements of the global OEMs. Certainly, following OEM customers overseas mitigates some of the production startup risks of operating in parts of Asia. But some OEMs are also asking for dual sourcing mechanisms and contingency plans built into operating models in case there are disruptions in the supply chain that would delay getting products as needed. Balancing the need for low-cost products with high service and reliability will always be a challenge.

MAKE OR BUY?

Manufacturers have always had to navigate "make vs. buy" decisions. In their efforts to keep costs down, they may decide they can no longer build components cost-effectively, so they will source components from overseas where labor is cheaper and only perform final assembly themselves.

Of course, the trend toward identifying and tapping low-cost foreign labor markets is nothing new. But the complexity of the decision to buy components from foreign sources has increased as raw materials, energy and foreign currencies continue to fluctuate.

The M&A market also plays a role here, as some manufacturers realize they don't have the resources or expertise to perform certain tasks themselves cost-effectively, but they can acquire these capabilities through an acquisition. Companies in strong sectors that are cash-rich and have attractive balance sheets will continue to have M&A opportunities that will enable them to increase their market presence and improve efficiencies.

A caution: One of the biggest M&A mistakes we see is manufacturers that acquire or partner with companies that are struggling, or that already have too much excess capacity. Instead, manufacturers should look for opportunities to broaden their capabilities, service lines or market access and focus on the things that will make them more competitive five to 10 years from now. When owners determine that they can't overcome critical or fundamental issues to be competitive over the long term, they should immediately look for the right time and opportunity to exit the business.

NEW PRODUCT SOLUTIONS

Another observation we have made is that there has been a change in the complete product solution that manufacturers are delivering. For example, a manufacturer may be delivering a cost-effective, high-quality product but customers are demanding several products, complete assembles or additional services to support the product. To remain competitive, many manufacturers are importing components and contracting with support organizations to deliver more value. The customer sees not only a complete product solution, but also receives stronger after-market support.

In conclusion, domestic manufacturing will always have a strong position in our economy. While there's no denying that some U.S. manufacturers are facing challenges, there are still plenty of global market opportunities for well-positioned, well-capitalized companies that are looking to grow.

How National City Can Help

If your manufacturing company is considering a strategic transaction, National City can help you develop and execute a transaction solution to fit your needs.

National City Investment Banking is organized around industry-focused teams that help owners and managers "think about their current position, capabilities and resources, and how a well executed transaction strategy can help them achieve their goals," says David Hegeman, Managing Director in the Investment Banking Group of National City Capital Markets.

"We are typically involved well ahead of the actual transaction so clients understand what they're worth, how they can build additional value or what is the best way to monetize their interest. The combination of our industry expertise and capital markets knowledge is critical to developing optimal solutions."

To learn more, please contact David Hegeman at 216-222-2616.

Inflation: The Thief in the Night

Why inflation is an unseen, but sinister enemy to long-term investors.

Prices at the gas pump and the grocery checkout over the past year are the most obvious symptom of an inflationary trend that seems relentless. The 0.8 percent rise in the July 2008 Consumer Price Index (CPI) pushed the year-over-year rate to 5.6 percent, the largest such increase since 1991. Even the "core" rate of inflation (excludes energy and food) moved steadily upward in the first half of 2008.

Yet if these painful increases in the cost of living are obvious, to the long-term investor, inflation is also an unseen but potentially more sinister enemy. Even in periods of prolonged price stability, the effects of inflation can significantly erode the value of a retirement portfolio. The good news is that while rising food and fuel costs are beyond any consumer's control, the individual investor can reduce the long-term threat of inflation—and even apply inflationary trends for the benefit of his or her portfolio.

COMPOUNDING IN REVERSE

Many investors have learned the "magic" of compound interest, which can greatly increase the size of their portfolios. But inflation can work a similar reverse magic, which over the long term can slow or even gobble up growth.

Consider what happens to an initial investment of $1 million over a 20-year period with a relatively benign inflation rate of 3 percent (about the average CPI from 1985 through 2004). After 20 years, $1 million in today's dollars falls in value to just $540,379.

