INDUSTRY OUTLOOK

Chief Financial Officers Forum

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On September 18, 2012, CBIZ MHM, LLC was proud to host the Industry Outlook Forum Roundtable for the architecture, engineering and construction industry. The participants included chief financial officers and other finance executives from leading firms in the Colorado market. Our discussion revolved around the economic recovery, labor issues in the industry, the role of government, and current and future economic trends. Thank you to all the participants for your contributions and willingness to share your ideas and perspectives with the industry.

Mr. Armour: *We find that there are more failures in a recovery in the industry than there are in the recessionary time in every cycle we go through. What are your companies doing to mitigate the risk of failing subcontractors, or in the subs case, a failing owner or general contractor? In the engineering firm, the same kind of thing–the risk–is probably more with the owner and funding not coming through.*

Mr. Turner: We tend to work with people we know real well. Of course we protect our lean rates and all that. We do a lot of repeat business with solid customers; it's not an area where we see a lot of risk in our business model.

Mr. Speiser: Some of the things we are doing to mitigate the risk is we try to work with the same subcontractors. Where it comes to a difficulty is when we are in rural areas and so many of those areas want their local contractors involved in the school or the healthcare facility. So when that comes in, we get really intimate with those subcontractors real quick. And it's probably no surprise—it's probably true with all the GCs—but we often step into the role of managing their job for them, from not only the construction side but the back office side as well. We are also starting to investigate a product. There are several out there but this one in particular is subcontractor default insurance. That's something that we haven't quite got our hands around, but we continue to follow and investigate how that might work for us.

Mr. Armour: *Is that kind of product something that you would wrap into a captive?*

Mr. Speiser: We do have a captive and we would have the two integrated, but the one thing that the subcontractor default insurance forces you to do is up your game in the prequalification process. That's really the key. It's not only the prequalification but making sure that your operations group has a firm grasp of that company or is able to identify the warning signs—guys not showing up, guys not getting paid, those sorts of things.

Mr. Henline: *I haven't heard of subcontractor default insurance. How does that differ from performance bonding?*

Mr. Speiser: That's a great question and one of the things that we are struggling with. I think the biggest component of it is how the funds flow through the GC to the subcontractor from the process of putting that subcontractor into default and being able to supplement and/or replace that subcontractor. It feels a little different for the operations team than it does through a bond.

Ms. Tucker: And they often go hand in hand. I would say our management of the subcontractor risk in today's environment was really more born out of our captive insurance company getting started prior to the economic issues, was having to really beef up our subcontractor management and our prequalification process because of using subcontractor default. Sometimes we are bonding inside of those kinds of programs and making those decisions. We've hired basically credit financial analysts that really take a look at the financial background of subs and help make a decision about do we bond this sub, do we not bond this sub, and make it kind of specific to this situation. We've been fairly lucky so far, but that's not to say we're not concerned. It is constant management and helping subs sometimes when they're limping along and getting them through that project. At the end of the day, it's better than making any of the claims or trying to bring someone else in.

Mr. Speiser: One of the differentiations between it is how the financing works for them. Where bond is pure expense, the SDI programs and the sub guards and those sorts of things help you to develop a reserve pool over time. That pool builds over time and that starts paying your deductibles for you.

Mr. Armour: We don't see this as much in the sub market or the A/E space but in the general world, we actually saw one of the few places of early employment opportunity was in the subcontractor management arena. The generals were hiring up staff while everyone else was laying off to mitigate risk. Lloyd, you've probably run into this.

Mr. Kuehn: We are fortunate. We feel like the prequalification process makes us more competitive because there are some folks out there that maybe don't have as strong of a balance sheet. We feel the pain from the generals, but we definitely feel the additional resources required to meet the prequalification standards. We don't have a lot of subs compared to generals in this room but insulators and control folks, we're bonding folks over $25-$30 thousand because we've had some issues where folks left us with a mess that we didn't want to deal with.

Mr. Alberts: One of the very tangible things that we made a decision to begin on January 1, 2011 was to require an income statement from our subcontractors.

Mr. Kuehn: For us as a private company with private owners—and I'm not sure I agree with that all the time—but they really hold onto that income statement. I don't blame them.

Mr. Alberts: Same, we are privately held and we don't give that out very easily at all. I'm sympathetic to that. We offer an NDA in return and we have a financial analyst and myself who see it, scan it, password protect etc., but that's a change in business. It's a change in culture; it's a change in our relationship with our subcontractors because some of them still have a fairly strong balance sheet and you can see the trends based on their working capital and equity. But to see the trends in their losses is alarming in a subcontractor. Frankly it's surprising.

Mr. Armour: *Gary, how do you see this aspect of business impacting your firm?*

Mr. Thomas: I'm blessed I don't have near the problems you guys have. From the get-go we are in pretty early with our design, on just a developer or municipality or what not, so our exposure is a lot less than what a contractor's would be. We have some great design-build partners that we continually do work with on the design-build part of our business, and we have great clients and are very familiar with them. They know our financials and our capabilities so it hasn't really impacted us to the extent that it certainly would with a contractor or subcontractor.

Mr. Giles: In today's environment, because there's a lot of government-financed projects and so forth, you'll have a firm like Ludvik Electric, where we have large contracts. One of them we are working on right now is a $250-million electrical contract and it has a lot of requirements for minority and small business set-asides. So now you're not looking at getting financial statements and so forth on large subcontractors like we might be classified in the generals' eyes but you're having to work with companies that have no background. It really becomes a challenge but you have to meet those set-asides and normally those programs are all set up before a project is even awarded. So those situations also create a changing environment.

Mr. Armour: *In the sluggish recovery that we're going through, are your companies having a strategy of revenue growth that exceeds what we hear the economic pundits saying we are going to have–a 2% or 2.5% economic growth?*

Mr. Lahnert: We are positioned for growth. We've grown about 15% in the last year, our backlog is as strong as it's been in 10 years, and we're going to grow another 15% next year. We feel like we are in a blessed environment here in the Front Range. There's a fundamental need for shelter and housing and space and a lot of the older buildings are being rebuilt and reconstructed and we are in the beginning of the next cycle basically. We have significant backlog right now.

