THE (RELENTLESS) PURSUIT OF OPPORTUNITY

How Lee Zapis has embraced his father’s legacy and created one of his own

ALSO INSIDE:

ONE PART GENIUS, ONE PART PERSEVERANCE
Dr. George Picha’s inventive mind and personal determination drive Applied Medical Technology’s growth

THE 3D ENTREPRENEUR CHANGING THE FACE OF MANUFACTURING
In pursuit of mass customization Matt Hlavin is taking Thogus Products Company to new heights

WORD OF MOUTH
How Jan and Sassa Akervall turned a surgical necessity into a leading consumer product
Entrepreneurs are unique birds; no two stories are alike. Their inherited differences — backgrounds and family dynamics — combined with their personal experiences, viewpoints on assessing and managing risk, and even how they define success make them truly unique.

Yet, these birds of a feather flock together when it comes to their passion and drive to succeed. This issue of Taxonomics highlights a few of our clients who have reached great heights by never backing down.

Our cover story features the Zapis family and their journey from radio to the world of venture capital. Patriarch Xen Zapis built the foundation for his son Lee and daughters Donna, Maria and Renee to not only embrace relentlessness as a quality of their own success but to require it in the entrepreneurs in whom Zapis Capital Group invests.

Matt Hlavin is fearlessly navigating Thogus Products Company through the challenges and opportunities inherent in the dynamic, evolving world of 3D printing. Dr. George Picha is a master innovator driving change in the lives of patients around the world through Applied Medical Technology. And it is extraordinarily fitting that the name of the highly advanced mouthguards produced by Jan and Sassa Akervall of Akervall Technologies is SISU, which means “grit or determination” in Finnish.

Whether it is grit, relentlessness, fearlessness or just plain courage that makes them successful, I know you will enjoy reading about this amazing group of entrepreneurs and what they have accomplished.

Of course, call or email me anytime at 216.774.1102 or rmyeroff@cohencpa.com if I can be helpful to you or if you just want to chat.
Q&A: A LINE IN THE SAND
A view of today’s estate tax planning landscape

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WHAT THE SQIF? MILES WIDE & DEEP
Complementary resources drive scale, expertise and value
The shift to a higher and permanent exemption amount, coupled with rising federal income tax rates, has resulted in the need for different tax planning strategies for those above and below the $5 million threshold. Taxonomics caught up with Tax Partner Cathy Lorenz to talk about the impact.

Taxonomics: What was the roller coaster of federal estate tax planning like leading up to 2012?

Lorenz: It has been in flux for years. Initially, the goal was to tax the highest-net-worth individuals upon their death, but in recent years that hasn’t been the case. For example, in 1997, the estate exemption amount was only $600,000. Many middle-class taxpayers were surpassing that threshold with just their home, 401(k) or IRA, and a life insurance policy. A wave of legislation began increasing the exemption, gradually at first, then jumping to $1 million in 2002 and up to $3.5 million by 2009. The estate tax rate itself continued to vary as well, from as high as 55% to 35% over the years, and in 2010 there was zero estate tax, regardless of the value of the estate.

While individuals with large estates continued to focus on moving money out of their estates, in reality for many the uncertainty caused estate planning to stall. It wasn’t until ATRA in 2012, when the $5 million exemption (indexed for inflation) and a 40% estate tax rate was made permanent, that things started to change at both the federal and state levels. ATRA made 32 states rethink and ultimately eliminate their estate tax in an effort to keep residents, along with their tax dollars, from moving out.

Taxonomics: What does estate planning look like today, post-ATRA?

Lorenz: It’s more than just ATRA affecting today’s planning world. With the top federal income tax rate at 39.6%, a 20% capital gains rate, a 3.8% tax on net investment income and the return of itemized deduction phase-outs, income tax planning has taken a front seat ahead of estate tax planning — particularly for estates that will not hit the estate tax threshold.

For estates above the $5 million mark (or $10 million if married), transferring assets during an individual’s lifetime is becoming more common. This strategy removes potential future appreciation on the asset from the estate, removes the actual estate tax from the estate and locks in the current exemption amounts (because we know permanent is never permanent when it comes to taxes). However, taxpayers need to be strategic about which assets they are giving away and when. For example, when a person makes a gift during his or her lifetime, the recipient doesn’t get to adjust the basis of that gift to market value. Then it becomes an income tax issue, which could be significant in the current rate
structure. Making that same gift upon death may make more sense, when the basis will be adjusted to the value under current tax law. So there are many factors to consider, such as the potential future appreciation inherent in the asset (especially when dealing with real estate) and what the income and estate tax rates may be when the asset is sold or the person dies. Absent a crystal ball, there’s a lot of analysis and planning to do.

