Profit with a Purpose

How the Kanfer family aligns wealth with doing good

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The Logistics of Success
Third-generation entrepreneur Brad Maloof creates opportunity out of crisis

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*Taxonomies: Cohen & Company’s philosophy of rightly interpreting tax law to our clients’ best economic advantage.*
“Change is the law of life. And those who look only to the past or the present are certain to miss the future.”

— John F. Kennedy
No one will dispute that innovation, as an organizational habit and not a one-time event, is one of the bedrocks of a thriving organization.

But, look more closely and most would also agree that along with innovation comes evolution. Successful entrepreneurs not only evolve throughout their careers inside their organizations, but they continue to evolve even after entrusting the business to others and moving on to their next phase.

Take our cover story featuring Joe Kanfer and Marcella Kanfer Rolnick of the Kanfer family, owners of GOJO Industries and the globally recognized PURELL® brand. Their innovative thinking and foresight at GOJO has evolved into a purpose-driven family office, Walnut Ridge Strategic Management, which serves as a remarkably collaborative intersection of father and daughter working for the greater good.

Brad Maloof of Amware, a warehouse and trucking company, comes from a generational line of entrepreneurs but has made his own mark while evolving his company into multiple business units all shifted into high-growth mode. Keith Willy and his team at Twain Financial Partners are the picture of evolution, first taking the investment industry by virtual storm with its fund management solutions and then striking out into other realms of the financial management industry with great pace and momentum.

Finally, we experience a different, yet just as critical, element in the evolution construct. We hear from Jack Harley, John Susong and our own Ron Cohen — entrepreneurs who have not only successfully grown their businesses, but have realized what it’s like to be on the other side of successfully transitioning leadership and ownership to others.

Evolution is a natural part of every business and every owner’s story. It brings great change, and sometimes great surprises. This issue of Taxonomics takes you down a path that highlights the many places innovation and evolution can lead.

Call or email me anytime to discuss your next idea or phase at 216.774.1102 or rmyeroff@cohencpa.com.
Will the offer provide for the same lifestyle after the sale? When is the right time to sell, considering both financial and non-financial reasons? Annie McCauley, managing director of Family Wealth at Sequoia Financial Group, a sister company of Cohen & Company that advises many of their clients, answers these questions for *Taxonomics* and, more importantly, for entrepreneurs.

**Taxonomics:** What is the starting point for entrepreneurs planning for their next chapter?

**McCauley:** One of the best starting points is building a personal financial plan well before contemplating an actual sale, in part to identify what the owner wants to accomplish. The personal financial plan is an effective way to help evaluate selling decisions against individual goals. All successful business owners have a strategic vision in place for the long-term success of their company. It is important that they also develop this same long-term vision for their personal goals.

The end game will involve decisions regarding retirement, as well as the ultimate ownership and management succession of the company. These complicated and often emotional decisions take time, and a well-crafted, dynamic plan can serve as an effective road map to define and achieve the owner’s goal.

**Taxonomics:** Why have a plan if a sale is not imminent, and in fact, could be years down the road?

**McCauley:** A financial plan can help quantify and remove variables from the selling equation. I can’t tell an owner what her business is worth, but I can tell her what she needs that number to be based on her goals. If an unexpected (or expected) offer comes in, it makes negotiating more clear cut. If an owner won’t be in a position to receive “her number,” she must either re-evaluate the end game, establish a plan to increase the value of the business or push out the time frame to sell. Throughout the planning relationship, advisors have a dual mandate to help clients stay on track for financial independence and enjoy financial success to the fullest extent possible.

**Taxonomics:** Is selling the business strictly a numbers decision?

**McCauley:** No, not usually. The numbers are just the easiest part to quantify. There are life objectives, emotional factors and other attributes that entrepreneurs should evaluate when considering when, whether and why to sell.

It is particularly important that owners plan for how they will spend their time post-sale. After
spending every day going to work and running a company, it can be difficult for many to find their footing when that routine is disrupted. Further, with the benefit of time and enhanced financial resources, their perspective may change. Throughout the post-sale discovery phase, decisions regarding personal spending or new business interests need to be carefully evaluated against the financial plan, so as not to impair financial independence.

Taxonomics: What are some of the most common objectives your clients focus on?

McCauley: Some want to transition to the next generation of family or start a new business venture. Sometimes the goal is to monetize the business to secure the family’s financial independence or begin building a charitable legacy. Regardless of what the owner wants to do, making these decisions within the context of a plan can help to quantify, define and execute on these goals.

Taxonomics: Once the sale is complete, how can sellers effectively manage their proceeds?

McCauley: I always advise that an investment policy statement should govern financial decision making. This will help to ensure that the proceeds can support ongoing cash needs without taking on excessive amounts of risk. The post-sale portfolio may contain a combination of marketable securities, alternative investments, real estate, business interests or notes receivable. Regardless of the composition, it is important to understand the liquidity, appreciation potential, yield and risk parameters of the portfolio against unique financial planning objectives. Depending on the amount of sale proceeds and the family’s objectives, a family office may be formed to provide for the ongoing management of these investments.

