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Corporate Finance: A Case Study
By: Fred J. Morelli, Director of Schneider Downs Corporate Finance, LP

Most successful middle market companies have mastered the art of growing their companies organically. Management teams are built around product and industry knowledge and are extremely proficient in their field. However, many mid-market companies have come to the realization that growth through acquisition is a strategy they should consider. Unfortunately many mid-market companies do not have the resources or experience to begin a successful search for a target company. The problem becomes even more apparent if the company decides that it must diversify into new industries.

Our Client

ABARTA is a privately owned holding company headquartered in Pittsburgh. The company had three core business units in 2004. ABARTA owned Coca-Cola bottling and distributing companies in Cleveland, Buffalo and the Lehigh Valley region of Eastern Pennsylvania; and oil and gas wells (1,600+) in Pennsylvania, New York, Ohio, Kentucky and West Virginia. In addition, ABARTA published the Atlantic City Press, the only daily newspaper in Atlantic City. John Bitzer, CEO of ABARTA, along with his management team and the board of directors, made a strategic decision to add a separate and distinct fourth company to their holdings to further their diversification.

How Would ABARTA Locate an Appropriate Company to Acquire?

Mr. Bitzer had a decision to make. Should he assign the task of locating target companies to an existing management team member, create and staff a new position, or work with a firm who might be able to handle the task on an outsourced basis? ABARTA decided that they would explore the outsourcing avenue.

After interviewing several investment banking firms, ABARTA selected Schneider Downs Corporate Finance (SDCF) to lead the search effort to find the target companies.

The Search and Acquisition Process

ABARTA created a Business Development Team (BDT) that consisted of John Bitzer and three other key executives. With the assistance of the SDCF team, they

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Foreign Trade: What You Need to Know
By: Richard X. McKenna, Technology Advisors Manager

As the trading world continues to get smaller and smaller, many organizations are looking for markets and customers outside of the United States. Conversely, many companies are looking outside the US to secure low-cost materials and supplies for production inside the United States. In either scenario, foreign trade regulations will apply.

Fortunately, many valuable sources exist regarding regulations that apply to foreign trade. It is very important that companies consult these sources before conducting business transactions in a new country.

First and foremost, before you begin selling products in or purchasing materials from a new country, you must check with the US Customs and Border Protection Department (CBP) (www.cbp.gov). This division of the Department of Homeland Security regulates much of what is imported and exported through the United States and sets guidelines for importing and exporting material into and out of the United States. There are certain countries with which US companies are not permitted to trade at all, and certain products that US companies are not permitted to sell or procure from seemingly friendly countries. The CBP also provides guidance on the use of freight

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developed a list of industries that fit their core competencies. In addition, the team developed a very detailed set of filters which became the basis for evaluating potential targets on a quantitative basis.

SDCF’s role was to find suitable targets that met the quantitative test, determine the value of the companies, prepare letters of intent and perform initial due diligence, working with the targets’ management team. Meetings were held monthly or more often, as necessary, to review the findings and evaluate the process.

How did SDCF go about identifying target companies? The approach was as follows:

- SDCF’s advisors began corresponding with their network of investment bankers to identify potential deals that would meet ABARTA’s criteria.
- The SDCF team networked with regional banks and law firms to present ABARTA and its requirements.
- SDCF attended relevant trade shows to meet owners of potential targets.
- SDCF began screening smaller public companies and making inquiries as to their future plans and desires to go private in light of the increasing cost demands of Sarbanes-Oxley regulation.
- When SDCF identified potential targets among privately held companies, they initiated a dialogue to introduce ABARTA as a potential partner.
- SDCF began an advertising campaign in business publications, to increase the awareness of ABARTA as a potential private equity source.

The Results

In May of 2004, SDCF and ABARTA’s Business Development Team visited an investment banking firm in Cleveland, and the firm introduced them to Kahiki, a small, publicly traded company located in Columbus, Ohio. The majority of Kahiki’s stock was owned by the founder of the company, Michael Tao. We went to Columbus to meet with Michael Tao, and John Bitzer and Michael immediately formed a friendship based on their mutual family-business values. Kahiki had experienced some working capital issues as a result of expanding to a much needed larger manufacturing facility.

