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Informing, planning and taking action



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Welcome new Board Member
Thomas Naegelin!



USCTI Spring Institute Meeting Recap

After a dreary, rainy start, we had a fantastic time at the USCTI 2014 Spring Institute Meeting on Amelia Island, Fla. The entire group enjoyed an evening of “fan fare” while sporting shirts that featured their favorite teams.

The presentations, as always, were highly informative and well received. We heard from Nick Tate, the leading specialist in ObamaCare. Nick explained to the group how their businesses will be affected by the new laws and what to expect in the coming years. Our own Eli Crotzler presented on how to sell your business and explained all the steps during an acquisition. We also heard from return speaker Richard Aboulafia about the current state of the aerospace market and his tips on trends

to watch. Last, Rick Farrell presented a unique perspective on selling in the technology age. The highlight of the weekend was a performance by a Hawaiian troupe at our Sunday evening reception. Everyone enjoyed dancing, entertainment, and music under the stars while networking at the island-themed party.

Join us for the next meeting, October 11-13, 2014, at the Bacara Resort in Santa Barbara, Calif., where we will hear from Ben Shapiro, Bill Strauss, and Roger Sustar, one of the industry’s leading experts on how to create a program in your company to promote manufacturing as a career for high school students. Hope to see you there!

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October 11-13
Bacara Resort
Santa Barbara, Calif.



USCTI President's Message



Thomas Haag

Fellow Metal Heads:

The Institute carries some great momentum from the Spring Meeting at Amelia Island. It was one of the best-attended events in several years, and it created a springboard for us to capitalize on the synergy of new members, improved statistics, and our largest domestic trade show in Chicago's International Manufacturing Technology Show (IMTS).

It is a tribute to the strong leadership of David Povich and his predecessors that your Institute grew by five new member companies this past year. A trade association growing in today's market is certainly an anomaly and speaks volumes about our resilience as an organization. It has been said that our recent affiliation with the Association of Manufacturing Technology (AMT) has been a spark for our brand's name recognition in the cutting tool market. Our joint press releases on statistics have been the driver of such publicity.

Speaking of statistics, our affiliation with AMT led us to an active Spring Meeting presentation and discussion on our new direction for refined categories of sales statistics beginning in 2015. To learn more, your attendance is critical at the Fall Meeting in California. Please contact the USCTI offices if you have not been informed of our statistical direction for 2015.

Many members are looking forward to attending or exhibiting at IMTS in Chicago this September 8-13. This is another great opportunity to network with current and potential new members. Once again, the USCTI will be there, as we have been honored with a booth in the West Hall as a place for members to meet, relax, and/or network. Please stop in at booth W-2073. The USCTI will also have a presence as a sponsor to the technical speaker series hosted by GIE Media.

Please help us carry all of this good energy forward and join us in Santa Barbara from October 11-13 at the Bacara Resort for the Fall Institute Meeting. This meeting promises to continue our momentum as the voice of the metal cutting tool market. I hope to see you there.

All the best,
Tom Haag

Congratulate New Membership Chair Jeff Major



Jeff Major has been an active member of USCTI since 2008. He is currently serving on the USCTI Board of Directors and has brought his cutting tool expertise to both the Technical Committee and the Website Committee.

Currently the Director of US Sales at Greenfield Industries, Jeff has over 30 years of experience in cutting tool manufacturing and sales, previously with Precision Twist Drill, Melcut Tools, and Vargus USA.

New Member Companies

We extend a warm welcome to our newest members:

Komet of America, Inc.

Star Cutter Company

Worldwide Superabrasives, LLC.

Technical Committee Helps Update NAS Standards

Since January 2011, the USCTI Technical Committee has been involved with updating and helping develop AIA/NAS standards. The committee continues to actively assist the AIA/NAS Work Group (WG) in its updating of all NAS rotary cutting tool standards and is also assisting the WG in developing a new standard for carbide drills.