Taxonomics: What exactly is a family office and why is it an option?

McCauley: Family office traditionally refers to an organization established to provide centralized coordination and preservation of a family’s wealth, most often across multiple generations. In practice, the structure and scope of family offices can vary substantially. I think of it as degrees on a continuum. However, most offices will have some element of consolidated management of a family’s wealth (investments, accounting, estate, tax planning) to sustain a multi-generational legacy.

In the case of business owners who are often used to working with family members, the family office can serve as a new unifying foundation — extending the unique bond of working together after the sale of the family business. Once formed, the office may manage one aggregate portfolio on behalf of all family members, or the structure may be used for shared administrative services while family members pursue their own interests. With these goals defined, the family can then make the decision of whether to bring professional staff in house or work with outside consultants.

Taxonomics: So, how can entrepreneurs stay on course with their plan and their life goals?

McCauley: People, by nature, are dynamic creatures. Goals are always changing. The best thing entrepreneurs can do is meet regularly with their advisors to discuss their objectives, and to update their plan formally at least every one to two years. This will bring to light how any changes in goals may impact the plan, either prompting changes or providing validation that they’re still on track.
Twain Financial Partners’ key role in public-private development success

Keith Willy
If you want an energized conversation at a cocktail party, declare there’s too much or too little government involvement in the economy. Feel free to take either side, and watch the debate unfold.

Or, if you’re at that party and want some personal space? Bring up the subject of tax credits. As eyes glaze and people politely increase their distance from you, you’ll see how quickly you can be alone in a crowd.

Really, that’s a bit of a shame. There are few better examples of how the efficiencies of free enterprise and the leveraged involvement of government can work together to create sustainable economic development than through development deals involving tax credits.

Given that $1 of tax credit reduces tax owed dollar for dollar, while $1 of deduction only reduces tax owed by the applicable tax rate, you’d assume the phrase “tax credit” would cause more excitement in business circles than it often does. These critical economic development tools are literally changing the landscape in many communities across the country.

If there’s one person who could extol the virtues of tax credits and keep a crowd’s attention through a combination of his passion and expertise, it’s Keith Willy, chief operating officer of Twain Financial Partners. Willy and the Twain team have been involved in more than 1,000 projects in which tax credits have helped create over $10 billion worth of development, from low-income housing tracts to industrial and commercial developments to designated-historic-area revitalization projects.

“Tax equity is an amazing tool to help create private and public partnerships that achieve a positive social outcome and a profitable return for the investor,” says Willy. “The private sector brings its profit motive and risk management to help ensure the social outcome is realized. Yet, without the tax credit incentive put forth by the public sector, the private sector would likely not have approached the deal in the first place.”

For example, a developer wants financing to renovate a commercial building in a distressed neighborhood that he believes can attract tenants and create jobs. But the risk is often too high for conventional banks. However, give a bank’s community development corporation a worthy tax credit incentive for investing, and the deal moves forward, creating value and jobs. There is a catch, so to speak, and that’s where a fund administrator like Twain comes in — these projects come replete with complex compliance and performance issues to protect the integrity of the government’s tax credit requirements and the interests of the lender.

Mike McGivney, a Cohen & Company partner in the firm’s nationally known Tax Credits and Incentives Group, was giving a speech about renewable tax credits in 2008 in Washington D.C. when he first became acquainted with Twain’s leaders. “They were clearly one of a small handful of people that really understood the opportunities, complexities and compliance issues involved with tax credit investment deals,” recalls McGivney.

**Leaving the Mother Ship**

At the time, Willy and many of his current colleagues at Twain were with U.S. Bancorp Community Development Corporation (CDC),
TAX CREDIT INVESTMENTS REPRESENT THE BEST OF FREE ENTERPRISE AND LEVERAGED INVOLVEMENT OF GOVERNMENT.

where Willy served as CFO and then COO. Headquartered in St. Louis (where Twain is now), the Community Development Corporation was one of the nation’s most active tax credit investors and one of the most profitable divisions within the bank.

The Fund Administration Group at U.S. Bancorp CDC, like Twain today, was responsible for all the accounting, loan servicing, treasury services and asset management needs of the hundreds of tax credit investment deals within the bank’s portfolio. Impressed by McGivney and Cohen & Company’s own understanding of tax credit issues following that Washington D.C. conference, the group approached McGivney about outsourcing to Cohen & Company the complex tax returns for some of its tax credit investment deals.

“They needed 125 returns in a relatively short time, prepared cost efficiently and with no errors,” McGivney recalls, “and while it was no small feat, we delivered. I can’t say we foresaw then how that compliance opportunity would grow for us. But, we knew we were working for an innovative leadership team within that fund administration group.”

That innovative team (principals Marc Hirshman, Matt Badler and Willy) struck out on their own and founded Twain Financial Partners in 2013, when U.S. Bank decided to outsource the services previously provided by its own internal fund administration group.

Its history with the bank gave Twain the kind of head start most start-ups would only dream of. But, leaving the security of a “mother ship” the size of U.S. Bank came replete with risks, and there were no guarantees.