Put another way, an investor in that scenario would need no less than a three percent annual rate of return simply to keep the initial investment from losing value—and that value will see a real increase only when the rate of return exceeds 3 percent. If the inflation rate goes higher than 3 percent, then the rate of return obviously must also increase simply to keep up.

VIEWING THE THREAT PROPERLY

Since the CPI clearly climbed beyond 3 percent in 2007 and into 2008, should investors make major changes in their portfolios and retirement planning? Not necessarily, according to Timothy L. Swanson, the Chief Investment Officer of the Private Client Group at National City.

"Investors should always take inflation into account, but only as one of several factors," he explains. "Yields, diversification, taxes, health, longevity and other factors are also important, yet an investor shouldn't overemphasize any one of them. A major reason for actually having a plan is that you can make rational assessments of all the relevant factors, and adjust when necessary."

What's more, says Swanson, a rational assessment of inflation should take all the evidence into account: "It's true that energy and food prices are rising at rates that we haven't seen for a long time. At the same time, however, other living costs have been stable or even falling, such as shelter and apparel."

So how should investors think about inflation and the future? "One basic guide is always to think about future dollars in terms of 'real' instead of 'nominal' values, which simply means that you adjust for inflation," says Swanson. "Prices aren't constant, so future dollar amounts won't be either. Higher expected inflation may mean you have to expect your portfolio to work harder."

WHAT ARE REAL PCEs?

Investors can get a useful big-picture view of inflation by looking at fuel prices in relation to real personal consumption expenditures (PCEs), or the sum of all consumer spending adjusted for inflation. Spending on gasoline and other energy amounts to some 4 percent of PCE; this means that even a large jump in fuel costs translates to only a marginally smaller amount that goes toward other spending. In other words, fuel inflation may look worse than it really is for the economy as a whole. And despite the real pain of fuel inflation, there is as yet no evidence that it has depressed consumer spending.

From this perspective, inflation should not leave investors feeling like they should go "back to the drawing board" with their portfolios. Of course, it is wise to regularly revisit your portfolio for the right reason—or, as Swanson puts it, "to ensure that your portfolio is in line with your goals.

"Emotion never mixes well with asset allocation," he explains. "Everyone realizes the importance of good decisions about what goes into a portfolio. Yet a thoughtful analysis of one's own tendencies is just as important." Which tendencies should they watch for? "Too many investors overestimate their risk tolerance

in a bull market," replies Swanson, "while in a bear market too many overestimate their risk aversion. In both cases, too few investors see those tendencies for what they are."

CAN INFLATION WORK FOR YOUR PORTFOLIO?

Energy and other commodity markets have always attracted speculators, a truism that applies today more than ever. Yet there are several reasons why these markets can also be part of a sober, strategic mix in the portfolio of an individual investor. The commodity complex is a wide range of markets that includes energy, grains, meats and softs; these can broaden the choices an investor has in the effort to diversify.

At the same time, they also offer a benefit found in few other market sectors—as Swanson puts it, "commodities don't correlate. Individual commodity markets historically don't all trend together, and they don't trend with financial markets like equities or currencies," he notes.

Swanson is also careful to emphasize the strategic purpose for holding commodities: "Reduced volatility is the chief reason for diversification, so the less correlation within your portfolio the better. It's also wise to hold a basket of commodities, since prices in a single market can bounce all over, as we've seen recently. Individual investors who include commodities in their portfolios should do so not to chase returns, but instead to keep overall portfolio returns stable."

BACK TO BASICS

The recent inflationary trend has been strong, but sudden as well. It's at least possible that the trend could moderate or even reverse itself just as rapidly. But even if the trend toward higher prices continues into the foreseeable future, the greater threats to most investor portfolios have nothing to do with the CPI. They include the damage done by "self-inflicted wounds," such as saving too little, failing to remain fully diversified and underestimating one's retirement time horizon.

"Today it's very common for retirement to last 30 years or longer," says Swanson. That can be a "longevity inflation," which investors both welcome and are prepared for.

For assistance in structuring or reassessing your portfolio in light of rising inflation, please contact the Private Client Group at 866-628-8151.

