EQUIPPED TO **INNOVATE**

Developing the “Next Big Thing” keeps Benco Dental Supply smiling

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Taxonomics: Cohen & Company’s philosophy of rightly interpreting tax law to our clients’ best economic advantage.
“If you don’t accept failure as a possibility, you don’t set high goals, you don’t branch out, you don’t try — you don’t take the risk.”

— Rosalynn Carter
If the status quo provides a certain level of well-being — financially or otherwise — most people are satisfied leaving well enough alone. But, for successful entrepreneurs, “well enough” is never good enough.

And well enough has never been acceptable for our clients profiled in this issue of *Taxonomics.* While they operate in widely different business realms, these business owners display an appetite for risk characteristic only of highly successful entrepreneurs.

Our cover story revolves around Benco Dental Supply and the family — Larry, Chuck and Rick Cohen — who has created a $650 million a year business. By strategically executing on numerous innovative programs and products, the family has attracted, maintained and grown their base of key employees, clients and vendors to fuel the company’s success long into the future.

Likewise, David Camiener could have retired after selling his hugely successful first business. But, seeing a rising global demand and a brilliant new idea for how to meet it, he has ventured into an entirely new business with Cleveland Whiskey.

Our interview with Dix & Eaton CEO Scott Chaikin reveals how he combined the firm’s culture, created under the charismatic leadership of Henry Eaton, with a new strategic focus and ownership structure. His vision transitioned the Cleveland-based public relations firm into a nationally known powerhouse.

John Milgram of Aexcel Corporation knows the industrial coatings industry is packed with competition and challenges when it comes to long-term business planning. Driven to expand beyond their traditional marketplace, Aexcel is tapping into new, environmentally friendly alternatives that indicate great things for the company’s future.

Do you have the appetite for risk that could pay dividends? If so, this issue of *Taxonomics* may inspire you to take the next step to entrepreneurial success.

Call or email me anytime to discuss your aspirations for challenging your own status quo: 216.774.1102 or rmyeroff@cohencpa.com.
State and local taxation, known to accountants as SALT, presents business owners with complex rules and requirements. Add in the upswell in Internet-related sales with state and local governments’ continuous search for new ways to increase revenues, and it’s a scenario fraught with anxiety. But SALT doesn’t always have to be a negative. In fact, this area of taxation can provide unexpected tax savings when used strategically alongside organizational goals.

Cohen & Company Tax Manager Karen Raghanti shares with Taxonomics what business owners need to know to comply with, and potentially benefit from, the web of state and local tax regulations.

**Taxonomics:** Are state and local taxes something most businesses really need to be concerned about? Even those with an office or facility in only one state?

**Raghanti:** Absolutely. SALT doesn’t always depend upon the actual location of a business, so many companies may have tax obligations they aren’t even aware of. And states are really stepping up their efforts to identify those who are not in compliance. For example, Ohio audits have increased significantly over the past few years and have resulted in substantial interest and penalties beyond taxes owed.

**Taxonomics:** You mentioned earlier that some businesses may not be aware of their SALT obligations. How is that possible?

**Raghanti:** Having nexus in other states depends on both where and how you do business. So, unless you know the thresholds that create nexus for various types of taxes and align those with your own business activities, SALT obligations can easily be overlooked. For example, nexus for sales/use tax purposes requires a “physical presence,” which could mean having an office location, warehouse or inventory in a state. But nexus could also be triggered simply by having an employee with a physical presence in the state, even if that physical presence is not directly connected to an actual sale. Think of activities like conducting customer meetings in the customer’s state. These points of connection to another state or states. If you have “enough nexus,” or a certain amount and degree of business activity in another state, you also have tax obligations. The most common state and local taxes include the sales/use, income and franchise tax.

**Taxonomics:** How does a business begin to determine if it has SALT obligations?

**Raghanti:** The first step for taxpayers is to determine if they have nexus in other states. Nexus, as it relates to taxes, means having a physical or economic
One of the biggest red flags that could prompt an audit on the [Ohio use tax] is not having a registered use tax account at all, whether or not you actually owe any tax.

Karen Raghanti, CPA, Cohen & Company Tax Manager

contact with a customer could create nexus and require registration and filings in that state.

Other nexus thresholds are much lower, such as those for income tax purposes, and can be triggered by using independent contractors, or delivering goods through a contract carrier or company-owned trucks. For those states that have a franchise tax, nexus can be created simply by being registered to do business in the state or deriving income from sales in that state.

Taxonomics: How do Internet sales complicate the SALT landscape?

Raghanti: Internet sales are creating a huge red flag for state taxing authorities. States are starting to get aggressive in passing legislation that creates the same nexus obligations for online companies as for those with a physical presence in a state. The latest movement is called “click through nexus.” If you visit the site of an in-state retailer online and click on an ad to bring you to an out-of-state retailer’s site, that out-of-state retailer could have nexus obligations.

Taxonomics: How about the “L” (local) in SALT? How does that add to the equation?

Raghanti: It definitely adds more compliance, especially for Ohio because each city sets its own tax and administers it. We have some clients who must file 20-plus city returns. Ohio is one of the most cumbersome states when it comes to local tax.

Taxonomics: You mentioned earlier that Ohio is increasing business audits related to SALT. What exactly are they looking for?

Raghanti: The Ohio Department of Taxation (ODT), alongside other states that are organizing to identify delinquent taxpayers, has ramped up its efforts to enforce compliance with use tax, which is assessed when sales tax was not paid on a taxable purchase for an item that will be used in the taxpayer’s resident state. It is the taxpayer’s responsibility to report these transactions to the state. Those not doing so will not only owe back taxes, but likely interest and penalties, too.

Taxonomics: How can the ODT identify who may have made a purchase that required a use tax payment?

