

The Lechner Group, Ltd.

Lechner Law Office, P.C.

Minimize the Effects of a Recession on Your Business

“Back to Basics”



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- What Happened ?
- Current State of the Economy
- Industry Review
- Managing in a Down Market
 - Planning, Tools and Techniques, Alternatives

- **Wall Street Culture: Greed is Good**
 - Beware Financial Innovation: it benefits only the Sellers
 - CDO's, Synthetic CDO's, MBO's
 - Banks use OBS SPVs to circumvent capital requirements
 - Unregulated "Derivatives" - \$683 Trillion
 - \$441 Billion in unhedged, undercapitalized insurance sold by AIG

- **Corporate America**
 - Enron, Worldcom, TYCO

- **Promises Made, Promises Broken**
 - Washington's Unfunded Promises
 - Chicago, Illinois:
 - Sold: Skyway, Airport, Parking Meters
 - For Sale: Senate Seat

Forrest Gump



- Mortgage Backed Securities are like a box of chocolates. Criminals on Wall Street stole a few chocolates from the boxes and replaced them with turds. Their criminal buddies at Standard & Poor's rated these boxes of chocolates AAA Investment Grade Chocolates. These boxes were then sold all over the world to investors. Eventually, somebody bit into a turd and discovered the crime. Now, nobody trusts American Chocolates anymore Worldwide.
- Hank Paulson now wants the American taxpayers to buy up and hold all these boxes of turd-infested chocolates for \$700 Billion dollars until the market for turds returns to normal. Meanwhile, Hank's buddies, the Wall Street Criminals who stole all the good chocolates are not being investigated, arrested or indicted.
- Mama always said: "Sniff the chocolates first, Forrest."

■ Human Nature

- I want MORE!
- I'll take a Free Lunch too!
- Easy Money = Irresponsible, competitive greed

■ Madoff "Made Off" with the Money

- Thoughtless behavior, No diligence
- Good times lead to bad behavior
 - Taking things at face value

■ Government Solutions: More Regulators?

- OTS/Indy Mac, WaMU
- SEC/Madoff
- Politician's are not accountable...

- 1st Half 2009 Contraction, second Half Flat
 - GDP Contracts 3% in '09, choppy 2010 to 2012
 - **No** recovery in Housing; pricing needs to be 2.2X take home wages
 - Credit freeze continues while underwriting gets religion
 - US Government Dollar depreciation = Higher commodity prices

- Excess Industry Capacity
 - GDP - Export/Import = -Loadings + Rail Efficiency
 - Car Demand and loading Volumes continue downward trend

- Pricing
 - Commodity pricing influenced by World Events
 - Equipment pricing, Lease Rates soften
 - Wide Credit Spreads Continue

- Credit meltdown caused by:
 - A Lack of Underwriting Diligence, Fraud
 - Financial “Over-Engineering”
 - Off Balance Sheet Entities
 - Unregulated markets
 - Conflicts of Interest (self-interest)
 - Rating Agencies
 - Public Accounting Firms
 - Lack of Accountability
 - Executives are Paid for Success, but not punished for failure

- Long Term effects of US Bailout
 - Higher Taxes
 - HIGH INFLATION
 - Weaker US Dollar

- Messy Banking Sector Cleanup
 - As long as banks are cleaning up their balance sheets credit will be more expensive and harder to come by

- Super-low Treasury Interest Rates
 - Can we borrow our way out of a recession? =
 - The Greatest of all Credit Bubbles

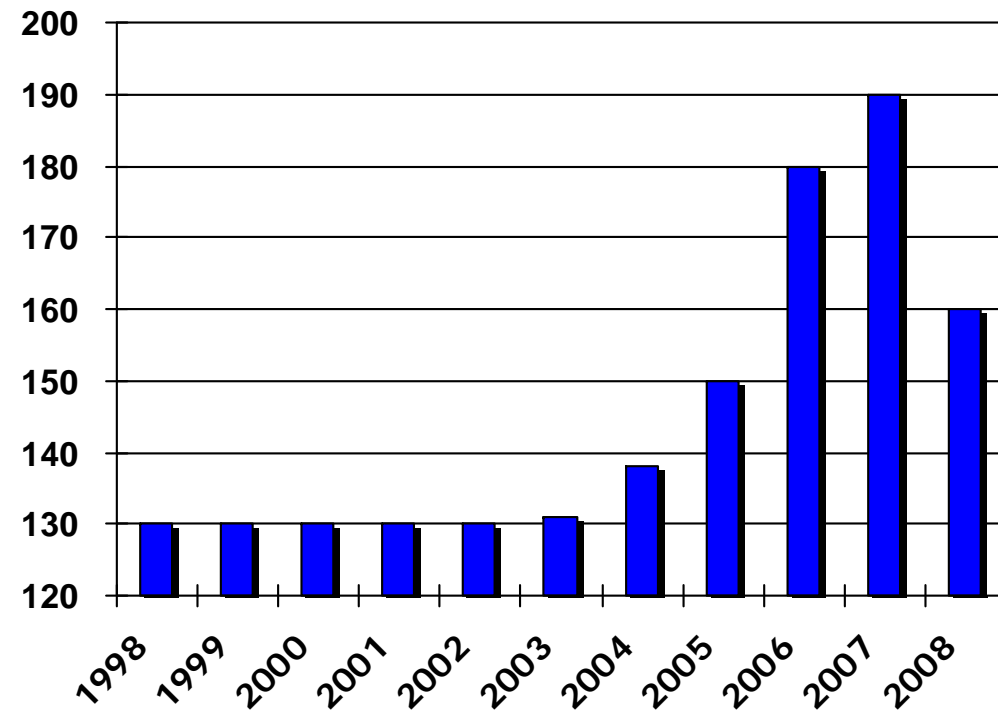
- Short Term stimulus packages will solve nothing

