



Alliance News

Volume 5 ■ Number 1

A periodic report to our ESOP participants

Slow and Steady Wins the Race: Revisiting Alliance Holdings' Investment Strategy

By T.J. Haas, Manager of Acquisitions

We have all been hit hard by trying times in the credit markets, reading about decreases in home values and increases in foreclosure rates. You can't open a newspaper these days without reading about the current financial market turmoil. The most frustrating part of it all is that none of us are directly responsible for the situation in which we currently find ourselves. And the fact that the declines happened so quickly only heightens the concern that we are not in control of the broader market movements.

Even as we face such uncertain times in the months ahead, a glimmer of light in all of this financial market darkness is that although our valuation has not been completed yet, we do not anticipate any significant value fluctuations of Alliance Holdings. This is certainly in contrast to what other ESOP companies and publicly traded enterprises have been facing. Although we have not seen accelerating growth over the last several months, we can say that our value has held very steady thanks to our continual evaluation of our portfolio of investments and the conservative approach to cash management at the holding company level, which has minimized the impact of the equity market downturn.



During the last 18 months, Alliance Holdings evaluated our portfolio of operating companies and made a strategic decision to exit two construction-related investments: Trachte Building Systems and The Sharon Companies. Our diversified portfolio approach allows for market-timed exits, as illustrated in our recent view of the construction industry. Each of these exits was specifically timed to maximize the value of our investments when analyzing current economic conditions. The proceeds from these exited investments have provided Alliance with its most significant cash balances in its history. The liquidity generated from the divestitures will provide Alliance with additional acquisition capacity at a time when many companies are undervalued in the marketplace. There are currently no plans for any additional

Without the time pressures of outside investors, we are fortunate to have the luxury of being highly selective in our search for new companies with which to partner. This strategy has allowed Alliance to create a strong, diversified group of well-managed companies over the last decade.

diversifications within Alliance Holdings. One of the most important services we provide as managers of our employees' retirement accounts is the ability to rebalance and redeploy capital in diversified investments.

Without the time pressures of outside investors, we are fortunate to have the luxury of being highly selective in our search for new companies with which to partner. This strategy has allowed Alliance to create a strong, diversified group of well-managed

continued on page 2



Spotlight on Southern Manufacturing

Southern Manufacturing is a company that runs on bright ideas. Seventy years ago, when fluorescent lighting was the new bulb on the block, Southern went into business making reflectors to direct the light downward. Today, the company is still illuminating the world with glowing signs that tell drivers where they are and when to turn.

From its facility in Orlando, FL, Southern Manufacturing makes about 3,000 illuminated street name and lane control signs annually, including sophisticated “blank out” signs that can change text or symbols. Southern has signs in 30 states, including more than 4,000 illuminated street signs in Miami Dade County alone.

Each year, the company’s 50-plus employees also produce approximately 2,500 aluminum enclosures — the boxes you see at intersections — to house the wires and controls for traffic signs and signals.

Southern’s products are increasingly in demand by states and cities looking to install intelligent traffic systems that can clear away the growing congestion on their overtaxed roads.

The company’s reversible lane control signs — which switch from green arrows to red x’s — keep traffic flowing on busy bridges, stadium

entrances and roads. And Southern’s enclosures are used to protect cameras and monitors that are part of the new, nationwide “511” traffic control system designed to give drivers up-to-the-second commuter alerts via their phones, computers or handheld devices.

Traffic is a definite growth business and Southern is moving into the high-speed lane. Annual revenues are now around \$7.5 million and despite the current economic turmoil, they are anticipated to grow as Southern targets states and cities now embarking on major road infrastructure projects.

The company is currently part of Accord Industries and became part of the Alliance Holdings ESOP in 2005.

“Alliance is a well capitalized, strong company that is supportive of our growth efforts,” says John Steadman, chief executive officer of Southern Manufacturing. “The ESOP structure reinforces the teamwork and hard work needed to grow a company like ours, and allows our employees to participate in the success of our company.”

With traffic on the rise and ESOP support at its back, all signs point to a bright future for Southern Manufacturing.

The Signs of an Engaged CEO

John Steadman, chief executive officer of Southern Manufacturing, signs all of his e-mails with a picture of an illuminated sign that says

“Train Coming.” It not only shows off one of his company’s products, it sums up this CEO’s hard-charging approach to business.

