Colleges set to wield scalpels

Institutions look to trim their payrolls amid fears state will slice subsidies to higher ed

By TIMOTHY MAGAW
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Though Gov. John Kasich’s two-year budget won’t be unveiled for a few weeks, Northeast Ohio’s public college and universities already are taking precautions to blunt the impact of what they expect will be deep cuts in the state’s support for higher education.

College officials say they’re bracing for a 10% to 20% reduction in the state subsidy, which roughly makes up one-third of their budgets. Many haven’t ruled out layoffs as personnel costs make up the bulk of their operating budgets. Other cost-saving measures include consolidating services, halting renovation projects and slowing hiring.

Newly elected state Rep. Kathleen Clyde, a Democrat whose district includes Kent State University, said although budget details are scarce, colleges and universities are wise to proceed with caution.

“Cuts are likely to be made in a lot of areas,” said Rep. Clyde, who serves on the Ohio House subcommittee on higher education. “They’re wise to be anticipating that and to develop a strategy moving forward.”

At Kent State, President Lester Lefton last month announced a universitywide hiring freeze in anticipation of state budget cuts.

THE LACK OF LUXURY

Indians’ latest ticket incentives — free suite rental, Terrace Club membership — point to difficulty of selling premium inventory, may foreshadow changes

By JOEL HAMMOND
jhammond@crain.com

The Cleveland Indians raised eyebrows this month when they announced their latest season ticket packages, now more incentive-laden than ever. And it’s those incentives that may provide a glimpse into the future of Progressive Field — a future the Indians have been planning since last March. It was then that team officials began developing a master plan for the ballpark. The process started with an invitation to seven architectural firms to tour the park and make suggestions on what could be done to take advantage of underused areas, such as its suites and the Terrace Club restaurant.

INSIDE

Optimism on upswing at industrial companies

Manufacturers’ surveys suggest a better 2011

By DAN SHINGLER
dshingler@crain.com

The path of local manufacturers may be reaching the edge of the woods. Local companies and their representatives say they are more optimistic now than they have been for the last two years. Sales are continuing to pick up even through the normally slow months of December and January, and there are no signs that they are slowing.

Two local manufacturing groups — Cleveland-based Wire-Net and the Precision Metalforming Association — just completed surveys of their members. Both found increased, broad-based optimism with regard to the general economy and their industry.

INSIDE THE NUMBERS

The latest surveys conducted by manufacturing advocacy groups Wire-Net and the Precision Metalforming Association each show manufacturers gaining steam:

- 83.6% of Wire-Net respondents expect increases in revenue this year, while only 7.3% expect a decrease in sales. In 2009, Wire-Net president John Colm said, only 8% expected revenue increases.
- For only the third time since 2009 in PMA’s monthly poll, a majority of members — 52% — said they expect order volumes to increase.

HIGHER EDUCATION

Parents, investors spot opportunities in off-campus student housing

PLUS: NOTRE DAME ■ SPORTS PROGRAMS & MORE

SPECIAL SECTION
DIFFERENCE MAKERS

The May 16 issue of Crain’s Cleveland Business will present Difference Makers, a special section in which we’ll profile 10 individuals who have made significant, long-term contributions to the betterment of Northeast Ohio.

As part of that process, we’ve provided an online nomination form at www.CrainsCleveland.com/nominate.

Nominations also can be submitted via e-mail to editor Mark Dodosh at mdodosh@crain.com; please include “Difference Makers nomination” in the subject line. In addition, they can be sent via regular mail to Mr. Dodosh at 700 W. St. Clair Ave., suite 310, Cleveland 44113.

The deadline for nominations is the close of business today, Jan. 24.

COMING NEXT WEEK

Banks on the lookout

Industry analysts say acquisitions among banks could rise in 2011, as institutions look to grow. We’ll analyze what’s next in our Finance section.

TRAINING WHEELS SPIN FASTER

U.S. corporate spending on training increased slightly last year, though it remained below levels of 2005, according to data compiled by a research and advisory firm for Workforce Management, a sister publication of Crain’s Cleveland Business. Bersin & Associates’ national training figures are based on a survey of 748 companies, all of which had at least 100 employees. Training-related expenses include learning tools and technology; outside products/services; facilities; materials; and training staff travel and payroll.

Year | Total training spending
----|------------------------
2010 | $48.9B
2009 | 48.2
2008 | 56.2
2007 | 58.5
2006 | 55.8
2005 | 51.1

We’re asking readers to help us identify potential profilees.

As part of that process, we’ve provided an online nomination form at www.CrainsCleveland.com/profilees.

We’ll analyze what’s next in our Finance section.

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Charter One"
Big-ticket commercial property sales rise

Deals $5 million and higher slowly trend up despite lack of financing

By STAN BULLARD

In the same way tossing sticks and blowing puffs of air on dying embers rekindles a flame, the slowly recovering economy, a resilient Wall Street and rising optimism are re-igniting the market for big-ticket commercial real estate in Northeast Ohio.

Continued difficulty securing loans makes the process of doing a real estate deal resemble feeding a fire in the rain, and sales still aren’t close to what they were before the recession. Nonetheless, a just-completed survey of commercial real estate sales in Northeast Ohio of properties valued at more than $5 million shows their volume more than doubled last year to $253 million from $118 million in 2009.

The increase is surprising given how little financing is coming into the market,” said Alec Pacella, a vice president at the NAI Daus brokerage who compiles the annual survey. Mr. Pacella contributes the results to the Real Capital Analytics Inc. realty data service in New York City for its global report on investment sales.

A total of 13 deals accounted for last year’s sales volume compared with 10 deals in 2009. In a sign of a strengthening market, sales of properties valued at more than $5 million closed in nine of the 12 months last year compared with just five of 12 months in 2009. Until 2008, a month with no sales of at least $5 million was a rarity.

Well-heeled real estate investors and real estate investment trusts that began buying again last year fed the uptick as they sat on the sidelines during the worsening economy.

See SALES Page 30

SSM CLUB IMPROVES

The volume of commercial property sales of more than $5 million improved in 2010 but still were well below previous years. In 2009, there were no sales exceeding $5 million in seven months of the year. In 2010, only three months had no sales exceeding $5 million.

Northeast Ohio commercial property sales

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
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<tbody>
<tr>
<td>2010</td>
<td>$283.53M</td>
</tr>
<tr>
<td>2009</td>
<td>$177.74M</td>
</tr>
<tr>
<td>2008</td>
<td>$358.03M</td>
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<tr>
<td>2007</td>
<td>1,296</td>
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</tbody>
</table>

Sources: Alec Pacella/NAI Daus, Real Capital Analytics

Older, inner suburbs get creative in economic development

Lacking developable land and new housing, cities turning elsewhere

By JAY MILLER

Building the tax base in older, close-in suburbs around Cleveland is a dicey business. These communities don’t have the open, developable land available in outer suburbs and, besides, they don’t want more smokestacks or high-rise office buildings, if they have any at all.

If they had their druthers, they’d prefer new, single-family homes or small cluster home communities with new retail shops. But the recession has dashed any hopes of a housing-led revitalization, and too many shopping strips already have “for lease” signs on them to make retailing a prime economic development tool. So these communities, with outdated or underutilized buildings, have begun to rethink their futures.

Cleveland Heights has replaced a generic assistant director in its planning and development department with an economic development director who will be looking to attract new high-tech and medical businesses that sprout from institutions in nearby University Circle.

“There is a shifting paradigm in the way inner suburbs are looking at economic development,” said Howard Thompson, who became the suburb’s economic development director last November. “In Cleveland Heights, the focus had been on developing residential, entertainment and retail centers. Now we want to add commercial business.”

Other cities are farther along in remaking economic development efforts. Shaker Heights in November unveiled a new master plan that...
Cuts: Tension, uncertainty mount

continued from PAGE 1

There are limited exceptions to the freeze, with Kent State planning to fill only “mission critical” positions, according to a letter Dr. Lefton sent to the university community.

The motivation is that we don’t extend an offer of employment and have to turn around and withdraw the employment if economic circumstances become so troubled we can’t afford to keep our work force,” said Gregg Floyd, Kent State’s vice president for finance and administration.

Kent State also halted plans for a $250 million construction and renovation project after the Ohio Board of Regents refused to sign off on a $210 million bond sale that would have financed much of the plan. Dr. Lefton had said it would be appropriate to wait until more is known about the state budget.

Mr. Floyd said each vice president within the university is examining every aspect of his or her operation to root out inefficiencies. He noted that Kent State needs to “begin to think in terms of priorities and about that Kent State needs to “begin to think in terms of priorities and about what things are essential to continue to do business.”

‘Piece by piece’ analysis

Cleveland State University has assembled a task force led by provost Geoffrey Mearns to review “all the operations and obviously look for savings,” according to university spokesman Joe Mosbrook. Some of those revenue increases could come in the form of higher parking or housing fees.

Mr. Mosbrook said layoffs are under consideration. Spending cuts would be done strategically across university departments.

“With the state facing an $8 billion to $10 billion gap, we just didn’t know where we’d end up this year,” Dr. Thornton said.

Dr. Thornton said Tri-C has cut costs by eliminating some jobs through attrition. The college also has been hesitant to hire full-time faculty, but rather has relied heavily on adjunct professors—a strategy that has caused tension between the administration and faculty and helped lead to a non-confidence vote by faculty against Dr. Thornton.

The president said Tri-C thrives when the economy struggles because so many displaced workers go to the college for training. If the college hired many full-time faculty members, she said, they might need to be laid off if the economy rebounds and state support is cut.

The tuition question

Aside from state aid, tuition makes up a large portion of the operating budgets of colleges and universities. As state support dwindled over time, tuition prices generally have risen. Still, college officials are hesitant to talk about whether they’ll raise tuition for the next academic year, such moves, they say, largely are contingent on whether lawmakers impose a tuition freeze or cap and how much colleges can increase their prices.

Lawmakers are aware of the pressure a tuition freeze, coupled with subsidy cuts, could have on schools.

“I do think that we should keep tuition as low as possible and educational costs as affordable as possible, but if there are significant reductions in state support, it would be unreasonable to expect universities to have a state tuition freeze imposed at a time of significant state reductions,” said state Rep. Randy Gardner, a Republican who is one of the architects of a previous two-year freeze on tuition at state schools. He also is chairman of the House subcommittee on higher education.

University of Akron president Luis Proenza said he’s encouraged by what he’s heard so far from the Kasich administration, particularly when it comes to talk of easing regulatory burdens on employers. One such burden in the view of state-supported colleges is the “multiple prime requirement,” where they must work directly with several contractors rather than with a single, or prime, contractor to manage construction projects.

“If those regulations are relieved, then we might be depending on what the budget numbers are — have a reasonable substitution if not the state of controls in state funding,” Dr. Proenza said.

Dr. Proenza said the University of Akron has worked over the last few years to develop new revenue sources and to enter shared services agreements. On the revenue front, Dr. Proenza cited the university’s new corrosion engineering program, which has brought in about $1 million in new tuition revenue and has yielded contracts with companies that want to tap into its resources.

“We have leveraged resources to create new opportunities as well as savings,” Dr. Proenza. “We’re in an exciting place. Let’s just say we’re not out begging.”
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Indians: Suite sales drop as market suffers

continued from PAGE 1

Team officials have said since May, when Crain’s reported on the plan, that no decisions have been made and the process is ongoing. Team spokesman Curtis Danburg acknowledged last Thursday, Jan. 20, that suites and the Terrace Club remain “part of that conversation,” though nothing specific — such as repurposing some suites and the club — has been decided.

One decision that has been made, though, is to use those spaces as sales tools in pushing season ticket plans. As the team announced Jan. 7, all renewing and new season ticket customers — including those who take advantage of a new offer of bleacher seats for $9 apiece — receive a free suite rental, two free tickets in the club section (where all food, fancy or not, is free) and free membership to the fine-dining Terrace Club.