Robert Folsom is a writer and editor who has covered politics, popular culture, economics and the financial markets. His columns have appeared on Dow Jones Marketwatch and FOXNews.com. Reach him at **robertfolsom@charter.net**.

'A Perfect Fit'

Managing the proceeds of a business sale can be challenging. Here's how the Private Client Group helped a long-time commercial banking client meet his long-term financial objectives.

If a business owner is successful, he or she may one day have the opportunity to sell all or a portion of the business and thus reap a degree of financial reward for a lifetime of blood, sweat and tears poured into the company.

But selling equity in a closely held business is not something any owner takes lightly. The process may be fraught with financial, logistical and emotional issues that can be difficult to overcome.

Terry Stephens, the founder and CEO of Stephens Pipe & Steel, LLC, came face to face with these issues recently when he was approached by a potential acquirer with an offer to buy up to half of his ownership interest in the company he started in 1974. "I wasn't soliciting a buyer when Houchens Industries, Inc. expressed interest in partnering with us," says Stephens, "but the opportunity was very attractive."

THE KING OF FENCING

Stephens Pipe & Steel is the largest domestically owned fence distributor in the country, with nine manufacturing and distribution locations primarily in the eastern U.S. and headquarters in Russell Springs, Ky. It manufactures and distributes chain link fence fabric and all types of ornamental fencing.

The company currently employs more than 900 people and sales will reach $300 million this year, according to Stephens.

Though he wasn't actively looking to sell at the time, Stephens says the timing of Houchens' offer for a 50 percent interest in his company was very good, especially given the currently low capital gains tax rates. "This and my age and family considerations were all factors in the sale," Stephens says. But he wasn't about to sell to just anybody.

"I've been in this business for 34 years and I don't have any designs on retirement, so I wanted a partner that wasn't interested in day-to-day management and wasn't going to remarket the company after a few years. Houchens has a history of buying companies and holding them for their future growth, not just flipping them."

Stephens adds that since he doesn't have an immediate family member who is interested in running the business, "I felt I had an obligation to our employees to ensure continuation of the business in case something were to happen to me." In the end, he decided

Houchens was "a perfect fit" and the deal closed on April 30 of this year.

MANAGING THE PROCEEDS

One of the biggest challenges in the sale of half of his company was managing the proceeds of the sale. Stephens says he has always been so focused on managing his business that he wasn't too involved in his personal financial management. "There were a lot of big decisions to be made in a short period of time," he says.

For help, Stephens turned to the investment management professionals in the Private Client Group at National City. Stephens Pipe & Steel has been a National City corporate client for more than 20 years, and Stephens worked with the Private Client Group to establish trust accounts for his grandchildren several years ago.

"I have always been 100 percent in control of my financial assets, so it was a big adjustment for me to give someone else a role in managing these proceeds," says Stephens. "But I feel very good about my partnership in this with the Private Client Group. I'm confident that they will do a good job of managing the funds and providing a solid return."

Stephens says the proceeds are being managed primarily for the benefit of his heirs. "As an entrepreneur, I'm used to a certain degree of risk-taking in business. But in managing money for my grandkids, I want to take a little bit safer and less risky approach, especially given today's challenging markets. I'm 10 times more cautious about managing their money than I am my own!"

"This was a critical time for one of corporate banking's best long-term customers," says Robert Crady, a client advisor in the Private Client Group. "They brought us in to help navigate the sale of the business and manage the proceeds. In addition, we were able to help Mr. Stephens deal with some complicated tax and estate planning issues that arise from a transaction like this."

WELL PREPARED

In preparations leading up to the sale of his business, Stephens says he met with Crady and members of his team a number of times, and that they fully understood his goals for both the sale and management of the proceeds.

"All of our needs have been met with professionalism, and we're very comfortable with what we believe National City can do for us," he says. "There are still a lot of growth opportunities ahead for Stephens Pipe & Steel, and I consider National City to be one of my partners in our ongoing success."

If you'd like to learn more about managing the sale of your business and/or its proceeds, please contact the Private Client Group at (800) 628-8151.

Our Commitment: Simply the Best

At National City, our goal is simple: To be the best middle-market bank . . . period.