Mr. Giles: When the financial downturn came in 2008, we were probably a lot like you guys in some respects, 2008 was our 3rd or 4th largest history year, 2009 was our biggest year in history and most profitable year in history, 2010 was our most profitable year, our volume had gone down, some because of the slowdown, 2011 our volume was about the same as 2010 but our profitability wasn't as high, and 2012 will be our biggest year in history and most profitable year again, so we've come through that. It is not so much having a vision, it doesn't matter what you have now, it's what your backlog is. It's all about backlog. Obviously the generals are out in front of us in terms of with owners, but you're continually working to what are we going to do in 2013, 2014, 2015, etc. So we have to think also in terms of our geographic area in which we operate. When Jim Ludvik started the company in 1980, his first job out of the Denver area was as early as 1982, 1983, because the economy was not very good and it was a hospital in Missoula, Montana. We typically go out of town with contractors that we have an ongoing relationship with. We're not usually biting off a job with contractors that we don't know. We're at a time where we have to look at geographic location of jobs, you are looking for profit and opportunity, and also changes that come about because of the economy. Sometimes when the economy is down you're looking at infrastructure projects, hospitals seem to go real big when the economy is not so good, there was period where we were involved in a lot of chip plants, of course we went through the time when the airport was being built here. What is the nature of the projects and where are they going to be, and can you go there with somebody you know. In the end, it's great having that history through the economic downturn but you're still only as good as what your backlog is going to be in '13, '14 '15.

Mr. Turner: We are seeing growth and strong backlog as well.

Mr. Henline: We are also projecting growth, but it's going to come from a different source. Our last 5 fiscal years were record years with the company. It was all organic growth.

What we're seeing now is that about 3 years ago we came up with a 10 year strategic plan, our growth in the future is now going to focus on acquisitions and more international work, we are getting pulled more internationally and that is strictly organic going forward.

Mr. Armour: *Any joint venturing or anything like that that is stimulating growth or do you tend to do your own thing?*

Mr. Henline: Actually partnering and joint venturing we are doing more of, we just completed an acquisition of McLaughlin Water Engineers here in Denver a couple months ago. Strategically, with our resources pulled together, going with a company like that enables us to go after contracts that individually we would not be able to do. So we do partnering quite a bit.

Mr. Armour: *How do you blend the ever-moving tide of the type of projects that are opportunities based upon a cycle of development where there is financing to fund opportunities? What kind of conversation is going on with your planning with economic and political uncertainty?*

Mr. Giles: One of the things that we wrestle with a lot and is addressed in a couple of the questions is we talk about the number of worker in the construction industry and skilled workers and not enough and so forth, but under the current economic policies, we go out to hire people right now and they look at construction and they look at it like it's a temporary environment. One of the things they don't want to do is come off of unemployment for a temporary job. So as long as the government is feeding the unemployment chain, it's also having another effect because when they don't want to come off unemployment. They're also doing work on the side and taking cash and it's not taxable anyway. So we are kind of getting a double whammy on getting skilled workers whether you are talking about electricians and plumbers and everything else, is that the policies that have been developed is looked at well, we got to help everybody but the problem is you call them up and you'd like to say "we'd like to hire you at Ludvik Electric or GE Johnson," if you're really honest you say "in the construction business we have peak periods where we have to have jobs, we have a Verizon project in Colorado Springs and it will go until December." "Well I don't want to work for 3 months and then go back and I've lost my unemployment." So that is a government fiscal policy that I think is failing our economy, it is not helping our economy because people do not want to come off unemployment. They look at construction as a temporary environment yet all the companies at this table are not temporary companies. We've been here a long time and some of those people out there, they want a good life for their family, they want to provide a living but they view construction as a temporary environment. And that has hurt.

Mr. Armour: On the other hand, the government has historically funded a lot of projects and they are backing a lot of the things that we are still building today.

Mr. Giles: And we are as much of a recipient of those jobs as anybody, but the other side of that is when you talk about bonding companies and banks, they are the first ones to jump on the wagon, and they are bonding and banking everybody, then when you get down here to the problems over here and they fall off and they aren't doing anything. And then they sit back and say "well we are going to protect the environment, we pick our clients," because the next cycle they do the same thing. It is absolutely the same cycle; they never learn. And yet there are owners that have projects that deserve to be financed but the banks are on the sideline.

Mr. Lahnert: I'd like to present another point of view, I don't disagree with anything that was said, but like I said we are positioned for growth right now, and we as a company don't really subscribe to the idea that the government has any influence on the recovery, and the recovery is happening and it is happening in a very fundamental way in our region I believe, so we are going with it. I don't think the government has much to do with it one way or the other in all honesty.

Ms. Tucker: In our planning I think we pay attention to what we can control and what we can be working on. I don't know what's going to happen in less than 2 months and I don't even know if what happens will really impact anything, but we just have to keep being better and figuring out a way to continuously improve what we do and deliver, and find our own recovery, figure that out ourselves.

Mr. Kuehn: We just finished our planning session for the next fiscal year and the government didn't come up once. It's all what we can control, what we can plan for, what markets we want to go to that we're not in, what we're good at. It's internal to what you can control at your point, not external and what you can't control.

Mr. Giles: Well what I was talking about is that it forces you to do those things, because those are the problems that are out there, it's how you work around them.

Mr. Henline: I have a different take, probably because of the type of work that Merrick does. We are involved in a lot of different markets and in the past, 60-65% of that has been for the government, primarily department of defense, department of energy, but what is frustrating to us now, because we don't know what the policies are going to be until after elections so we are kind of sitting on the sidelines. But to give you an example, what's the emphasis going to be on energy, that's one of our markets that happens to be doing really well right now, but looking back 5 or 6 years ago, some of the markets that we got involved with, they took a 3 or 4, sometimes 5 year investment before they really started returning. For example we got involved in life sciences, developing these high level bio safety labs and equipment that's associated with that, and you're really hesitant to put capital into a market now when you don't know what the country's policy is going to be. Is it going to be energy, is it going to be transportation, on the energy side is it going to be wind, is it going to be solar, oil and gas, what's it going to be? So you really are hesitant

not knowing what's going to go on in Washington and what direction they are going lead us in because these are multi-year investments before we are going to start seeing a return, and I'm sure there are some other companies that are on the sidelines, where do you want to put their capital? We are making guesses because we have this vision of where we want to be in 2020 and we know there are going to be some new markets that we want to expand in and we have been sitting on the sidelines as far as new markets to invest in until the elections to see what direction the country is going to head in.

Mr. Armour: *In terms of these kinds of concepts of what you can control and what you can't, when you do planning, what is the longest period of time you typically and routinely think out into the future and budget and have a strategy for?*

Mr. Alberts: Typically or now? Because we have shortened that horizon, we aren't doing anything different we've just got a much shorter timeline for that strategy. Because of uncertainty, what's the point of planning 3-5 years out at this point, because who knows?