- Sound Familiar?
 - Japan 1985 to 2008

Rail Equipment Pricing Softens

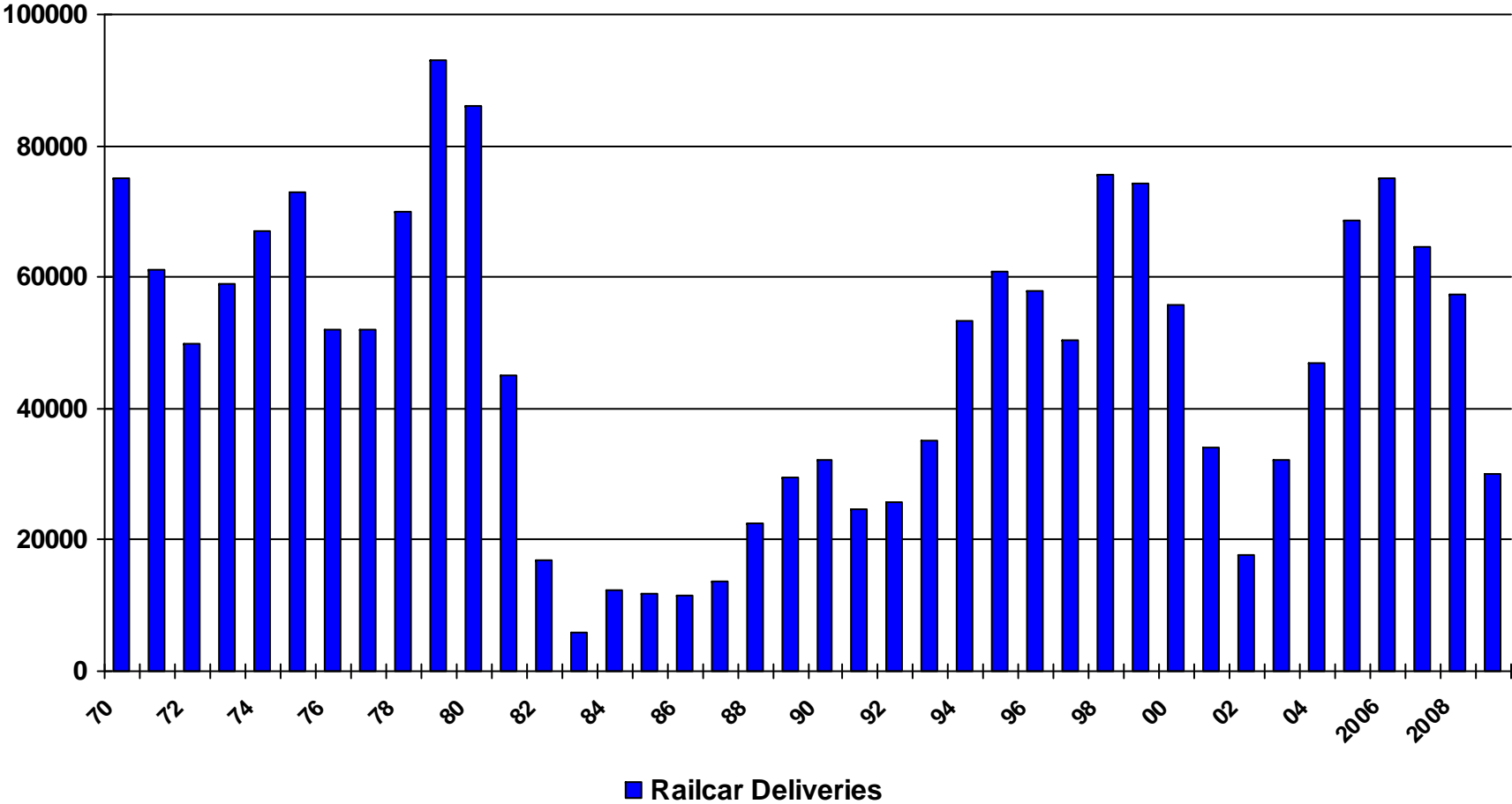
Rail Equipment Prices June 1984 = 100

■ Rail Equipment Prices



Equipment Deliveries Fall

