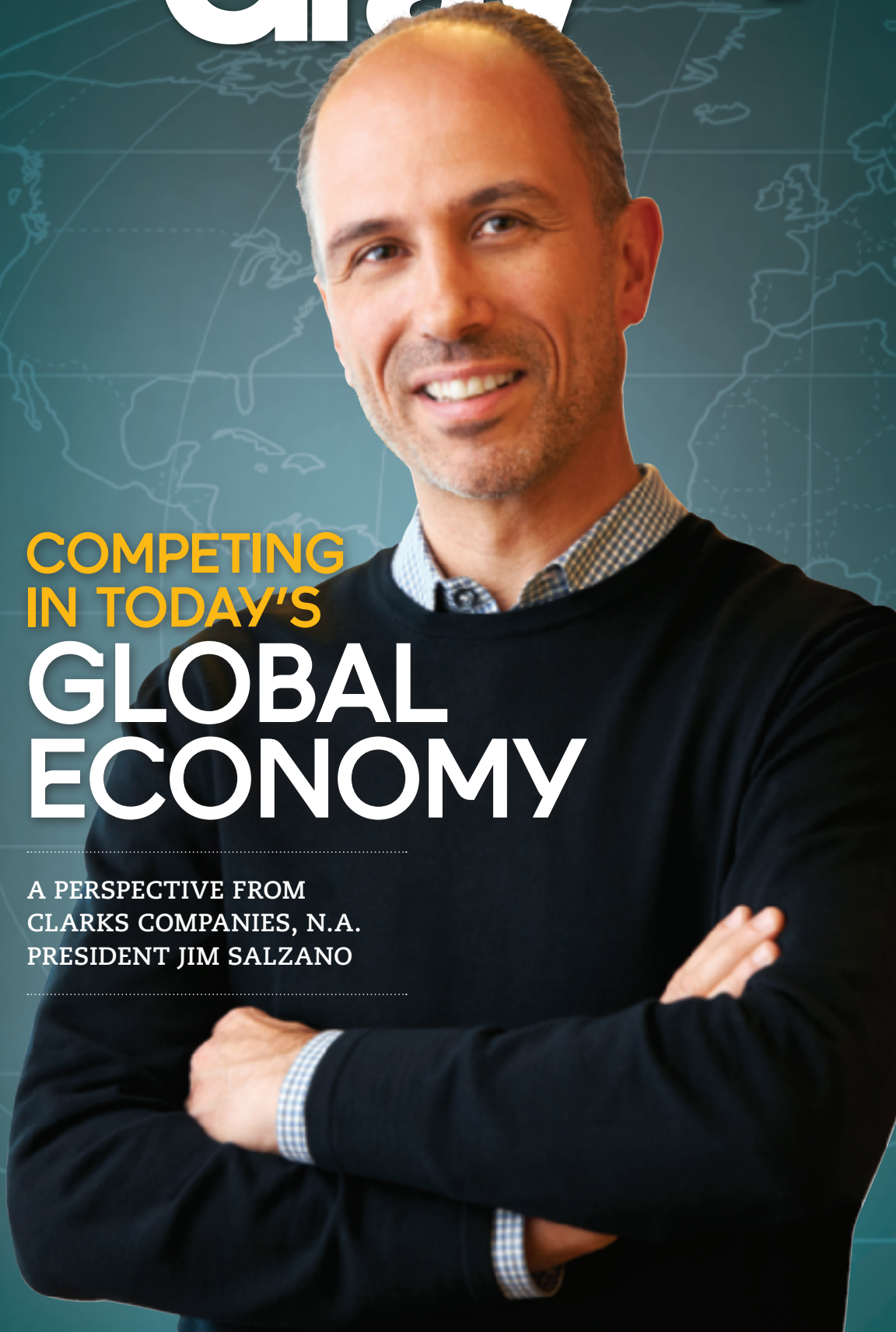


Grayway

COMPETING
IN TODAY'S

GLOBAL ECONOMY

A PERSPECTIVE FROM
CLARKS COMPANIES, N.A.
PRESIDENT JIM SALZANO





THIS ISSUE / Today's Global Economy



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Running a business in a turbulent global economy is no easy task. And with high expectations from shareholders, today's manufacturing leaders are under immense pressure to not only ensure their businesses are profitable, but are growing as well.