Mr. Kuehn: I think business is exponentially moving faster than it was when I was a young pup back in the 80's. Business moved slower, I'm not sure if there was more certainty as far as politics and all, I think that has been going on for a long time, but things just move so quickly and technology just takes us to places that we haven't been so much quicker. And we talk about energy and some of the things you're working on, those are things that weren't even talked about 3 or 4 years ago.

Mr. Henline: We've changed at Merrick, too. When I joined Merrick, they were at the beginning of a fairly detailed 5 year strategic plan that ended in our fiscal year 2010, and that worked very well, but then our next chunk we decided, let's make a 10 year strategic plan. The crystal ball is a little cloudier than it was then, so what we've done is we do have this very broad vision of where we want to be in 2020, but we are taking 3 year chunks, and coming up with a detailed strategic plan, so now we are beginning our 2nd 3 year chunk, or actually we are going to do a 4 year chunk this time, and it has changed as far as where it was when we started the plan back in our fiscal 2011 already. And of course then we come up with a year by year detail, but it has changed, because I think everybody's crystal balls are a lot cloudier now than they were back before the recession.

Mr. Lahnert: I will say emphatically that our experience is that when we point ourselves in a direction, then we end up going in that direction. There is a lot of uncertainty but there is clearly a connection between planning and success in any of these environments.

Mr. Turner: I've been involved in strategic planning for 30 years and I've never done anything beyond a 3 year plan. You can do a 3 year plan and update it has you need but 5 years, certainly in the high tech world, is beyond forever and I think in this industry as well, in my view is too far out.

Ms. Tucker: I don't think we've changed our time horizon. We tend to bigger picture look in 5 year windows. What I think we've done this year for the first time in a while is we're in 20 cities – instead of 30,000 ft. looking out at year 3, 4, and 5, start down here by office, by market, by the facts and figures, and everything you know about every city you're in, plan it that way, and build it up, with a strong bend towards conservatism on what we're looking at, because it's very easy to make quick, cute lines about where we're going to be in 5 or 10 years, but those don't pan out without some pretty detailed plans. So we have taken a different approach but looking at the same horizon.

Mr. Speiser: We are very much along the same lines, where we very much segment out our planning process into what niche we're talking about, what region we're talking about.

Ms. Tucker: Yes, our next step is once we saw what we had here and what was clear from the information before they went out there was that they will spend some time on the verticals and some of those other ways of segmenting our business, because it kind of became clear that just looking at what each dot on the map was doing isn't going to completely cut it either.

Mr. Armour: *One of the things I've observed that is a problem with a lot of the industry is that contractors who kind of get locked down when you start talking beyond the backlog, when you ask what are you going to do out past the backlog? I can't tell you how many times I've heard the answer come from a CEO "I don't know, I don't know what jobs will be out there." They aren't saying "we are going in this direction and we have confidence in the team we're putting together and we got our share of the work" and those customers will come back for more. It's an interesting observation I have about the industry.*

How are you addressing the risk in the marketplace that we hear that we have commodity inflation? There's a sense of a pent up demand in the marketplace, and certainly we are going to talk more about that later, but if we have that shortage eventually the people are going to want more money to either stay or come in, and the last time I looked at a contractor's financial statement and definitely when I got into the engineering world, the largest line item is labor. Is there anything you can do, what are you doing, how are you thinking through that as you plan for the future? Contractual protections, what's out there to protect?

Mr. Lahnert: I think the most efficient approach from a project point of view is that that risk be a project risk, and not be cut up amongst all the individual parties because it's going to be a much bigger number if we each have to take it on as risk. That's not generally how it's done, but that would be the most efficient way to do it for the project to take that on, the inflation as a project contingency rather than each of us carrying it. But we are still trying to get back price-wise to where we were 3 or 4 years ago, so that's not our problem.

Mr. Armour: *Part of the issue here is how do you protect for inflation when you're trying to recover from cutting your price to be competitive in an over-supplied market?*

Mr. Thomas: Inside the engineering world, all of us have lost a lot of firms and there are a lot fewer competitive firms out there right now, but the problem with that is they're 1 or 2 man shops. They're working out of their garage, their basement, whatever, no E&O insurance, no real technical resources that a larger firm has to maintain to make sure that we stay on top of everything, and unfortunately all the clients will take that low dollar. So we are competing with very, very small firms, we have MBE, WBE requirements that are kicking us in the head, and we still have to maintain a quality staff. We've taken the route of trying to make sure we treat our people as well as we can and keep them, and thank the Lord they aren't retiring as soon as they did, that magic 65 they're not splitting, so we encourage people to work as long as they can walk through the door, and that trend is helpful. We talk about the supply of engineers and China is whipping those out like a conveyor belt type of a deal, they just don't come to the United States very often. A lot of engineering is going to change, we're having a conversation when you talk about strategy and long-range planning and what not, is consulting engineering going to be a viable entity in the future? A lot of companies are buying up small companies like ourselves and contractors are now buying up contractors that have in-house, the ebb and tide of that trend, so that conversation is creeping into our discussions as well. Is consulting engineering a viable business profession in the future? I'd like to think it is.

Mr. Armour: *What I think you're saying is, is it viable for an organization of your size? The service will be there but it may be a conglomerate or an international company doing it.*

Mr. Thomas: I would argue that I've seen a lot of civil engineering companies come in the Denver metropolitan area and design a project and the good news for me is that I do a lot of expert witness type of work and I make more money on the expert witness side and fixing their mistakes than they ever made in the original project, and you can't do that. That's why I think it might survive, but it's going to look different, we have to decide, are we going to position ourselves to be bought by a larger entity and how does that culture feel with us, do we want that culture? We lose total control obviously.

Mr. Armour: That's a different culture to prepare for.

Mr. Thomas: Some of us old birds have to decide whether we want to be around here for that.

Mr. Turner: We don't do a lot of procurement so we don't have as much risk as we would if we did it on the commodity inflation, but we really pay attention to salary surveys and we also have had a registered apprentice program for 10 years, so we do a lot to train the labor that we do.

Mr. Kuehn: With copper, we have a lot of commodity risk so we'll do big buys at the appropriate time when we have the backlog secured and the prices, and we're not wrong, it's easier to do right but at least we are hedging conservatively to projects that we know are going to be on the board that have significant amounts of copper.