**Taxonomics: ATRA also made permanent the ability for a surviving spouse to use any of the deceased spouse’s remaining estate tax exemption. How has this “portability” impacted estate planning?**

**Lorenz:** Portability of the exemption has completely changed the planning landscape, in a positive way. Before this became an option, both spouses had to have enough assets in each of their names to fully use the estate tax exemption. In 2011 when portability was introduced, the first spouse to die was able to “port” over to his or her spouse the unused exemption. The ability to make this election means married couples can potentially simplify their estate planning, such as eliminating credit shelter trusts that were often set up to protect the exemption.

For estates over $10 million, there are a couple issues to consider. Even though portability is an option, it may make sense to use up the exemption during life and get future appreciation out of certain estates, such as a profitable portfolio of stocks. It’s also important to note that while ATRA made the Generation-Skipping Transfer (GST) tax exemption permanent at $5 million, ATRA did not make it portable. So those using the portability technique may unintentionally subject an estate to the GST tax.

Regardless of how much an estate is worth when the first spouse dies, it almost always makes sense to file an estate tax return and elect portability. You never know how much of that exemption may be needed down the road.

**Taxonomics: How do individuals know if they have the right estate and income tax planning strategies in place?**

**Lorenz:** Anyone with an estate plan that has not been reviewed in the last couple of years should meet with both their attorney and accountant to review documents that may have been created when the laws were very different. Make sure mechanisms and tools still make sense, such as trust structures. If no longer needed, getting rid of them could simplify post-death administration. Ultra-high-net-worth individuals may want to look at their intentionally defective trusts, which are available today but are not guaranteed to be there in the future. Lifetime gifting, coupled with currently available valuation discounts, is also a strategy worth reevaluating. Currently proposed regulations, if made permanent, could significantly reduce or even eliminate some of those valuation discounts. The bottom line is look at plans closely and often, and determine what is the most effective approach in today’s regulatory environment.

**Taxonomics: What should be the end goal of any solid estate plan?**

**Lorenz:** Individuals need to make sure their wishes are clearly stated so assets go where they want them to. When planning, individuals should start with where they want assets to end up — kids, charities, family members with special needs — then determine how to do it efficiently. They must consider all of the factors, such as the tax implications of retirement plans, charitable giving during life instead of death, income and estate tax rates, etc. While attorneys handle the legalities, a CPA is in the best position to help with the financial analysis. Careful estate tax planning and coordination of professionals can help individuals accomplish much of what they set out to do in a very tax-efficient way.
Dr. George Picha’s inventive mind and personal determination drive Applied Medical Technology’s growth
Though he is the son of Russian and Czechoslovakian immigrants, the most apt metaphor to describe the professional capabilities of Dr. George Picha is a Swiss Army Knife. As this soft-spoken man opens up to share his story, the multitude of his capabilities becomes immediately and unmistakably apparent.

He’s a biomedical engineer. A former researcher in the Biomedical Engineering Department at Case Western Reserve University (Case). A former researcher with NASA through the center of excellence at Case in the areas of advanced technology for surface modification.

Dr. Picha is also a plastic surgeon who developed the patent on what was once the most preferred type of breast implant in the United States. He holds over 100 patents, several of which have resulted in marketplace successes.

Oh, and he’s the founder and CEO of Applied Medical Technology (AMT), a medical device company in Brecksville, Ohio, that is growing rapidly, reflecting its global role in the manufacture of innovative enteral feeding tubes and retention systems (in addition to other medical technologies).

All of his success makes it not surprising to hear that his eldest son, George, remembers his father advising him: “You have to work while others are sleeping to get ahead in life.”

Indeed, Dr. Picha’s story is as much about perseverance as it is genius. He has experienced highs, double-barreled lows and, ultimately, stable success in his entrepreneurial life.

“I used to call him Bo Jackson,” says Phil Baptiste, referring to the storied multi-professional-sports star. Baptiste is the partner-in-charge of Cohen & Company’s Tax Department and has advised Dr. Picha through both the difficult and best of times over the years, helping to structure complex deals and navigate multiple taxation scenarios. “When I began working with Dr. Picha, he was a full-time plastic surgeon during the day and ran AMT at night. He’s been through a lot. To see the success he is now having is inspiring,” says Baptiste.
post-mastectomy patients that inspired him to develop a better breast implant.

His micro-structured surface-design patent for silicone implants was a wild success for conglomerate Dow Corning to whom he sold rights to the patent in the late 1980s and early 1990s. It was heralded as the most natural-like option available.

Meanwhile Dr. Picha was simultaneously leading AMT, where his silicone enteral feeding tube research and product development efforts began to find marketplace success.

Take a Hit, Get Back Up

Things were going well. But then came the double-barreled hit. Lawsuits and an eventual FDA ruling over allegedly defective breast implants (still much debated in the medical world that politics and trial lawyers trumped science) led to the 1995 bankruptcy of Dow Corning. That meant the immediate cessation of all royalty payments to Dr. Picha.