Regardless of these pressures, global manufacturing leaders are finding a way to meet expectations and persevere. This issue of the *GrayWay* features one such leader, Clarks Companies, N.A. President Jim Salzano. Jim discusses the state of the global economy and its affect on business, the ripest markets for manufacturing growth, and other issues facing today's global manufacturers. Also featured is the company's new logistics center in Hanover, Pa.—a prime example of Clarks' commitment to its community and the environment. Helping Clarks bring new opportunities to this community in a responsible way has been our pleasure and I thank them for entrusting Gray with this truly valuable community investment.



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COMPETING IN TODAY'S GLOBAL ECONOMY

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CLARK'S COMPANIES, N.A.
PRESIDENT JIM SALZANO

CONTENTS

- 2 TODAY'S GLOBAL MANUFACTURER**
A Q&A with Jim Salzano, president
of global footwear manufacturing leader,
Clarks Companies, N.A.
- 6 BUILT TO SERVE**
Clark's Logistics Center Designed with
the Disabled in Mind
- 7 NEW SIGNS OF LIFE**
Manufacturing, Jobs, and Economy Show
Recent Gains
- 8 GRAY... WE'RE BUILDING**
CJ Bio America
Fort Dodge, Iowa
- 9 GRAY MATTER**
Building to Make a Difference
- 10 MANUFACTURING NEWS**
Gray Launches Manufacturing
News Service

TODAY'S GLOBAL MANUFACTURER:

THE VIEW FROM THE TOP



A Q&A WITH **JIM SALZANO**, PRESIDENT
OF GLOBAL FOOTWEAR MANUFACTURING
LEADER CLARKS COMPANIES, N.A.



Q There has been a lot of buzz about the U.S. economy inching toward recovery. Have improving conditions in the U.S. counterbalanced the European economic crisis in terms of sales for your company?

A Clarks is spread out all over the world, across 33 different countries. I oversee the Americas, which, right now, is predominantly North America. Over the last 17 years I've been with Clarks, I've observed that the benefit we have as an organization is our diverse global footprint. So while things seem to be strong in one part of the world, it tends to come at a time when things might not be so strong in other economies. Right now—with what is really an unprecedented crisis in Europe—we continue to deliver strong results in the North American and Asian markets. That certainly helps mitigate some of the challenges we're facing in Europe, and in our UK Republic of Ireland region as well. In North America, we're going to have another record year in 2012, which would certainly help to offset the challenges that we're having primarily in Europe and the UK. The year 2012 will again demonstrate the power of our diverse geographic portfolio.

Q As a global manufacturer, what are the ripest markets for manufacturing growth?

A To be clear, there are challenges in terms of our sourcing strategy that we've never had to deal with before. Basically, two things are happening: first, there are challenges in getting the right amount of labor into manufacturing in China. People are moving on from wanting to be in footwear manufacturing to other things as the standard of living changes there. Secondly, because costs are rising, it's making it less attractive for many who are investing in manufacturing to continue to do so. So the amount of investment—for footwear manufacturing at least—isn't at the same level it was just ten years ago. We've actually seen deflation in our segment of the footwear market for the last ten or so years. Over the last three years, the pressures have started to build, and we finally had to make increases.