Raghanti: One of the biggest red flags to prompt an audit is not having a registered use tax account at all, whether or not you actually owe any tax. It’s important to note that a use tax account is separate from a sales tax account and requires a separate filing. When the state sees CAT and other business tax returns coming in for a company, it is now often checking to see if the business also has a registered use tax account. If there is no account, it could trigger an audit.

Taxonomics: Considering the breakneck pace of technology and ever-evolving tax legislation, how can businesses know if they are compliant with SALT obligations?

Raghanti: An incredibly useful tool is the nexus study. We take a deep dive into our clients’ business activities to determine any SALT exposure. If nexus is discovered, we can help them take the necessary steps to come into compliance. In many cases, voluntary disclosure programs can help reduce interest, penalties and the look-back period associated with any unpaid taxes.

Taxonomics: So how do savvy businesses take SALT a step further, using the rules and regulations to their advantage?

Raghanti: While there are many potential pitfalls when dealing with SALT, there also could be real opportunities. When a business operates in multiple states, their tax obligations are generally determined by a formula that accounts for the sales, assets and payroll in each state. With some careful planning upfront, many companies can benefit from strategically concentrating assets and labor in states that do not tax those items as heavily.

Karen Raghanti, CPA, MT, specializes in income, franchise and sales tax, as well as state nexus studies and voluntary disclosure projects. Contact Karen at kraghanti@cohencpa.com to develop your SALT strategy.
The Lure of
CONVERGENCE

Why David Camiener left the life sciences industry for the art and science of making bourbon

Tom Lix and David Camiener of Cleveland Whiskey
Take David Camiener. His pursuit of entrepreneurial success at Amresco — a provider of biochemicals and reagents to the diagnostic and life sciences industries — and his new business adventure with Cleveland Whiskey — a local bourbon-manufacturing company — may seem like polar opposite interests at first blush. However, closer examination reveals that the two may have more in common than meets the eye.

**ADVANCES IN MOLECULAR BIOLOGY WERE CREATING MIND-BLOWING OPPORTUNITIES.**

At Amresco (founded by his father, a Ph.D. biochemist), Camiener saw that the diagnostic blood testing that had dominated clinical medicine for so long, the core driver of Amresco’s business model, would in the future be hugely impacted by breakthroughs in molecular biology that were driving DNA- and RNA-based research.

At Cleveland Whiskey, founded by Tom Lix, Camiener saw fast-rising market demand, conditions that rendered the leaders in the market unable to adequately respond and a “disruptive technology” that could dramatically speed the bourbon production/aging process and profitably alter that way the industry did business.

The transition from one company to the next, in the mind of Camiener, is a story of the potential for, and the lure of, convergence.

But, Camiener says he also had to do some re-engineering of his own personality if he were to build Amresco into a bigger player. “I had my head up my posterior,” says Camiener of his then penchant for wanting things done as he would do them. “So, I had to change myself. Go from being the guy who thought he could provide the answers to investing more in what were the questions I should be asking, and building a team that could answer those questions.”

One of those team members Camiener brought on was Matt Bucholtz, VP of Operations at Amresco, who speaks of Camiener’s savvy in securing new customers whose contracts in molecular biology-related endeavors underwrote new technologies and equipment at Amresco. “David used this to

**Timing Is Everything**

Arguably, David Camiener ended his attachment to Amresco, the company he built into a $60 million a year business, for the best reason a passionate entrepreneur can choose to move on: he had maximized its potential under his leadership. To be clear, he had achieved an alignment that is not easy to come by: what was best for the company was also best for his own financial and personal interests.

Camiener did not get out from under a business on the decline; he’s pleased to relay that under its new ownership Amresco has continued to grow in the nearly four years since he sold it.

“I approached [the decision to sell] based on what was best for the business,” says Camiener. “If I had identified better paths for Amresco to move forward, I would not have sold it.”

In a global marketplace where advances in molecular biology were creating mind-blowing but expensive-to-fund opportunities in genetics-based medical research and treatment, Camiener realized a synergy was at work. The best way for a mid-cap firm like his to grow its revenues was to sell to one of the majors, and likewise the best way for a major to get bigger and stay competitive was to buy the better mid-caps.

Camiener knew that when the scientific research proving the value of genetic testing reached a certain threshold, the commercial viability of DNA and RNA testing and treatment would skyrocket — a convergence created by science and business. Thus, he began methodically re-engineering Amresco for this bigger opportunity.

No one can ever really know what sparks an entrepreneur to take on a new venture, a new risk. On the surface, some decisions may seem disconnected, if not just wildly different.
not only meet that customer’s needs, but to push us into new levels of automation that brought us other business. He also understood how to leverage technology we bought for a customer and use it to develop our own (non-competing) products.”

So, when VWR International came knocking on the door with an interest to buy, Camiener was open to the possibilities. As VWR conducted their due diligence, Camiener turned to Phil Baptiste, tax partner at Cohen & Company, to help address some of the tax questions that arose, specifically related to the complex area of state and local tax. Baptiste also helped identify the most tax-advantageous manner in which to structure the deal.

“I wasn’t actively looking to sell,” Camiener recalls, “but during the due diligence process you kind of start preparing yourself. And then doing what is best becomes obvious.”

Fewer than 24 relatively short months later, Camiener went from being CEO of his own company to being retired. But the last thing he wanted to do was sit back and relax. Instead, Camiener started looking for investment opportunities, one of which included a start-up whiskey company ripe with potential.

Emerging Possibilities
It’s Camiener’s type of big-picture thinking — and the ability to execute on that thinking in a manufacturing environment — that led Tom Lix, the “mad genius” founder of Cleveland Whiskey to reach out with an offer to become CEO. Prior to that, Camiener had been an investor for the same reason he seriously considered Lix’s offer to become CEO: the enticement of an emerging convergence.