Then, the main distributor of his feeding tube product line engaged in blatant patent infringement and, during the resulting legal tussle, AMT was essentially cut off from nearly all its customers.

As Baptiste recalls, “Dr. Picha was keeping AMT afloat by writing personal checks funded by his surgical practice.”

AMT had grown to 50 employees but was now down to seven. “He could not continue funding AMT much longer without putting his entire financial life in jeopardy,” says Baptiste. “I had a responsibility to keep him aware of the projections and realities, but it was a decision he alone had to make.”

Fortunately, among those seven remaining employees was Chris Zantopulos, who eventually became AMT’s general manager and who Dr. Picha credits for helping him to rebuild.

“Nearly everything we sell has at least one patent,” says Zantopulos, meaning their enteral feeding tube systems and other devices are not “me-too” products but represent innovative advances.

When What You Do Matters

Millions of people across the world — many of them preemies, infants and children, the market in which AMT is especially strong — depend on enteral feeding tubes for basic nutrition to make life possible.

“I remember helping with an enteral feeding tube for a prematurely born boy. He weighed less than a pound,” says Dr. Picha. “I held him in the palm of my hand. Five years later, he bounced into to my office, talking and laughing. Nothing compares to that kind of experience in terms of making you feel what you do matters.”

Even as AMT’s feeding tubes were garnering praise and market share, a regulation in the Affordable Care Act compelled Dr. Picha to give up his plastic
surgery practice. The regulation required doctors to disclose any payments from medical device companies. But, in an unusual situation such as Dr. Pichá's, he and any family members receiving financial benefit from his ownership of AMT were required to make public all of their personal financial information.

“We examined the regulation from every possible angle, made inquiries and explored possible options,” recalls Baptiste. “But, unless he wanted every detail of his and his family’s financial life made public, and who does, he had to choose one or the other.”

Dr. Pichá says, “Phil and his team at Cohen & Company have been invaluable to me over the years — whether showing me the best options for protecting my assets, giving me insights by finding like-companies to do comparisons, helping with a big opportunity in Germany through their network or now helping me plan for eventual succession.”

Now at the helm of AMT, a company with 300 employees, 80 open positions and a new 90,000 square-foot, custom-built facility, the 66-year-old, for the first time in decades has “only” one job. Part of that job is helping to prepare his son George to eventually assume the leadership role at AMT.

George is aware of his father’s strengths and the challenges of his legacy. “Whatever he encounters, he is always analyzing what he can do to improve, to move forward, and stay calm, cool and collected. Even when he wins, he’s still looking ahead.”

George is also looking ahead, and while he is not an inventor, you sense in him the same kind of incisive intelligence and focused ambition as his father.

“Succession planning without effective estate planning can be unproductive and even detrimental,” says Phil Baptiste, partner-in-charge of Cohen & Company’s Tax Department. “It’s an issue we frequently run into with new clients.”

In the case of Dr. George Pichá, founder of Applied Medical Technology, ensuring that estate tax would not prevent him from passing on the business to his family was paramount. While every situation is different, Baptiste recommended Dr. Pichá sell a substantial portion of his company to a specific type of trust in 2012 — for two reasons.

First, the estate tax rate had gone down from its recent all-time high, but indications were that it would soon rise again (as it subsequently did). Second, Baptiste and Dr. Pichá believed, based on projections as well as products in AMT’s development pipeline, that the company would substantially increase in value in the next few years.

By essentially “freezing” the value of the company in a trust at the company’s fair valuation in 2012, only the value of the company as it was in 2012 would be included in Dr. Pichá’s estate. Therefore, tax on his future estate would be lower, allowing the family the option of continuing the business.

The strategy was a smart move based on what the company is experiencing today. “Dr. Pichá and his team have increased the company’s value far beyond what we projected,” says Baptiste. “This company should be in the hands of the family for a long time to come.”
How Lee Zapis has embraced his father’s legacy and created one of his own
He sang in his father’s coffee shop for nickels, sold newspapers on the street corners and beer at the old stadium, scavenged trolley car tickets from workers at the end of the downtown line on Fridays (still good for the weekend, they could be re-sold to shoppers) and learned business lessons such as “know your market” when he tried to sell Christmas cards in a Jewish neighborhood.

Xen would go on to law school, and slowly but surely build a real estate portfolio by investing in rental properties while working as a lawyer for small businesses. He ultimately built a thriving retirement home business and parlayed his experience hosting a Sunday afternoon Greek music radio show into owning multi-city radio stations. The stations, after growing significantly under Xen’s leadership, were eventually sold at a multiple that could make a Silicon Valley start-up veteran green with envy.