Mr. Armour: *Do you ever formally hedge? Or do you buy commodity that you know you're going to use on a relatively near project?*

Mr. Kuehn: There is a few of us, including one of the owners, that watch the copper prices and when we've got committed backlog and we think the price is where it makes sense to lock it, then we'll go out and buy copper for specific projects but way before it's needed.

Mr. Armour: That's the kind of funding that we see, the guys that aren't at your level, when Peter is having to manage that little guy out there and he doesn't want him to come in and say "I can't finish the job because copper went up and I don't have the money" and he holds his hand out. You have to look at those risks and manage it.

Mr. Kuehn: Everybody here knows the biggest risk is sitting at the estimating component of it, so having a strong estimating group is really key to the whole process.

Mr. Armour: *And are they taking those kinds of risks into account?*

Mr. Kuehn: Yeah I think from Brant's point that it's born at the project level and broken up from that component and then you allow that project team to manage that risk and make sure they are aware of it, they should be, and manage it out of a contingency pool or otherwise.

Mr. Armour: You are right Lloyd, that often times because of the way our industry is created, that risk is not isolated at the project, it's isolated at components, a sub to a sub, a supplier, and someone is taking that risk. You don't want to be the one at the end of the line that says, if there's a price escalation I'll take it. At the same time, the owner doesn't want all of that risk in his lap. It's something that could become one of our next problems in the industry that suddenly we're poised, the work is there but inflation is suddenly out there and fixed price contracts where it's your job to absorb that risk and there goes the margin.

Mr. Armour: *We're seeing more happening around the industry as a whole is movement to create more efficiency and eliminate waste in our internal processes. It operates generally under the name "lean construction." I wondered where the folks in the room are in sticking your toe in the water. Are you well along the way? Or have you said this just doesn't fit our culture?*

Mr. Speiser: I would rephrase that question: has anyone not done that?

Mr. Henline: Since I left public accounting, I can't think of a company where we didn't practice what we're now calling "lean practices" in some form or another. It's just a buzz word

now. I think if there are industries that don't practice that, they're pretty unique. I'd like to know what it is!

Mr. Kuehn: We have internal struggles because we're an ISO company, we're very process-oriented. When the pendulum swung, we're now finding that some of those things in ISO are not always value-added. So now we're drilling down to some of those things that are ISO-related to say, "Why the hell are we filling out that form again? Does it add any value to the customer or to us? If not, let's get rid of that checklist." That's an internal struggle we've had recently. I find it interesting because, to your point, if you're not something to be leaner or more efficient or more competitive or improve your workflow, then you're probably in an industry we don't know about.

Mr. Armour: Yes, I think we saw that in years past when we got into the Sarbanes-Oxley arena. You did all that stuff and one day we woke up and said, "Why are we doing all this? It's not making us better." And certainly to the customer and the company, it's not mitigating a significant risk, but we're spending a lot of money doing it. My take on the change in the marketplace, not that competitiveness hasn't always been a piece of the right solution, but I think that one of the game changers is competition on a productivity level and an efficiency level and a creativity level. It's finding innovative ways of solving problems on projects that, the contractors in the room have to build what the engineers in the room put on paper.

Mr. Lahnert: It's very clear to me that, as a firm that does both design and construction, and it's probably clear to everyone here that an enormous amount of waste in the design construction industry comes from the big black line between the design industry and the construction industry. So the people who are telling the people out in the field what to do have very little idea of what they actually do from a day-to-day perspective, and the people in the field have no idea what the people in the offices who are trying to envision this building were envisioning. It's not anyone's fault, as the industry has been this way for many, many years, and this whole movement to what we're calling "lean," or integrated project delivery, is an attempt to blur that line and to get the design intent to the guys in the field, and to get the knowledge of how things are made to the people in the office.

Mr. Turner: We're made a significant investment in our pre-construction department to get involved and transfer that implementation perspective back into the design cycle. It allows us to do work that other people can't do.

Mr. Thomas: We've gone a little bit further. We've taken the lean perspective on our in-house practices, but we're trying to develop more complete Revit models that our clients and the contractors can use so they can be more efficient. So we've kind of gone in the other direction – we're putting more effort into the design effort so it's easier to get it out to the contractor. So they don't have to use it as much as a "guideline" – it takes some of that guesswork out, at least in terms of the structures. And then the other trades can use them as well – the HVAC and electrical, and whatnot. And the thing we like about that is, yes you can take that beam out if you want the whole building to fall down, so we have a little bit more control. So we say, "Reroute your ducts!"

Mr. Lahnert: We structural engineers like to say we have God on our side.

Mr. Thomas: And gravity!

Mr. Armour: *I'm interested in the management of your financial group in your companies. Are you taking that lean mentality that we think about at the project level and bringing it internal to our own operations in the accounting? Give me some examples as to what that might look like.*

Ms. Tucker: I tell our Ops guys, who are paying all that attention to lean practices right now, that accounting was lean first at JE Dunn. But really it was more situational. We went through a merger of all of our various acquired corporations and came to a common platform and we centralized a ton of process, both accounting and actually IT. We saved a tremendous amount of money just through centralization of process, imaging, workflow-type solutions. We were doing that back in 2008, 2009 and 2010. It was just situational because of the restructuring we were going through. It was the right time to do it, but it parlayed wonderfully into what was happening in the economy because we were already addressing those concerns. I feel like, as in a lot of organizations, that we're overhead at the end of the day. And so "skinnying down" those support functions is part of the keys to success in this industry, especially during this rough climate.

Mr. Speiser: At GE Johnson, it's been a matter of survival, in a lot of ways – I mean that not from a corporate side, but from an accounting staff side. As the economy has shifted, where we would get really excited when a project would come in the door somewhere in the $50 million range, now it's a $15 million project and everyone's excited. Thankfully that dollar amount is starting to go up. But what you saw was that where one accountant was handling three or four rather large jobs, now that accountant is tackling a dozen. And so those sorts of efficiencies were born out of necessity in a lot of ways. And thankfully technology is, I think, years behind in the construction industry as far as the back-office side goes, but making headway to address some of those issues.

Mr. Armour: *I recently had a general contractor who had gone through a significant shrinkage of his business, laying off particularly in the administrative side of his business, and in some cases taking on the role that Gary has here of CEO, CFO, HR - he started stepping into all those positions. He said to me, "I cannot believe how much money I have wasted. When I started going in and doing the jobs that I was paying people to do, I realized that I had too many people." I think those are lessons learned as we go through these kinds of cycles. How much luxury do we end up having in our organizations during the good times?*

Let's switch gears. We've seen a time where we've

increased our dependency on government funding of projects. I know some of you in the room have moved more into that space, others have not, some were there before. How has that impacting your job as a CFO?