With that said, things are developing in India and Vietnam. We are looking at the Dominican Republic, and Mexico has been talked about. The U.S. is starting to become a place for companies to produce footwear. We aren't (manufacturing in the U.S.) right now, but there are companies in our industry that are investing in manufacturing in America. The reality is, consumers are really dictating the choice in a large way because of their willingness to, and the alternatives they have in terms of price points in the marketplace. In order for us to preserve or even offer an expanded value proposition, sourcing strategy is a big part of that. And today, essentially everything is produced outside of the two primary countries in which we operate: the

UK and the U.S. These countries used to have very significant manufacturing infrastructure. We closed our last factory in the U.S. around 2000. So I think the economic rise of China is going to offer tremendous opportunity to people in other parts of the world to enjoy new employment opportunities.

Q **Advances in manufacturing are continually changing how manufacturers make products. What countries are doing the best job of supporting and nurturing advanced manufacturing practices and initiatives?**

A Some of the companies in our industry are looking at the U.S. because technology has changed, and it's taken the labor content out, and so it's made manufacturing relatively more efficient than before we moved it out of the country. In China, investors who have invested in this long-term infrastructure are looking to make their manufacturing processes more efficient. China is beginning to look like what I saw during the last ten years of manufacturing in the U.S. when a lot of technology was invested to keep manufacturing here, and to make it more efficient by taking the labor content out. Still, (the U.S.) couldn't compete with the rest of the world. But now, you see China very interested in taking labor content out, increasing the efficiency of the labor process, and using technology to do that as well.

The automotive industry has really benefitted from advancements in technology, automation and robotics. It's really fascinating. I haven't seen the real game changer in the footwear industry, but there are

things companies are doing to leverage existing technologies.

Q **What's your opinion about changing the immigration laws to allow more degreed people in science and engineering to start migrating to the U.S. to utilize their skills in our manufacturing companies?**

A The one thing that makes us different as a country is we tend to be the problem solver for the rest of the world. And, we do tend to be a country of compassion and care. So when I hear about the children being deported or the parents of children being deported, it just seems obtuse to me. But, I think we should be encouraging talent and expertise to reside in the U.S., yet what we do is we encourage it to be exported, so they come to school here, and it's very difficult for them to stay here. I think that's counterproductive. As far as sound economics goes, I think we should be doing more to encourage the greatest minds and thinkers and innovators to be residing here to create opportunities for more Americans, and I don't care where they come from to do that.



Q Do the threats of large tax hikes on U.S. consumers, or what some are calling the “fiscal cliff,” concern you?

A No, it doesn't. You can never count America out of anything. We have an economic system, a government system, and a rule of law that works. We encourage entrepreneurship and innovation. I think the fiscal cliff is mostly a by-product of the fact that we're in a presidential election year. That's not to dismiss that we need to be fiscally responsible, but in the end, the U.S. is a country that many look to for solutions to problems. Carrying that burden comes with some costs but the fact remains, the potential in the U.S. is significant. I'm confident that this fiscal problem in the end will be sorted out.

Q Beyond sourcing issues, what other issues face global manufacturers today?

A I think there are a lot of challenges today that didn't exist years ago, like corporate social responsibility, which is a really good challenge. It's only been over the last 10-to-15 years that manufacturers have taken notice of their corporate social responsibility—protecting the environment, protecting workers. When outsourcing came along, some of the benefits to this option came from the lack of regulations relative to the regulations existing here in the U.S. I'm very happy to see more attention

being brought to caring for the environment no matter where that environment may be, and caring for workers whether they're outsourced or insourced. In the footwear industry, we have people working in factories that are part of another company, but that doesn't mean they're not part of our industry—we still need to care for people as an industry. We have an obligation, no matter where they are in that value chain. We have to take a bigger stance on that, and we do at Clarks. We spend a great deal of time working with our suppliers so they understand our expectations and requirements. We spend a lot of time monitoring the working conditions within factories, and we have people monitoring not just quality of product, but the quality of work life for our employees. And then, we move production without regard to cost advantage if a supplier can't meet those requirements. We spend a lot of time on this because it's very important to us and to our shareholders. The problem with that, however, is the penalty isn't for the factory owner, but the people who lose their jobs when we leave. So we work really hard to remedy the situation because, in the end, it mostly affects the people who rely on that income to support their families.