ABARTA and Kahiki began to engage in periodic meetings, and SDCF began to develop a plan to assist ABARTA in acquiring a majority interest in Kahiki and to take the company private. In June of 2007, ABARTA acquired a majority interest in Kahiki, and Kahiki is now a thriving, privately held company that has become the fourth leg of ABARTA’s holdings.

Conclusion

Whether for diversification or for strategic reasons, middle market companies should consider acquisition as a potential growth strategy. Many times, lack of experience and/or personnel will deter a company from pursuing such a beneficial strategy. Outsourcing the function to a capable third party like SDCF is an alternative that has proved very successful to ABARTA. The engagement continues today as SDCF begins a search for a fifth company to add to ABARTA’s holdings.
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carriers, port security, exporting documents and licenses, and a long list of controls on access and control of goods entering the US. To a lesser degree, the US Federal Trade Commission (www.ftc.gov) provides information on dealing with trade-related issues in a foreign country.

If you are seeking information about a specific country or market area, other outstanding resources exist that can help you to be more prepared.

Canada: According to Canada’s Industry Commission, Pennsylvania companies imported more that $8.9 billion (Canadian dollars) of goods and services in 2006. Canada exported over $15 billion (CD) into Pennsylvania in 2006. With a 2006 population of more than 32 million people, Canada is a small trading entity, by some standards, but its Industry Commission is certainly a resource not to be overlooked.

If you are planning to trade with Canada, begin by researching Canadian trade programs for border controls and trade regulations. Most of the trading and border regulations can be found at the Canada Border Services Agency (www.cbsa.gc.ca). Here you will find resources for importing and exporting, guides for small businesses, safety and security and other trade-related topics. Before you can begin trading with Canada you must obtain a Business Number from the Canada Revenue Agency (CRA) (www.cra-arc.gc.ca). This government agency is similar to the IRS in the United States. Although Canada is a friendly neighbor, strict trade policies are in place on both sides of the border.

Latin America and Mexico: According to a 2004 report from the Congressional Research Service, the Latin America and Mexico region of the world is the fastest growing US regional trade partner. Almost all of this activity is linked with Mexico. That being said, one cannot ignore other large nations such as Brazil, Argentina, Chile, Columbia and Venezuela. There are considerable trading challenges facing this region of the world, but for the most part, these countries are working to expand trade with the US. In 2005, US companies exported over $6.8 billion of goods to Mexico in the metals industry alone. A note of caution: Mexico continues to struggle with attaching tariffs to products that are imported into Mexico. Mexico has a complex system of “forms and permits” that are required to bring products into Mexico. If you plan to import goods into Mexico, it is a good idea to use a US Customs Broker (USCB) and a Mexican Customs Broker (MCP). These two resources can assist in preparing documents to facilitate movement of products out of the US and into Mexico. You can also work with the Mexican Ministry of Treasury to satisfy Mexico’s importing requirements. With a 2005 population of more than 105 million people, Mexico may certainly be considered as a good trading partner.

Asia: Fourteen countries comprise the Asia/Pacific region. Countries like Australia, New Zealand, Korea, and India are often overlooked when talking about trade in Asia. A good resource to use when investigating trade in these areas is the US Commercial Service, a part of the US Department of Commerce (www.buyusa.gov). This agency can provide information on both imports and exports in this region. If you want to import products into this region, you can work with the US Export Assistance Office. There are offices located in Pittsburgh, Pennsylvania and Columbus, Ohio.

As the global economy continues to make our world seem smaller, it’s never been more important to be fully prepared to conduct business with other countries. Utilizing existing resources such as those listed above can be a critical tool in helping your company to make the most of the opportunity to do business with our world neighbors.

Richard X. McKenna is a manager with Schneider Downs Technology Advisors, a member of the Manufacturing Services Industry Group, and specializes in software implementations. He has completed a number of productivity improvement projects in various industries.
Management Tips
by Jay D. Sukernek, Audit Manager

There are certain benefits to having an up-to-date manual of accounting policies and procedures. A well-written accounting manual will help ensure that the company’s proper accounting principles are outlined, that similar transactions are treated consistently, and that financial reports are produced in the form desired by management. Additionally, it will aid in the training of new employees and assist management in delegating and segregating duties.