“I’m competitive and love growing companies,” he says. “I believe Southern should be able to register double-digit growth for years to come.”



Steadman took the reins of Southern in September 2008, following two productive decades spent running metal manufacturing companies and a start-up firm that made tension cables from synthetic fibers. True to his entrepreneurial background, he puts a lot of stock in driving out costs and coming up with a steady stream of innovative product ideas. He also believes business success depends on making customers feel important, treating vendors as strategic partners, and understanding that “employees make everything happen.”

Under his leadership, Southern Manufacturing is on a strong forward track.

Slow and Steady Wins the Race

continued from page 1

companies over the last decade. We have recently seen a validation of this conservative investment thesis by not overweighting any specific investment in the Alliance portfolio, thereby not being overly affected by the economic downturn. The investment strategy was specifically created and designed to provide diversification to employee retirement accounts during times like this by minimizing the financial impact on our investment portfolio through spreading risk over a wide base of investments and industries.

As we have all heard many times on television or read in the newspaper, diversification is the key to protecting our principle balances and provides the ability to wait out any financial storm which may approach. Additionally, the tax-advantageous structure of the Alliance Holdings’ ESOP allows for debt to be repaid more aggressively, thereby relieving the operating entity from future financial burden of servicing interest and principle. Our internally generated cash flow funds capital expenditures and other key strategic initiatives without taking on significant additional risk through leverage. Alliance’s individual operating companies have been well managed through a very difficult time in the financial markets and are positioned for continued success as liquidity begins to return to the marketplace.



ESOP Insights

Doing our Part for ESOP Education and Advancement

Despite the many benefits of ESOP ownership, the number of ESOP companies in the United States is growing at a relatively slow rate.

According to the latest statistics from the National Center for Employee Ownership (NCEO), newly formed ESOPs have only grown by about 1 percent a year over the past decade. During that same period, the number of participants has doubled and the number of assets has nearly tripled — meaning the average size of each ESOP is bigger — but the ESOP concept hasn't gone mainstream yet.

Why? Part of the problem has to do with awareness. Company owners and the financial advisors, accountants and attorneys who guide them don't always have a good grasp of the advantages and mechanics of an ESOP. When it comes time to consider alternatives for exiting their companies, these owners and advisors often don't even explore ESOPs as an alternative.

To help address this lack of awareness, Alliance Holdings has been getting more involved within the ESOP community, fighting for the growth and expansion of ESOPs by hosting and attending numerous seminars, meetings and conferences.

■ Over the last two years, we have sponsored the annual University of Pennsylvania ESOP Symposium, a roundtable conversation among scholars and ESOP leaders. One of the primary purposes of the roundtable symposium is to identify areas for future research on employee ownership and its impact on the individual, the firm and society.

■ In 2008, we sponsored a NCEO seminar in Philadelphia, PA, on the topic of "Challenges and Solutions for Mature ESOP Companies," where David Fenkell, our CEO, was the luncheon speaker. Participants learned how to identify specific fiduciary issues for ongoing ESOPs, create effective executive compensation programs, understand how valuations affect planning decisions and how to keep the ESOP financially viable and organizationally relevant to employees.

■ In 2008, Ken Wanko was a part of a panel of speakers discussing ESOP adoption and sustainability at the annual Association for Corporate Growth (ACG) Intergrowth Conference in Orlando, FL. This panel discussion was the first of its kind at the annual ACG event.

■ Recently, we have also attended the annual meetings of the ESOP Association and the NCEO, and many regional conferences put together for the purpose of discussing ESOP issues and networking within the ESOP community.

By raising awareness of Employee Stock Ownership Plans, we are helping to expand the pool of potential acquisition opportunities for Alliance Holdings. In a recent survey, nearly 90 percent of respondents said that creating an ESOP was "a good business decision that has helped the company." Our goal is to spread that news widely so that we can more easily attract strong companies and continue to create a stronger, more diversified ESOP that will benefit all of our employee owners.