Being the best at anything requires hard work, diligence, persistence—and, of course, an unyielding focus on quality. At National City, we are committed to each of these in pursuit of our goal of becoming the best middle-market bank in each of the regions we serve.

"Our strategy is to make sure we're focusing on core relationships with our middle-market and large corporate customers, and solidifying our partnerships with them," says Lakhbir Lamba, Executive Vice President, Commercial Banking Products. "Our vision has always been to be a trusted financial partner with our clients, and this is even more critical in a challenging economic environment like we're facing today."

UPGRADES TO CONSULTNC

We are making major investments in our treasury management product suite. These efforts are highlighted by a $20 million investment in ConsultNC, our integrated platform for the delivery of global treasury management products and services. "This investment is part of our stated goal of being the No. 1 bank to middle-market companies within our nine-state footprint and the No.1 bank for large corporations where we are the lending agent bank or their primary bank," says Lamba.

"This substantial investment in ConsultNC will bring market-leading information management, analytics and cash positioning abilities to our customers," says Jason Cort, Senior Vice President, Global Treasury Management, Group Manager. "Investing in technology to exceed the expectations of our customers is just one way National City achieves our goals." Enhancements to ConsultNC will include:

ConsultNC℠
Access Global Treasury Management

• Quick View access to account balances
• More robust reporting
• Enhanced data retention
• Customizable alerts and scheduled reports
• Security enhancements to ensure confidentiality of data

The platform is moving to a new centralized administration function, Cort explains, which will include an easy-to-use wizard tool to reduce steps when adding product-level user rights to ACH, GWT and Information Management. A new self-service component introduces the ability to access a full repository of product-related documents (e.g., User Guides, Administrative Guides, Quick Reference Cards, Frequently Asked Questions) via the new Resource Center.

In addition, the new platform will feature enhanced integration to make it easier for the bank and clients to share information between each other. This will include Global Navigation Bar access and single sign-on capabilities to enable Corporate Remote Capture access via the ConsultNC home page.

FROM REPORTING TO MANAGEMENT

One of the most innovative upgrades to ConsultNC is migration of the platform from an Information Reporting to an Information Management system. An interactive Cash Position allows clients to monitor their position throughout the day, add unreported items and drilldown from ACH and Wire transaction totals. Clients will be able to see more data, more frequently, from all of their deposit account transactions.

This next generation of ConsultNC also offers a new feature that generates customizable alert messaging via our new event notifications service. Clients can customize the frequency of alerts and receive them based on specific transaction types to hit their accounts.

Another big benefit clients are excited about is the expansion of the reporting period for all account transactions and history. Information Management offers clients the option of a full 13 months of account management and history reports. This expanded window gives clients an industry-leading timeframe for keeping account history at their fingertips and available on demand.

All of these enhancements and upgrades to ConsultNC are scheduled to be completed before the end of 2008.

SETTING NATIONAL CITY APART

Lamba notes that National City has a Client Advisory Board made up of 100 middle-market and large corporate clients which, with the active participation of 15 National City board members, has worked collaboratively to define a technology strategy "that will offer industry-leading features that allow customers to self-service the most important components of their accounts and business transactions."

He adds that ConsultNC is a proprietary platform available only to National City and its customers. "We believe that in order for ConsultNC to be the industry-leading platform for middle-market and large corporations, the system needs to be developed, built, managed and upgraded by National City employees. No existing software manufacturer or customer relationship management program offers the full functionality and versatility of ConsultNC. By having ConsultNC fully owned and developed by National City, we are able to quickly implement new features and benefits.

"We are committed to making the investments in our products and capabilities that are necessary to set the bank apart in the marketplace," Lamba continues. "We want companies to bring all of their banking business to National City. They shouldn't have a reason to bank anywhere else."

If you have questions about any of the product enhancements discussed here, or about any other ways that National City can help your business succeed, please contact Paula Speigal-Butler, Senior Product Manager, Global Treasury Solutions, at paula.speigal-butler@nationalcity.com.