The total value of the incentives ranges from $3,300 to $7,500. The hope is that the carrot will boost season-long commitments, drive concession revenues and perhaps turn on more fans to areas they may never have seen or used.

Too much of a good thing

The Indians long have acknowledged the ballpark, which opened in 1994, has far too many suites. It originally was built with 121 — second only to the Texas Rangers’ Ballpark at Arlington, which has 128 — so that the team could sign up plenty of local companies to 10-year leases and so generate enough revenue to offset the team’s share of stadium construction costs.

Business people signed up back then as a show of support for the club under the ownership of the late Richard Jacobs, who invested heavily in the team and made it into a winner, and because the economy was humming along and they could use the suites in a shiny new ballpark for entertaining clients and would-be customers. However, the fortunes of both the Indians and the economy have changed since then, and not for the better.

Last season was the first time the Indians used a free suite rental as an inducement for returning season ticket buyers. It has become a way to put to use space that no longer is in demand like it once was.

“These luxury areas are hard to re-sell the second time around, and some teams are far beyond the second time around,” said Michael Cramer, president of the Rangers from 1998 to 2004 and now director of the Texas Program in Sports & Media at the University of Texas at Austin.

“Four or five or 17 years after you open a facility, it’s hard to sell to new buyers and renew, so why not create traffic there?” Mr. Cramer said.

Mr. Danburg last week declined to reveal recent suite sales figures, saying 2010 and 2009 were similar. The Indians in June 2009 told Crain’s they had 78 full-season-equivalent suite sales; Danburg last week said the Indians’ suite sales were comparable to those at some of the newer stadiums, such as the new Yankee Stadium, which has only 56.

As for the Terrace Club — where the Indians and club operator Delaware North split revenue 50-50 — traffic has waned along with the team’s season ticket base, which dropped to 8,100 full-season equivalents last year from 12,800 in 2009 and 15,000 in 2008. Before including free membership in the club with season ticket packages for 2011, those customers had the option of buying memberships for either $500 or $980.

“We evaluate our benefits for season ticket holders every year, and many of them said this was their first chance to be in a suite,” he said.

“That played into expanding it this season. We said, ‘Here’s excess inventory. How can we use it to our advantage, and fans’ advantage?’”

Extreme makeover

Sales declines likely will spell doom for some suites and other luxury areas not just at Progressive Field, but at other stadiums, too, said Mr. Cramer, the former Rangers executive.

He’d have preferred the Ballpark at Arlington be built with about 30 fewer suites and about 8,000 fewer seats than the 49,170 it has.

The Indians already have tried remaking a handful of their suites: Before last season, they turned one into a “Fancave,” featuring a pool table and a handful of flat-screen televisions; they also combined two into a “presidential” suite behind home plate.

“I wouldn’t be surprised if a lot of these areas go away,” Mr. Cramer said. “Suites can turn into open areas, party suites, things where three suites turn into one. Now you can offer different types of packages than the ones that weren’t selling and see if those work.”

Jim Kahler agreed. The former vice president of sales and marketing for the Cleveland Cavaliers and now executive director of the Center for Sports Administration at Ohio University said the Indians are doing what all teams should be doing.

“Good organizations are not afraid to take a look at where they are,” said Mr. Kahler, who noted that a number of NBA teams, including the Portland Trail Blazers and Phoenix Suns, have responded to their markets and trends by making changes.

“Kudos to the Indians for taking a look at their square footage and figuring out what works,” he said.

“The teams that sit back are making a mistake.”

ABOUT THE FUTURE...

Let’s look into the future.

In 2013, three Fortune 500 companies move to Cleveland. The Indians have developed the poor track record drafting and development. Playoffs appearances follow, including a trip to the Elite Eight.

Will the fans, who have become accustomed to a free suite rental, two free club seats and a Terrace Club membership — if it’s still there once again pay for those perks?

“We get up to 14,000 or 20,000 (full-season equivalent tickets), we think we might be making inventory we have now, and fans will understand,” said Indians spokesman Curtis Danburg.

 Said Jim Kahler, a former Cavs executive and now director of the Center for Sports Administration at Ohio University: “If Southwest Airlines has a sale today (on extra tickets), it may not sell them for the same price next month or next year. Sports will be sensitive to it.”

— Joel Hammond

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By TIMOTHY MAGAW

The A.M. McGregor Group, a Cleveland-area provider of services to the aged, has taken over a program that allows poor seniors to live at home rather than in costlier residential care facilities. Mr. McGregor is particularly struck by his members’ optimism about their prospects for higher sales and hiring in 2011.

A vast majority of Wire-Net’s respondents, 84%, said they expected to see their revenues rise in 2011 — with 39.5% saying they expect an increase of more than 10%. Only 7.3% said they expected to see a decrease in their sales this year.

“Everyone thought it was a dramatic switch from 2009,” Mr. Colm said. “Only 8% in 2009 said revenues would go up.”

Likewise, more than 95% of the PMA’s survey participants said they expect their order volumes to increase over the next three months. That’s only the third time since 2009 in the monthly poll that a majority of the organization’s respondents indicated they expected an increase, and it’s the first time it has happened since 54% said they expected increases in the months ahead.

As for hiring employees, manufacturers indicated they are adding people. Only 17% of the PMA’s respondents said they had any employees on short time or layoff. The last time the number was lower than 12% in this survey was in October 2007, when only 8% of companies had workers on short time or layoff.

Mr. Colm said he was particularly struck by his members’ optimism about their prospects for higher sales and hiring in 2011.

Optimism among manufacturers appears broad-based. Manufacturers in the automotive sector have been telling Crain’s they are seeing steady improvement going into 2011, and those in other industries echo their sentiments.

For example, Mentor-based Fredon, which is in the process of building its new headquarters in Northeast Ohio, was seeing an increase in its defense-related helicopter component business and in demand for parts that it makes for diesel locomotives. Sales for the last six months of 2010 were 23% ahead of their pace during the same period of 2009 — and so far this year they are running 39% over where they were last year, said Fredon president Roger Sustar.

“Even in normal times, those months are usually slow,” Mr. Sustar said. “At Drabik Manufacturing in Cleveland, business has been picking up since late August, but a continued increase in business during the normally slow months of December and January has been a particularly pleasant surprise, said president Jim Drabik.

“Even in normal times, those months are usually slow,” Mr. Drabik said. “But right now, we’re busy.”

When Mr. Drabik’s workweek picks up, it’s often a sign larger companies are making substantial capital investments. That’s because his machine shop does most of its work for heavy industrial clients who need specialized equipment, replacement parts and other large metal parts made or rebuilt. When Mr. Drabik receives orders, it’s generally because an automotive plant, steel mill or recycler somewhere is investing in a new automotive plant, steel mill or recycler somewhere is investing in a new automotive plant, steel mill or recycler somewhere is investing in a new automotive plant, steel mill or recycler somewhere is investing in a new automotive plant, steel mill or recycler somewhere is investing in a new automotive plant, steel mill or recycler somewhere is investing in a new automotive plant, steel mill or recycler somewhere is investing in a new automotive plant, steel mill or recycler somewhere is investing in a new automotive plant, steel mill or recycler somewhere is investing in a new automotive plant, steel mill or recycler somewhere is investing in a new automotive plant, steel mill or recycler somewhere is investing in a new automotive plant, steel mill or recycler somewhere is investing in a new automotive plant, steel mill or recycler somewhere is investing 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Cashing in

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ometimes it’s hard for people to see the economic changes taking shape in their own backyard. For example, there was a time when the words “Cleveland” and “venture capital” only would appear in the same sentence if they were in a story about how our city wasn’t seeing much of those investment dollars coming its way.

That time has passed. If anything, Cleveland has become somewhat of a venture capital magnet — at least relative to other cities in the Midwest — when it comes to securing investments in health care companies. And that’s a welcome development in a city still viewed by most as a bedraggled old industrial town without much of a future.

The numbers from the latest Midwest Health Care Investment Report produced by nonprofit biotech advocacy group BioEnterprise Corp. are encouraging for Cleveland. They indicate this area has fared far better than most parts of the Midwest in attracting venture dollars for health care investments over the last four years.

Of the 14 regions that BioEnterprise tracks over 11 states, only health care companies in Minneapolis raked in more venture capital than those in Cleveland during the period from 2007 through 2010. The latest BioEnterprise report estimates the total dollars invested in companies in this region over that period at nearly $423 million. Chicago is a distant third, at almost $423 million.

Also heartening is the number of investments that added up to produce that dollar total. BioEnterprise puts the number of Cleveland-area companies receiving venture dollars during the four years at a low of 21 in 2009 and a high of 33 just last year.

The payroll for many of these investments has yet to be seen, and in some cases may never come, because that’s the nature of venture investing. It isn’t for those who like their investments to produce instant gratification or who expect guaranteed rates of return. That’s because the young companies fortunate enough to pull in venture dollars often are innovators that still are developing the product or market that they’d eventually like to bring to the marketplace.

However, it is these very companies that down the road each could employ tens if not hundreds of Northeast Ohio residents in good-paying jobs should they succeed in their missions. And the more of these companies the region can nurture, the better the chances of producing its share of winners.

Few companies ever evolve into the out-and-out grand slam that is Minneapolis-based medical device maker Medtronic Inc., or even the home run that is Cleveland-based medical device maker St. Jude Medical Inc. But we’re fairly confident economically developed advocates in Northeast Ohio wouldn’t be disappointed if the region could develop a solid lineup of singles and doubles hitters that in the aggregate would serve as a foundation for building its biotech base.

So, how’s this for a game plan: Let’s work to keep those venture dollars coming by cultivating and encouraging the kind of ingenuity that already has made this area attractive for investment.

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OPINION

Eighty-eight counties just won’t cut it

M

emo to Ohioans: If you think the past couple years have been hard — with the global financial meltdown and all — tighten your seat belts.

You are in for a rough ride. By now, most people who can read or hear know that the state is facing an enormous budget deficit over the next biennium. It’s been estimated at at least $50 billion, and the real gap could be higher.

Like several other states, Ohio has a batch of newly minted, conservative Republicans in Columbus vowing to cut taxes and government. They’re led by a couple of veteran conservative politicians in Gov. John Kasich from Cincinnati and House Speaker Bill Batchelder of Medina.

Few would argue that government — in all its forms — hasn’t grown to an unwieldy size, and that we’re spending an enormous chunk of our precious revenues on salaries and benefits. The intent of the new governor and speaker to reduce the payroll is a message that resonates with many Ohioans fed up with ever-expanding government agencies.

So, it’s inevitable that we’ll see severe employee reductions in state government and budgets cuts to a host of agencies, institutions and organizations across the state. And that will bring cheers from the black-or-white gang of new officeholders who rode that sentiment to office.

The trouble is, well, life is rarely that easy. The cuts will begin, soon to be followed by angry constituent calls about a community theater about to go belly up, a bridge that will close because we can’t afford to fix it, or a program for troubled teens that must end.

That’s when it gets complicated, especially when the spouse of a big donor sits on the board of that troubled community theater, or a business can’t ship its products efficiently because that bridge is unsafe. Those troubled teens? They’ll be on their own.

This next budget cycle is sure to be the harshest seen in generations, and to succeed, we’ll need more challenging thinkers such as Ned Hill, urban affairs dean at Cleveland State University. He urged radical changes in his remarks last week to a couple hundred folks who gathered in Akron to consider the future of that city and its metro area.

Cut the number of counties until each has at least 750,000 people. Ohio’s 88 counties were drawn so that every resident could get to and from the county seat in a single day’s buggy trip. We could probably come up with more logical boundaries.

Force regionalization, he advocates; the heck with parochial thinking. Turn welfare oversight back to the state and administer it from six “super-center” offices, not by sluggish bureaucracies in each county. Focus all energy on product development and business creation and stop focusing on “quality of life” amenities. If towns want swimming pools, or community theaters, or rec centers, they’ll need to pay for them.