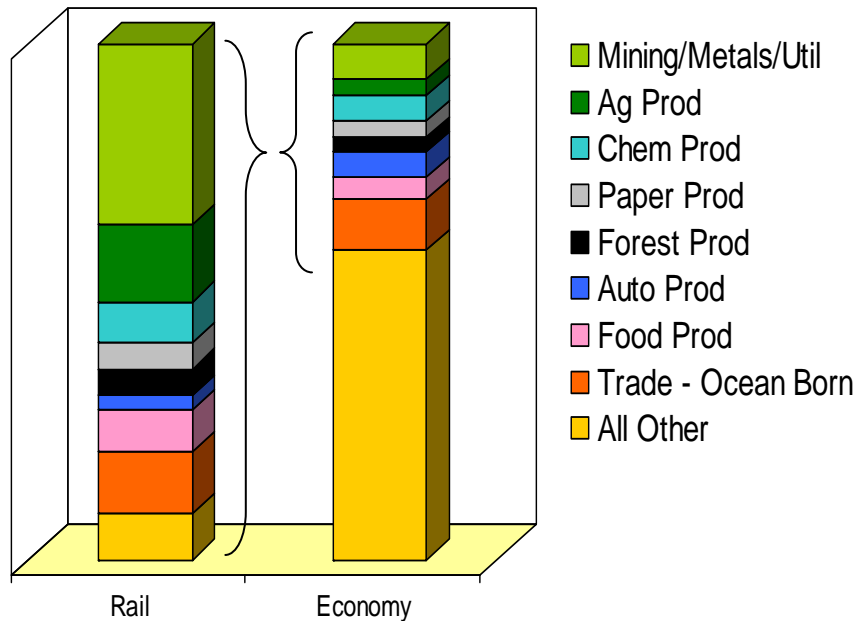
Railcar Deliveries



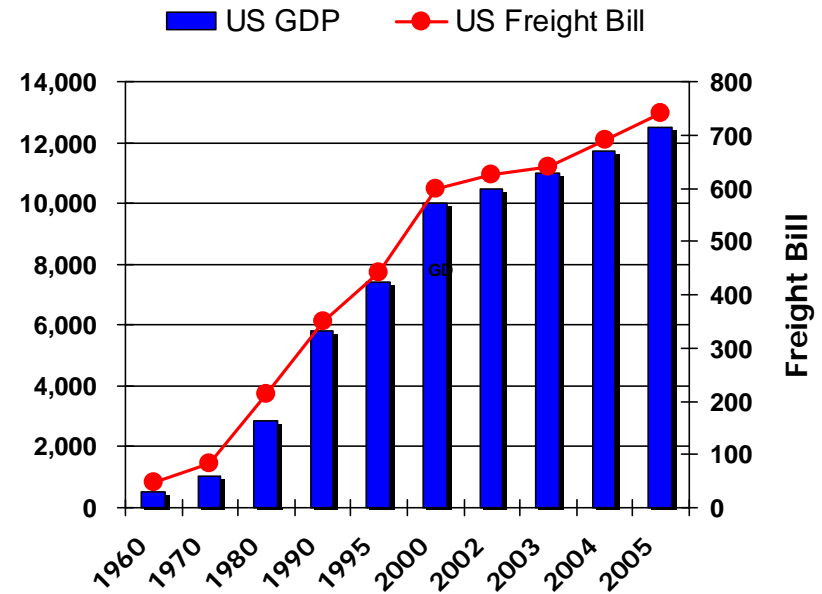
GDP Drives Traffic

MACRO ECONOMIC

- Domestic Industrial Production
- Agricultural Production
- Consumer Spending
- Exports, Imports