In addition, reamer standards NAS 897 and NAS 898 have been completed within the last 18 months. Most recently, two drill standards, NAS 937 and NAS 965, have been presented to the AIA Engineering Management Committee for voting. The revised standards should be ready for distribution (available for sale) soon after the EMC approval.

The end mill standard NAS 986 and the new carbide drill standard (unidentified at this time) are scheduled to be completed in 2014.

During the three years that USCTI has worked with AIA, we have facilitated this exciting progress through numerous teleconferences and three face-to-face meetings: the first in Savannah, Ga., and two others at the AIA headquarters in Washington, D.C.

The AIA/NAS Work Group consists of about 14 aerospace engineers representing nine aircraft manufacturing companies, the AIA representative, and five cutting tool manufacturers (two non-USCTI members).

The USCTI members are Phil Kurtz, Wetmore; Steve Boyer, Alvord-Polk; and Al Choiniere, Superior. The non-members are Mark Rubemeyer of Hannibal Carbide and Dennis Noland of Niagara Cutter.

Please remember that the USCTI Technical Resource Center is an excellent resource for a vast array of technical information on cutting tools, surface coatings, and materials. The Technical Committee will utilize the Resource Center to broadcast additional information and updates on a continuing basis; however, we are also soliciting further input and ideas from the membership to help make the Resource Center a useful hands-on tool for new cutting tool engineers coming into our industry. As always, additional white papers would be welcome and much appreciated.

Al Choiniere
USCTI Technical Committee Chairman

NAS (National Aerospace Standards)
AIA (Aerospace Industries Association)

Statistics Committee Works With AMT on New Statistics-Reporting Model

Your Statistics Committee has been looking at new ways to bring value to the membership. As you know, the USCTI and the Association of Manufacturing Technology (AMT) began publishing a joint report in August 2013. It has been well received and has reinforced the Institute's longstanding reputation as a leading source for cutting tool market information. It has also contributed to new companies joining our Institute.

Our collaboration continues with AMT to update the joint statistics report by the beginning of 2015. Several meetings have taken place between USCTI and AMT, and the resulting draft report has been shared with members attending the USCTI Spring Institute meeting, where members were asked for input.

I would like to thank those of you who have emailed and called me with very thoughtful ideas and improvements. Those ideas have been compiled and are being reviewed as we put together a final draft for our members to review.

Our plan is to gain approval for the categories from the Statistics Committee and the Board of Directors and to finalize the report. Our work will help us develop a new statistics-reporting model that we hope to launch on January 1, 2015.

We have much work to do, and we are sure there will be opportunities along the way to make our statistics reporting a valuable tool in our members' business decision-making. We are asking for your cooperation, leadership, and the proper allocation of resources and timeliness to make this new report a reality for 2015.

Imagine a refreshed USCTI statistics report, a joint USCTI/AMT statistics report with a larger number of industry partners reporting data, improved economic forecasting, and improved data to inform better business decisions and maximum value for members! A tall order, but one that is worth our efforts!

We are also interested in developing reports on substrates, surface coatings, and tool reconditioning. Stay tuned for more information coming soon.

Steve Stokey
USCTI Executive Vice President

Business Succession Planning: Understanding the Alternatives

This article was written by Joseph P. Boeckman, a partner in the Business Group of BakerHostetler, with the assistance of James J. Guilkey, an intern at BakerHostetler and law student at The Ohio State University. Mr. Boeckman serves as outside counsel to the United States Cutting Tool Institute.

At the 2014 Spring Meeting, Eli Crotzer gave an excellent presentation on the process of selling a business. From that presentation, let's take one step back and analyze the alternatives for creating a successful succession plan for your business. The main alternatives include 1) a transition to family members; 2) a sale to management or 3) to a third party; or 4) the creation of an Employee Stock Ownership Plan, or ESOP. Each alternative requires careful navigation through a variety of issues such as control, taxes, and valuation.