We have to rethink Ohio. It’s our only chance. ■

FROM THE PUBLISHER

THE BIG ISSUE

Do you think Congress should repeal the health care reform law that was passed last year?

JEFF BURGESS

Lakewood

I do not think Congress should repeal that law, because Washington is notoriously tied up and bogged down. It was something that was passed and to rework it at this point would just clog Congress.

ERIK KOBAL

Euclid

I don’t think it should be repealed, but I think they should go back and change it. If they have a real bipartisan bill, I think it would have to go through and kind of went too far in one direction.

GINDY MARIZETTE

Cleveland

Congress should not repeal the act. Hundreds if not thousands of Americans are relying on the health care reform act to assist them in their medical situations today. Sick Americans need this help badly.

SUSANN GEITNER

Lakewood

I’m from Germany, so we have social health care. I think it’s a good idea to move in that direction. The “scare” stories, they are not true. … [There is] no half-year waiting for an appointment or anything like that.

View more of these comments by visiting the Multimedia section at www.CrainsCleveland.com.
专题：俄罗斯：新的焊接领域

本文继续从第3页

俄罗斯：新的焊接领域

林肯电弧焊机有限公司日前在俄境内的阿塞拜疆、哈萨克斯坦、吉尔吉斯斯坦和塔吉克斯坦与当地公司签署了合作框架协议。在俄境内，林肯公司已经与当地企业签署了合作协议，旨在为当地企业提供先进的焊接技术和服务。预计这些合作将推动俄国内焊接材料和设备市场的发展，提升当地企业的技术和工程能力，促进俄国内焊接行业的发展。
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HIGHER EDUCATION

INSIDE

SPORTS PROGRAMS A WIN-WIN FOR COLLEGES.

A MARKET WITH SELLING POINTS

Parents, investors spot opportunities to capitalize on student housing near NE Ohio college campuses

By TIMOTHY MAGAW

Notre Dame College recently bought the old Regina High School site in South Euclid, and officials say the much-needed space will help alleviate the crunch caused by the college’s skyrocketing enrollment over much of the last decade.

Notre Dame lands nearby space to accommodate growth

By TIMOTHY MAGAW

Notre Dame had been leasing the space since the school closed, but now that it owns the property, officials are weighing how best to leverage their new asset.

Notre Dame, for instance, lacks a student union.

But because of the immediate need for space, officials aren’t planning to demolish the building and start from scratch.

“We’re near capacity, and this changes that dramatically,” said Andrew Roth, president of Notre Dame College. “It gives us more room to grow.

Since Dr. Roth was hired, enrollment at the private college on Cleveland’s East Side has grown substantially. In 2003, the college’s total enrollment was 894. Last fall, that number had climbed to more than 2,000.

Likewise, the number of employees — both full-time and part-time — rose from 114 in 2003 to 222 in 2010. The college also heavily relies on adjunct professors, but Dr. Roth said he’s made it a priority to expand the school’s...
HIGHER EDUCATION

If you play it, they will come

Colleges that add football say programs score enrollment gains

By JOEL HAMMOND
jhammond@crain.com

The way Michael Victor sees it, the success of Lake Erie College's still-youthful football program is directly proportional to the amount of Storm gear worn around Painesville. And lately — on the strength of a vastly expanded athletic department headlined by a now-Division II football team — those threads have been multiplying, the school's president says.

At Notre Dame College, 25 miles away in South Euclid, it's perhaps even simpler than that, says vice president of enrollment Dave Armstrong. "This is the birthplace of football. If you're going to be a college in the football region, and you don't play football, people don't give you as much respect."

"That's probably wrong, but it's the truth," he said.

Lake Erie and Notre Dame, five and three years, respectively, after installing their programs, say they are reaping the benefits: wild enrollment increases, expanding campuses, improved engagement with alumni and fundraising pushes.

They're also two of 26 schools nationwide, according to an August USA Today report, that have added or will add football programs between 2009 and 2013. Cleveland State since October 2008 has considered adding the sport, but after the school conducted a student survey last year to gauge their willingness to pay part of the startup costs, there's been little movement, according to athletic department spokesman Brian McCain.

Storm surge

At Lake Erie, enrollment has doubled to 1,380 since 2006. As such, Mr. Victor said the school has been able to be more selective in choosing its student body.

Football startup costs, Mr. Victor said, were about $500,000, but only because there was no stadium construction involved. The Storm play at Jack Britt Memorial Stadium, also home to Painesville's Harvey High School games.

School officials say the enrollment gains, spurred in large part by adding football players and hundreds of other students participating in 11 more sports — the Storm now compete in 23 — have offset those startup costs.

"We're in the black," said Mr. Victor, who spearheaded the development of the football team and the athletic department's expansion when he arrived at Lake Erie in 2008.

The revenue gained from the added enrollment helped pay for a renovation of the old Andrews Osborne Academy gymnasium — which the college purchased in 2007 — to accommodate enrollment growth into Lake Erie's athletic training center. Plus, the $800,000 price tag on the installation of turf at Jack Britt, split between the college and the Painesville City School District, also was covered by the student gains.

The Storm, in their first season as a full member of NCAA's Division II, won seven games in 2009 but slipped to a 3-8 mark in 2010. In 2008, as a Division III competitor, Lake Erie beat Glenville (W. Va.) State, a perennial national contender in Division II, for the Pioneers' only loss. They missed the playoffs.

"It gives us a more vibrant institution," Mr. Victor said. "More people want to attend. It helps academically. It helps retention, and it has an intangible effect."

Falcons fly

At Notre Dame, enrollment has increased to 1,200 full-time students, from 900 in 2003, Mr. Armstrong said. Factor in part-time and continuing education participants, and traffic has risen to more than 2,000, from 800.

The football team has made the biggest impact, with 100 men coming to campus; the school started a women's rowing team in an effort to counteract that imbalance, and it hopes to grow its marching band, which numbers 55 right now, to 200.

The school in 2009 was recognized by the Palo Alto, Calif.-based Carnegie Foundation as having the fastest enrollment growth among 204 institutions in its weight class, so to speak.

On the football field, the Falcons played eight games in 2009 against junior varsity and club teams — like Lake Erie did in 2007. Notre Dame in 2010 went 2-8 participating in the National Association of Intercollegiate Athletics (NAIA) and it follows on its current path, will be a full member of NCAA Division II for the start of the 2012 academic year.

That designation allows both Notre Dame and Lake Erie to offer college scholarships, something Division III and NAIA schools cannot. Additionally, Notre Dame partnered with Good Karma Broadcasting, parent company of ESPN Cleveland WKNR 1540-AM, and its games are broadcast both on the radio station and streamed live on its web site.

"Football has had an immediate impact," Mr. Armstrong said. "We have cachet with people who hadn't previously thought of us."

Winning records

Stories of football — and other high-profile sports — driving expansion and enrollment increases abound. Akron, for instance, a soccer team has become a national powerhouse with a well-paid coach and a newly renovated stadium, the latter possible because of on-field success and national exposure. Cleveland State officials have said the team's upset of No. 4 seed Wake Forest in the 2009 NCAA men's basketball tournament led to many more enrollment inquiries.

Also quick to speak of the impact of athletic success is Laing Kennedy, who before he retired from Kent State was the Mid-American Conference's longest-tenured athletic director. The Flashes' basketball program has been the MAC's flag-bearer in all sports and for a while was the nation's top mid-major team.

In 2002, it advanced to the Elite Eight, and the school has seen the rewards.

"The impact on the school, the community and the Kent State world was extraordinary," said Mr. Kennedy, who noted that applications spiked in the aftermath of that success. "That develops new revenue to the total institution, in tuition fees and other avenues."

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HIGHER EDUCATION

New library spaces speak volumes about student preferences

Colleges repurpose facilities to foster engagement, service

By TIMOTHY MAGAW
tmagaw@crain.com

B eing met with a glare for uttering anything beyond a whisper is a scene from an academic library of a bygone era. Libraries at today’s colleges and universities aren’t so much academic silos but rather gathering places armed with the latest gizmos to enhance the academic experience.

Indeed, as more students and faculty go to the Internet for research materials, Northeast Ohio college officials have had to conjure up ways to attract students to the libraries.

In many cases, that means better facilities, fewer books and more electronic resources and acute customer service. And so far, those methods appear to be working as college librarians say growing electronic resources and acute customer service. And so far, those methods appear to be working as college librarians say growing numbers of students are coming through their doors.

According to a guide from the Association of College and Research Libraries and the Library Leadership and Management Association, librarians and university architects looking to revamp their library space should strive to create a flexible space to plan for future technology, changing library collections, future expansions and changing user demographics.

It’s also important, the organizations note, to understand how students and faculty are going to use the space, and that’s what many local academic libraries have done. “We’re much more multipurpose,” said Jeanne Somers, director of the Grasselli Library and Breen Learning Center at John Carroll University. “We’re much less a storehouse of books and much more preferred academic space.”

Dr. Somers said the library at John Carroll isn’t the “hush-and-be-quiet” space it used to be, and the 125,000 people who enter the library each year are using the space much more for group studying, preparing collaborative projects and even socializing. And to make space for more of those kinds of activities, Dr. Somers estimates the library has reduced its print reference collection by 30% over a four-year period.

“We’re moving toward redesigning ourselves as an information commons and making more space for users and more space for technology and less space for print,” Dr. Somers said.

The ‘Borders’ model

James Bracken, the dean of libraries at Kent State University, said research libraries used to be judged by the sheer size of their collections. When the Kent State library opened in 1970, its membership in the Association of Research Libraries hinged on the number of volumes it had, so officials tried to fill the library as best they could.

That resulted in a collection that now hinders the university’s ability to create more common space for students, so Dr. Bracken, who joined the university in August, has tasked himself with eliminating more than 50% of the collection over the next 10 years.

The idea is to create a warm environment similar to the national retail book chain Borders rather than the “austere and Spartan” one of the past, Dr. Bracken said.

“The model has changed,” he said. “We no longer measure the quality of a research library by numbers of volumes. We measure it by how it engages its community, how its users see it as an intellectual center of campus and by a lot of other things.”

Case Western Reserve University also is looking to soften the atmosphere of its library. The university is in the midst of putting together a strategic plan to guide the library into the future, and a key component of that is figuring out what works for students.

At the moment, students are working with university administrators to redesign the first floor. Additionally, a café is being installed, which should open sometime in February.

“It’s to try and change the atmosphere of the building to make it more warm and inviting and to make it easier for students to study without having to leave the building,” said Arnold Hirshon, CWRU’s associate provost and university librarian.

Customers are always right

In the past, college librarians had been viewed primarily as “gatekeepers and stewards of books,” said Phyllis O’Connor, associate dean of university libraries at the University of Akron. Their primary job, she said, was to collect materials, organize them and keep them safe. “We pretty much twisted that around,” Ms. O’Connor said. “We don’t just amass the stuff to keep it safe. We try to amass the right stuff and point our users to it.”

At Cleveland State University, library employees have undergone extensive customer service training to better appeal to students.

Because of the way information was available in the past, librarians had to focus on organizing the information so we could retrieve it for people,” said Glenda Thornton, director of the library at Cleveland State University. “It was organized more to make us more efficient. That’s not necessarily just the case now.”

Students also have new avenues of accessing information or other library services. Services such as “text a librarian” or online support are ubiquitous at most institutions.

At Kent State, the library will even go as far as delivering printed materials to a student’s dorm room.

Dr. Bracken said Kent State’s library is not required to keep a copy of every book, which allows the university to focus on making the student experience be the best possible.

“We can be more people centered,” Dr. Bracken said. “We can be more reflective of what our users want.”