Xen’s son, Lee, now 60 and the president of Zapis Capital Group, knows that despite all his own years of growing up and working diligently in the family businesses, he can’t compete with his now-retired father’s narrative. But, that’s fine with Lee, who carries his father’s business legacy with pride, as a blessing and not a burden.

Lee’s been busy creating his own entrepreneurial legacy as well. Since its founding in 2003, he’s been building Zapis Capital into a successful equity investment firm, one that operates in the deeply challenging world of early-stage, often pre-revenue business ventures.

Rich Bongorno, CFO for Zapis Capital and former managing partner at Cohen & Company (which has been the CPA firm for the Zapis family since the 1990s), says that regardless of the differences in their early upbringing, Xen and Lee exhibit a similar passion for “finding a new angle on things, a better way to do something.”

“Lee is very much like his father, in that he has so many ideas. Both men can make you wonder if having too many good ideas is a fault,” Bongorno says with a laugh. “Because it makes it more challenging to identify the best ones.”

Mike McGivney, the Cohen & Company partner who leads the tax team for Zapis Capital, can attest to Xen and Lee’s capacity for generating good ideas. “The Zapis family has always been engaged in multiple interesting ventures — opportunities we can impact because they always make us part of the conversation prior to the deal.”

Don’t Touch That Dial

“My father did not follow a plan, so much as he followed opportunities,” says Lee. “He was a hustler in the best sense, always searching for the next best opportunity.”

It was Xen’s instinct to follow opportunity that would take him into the radio business, and 40 years of effort later would lead to one of the biggest business deals of the family’s life.

In 1949, Xen got into time-brokered radio and was joined by his beloved wife, Lula, in 1952. They bought a few hours a week of a local radio station’s time, played Greek music and sold advertising to Greek businesses at a small profit. Instinctively following the breadcrumb trail of opportunity, Xen co-founded WZAK in 1962 and bought out his partners over time, becoming sole owner in 1980.

Radio became the core family business, with Lee and two of his sisters, Maria and Renee, in various sales and operational roles. (Lee’s younger sister, Donna, is an attorney and runs the family’s retirement community business.) Lee and Maria also played a role — Renee was still in college at the time — in switching WZAK to an urban music format that proved hugely popular. The success of WZAK would lead to the acquisition of more radio stations, not only in Northeast Ohio but also in Atlanta and Boston, with Lee eventually taking the lead role in overseeing their operations.

As profitable as those stations became under the adept leadership of Lee and the Zapis family, that profitability would pale in comparison to the sale of their three Cleveland stations in 1999. In the wake of the easing of FCC rules that allowed for ownership of multiple stations in a major market, big media organizations were snapping up local stations across the country in a bidding war.
The Zapis family bundled their three stations with two other ownership groups, offering an appetizing six stations in one fell swoop to the highest bidder. Together they were seeking a $250 million deal, given the heated market.

When the deal finally closed at a collective $275 million for all six stations, everyone in the room, including then 42-year-old Lee Zapis, knew their lives had dramatically changed.

The Zapis family turned to Cohen & Company to help them navigate and appropriately structure the influx of significant liquidity into their business and personal lives.

“With such sudden changes, we were careful to step back and take a holistic view of the family and their goals to make sure we helped them plan for future generations,” says McGivney.

Great Expectations

But, as wonderful as it was for the Cleveland radio station sellers, Lee had to decide what was next. His sisters all had other driving interests, from Donna running the family’s growing retirement home business to Maria and Renee raising their families.

Nothing in Lee’s DNA or upbringing could tolerate the perceived boredom and lack of productivity of a so-called life of leisure. “My parents raised all of us with the expectation that we would always work hard, never ask anyone to do something we would not do, and always try to do the right thing for others,” he says.

Below are a few of the companies that have passed the test and are currently benefitting from the guidance of Zapis Capital.

Futuri Media
Leverages social and mobile technologies for media companies. For example, its web and mobile apps allow radio station programmers and TV news directors to determine what subject matter their audiences want to engage with in real time.

Playlist
A free, fully licensed music streaming service that is the first to offer a shared-listening experience — users can listen to playlists together and chat online while they listen.

Groupmatics
A white-label, group-ticketing platform used by professional sports teams and other public-event organizations to manage group sales and collect event attendee data.

GenomOncology
Seeks to revolutionize cancer treatment by analyzing the genetic data of a tumor to provide a personal prescription that effectively treats the distinctive nature of the cancer.

WXZ Development
A real estate development firm that plans and builds high-quality projects, contributing to the betterment of neighborhoods and exceeding stakeholder expectations.

Scout RFP
A cloud-based sourcing platform that streamlines the purchasing process by automating tasks and providing a single comprehensive view of all sourcing events.

Source: Zapis Capital
example, Lee and Bongorno met with 60 entrepreneurs over the last 15 months, and decided only one was the right fit for Zapis Capital.