TRANSITION TO NEXT GENERATION OF FAMILY

The first alternative is to retain the business within the family. Passing control to children or other relatives can be accomplished by several means, including family-limited partnerships, gifting (such as through a grantor-retained annuity trust), and estate freezes through recaps. It is important to complete the transition process in tandem with your estate plan in order to maximize potential tax and other benefits.

Advantages: The primary advantage of this alternative is that it retains family ownership of the business. You can find both personal satisfaction and great pride in watching the next generation of your family work in and continue to grow the business you have built. From a tangible standpoint, transitioning the business to family members can allow for a gradual change of control while permitting the new owners to realize an immediate income stream associated with their increased control. Transitioning within the family can give you access to liquidity to help diversify investments while allowing for retained control if you wish. Finally, familial succession facilitates the orderly transfer of control without disruption of business. However, communication with the potential new owning family member is key – they need to plan accordingly and understand their new responsibilities.

Disadvantages: Passing the business to family has its drawbacks. Often a complete exit is not possible, resulting in some required level of continued involvement on your part. Residual control comes with reduced liquidity compared with a third-party sale. Passing the business to some, but not all, family members may elicit emotional reactions that can become a factor to deal with. Finally, without a competitive bidding process, the full value of the business may not be realized, especially if a new family owner cannot afford to pay the fair market value of the business.

TRANSITION TO MANAGEMENT

The second alternative is to sell the business to management. This includes both asset and stock sales of the business as well as forms of corporate restructuring. A transition to management comes with its own unique advantages and disadvantages compared with selling to a third party.

Advantages: Transition to management control provides for an orderly transfer to insiders already familiar with the business. It also provides flexibility because it can be

combined with other strategies; i.e., partial ownership shifted to family members with the rest to management. This can moderate the deficiencies in other models. Sale to management provides access to liquidity and maintains continuity for both vendors and customers. Furthermore, a stock sale to management can help with taxes, as the proceeds will be taxed at the lower capital gains rates while avoiding C-corporation double taxation issues. It may also provide release from potential unknown liabilities.

Disadvantages: As with the transition to a family member, a sale to management may result in a lower valuation of the business due to a lack of arm's-length negotiation and available capital. There may also be a need to provide financing for the seller. Additionally, a sale to management may mean dealing with employees' emotional reactions combined with little to no control going forward. In an asset sale, tax implications may hurt the final proceeds realized. While the buyers will be able to use capital gains rates and depreciation allocation to get tax benefits, sellers will be subject to ordinary income tax rates on some of the proceeds. In addition, if the entity is a C-corporation, the sellers will face double taxation penalties: first on the initial sale and second when the proceeds are transferred out of the corporation. Similar tax implications may result for S-corporations formally designated as C-corporations.

TRANSITION TO THIRD PARTY

As detailed in Eli's presentation, a common business succession strategy is to sell the business to a third party. Third-party sales can be accomplished through stock and asset sales as well as mergers.

Advantages: Selling to a third party will maximize the value of your business. Open bidding and competition for purchase will ensure that the value of the business is thoroughly vetted. With a complete sale of the business, there is complete exit from ownership. Complete exit and competitive valuation will also maximize the liquidity realized in the transaction. Finally, this alternative avoids any family succession issues, resulting in a clean break from control.

Disadvantages: Complete exit and loss of control can cause great angst among existing employees and management personnel, who may view such a transaction as potentially resulting in the loss of their jobs. Negative tax consequences can loom for asset sales, as detailed in the disadvantages section for sale to management above. Also, selling the business to a third party requires a shift in focus to the sale process, and owners many times "take their eyes off the ball" regarding the operational side of the business. Finally, with new outside owners, there may be issues related to vendor and customer continuity.

TRANSITION TO ESOP

The final alternative is to transfer control of the business to the employees through an ESOP. An ESOP is a company-funded, tax-qualified retirement plan where stock is held in trust for the benefit of the employees.

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“By starting early and remaining transparent with your intentions, you can finally cash in on your hard work and achieve financial security.”

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Future Meeting Dates

Be sure to mark your calendar for the 2014 Institute meeting!