Not only has the American thirst for bourbon and other “brown spirits” been growing at a steady clip over the last decade, the desire for the taste and perceived prestige of American-made brown spirits is growing rapidly in China, India and other nations where newfound consumer affluence is booming.

But, there’s a problem. Bourbon is traditionally made through various methods of aging in oak barrels for six, eight or ten years. Not only is it difficult for the hallowed likes of Jack Daniels® and Knob Creek® to ramp up production to meet this demand, even with the will to do so, it will be years before they can make any impact. And who knows if demand will be as high once the bourbon is finally ready.

An unusual combination in Tom Lix’s background made him the perfect person to see an opportunity. Not only is he a serial technology entrepreneur, but while in the Navy in his 20s he was taught the basics of making “hooch” by a chief petty officer in the bowels of a ship that was being decommissioned. The culmination of his background led to the development of a groundbreaking technology to produce quality bourbon in record time. But he would need someone to help him steer the ship into these uncharted waters.

“WE’RE NOT GOING TO CHANGE THE TRADITIONAL DRINKERS. BUT, THE YOUNGER DRINKERS EMBRACE THE IDEA OF TECHNOLOGY CHANGING THINGS.”
Entrepreneurs know that the interplay of state and local taxation, commonly referred to as SALT, can be complex. In fact, take the gray areas of interpretation in federal taxes and multiply that across the byzantine taxation differences that exist among state and local governments.

“We are always on the lookout for tax savings opportunities arising from the misinterpretation of SALT obligations for our clients who do business in various locations,” says Phil Baptiste, partner-in-charge of the Tax Department at Cohen & Company. “Of course, we are also vigilant about helping to identify exposure.”

Even with Amresco’s sound tax position and payment history, when VWR International was conducting its due diligence prior to purchase, they took a much more conservative interpretation of what constitutes legal tax filing obligations in other states, specific to sales and franchise taxes.

Concerned they could inherit tax liability exposure after the sale, VWR suggested Camiener take an amount from the sales price in the low six-figures and put it in escrow until such a time as the respective statute of limitations had passed. Any amount not paid out for underpayment would be given back to Camiener.

“But, we knew this approach was problematic,” says Baptiste. “Our experience has been that people are never as vigorous in advocating for a taxation interpretation if what is at stake is someone else’s money.”

So, they took a different route. To alleviate VWR’s concerns, a Cohen & Company Tax Manager and member of the firm’s SALT team, Karen Raghanti, worked with Camiener to address potential concerns. In the end, Amresco agreed to apply for voluntary disclosure programs in 11 states, which mitigated the tax liability and reassured VWR that Amresco was in a solid tax position, clearing the way for sale.

“I really value that Cohen & Company not only knows tax rules and regs,” says Camiener, “but that they know how to advocate on behalf of their entrepreneur clients with the passion and diligence of a true partner.”

Group. “Having access to the numbers in real time and accounting and business advice they need as they’re growing is huge. At the same time, they don’t have to carry the cost of a full-time CFO until they’re ready for it.”

While production is still ramping up and most of Cleveland Whiskey’s market is still regional and small, both Camiener and Lix point to Cleveland Whiskey’s 55% winning rate in more than 3,200 blind taste tests they have conducted against other bourbons such as Knob Creek.

Still, actual taste and mass production challenges aside, both men are aware of another obstacle in capturing a deep swig of bourbon’s global market share. Most people gauge the quality of the bourbon they are drinking on how long it was aged.

“It’s absolutely a hurdle,” says Lix. “It’s seen as a measure of the quality of the product: something 16-years-old is better than something 6-years-old. That idea has been reinforced by years of bragging.”

“So, we recognize we’re not going to change the older, traditional drinkers. But, the younger drinkers embrace the idea of technology changing things,” says Lix. And of course the idea is that in markets like China and India, new drinkers of bourbon will be fine with a product that’s from America, tastes just as good and is readily available.

“Look,” says Camiener, “demand is outstripping supply and the market is so large we only need a small piece of it to be successful. So, we’re going to practice the fundamentals, stay externally focused and make sure we get things done.”

“One of the things I remind myself,” Camiener says, “is that there are all kinds of ways to make money and all kinds of ways to lose money. But, a bad businessman gambles, and a good business businessman bets. There’s a difference.”

Cleveland Whiskey
www.clevelandwhiskey.com

For a taste of how Cohen & Company can advance your interests, contact Phil Baptiste at pbaptiste@cohencpa.com.
Developing the “Next Big Thing” keeps Benco Dental Supply smiling
To Larry, it was inevitable that his sons would eventually lead Benco, a regional dental supply company based in Wilkes-Barre, Pennsylvania. He just did not know it would be in the cards so soon. In Rick’s view, “We were too young. I knew we weren’t ready.”

Ready or not, Chuck and Rick were now co-pilots in leading what Larry had built from a small local dental supply operation his father founded into a $100 million business. In this case, however, this necessity-driven decision did not lead to the selling or failure of the company. Twenty years later, under Chuck and Rick’s leadership, Benco is a $650 million industry powerhouse, the third largest in the nation, and the only one that is privately (and family) owned of the three.

Amazingly, after one brutal year, Larry beat the cancer. Yet, the then 57-year-old, self-confessed micromanager, did not seek to take back control of Benco. “I’m really not a big thinker,” Larry says, “but I could see that they both were.”

“We are big fans of family businesses,” says Chuck, “with all of the plusses and all of the drama that sometimes ensues.” Indeed, most family businesses that try to endure beyond the first or second generation find that if the marketplace does not quash their dreams, the internal family dramas might.

How three generations of Cohens have honored one another’s strengths, and two hard-driving brothers have creatively forged a 50-50 partnership that actually works, offers transferrable insights for protecting and growing a family business.