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HIGHER EDUCATION

PLACES OF NOTE
A look at Northeast Ohio’s interesting spaces

Oberlin’s Robert Kahn Hall

THE PLACE: Oberlin College’s new $16 million Robert Kahn residence hall is a testing ground for learning about environmental stewardship.

By TIMOTHY MAGAW

Oberlin College’s new, $16 million Robert Kahn residence hall wasn’t what freshman Dalia Fuleihan expected.

The spacious student rooms, the large living areas and the new laundry and kitchen facilities, for instance, were a bit of a surprise for her. Perhaps even more surprising was the pledge she had to sign in order to live there saying she would agree to live sustainably — for one, take shorter showers — and not bring a car to campus.

“It’s a good environment,” Ms. Fuleihan said. “It’s nice to be around other people who are dedicated to that.”

The new Oberlin residence hall, which opened last fall and houses 150 students, is part of a growing movement nationwide in which universities and colleges aren’t just constructing green buildings but rather putting the onus on students to live in a way that ultimately reduces waste and protects the environment.

These so-called “green buildings” have been embraced by higher education as a teaching tool, said Stephen Muzzy, a senior associate at Second Nature, a Boston-based organization that promotes sustainable strategies in higher education.

“I think higher education has an opportunity that if green buildings are ubiquitous, the norm would be that when students graduate and go into the work force, they believe green buildings should go everywhere; and ask, ‘Why are you still building in the old paradigm?’”

A living laboratory

Colin Koffel, an environment sustainability fellow at Oberlin, works to develop programming with students to help them understand the importance of living green. However, he said most of the ideas come directly from the students. For instance, he has worked with students to develop shower timers to remind students to use less water.

Meanwhile, the hall boasts a list of sophisticated features such as a system that automatically shuts off the heat or air conditioning in student rooms when windows are opened. Glowing orbs in the building also change color depending on the energy usage to remind students of their commitment.

However, it’s not all complicated technology. There are simpler measures in place, such as clotheslines in the laundry rooms and an onsite compost tumbler.

“If anything, the students that live (in Kahn) are asking us to do more of it,” Mr. Koffel said.

Because it’s a new building, it’s not without its kinks — at least in the students’ eyes. Things, for instance, always could be done a little greener.

In one of the hallways, students felt the motion-censored lights were wasting energy, so they put tape over the sensors. They also unplugged a flat-screen panel display that details the energy usage in the hall.

“Students are extremely reasonable and extremely logical,” said Molly Tyson, the associate dean and director of residential education at Oberlin. “They are what make the building work, and they are the people that live here.”

A simpler approach

Oberlin isn’t alone in its efforts to push students to live sustainably. Though perhaps not on Oberlin’s level, other Northeast Ohio colleges and universities have put forth their own efforts aimed at curbing student energy use and waste.

Even colleges without student housing, like Cuyahoga Community College, have made an effort to give students the tools to change their behavior.

Kevin Snape, that college’s new vice president of sustainability, said the college is starting composting at its residence halls and has placed student ambassadors to stand by the trash cans to remind students to put their waste in the right bucket.

Kent State University, meanwhile, implemented a bike sharing program to encourage students to ditch their cars and bike around town. The university also coordinates recycling and energy conservation competitions among the residence halls, according to Andy Weyand, the coordinator for administrative services and facilities for Kent State’s residence services.

“Our efforts are not so much to generate interest but give them the tools to put that interest into action,” Mr. Weyand said. “I think as it becomes more and more of a trend, the interest is building with the students coming on campus. The interest is already kind of in their head.”
Students: Housing needs rise along with enrollment

Against the grain

continued from PAGE 11

In both cases, parents bought single-family homes for children who sought to live away from home but not on campus during their time at college.

Thanks to affordable housing prices in Northeast Ohio, the dream of converting college housing costs into a house investment is within reach of more parents of the college-bound here than in many parts of the country.

A recent Coldwell Banker Realtors survey even ranked two Northeast Ohio cities among the most affordable college towns in the country: Kent was ranked No. 8 with a $135,662 average home listing price in 2010, and Akron came in at No. 5 at $119,711.

Against the grain

Despite the challenges of managing a high turnover population, niche factors are fueling movement in the student housing market for parent-owners and investors despite the worst realty development market since 1945.

“Higher education as a growth industry is countercyclical. More students attend college in downturns, especially public universities,” said Jack Boyle, vice president for business affairs and finance administration at Cleveland State University. “We’ve been the odd man out in the busting of the development bubble.”

Consider the dynamics at Kent State as a test case. Ryan Szymanski, a vice president of Columbus-State as a test case. Ryan Szymanski, a vice president of Columbus-

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HIGHER EDUCATION

Regina: Notre Dame eyes more visible entryway

continued from PAGE 11

full-time ranks. Since his arrival, the number of full-time faculty has risen from 24 to 61.

Dr. Roth attributed the growth to several tactics, including new recruiting strategies that included more high school visits rather than relying solely on advertising. Pushing extracurricular programs, particularly sports, and upgrading the campus with two new dorms and new technology also attributed to the growth, he noted.

The growth had caused the college to be somewhat “out of balance,” according to John Phillips, the college’s vice president for finance and administration. To make more room for classroom space, the college had to move about 20 employees farther up South Green Road into some leased space. But with the Regina acquisition, those employees, which include the marketing department and others, will move back to campus.

A new front door

Notre Dame essentially is landlocked on its South Euclid campus. Since the college opened in the 1920s, residential communities have sprung up around the campus, stifling the possibility for further expansion. The college’s main entrance faces south toward College Road, but campus officials have altered some of the driving patterns as to not disturb the neighboring communities.

The primary entrance is now along South Green Road near the Regina site. Prior to the Regina purchase, Notre Dame typically was known as the “college behind the high school,” Dr. Roth said, because not much of the campus could be seen from the road.

The Regina acquisition allows the college to better orientate its front entrance along South Green Road and build an entryway, such as a fence or some sort of arch, to better identify the college. The admissions office, which is currently located in the main administration building, will also move to the Regina facility to welcome prospective students.

“It will make a statement that you’ve arrived at Notre Dame College,” Dr. Roth said.

Upgrading the Regina facility to make it usable could cost about $2 million, Dr. Roth said, but the cost to completely upgrade and renovate the facility and turn it into a “state-of-the-art collegiate building” could cost as much as $11 million.

“We will use the building as it is, but we’ll incrementally remodel it as we go along,” Dr. Roth said.

To help finance the Regina upgrades and others around campus, Dr. Roth said the college is putting together a capital campaign that would run over the next three to five years. Though a final dollar amount has yet to be set, Dr. Roth noted, on the high end, the college would like to raise as much as $12 million.

Behind the Regina site, college officials would like to construct another building that mirrors the old high school, which could cost an additional $10 million. To pay for that, the college likely would take on debt. Because the new building would likely include student housing, there would be a built-in revenue stream to pay back the debt, Dr. Roth said.

PHOTO PROVIDED
Notre Dame College plans to use the nearby Regina High School facility for more classroom and office space.

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### NORTHEAST OHIO REAL ESTATE INVESTMENT TRUSTS

#### RANKED BY TOTAL SQUARE FOOTAGE OWNED IN NORTHEAST OHIO(1)

<table>
<thead>
<tr>
<th>Name of firm/Ticker</th>
<th>Phone</th>
<th>Web site</th>
<th>CEO</th>
<th>NE Ohio square footage(2)</th>
<th>2009 funds from operations (millions)(3)</th>
<th>Change in funds from operations from 2008 (%)</th>
<th>2009 revenue (millions)(4)</th>
<th>Change in revenue from 2008 (%)</th>
<th>Equity market cap (millions)(5)</th>
<th>NE Ohio properties owned(6)</th>
<th>Property focus</th>
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<td>Simon Property Group Inc./SPG</td>
<td>(317) 636-1600</td>
<td><a href="http://www.simon.com">www.simon.com</a></td>
<td>David E. Simon</td>
<td>4,675,486</td>
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<td>Developers Diversified Realty Corp./DVR</td>
<td>(216) 755-5500</td>
<td><a href="http://www.dvr.com">www.dvr.com</a></td>
<td>Daniel B. Hurwitz</td>
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<td>(516) 869-9000</td>
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<td>David B. Henry</td>
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<td>Lexington Realty Trust/LP</td>
<td>(212) 692-7200</td>
<td><a href="http://www.lrp.com">www.lrp.com</a></td>
<td>T. Wilson Egin</td>
<td>1,384,007</td>
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<td>Duke Realty Corp./DRE</td>
<td>(317) 808-6000</td>
<td><a href="http://www.dukerealty.com">www.dukerealty.com</a></td>
<td>Dennis D. Okal</td>
<td>1,324,147</td>
<td>13.3 (96.6)</td>
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<td>Associated Estates Realty Corp./AEC</td>
<td>(610) 2935-7000</td>
<td><a href="http://www.storeit.com">www.storeit.com</a></td>
<td>Dean Jernigan</td>
<td>1,194,278</td>
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<td>First Industrial Trust Inc./FIR</td>
<td>(312) 344-3300</td>
<td><a href="http://www.firstindustrial.com">www.firstindustrial.com</a></td>
<td>Jeffrey L. Friedman</td>
<td>1,172,700</td>
<td>19.8 (9.4)</td>
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<td>CBFI &amp; Associates Properties Inc./CBFI</td>
<td>(423) 855-0001</td>
<td><a href="http://www.cbflimitedpartners.com">www.cbflimitedpartners.com</a></td>
<td>Bruce W. Duncan</td>
<td>1,056,116</td>
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<td>General Growth Properties Inc./GGP</td>
<td>(312) 960-5000</td>
<td><a href="http://www.ggp.com">www.ggp.com</a></td>
<td>Stephen D. Lebovitz</td>
<td>980,494</td>
<td>282.2 (25.0)</td>
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<td>Simon Self Storage Inc./SSS</td>
<td>(716) 633-1850</td>
<td><a href="http://www.sovranss.com">www.sovranss.com</a></td>
<td>Robert J. Attea</td>
<td>778,938</td>
<td>54.5 (23.1)</td>
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<td>Gladstone Commercial Corp./GDC</td>
<td>(703) 287-5800</td>
<td><a href="http://www.gladstonecom.com">www.gladstonecom.com</a></td>
<td>David J. Gladstone</td>
<td>758,427</td>
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<td>Commonwealth REIT/CMR</td>
<td>(617) 332-9990</td>
<td><a href="http://www.cmreit.com">www.cmreit.com</a></td>
<td>NA</td>
<td>645,000</td>
<td>300.8 (0.5)</td>
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<td>Yarnold Realty Trust/VNO</td>
<td>(212) 849-7000</td>
<td><a href="http://www.vno.com">www.vno.com</a></td>
<td>Michael D. Fascelli</td>
<td>520,000</td>
<td>640.5 (24.2)</td>
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<td>Apartment Investment and Management Co./AIV</td>
<td>(303) 757-8101</td>
<td><a href="http://www.aivc.com">www.aivc.com</a></td>
<td>Terry Considine</td>
<td>504,900</td>
<td>177.3 (20.3)</td>
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<td>Regency Centers Corp./REG</td>
<td>(904) 598-7000</td>
<td><a href="http://www.regencyscenters.com">www.regencyscenters.com</a></td>
<td>Martin E. Stein Jr.</td>
<td>474,886</td>
<td>85.8 (67.5)</td>
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<td>Extra Space Storage Inc./ESS</td>
<td>(801) 562-5556</td>
<td><a href="http://www.extraspace.com">www.extraspace.com</a></td>
<td>Spencer F. Kirk</td>
<td>323,589</td>
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<td>Cedar Shopping Centers Inc./CSDR</td>
<td>(516) 767-6492</td>
<td><a href="http://www.cedarpacific.com">www.cedarpacific.com</a></td>
<td>Leo S. Ullman</td>
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<td>Public Storage/PSA</td>
<td>(818) 244-8080</td>
<td><a href="http://www.publicstorage.com">www.publicstorage.com</a></td>
<td>Ronald L. Havner Jr.</td>
<td>279,100</td>
<td>1,154.8 (2.5)</td>
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<td>American Real Estate Corp./AREC</td>
<td>(630) 219-8000</td>
<td><a href="http://www.italianarealestate.com">www.italianarealestate.com</a></td>
<td>Mark E. Zatoros</td>
<td>192,321</td>
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<td>Piedmont Office Realty Trust Inc./PORT</td>
<td>(770) 418-8800</td>
<td><a href="http://www.piedmontreit.com">www.piedmontreit.com</a></td>
<td>Donald A. Miller</td>
<td>187,000</td>
<td>239.3 (18.9)</td>
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<td>Monmouth Real Estate Investment Corp./MRE</td>
<td>(732) 577-9996</td>
<td><a href="http://www.mre.com">www.mre.com</a></td>
<td>Eugene W. Landy</td>
<td>164,085</td>
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<td>National Retail Properties Inc./NRP</td>
<td>(407) 263-7348</td>
<td><a href="http://www.nreit.com">www.nreit.com</a></td>
<td>Craig Mazinb</td>
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<td>Entertainment Properties Trust/EPRT</td>
<td>(818) 472-1700</td>
<td><a href="http://www.eprtc.com">www.eprtc.com</a></td>
<td>David M. Brian</td>
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<td>Realty Income Corp./RO</td>
<td>(760) 741-2111</td>
<td><a href="http://www.realtyincome.com">www.realtyincome.com</a></td>
<td>Thomas A. Lewis</td>
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<td>Retail; Other</td>
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Source: SNL Financial, Charlottesville, Va., (434) 977-1600, www.snl.com/realestate. To qualify for this list, a company must be a publicly traded U.S. REIT that owns commercial property in the Northeast Ohio area. Mortgage REITs are not included. Hospitality Properties Trust (HPT), HCP Inc. (HCPI), UMH Properties Inc. (UMH), Equity LifeStyle Properties (ELSP), National Health Properties (NHP), Realty Income Corp. (O), Ventas Inc. (VTR), LifeStorage Inc. (V), Prologis (PLD), and Health Care REIT Inc. (HCN) reported exposure to the Northeast Ohio area but did not report square footage data. Property count and square footage reported include properties with both majority- and minority-owned equity interest. Square footage has been reported by total building size, and not adjusted for minority ownership interest. Revenue figures are for calendar year. Executives may have additional titles.

