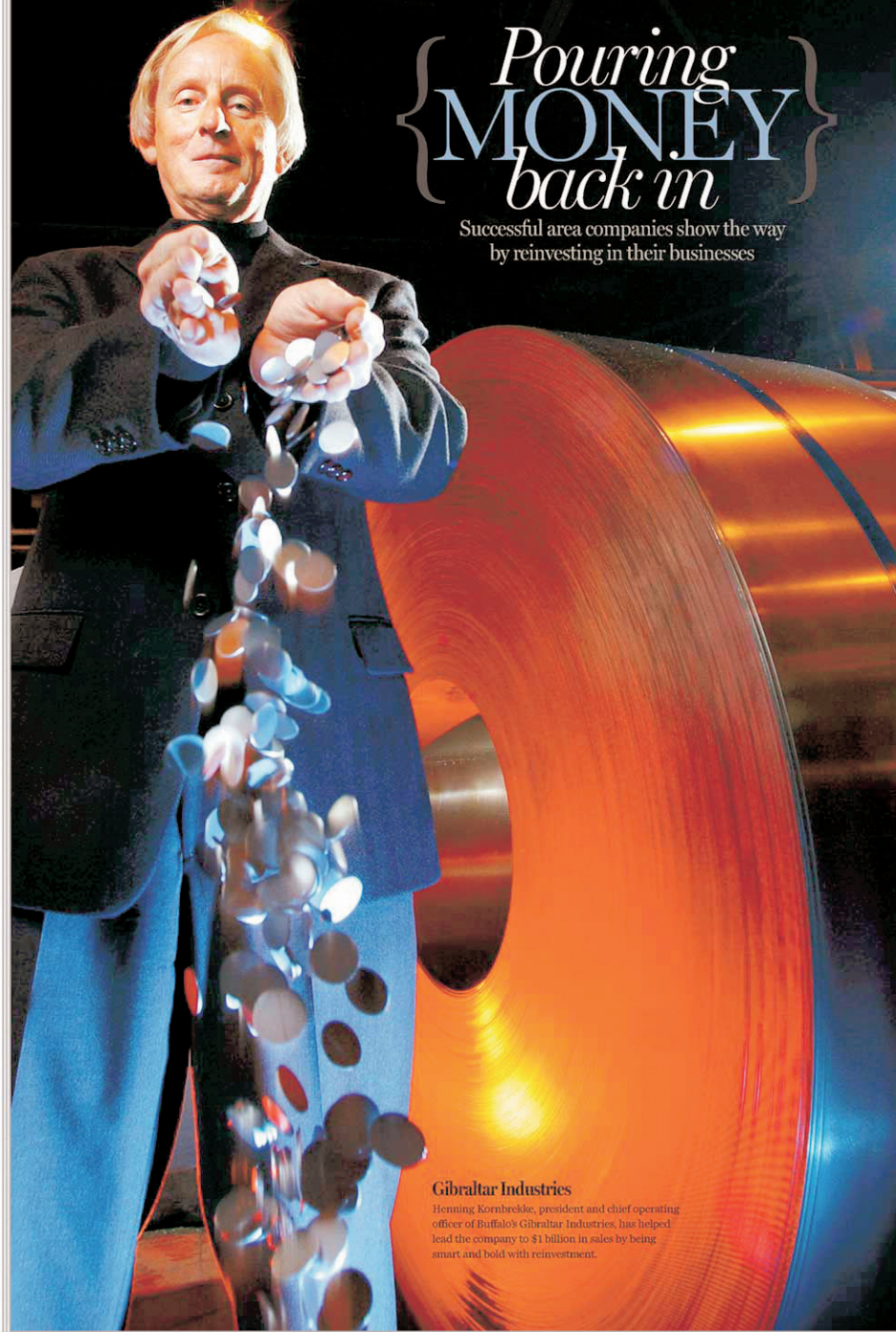


PROSPECTUS

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Pouring MONEY back in

Successful area companies show the way by reinvesting in their businesses



Gibraltar Industries
Henning Kornbrekke, president and chief operating officer of Buffalo's Gibraltar Industries, has helped lead the company to \$1 billion in sales by being smart and bold with reinvestment.

NO MORE EXCUSES!

Hiring good people and investing can overcome the challenges of doing business in Western New York

When Canadian-owned printing firm Ashton-Potter North America set up shop in Amherst in 1992, executives wanted to print U.S. postage stamps.

The federal government had begun a privatization effort that initially had more than 15 printing shops. Today there are just three private stamp printers nationwide - including Ashton-Potter - doing the work once done only by the U.S. Bureau of Engraving & Printing.

To keep up with the heavy volume and demonstrate its prowess, the firm had to spend more than \$10 million buying new printing presses, die-cutting machines, and coiling equipment, as well as expanding its storage facilities. It added 11,000 square feet to its building on Werle Drive and ramped up staff to 150 employees.