2014 Fall Meeting

October 11-13, 2014
Bacara Resort
Santa Barbara, Calif.

2015 Spring Meeting

May 2-4, 2015
Driskill Hotel
Austin, Texas

2015 Fall Meeting

October 24-26, 2015
Meritage Resort
Napa Valley, Calif.

2016 WCTC

April 9-12, 2016
Fairmont Orchid
Big Island, Hawaii

Come for an exciting meeting experience as well as the opportunity to network with your industry colleagues. Plan now to attend!



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USCTI Manufacturing Careers Initiative Adds Content Committee



The USCTI manufacturing careers initiative, the Alliance for Manufacturing Careers, is moving into the development stage with the formation of a new Content Committee. The committee will consist of USCTI members who will develop and maintain the content for the stakeholder pages on our website, MFGCareers.org. The Content Committee will be chaired by Bernie Bowersock from North American Tool and will include members Steve Morency, M.A. Ford; Mathieu Tapp, Fraisa USA; Mike Trimble, Vargus USA; and Scott Ries, Vollmer of America Corp.

The vision of this initiative is to change the perceptions of jobs and careers in manufacturing with the people who are early and ongoing influencers of students, including educators, parents, and prospective employers.

The Content Committee will be collecting content for the website regarding available internships, continuing education, etc. USCTI member companies are welcome to contact the committee to get their content posted on the site.

About the Alliance for Manufacturing Careers

Most school systems measure their success through a primary metric of college placement. This initiative will seek to have those schools include the option of a career in manufacturing when they are giving information and/or advice to students and parents.

Our goal is to give key stakeholders the information, or access to the information, so they feel comfortable discussing the opportunities that careers in manufacturing can provide.

The four strategic objectives for the Alliance for Manufacturing Careers are:

1. To change the current paradigm of manufacturing careers with the educational community (academic administration, guidance counselors, teachers, parents, and students).
2. To provide information, including a unified message from an array of associations and organizations involved with manufacturing; a “tool kit” that can be used by individual associations and organizations; and a tool kit that can be customized by individual members of those groups.
3. To support Manufacturing Month (October).
4. To create an expanded pool of qualified and motivated workers.

If you would like to add an announcement or offer an opportunity for any of the stakeholder groups, please contact the USCTI office.

The Steering Committee for the MFGCareers.org initiative includes USCTI Board Members Dave Povich, Tom Haag, Bernie Bowersock, and John Jacobsen.

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Advantages: An owner who transfers control to an ESOP enjoys the benefit of the liquidity realized in a normal sale of the business. However, as opposed to a sale to a third party, this alternative allows the former owner to maintain some level of control if desired. There are specific tax benefits to an ESOP regarding the contributions required to set it up, with additional benefits available to S-corporations. Finally, when employees are given ownership, they will be incentivized to keep the business strong, given their newfound stake in the health of the business.

Disadvantages: The main drawback to setting up an ESOP is the complexity and expense required for its establishment. It will also bring regulatory oversight and compliance issues. Furthermore, the process involves additional ongoing costs, such as valuation and various fees, which will reduce the proceeds realized. Finally, poor performance of the business could negatively impact employee morale.

ADDITIONAL CONSIDERATIONS

When analyzing the alternatives and implementing the selected business succession strategy, it is important to collaborate with your legal, accounting, and financial advisors. Eliciting cross-team input will help facilitate the transaction and ensure a smooth transition. In addition, especially in family succession planning, it is important to communicate your intentions and establish expectations for family members so they know what to expect and can properly assist in the transition process.

It is also important to choose a business succession plan that will fit into your personal estate plan in order to maximize efficiencies and benefits. Finally, do not forget to finalize and document each step of the transaction. This can help mitigate any issues that may arise in the future.

In sum, transitioning a business can be daunting. The process requires careful planning and can result in significant cost. By starting early and remaining transparent with your intentions, you can finally cash in on your hard work and achieve financial security.

Special Thanks to Our 2014 Meeting Sponsors



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