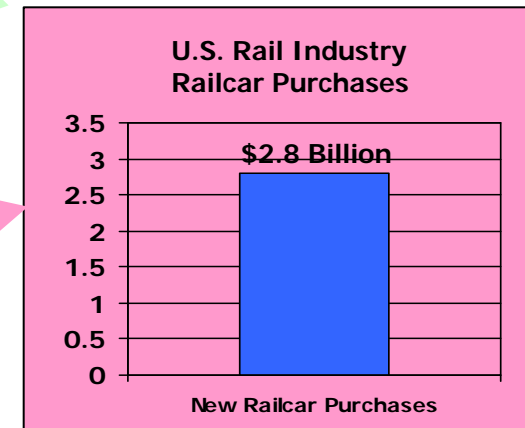
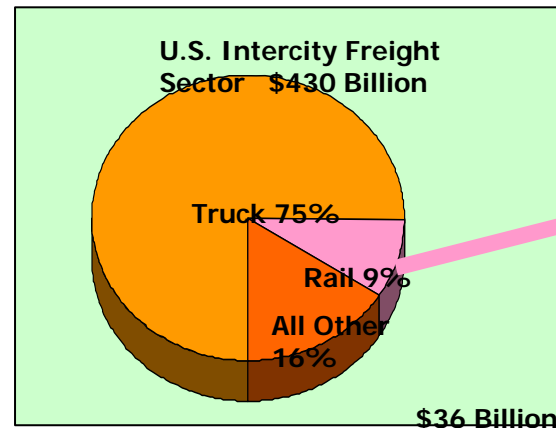
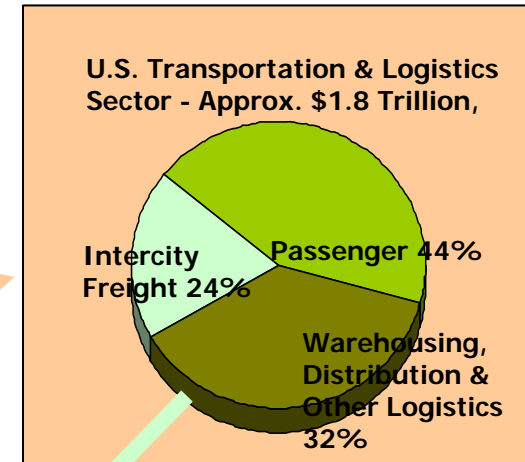
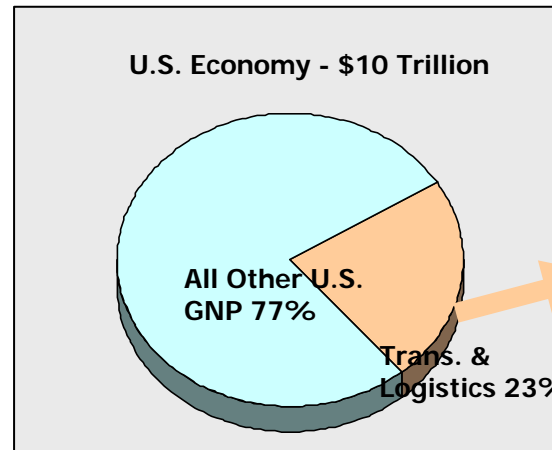
Demand for Freight Transportation & the Economy



90% of Rail Demand Comes From 40% of the Total Economy

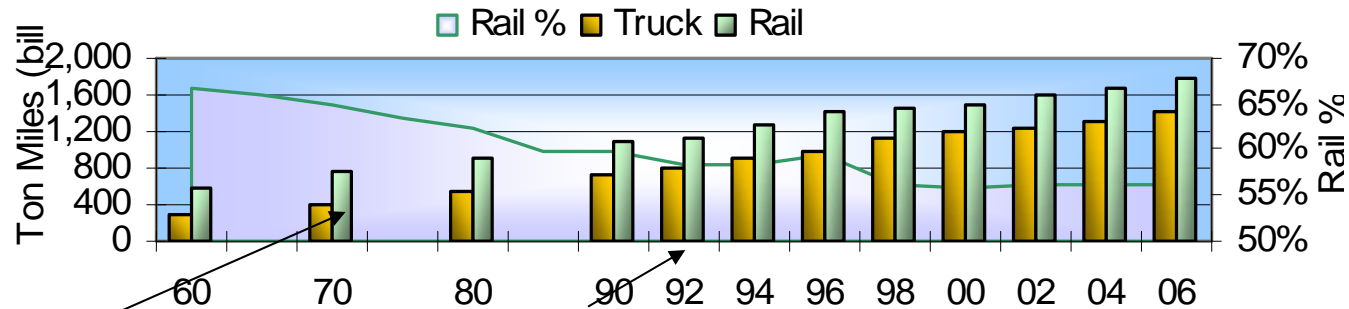
Traffic Drives Equipment Demand

- Logistics & Transportation Equals 1/5th To 1/4th Of Total Economy
- Intercity Freight Transportation Equals 1/5th Of L&T Sector
- Rail Equals 9% Of Intercity Freight Transportation
- Railcar Equals 5-10% Of Rail Revenue