Today, the Williamsville company produces 15 billion stamps a year, more than one-third of all U.S. stamps. And its willingness to spend money on new equipment means it can now produce security labels for drugs, automotive parts, and other markets where counterfeiting is a concern.

"You do have to reinvest in the business to allow for long-term growth," said Barry Switzer, CEO of the unit of Toronto's MDC Partners. "You've got to stay on top of technology. And you've got to invest in people, too. It just makes you that much more competitive."

Businesses in Western New York are frequently challenged by external conditions that they complain have hamstrung operations and restrained growth.

In particular, they cite the high cost of doing business in New York driven by the tax burden, energy costs, regulations, workers compensation costs, and other government-imposed or external factors. Some businesses have been unable or unwilling to make a go of it and have closed their doors, citing a litany of these outside causes.

While no one can dispute those challenges, Ashton-Potter is one of many businesses in the Buffalo Niagara region that have built profitable, successful enterprises.

The key, they say, is to never stop pouring money back into the business to ensure it can keep up with the times, the trends and the technology. Making those investments intelligently is the key to growing any business.

"It's important to reinvest because it's really what drives the growth of the business," said Henning Kornbrekke, president and chief operating officer of Buffalo's Gibraltar Industries. The investments could be in new products, in new marketing programs, in manufacturing equipment that would help provide a more efficient manufacturing operation.

Gibraltar is an example of the value of reinvestment. Through acquisitions and internal growth, the 33-year-old company now tops \$1 billion in annual sales.

Developing new business lines provides an opportunity to set a

company apart. "If we stuck to the same products we had five years ago, we'd be dead. Our sales would be zero," said William McGowan,

chief financial officer of AccuMed Technologies.

"Any business in a growth mode has to reinvest," said Kathryn O'Donnell, founder and owner of Botanicus Interior Landscaping of Amherst, which spent

more than \$100,000 to launch a new silk plants division that now ships nationally.

Reinvestment also means beefing up or adding facilities. "You need to continually be innovative. You need to continually get more productive. It just never ends," said Paul Hohnack, president of auto parts supplier Curtis Niagara LLC.

The company spent \$8 million to buy a new building and consolidate operations. It plans another \$10 million for new equipment by the end of 2008. "When you think you've got it licked, that's a problem. You need to keep working on it every single day," he said.

There's a certain amount of investment you have to make or you're going to lose clients," agreed John R. Yurtchuk, senior vice president of aeronautics and transportation research firm Calspan Corp.

The company has spent millions of dollars on new Lear jet flight simulators and facilities, including a \$13.25 million flight research center and hangar at Niagara Falls International Airport. "We have no choice but to invest in the businesses and grow them. If there was no investment, the business would fail," Yurtchuk said.

That means keeping computers, software and skills up to date, or even ahead. You buy a computer now, and

By JONATHAN D. EPSTEIN
NEWS BUSINESS REPORTER



Botanicus: Kathryn O'Donnell, founder and owner, left, with daughter and business partner Diana Southall, have invested \$100,000 to launch a new silk plant division. "Any business in a growth mode has to reinvest," O'Donnell says.

two months from now some computer geek is telling me how outdated it is," said David M. Gelia, executive vice president of United Insurance Agency in Amherst, which spends several hundred thousand dollars a year to update its computers and software. "Instead of realizing you can't spit in the wind, you have to budget for that and realize that."

"If you're not growing, you're dying," agreed Rick Muller, CEO of Inergex, a business and technology consulting firm. Inergex invests hundreds of thousands of dollars on computers and equipment to test software for clients. "If you're not nourishing your business, how's it going to grow?"

Most of all, business leaders say, growing includes investing in employees - hiring them, training them and providing benefits.

"It's not just the hard material investment," said Kornbrekke, whose nearly \$1 million salary is itself an investment. "We're very focused on the people who are part of our company."

Easy to find blame Besides ensuring that a company remains competitive, reinvesting and growing allows companies to build the scale to absorb the rising costs of doing business, such as health care and labor costs, taxes, regulatory compliance, and technology. Otherwise, such costs are a burden.

"Size is an important factor in the

business world today, like it or not. It's getting increasingly harder to be a small company, whether in Western New York or any other part of the country," said Brian Lipke, Gibraltar's chairman and CEO.

And executives say reinvestment must be steady. A business that is not continually putting profits back into equipment, facilities, technology and people will fall behind its peers and into a downward spiral. Pointing the finger at taxes, rules or insurance isn't enough.

"It's always easier to blame external factors outside of your control. It's an easy out," Kornbrekke said. You can blame it on rising energy costs, labor costs, whatever, but it is really that the company stopped investing in critical elements of the business?"

Even so, reinvestment is not for everyone, said Lewis Mandell, professor of finance and managerial economics at University at Buffalo. If a company's market share, customer base, and future opportunities are limited, then it should cut its losses and return its money to its owners rather than gambling on a new product or direction.