Another challenge is managing really complicated and intricate supply chains that have lead times that domestic manufacturers and people who are being supplied by domestic manufacturers never had to deal with before. Being able to be responsive to your consumers with lead times that are significantly longer than they used to be is a challenge that we're constantly facing as well.



Built to Serve

Clarks' Logistics Center Designed with the Disabled in Mind

Today's consumer demands that retailers, both at home and abroad, not only make high-quality products at affordable prices, but also that they do so in a socially and environmentally conscious way. Clarks Companies, N.A.—a leading global retailer and wholesaler of classic footwear—is one such company that is taking this challenge seriously with a new state-of-the-art logistics center in Hanover, Pa. that is sure to impress even the most demanding consumers.



Len Bucher

According to Len Bucher, vice president of logistics for Clarks, the center is designed for long-term sustainability with as little impact to the environment as possible. Bucher says the 70-foot-tall building was intended to reduce its footprint, preserving the surrounding green space. He

says the center is expected to achieve LEED® Gold certification upon completion.

“We are very excited about some of the green elements incorporated into the building: a sophisticated rain-harvesting system that collects and recycles rainwater; energy-efficient equipment and motors and other equipment that recycles energy; and porous concrete pavement around the building to control the storm-water runoff in a very effective way.”

But perhaps what is even more impressive about Clarks' new investment is that it has been specially designed to employ people with disabilities.

“As we started brainstorming this project some six or seven years ago, we quickly realized we wanted to do something to make our facility as friendly as possible to people with disabilities,” said Bucher. “It will be a state-of-the-art facility not only from a universal-accessibility standpoint, but from an operational perspective as well.”

The center's entry and travel aisles are wheelchair accessible and safe rooms are included on each level so employees confined to wheelchairs are able to work in every area of the building, and are provided a safe place to go in case of an emergency. In addition, Clarks hopes to incorporate display screens with user-friendly software using pictures and diagrams (verses words) to display instructions to manage the product flow through the facility. Bucher believes this system will not only benefit the company's disabled employees, but the entire operation as well.

“The concept of making the processes simple and easy to maneuver not only allows you to service people with disabilities, but it also makes it easier for our typical operatives to run the facility as well.”

NEW SIGNS OF LIFE

Manufacturing, Jobs, and Economy Show Recent Gains

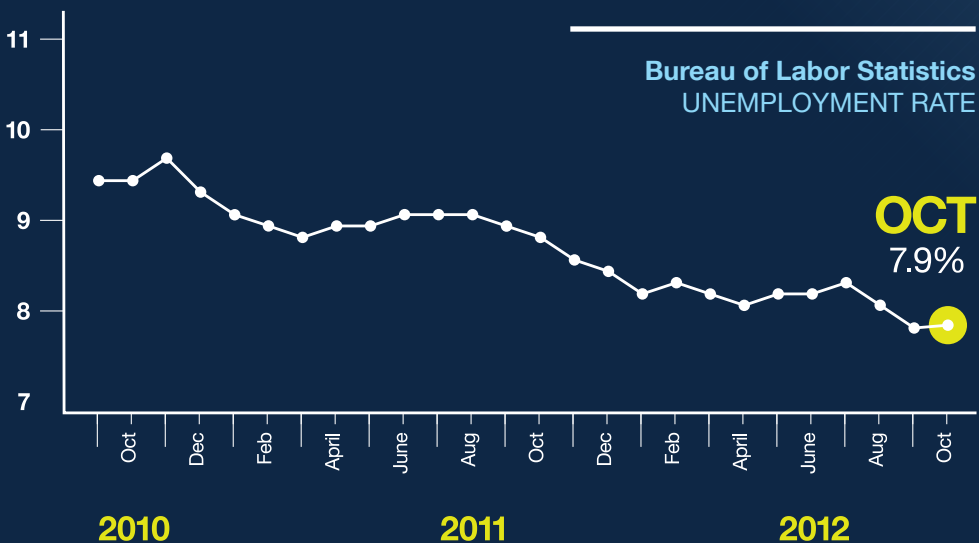
After months of doom and gloom, the manufacturing sector has experienced growth for the second consecutive month, according to the Institute for Supply Management (ISM). Though slow, jobs and the overall economy have seen recent gains as well.