The Salesman

After earning his degree in accounting and completing a master’s degree in business administration, Larry was approached by his father, Ben, in 1959 with a question: should he sell his seven-employee dental supply company to three of the employees who wanted to buy it? “I said, ‘No, don’t sell,’” recalls Larry, “because I knew that was his way of asking me to come into the business.”

Soon, Larry was outselling the other three sales reps combined. “I really believed that I was the best salesman that called on any dentist I visited,” says Larry. “I believed in my heart that if they didn’t buy from me they were making a terrible mistake.

In business, necessity is not only the mother of invention, it’s often an accelerator of key decisions that make or break a company’s future. In 1994, a diagnosis of non-Hodgkin’s lymphoma led Larry Cohen to ask his late-twenty-something sons Chuck and Rick to take over the leadership of the family owned business.
Chuck and Rick Cohen of Benco have taken great pains to ensure their valuable executive leadership team has ample reason to stay focused, and stay on board, as Benco moves on toward larger goals.

So, they turned to Cohen & Company to help them craft a Long-Term Incentive Plan (LTIP), a system designed to incentivize key employees to remain engaged in the organization.

“When instituting an LTIP, or deferred compensation plan, there are significant tax rules that must be adhered to or the company and its employees could suffer unwanted taxes, penalties and interest,” says Tony Bakale, tax partner and technical director at Cohen & Company. “These rules are known as the 409A rules.”

Compensation deferred under such a plan may not be distributed earlier than the employee’s separation from service, the specified time listed under the plan, or certain extenuating circumstances. Also, the plan cannot permit the acceleration of the timing of payments or additional deferrals outside the original parameters with certain exception. If a plan is nonqualified, it can result in immediate inclusion in income, plus 20% additional penalty and interest.

But an LTIP should be more than just compliant with the tax code. It needs to balance presenting attractive incentives to the key leaders a company seeks to retain, without unduly compromising the financial interests of the company and its ownership. This is where Cohen & Company’s substantial experience in working exclusively with private companies and entrepreneurs made a real difference.

After a series of meetings with all the stakeholders, Cohen & Company created a customized and compliant plan that gave executive leaders the incentives to make them feel valued and motivated — and that was also fair to the company and its ownership.
Being direct is a Cohen family trait, and whatever reservations Chuck and Rick had did not stop them from making it clear to Larry that they would run the company their own way, which he understood. He knew his boys had a big vision requiring a kind of leadership that is more strategic and less micromanaging, “And I’m not much of a delegator,” Larry says.

The ability of the prior generation to pass the proverbial torch and to truly “let go” is often cited as the key success factor in succession by consultants and the next generation of leadership. In fact, it’s the first of five core principles that Chuck cites as ways their family has avoided the intense dramas that often bring other family businesses down or compel them to sell.

“The Cohens’ practical approach to family business is evident in all their decisions,” says Randy Myeroff, Cohen & Company CEO. “But don’t let that pragmatism fool you. They are extremely savvy entrepreneurs and have a great team behind them that they both empower and hold accountable. Culturally, the Cohen & Company/Benco relationship has been a great fit because of shared core values, an intense focus on service and quality, and a long-term vision for growth and success.”

**Ongoing Innovation**

Of course, working and leading well together is only part of the battle that family businesses face if they are to be ultra successful.

To be a leader in most industries today, an organization needs to be at the technology curve, if not ahead of it; offer innovative services or products that increase its customer’s value; and — perhaps most difficult — develop new products or services that use industry expertise to open up a whole new world of customers. Of course, none of those things is truly possible if you don’t have innovative strategies to attract, develop and retain key employees.

Rick Cohen tackled the technology portion head-on, taking the lead in getting Benco up to speed from a systems standpoint, which flowed naturally from his time as an IT consultant. In the early 1990s, before he came aboard at Benco and online ordering was even a reality, he woke up at 3 a.m. with the startling thought that there would soon be a time when dentists would not reorder over the phone. He wrote down what he could envision of the data structures that would be required to make this a reality via the then-nascent Internet.

Eventually, the larger technology issues were solved. “But, getting our sales reps to understand that this was not going to make them obsolete,” says Rick, reflecting a common issue for early adaptor companies, “was the biggest obstacle.” Still, that head start in understanding how technology would impact their business model has served Benco well.

In 2003, Rick spearheaded the development of Clarion Financial, a lending company specifically for dental practices. With an average growth rate
of 10 percent a year, Clarion has both provided an important new service to, and a new stream of revenue from, Benco’s existing clients (increasing share of customer) and has also garnered business from dental practices who don’t buy from Benco (expanding its customer base).

As the business continued to grow, it was clear to Rick and Chuck that they needed to more closely align the long-term interests of their key executives, who did not have an ownership stake, with the interests of the owners. And while the brothers were unsure how to go about building such a plan, Myeroff (who was introduced years earlier by a mutual friend and confidant) knew Cohen & Company could help Benco create a long-term incentive plan (LTIP).

Building a truly effective LTIP requires a great deal of in-depth understanding of the company’s goals and objectives. Cohen & Company had several meetings with Rick, Chuck and representatives of the executive team, and played a key role in designing the plan. The rapport and trust built throughout the project led to the opportunity for Cohen & Company to take the lead on Benco’s tax planning and compliance work, and ultimately their financial statement needs as well.

“Working with Cohen & Company on our LTIP showed us that they looked harder and looked deeper at our complex business situation than other firms we had used. They worked very hard to inquire and understand us before offering advice,” says Steve Brecher, CFO of Benco. “We knew we wanted that same proactive spirit and dedication applied to our tax opportunities, as well.”