But if a company's market share is still small, if it has an innovative new product or service, or if it sees opportunities to expand nationally or globally, then reinvestment is critical, he said.

"Every business needs to reinvest a

certain amount of capital to maintain its business," he said. They need to be rebuilding things. They need to be updating technology. They need to be updating things in to offset depreciated property.

"You have to get the product out there. That's reinvesting." Take Gibraltar, one of Buffalo's biggest local companies, which has grown from just \$9 million in sales at its inception in 1972 to \$1.4 billion today. The company spends about \$20 million to \$25 million each year maintaining operations and staying at the leading edge of technology, quality, customer service and productivity, Lipke said.

It spent \$14 million in the late 1990s to put a new rolling mill in Cleveland, and \$3 million to \$4 million at a time to modernize existing mills elsewhere. It's always on the prowl for acquisitions. Finally, it routinely spends money on hiring and training a skilled work force.

"If you're not finding ways to get better at what you do, your competition is," Lipke said. "I don't think anybody can expect to go to their office, put their feet on their desk, read hunting and fishing magazines, and expect that their business will last long."

Small firms must invest On a smaller, but similarly dynamic scale, is Botanicus, which has just 23 employees and about \$1 million in rev-

enues. Founded in 1971 by O'Donnell as a retail store, the commercial interior landscaper provides natural plants for 500 clients in the Buffalo and Rochester areas, including the Galleria and Eastern Hills malls.

But when it was asked to install 1,200 silk plants for the Tonawanda Golf Dome, O'Donnell saw an opportunity. The quality and availability of silk plants had improved, the plants could be shipped anywhere, and competition was limited.

So she launched a new silk division, assembling an inventory of more than 600 items in the company's Amherst warehouse and developing a custom shipping container and system that FedEx will deliver at night or on weekends. The firm has worked for interior designers and architects nationally, including in Chicago, New Jersey and Boston, and recently sent plants to a hospital in Beirut, Lebanon.

"It's a huge investment in inventory, but the beauty of us having an already existing business is we already had the warehouse and the truck dock," O'Donnell said.

At general contractor and construction manager SLR Contracting & Service Co., president and CEO Sundra Ryce spends hundreds of thousands of dollars each year to market the firm, provide good service, buy tools, equipment and vehicles, upgrade the facility, and train her staff of 25 employees.

The 10-year-old Buffalo company, which brings in \$12 million in annual revenues, works for the U.S. Army Corps of Engineers, the U.S. Air Force, Veterans Administration, and the Buffalo schools. It has an office in Albany, and plans to expand in the Northeast and South.

"I've actually had to scratch and claw to grow my business, and that's imperative for any business," Ryce said. "It takes money to make money. We'll have a very bright future because we reinvest now."

Great Lakes Orthodontics, a 38-year-old employee-owned business, is the nation's No. 2 supplier of custom-made retainers and other orthodontic equipment. It also distributes products and equipment made by others. The company, which employs 185, invested \$4.2 million in a new headquarters and operation in Tonawanda in 2002 to double its space and support its rapid growth.

But as the dollar weakened against the euro, the company was "getting clobbered" because one-third of the products it sells are made in Europe.

So Great Lakes invested \$10,000 in a shear and punch press to start light assembly in Buffalo.

Now, it's spending \$600,000 to develop automation technology for "mass customization." Besides being more efficient, that would allow it to compete directly with outsourcing firms.

"A lot of lab work is being outsourced overseas, so these things are a direct response to a competitive edge against the outsourcers," said CEO James Kunkemoeller. Rather than send it to China, you can send it to Great Lakes."

Watts Engineering & Architecture, a government contractor on Main Street in Amherst, spends about \$50,000 to \$60,000 each year to maintain and upgrade its computers and software, and another \$15,000 annually on training. The 19-year-old firm has been growing steadily in staff, but only diversified five years ago into mechanical, electrical and plumbing work. It added architecture just a couple of years ago.

Watts, which has 52 employees and about \$4 million in annual revenues, mostly consults on roads, bridges and other infrastructure projects for the state, Erie County and City of Buffalo.

"If you want to go into a certain area of engineering, then you have to have an engineer on your staff with that expertise," said owner and president Ed Watts. You've got to make the investment first."

Calspan, whose core business includes flight simulation, already had two Lear jets to train military and commercial pilots, but needed more to accommodate demand. So after management bought the company a year ago from General Dynamics Corp., it spent \$2 million to buy and modify a third Lear that can be programmed to fly like any other plane.

It paid \$30,000 for a tractor-trailer test vehicle to design safety features. It spent \$350,000 for a new electronic starting circuit for its transonic wind tunnel, which is used in aircraft testing. And it bought machines to test tires.

Executives now plan to buy a fourth plane, a \$500,000 motor part that draws air out of the wind tunnel, and high-speed digital cameras and test dummies for car testing.

"Like any facility, whether your house or your business, if you don't invest in them, they'll fall apart," Yurtchuk said. e-mail: jepstein@buffnews.com