The firm’s current portfolio includes 12 firms across the media, software, healthcare and real estate industries. However, they have funded many more ventures through the years, during which time Lee has developed criteria for evaluating which entrepreneurs and ideas are right for Zapis Capital.

Fundamentally, Lee believes in the words emblazoned on his firm’s website: “We don’t invest in companies. We invest in extraordinary people with exceptional ideas.” Lee recounts that whenever he’s been enamored with the idea presented but not paid sufficient attention to the flaws in the entrepreneurial team, it’s been to his regret.

If there is one quality Lee cites most often in what makes for a successful entrepreneur it’s not genius, it’s relentlessness.

And as someone who conveys that balance of being comfortable in his own skin without being unduly self-impressed, overconfidence is the characteristic Lee finds most off-putting, and most detrimental to potential success in an entrepreneur.

For Lee, those weren’t expectations you laid aside because your financial circumstances had changed. But, though he loved the radio and media industry, Lee didn’t want to merely continue tilling the same ground. He wanted to pursue and invest in a broader range of opportunities, and ideally do so in a way that would allow him and his sisters to invest in new ventures together. So, in 2003, Zapis Capital was born.

“Lee will tell you that every time we do a deal, the goal is certainly to make a good return,” says Bongorno. “And for us, a general rule of thumb is we want to be able to eventually make back 10 times our investment.”

“But, Lee also values the benefits that can be derived beyond the return — for him that’s the opportunity to work with and nurture young entrepreneurs, and to create something impactful and innovative. The thrill and challenge of early stage investing is definitely a motivator for Lee.”

Picking Winners

While it’s a motivator, Lee himself is also clear about the reality. “Most early-stage investment deals fail. Picking a winner is very difficult,” he says. That explains Zapis Capital’s trademark selectivity.
“I want to look at and evaluate the team,” Lee says. “Have they done it before — even if they’ve failed? Did they learn something from it? Personally, I’ve learned more from failures than from my successes.”

“Of course, we’re going to look at the market size. What’s the potential? But, it’s not likely we’re going to find potential billion-dollar deals. And, really,” he says with a laugh, “I think I have enough excitement in my life without everything that can come with that kind of money.”

“What we are looking for are opportunities where we can add value. I don’t like to just write a check and then hear from them in six months when they run out of money,” Lee pauses to smile, “and call us looking for more.”

As Lee moves forward, looking just as his father did for that next best opportunity, he values having Cohen & Company as a partner.

“My CFO came from Cohen & Company, and my father and I have relied upon the firm all these years. Mike McGivney and his team are proactive in suggesting ideas on ways to structure deals, they’re very responsive and efficient — exactly the professional partners we need.”
In pursuit of mass customization Matt Hlavin is taking Thogus Products Company to new heights
That’s not the situation for Matt Hlavin, hailed as a leader in the mind-bendingly disruptive world of 3D printing. For example, at the young age of 36 he was elected to a two-year term as the president of the Manufacturers Association for Plastic Processors.

But as owner of Thogus Products Company he makes his living not by theorizing but by designing and making prototypes of new products and manufacturing fully functioning products through 3D printing, plastic-injection molding, and other advanced manufacturing technologies and processes.

For Hlavin, seeing ahead of the curve but failing to judge how soon it will arrive can be the difference between career success and ruin.

But Hlavin is seemingly custom built to endure the tension that comes with working through the difference between “some-day” theories and real-time delivery. He has proven he can harness what 3D-related technologies can presently do, while pushing the envelope toward the holy grail of mass customization. In fact, Hlavin is one of the most dynamic entrepreneurs to watch in Northeast Ohio and perhaps the entire American manufacturing landscape.

“What Matt has accomplished at the age of 41 with Thogus and his related companies is extraordinary,” says Keith Klodnick, a partner at Cohen & Company who works closely with Hlavin. “And even greater things are on the horizon given his business experience, subject-matter expertise and the energy he brings to everything and everyone around him.”

In Pursuit of the Highest Rung

Hlavin’s energy is physically evident in the way he moves, gestures and talks — a kinetic expression of a mind that rarely stops. Whether on the floor of Thogus’ 80,000-square-foot facility in Avon Lake, Ohio, or on stage speaking about the new industrial revolution at a Cleveland TEDx conference, Hlavin is often intense, brutally candid, funny and brimming with insights.

“Life is a journey, and it shouldn’t be a passive one,” says Hlavin. “I believe I have a lot of freedom to determine what happens in my life. We should approach life believing that we create our outcomes.”

It can take that kind of ambitious belief to transform a traditional manufacturing company into a national provider of plastic-injection molding with an increasing focus on the emerging industry of additive manufacturing.