Other Areas of Improvement

In addition to ConsultNC, National City is making major investments in upgrades to other corporate banking products and services, including:

• **TRADE FINANCE CAPABILITIES AND TRADE INNOVATIONS PLATFORM**—This includes the opening of a trade finance office in Shanghai, China.

• **ENHANCED STATEMENT CAPABILITIES**—Business deposit customers will enjoy new and improved billing statements.

• **BUSINESS EXCHANGE**—This Capital Markets product is designed to facilitate the M&A process for companies at the lower end of the middle-market segment.

• **ACCOUNTS PAYABLE AUTOMATION**—This Commercial Cards product will help streamline the payment process for companies and their cardholders.

• **ENHANCED MOBILE BANKING CAPABILITIES**—Balance alerts and event notification will be available via hand-helddevices in early 2009.

Transportation and Logistics:

T&L companies learn how to work smarter during period of slower demand.

It happens in every economic downturn: Some companies grasp opportunity and come out stronger.

That's historically true for transportation and logistics (T&L) services. The tests and openings vary considerably among the industry's segments, but in every segment a prudent course can help a company not only weather the storm, but sail out of it healthy, and possibly even wealthy. Providers of T&L services, as well as suppliers to those industries, confront different but related situations today.

THIRD-PARTY LOGISTICS: MOSTLY SUNNY

Only a few industries achieved meaningful growth in the recession of 2001, and one of them was third-party logistics, or 3PL, which enjoyed gross domestic revenue growth of nearly 18 percent.

The 3PL value proposition is attractive in periods of both economic growth and contraction. In the high cycle, 3PLs manage transportation, inventory, fulfillment, distribution and other logistics functions, helping their customers stay focused on their core business while driving down costs.

Especially in today's downturn, in which customers are served by longer, more complex supply chains, these benefits become even more important. That's why 3PLs are now developing business opportunities at three to four times the rate of GDP growth—a vivid illustration of growth in a downturn.

The primary growth drivers for 3PLs presently include global trade, foreign sourcing, and demand for extreme inventory efficiency and working capital management.

Down the road, when demand escalates, 3PL providers can expect even stronger growth.

The 3PLs have significantly penetrated the enterprise market, as some 74 percent of the domestic Fortune 500 engaged one or more 3PL in 2007. The Big Three automakers, in fact, each use more than 30 3PLs.

The middle market is substantially under penetrated, as midsize companies have been slower to outsource logistics and supply chain management solutions. But today they confront increasing globalization and cost pressures, and the expense of building an adequate in-house system can be quite high. Together these factors are pushing more midsize companies toward 3PLs. That's significant, because mid-market customers are equally profitable, on the whole, and they tend to display a greater loyalty to logistics vendors.

The fragmented nature of the 3PL industry lets customers be selective, however. Successful 3PL providers must differentiate themselves—for example, with sophisticated IT platforms and real-time views of the supply chain, or with ancillary service offerings (like packaging or kitting/light assembly) that sometimes reach into the manufacturing process itself.

Both 3PLs and transportation industry players have acquired 3PL companies in order to expand their offerings, enter new segments, further penetrate existing relationships, enter new geographies or diversify their customer base.

The 3PL provider industry is not only fragmented, but also lopsided. Ten big players—including such asset-owning global giants as UPS, DHL, and Maers—bring in two-thirds of the revenue, while several thousand, both asset- and non-asset-based, share the rest. The 3PLs that exceed $50 million and provide differentiated service offerings are rare—and highly prized as acquisition targets, particularly by private equity buyers who assign high valuations to certain value-added, high-growth segments.

TRANSPORTATION: PARTLY CLOUDY, BUT WITH SLIVER LININGS

A summary of current prospects in each of the main transportation segments quickly shows that providers and their suppliers confront different situations. Rising fuel costs offer a good example. They affect every transportation-related company, especially carriers. Most can pass on increases to customers initially, but an effective surcharge schedule is difficult to maintain in times of price volatility. A carrier

Sun and Clouds

that falls behind the curve winds up with significantly higher operating ratios.

On the other hand, rising fuel costs can actually favor some transportation modes, such as rail, where carriers are finding new customers.