Pricing Determines Modal Choice

Truck and Rail Ton Miles

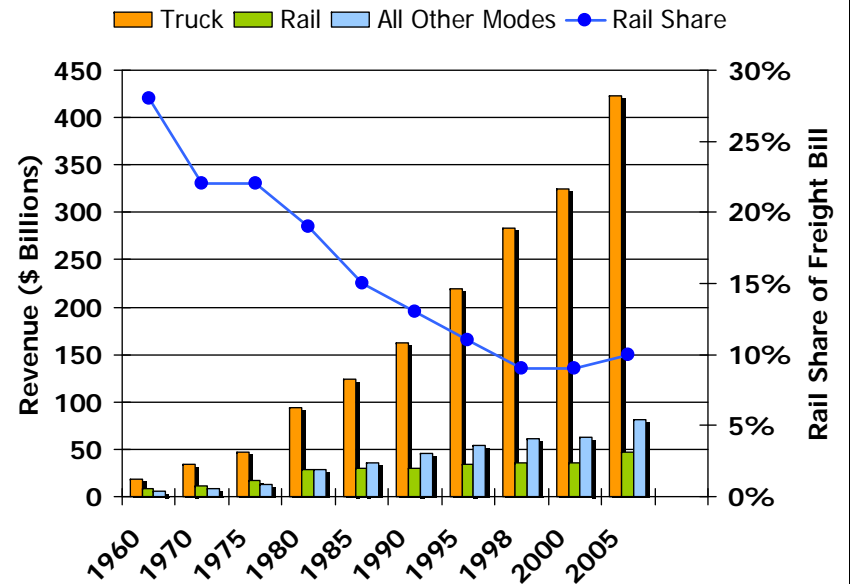


- Post WWII Truck Expansion
- Interstate System
 - Rig Size
 - Growing Labor Supply

- Rail Dereg, Recovery
- Intermodal
 - Trade Sector

Rail Share Has Stopped Declining:
Maturing Highway System
Cost Situation vs. Trucks
Consolidations - Cooperation
Intermodal/Containerization
Unit Train Operations