Future outlook for Alliance Holdings

Alliance Holdings' growth strategy has been very effective thus far and we look to continue that success for many years to come. We will continue to pursue acquisitions to build the Alliance family in a controlled and responsible manner, while striving to create a "recession-proof" organization through operational diversification in counter-cyclical industry segments and varying investment structures. Over the last 15 years, we have enjoyed strong overall performance in the Alliance Holdings enterprise value, although we must continually remind ourselves that the past is not an indicator of future financial performance. We can certainly learn from these difficult times to refine our operations to proactively manage the business to minimize the effect on our

Alliance's individual operating companies have been well managed through a very difficult time in the financial markets and are positioned for continued success as liquidity begins to return to the marketplace.

organization in any future downturns, which will certainly be the case at some point. Continuing to recognize when economic downturns may occur and being prepared for them is the best preparation we can make as a company. In the words of Berkshire Hathaway's CEO Warren Buffet, "Be fearful when others are greedy and be greedy when others are fearful."



Building for the Future

By Ken Wanko, Director, Acquisitions and Operations

At Alliance, our team is constantly evaluating the current and projected economic climate to determine the prospects for both our current portfolio companies and for future investments. Through late 2007 and 2008, we felt that the climate was much better for realizing liquidity from some of our investments and did not believe that many of the acquisition opportunities justified the high prices. Because of that, during this period we did not consummate any acquisitions, but focused on our current investments and on building our cash position.

In addition, we bolstered our team at the holding company level, specifically for the purpose of being ready to reenter the market when the time became more conducive for acquisitions. We hired T.J. Haas, an experienced investment banker, to strengthen our acquisition and marketing team and we redeployed Barbie Spear, our Director of Human Resources, to spend a portion of her time assisting in marketing Alliance to the outside world. Also, AnaLuisa Shaw was hired early in 2009 as our new controller. Ms. Shaw has extensive experience as a financial analyst with KPMG specifically focusing on evaluating acquisition opportunities for private equity groups and large corporations.

This increased our ability to both canvas the market to ensure Alliance is seeing a strong flow of investment opportunities and to execute on those opportunities that we deem fit our strict investment criteria.

These staff additions produced substantial results as we developed several new relationships within the investment community and expanded our presence in the ESOP world. The volume of opportunities we reviewed in 2008 increased considerably over 2007 even though the market began to go into freefall.

Now that we have entered 2009, Alliance looks at the current environment and feels that we are in a perfect position to capitalize on many of the great investment opportunities that will arise due to this severe economic downturn. Many of the investment opportunities that we will see over the next 18 months will either be in a distressed situation or will be valued at a significant discount to where they were just a year ago. Because of our deep bench of talent in marketing and acquisition execution, we are poised to accelerate our acquisition momentum and will, hopefully, build Alliance to further its goal of becoming a more diversified ESOP owned company.

Introducing AnaLuisa Shaw

AnaLuisa Shaw loves a business puzzle. As controller for Alliance Holdings, she's involved in several puzzle pieces of the business from financial reporting and cash management to assisting with due diligence and portfolio management.

AnaLuisa is one of the newest members of the Alliance family. She joined the company in January 2009, after two decades of working in public accounting, auditing, industry and mergers and acquisitions. At work she tries to live by her credo that "team is everything" and good companies combine everyone's ideas to get a great team result.

AnaLuisa — or AI, as she is called by her coworkers — lives in Lumberton, NJ, with her husband John. Outside the office she likes to swim — including synchronized swimming at her local gym — and also enjoys being outdoors, cooking and spending time with her eleven nieces and nephews.



Corporate Offices

Alliance Holdings, Inc.

Corporate Headquarters

1021 Old York Road, 3rd Floor
Abington, PA 19001
phone 215-706-0873
fax 215-706-0877
www.allianceholdings.com

Portfolio Companies

Accord Industries

4001 Forsyth Road
Winter Park, FL 32792
phone 407-671-5200
fax 407-679-2297
www.accordindustries.com

A leading manufacturer of concrete poles for transmission, distribution, lighting and communication

Southern Manufacturing

501 Herndon Avenue
Orlando, FL 32803
phone 800-866-5699
www.southern-manufacturing.com

A recognized leader in standard and custom metal fabrication for traffic control enclosures

The Spencer Turbine Co.

600 Day Hill Road
Windsor, CT 06095
phone 860-688-8361
fax 860-688-0098
www.spencerturbine.com

A premier manufacturer of blowers and vacuum systems used in critical industrial, municipal, and commercial applications

Universal 100 Products

4001 Forsyth Road
Winter Park, FL 32792
phone 800-876-6989
fax 407-671-1133
www.universal100.com

Manufacturer of over 200 PVC pipe products, including 40 P.E.P.™ Purple Environment Pipe