Mr. Giles: There's more paperwork!

Mr. Kuehn: I've never wanted to know the FAR! It's quite a document.

Mr. Henline: FAR and CAS compliance, the technical skills, the systems you have to have – it adds a lot of expense. And ultimately, the tax payer is paying for it. At Merrick, this is the first time I've been with a firm that's involved in Federal government work, and it almost blew me away what had to be done and what I had to learn in a short period of time.

Mr. Kuehn: We talked earlier about the risk in a small business, the MBE and WBE – having those requirements, and having folks who might not be as financially strong, but it's kind of picking the "best worst" and evaluating their financial statements so you have the best possible performer and someone who can get through the job. There's just more time required in meeting those requirements as part of the Federal work as well.

Ms. Tucker: There's the SBA and there's the requirements, but if you start looking at some of the state contracts we've dealt with, you have the state agency – let's say theoretically a university – and there's a requirement in that state that they meet some of these requirements, yet under the terms of the contract we have to take the lowest bid. How are these things ever going to be managed? It's just a set-up in some ways for failure. We believe in the goals and objectives of some of these programs, but when your agency-owner has a view and requirements that add even more obstacles to being able to meet them, it's a big, big problem.

Mr. Armour: From working with companies like yours, we're able to see trends across the industry that you may not see individually. One of the things that's happening right now is the Department of Labor is intensely auditing the stimulus money. We're dealing with a great deal of Davis-Bacon non-compliance. It's one of those things that starts to bubble upstream to whomever they want to attack.

Mr. Kuehn: An auditor just left our office last week. Thankfully he only found $7 that we had to correct, so we felt pretty good. We have two more audits coming up with the DOL on specific projects. They're out there.

Mr. Armour: We're seeing it more with those smaller subs that you're required to have on the job that didn't comply with the rules.

Mr. Kuehn: That's what gets really tough, it's held up payment for us and I'm sure some of you have held up payment for others where you've got an organization that has no idea what certified payroll is. And it's probably not the right thing to do from a liability side, but you've got to go back and train them and almost do their payroll for them for a very small part of the project. A lot of frustrations like that.

Mr. Armour: I'd like to come back to what Rich was talking about earlier – the loss of the skilled workforce. This is a real problem that we're seeing starting to surface at the subcontractor level. And as I talk to subs, they're generally saying that they're okay right now, but the next hundred hires they have to make, they're not sure where we're going to get them. It impacts everyone in the food chain if the loading on a job isn't proper. What are you doing, and what do you think the industry should be doing, regarding manpower, training and getting people back into the industry?

Mr. Giles: We have a Department of Labor accredited apprenticeship program. We've gone through job fairs and high schools – we know that not everyone wants to go to college or needs to go, but there might be some that want to learn a trade. So you're really starting at a ground level to show them, and hopefully cause them to reflect that they can make a living. And one of the problems with an apprenticeship program is you get some really hungry guys and gals, but like so many in that generation, they would really like to have their mom and dad's level of living right now and don't want to have to start out as an apprentice, making $16 an hour.

And one thing that I see that could be happening, too, is – and I can tell you, Ludvik Electric doesn't want to be an electrical broker – but we do sometimes have some smaller subs working for us that might only have 10 or 20 employees, but those 10 or 20 employees are loyal to that employer. And you can sometimes get a really good workforce when someone is dedicated to that employer. The very first time that we ran into this, we were doing the convention center in Honolulu, Hawaii. When we got that job, the economy wasn't very good in Honolulu, so we debated about going to the Island and hiring our own workforce. But rather than take workers away from other companies, we had about four or five electrical subs on that project and it really worked out well. So it's a combination of training up your own workforce, and finding those smaller companies that have loyal employees who want to have a job, who want to keep going. We've helped some lower-tier subs get bonds, even from our own bonding agent, and help them with certified payroll, if that's the case. I see where that might be happening a little more in the future, rather than having 500 employees.

Mr. Armour: Dave, Peter, Melanie, I kind of see this as another one of those underwriting questions about your subs. As the market comes back, and the volume comes back, how do you feel comfortable that that next crew that's going to come on to your job, they may not be coming from your last job, they may be new employees? How do you underwrite that to feel comfortable that that job is going to be staffed properly?

Mr. Alberts: All three of us are self-performing general contractors, so I think we isolate that risk with the

subcontractors while we deal with our own labor force. So we have some of the same problems with that. It's no secret that a lot of people have left the industry. Will they come back? We all have our core workforce that hopefully stayed intact. I can't answer that for the subcontractors, but I think they're the same issues.

Ms. Tucker: One of the things we've talked about is that, because of this economy, people traveling further for their work. We've seen situations with some key partners in the subcontracting community here in Denver, where as the work has moved out and the radius has gotten bigger, they have that risk of trying to find the right labor. And we've seen a change in the service delivery. I don't know that we have the answer as to how to mitigate this on the front end, but we try to get in there and deal with it. There have been some meetings of late with our leadership and that particular sub's leadership to say, "Hey, let's just get in a room and discuss this, because it can't be successful for you either." I think this traveling aspect is obviously a challenge for us – we tend to self-perform less, the further out we go. And it's a tremendous amount of risk for subs.

Mr. Speiser: One of the major events over the last couple of years was that GE Johnson went non-Union. The last union we were signatory to was the Carpenters Union. That move was intended to do a couple of things. For one, the underfunded liability is substantial. And we thought we could do it better for our employees, frankly. And the loyalty aspect that we were talking about earlier seems to be playing out, to some extent. Now you've created that issue that, at GE Johnson, the tradition is that at five years you get a gray hardhat. And so now we see that there are more and more gray hardhats and not as many white hardhats. But how do you backfill these gray hardhats that are moving on into retirement? Was that the right move or the wrong move? We obviously believe it was the right move. But it also throws a little more option out there for carpenters. Do they want to have control over their own 401(k) plan or do they want to be involved in a union-type environment.