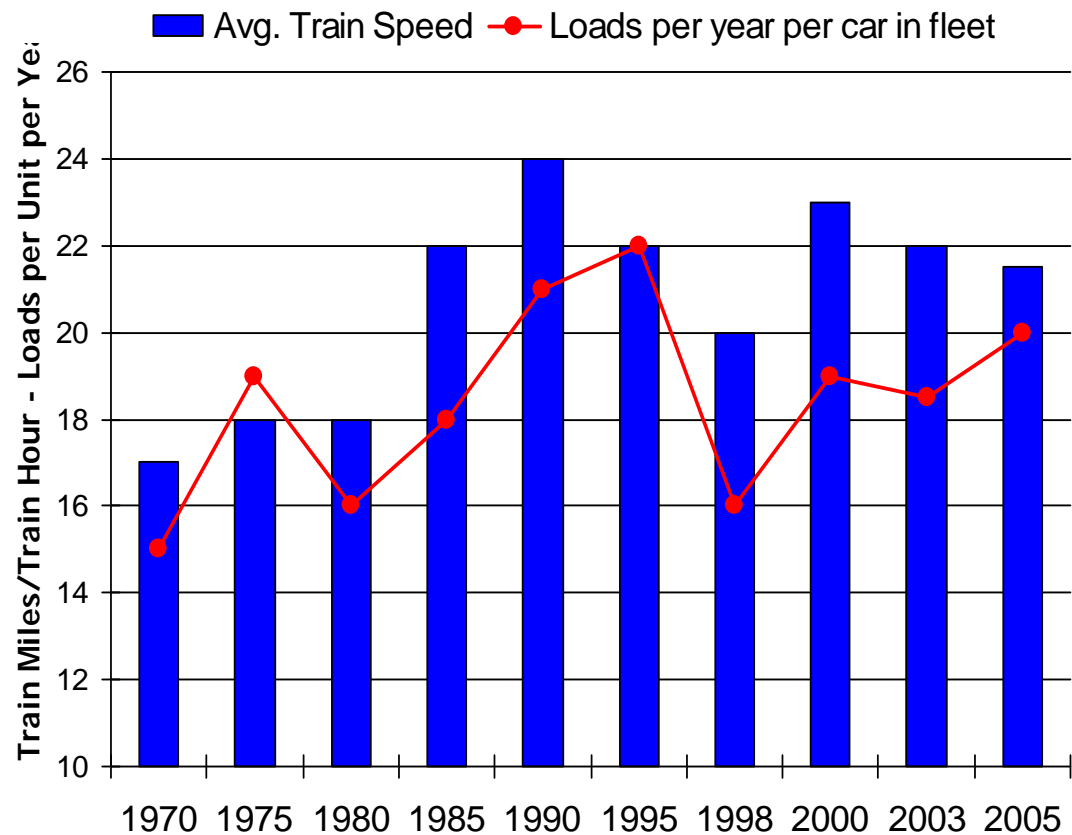
US Freight Transportation by Mode



UTILIZATION

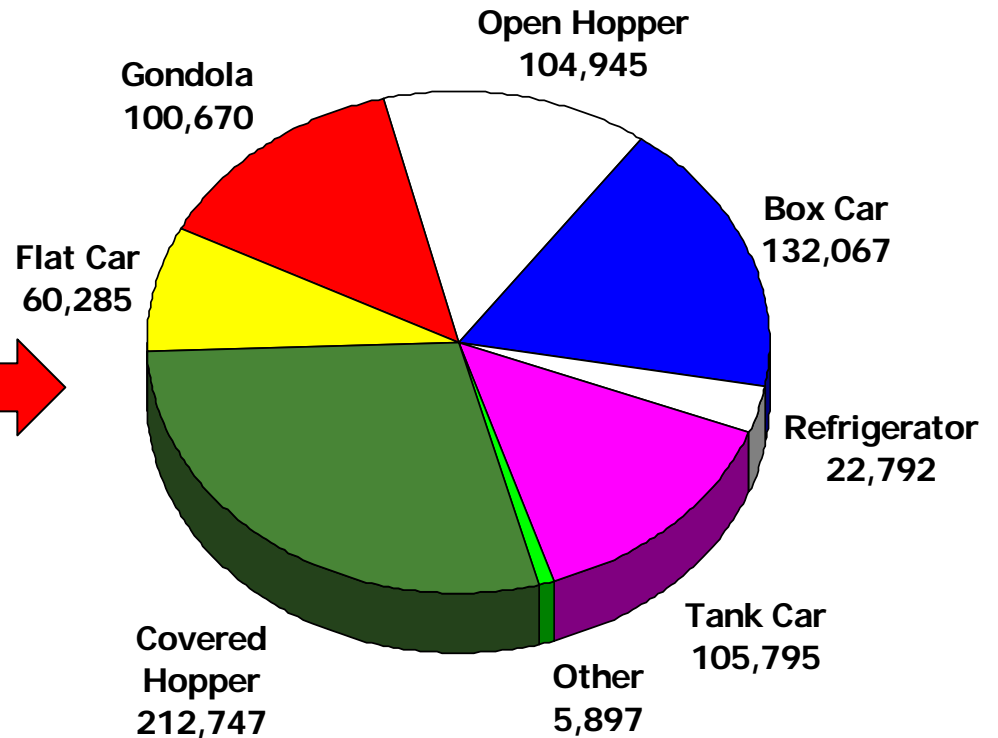
- Train Operations
- Railroad Labor
- Length Of Haul
- Empty Returns
- Traffic Mix
 - ▣ Product
 - ▣ Geographical

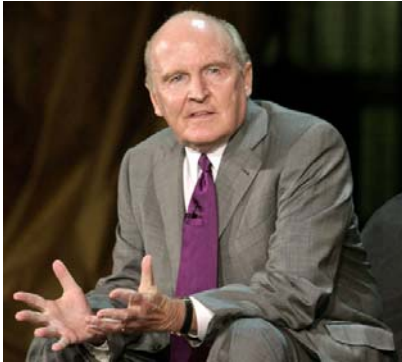
US Rail System Indicators



FLEET AGE

- **Mandatory Age Retirement (Rule 88)**
- **Increasing to 65 Years**
- **Economic Life/Car Prices**
- **Replacement Demand**
- **767,000 Cars In The U.S. Fleet Are Over 20 Years Old.**





- **If you don't have a competitive advantage, don't compete**
 - ✓ Manufacturer/Captive
 - ✓ Institutional Lender/Lessor
 - ✓ Independent Lessor
 - ✓ Shipper strategic partnerships
 - ✓ Are you a Big player, niche player ?
- **Manage** Short term results, Invest for the long term
 - ✓ Stay in to access upside
 - ✓ Dollar cost invest
- Process is important

- **Manufacturers** want Sales Volume, Margin

- **Shippers** want
 - ✓ Service Quality, low price
 - ✓ Term flexibility and no obligations
 - ✓ Latest technology
 - ✓ CONTROL of operations, equipment

- **Investors** want
 - ✓ Yield, Earning asset growth, Low Risk

- **Economics**
 - ✓ Cash Burn
 - ✓ Earnings potential
 - ✓ Downside risk
 - ✓ Minimum breakeven levels