To be clear, 3D printing and additive manufacturing are one in the same. But, the term additive manufacturing better draws the distinction between 3D printing and the traditional model of manufacturing — subtractive manufacturing, in which objects are constructed by successively cutting material from larger, solid blocks of material. As Hlavin says, additive manufacturing effectively grows objects and products by successively depositing materials in layers until they fulfill a pre-designed shape.
There are many universities experimenting with 3D printing, and several companies use it to develop prototypes or produce products in small quantities. But, Hlavin and his Thogus family of companies are among a few at the forefront of working to make mass customization a reality.

Thus far, the majority of Hlavin’s clients using his 3D printing capabilities — such as Vitamix, Steris, Philips Medical, Parker Hannifin and the United States Air Force — have focused on prototyping or small production runs. The costs of doing such can be shockingly less for these companies, with development time slashed from months to days.

And per Hlavin’s desire to be the best in the business and “add value, not just make stuff,” Thogus often takes the lead in engineering and designing these prototypes and products. He clearly sees the life-enhancing potential 3D printing can have.

“If you need a hip replacement, they basically come in small, medium and large,” Hlavin explains. “After the surgeon opens you up, he or she begins grinding away to get it to fit you as best they can. But, imagine instead, based on your MRI, the basic design of an artificial hip joint, whether plastic or steel, was then customized to all the exact contours of your anatomy and one was grown that was perfect for just you by a 3D printer. Less time in surgery, less recovery time and less of the poor adaptation some people experience.” Ergo, a mass product, customized.

Given Hlavin’s desire to both push the additive manufacturing envelope through research, and increase his share of prototype and production work, certain tax incentives are key. Klonick points out that, “Two of the initiatives we know will save Hlavin money include helping him maximize research and development (R&D) tax credits, as well as Domestic Production Activities Deductions.”

According to Hlavin, “Hiring Cohen & Company in 2014 has been one of the smartest moves I’ve made. I have a proactive partner helping me navigate my way forward from a tax and financial perspective.”

Riding the Crest of the Wave
Co-founded in 1950 by Matt Hlavin’s grandfather, Jack Thompson, and Walter Gus, Thogus (the combination of Thompson and Gus, pronounced “tow-gus”) was a tool-and-die shop that molded the nation’s first plastic tube and hose fittings, and eventually became a plastic-injection molding company.

Hlavin’s mother, Kathleen, became company president in 1995 after her father grew ill. Hlavin himself came on board in 1996. “My mother understood the accounting side of the company, but not the business side,” says Hlavin, who also believed she was advised by certain managers more interested in keeping their comfortable jobs than growing Thogus.

For 12 years, Hlavin learned the business and industry inside out and eventually headed up sales. His chance to lead the company came under unfortunate circumstances with the passing of his mother in 2009. However, as prepared as he was to lead Thogus in a new direction, the financial markets meltdown and the resulting global recession presented an unexpected challenge. Adding to that, Hlavin “discovered we were a $7 million company with over 100 employees. We were basically upside down.”

He interviewed every employee, culled the workforce of those “who didn’t want to be onboard for the changes coming,” offered them severance packages and then provided substantial raises for the remaining 51 employees. Next, he boldly “fired” the automotive industry customers for whom Thogus produced low-margin parts. “I knew there was no future in it,” he says matter-of-factly.

He was creating a manufacturing company that was also a technology company, which in the ensuing years grew from zero engineers to 30 within his total workforce of more than 200.

Creating efficiencies in the plastic-injection business through automation and robotics, and producing higher-value parts through highly engineered pieces, plus jumping early and pushing
Two additive tax strategies that equal growth

For Thogus Products Company owner Matt Hlavin, pursuing the full potential of additive manufacturing is certainly about growing the Thogus family of companies, but it’s also about contributing to the restoration of Northeast Ohio’s economic prominence and America’s role as the global leader in manufacturing.

Cohen & Company is working closely with Thogus to implement two tax-savings techniques that will help Hlavin in his pursuit.

“Section 199 in the tax code provides manufacturers and certain other businesses with an opportunity to realize a 9% tax deduction, known as the Domestic Production Activities Deduction,” says Robert Venables, a senior manager in Cohen & Company’s Tax Department who works closely with Partner Keith Klodnick on the Thogus account. “Taking appropriate advantage of the deduction can be complex depending on the business. We are currently working with Thogus to put certain cost accounting mechanisms in place to ensure the deduction is accurately calculated.”

The deduction is applied only to income arising from qualified production activities in whole or significant part based in the United States. For Thogus, the extra effort is worth it, as the deduction will result in significant savings.

The Thogus family of companies is also working to maximize research and development tax credits, which are designed to help spur and reward innovation and growth.

“Thogus, like all eligible companies, must meet a four-part test to establish that their research qualifies for the credit, which it clearly does,” says Venables. “Taking the credit will help Matt take some of the sting out of the significant R&D expenditures he’s had to make to be the leader in the additive-manufacturing revolution.”