ISM released its latest Manufacturing ISM Report on Business, a survey of the nation's purchasing and supply executives. The report indicated that economic activity in the manufacturing sector expanded in September and October following three consecutive months of slight contraction. The survey noted a 0.2 percentage point increase from September's reading, indicating growth in manufacturing at a slightly faster rate.

In September, the Bureau of Labor Statistics released its jobs report, which indicated the unemployment rate fell to 7.8 percent—the lowest level in more than three years. But, October's jobs report was essentially unchanged, with an unemployment rate of 7.9 percent and the number of unemployed persons at 12.3 million. This does not take into account the millions of other Americans who work part-time but want full-time employment, or those who are too discouraged to look for work.

To review the entire Manufacturing ISM Report on Business, visit www.ism.ws/ISMReport.

For the Bureau's latest Employment Situation Summary, visit www.bls.gov.



Unemployment rate, seasonally adjusted, October 2010-October 2012

GRAY... WE'RE BUILDING



CJ BIO AMERICA Fort Dodge, Iowa

CJ BIO, a world-leading lysine manufacturer, selected Gray to provide design-build services for their U.S. production facility just west of Fort Dodge, Iowa. The facility is CJ BIO's first production plant in the United States, and is a strategic location to move closer to customers in North America and Mexico. CJ BIO broke ground on a 65-acre site in May of 2012, and the facility is expected to open in December 2013.

BUILDING TO MAKE A DIFFERENCE

As president of Gray, I have the fortunate position to meet some of the world's most impressive and respected business leaders. Jim Salzano, president of Clarks Companies, N.A. who is featured on our cover, is one of those leaders. As a leading provider of classic footwear worldwide, Jim and his company are a prime example of what it takes to compete in today's global economy.

While it is not surprising that Clarks' biggest consumer market is right here in America, what is a lesser-known fact is the company's commitment to social responsibility, here in the states and abroad. Beyond its high-quality footwear, Clarks maintains an unrelenting commitment to those who make and distribute its shoes. From the Chinese factory worker trying to support his family, to the American logistics center employee who is confined to a wheelchair, Clarks keeps these folks top of mind each and every day.

In fact, I want to be right there on opening day to see the reaction from the good people of Hanover, Pa. who, no doubt, will be in awe of the company's new universally accessible and highly sustainable logistics center. On behalf of Gray, I extend a personal thanks to Jim Salzano and his team for selecting us to build it.



Stephen Gray
President and Chief Executive Officer



Gray Launches Manufacturing News Service, Manufacturing Pulse

This summer, Gray launched a free online news service called Manufacturing Pulse, offering a single location for the latest news gleaned from articles, commentary and video on more than 100 trusted sites. As a leader in manufacturing plant construction, Gray sought to provide an information service to support its customers' need for current industry information.

Manufacturing Pulse combines the latest manufacturing news with exclusive related commentary and analysis from nationally known commentators, as well as from the National Association of Manufacturers. Manufacturing Pulse continually updates stories and provides links to full articles which include links enabling readers to easily share them via email and social networks. Users can access Manufacturing Pulse on their own schedule, or subscribe to a weekly news summary.

Articles typically appear on Manufacturing Pulse within minutes of posting on their original sites and can be searched for about two weeks. Articles and commentary written exclusively for Manufacturing Pulse remain on the site permanently. User data is never shared or sold.



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