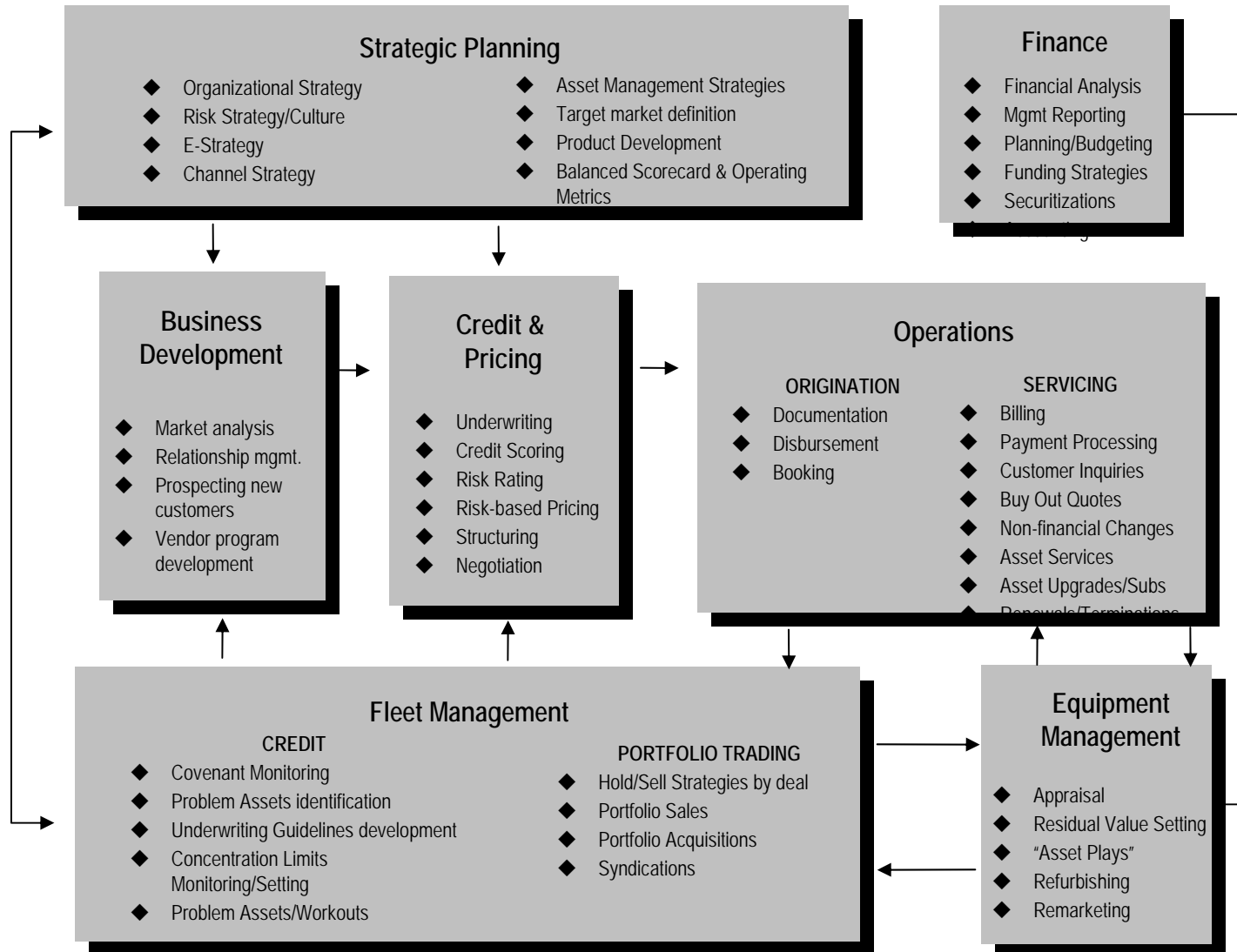
- A clear vision
- Capitalization
- Short term management, with a long term focus
 - ✓ The Right Management Culture
 - ✓ The Right People

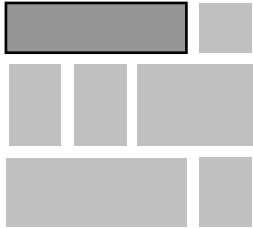
- Accelerate collection, manage payables
- Assets can be Liabilities!
- Raise Prices, focus on Profitable Customers, reduce expenses
- Consolidate in an effort to realize economies of scale and increase efficiencies
- Be nimble, get back to basics; focus on key markets
- Operations: go LEAN – improve process, remove waste
- Finance: Minimize tax, restructure debt and lease obligations

Good People = Good Results

- Bank Lines
- Asset Based Lenders
- Leasing
- Mezzanine, Venture Capital
- Restructuring existing obligations
- Sell

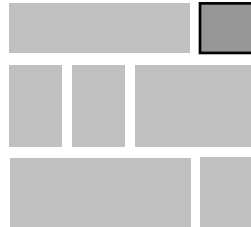
Management Solution Areas





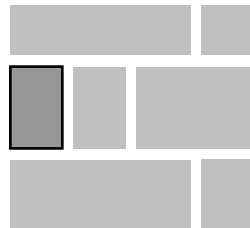
Key Business Challenges

- Identify areas that warrant investment
- Develop product and channel strategies
- Technology decisions
- Do you have enough information to make key decisions?
- Extracting value from mergers/acquisitions
- Customer support



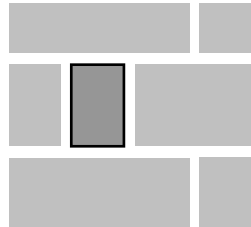
Key Business Challenges

- Improve the access and timeliness of available funding
- Manage the planning cycle
- Provide timely and relevant management reporting
- Minimize tax
- Restructure existing obligations



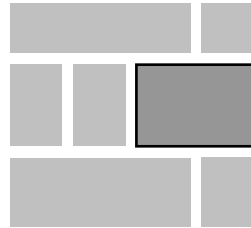
Key Business Challenges

- Reduce costs
- Support sales staff
- Target services that improve customer profitability
- Retain profitable customers
- Support vendors and third parties



