

Medical



Stephen Dok of Voit Real Estate Services says there could be high turnover in medical office buildings later this year.

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Kudos/Giving



Debra Reed, a director of the San Diego Regional Economic Development Corp. will be honored at the 2012 Director of the Year Awards.

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- SBA 504 Lenders **Page 29**

AL Puts Tangy Taste in Supplement Biz

DIRECT SALES: Health Appeal Drives Sales of 400 Products; a Foray Into Coffee

■ By MIKE ALLEN

Steve Wallach says a big reason behind his company's explosive growth is the stagnant economy.

Wallach heads up **AL International**, the Chula Vista parent firm to **Youngevity**, a

direct seller of health products and a coffee wholesaling business.

While the coffee side called **CLR Roasters** is going gangbusters, it's the **Youngevity** side that's the driving force behind the company's rapid run-up in revenue, Wallach said.

"If there's a silver lining in the economic downturn, it's that people are taking better care of themselves," he said.

Eating healthier and taking nutritional supplements have gone mainstream, he

➔ *AL page 31*



Melissa Jacobs

Scott Dennis, left, and Alex Kunczynski of **D&K Engineering** stand on the floor of their Rancho Bernardo factory with a kiosk going together for client **ecoATM**. Contracting with a local factory has helped **ecoATM** speed product development.

GOT A MATCH?

ECONOMY: Nearsourcing Brings Together Local Businesses

■ By BRAD GRAVES

Survey the factory floor at Rancho Bernardo's **D&K Engineering Inc.** and you will see kiosks, kiosks and more kiosks. They are for a range of customers, including San Diego-based **ecoATM**, which is rolling out a network of kiosks across the United States.

The scene goes against conventional wisdom. Final assembly isn't taking place in China. In fact, a San Diego company is using a second company for the development

6,000

Number of manufacturers and suppliers in the area who are available for outsourcing jobs.

and manufacturing of its product without even leaving the city limits. A third area company **DD Studio** of Carlsbad did additional design work on **ecoATM's** kiosk.

It's an example of a trend that some call "nearsourcing."

➔ *Nearsourcing page 30*

New Enzyme Could Be a Rock Star

BIOTECH: Its Heat Tolerance Makes It Promising for Fracking

■ By JULIE GALLANT

Locally based **Verenium Corp.** expects to introduce an addition to its line of eight products later this year now that the Environmental Protection Agency has given regulatory authorization to market its new cellulase

enzyme for nonfood applications.

The enzyme may prove useful in hydraulic fracturing — the emerging, next generation process of oil extraction.

Verenium is an industrial biotechnology company focused on the development and commercialization of high-performance enzymes. Its lead product, **Phyzyme phytase XP**, is a poultry feed additive that replaces

➔ *Verenium page 32*

DJO Takes New Tack In Arthritis Relief

HEALTH CARE: Novel Material Makes OA Nano Light and Strong

■ By JULIE GALLANT

DJO Global is adding to its long line of nonsurgical orthopedic rehabilitation devices with the introduction of the **OA Nano**, touted by the Vista-based company as the world's lightest off-loading knee brace for mild to moderate knee osteoarthritis.

Brian Moore, director of sales for **DJO Global**, said the product has terrific sales potential because of the prevalence of osteoarthritis, especially among aging and obese populations.

DJO cites research saying nearly three out of four Americans over age 40 experienced knee pain in the last year.

Weighing 14.2 ounces, the **OA Nano** is designed to reduce the pain associated with osteoarthritis and increase the stability of

➔ *DJO page 30*

Photo courtesy of **DJO Global**

DJO sees a big market for its new **OA Nano** brace.



Food Court Success Has Chain Hungry for More

DINING: Hot Dog on a Stick Looks to Expand With New Food

■ By LOU HIRSH

At age 66, Carlsbad-based **Hot Dog on a Stick** is looking to learn some new tricks, on the theory that its biggest fans don't just crave corn dogs and fresh-squeezed lemonade at county fairs and mall food courts.

They might also like breakfast on a stick, or the chance to pick up their treats without getting out of their cars. With that in mind, the company recently chose a Utah location to open its first restaurant with a drive-through in addition to a walk-up window.

That store is also the first, among its more than 100 locations in 12 states, to serve up portable breakfast offerings like pancake-battered sausage with dipping syrup, French toast sticks and fresh orange juice.