And that proactive sense of teamwork between Benco and Cohen & Company has not slowed down. Among other things, Tax Partner and Technical Director Tony Bakale helped Benco restructure their signature BluChips Rewards Program for customers, vendors and staff. “The BluChips Rewards Program seemed to be working just fine at first glance”, recalls Bakale. “But upon closer examination, we found a significant
The “power of free” demonstrated by the FAX giveaways at Benco in the late 1990s is amplified in Benco’s current successful BluChips Rewards Program.

Similar to airline miles and credit card points programs, this incentive program — designed for customers, vendors and staff — awards points, or BluChips, that can be exchanged for prizes. They range from Benco merchandise, to items offered in an impressive gift catalog, to the ability to apply BluChips to outstanding invoices.

“For tax purposes, the method previously used to deduct the outstanding balance of awarded but unused points at the end of any year involved estimates based on historical usage,” says Teri Grumski, a tax manager at Cohen & Company and integral member of the Benco tax team. She explains that the method was suggested by the IRS during an examination with Benco’s prior accounting firm. The result was that the full deduction related to the awards program was being significantly deferred. As the program grew and people accumulated, yet held on to their points, the program became an extremely large and somewhat permanently deferred deduction for the company.

Cohen & Company believed the previous method was not the best way to account for the program’s expenses. They suggested Benco file with the national arm of the IRS for a change in accounting method related to this program, a change the IRS initially indicated they would deny. However, in a conference call with local IRS experts, the Cohen & Company team advocated their position and the IRS granted the change.

“The resulting change in accounting method provided an additional deduction in the year of change of $2.3 million, saving roughly $1 million in taxes for Benco’s ownership,” says Grumski. “We believed that this innovative program required an equally innovative solution to maximize its full benefits for the company.”

opportunity to accelerate deductions associated with the program that delivered sizable tax savings to the owners.”

These days, Benco has their eye on cultivating a potentially huge new market — consumers of dental products. Benco is developing a “better oral health care brand” called PRO-SYS, which includes among its products an antimicrobial toothbrush. The PRO-SYS toothbrush features DuPont™ bristles, which contain silver and zinc antimicrobial additives designed to inhibit the growth of micro-organisms like bacteria, fungi and yeast that can plague the common toothbrush.

“And what often happens when you go to the dentist’s office? You leave with a new toothbrush,” Rick says, explaining how Benco’s existing relationships with thousands of dental practices can be a powerful conduit for inferring the superiority of the PRO-SYS brand to consumers.

Secret Weapon
As different in certain respects that Benco’s future might be from its past, Chuck and Rick have found a fairly foolproof way to ensure that the “customer first” ethos ingrained in them by their father is never lost. They have a Chief Customer Advocate that any dentist with a concern about Benco services or products can email or call on a well-publicized direct line. He happens to also serve as Chairman of Benco, and his name is Larry Cohen.

“If you’re not happy you get Larry on the phone. Now, if you’re not respectful he might yell back at you,” says Chuck. “But, he always solves the problem.”

To find out how Cohen & Company can serve your business, contact Tony Bakale at tbakale@cohencpa.com.
How Scott Chaikin has led Dix & Eaton into a new era of public relations
Henry Eaton lived and worked during, and well beyond, the golden era of advertising and PR depicted in AMC’s “Mad Men.” And though Henry plied his trade far from Madison Avenue, he was a leading confidant and PR man for many of America’s top CEOs, since for a significant swath of his time Cleveland, Ohio was headquarters to the third highest number of Fortune 500 companies in America.

Behind closed executive office doors on Euclid Avenue or at a corner table at The Union Club, the leaders of large organizations shared with Henry everything from their woes about spiraling losses to their hopes regarding a major acquisition. Leaders trusted Henry.

He retired in 1999 and passed way in 2003. But, the firm he co-founded, Dix & Eaton, has held tight to one of Henry’s formative beliefs: “Attach yourself to the CEO’s agenda.” Though Cleveland now barely cracks the list of top 20 cities for Fortune 500 companies, his namesake firm remains a regional powerhouse and national player because corporate leaders trust Dix & Eaton’s current leadership, as they once trusted Eaton himself.

**IF A PR FIRM CAN HELP SAVE A COMPANY, A BRAND OR THE EXECUTIVE TEAM — THAT ENGENDERS A POWERFUL REPUTATION.**

Today, the firm boasts blue chip clients such as Southwest, NetJets, Illinois Tool Works, BASF and Cardinal Health. Still, there was a time when some questioned whether Dix & Eaton would remain relevant or even survive once Henry stepped down.

First, there’s the reality that professional services firms often find it difficult to move on when a charismatic founder and chief rainmaker makes his exit. Second, Henry’s first two hand-picked successors each barely made it through a year under his mentorship before leaving the firm.

Who could fill Henry’s classic black oxfords? For that matter, under anyone’s leadership how could his namesake firm, with few clients from outside Northeast Ohio, continue to grow in the midst of the region’s corporate decline?

This is a look at how the culture of a savvy business founder survived and evolved to lasting effect, even as other aspects of how business was done became obsolete. And of how a very different kind of leader has picked up the baton and repositioned the company with a unique ownership structure that helps separate it from competitors.

**The Currency of Trust**

Scott Chaikin, who eventually gained Henry’s blessing to become chairman and CEO of Dix & Eaton, recalls a white paper that made the rounds in PR circles in his early days at the firm. It stated that the key to any PR firm’s success was billing every minute that staff worked for a client, and collecting on every minute billed to that client. “But Henry had a different idea,” Chaikin recalls. “He said what mattered most was that our clients felt they received full value when we sent a bill.”

For Henry’s value-based approach to billing to be successful and not economically detrimental, the work done by Dix & Eaton had to be exceptional.

Sounds fine, but given the number of capable PR professionals out there, what actually makes a firm exceptional?

The reality is that clients value PR firms that help them maximize opportunities. But, if a
PR firm can wade into an unfolding disaster and help save a company, a brand or the executive team — that engenders deep appreciation and a powerful reputation.