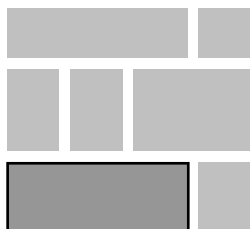
Key Business Challenges

- Optimize workflow
- Monitor credit and documentation requirements
- Integrate sales, credit, portfolio mgmt. and operations
- Meet customer deadlines



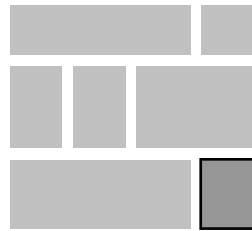
Key Business Challenges

- Cost control without customer service degradation
- Accurate and timely customer billing
- Leverage existing IT resources
- Manage collection and recovery activities
- Determine viability of outsourcing
- Monitor asset location and condition
- Create efficient compliance processes



Key Business Challenges

- Manage portfolio concentrations
- Reporting that facilitates decision making
- Improve monitoring frequency and efficiency
- Move to hold/sell strategy
- Determine optimal risk/return equation



Key Business Challenges

- Develop re-marketing relationships
- Determine level of necessary investment required to deliver services
- Manage risk
- Develop asset tracking and monitoring.

Vince Lombardi



- When **Vince Lombardi** became head coach of the Green Bay Packers he was asked what he was going to change? He replied:
 - “We’re not going to change anything, “We’ll just be Brilliant on the basics”
 - React quickly
 - Develop people, culture and organizational leadership

"Sniff the Chocolates First"

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- **Management Solutions**
 - Lease Review, Quantify Risks, Restructure
 - Tax and Risk Minimization
 - Cost saving legal services
 - Develop a Defensive Game Plan
 - Bankruptcies Happen, Be Prepared!

Recent Client Services

- VTG – Diligence support - Acquisition of Rail Equipment Portfolio
- RESIDCO – Rail/Air Financing – Acquisition Diligence, Lease Documentation, Tax Services
- Railroad Financial – Transactional diligence and pricing Support
- Marmon - Strategic Business and Competitive Review for leasing division
- National Grid/Niagara Mohawk – Merging Utilities Lease Department Integration Strategies

- at KPMG:
 - Deutsch Financial Services – Corporate Advisory - Sell Side Services Industrial Retail Group
 - Mellon Bank – Lease Company Rail, Air, Marine Valuation Advisory
 - Lloyds TSB - Operating lease investment - Management Advisory Services
 - FINOVA – IRC 382 - Diligence review for acquisition of rail, air investment portfolio
 - Multiple Valuation Clients – CIBC, Cannon Financial Services, Matsco, PLM, others.

- at Trinity/Newcourt:
 - Newcourt Rail/TILC Originated \$500 Million Manufacturer Joint Venture now part of TILC

Paul Lechner

The Lechner Group, Ltd.
Lechner Law Office, P.C.

FINANCING - LEGAL - TAX SERVICES



Experience

Paul is founder and Principal of **The Lechner Group Ltd.**, a financial services organization, active in financial diligence, transaction origination, tax structuring, valuation, and investment management. He has extensive experience in originating, structuring and developing ventures involving single investor, leveraged, synthetic lease financing and asset based lending. An Attorney CPA, he holds a Masters in Business Finance (MBA), a Juris Doctorate (JD) and Master of Laws in Tax (LLM) from DePaul University in Chicago and is admitted in the State of Illinois, the Federal Court, Northern District of Illinois, and the United States Tax Court. He graduated from St. Joseph's College in Indiana with a BS in Accounting. He is an Adjunct Professor at Saint Xavier University's Graduate School of Management. The **Lechner Law Office, P.C.** provides legal services for transaction support, dispute resolution and litigation services.

Paul's experience has included:

Managing Director, KPMG LLP, Global Lease Finance Advisory Services
General Manager, Trinity Industries Financial Services
President, Chicago Freight Car Capital
Vice President: GE Capital Railcar Services, CIT Rail, Newcourt Capital, Railroad Financial

Personal:

Paul is an active private pilot and served in the USAF as a Missile Launch Officer. He is a past Chairman of the Equipment Leasing Association's Equipment Management Committee. He maintains an extensive network in the Equipment Finance Industry with numerous speaking engagements at Industry Functions. He is published in industry journals and contributed chapters to [A Leasing Company's Guide to Equipment Management](#).

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Sector expertise

Specialized Finance, M&A, Tax, Legal, Business and Valuation Advisory Services

Education

B.S. Accounting, St. Joseph's College
MBA (Finance), JD (Law - Business and Finance), LLM (Tax), De Paul University.
Illinois CPA. Attorney at Law, Admitted Illinois, Federal Court – Northern District of Illinois. US Tax Court
REALTOR®, Adjunct Professor, St. Xavier University Graduate School of Management. – Financial Management Program