(1) Includes the following counties: Ashland, Ashtabula, Cuyahoga, Erie, Geauga, Huron, Lake, Lorain, Mahoning, Medina, Portage, Stark, Summit, Trumbull, and Wayne.

(2) Based on most recently reported square footage figures for properties owned as of Dec. 13, 2010. Average size for multifamily units has been estimated at 900 square feet.

(3) Figures have not been adjusted for discontinued operations in 2009.

(4) As of market close on Dec. 13, 2010.

Solon LED specialist triples sales with help from acquisition

Energy Focus ‘a radically different company’

By CHUCK SODER

Energy Focus Inc. is about to break its losing streak, according to CEO Joseph Kaveski.

An acquisition helped the Solon-based producer of energy-efficient lighting make money from its continuing operations during the third quarter of 2010, which Mr. Kaveski cited as a major turning point for the company.

Energy Focus has been losing money for years. The publicly traded company, formerly known as Fiberstars Inc., used to focus on selling fiber-optic lighting systems for pools and spas. It changed its name in 2007, however, as part of an effort to broaden its customer base and product lineup.

Today, the company focuses mostly on developing lighting systems powered by light-emitting diodes.

The company, which employs 80, further broadened its capabilities on Dec. 31, 2009, when it bought lighting services firm Stones River Cos. of Nashville in a deal valued at $5 million.

With the acquisition, Energy Focus’ balance sheet immediately changed for the better. Stones River, which retrofits public buildings with energy-efficient lighting, was profitable when it was acquired. That income stream helped Energy Focus generate $600,000 from its continuing operations during the third quarter of 2010, enough to make it cash flow positive for the year.

The acquisition also helped Energy Focus triple its sales: The company brought in $26.4 million in revenue during the first three quarters of 2010, up from $8.8 million during the first three quarters of 2009, according to a registration statement the company filed in April 2010 with the SEC.

Energy Focus sell more of the technology it develops because Stones River now sells the company’s products.

New products scheduled for release this year should help boost sales as well, said Energy Focus president John Davenport.

Though the company has just $2.7 million in cash reserves, in March 2010 it struck a stock purchase agreement with Lincoln Park Capital Fund LLC of Chicago. Through the agreement, Energy Focus can direct Lincoln Park Capital to purchase up to 20,000 shares of its common stock every five business days, according to a registration statement the company filed in April 2010 with the SEC.

Davenport says Energy Focus can direct Lincoln Park Capital to buy a total of 3.65 million shares, which excludes other shares and warrants the Chicago investment firm will receive as part of the agreement. The company’s stock closed at $1.10 on Friday, Jan. 14.

Energy Focus has used the purchase agreement “sparingly,” Mr. Davenport said. That shouldn’t change, unless Energy Focus decides to acquire another retrofitting business to speed up its expansion, Mr. Kaveski said.

“We believe that we have sufficient capital,” he said.

In with the new

Over the long term, the company is focusing on what it believes is the product with the greatest potential: the Intellitube, an LED tube designed to replace the fluorescent tube lights that illuminate most offices.

The Intellitube would use only one or two LEDs that would shoot light into an acrylic tube, which would distribute the light evenly across its surface. Using so few LEDs would make the Intellitube less expensive than typical LED tube lights that use dozens of them.

A similar tube Energy Focus developed for the military was installed on a Virginia Class submarine in early January. The company aims to offer it for sale in about a year, though Mr. Davenport admits it will take longer for LED costs to come down to the point where it would be a mass-market product.

“A year will open up certain markets that will keep us busy … while costs drop further,” Mr. Davenport said.

The Navy plans to install its version of the technology on additional submarines after testing it on the first one, said Edward Markey, lighting life cycle manager for the Navy’s Ship Systems Engineering Station in Philadelphia. The Navy wanted to use LEDs instead of fluorescent tubes partly because they last longer and are mercury-free, he said.

The product was “competitively priced” and passed a grueling series of tests that judged it on durability and performance, Mr. Markey said.

“It bodes well that their hardware is working as well as it is,” he said.

The military, however, is not your typical consumer, said Terry McGowan, director of engineering and technology for the American Lighting Association in Dallas.

Today, LED tubes cost far more than fluorescent tubes and produce “nowhere near the output of a fluorescent tube of the same size,” Mr. McGowan said.

It would be difficult for a company to sell a cost-competitive LED tube light anytime soon, he said. Over time, however, LEDs are projected to improve dramatically, Mr. McGowan said.

“The potential for this stuff is still remarkable,” he said.
A good deal

Cleveland M&A activity expected to gain ground

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Crain’s Cleveland Business Custom Publishing
LETTER FROM THE PRESIDENT

ACG Cleveland: Education, networking for dealmakers

By THEODORE A. WAGNER

"I"t was the best of times, it was the worst of times..." The current economic environment feels a little like a Dickens novel. We face an exhausting list of challenges that includes high levels of unemployment, massive government deficits, soaring health care costs and lingering real estate troubles, just to name a few.

But as businesses and employees adjust to this "new normal," there are some rays of hope on the horizon in Northeast Ohio. In addition to the much-publicized stories of the new medical mart, convention center and casino development, transaction activity conducted by the area’s private equity and professional service firms picked up in 2010. As elegantly showcased in the October issue of The Deal Magazine, these businesses are unique assets of the region and valuable resources to be tapped to drive economic growth.

With more than 13,000 members worldwide, the Association for Corporate Growth (ACG) is the pre-eminent organization where mergers-and-acquisition professionals who work in public and private companies, private equity, corporate and investment banking, finance, accounting, law, and related service fields come together. ACG Cleveland is one of the largest and most vibrant chapters in ACG, and 2010 was a busy year for our chapter.

In addition to strong attendance at our regular programs, the Deal Maker Awards event was again sold out in January, and the second annual Great Lakes Capital Connection held in September attracted more than 650 M&A professionals from across the country.

We also joined 22 other ACG chapters in playing host to an MBA case study competition involving more than 100 top MBA programs.

The winners of Cleveland’s competition received scholarships to attend ACG’s national conference in Miami. This was a tremendous learning opportunity for these students and a strong recruiting tool for the region.

Members join ACG Cleveland for two primary reasons:

1. To attend educational events that help them build value in their companies and for their clients;

2. For the opportunity to network with a diverse and influential community of business people. Chapter membership includes access to the full suite of ACG Global benefits and services.

If this sounds like an organization for you, we encourage you to attend one of our events or to apply for membership. Visit www.acg.cleveland.org or call me at 216-373-2500, and I’ll be happy to talk with you.

Theodore A. Wagner
President, ACG Cleveland
Shareholder
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Haking off the doldrums of the past two years, private equity nationally is poised to shine in 2011, and Cleveland will be no exception.

Citing a pickup in activity toward the end of 2010, a continued economic turnaround and availability of capital, dealmakers are forecasting a robust year for M&A opportunities — particularly in the middle market.

"Across the country, there is a lot of positive buzz that deals are starting to flow again," says Greg Fine, vice president of marketing and communications for the Association for Corporate Growth (ACG). "It’s nowhere near 2007 levels, of course, but 2010 was better and we are very optimistic about 2011."

The second annual Great Lakes Capital Connection, hosted by ACG Cleveland in September, proved a harbinger of the turnaround. More than 650 attendees (two-thirds from outside the area) converged to exchange ideas, network and stimulate the flow for potential deals.

Northeast Ohio is home to a substantial number of private equity firms and a disproportionately strong deal community — a legacy of its history.

"Northeast Ohio has a strong, well-developed private equity region's middle-market private equity activity gathers steam

By CHERYL HIGLEY

Attendees gathered in September to network and exchange ideas during the opening reception of the second annual Great Lakes Capital Connection, hosted by ACG Cleveland. The event was held at the Rock and Roll Hall of Fame and Museum.

Nominate your favorite Deal Maker

Nominations for the 2012 ACG Cleveland Deal Maker Awards may be submitted at any time during the year. The deadline is November 1, 2011. For a nomination form, contact ACG Cleveland at (216) 696-8484 or admin@acgcleveland.org.

Calfee is proud to join ACG in recognizing our long-standing client, Mal Mixon for all he has accomplished for Invacare and Cleveland

We also congratulate our other client winners Fairmount Minerals, Ltd. Shearer’s Foods, Inc. and all the other 2011 Deal Maker Award Winners

We are proud to have participated in decades of deal-making with these well-deserving winners, including Mal Mixon’s original buyout of Invacare and the incredible 2010 transaction by Fairmount Minerals. We salute these entrepreneurs.
Companies find pride in “Made in Ohio”

Expanding markets, strong employees help businesses thrive in down economy

By CHERYL HIGLEY

Northeast Ohio has taken its share of hits during the recent economic downturn. But Ohio-proud middle-market companies from the Amish countryside to Youngstown and Mentor are far from down and out. They are thriving, thanks not only to the high-quality, innovative products they deliver, but also to their employees, whose vision, pride in workmanship and relationship building are making all the difference.

Turning Technologies

As the world’s largest manufacturer of audience response system technology (think “ask the audience” on Who Wants to be a Millionaire), Youngstown-based Turning Technologies constantly has to be in tune with technological advances in its industry.

Yet, CEO Michael Broderick says, it’s the people — not the product — who define the nine-year-old company’s success. Turning Technologies, which was acquired in 2010 by Brokway Moran & Partners, Inc., a Florida-based private equity firm, in partnership with the company’s management, says Broderick.