“Culturally, we are a place,” says Chas Withers, president and COO, “that embraces dealing with circumstances that others won’t or can’t.”

Jim Brown, Dix & Eaton’s CFO, elaborates: “From an ugly proxy fight or a bankruptcy, to a mine disaster or plane crash, we’ve been there and know what to do. When companies and their leaders are dealing with the biggest possible issues they can face, issues that impact employees’ lives, or valuation or ownership, we can be trusted.”

As Withers concisely states, “Trust is the currency of what we do.”

CHAIKINS HAS MADE A CONCERTED EFFORT TO LEAD LEADERS, RATHER THAN BE THE LEADER.

While trust is the currency in which Dix & Eaton trades externally; internally, Henry was finding it difficult to identify and develop the individual he could trust to lead the firm when he stepped down. Two outsiders he pegged for their fresh perspective had each crashed and burned in quick succession before he finally turned his eyes toward Scott Chaikin, a then thirty-something staff writer and PR strategist.

“I think at first it was hard for him to see someone my age, with no gray hair, in the C-Suite,” recalls Chaikin. “But, actually, our timetables worked out really well. Henry really wasn’t in a hurry to formally step down, and I wasn’t in any hurry to take charge before I felt ready.” Sometimes leadership transitions need to be sharp and swift. But, in this case, Chaikin was able to use the years of transition to glean wisdom from Henry, while also learning how he would lead differently in the new era into which the firm was moving.

A New Perspective

First, Chaikin knew that the decline of Cleveland as a Fortune 500 city meant Dix & Eaton had to extend its reputation beyond companies headquartered in Northeast Ohio. Easier said than done, especially given the rise of consolidation in the industry that was creating large multinational PR firms geared to pick off the top companies and brands in the increasingly global economy.

Impressively, now 15 years into Chaikin’s leadership, about 35 percent of Dix & Eaton’s client roster is headquartered outside of Northeast Ohio, and that number continues to grow. Chaikin has focused on growing the crisis communications and investor relations aspects of their PR services, and within that focus has sought to differentiate the firm via its abilities to communicate to all constituencies (shareholders, employees, media and the public) versus firms that tout specializing in one of those audiences.

Second, under Chaikin, Dix & Eaton was a timely adopter of the PR tools afforded by the digital era. As the power of mainstream news and trade media has fragmented or worse, the importance of directly telling or effectively influencing a client story through social media has become vital for PR firms. “We’ve looked to not be a laggard or a fast follower,” says Chas Withers, “but to be right on the forefront of what is productive for our clients.”
When it comes to business succession, professional services firm owners sometimes find it difficult to identify someone or even a small group within the organization to whom to sell their shares and receive proper value in return. Consequently, some companies are sold to outsiders, even if it is not the owners’ first preference, or some owners linger on in their position of leadership for longer than they should.

Moving forward, whenever Dix & Eaton CEO Scott Chaikin — or for that matter the CEO who follows him — decides to retire, the ESOP Dix & Eaton has created will buy his shares, spreading the cost across the entire organization rather than forcing it upon one individual or small group.

On the taxation front, says Tracy Monroe, a Cohen & Company tax partner, “An S Corp wholly owned by an ESOP is a tax-exempt entity. The shareholders will be taxed on the distributions taken from their ESOP accounts in the future. The company is spared the consequences of the 45% tax bracket to which it would likely otherwise be subject.”

A firm such as Dix & Eaton can invest the tax dollars saved back into the business, providing a potential competitive advantage and funding for continued management transition.

“Cohen & Company was instrumental in coming alongside our other legal and financial partners to steer us through the ESOP process,” says CFO Jim Brown. “In general Cohen has been such a great fit for us. Previously, we were with a ‘Big Four’ firm and were just not getting the attention and advice we needed. Our fixed-price agreement with Cohen allows us to meet frequently, without running up a large bill, and gives us access to our team whenever we need them.”

Chaikin’s third, and perhaps over the long term most important, change in leadership style has been a concerted effort to lead leaders, rather than be the leader in the “benevolent dictator” manner. “Henry had relationships with every client,” says Chaikin. “But, when I retire it should not be that way, because it’s a chokehold on our ability to grow.”

**A Shared Commitment**

While the intent to empower leaders throughout the organization manifests itself in multiple ways, the most telling example was the decision Chaikin and his leadership team made for Dix & Eaton to become an Employee Stock Ownership Plan, or ESOP, company. With the help and guidance of Tom Bechtel and Tracy Monroe, partners in Cohen & Company’s Accounting and Auditing and Tax departments, respectively, this was a natural next step for the changing firm.

“Scott was certainly charged with a huge task, working on expanding the firm’s geographical client base while simultaneously creating a culture where everyone is ‘all in,’” says Bechtel, who has worked with Dix & Eaton for the past 10 years.

Certainly, ESOPs are primarily a tool for creating a more unified and empowered staff. But, there are also various financial and tax-related facets to an ESOP, including the fact that for S Corporations, the percentage of ownership held by the ESOP is not subject to taxation at the federal level and often not at the state level, as well.

However, it is generally agreed that ESOPs work best in company cultures where internal transparency in financial reporting and decision making are welcome. In essence, if leaders want their staff to take figurative ownership of their roles and responsibilities within the organization, an ESOP takes things a step further and makes that ownership tangible.

“Under an ESOP,” says Brown, “the value of an employee’s shares are directly driven by the success of the company. Previously, only leadership with an ownership interest in the company had that incentive.”

Or, in the words of Withers, “If you are an ESOP company, your people have skin in the game.”