The manual should include:
- An organizational chart
- Job descriptions, outlining duties and responsibilities
- Descriptions of methods, procedures, and accounting principles to be followed, including explanations and examples of principle transactions
- A chart of accounts with detailed explanation of the items to be included therein
- Any other documents or forms for which uniformity of use is desired

Additionally, the process of developing the manual will allow for a comprehensive review of the existing accounting system, offering management the opportunity to eliminate or improve procedures and thereby create a more efficient and effective system.

If you have specific questions or would like further detailed information regarding the necessary components of an accounting manual for your organization, please contact your Schneider Downs representative.

Schneider Downs Wealth Management Advisors, LP

Question of the Quarter

Q. Is there a difference between Asset Allocation and Diversification?

Many investors and advisors interchange these terms, implying that they share a common meaning. Although the terms share a common background, technically the terms do have different definitions and different implications for an investment portfolio.

Asset Allocation is an investment strategy that apportions a portfolio among equities, fixed income and cash equivalents. For example an aggressive investor may have a portfolio consisting of 80% equities and 20% in fixed income and cash, whereas a very conservative investor may have 80% of their portfolio in fixed income and cash and only 20% in equities.

Determining your ability to commit a certain percentage of your wealth to equity investments is key to the asset allocation decision, and is among one of the first steps in creating an investment portfolio. The amount you allocate to fixed income and equities will determine your portfolio’s overall volatility and return characteristics. Based upon historical data, the higher the percentage allocation to equities, the higher the portfolio’s volatility, and, ultimately, the higher its return. The assumed level of risk for any investor is based upon a number of factors, including risk tolerance, time horizon, and investment goals and objectives. Once the mix of equities to fixed income and cash has been determined, one can address how the assets will be diversified.

Diversification takes the concept of asset allocation to the next level. It is built upon the mathematical measurement of correlation. Correlation provides the degree to which two random variables move together, in other words, the strength of their linear relationship. Because not all types of equities move along the same risk/return path, you can create a portfolio whose risk (as measured by standard deviation) is less than the weighted average risk of the component asset classes when those classes are not highly correlated. What a mouthful! Basically, diversification allows the investor to incorporate into the portfolio higher-returning, more risky equities, such as small company stocks and/or international stocks to improve the long-term performance of the portfolio and at the same time reduce the overall risk of the portfolio.

We incorporate the following classes of equity securities into our portfolios: Large, Mid and Small US stocks, Large and Small International stocks, Real Estate, Emerging Markets, and

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SD IN THE NEWS

Hall of Famer
Beth Friday, Audit Senior, will be inducted into the Duquesne University Sports Hall of Fame as part of the 2007-2008 class. A forward for the Dukes from 2000-2003, Beth is the only player in Duquesne Women’s basketball history to finish her career with over 1,000 points and rebounds. She is also only the second woman to have her jersey retired. Congratulations Beth!

New Hires
Our people are our greatest strength. Let us welcome our April through September new hires:

Samantha E. Abbott
David L. Adkins
Michael C. Altenhof
Robin L. Brunner
Fang Cai
Joel B. Davis
Thierno M. Diallo
Andrew Dickson
Matthew T. Dodge
Emily L. Earley
Mohamed A. Elkhalily
Amy L. Fallon
Steven T. Franz
Camille W. Friend
Thomas S. Geyer
Joshua R. Gilch
Adam J. Goode
Justin M. Hartzel
D. Ryan Heimann
Melissa A. Huffman
Melissa A. Keefe
Jonathan R. Kurtz
Wesley A. Lausch
Elizabeth M. McKenna
Christopher E. Mees
Brandon M. Morris
Megan M. Morrison
Shannon A. Morrissey
Nishant Y. Patel
Kimberly A. Phillips
Amber M. Pool
Craig T. Renegar
Brian J. Risacher
Irma Savchuk
Clinton A. Sheehan
Jenna M. Sidary
Sean P. Smith
Sarah E. Strickland
William J. Taggart
Jason R. Trout
John J. Vento
Nicole M. Wanacheck
Jennifer L. Weber
Jessica K. Wong
Maura L. Yarbrough
Marsha A. Zahumensky

Team Building
On September 17, we introduced 28 Staff personnel (20 in Pittsburgh, eight in Columbus) to the Firm with a week-long orientation in Pittsburgh. The week was highlighted by a day-long event on September 19 at Camp Guyasuta in Sharpsburg, PA. The event was a series of team building exercises marked with physical and mental challenges on various courses on the grounds of the Camp.