“We are a technology company with teams of engineers, developers and specialists who live in and are committed to Northeast Ohio. We wouldn’t be the same company without them,” Broderick says. “This company’s intellectual talent is its greatest asset.”

That talent faced its biggest test during the fourth quarter of 2008, when Turning Technologies — which quadrupled its revenue from 2005-2010 — experienced its only year-over-year sales decrease in its history. Broderick says Turning Technologies learned to better communicate its value proposition to its markets (primarily education, but also businesses and government agencies worldwide) and to expand its customer base. The result was 20% growth in 2010. “Kids today expect to be engaged in ways that traditional education hadn’t done, and it seems schools are finally getting past implementing ‘technology for technology’s sake’ and looking at technology that can make a difference,” Broderick says.

Libra Industries

Building strong customer relationships is key for Mentor’s Libra Industries, which is celebrating its 30th year in business. Those relationships, says President and CEO Rod Howell, were instrumental in helping the company weather the recession fallout.

“As an electronic manufacturing service, we own no intellectual property — our customers own it. Our success comes from our ability to work with our customers, to listen and to understand their needs and challenges,” Howell explains. “Everyone looks at our manufacturing technology because it’s cool and fascinating. But it is our people who are the core of who and what we are. Our most successful relationships are forged when clients view us not just as a manufacturer, but as an extension of their business.”

That’s not to say the technology isn’t important, of course. Relationships will only get you so far, Howell says, which is why Libra Industries continually reinvests millions in state-of-the-art robotics, software and IT systems. “Everything is centered around becoming more lean,” he says. “The only way we can justify our business is if we can do it better and provide solutions that make our customers more profitable. If we don’t do that, we cease to exist.”

Striking a balance between people and machine was instrumental in helping Libra turn the page on 2009, when business declined about 35% as its customers suffered through the economic meltdown.

“We thought our diversification would make us recession-proof, but we were wrong,” Howell says. “But as we saw the recession coming, we focused our efforts on expanding our customer base and looking at new regions and markets.”

Libra’s existing customer base has since been revitalized, and with the addition of the new business, the company grew almost 75% last year and has added 65 jobs. “By holding onto our existing customers (even at reduced levels) and nurturing new prospects, we were able to weather the storm,” Howell says.

See SPOTLIGHT Page S-9

What dealmakers can expect from lenders in 2010 and beyond.

The tumult in the banking industry has changed the face of private equity deal-making. Lenders will be performing more due diligence than ever before, and firms that are well-positioned stand to benefit the most. In addition, an increasing number of distressed deals are expected to come down the pike, creating opportunities to buy debt that can be converted into equity when the company is restructured.

Grant Thornton offers you a broad perspective for private equity firms with an enlightening new whitepaper, The debt effect, which explores the current environment of private equity dealmaking, including dealmaker expectations from lenders in 2010 and beyond. To get a copy, contact Tom Freeman, Partner, Tax and Transaction Advisory Services, at 216.858.3700 (Tom.Freeman@gt.com) or visit GrantThornton.com/PEWhitepapers.

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Chikol is a leading middle market consulting firm to companies facing critical organizational, financial and operational challenges. Our teams of professionals provide consulting services in all financial & operational areas and can assist in the changes needed to preserve and enhance enterprise value. In these critical times, there is no substitute for detailed analysis providing a roadmap for immediate action and an experienced team in support that has been there before.
Private equity honing industry focus

By STEWART KOHL

When Riverside started out in 1988, everyone in the private equity industry seemed to be a generalist investor. Today, most every firm in the country seems to be a specialist — or at least has specialized areas of focus. Many factors drove the trend toward specialization. We've confirmed it will continue, and we've been active in building out our specialized areas of focus. Most of our peers in Northeast Ohio have industry specializations that both mirror ours and include other verticals like manufacturing and retail. A cynic might see specialization as the new “special sauce” for private equity, but it’s far from a gimmick. We have great reasons for building teams of highly trained experts with unsurpassed industry experience. These reasons tend to feed into one another:

- More experience means smarter bids, more growth, higher margins and/or more clever exits. In short, it means better returns.
- Investors, lenders and investment bankers increasingly look for sponsors with industry experience.
- Deals and target companies are getting more complex. Many industries involve challenging regulatory, technical and legal aspects. In a fast-moving bid process, we need people who understand those issues from the start to get to the closing. But specialties don’t end there. We need them on board as experts and operating partners providing guidance. After completing nearly 250 acquisitions, we still consider ourselves industry-agnostic but we’ve become experts in healthcare (50-plus acquisitions) and training and education (20-plus acquisitions), and have had considerable and repeated success in areas like franchising and software.
- Industry specialization permeates everything we do. We market our skills and focus deal origination efforts in these verticals. Our transactors become specialists and our operating partners bring industry experience to complement our investment experience and drive growth.

Riverside operates as a set of specialties operating within our generalist framework. This allows us to “comparison shop” and make sure that our industry specialty buys are at appropriate valuations and with equally attractive risk-reward propositions.

As the private equity industry continues migrating toward greater specialization, we’ll keep honing and expanding our own specialties. It’s an increasingly competitive and complex world, and we need to keep up. But considering that specialization helps drive growth, create jobs and make investors more money, we’re believers.

A. Malachi Mixon, III  
A. Schulman, Inc.
Fairmount Minerals Ltd.
Shearer’s Foods, Inc.

Fairmount Minerals is one of the largest producers of industrial sand in the U.S. In August 2010, Fairmount sold a majority interest, which included an equity contribution, plus senior debt financing of $775 million, to American Securities.

Shearer’s is an international manufacturer and distributor of snack foods. In March 2010, Shearer’s acquired Snack Alliance, Inc. Since 2006, Shearer’s has increased revenue more than 300% and added over 1,000 employees.

The Riverside Company

The Riverside Company is the world’s largest global private equity firm focused on the smaller end of the middle market. Since 1988, Riverside has grown to manage more than $3.4 billion in nine funds and has completed more than 200 deals. Over the last two years, Riverside has completed 36 acquisitions, and has realized 14 investments, including three of the five largest gains ever for the firm.

A. Malachi Mixon, III

Mixon is chairman of the board of Invacare Corp. He has led the company since 1979. During his tenure, Invacare has grown to 30 factories, 6,000 associates and net sales of $1.7 billion.

ACG lauds top deal makers

ACG Cleveland will honor the area’s top dealmakers during the 15th annual Deal Maker Awards ceremony Jan 27:

A. Schulman, Inc.
Fairmount Minerals Ltd.
Shearer’s Foods, Inc.

A. Schulman, Inc. (ASI) is a publicly traded international supplier of high-performance plastic compounds and resins used as raw materials. In 2010, ASI closed three strategic acquisitions to support its growth: McCann Color, Inc.; ICO Polymers, Inc.; and Mash Compostos Plastics.

Fairmount Minerals Ltd.
Fairmount Minerals is one of the largest producers of industrial sand in the U.S. In August 2010, Fairmount sold a majority interest, which included an equity contribution, plus senior debt financing of $775 million, to American Securities.

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A. Malachi Mixon, III
Starting up is easy; starting up right is key to success

By JOE JUSTER

A

mericans are entrepren- neurs at heart, starting a new business about every 10 seconds. While starting a business is easy, starting a business right is hard. Approximately 25% fail within two years, and 75% fail within 10. Entrepreneurs must take into consideration a range of legal issues involved in starting up right.

Protect your idea

Companies rise and fall on the strength of their ideas. Trade secrets, copyrights, patents, trade names, trademarks and web site domain names can protect those ideas, as well as your brand and corporate identity. A patent will protect an invention if it is truly new or "novel," but patents require complete public disclosure of your invention and take time and money to obtain and defend. Trade secret laws protect ideas that cannot be patented or that you do not want to disclose. Registered copyrights for written material, trade names and trademarks for corporate and product names and logos, and domain names for web sites are not as expensive to obtain as patents and are usually a good investment.

C-corp or LLC?

When organizing an entity, the primary concerns are avoiding personal liability for business obligations, minimizing taxes and raising capital. Profits are taxed twice in a C-corporation (at the corporate level and the shareholder level). Limited liability companies combine one level of taxation at the member level with limited liability. If your business can be financed by friends and family, a limited liability company is a good choice. But if you foresee multiple financing rounds, choose the C-corporation.

When to organize

If you will operate largely within Ohio with a few owners, incorporate in Ohio. Ohio corporate laws are efficiently established and deferential to the decisions of officers and directors. Organize as soon as possible to facilitate contracting in the name of the corporation so as to avoid personal liability. Early incorporation also will justify a low value on your company shares, helping you avoid being taxed on "cheap stock."

Money matters

Banks generally will not finance startups because of their speculative nature. Therefore, you’ll need to sell equity to family, friends and, perhaps, “angels” — wealthy individu- als who invest in and advise startups. Be sure to consider this with, or get an exemption from, federal and state securities laws. In all instances, you must fully disclose the risks of the investment, including the very real possibility that everybody could lose their money.

Getting out

The demands of running a business leave little time for planning your exit, but you must do so to maximize your company’s value. Run your business as if it were always for sale.

This mindset will help you focus on doing those things that will drive the highest value and if and when you decide to sell.

Joe Juster is chair of the General Corpor- rate group at Calfee, Halter & Griswold LLP. Contact him at 216-622-8433 or e-mail justerj@calfee.com.

Sellers should monitor management, business

By MICHAEL F. PAPARELLA

O

ne of the most frequent ques- tions posed by company owner- s over the last two years is, "When will be a good time to sell my company?" Each company is unique, and the answer will de- pend on the characteris- tics defining its situation.

Underneath the surface of the question, however, lies the fear of the unknown as it relates to the uncertainty of the economy, the industry, the credit markets and M&A cycles.

For most healthy, good- performing companies, those unknowns should not greatly impact the value of a business. As Ralph Waldo Emerson once said, “Can anybody remember when the times were not hard and money not scarce?”

When selling a business, value tends to be driven not by the vagaries of tertiary markets and economies but by three control- able attributes: quality of the Management team, historical Performance of the business and the three-year Growth plan for the business (collectively MPG).

Certainly, the industry in which the company operates will dictate some range of value; but by focusing on MPG, management can influence greatly the outcome of a business sale, regardless of external conditions. The reality is that even in today’s difficult eco- nomic environment, the Fortune 500 companies collectively have more than $1 trillion in cash on the balance sheets, and U.S. private equity funds have more than $450 billion in uninvested capital. These buyers are looking for good companies to acquire and are willing to pay for quality.

Indeed, the top five transactions for each of the past three years (down years for M&A and transac- tion values) have occurred in 10 industries (pharmaceutical, tele- com, and oil and gas are the repeat industries), with a transac- tion value range of 5.5x EBITDA to 32.9x EBITDA, an average EBITDA multiple of 12.8x and a median multiple of 10.1x.

These numbers compare favorably to the overall transac- tion values for deals in the same
Buyer beware: Don’t be star-struck by every deal

By LLOYD BELL

In an environment with low interest rates, changing demographics and what hopes to be an improving economy, buying a business can be a life-changing experience. With apologies to The Miracles, “Try to get yourself a bargain, son ... Don’t be sold on the very first one ...” Good advice for the aspiring business owner. You’d better shop around.

Profile: One of the biggest mistakes an aspiring owner can make is to look at every possible deal. Buyers should take the time up front to define the profile of the companies they will target. Profile includes the industry, the size of the company, the location and, most importantly, what skills the buyer brings that will increase the value of the target.

Purchase price in multiples: Published multiples are averages. Ignore the multiples and work with your advisers on developing an accurate financial model. The company’s expected performance will dictate the multiple, not the other way around.

Due diligence: Even when buyers are familiar with an industry, other professionals — be it legal, financial, operational or technological — need to be brought in to conduct due diligence. Buyers need to be prepared to spend money on the investigation with the understanding that it is not uncommon to spend time and money and still have no deal.