Chaikin, now 58 years old, is already thinking about how he will transition his leadership. There’s plenty of time; but he recalls the benefits he had by having time to prepare to lead under Henry’s wise and watchful eyes. Meanwhile, the company continues to thrive and is clearly recognized as a national company that just happens to be headquartered in Cleveland.
The 2003 tax act that lowered tax rates on qualified dividends was a game-changer in the DISC arena, making the benefit to exporters even more significant,” says Ray Polantz, a tax director at Cohen & Company and head of its International Tax Group. Yet he still meets business leaders who are unaware, and often in disbelief, of this tax-savings strategy.

Who Can Use It?
IC-DISCs are for companies who export U.S.-manufactured products to or provide architectural or engineering services in foreign countries. “It is the federal government’s incentive to make the world our marketplace,” Polantz says. There are stipulations about what “U.S. made” means, but, beyond that, qualification is pretty basic. “Companies like the IC-DISC because they don’t need a complex international structure to benefit from it,” explains Polantz. “It’s relatively easy to set up and does not change the way the product is sold.”

A good rule of thumb is that taxpayers with at least $1 million of qualified exports should seriously consider the opportunity. However, companies below that threshold may still benefit, especially those with higher-margin exports.

How It Works
Taxpayers must first set up a separate IC-DISC company, which is considered a tax-exempt entity and is not required to have any employees or business operations. The exporter is permitted to deduct a commission payment that is made directly to the IC-DISC company. The IC-DISC does not pay tax on the commission, because of its tax-exempt status. When the commission is distributed from the IC-DISC to the owners, that dividend is taxed at favorable dividend, instead of higher ordinary income, tax rates.

According to Polantz, the commission can be the higher of either 4% of gross export sales or 50% of taxable income from the export sales. And the higher the commission, the higher the tax benefit. There are also a number of other more sophisticated commission calculations that could increase the end benefit.

Because the IC-DISC strategy involves setting up a separate legal entity, there are some initial fees to establish the company and then ongoing minimal administrative costs to file the entity’s annual information returns and to keep appropriate books and records. The entity structure is relatively simple and can generally be set up in a few days’ time.

No Looking Back
This tax strategy is different from many others in that it cannot be implemented retroactively at year-end. It’s a ‘use it or lose it’ benefit that can only begin accruing once the IC-DISC is established.

But once the benefit is in place, it’s a permanent tax savings going forward that impacts different entities in different ways. For export companies organized as C corporations, the DISC provides an option to remove one of the two layers of tax on export income, allowing for deductible dividends. For sole proprietorships, partnerships or S corporations, the benefit comes from the spread between qualified dividend rates, which could be as high as 23.8% and ordinary income rates, as high as 43.4%.

Regardless of a taxpayer’s corporate structure, the IC-DISC strategy provides a permanent tax benefit rather than a temporary one, which merely defers taxes due to a later date. “With temporary benefits,” Polantz explains, “you save tax today but have to pay it later. The benefit is time value of money. But with permanent benefits such as the IC-DISC, the company saves a dollar today and never has to pay it later. Business owners love this.”

Ray Polantz serves as head of Cohen & Company’s International Tax Group. To discuss your IC-DISC opportunities, contact him at rpolantz@cohencpa.com.
Aexcel Corporation of Mentor, Ohio, has built a business manufacturing traffic paint; a business that has successfully logged many miles, many years and many business cycles.

Humble Beginnings
Erminio and Vincent DeSantis founded the company that became Aexcel in Willoughby, Ohio, back in 1963. The scrappy startup got its first break a year later when the state of Ohio placed an order for 600,000 gallons of paint. That order provided momentum and the young company grew rapidly.

Fast forward to today and we meet John Milgram, whose father purchased the company in 1974. Milgram has a clear idea of Aexcel’s purpose in the marketplace. “I always say we’re a manufacturer of paint and industrial coatings,” he says. “That’s our traditional business and it’s an explanation people can get their heads around.” More than half of his trade is in traffic paint.
But it’s that reliance on traffic paint that has given the organization both a boon and a burden. There’s a lot of competition, and pricing can fluctuate drastically, which makes long-term planning related to orders and staffing a challenge. That’s where the company’s relationship with Cohen & Company has been so valuable.

Milgram values access to quality CPAs. “It’s like your doctor. If you have a good one, you don’t switch a lot,” he says. In the 14 years of working together, Maura Corrigan, a tax partner at Cohen & Company, has helped Aexcel with a wide range of issues, including a change in accounting method and R&D tax credits. As Corrigan states, “ideas like these can create an immediate tax reduction which, when you’re in a very cyclical business, can have a huge positive impact on cash and capital.” CFO Jerrie Lee Rispoli adds, “When we find a partner that works well with us, we tend to be very, very loyal.”

“Green” Future


Then there is the Aexcel-developed fuel additive, which, according to Rispoli, “will help power-generation facilities produce energy in a much more environmentally friendly way.” Aexcel is also developing new self-cleaning industrial coatings for the trash removal industry (cleaner garbage trucks) and durable coatings to protect oxygen tanks in hospitals.

In the final analysis, Aexcel values information. “I’m a good generalist, but I’m not an expert on anything to do with taxes,” Rispoli says. So she keeps up on new information by attending seminars and reading the Cohen & Company “Never Miss” blog.

“Part of working for a small, family business is having someone give us good, solid advice and information. I like that Cohen is an accessible mid-size firm, but they clearly have the depth and breadth of a large firm.”

Contact Maura Corrigan at mcorrigan@cohencpa.com to learn how Cohen & Company can help you make your mark.
Starting out in 1999 with only one location and a meager $200,000 budget, a few local residents took on the challenge of creating the Boys & Girls Clubs of Lorain County (BGCLC). Soon after, Mike Conibear, the current executive director, came aboard with a goal to provide local kids with safe, stable and consistent after-school and summer programs. That meant creating a place where “member” students feel they belong, providing nutritious meals, and teaching core life behaviors and values, such as respecting others and developing good study habits.