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“At first the research and development (R&D) credit was only useful for the Microsofts and IBMs of the world,” says Josh Messina, a partner in Cohen & Company’s Tax Department, “because you had to create something new to the market. Then, about 10 years ago, changes were made to the credit and it became usable for the masses, requiring only that the innovation be new to the business.”

While this broadened the credit’s availability, the uncertainty of its existence each year still made tax planning a challenge. In the past 35 years, Congress allowed the credit to expire at year-end eight times, often waiting months to extend it retroactively. Many companies also have historically passed on claiming the credit either because they felt it didn’t apply or because they weren’t yet making money to actually use it.

But the latest set of changes in December 2015 should put a smile on business owners’ faces. “While the calculation of the federal credit itself did not change,” explains Messina, “the credit, 20% or 14% depending on which calculation method you use, is 1) now permanent; 2) can be used as a payroll tax credit and 3) is creditable against the Alternative Minimum Tax (AMT). All of these changes could bring significant tax savings for companies who have qualifying activities.”

The permanency of the credit is a win for any size business, but the payroll tax credit is an additional coup for start-up companies.

“Before this change,” says Messina, “start-ups were generating R&D credits but had no income against which to apply them in the current year or near future. Qualified small businesses can now make the election to apply a portion or all of their R&D credit towards their payroll taxes, saving the company money now, not later.”

To use the R&D credit against payroll tax, eligible small businesses must have $5 million or less gross receipts in the current year and must not have had any gross receipts in the fifth year prior to the election.

Applying the R&D credit against AMT may be an even bigger opportunity. Now, a qualified small business with an average of $50 million in revenue or less in a three-year period can use the credit to effectively lower their AMT owed.

Even with these new changes, some still may not take advantage of the credit because they think their activities don’t qualify. Messina says don’t sell yourself short. “Companies need to look hard at what they do in their daily business,” says Messina. “The credit can include a range of activities — having a large number of engineers on staff, recently changing a process or product, or switching markets are all potential opportunities. There is usually more activity than companies might think.”

To determine whether R&D activity qualifies, it must pass certain tests, such as whether the activity includes a process of experimentation intended to create a new or improve upon an existing business component. Some unexpected areas that often qualify include research related to software, construction projects, or architecture and engineering engagements. Many mature manufacturers also have qualifying activities related to process change or product updates. Activities that do not apply include research after commercial production, related to cosmetic design or performed outside of the United States; or the duplication of an existing business component, to name a few.

Messina encourages business owners to explore deeper before dismissing the credit. “The extent of the tax savings will depend on the extent of the R&D activity,” says Messina. “But it’s definitely worth an up-close examination to potentially find additional capital.”

Contact Josh Messina, CPA, MT, at jmessina@cohencpa.com to help maximize the innovations in your company.
Enter Jan and Sassa Akervall, Cohen & Company clients who may have the perfect solution. The Akervall’s entrepreneurial journey began when Jan — a head and neck cancer surgeon — designed a mouth guard to protect his patients’ teeth from the tools he used during surgery. The mouth guard had to be stronger. It couldn’t be bulky. He needed something far more protective and wearable than any alternative available at the time.

Jan’s design worked, and soon he began incorporating the new mouth guard into his surgical routine. “Like many products, ours was born to meet one type of need. Then we discovered how it could be used to meet another,” Sassa explains.

The couple’s “aha” moment came in 2008 when their daughter needed a mouth guard to play field hockey. She tried the one her father had been using with his patients; it was a perfect solution. Better, actually, than other mouth guards designed for athletics, she told them. Her teammates took notice. Her coaches did, too. Eventually, even opponents asked where she found “such a cool and different type of mouth guard,” Sassa recalls.

Cool, indeed. And so, SISU Mouth Guards and Akervall Technologies were born. Made with hundreds of tiny, shock-absorbing holes, SISU Mouth Guards are eight times tougher and 30% to 50% stronger than other brands. They also

One of the stars of this year’s NBA season was, without question, Steph Curry’s mouth guard. NBA fans from Cleveland to San Francisco watched him bite it, chew it, drop it, carry it and even chuck it at a fan. Maybe there’s a reason he didn’t keep it in his mouth. Maybe it wasn’t comfortable.
provide a comfortable, custom fit that allows athletes to keep the guards in their mouths throughout an entire game or practice.

Because SISU Mouth Guards fit better and include those tiny holes, there’s no need to continually remove them to talk, breathe or drink. This also means athletes transfer fewer germs from their sweaty hands to their mouths. Furthermore, at 1.6 to 2.4 millimeters, SISU Mouth Guards are so thin that athletes can easily forget they’re wearing them. (Maybe even more importantly, so could millions of Curry fans.)