Financing: Getting a deal funded is easier now than it was a year ago, but it still can be a difficult undertaking. An experienced adviser can point the buyer to financing sources more likely to fund a particular transaction.

Patience: Buying a company can be frustrating for an individual used to things following a strict timeline. Expect that the process will take longer than expected, and that the deal may seemingly die once or twice but eventually come back and get closed. If that business for sale does not fit the profile established or something serious gets discovered during due diligence, it’s better to look for a better fit than to change the acquisition plan to fit the target. “Pretty girls come a dime a dozen ... I’ll try to find you one who’s gonna give you true loving.”

Lloyd Bell is the director of the corporate finance practice at Meaden & Moore. Contact him at 216-241-3272 or e-mail lbell@meadenmoore.com.

Three mistakes not to make when conducting due diligence

By ELIZABETH EVANS

In any merger or acquisition, a buyer needs to conduct due diligence before it commits to purchasing a target company. Due diligence assists in testing and proving the economics of a transaction. A buyer needs to receive accurate and adequate information so that it can negotiate a promising transaction, and most importantly, avoid surprises. Items uncovered through the due-diligence process — such as purchase price adjustments, negotiating different representations and warranties, or requiring specific indemnities or escrows — can have a serious impact on a transaction.

The following are common mistakes that buyers should avoid when conducting due diligence:

1. Not asking the right questions. Beginning with a basic due-diligence request list is not enough. A buyer must tailor the request list to the target company and industry. A buyer and its team should research the target company and the industry in which it operates — particularly any regulatory or other critical customer information. The due diligence request list should then be revised based on what is applicable to the target company.

2. Not asking the right people. Due diligence should consist of more than asking for and reading documents from a target company. Visit the target company and talk with management. Knowing which members of management to reach out to regarding specific due-diligence requests not only will assist a buyer in obtaining the information, but the buyer may also receive more accurate — and more timely — information.

Due diligence also should incorporate interviews and interactions with management. The people of a target company are an integral part of its history and information. A buyer should understand the objectives of each party it interacts with and extract the key information from the person and situation.

3. Not having the right team. Each transaction is different and, as such, a buyer must determine which team members are essential in analyzing the specific transaction. Generally speaking, a team would consist of legal, business, accounting and tax specialists. It may also be necessary to retain outside consultants, such as regulatory, insurance or environmental specialists. The team members should provide a buyer with expert guidance on due diligence that is uncovered and assist in exploring potential liabilities or risks. Failure to do so may result in overpaying for the target company, delaying the closing, or incorporating inadequate provisions in the purchase agreement.

Having the appropriate team in place will allow a buyer to feel confident and comfortable that the transaction is being properly evaluated.

A well-organized due-diligence process can help prevent a buyer from unhappy surprises post-closing and lay the foundation for a successful acquisition strategy.

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By SEAN KELLY and TOM FREEMAN
In the wake of the economic downturn over the past two years, many companies revamped growth plans as a means of cutting costs to ensure their continued existence. As cost-cutting measures have taken hold and the economy has begun to rebound, many companies are re-evaluating growth opportunities. With additional liquidity available on companies’ balance sheets, plus slowly increasing access to credit, decisions will be made evaluating organic growth and growth-by-acquisition strategies.

Several passed and proposed tax law changes have been enacted during the past year that will impact the landscape of growth and acquisition decisions, including:

**Tax legislation to the rescue**

By JEFFREY A. FICKES and TERENCE H. LINK II

What do

*What do You Value?*

In the final quarter.

**Estate and gift taxes**

While death and taxes are certain, some didn’t necessarily coincide. Before the passage of the 2010 Tax Compromise, estate and gift tax rates were set to return to 55% with an exemption of $1 million.

The 2010 Tax Compromise provides an estate tax exemption of 55% and $5 million exemption through 2012. Like the capital gains rate extension, business owners may look to transfer investments to the next generation to take advantage of the low estate and gift tax rates. These types of transfers often require outside capital and should provide an opportunity for private equity.

Another pending legislative change of note is that Congress has had repeated discussions surrounding taxing carried interests as ordinary income. If passed, this measure would subject these interests to a much higher rate of tax.

While nothing has been passed at press time, the issues are significant and industry experts fear that such legislation, if passed, will discourage future investment.

**Tax breaks**

A cornerstone of the 2001 and 2003 tax breaks was a reduction in the capital gain tax rates to a maximum of 15% for individuals. The tax cuts, set to expire at the end of 2012, have spurred a flurry of merger and acquisition activity in the final quarter.

However, President Barack Obama on Dec. 17 signed into law the sweeping 2010 Tax Compromise, which extended capital gain rate reductions through 2012. Business owners will look to liquidate their investments prior to 2013 to take advantage of the low capital gains rate.

By Jeffrey A. Fickes and Terrence H. Link II

Managing legal costs of M&A

By JEFFREY A. FICKES and TERRENCE H. LINK II

How much is this deal going to cost me in legal fees?

Many executives and business owners have asked this question, often receiving the answer “It depends.” This answer is impractical when creating budgets or advising shareholders, investors and other stakeholders. To obtain a more comprehensive, useful answer, consider the following:

Where are the costs?

While proper due diligence is critical to investigating a seller’s organization, it also can be used to estimate legal fees. An environmental remediation business, for example, is heavily regulated, requiring a significant amount of due diligence. An initial review of the seller’s permits and licenses and other environmental compli- ance matters provides counsel some level of predictability regarding legal fees. Additionally, product recalls, lawsuits, tax disputes and other business "wants" that increase legal costs can often be forecasted, and related legal costs estimated, in early stage due diligence.

*Managing legal costs of M&A* By JEFFREY A. FICKES and TERRENCE H. LINK II

What do

Attitude is everything. Buyers, sellers and their attorneys often directly correlate the purchase price of a deal to the anticipated legal fees. Instead, the sophistica-
tion and attitude of the buyer and seller and their respective counsel should be indirectly correlated to estimating legal fees. A buyer experienced in M&A transactions can perform due diligence on the seller’s business with less involvement from outside counsel. An attorney without M&A experience may not be efficient or effective in representing a seller in negotiating key purchase agreement concepts. While this attorney should be involved in the transaction as the seller’s trusted adviser, he or she should not have primary negotiating and drafting responsibility. The seller could reduce legal costs and likely receive more favorable legal counsel by engaging M&A counsel.

Finally, the parties’ relative position in the transaction and level of trust is important. Lack of trust or professionalism can prolong or terminate deal negotiations.

Third parties. Banks, investment bankers, consultants, regulatory agencies, landlords, customers and other parties may be involved in any deal. Typically, counsel negotiates the terms of these arrange-
ments, so the extent to which third-party contracts or consents are required affects fees. Finally, the negotiation of a competition and/or employment agreement with the seller’s employees and others impacts fees.

Alternative fees. Alternative fee arrangements allow the buyer or seller to manage M&A costs, particularly when the buyer or seller has multiple planned acquisitions or dispositions. Some examples include fixed/flat fees, capped fees and discounted hourly billing rates with a “results-based” fee or “success fee.” Alternative fee arrangements are often fluid in nature, requiring open lines of communication between counsel and client. While there may be additional factors specific to each deal that affect M&A legal costs, an analysis of the above factors with your at-
torney will help you plan for and better estimate your legal fees.
Private equity investments in publicly traded companies are nothing new. Private Investment in Public Equity (PIPE) transactions have been around for years, and hedge funds long have used private funds to invest in publicly traded securities. More recently, though, we have been seeing traditional private equity sponsors — even sponsor groups that do not have significant experience with investments in public equity — find creative ways to take advantage of opportunities with public companies.

Many of these investment opportunities are found in publicly traded companies that are relatively thinly traded and have credit facilities that are in default or are nearing maturity. Even with the thawing credit markets and a relatively robust high-yield market, many of these companies do not have access to debt on attractive terms and are not readily able to make new public offerings of equity or debt. In addition to traditional PIPE investments and subordinated debt transactions, private equity sponsors can purchase outstanding debt or equity, which may better position the target public company to raise replacement or additional financing.

We have recently seen private equity funds provide backstop commitments for rights offerings. In these transactions, the public company distributes rights to purchase additional equity to its stockholders, and the private equity fund commits to purchase any equity that is not acquired by the stockholders through exercises of the rights. In this way, the public company issuer has assurance that it will be able to raise the financing even if there is a limited or uncertain market for the rights being offered.

In exchange, the private equity fund can receive transaction fees and an equity stake (and a position of influence) in the target. This equity position is often either freely tradable immediately or subsequently registered to allow the private equity sponsor liquidity.

In an increasingly efficient marketplace for the sale of private companies, investments by private equity funds in public companies provide another avenue to achieve returns to limited partners.

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Sellers: Solid team a benefit

Continued from Page 5-E

size range for all of 2006 (9.9x) and 2007 (10.7x), the so-called high-water marks for recent M&A values. Further research shows that the acquired companies boasted a good MPG.

In addition to a good MPG, the one trait each of these transactions likely had in common was a good transaction team, including an accounting firm, legal counsel and an investment banking firm that believed in their story and could drive value no matter how difficult the times were or how scarce money was supposed to have been.

Michael F. Paparella is managing director for Candlewood Partners LLC. Contact him at 440-264-8007 or e-mail mfp@candlewoodpartners.com.

Spotlight: ‘Made in Ohio’ a selling point for local firms

Continued from Page 5-E

Amish Mills

For Chris Karman, chairman of Amish Mills, surviving the recession was only half the battle. The company had to reinvent itself to survive a “dying” industry. Karman and his brother, Ted, bought the company — then called Country Curios — from owners David and Daniel Yoder in 2003. Craftsmanship was never in doubt; in fact, it is the company’s biggest selling point. It was perception (‘country’ and ‘curios’) that was thwarting growth.

The challenge was to tell its “handcrafted by Amish” story and to find the right markets for a small player in a $50 billion furniture industry to showcase its made-in-Ohio talent.

“Amish isn’t a style, it’s the pride in hand craftsmanship,” Karman says. A name change to Amish Mills was the first step in the company’s transformation from bit player to industry dynamo.

Amish Mills, which sells to more than 700 independent dealers across the U.S., expanded its line to include bedroom and office furniture, and sells kitchen cabinets through its Amish Mills Cabinetry line.

Its strong Amish craftsmanship niche, diversified product line and well-honed sales message have paid off. In three short years, Amish Mills has grown from a 12-employee, $800,000 company to 90 employees, a new three-acre manufacturing facility in Millersburg and $6 million in sales.

“We never want to lose track of quality and our customers, so we’re carefully managing our growth,” Karman says. “We’re blessed to be in Ohio where there are so many fantastic craftsmen, who are respectful and fun — that is reflected in their work. It’s what sets us apart. We really believe the sky is the limit.”

Cheryl Higley is a freelance journalist based in Cleveland and serves as a section coordinator for Crain’s Cleveland Business Custom Publishing.

Based in Cleveland With a Window to the World

Riverside has been investing in and building small businesses since 1988. To learn more about Riverside’s strategies to grow companies with $1 million - $30 million in EBITDA, visit riversidecompany.com or contact Scott Gilbertson, Principal, Origination at sgilbertson@riversidecompany.com.

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MCM was founded in 1992, with the support, guidance, and vision of Mal Mixon, one of northeast Ohio’s premier business leaders.

MCM Capital Partners is a Cleveland, Ohio based private equity firm focused on acquiring niche manufacturers, value added distributors and specialty service companies that generate up to $75 million in annual revenues and having enterprise values of less than $50 million.

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Outlook: Market presents value

Healthier deals returning. Al Melchiorre, president of MelCap Partners, says the firm had a record year in 2010 by focusing on healthy M&A transactions.