Rail: Much improved, and shippers are noticing. As fuel costs rise, railroads are drawing new interest today for their freight-moving efficiencies. Railroads have streamlined ruthlessly over recent years through consolidation and operational improvements. Manufacturers and distributors are finding that today's rails, with smooth inter-carrier and intermodal interchanges, can deliver cost-effective transportation for most kinds of freight.

Trucking: Hindsight and foresight needed. Entering a downturn, trucking companies should recall the last recession. Some carriers strayed from their traditional power lanes, spread themselves too thin, allowed their headhauls and backhauls to get crosswise and ran themselves out of business. Truck carriers can also expect more pushback from customers on fuel surcharges, due to the industry's overcapacity and the low-ball competition that results.

A strong trucking company, however, can find a silver lining amid these dark clouds. It's possible to pick up assets or competitors—along with their contracts, customer lists, real estate and drivers—at low prices. Thus, the synergies achieved will be valuable when the economy turns, demand increases and the field has been winnowed.

Containers: Rentals look better and overcapacity is over. Intermodal container leasing remains attractive for shippers as rising steel prices make it more expensive to buy and maintain their own containers and chassis. And increased ocean traffic between Asia and U.S. eastern ports, in addition to loosening West Coast congestion, has also raised demand for containers and reduced the surpluses that could be found at most interior intermodal hubs in recent years.

Marine: Partly protected, new fleet needed. The U.S. marine transport industry is somewhat insulated from competition by the Jones Act, which mandates that port-to-port loads in the U.S. be carried on vessels owned by U.S. citizens and built by U.S. shipbuilders. And many of the commodities that barges carry are less vulnerable to the conjunctural winds of recession. Meanwhile, the overcapacity that afflicted the marine industry through the 1980s and 1990s has largely exhausted itself.

An economic slowdown in any industry offers a chance for a company to learn how to work smarter. In a period of slower demand, it's easier to evaluate processes and implement training and technology to prepare for the eventual upturn.

To learn more about the capabilities of National City Capital Markets, please call Jonathan Ives, Director, Investment Banking, at 216-222-2825.

Jonathan Ives, CFA, is a Director with National City Capital Markets and head of the Transportation and Logistics Investment Banking Group. He has a particular focus on middle market mergers and acquisitions in transportation and logistics. Reach him at **jonathan.ives@nationalcity.com.**

Case Studies in T&L

National City Capital Markets has expert knowledge of and key relationships within the transportation and logistics industries, which have enabled us to help companies take advantage of opportunities. Here are two recent examples:

• During consultations with Total Transportation Group on its acquisition strategy, National City became aware of Wills Trucking, which provides solid waste and dry bulk transport services across a nine-state region stretching from Wisconsin to New York. Highly leveraged and facing serious challenges, Wills had begun to seek liquidity options. National City brought the parties together and advised Total Transportation Group in its efforts to acquire Wills.

National City Capital Markets provided Total Transportation Group with valuation assistance, with a resulting transaction on terms favorable to all parties. By understanding the industry and the company's strategy, National City was able to identify the synergies—reputation, customer base, management team, geographical spread, equipment and resources—that made Wills a compelling opportunity.

• In late 2007, National City helped the owners of PJAX, a leader in the less-than-truckload transportation services industry, receive top dollar for their company. After the company received an unsolicited bid for purchase, National City developed a comprehensive marketing plan, identified a range of potential buyers and conducted an auction process that resulted in a $132 million sale to Vitran Corporation.

The deal achieved maximum valuation for the owners and a premium asset for Vitran, which achieved significant improvement in its market position and a substantial addition to its LTL footprint. PJAX CEO Donald Hammel cited National City's skills in marketing and managing the transaction in a way that "benefited the management, employees and shareholders of PJAX."

National City®

P.O. Box 5756
c/o Corporate Insights Loc. 01-2147
Cleveland, OH 44101-0756

Change Service Requested

PRSRT STD
US POSTAGE
PAID
NATIONAL CITY

PRINTED ON 10% POST-CONSUMER RECYCLED PAPER

FINANCIAL MARKET OUTLOOK BY RICHARD DEKASER, CHIEF ECONOMIST

to come