As Conibear set out to make a difference, he and Hill crossed paths at a Cohen & Company not-for-profit seminar. Hill, who had been looking for a way to get more involved in his community, immediately connected with the BGCLC mission and signed on to help Conibear create what is today the largest youth-serving agency in Lorain County.

“Th e Boys and Girls Clubs seemed like a great initiative, backed by a well-known national program, that was going to benefit kids in my own community,” says Hill. “I knew that working with Mike was going to bring great things.”

And it has. BGCLC has grown exponentially since that fateful meeting. Still led by Conibear, but now with the help of more than 80 employees and 100-plus volunteers, the organization currently serves approximately 650 kids each day, has seven stand-alone buildings and eight school-based sites in Lorain County, and a healthy $2.4 million operating budget.

Hill is currently treasurer of the organization but has served BGCLC in various capacities, including board president for five years. Much more than a “face” on the board, as partner-in-charge of Cohen & Company’s Real Estate and Construction Group, Hill uses his in-depth experience to help with complex deals that in turn help BGCLC acquire or renovate buildings for new clubs. For example, he helped the organization with financial projections, negotiations and other critical due diligence aspects related to a $350,000 remodel project of a donated building for the BGCLC Elyria site and a 13-acre parcel in South Lorain, which involved demolition of buildings, environmental studies and significant rehabilitation. Hill also works side-by-side with Conibear to keep operations moving. Their work includes pouring over financial statements, identifying sources of new cash flow and even making tough decisions when necessary.

When asked what has kept him involved with the same not-for-profit for so long, Hill replied: “The close relationships I have with Mike and the other board members give me a unique perspective. I see how much work it takes, and how much help they need, to make this all happen. And I also see the good this organization really does for kids in Lorain County. Who wouldn’t want to be a part of that?”

Country clubs, fitness clubs and the like can provide numerous opportunities for professional and social advancement. But for the past 14 years, Cohen & Company Partner Adam Hill has been involved in a club that provides a different type of opportunity — the opportunity to help kids in need become productive, responsible and caring citizens.
Robert Towne, an accountant in Cohen & Company’s tax department, says tax identity theft is a growing problem. In 2011, the IRS reported it discovered 900,000 fraudulent returns involving $6.5 billion in refunds. “And that was in 2011,” Towne emphasizes. “It’s only gotten worse in the last three years. When I first started in the industry, I didn’t see tax ID theft very often, but I’m seeing a lot more of it now.”

Towne says once thieves have a social security number, other documentation, such as a W-2, can be faked to file a return. Assuming the fraudulent return is filed before the real one, the refund, a prepaid debit card in many cases, is routed to the fraudster. Typically, the real tax filer does not even know his or her identity has been stolen until an audit notice is received from the IRS or the state due to multiple-filed returns or unreported income.

But there are ways to minimize risk and steps you can take if you do fall victim. First, exercise care with your personal information and consider a security service, such as LifeLock®, to proactively monitor the security of your identity.

Next, beware of emails. “The IRS does not request information through emails; they only request information via traditional mail,” Towne says. If you get a bogus IRS email, forward it directly to phishing@irs.gov.

Last, if are a victim of tax ID theft, the first step is to file Form 14039, Identity Theft Affidavit, with the IRS. You’ll have to follow up with a call or meeting, and you will need to show a legal ID. “Remember,” says Towne, “the IRS won’t know who the legitimate taxpayer is initially.” It’s also a good idea to immediately alert your local police department, financial institutions and the three main credit bureaus.

With a little patience and persistence, you can restore your rightful identity and protect yourself from future fraudsters.
Picture it: Cohen & Company’s founder, Ron Cohen, enters the 4,000-square-foot Great Hall of a secluded lodge nestled in the woods of Cuyahoga Valley National Park. He’s met by 240 people standing and cheering. The theme from “Rocky” blares in the background as Ron makes his way through the crowd, proudly carrying a lit torch made of red cedar wood and painted gold, as high above hangs a large balloon replica of the international Olympic rings. When he reaches the stage, Ron declares his pride in the firm, its people and its undeniable culture. And then: Let the games begin!

It’s an image, and communal sense of pride, that new and old employees alike will not soon forget. The firm set out to create the ultimate team-building experience that would promote camaraderie throughout the firm via healthy competition, fun and special moments at the first firm-wide Cohen Olympics held this past July. Cohen & Company, Cohen Fund Audit Services and Sequoia Financial Group gathered at the Happy Days Lodge in Peninsula, Ohio, for the jam-packed day.

But the excitement started long before the actual games began. A torch was “carried” from office to office — travelling from Milwaukee to Akron to Youngstown and then Cleveland. The firm set up an internal website dedicated to the Games, complete with a blog and interviews featuring “Olympic Hopefuls.”

To encourage team cohesiveness and a competitive spirit, each employee was assigned to a team comprised of people they did not necessarily work with on a regular basis. “It was so great to see all of us stepping out of our respective ‘bubbles’ to work as a team with different people,” says Tracy Campbell, coordinator of the event. “It’s not always easy to work with someone new, but the purpose was to strengthen or encourage new bonds, and I think we achieved that.”

Twenty teams competed in a wide range of athletic and not-so-athletic events, including “Fear Factor,” where eating potted meat and a chocolate covered bug was the way to win points; an inflatable obstacle course; a Mensa challenge, requiring skills such as placing cities in geographic order across a map of the U.S.; and a 300-foot-long water balloon launch. The final event for the top three teams with the best scores throughout the day included inflatable jousting, “executive” dunk tanks, a Sudoku challenge and more. The day concluded with closing activities, complete with a medal ceremony honoring the teams that earned bronze, silver and gold.

“Our entire firm knocked one out of the park on this event, strengthening our sense of unity and pride,” says Campbell. “We really couldn’t be happier at its success.”

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

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