Dan Smith, president and CEO of the entity formally known as **HDOS Enterprises**, said

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Dan Smith

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Nearsourcing:

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Nearsourcing connects companies in the same or nearby regions in order to find needed resources, services or manufacturing. The companies benefit from the convenience of operating in a known business environment — where laws and protections are understood — and easy access to facilities as well as from the generation of wealth for the communities which the businesses call home.

“We are seeing this trend more and more,” said **Gerry Krippner**, president of family-owned **HK Plastics Engineering** of Oceanside, as well as a second business that produces metal parts. Some 80 percent of the manufacturers’ business is local, said **Ron Krippner**, vice president.

Fast Times

EcoATM’s machines buy back cell-phones and other electronics from consumers. Currently ecoATM has 100 kiosks at shopping centers in six states. It plans to have 300 deployed by year-end, and hopes to exceed 1,000 by the end of 2013, said ecoATM Chairman and CEO **Tom Tullie**.

With the factory and the business offices so close together, ecoATM was able to develop the technology rapidly, said Tullie. In fact, he said, ecoATM has progressed through four generations of machines in only 18 months.

D&K uses more than 90 area subcontractors to build parts for the machines.

Is there still a place for manufacturing in the United States? **Alex Kunczynski**, president of D&K, says yes. “Absolutely.”

“I think the manufacturing sector in the United States is poised for considerable growth, and we’re excited about it,” added **Scott Dennis**, D&K’s CEO.

“We’re not bullish about these being made in the United States,” Dennis said, holding up a smartphone. The same goes for the flying-saucer-style phone on the conference table, he said.

But complex machines with high amounts of innovation, with high amounts of intellectual property, where labor is a small part of the total cost,



Melissa Jacobs

D&K Engineering President Alex Kunczynski, standing, watches technicians Douglas Ring and Tyler Winston assemble a kiosk that will one day sell refurbished electronics. D&K offers both product development and manufacturing services.

and which the maker wants to produce at low or medium volumes, might just be a good fit for U.S. manufacturers, the executives said.

D&K did \$40 million of business last year and expects \$65 million this year.

Several executives interviewed say that nearsourcing steers a company clear of the drawbacks of outsourcing to Asia: long airplane flights, time zone differences and language barriers. **Marco Thompson**, executive vice president of San Diego-based **Solekai Systems Corp.**, said the beauty of nearsourcing is “the ability to put everyone in a conference room quickly to solve a problem.”

“There is a lot more (manufacturing) capability in San Diego County and Southern California in general than you might otherwise realize,” said **Dan Yannuzzi**, a partner at **Sheppard Mullin Richter & Hampton LLP** in Carmel Valley.

Connect, San Diego’s multidisciplinary business support organization, is putting a new emphasis on the concept of “outsourcing in San Diego,” and plans to publicize it more in the fall.

Camille Saltman, Connect’s president, said there are more than 6,000 manufacturers and suppliers in the region, which might pair up well with San Diego’s 6,000 innovation companies.

Among the services Connect hopes to provide is business matchmaking. It begins with defining and refining what the business needs from the outsourcing company. It ends with Connect giving the business a shortlist of appropriate engineering or manufacturing subcontractors.

As a resource for its searches, Connect uses a highly detailed database of manufacturers called the **Connectory**, which has been a longtime project of the East County Economic Development Council.

Local companies bring advantages with them, said **Jo Marie Diamond**, the economic development council’s president and CEO. That might include an independent point of view, and insight into how to engineer the project better.

The nearsourcing effort may be an appropriate strategy in an era when technology companies bring in less venture capital, and may not be able to do as much with in-house staff.

“We’re encouraging innovation companies to stay as virtual as possible, and outsource or nearsource as many components of their business as they can, in order to minimize infrastructure costs, increase levels of innovation and get to market faster,” Saltman said.

Appearances Can Be Deceiving

On paper, manufacturing in the Far East may cost less money. But there are issues such as communications problems, markedly different time zones and the amount of time products spend on the water. “Those are hard to put on your spreadsheet,” said D&K’s Dennis.

Ron Krippner says he witnesses clients’ internal struggles, where accounting pushes for China while production executives stay frustrated about quality issues or time zone issues. “I see this battle that happens inside of a company,” he said.

At times, trade secrets don’t stay so secret.

Yannuzzi, the attorney, says it’s a generalization, but some intellectual property that goes to China ends up going into black market goods. Some companies deal with this fear by breaking their intellectual property into pieces and splitting it among several factories, he said.