“We knew this mouthguard would protect much better than standard athletic mouth guards, but once others began to want it, we knew we had a business,” Sassa says. “We’re from Sweden. We named it SISU because the word, actually a Finnish word commonly used across all Nordic countries, means something akin to determination or grit, like when you’re really giving your all or determined to do your best.”

The Akervalls set up shop in their kitchen and eventually moved to their basement, where the business remained for about five years. By January 2014, the basement team grew to six people, and the Akervalls knew they needed a bigger space.

“It got to be hectic. Orders were coming in from everywhere. We were bumping into each other. We needed to move,” Sassa explains.

So, in March of that same year, the company moved into a 15,000 square-foot Saline, Mich., space with an office, R&D quarters, manufacturing facilities, and an area for shipping and fulfillment. Along the way, they added a companion product known as the SOVA Night Guard, a version of the original guard designed to prevent grinding of teeth.

“Our customers told us they were using the original guard that way, so it was a natural extension of our product,” Sassa says. “We’re actually considering expansion now into other areas of personal protective equipment.”

Nightly teeth grinding, a condition known to the medical community as “bruxism,” can lead to headaches, damaged teeth and jaw pain. The SOVA Night Guard distributes the pressure caused by night grinding throughout the surface of the guard, relieving pain and protecting teeth.

“Our customers also tell us it leads to a better night’s sleep,” Sassa adds. “The medical community has bought-in, too. We’re receiving referrals from quite a few dentists who have come to know and understand the product.”

Cohen & Company Partner Kathy Walsh has been providing accounting services and related support to the Akervalls for several years. “It’s been great watching them grow and flourish as a company,” says Walsh. “They’re smart people with good instincts for business. I’m confident they’ll continue to grow and be successful.”

Sassa explains that Walsh’s tax advice has been helpful beyond a traditional sense. “They help us with taxes for our businesses and also for our real estate.” She adds, “Kathy has been incredibly supportive and a valued advisor to our company.”

Akervall Technologies continues to grow. “Our sales have grown 35% to 60% each year,” Sassa says. “We are doing well in our new space. And with new products rolling out soon, I think we’ll see more good things to come.”

Need help finding tax strategies for your company’s growth? Contact Kathy Walsh, CPA, JD, at kwalsh@cohencpa.com.
Cohen & Company has spent the past 39 years (and counting) focusing on technical excellence to help clients succeed. From the very beginning, tax expertise has been at the forefront, always partnered with an advisory mindset, accounting and auditing skills, and a culture of engagement and proactivity to provide private companies a unique value proposition. As the firm grows, that commitment is being enhanced and strengthened, even as they expand the spectrum of services and clients served.

**Investment Industry Services**

The professionals in Cohen & Company’s Investment Industry Services Division are highly focused on providing audit and tax services to mutual funds, exchange traded funds, hedge funds and financial advisors. While the primary attention is on the investment industry, knowledge and scale from this national practice is often leveraged to provide insights and value to private companies and individuals as well.

“Because of our deep understanding of the fund world, we also understand — and can help private company shareholders and other individuals better understand — complex investment vehicles that they may encounter,” says Chris Bellamy, president of the Investment Industry Services Division. “Our unique background is particularly helpful to individuals with a vast array of holdings, including real estate and private equity funds, among others.”

**Transaction Services**

Transaction and M&A advisory services, including M&A representation, due diligence, quality of earnings reports, and corporate financing are synergistic to traditional audit and tax.

“Once we clearly understand our clients’ goals and objectives, we guide them on how the due diligence process, whether on the buy-side or sell-side, can help them capture value,” says Justin Thomas, partner-in-charge of the Transaction Services Practice. “Our thorough preparation and analysis, deep experience in the risks and opportunities of middle-market deals, and focused deliverables help our clients execute the right transaction at the right time and for the right value.”

**Management Consulting Services**

While Cohen & Company has always strategically advised business owners, the firm’s dedicated and growing Management Consulting Practice works with owners and executives to proactively address systemic business issues, including strategic planning, change management, compensation systems, technology and many other areas.

“Even the most disciplined owners and managers struggle to find the time to get critical strategic efforts off the ground and implemented,” says Jim Boland, partner-in-charge of the Management Consulting Practice. “Sometimes a little outside help in structure, process and accountability can make a big difference.”

Cohen & Company has been, and will always be, about engaging with clients to help them succeed.

“Our talented employees, across all divisions, are united in their passion to provide amazing service and value to our clients,” says Randy Myeroff, CEO. “It’s simple: we understand, engage and deliver. Our resources and expertise run wide and deep, with the whole being greater than the sum of its parts.”

Cohen & Company’s culture revolves around the notion of “SQIF” — Service, Quality, Innovation and Fun.
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Thank You
We wish to thank all of our clients featured in this issue of Taxonomics for sharing their stories of success and achievement.