But I want to just interject a slightly different spin to the question. One of the things that we're currently seeing, and I'm interested in hearing others' responses, is the split at the college level where now superintendents are college-raised rather than field-raised. We recruit, just as everyone else does, out of the college circuit, and all the kids want to be a project manager. At GE Johnson, we'll tell them that 4 out of the top 10 paid employees are superintendents. And that'll surprise them. And you start talking about how jobs are staffed today – one PM, two superintendents, one for each job. Now what do you want to be? Project Manager. (Laughing) Okay, let's start over again – each project needs a superintendent and they make as much as a project manager. What do you want to be? Project Manager. So it's not just skilled labor, but you add that component to it. I'm curious as to what other people have experienced.

Ms. Tucker: We're facing some of that. Of course, depending on the city and location, we're a union shop as well, so we see a little bit more of that in our union. Especially Kansas City, our "mothership," is a work-your-way-up kind of a place. But we're starting to see some of that as well – it's fascinating. We have guys who start out in our superintendent trainee program, and three or four years later say, "Can I be a Project Manager?" That's a challenge, too – we need some of those guys to make it all the way through.

Mr. Kuehn: They need nicer trailers.

Ms. Tucker: Yeah, as part of our "lean" efforts, we're cohabitating more, so we're trying to make the trailers the same, too. They get the cooler trucks! But you're right, it's an interesting dynamic and it speaks to the entire issue of skilled labor. Because it's not only the trades, but for general contractors, where are the superintendents going to be coming from? Why isn't that an attractive career option anymore? I can't say that the compensation works out quite the same, but they are very well compensated in our organization.

Mr. Kuehn: We're trying to home grow them. Set up mentoring programs, training, specific curriculum to get those younger, really fire-burning guys to get to that point because that work force is getting grayer and we've got to do something to get these younger kids who are showing some initiative up there quicker because it's not going to come from the universities.

Ms. Tucker: And we're just starting to see a turnover in our organization of who are some of our directors of field ops. We're starting to see that change, and with retirements, we're having new directors of field ops come in who are a little bit younger, a little bit closer to that generation. I'm hoping there's some success with that because some of these guys really have a lot of energy and feeling like "I'm the one who built something. I built this building." I hope some of that is infectious and encourage some of those guys who start in that pipeline to stick with it.

Mr. Giles: It kind of works both ways also, because you say about the graying workforce and these guys who have built all these projects now have retired, and now you have other guys coming up behind them. And you're saying about these young guys, they have never built a project, right? But they're really good with computers. And because of technology, these guys over here know nothing about computers – they're more self-taught. So you're almost working at the crossroads of both and trying to satisfy both elements of the construction environment. And talking about the union thing, we were a union contractor until 2002. At that point, we were the largest union electrical contractor in District 8. We went open shop because they struck us. And being an open shop contractor was the best choice for us.

Mr. Armour: *Let me ask about government regulation. I hear talking heads on the TV talk about that the problem with business is all this government regulation that's out there. But I never hear anyone hone in on which regulations are really creating problems. Rich talked earlier about*

a policy of an unemployment program that extends at discouraging people to take a job that might pay the bills for a few months but not forever. Are there any particular regulations that have become more onerous in the last several years that are really impacting your business?

Mr. Henline: We opened a legal entity in the UK about a year ago, so we're dealing with the Foreign Corrupt Practices Act. For example, I think that one came into play in the UK in 2010. It's even more stringent than the US. And it's scary when you start getting into it and realizing that we're on the hook for this stuff, too. So having to educate your project managers that are going over there to do work and you really have to get in their minds that it doesn't matter that everyone else is doing this, it doesn't matter that it makes sense to you, this is what's on the line and this is what you can and can't do. That's probably the newest one that we've gotten involved with.

Mr. Lahnert: In our world, it's the set aside programs – the WBE and the MBE. They don't appear to be effective in supporting those businesses, and they appear to be wasteful, from my perspective. It's the one that affects us the most in our business.

Mr. Thomas: I would agree with that. It used to be that, for the minorities mainly, you bring them into your shop, you train them, you make them good engineers and you got credit for doing that because you were really training them. Now they've set up the system so not only do they have to be good technical people, but you have to run your own company. And the degree of difficulty and complexity of going from a designer to an entrepreneur running your own business, with insurance and that kind of stuff, is overwhelming for them. And their failure rate and their designs are just. . . I know some firms, we try not to do it ourselves, they just give them the money and say, "We'll do the design and we'll just send you the money." Which I think is a huge joke. And that doesn't serve them to be good business men or good entities down the road at all. So that's just a terrible program.

Mr. Kuehn: But that's been around a while, hasn't it? That hasn't changed much.

Mr. Thomas: Oh but the requirements are getting much higher now. On the design side, 23%, 24% or as much as 35%. It'll take firms like ours out so the architect says, geez, I'll do the geotech, I'll do the civil engineering, structural engineering. Pretty much there's nothing left for our business to do. It's all been given to minorities. And watch out.

Mr. Speiser: From the GC side, one of the most onerous things we face is the increased EPA standards. Particularly the stormwater management has become a huge, huge burden. I wouldn't call it a fulltime job, but making sure you're doing it and the documentation that you're doing it becomes very, very onerous.

Mr. Armour: Yes, that's a complaint we hear often, that we did this, we just didn't have the sign off and so we're still guilty as charged. Even though nothing happened.

Mr. Giles: I guess we could say maybe the expected health care is going to be a lot more paperwork.

Mr. Thomas: We're going to get penalties for too good a plan. And so my employees are going to demand the same type of program I have right now, but I'm also going to pay almost as much in penalties as I'm paying in premiums right now.

Mr. Armour: *So are you guys already in the midst of looking at what that implementation is going to do to you in 2013, 2014, 2016?*

Mr. Giles: I don't know all the implications yet, but you talk about this health insurance impact on the unemployed. And the cost of doing business, and all of that related to that.

Mr. Kuehn: I'm more concerned about the trends in health care costs than I am with the health care bill, to be honest with you. Double digit inflation on health care costs is what's ruining the Federal budget. It's going to be like the housing bubble, in my opinion – it can't sustain itself. We've gone unbundled, we've gone self-funded. I just found out today that we're going to save 10% on pharmaceuticals, and I was giving high fives! (Laughing) That's a big deal. So I'm more concerned about the unsustainability of our current health care than I am about what this bill's going to do. I think some of those penalties are going to be a little difficult to swallow, but we're not really sure how that's going to go 100%. We've looked at some of the possibilities, but we're not going to quit giving our employees health care. We believe we need to continue to give our employees a good benefit plan to retain them.

Mr. Giles: We're in the same place.