“While we continue to see activity in the distressed market, we’re seeing healthy deals starting to come back, in large part due to the improving economy,” he says. While deals are starting to ramp up, unrealistic expectations on the part of the seller could throw a hiccup into the recovery. According to the ACG-Reuters survey, the greatest drag on M&A activity continues to be the seller’s unwillingness to sell at multiples offered.

Banks coming back in. Lenders are conservatively venturing back into the market.

“Banks have done a good job of cleaning up their portfolio and are looking to add assets to the balance sheet, but the amount of leverage is still conservative,” Melchiorre says. “You may be able to borrow a little less than you’d like and pay a bit more than you’d like, but debt is available for good deals,” Kohl adds.

Clearer tax picture. Some 2010 activity was spurred by the uncertainty of whether the federal government would act on tax breaks that were set to expire. The tax compromise passed in December clarifies the picture, and should help stimulate additional activity, Melchiorre says.

Middle market popularity

“Companies that are owned by private equity have an advantage,” Kohl says. “Of the 72 companies we own, they have access to resources that similar companies of their size would never have access to — that is significant.”

Whether a seller is looking to exit the business or just to take it to the next level, private equity can make it possible. More private equity firms are holding onto assets longer, according to the ACG-Reuters survey. That requires a different investment and management strategy and shows that the firms aren’t in the deal for a quick flip on the investment.

Private equity provides non-traditional, non-banking capital resources that can help companies stimulate growth, which creates jobs and other opportunities in Northwest Ohio,” Melchiorre says.

Cheryl Higley is a freelance journalist based in Cleveland and serves as a section coordinator for Crain’s Cleveland Business Custom Publishing.
Social media part of new age of deal origination

By ROBERT KINGSBURY

A s I was responding to posts on my Facebook page last week, I began to contemplate the impact social media have had on our lives. Become a fan, like us, follow me, friend me, tweets, posts, tagging, news feeds, status updates…it seems all kids are worried about these days. Then I balked at my thought process—kids?

Social media (blogging, podcasting, online video, social networking, and wikis) are no longer just for teenagers and college students. More than 112 million users on Facebook are between the ages of 25 and 64, and LinkedIn has grown to more than 80 million professional profiles (35 million in the U.S.) indicating social media have penetrated all aspects of the business world and are transforming the ways in which we communicate.

The Center for Marketing Research at the University of Massachusetts Dartmouth’s most recent study of the Inc. 500, a list of the country’s most rapid-growing businesses, found that most businesses are beginning to recognize the importance of leveraging social media sites to influence the rankings in search results. Thus, establishing a presence on social media sites will enhance your visibility.

■ Search engine optimization. Search engines like Google and Microsoft Bing are increasingly using information from social media sites to determine rankings in search results. Thus, establishing a presence on social media sites will enhance your visibility.

■ Brand management. Having a social media presence allows you to better understand what current and potential clients are saying about your firm. Through active social media monitoring, you have the opportunity to address negative comments and correct false or inaccurate information about your brand.

■ Niche marketing. Social media allow you to cost-effectively reach specific subsets of individuals based on their personal preferences and interests, which allows you to create unique social media profiles and strategies based on your target audience.

Your target audience is constantly communicating on social media sites. MCM Capital Partners launched a comprehensive social media campaign about six months ago. Each communication method employed and its content is viewed through the lens of “does this help our firm?” and “does this improve the likelihood our targeted audience will find us?”

Private equity investing is a relationship business encompassing a relatively small number of LPs, entrepreneurs, executives and intermediaries. As more personal relationships move online, social media become a very cost-effective way to strengthen a firm’s corporate relationships and increase deal flow.

Successful deal origination, we believe, will no longer be restricted to attending industry or networking conferences, following up on published reports, marketing meetings with intermediaries, mailings, or cold-call campaigns. Going forward, successful origination will also be measured by number of visits, impressions, comments, connections, subscribers, likes, shares and re-tweets. Is your firm ready?

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Sales: ‘Market,’ or non-distressed, sales better indicate property value

continued from PAGE 3

For instance, Optima Real Estate of Miami Beach bought Penton Media Center, 1300 E. Ninth St., in downtown Cleveland for $46.5 million last August. Meanwhile, Hilltop Plaza, the grocery-anchored shopping center at 3100 Wilson Mills Road in Richmond Heights, sold to Florida-based Richmond Center LLC in November for $27 million.

“We saw market deals resume last year,” Mr. Pacella said of the Florida-based Richmond Center.

The best example of last year’s distressed sales was the $25 million affiliate of Real Estate Resources of America Inc. of Philadelphia paid for the Bingham Apartments building at 1278 W. Ninth St. in downtown Cleveland. The deal came after the 340-unit apartment slid into default under the prior owner, Chicago-based developer Burnside Construction.

REITs also became factors in the commercial market again. Mr. Pacella said. Philadelphia-based STAG Capital bought the Chrysler warehouse at 9777 Mopar Drive in Streetsboro for $18.9 million last October and Phillips Edison Co. of Cincinnati last month purchased Parmas’s Snow View Plaza, 1765 Snow Road, for $12 million as it formed a REIT.

However, the pace of deals remains far below what it was before the recession and the real estate credit freeze shut business down. As recently as 2007, there were 175 deals with a total value of $1.3 billion in Northeast Ohio.

Mr. Pacella estimates there are likely $400 million of such sales in 2011, based on the properties already on the market and a continued march toward a better economy and more normal underwriting standards.

However, the key factor to the market resuming a shred of normality depends on job creation. Mr. Pacella said the region will need more jobs to boost demand for real estate and push up rents to attract capital from outside the area.
The big story: The latest figures for investment in health care startup companies across the Midwest show 2010 was a better year for venture capital than 2009 in Cleveland and Ohio than 2008, though not still not what it was before the recession took hold. The Midwest Health Care Venture Investment Report released by BioEnterprise Corp. indicated that $135.1 million was invested in 33 companies in the Cleveland area last year. The dollar figure is double the $66.3 million in investment in 21 health care startups that BioEnterprise reported for 2009. However, it was down 17% from investment of $165.5 million in 31 companies in 2008, and was off 44% from investment of $241.8 million in 26 companies in 2007. (See related editorial, Page 8).

Material event: Brush Engineered Materials Inc., which is now known as Brush Metals Inc., announced last week that it is changing its name and will also unveil its new corporate logo. The company also said it will unify all its businesses under the new name effective March 8. The company’s common stock will continue to trade on the New York Stock Exchange, but under the symbol BMEI. Concurrent with the name change, the company also will unveil a new web site and brand identity.

At least the price is right: Year-end home sales figures from the Ohio Association of Realtors show 2010 was an even more challenging year than 2009, though prices statewide pushed up slightly. The trade group said 100,980 homes sold statewide in 2010, a decline of 4% from 105,237 homes sold in 2009. The average sale price of the homes, though, rose 2.6% to $132,676 last year from $129,281 in 2009. Results in Northeast Ohio were somewhat better. In what the association calls the Northeast Ohio Real Estate Exchange, there were 31,649 homes sold in 2010, down only 1.8% from 32,282 in 2009. The average sale price in Northeast Ohio shot up 6%, to $126,536 from $119,343.

Howdy, partner: Case Western Reserve University and China National Offshore Oil Corp. signed an agreement to study and research energy efficiency techniques and methods of lowering greenhouse gas emissions. The new entity is one of 17 new EcoPartnership programs between the United States and China that the U.S. State Department announced last week. The new partnership will use the strengths of both Case Western Reserve and China National Offshore Oil to develop research technologies and green jobs.

Out of the woods: Robinson Memorial Hospital in Ravenna proposed that Portage County transfer operational control of the Woodlands at Robinson — a 99-bed county-owned nursing home — to the hospital, which would retain all income generated by the facility. The hospital proposed buying the Woodlands and the property of the hospital for a five-year term with renewal provisions. The annual lease payment to the county would equal the debt payments on the nursing home at a rate of $570,000 per year.

Branch managers: KeyBank plans to add five branches and about 30 branch jobs in Northeast Ohio during the next 15 months, while also replacing 10 of the 150 branches it has in the region into new buildings this year. When completed, Key will have 122 branches in Northeast Ohio, up from 105 branches four years ago. To keep up with local business news as it happens, visit www.CrainsCleveland.com.

January 17 — 23

THE WEEK

Al Ratner remains one engaged octogenarian

Al Ratner, co-founder of Cleveland-based Forest City Enterprises Inc., says he is optimistic about the future of Northeast Ohio, in part because the recession has so challenged the rest of the country that it gives the region a chance to regain muscles.

“Without the recession, we’d have been wiped out. A lot of people have problems now,” Mr. Ratner told the International Council of Shopping Centers Next Generation group. “This is a chance to start from scratch.”

What’s new

CASE

A textbook case of underestimating

The number of college bookstores offering textbook rental programs last fall was much lower than expected, according to research from the Oberlin-based trade association representing college book retailers.

The National Association of College Stores reports that about 2,200 college stores offered textbook rental programs to students in March and May fall. The group’s best estimate, based on anecdotal evidence, the number was around 1,500.

During the fall of 2009, only about 300 stores offered such programs. Textbook rental programs allow college students to rent course materials for 33% to 55% of the cost of buying textbooks outright, according to the trade association.

Many college bookstores in Northeast Ohio offer such programs. Among them are those at Cleveland State University, Kent State University, Lorain County Community College, University of Akron, Baldwin-Wallace College and Oberlin College.

Best of the blogs

Ohio stands to gain from Illinois’ taxing problems

Big tax hikes in Illinois are creating opportunities for other states, including Ohio, to grab the mantle of business-friendly destinations in the Midwest.

The Wall Street Journal columnist Kimberly A. Strassel, who wrote that Illinois is “drifting further into the abyss of tax and spending” with legislation that would impose new fees on water companies and Ohio and try fresher approaches. (Illinois is levying a 50% increase in corporate income taxes.)

By the end of this month, Ms. Strassel wrote, “17 of them newly elected on promises to end-of-control spending and grow jobs. In Ohio, John Kasich’s Republican legislature has already introduced legislation to kill the state death tax. Illinois just reimagined its own.”

The NationalGOP Gov. Mitch Daniels told Ms. Strassel that the combined force of reformers in Wisconsin, Ohio, and Michigan is creating a “divide that could operate long-term in the Midwest’s favor.”

Give him some space to fulfill his dreams

There’s probably a little bit of R.J. Masur in all of us.

A 56-year-old computer systems specialist at Cuyahoga Community College was among the people featured in an ABC News story about how to get your act together and attract the prospects of a human mission to Mars.

Last October, the Journal of Cosmology concluded that such a mission could happen within 20 years, though the complexity, risk and cost of getting astronauts there makes it exceedingly difficult to do.

So a posed an unconventional idea: send astronauts — but simply the flight by making it a one-way trip,” ABC News reported. “The astronauts would be settlers as well as explorers. A return trip is massively more difficult than the voyage in the first place, and the supplies and methods to get home would have to come from Earth.”

Editors of the Journal of Cosmology then retracted the story saying that the research was based on a magazine ranking about this magazine ranking another sometime,” he told ABC News. “It may as well happen now. I don’t see any sense in delaying it.”

Cleveland should be happy about this magazine ranking

Cleveland is very gay.

So said GayNasi, which ranked Cleveland the 12th most gay-friendly city in America.

It’s a “completely unscientific — but still strangely accurate” ranking based on the number of gay bars, entries in YellowPages.com with “gay” in the business name or description, and openly gay elected officials, the magazine said.

“Cleveland is about to become a major gay stomping ground.”

With the city’s 2014 Gay Games, The Advocate said “things are changing quickly” for gays in Cleveland. “The city is changing. There are discussions for transgender people to Cleveland’s antidiscrimination laws in housing and employment, and there’s a country line-dancing group, the Rainbow Wranglers, which meets every Thursday at the Mean Bull.”
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