More than one executive reported labor costs are rising in China. One of them is **Ted Fogliani**, CEO of **Outsource Manufacturing**, a contract manufacturer in Carlsbad that works on military equipment, medical devices and other projects.

Fogliani reports that he has brought entire manufacturing projects from China to San Diego two or three times in the past year. He said it can be tough going. “It’s a lot easier to start manufacturing here than to bring it back,” he said.

D&K’s Kunczynski said that the nature of a product dictates where it would best be developed and manufactured: in the United States, in the Far East, or in a mix of places, perhaps with development stateside and large-scale manufacturing in Asia.

“It’s about doing the right activities in the right region at the right time,” Kunczynski said.

D&K, which employs 200 people in the San Diego region, has all of its bases covered.

For those times when manufacturing in Asia makes all the sense in the world, D&K can accommodate clients with facilities in Singapore and Shanghai. Those facilities bring the company’s total head count to 600.

DJO:

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the knee.

Moore said the OA Nano is intended for people with mild to moderate osteoarthritis who are less active than athletes. The new knee brace is an off-the-shelf product that can accommodate a range of sizes from small to triple extra large, he said.



Brian Moore

“You could hold this brace in your hand and it’s just like holding a **Pepsi** can, but like a **Red Bull** it packs a punch,” Moore said. “It’s really able to stabilize people’s knee and lighten the load to alleviate pain.”

Osteoarthritis is Form of Arthritis

The product is sold under the DonJoy brand and priced at between \$500 and \$1,000 depending on whether it’s covered by insurance, Moore said.

According to the Arthritis Foundation, osteoarthritis is one of the oldest and most common forms of arthritis. Known as the “wear and tear” type of

arthritis, it is a chronic condition characterized by the breakdown of the joint’s cartilage, which cushions the ends of the bones and allows easy movement of joints. The breakdown of cartilage causes the bones to rub against each other, causing stiffness, pain and loss of movement of the joint.

Dr. Joseph Hellmann, a board-certified orthopedic surgeon in Ohio, said sports injuries to age-related deterioration will result in joint line narrowing. Hellmann said the condition is synonymous with degenerative joint disease so its progression can be slowed but can’t be stopped.

The OA brace line can help unload the pressure, slowing down the progression of the arthritic process, he said.

“Having the brace on will decrease the forces, decrease the pain and allow you to live a more active lifestyle than you could achieve without it,” Hellmann said.

The OA Nano also fits in with a trend toward conservative care options. Using a brace in conjunction with such things as steroid or lubricant injections, physical



Dr. Joseph Hellmann

DJO GLOBAL

CEO: Mike Mogul.

Revenue: \$1.1 billion in 2011; \$966 million in 2010.

No. of local employees: 449.

Investors: The Blackstone Group L.P.

Headquarters: Vista.

Year founded: 1978.

Company description: A leading global provider of high-quality orthopedic devices, with a broad range of products used for rehabilitation, pain management and physical activity. DJO Global is the largest non-surgical orthopedic rehabilitation device company in the United States and among the largest globally, as measured by revenues.

therapy, ointments or anesthetic drugs can buy a patient time before they entertain expensive and invasive surgeries such as partial or total knee replacement, he said.

Brace Uses a Next-Generation Metal

“We’re all trying to stay away from the knife until we know our options for controlling symptoms,” Hellmann said. “It’s relative to each person’s goals in life.”

DJO Global says the OA Nano incor-

porates nanoMAG TTMP, a next-generation metal that is as light as magnesium, but has the strength of aircraft-grade aluminum.

Steve Ingel, president of Bracing and Supports for DJO Global, said the OA Nano was developed based on decades of clinical data and experience in functional, high-performance bracing products that protect and rehabilitate athletes of all levels. The nanoMAG TTMP process refines grain size to increase strength and ductility to levels superior to commercial cast and wrought magnesium alloys, he said.

“The OA Nano is differentiated because it is designed for the everyday user with mild to moderate arthritis and is light enough to be used in active sports such as golf, tennis, running and other noncontact fitness activities,” Ingel said.

Alternative products sold by DJO Global include the OA Adjuster, a prefabricated knee osteoarthritis brace designed for active patients with moderate to severe unicompartmental osteoarthritis, ligament instabilities or postoperative rehabilitation; and the Defiance, a carbon composite brace recommended for use in high-collision sports activities.