Mr. Armour: *Is that a cost that we can pass on? That the subs can pass on to the generals, the generals can pass on? Is the market going to absorb that?*

Mr. Kuehn: I think it has to, because at some point it's more than your margin.

Mr. Armour: I know, but the "has to" doesn't always happen. There are people who throw in the towel. I just wonder that in the marketplace we're in and what we're seeing, as those things come into play in 2013, 2014 and 2016, do we think that the market is going to be soft enough for us to pass that cost on. Because there are going to be competitors that go into the exchange, pay a penalty to the government and throw their employees out to that world. And we don't know right now how good or how bad that is – it's just another option. If you're all "Cadillac'ed" up, I will assure you that the exchange will not be a Cadillac.

Mr. Thomas: Well as we get closer to single-provider, I don't think that's going to contain the cost. I think the cost will still continue to go up. The system is broken. It's the tort

reforms and stuff like that that we've got to get rid of, and that legislation didn't touch tort reform.

Mr. Lahnert: I couldn't second what you said more, Lloyd. In our company, until recently, we paid 100% of our employees' and their dependents' premiums. And we're like in the 1 percentile that do that. And now we're having to shift some of the cost on to the employees. We're not shoving it on to our clients, we're shoving it on to our employees.

Mr. Armour: *We're seeing more and more that employers are pushing that cost down to the employees. So at what point in time do you push so much down that employees would be better off going to the exchange and it's a lower net cost to you? It's an issue of "hurt management." If enough people do it, you don't look like some really bad, onerous person for kicking the employees out. Right now the mores of business is that you provide your employees that benefit and you feel good about that. But that's a social value that this whole legislation could economically drive away because when you do shift that cost out to that exchange, and you pay the penalty, those escalating costs now are in the hands of the government and their not in the hands of your company. And so when you start finding shareholder value, return on investment risk, it's going to be an interesting play in the next several years of how that all works out. Smart guys like you will figure it out, but it's going to be a minefield to go through. And somebody has to be first. (Laughing)*

Let's talk about your relationships with your banks and sureties. What's happening in that market? I'm sure you've been through some line renewals in both the bonding world as well as the banking world. Are you being treated the same way? Are you getting back-ups? Are you going to multiple relationships? What experience are you having?

Mr. Henline: We're fresh because, in fact right before I came here today, we got the last covenant hammered out on our renewal. Merrick, since before I came on, our philosophy is that there will always be at least two banks involved in Merrick's relationship. Right now, Colorado Business Bank has the lead at 60% and JP Morgan Chase has 40% of our relationship. At the same time, I maintain relationships with three or four other banks. We're really open to sharing financial statements so they obviously know what we're all about, just in case there's ever a need that comes around in the future. So they know who we are, we know how they are, we know we can work together. And actually that happened with JP Morgan, prior to them, about three years ago, Vectra Bank was the smaller participant in our arrangement. And they did a great job for us, but with the international work that we're doing, that's the reason that precipitated JP Morgan Chase coming in. As far as what they're requiring, Merrick has not really done much borrowing in the past, but we are borrowing now for acquisitions. So this renewal process was to put an acquisition drawdown facility in place, along with our line of credit. This renewal is a little bit more challenging. They're hounding us to borrow, they want us to borrow. Okay, now we're going to borrow. Oh well, here's a new covenant. We literally had to get to a point that, listen, our balance sheet is so strong, you're either going to have to make some changes here or we're going to be looking for a different bank. So they changed some things. So we finally got a renewal now that we can live with for next year and we can go with, but it's just interesting.

Mr. Thomas: And three quarters of those covenants basically describe how you're in default on the loan and you're still paying the bills and stuff like that. That's what we were faced with. I said, "Why have all those covenants in there?" "Well, we're not going to enforce them. " "Well take them out then. Trust me." There's no trust with banks at all.

Mr. Henline: That's exactly what we ran into. They brought in a covenant we haven't had in the past, which was funded debt to EBITDA. But they were very receptive because I said, listen, take our line of credit and pull it out of there. I think we've borrowed on our line of credit maybe two or three times in the last year. Take it out of there, I said. EBITDA has nothing to do with servicing that line of credit. We used our line of credit for working capital needs. And I have to credit them because they said, yeah, I see where you're coming from. So we made some changes so now the line of credit is excluded from that calculation. But it was just a little frustrating at first because even our auditors were saying, "Oh, you're balance sheet is phenomenal. You could borrow X amount." But when it comes down to, okay we're ready to do it, you got all this extra stuff in there. So it does take some extra effort. But I really am sold on having two actively involved banks. But even if you don't have more than one bank actively involved, if you've got other banks that you're just meeting with – and I did this with JP Morgan Chase. I met with them twice a year for five years, shared everything that was going on, they got to know our top management and we got to know culturally, along with a few others out there, that we could fit. It made it a lot easier for them to come in. I think maybe it keeps your primary bank honest, too. I'm not shopping it out, I'm not putting it out to bid, and I make everyone understand that, as long as they're doing a good job for us – and that's our auditors, consultants, too – we're very loyal. Things change with the banks, too. Merrick experienced something a number of years ago where their primary bank, the only bank they had, said they didn't want to write engineers anymore. So we said we're never going to get in that situation again. I really advocate keeping those relationships going and be upfront with all of them. I'll share information with you, and if the opportunity does arise, we can kickstart things fairly quickly.

Mr. Armour: *Now you're adding a component to your credit facility that wasn't there before. I'm kind of curious for the people who are renewing existing credit, not asking for a different type of financing, what kind of responses are you seeing in the banking community?*

Mr. Thomas: They threw covenants at us we've never seen before last year. We were trying to negotiate, negotiate,

negotiate, and eventually we had to go out and get another bank. I said, you've been servicing this line of credit for ten years now and never asked for this before. They blame it on the feds, they blame it on everybody. Well that's a bunch of horseradish. And they actually tried to say, well just sign this, this is the same thing you've signed every year before. And I said, I don't sign anything until I read it. And they had made significant changes in it. And they tried to sneak it by me. So that didn't sit very well with me. So yeah, we had to move the whole business line. And they don't really care, by the way. They're making so much money that the really don't care. No loyalty there, I think, from the banking business. I was very disillusioned with their professionalism and their honesty, in that one case. So you're right, having more than one – I like that.

Mr. Kuehn: I haven't really had any issues with the banking relationship, but our bonding company has suffered some losses. Their corporate headquarters is starting to ask more questions. It's kind of like the general contractors, there's just a little bit more oversight on financial statements and what's going on with this. So I just think there's a little bit more scrutiny than there was a year or two ago.