Pittsburgh to Washington, D.C. on bicycles
Ted Petko, Audit Senior Manager, Mark Karenchak of Snyder Associated Companies and Rob Watt of Watt Insurance Company followed the recently completed bicycle path, the Allegheny Passage, for 240 miles starting in Rockwood, PA and ending in Washington, D.C.

The New Face of Change
Christina Boné, Internal Accountant in our Business Office in Pittsburgh, has been selected to be a Face of Change. Meet the Face of Change™ is a nationally traveling photo exhibit that documents and celebrates the lives of people with type 2 diabetes who are making the changes they need to better manage their condition. Christina has lived with diabetes for seven years and has successfully managed her diabetes without any medication. Because physical exercise is an important part of managing diabetes, Christina became a certified Zumba instructor. Zumba is a fusion of Latin and international music dance themes, used to create an exciting fitness routine. One of many hurdles Christina faces is staying on top of the daily upkeep that diabetes requires of its patients. Diet, exercise, and maintaining blood sugar levels can be time-consuming and daunting tasks. However, Christina does not believe diabetes to be a death sentence. She has come up with new activities to keep her motivated and on the right path. Christina is also a writer and motivational speaker. Diabetes is an important topic that needs attention. With an insider’s perspective, Christina believes that together, we will fight diabetes…until there is a cure. Christina will be speaking with the local media when the exhibit comes to town and is also going through the process of becoming a Lay Health Advocate for people with diabetes. For more information visit www.faceofchange-us.com.
Commodities. It is true that these equity asset classes can move in a very similar fashion during some periods of time; however, they also can travel different paths depending on such circumstances as the stage of the business cycle or even the country in which they are invested.

The goal of diversification is to improve long-term performance and to potentially smooth out the ups and downs of the entire portfolio.

For more information, or to learn about the range of services offered by Schneider Downs Wealth Management Advisors, visit our web site at www.sdwealthmanagement.com, or get in touch with managing director Nancy Skeans at 412-697-5376, or nskeans@schneiderdowns.com.

Meredith J. Christy, Audit Senior Manager, was elected Vice Chairman of the Board of Directors of The Armstrong County Memorial Hospital.

Gennaro J. DiBello, Audit Shareholder, will be serving as Development Chair and Assistant Membership Chair of the YPO of Pittsburgh for the 2007-2008 year.


Jeffery A. Acheson, Director of Retirement Planning and Employee Benefit Services, obtained his QPFC, which is sponsored by ASPPA and developed by ASPPA and the University of Michigan.

Steven D. Thompson, Audit Shareholder, a member of the Duquesne University Accounting Advisory Board, participated in Duquesne University’s strategic planning sessions.

James B. Yard, Internal Audit Shareholder, and Frank E. Dezort and Nicole P. Saldamarco, Internal Audit Managers, presented “The Auditor’s New Suit” to the Pittsburgh Chapter of the IIA.

Mary D. Richter, Tax Shareholder, has joined the Board of ACHIEVA Support.

Michael A. Renzelman, Audit Shareholder, and Shawn T. Edwards, Audit Senior Manager, presented new FASB projects related to business combinations and consolidations to the Ohio Society of Certified Public Accountants.

Richard X. McKenna, Technology Advisors Manager, delivered a lecture titled “Discovery and Diagnosis for Consulting Engagements” to Carnegie Mellon University’s Tepper Graduate School of Business.

Timothy D. Adams, Director, State and Local Tax Services, was elected President of the Economic Club of Pittsburgh. He was also appointed Co-Chair of the Western Pennsylvania Tax Conference and appointed to the Executive Committee of the PICPA Pittsburgh Chapter.

John H. Stafford, Technology Advisors Shareholder, attended the Microsoft CIO Conference in Seattle.

Donald R. Owens, Director, Internal Audit and Risk Advisory Services, has been appointed to the Franklin University Accounting and Forensic Accounting Program Advisory Board.

David E. Kolan, Audit Shareholder, presented on the topic of US and European Firms working together to expand their international client bases at the IGAF European Conference in Prague.