Mr. Armour: *But we're still seeing capacity from our observations - and I'm making a statement but I'm asking for you to either validate or give a different view - banks have capacity to lend and the sureties have substantial capacity internally to write bonds and take on credit. But they are starting to look at trend analysis. I've always said, in your case Lloyd, you ask your surety where were their top ten losses in the last year and you hope that it's not in mechanical contracting. If they say, well, we had three mechanicals go down, guess what - you are guilty by association. We are hearing from our friends in that business that they're seeing frequency of claims, dollar amounts are starting to move up. But they have been so cautious and over-reserved. I know you guys all are cautious with your estimates, but to be able to put a reserve in your financial statements to cushion the future and smooth the numbers, it's pretty slick what the insurance company can do to manage their loss ratio. They've been recognizing losses for the last two or three years that didn't exist to build up a reserve to cover what's coming their way.*

I have one last question. I was in a presentation about a year and a half ago in Southern California with a group of contractors on managing through this economy. One of the people in the groups said that when the recession started - this was a multi-generational company, this guy speaking - he said he had just put a notebook on his desk and kept notes of things he wanted to remember for the next cycle he got in, when he goes down again. What lessons have we learned, what thing have you seen that you say, next time I want to do this differently. Some of you are growing through acquisitions - and that's an opportunity that we've found, that the best acquisitions happen when the market is in a little bit of turmoil but starting to come up. If you had a put down a best lesson learned, what would it be?

Mr. Lahnert: I like that question because I'm pretty new at the cycling part of this industry. Luckily I have a partner who's 67 years old and kept the hand on the tiller the whole time. So we weren't panicking, even though I wanted to. There were three really important things we learned in this downturn. One of them was the power of interdependence. So we as a company got together and decided that we were all going to take pay cuts rather than have layoffs because we wanted to stay together. That has really powered us through this downturn. Now we're more experienced together, that's really helped. Secondly, the importance of fiscal strength. We had a good balance sheet before, we still have a good balance sheet, but it really helped us sail through. The tendency when you make a lot of money is to spend it. We did that as well, but we did manage to save enough. And then finally, the power of diversification. We started putting our eggs in a lot of different baskets, which has really helped us through this. So now that when these baskets get dropped, which they do occasionally, we still have some eggs left to keep going.

Mr. Henline: I just want to echo that diversification. I think that's what helped Merrick a lot. We're in a lot of different markets. It doesn't work for every company, but I know that that's what contributed to our success through the recession. We had a couple of markets drop off that weren't doing well, but then a couple of others were very strong. And actually today, they've flip-flopped. If you can diversify, I think that helps.

Mr. Thomas: I'm afraid the lesson's still to be learned. We held on to a lot of employees and showed the loyalty to employees, and management took lesser salaries. The company's funds aren't as great as they used to be. But when the market comes back, I'm fearful that a lot of the loyalty we showed to staff, they're going to go for that extra $1,000 or $2,000 a year and we're going to lose. That's the lesson that I'm afraid we all, or at least our company, might learn.

Mr. Lahnert: But what you said earlier is that you're trying to treat them really well, which is what we're trying to do. And hopefully that will pay dividends.

Mr. Thomas: You just never know how well you have to treat them, what they're expectations are.

Mr. Henline: Well my personal philosophy – and I've seen it a lot on the accounting side, finding staff and all the rest of this – is we're in a generation now that people want instant gratification. They want to come out of college and be managers in two years. So I think, yeah, when that thousand dollar carrot gets dangled out there, they're going to grab it.

Mr. Thomas: So what do you do next time? Just let the almighty dollar rule it? We haven't been a hire/fire firm. That's been our philosophy, we've never been a hire/fire firm. When these things happen and people are knocking on my door saying we should do this, and I say no, that's not our company philosophy, it's hard to ignore those knocks.

Ms. Tucker: I think the lesson to keep with us is the discipline we've put in to our organization on the spend, and when you're hiring someone, okay, why are we hiring that person, do we have the need? There was a lot more discipline in place in the decision-making in these last few years. We don't need to set that aside for the next downturn, we need to keep doing it. If you apply that same discipline when things are going well, it's just going to make you stronger, obviously, for when they aren't going so well. We became a partially-owned ESOP company in 2010, and so we're really spending a lot of time with that employee-owner culture concept, really adding that in as another layer on top of the bonus pool and all the things that were there before. Part of that is discipline, too – instilling in an employee that when the credit card comes out, it's your wallet, too. Some of that, I am hopeful, just helps us be stronger in multiple layers of the organization as we work through it, and as we kind of add to that ownership. And it's a culture. It's not about the once a year certificate that has a fractional number of shares on it. It's about the thinking every day. And so we're spending a lot of time as leadership focusing on that. It's extremely difficult. Our finance team is tasked with that it's your job to challenge them when they're thinking about doing that – it's a tough role sometimes to always be the naysayer on the great new idea of who we need, or what we need.

Mr. Armour: I've been through a number of cycles – none just like this one. I think that's one of the things that each one of them has their own characteristics. There will be "new" new problems to have on the next one. But one of the most common things I've heard from owners as they went through that – whatever the consultant word is, downsizing or rightsizing – is that I can't believe I put off getting rid of people so long. I should have done it three months ago, I should have done it six months ago. Not to be too hardnosed and not caring about people, because I'm kind of on the side of keeping folks, giving them second and third chances and trying to find a way to make it work – and so I'm guilty as accused of that. But the hardcore, bottom line business is we need to make those decisions quicker.

I was visiting with a general contractor about a year ago, and he said that they had reached a point that every decision that they were making, they were doing an ROI analysis on it. If they're hiring a person, they have to have some proven return on investment from that decision or it doesn't happen. We're very good about rationalizing things, and they put numbers on it.

Mr. Turner: Speaking to Melanie's point about getting the discipline and keeping the discipline, there's a really wonderful book on the history of speculative bubbles called "This Time is Different." (Laughing) It's the history of 800 years of speculative bubbles, all prior to the one we just went through. And everyone always said, this time is different. So the lesson there is, this time isn't different and next time won't be different either. So be careful about believing all your own press. And better than getting rid of the people two years ago is not hiring them in the first place.

Mr. Armour: We've run a few minutes over. We appreciate your input and hopefully this has been a good thought process for you that you can take back to your companies – particularly as you're going into your strategy sessions for the next year.