Additionally, “We had to create our own systems, database, general ledger and virtually everything else in a relatively short period of time,” says Charity Braden, director of fund administration for Twain and a key driver in their operations.

To say Twain has exceeded expectations in less than three years in business is an understatement. As Braden recounts, Twain ended its first year in business overseeing 422 investments for 95 different community development entities (CDEs). As of this writing, those numbers have almost doubled to 737 investments and 200 different CDEs, with nearly $4 billion in assets under management.

This also means that Cohen & Company currently prepares more than 700 complex tax returns for Twain, quite a jump from the initial challenge of preparing 125 returns. The relationship also has expanded to include advising the fast-growing and dynamic Twain organization in general business areas, such as client service and firm management.

High Expertise Delivered at a Low Cost

In a competitive industry, Braden says, “Twain is standing out because of its relentless drive “to be a low-cost provider that offers the highest level of expertise.” Given Twain’s leadership and the capabilities of the team that followed that leadership
When Keith Willy and the team that would form Twain Financial Partners transitioned out of U.S. Bank and into their own stand-alone firm in 2013, their perspective suddenly changed. The team had gone from being an internal department within a large financial institution to its own entity of approximately 35 people now solely responsible for both attracting and retaining clients to sustain the new firm.

Terms such as “company culture” and “client service” were critical at the bank, but as an independent enterprise, the phrases took on new meaning and would have to be fleshed out to align with new organizational goals. Plans surrounding a wide range of issues, like business development, client service processes and communication, would need to be created. All this would need to happen in the midst of servicing more than 400 investment funds for nearly 100 different Community Development Entities (CDEs) in their first year of business.

Twain turned to what may seem like an unlikely partner for support — Cohen & Company.

“From the beginning, the leadership at Twain and Cohen both viewed our relationship as more of a partnership than an annual engagement,” says Tax Partner Mike McGivney. “Our regular discussions turned into in-depth conversations regarding business practices, team building and company culture. Keith admired our client service culture and expressed interest in incorporating some of our best practices at Twain.”

That’s when McGivney realized there was an opportunity to help in perhaps an unexpected way. Willy and McGivney organized a trip to the Twain office with several leaders from across Cohen & Company. The two firms conducted a joint presentation about Cohen’s client service model, networking program and employee communication initiatives.

Cohen’s team continues to serve as a resource to Twain in ways not initially contemplated several years ago, but both sides are gaining unanticipated value. “Our relationship with Twain is really a two-way street,” say McGivney. “We are learning as much from them as they are from us. They have high performers who want to be involved in growing the business. We value the relationship tremendously.”

from U.S. Bank, the case for Twain’s high level of expertise is clear. But only rarely is the highest provider of expertise also an efficient, low-cost provider. How does Twain do it?

“There are a lot of organizations who view compliance as a cost,” says Willy, “because it’s a huge headache. But, in our culture, we see compliance as a differentiator.”

Because the breadth of compliance issues in complex tax credit deals is seemingly endless, Willy says, “The key is embedding documentation activity into the process, rather than, ‘I’m going to do my job first, and then separately do this thing called compliance.’”

“We’ve also invested a lot of resources into building our own robust software platform. We integrate compliance documents in our database in a way that makes it easy to access whenever necessary. If you have files in order and the compliance is vetted and the work performed, you don’t need lots of hours with numerous employees to prepare for an audit. You’re always ready.”

Growing Market Share and New Opportunities

Moving forward, Twain will continue to build its share of tax credit investment fund administration opportunities (to give a sense of the size of the market, tax expenditures on community-based initiatives totaled about $45 billion from 2008 to 2012). But, seeing a significant opportunity to leverage both its expertise and its relationships, Twain is now providing creative capital solutions that span the entire capital structure from debt to equity, creating uniquely tailored capital solutions along with cost-efficient everyday management of complex assets.

“Now, that we’ve built out our operational platform,” says Willy, “we are starting to market our expertise in private equity and real estate beyond tax credit investment opportunities. We’re reaching out to M&A and private equity firms, as well as SBIC entities. We’re excited about our future.”

Twain Financial Partners
www.twainfinancial.com

Contact Mike McGivney, CPA, MSA, at mmcgivney@cohencpa.com to learn more about potential synergies with your private company.
How the Kanfer family aligns wealth with doing good
Case in point: Watch Joe Kanfer in conversation with his employees, and you’ll observe an entrepreneur intentionally more interested in their opinions than his own. Although he has a relaxed air as he converses, his gaze is focused and you never sense he’s waiting for the employee to hurry up and make a point so he can trump it with his own. In fact, he’s more likely to ask a follow-up question, or a few of them.

Joe, 68 years old, is the CEO of Akron, Ohio-based GOJO Industries, the leading global producer of away-from-home skin health and hygiene solutions. If GOJO doesn’t resonate, you know its PURELL® brand, the world’s number one hand sanitizer and one of the most recognized brands.

“At some companies, it’s dangerous to argue with the CEO,” says Joe. “But, in Jewish culture, we read in the Torah that Abraham argued with God when he thought God was going to do the wrong thing. So, what’s wrong with an employee disagreeing with the CEO? In fact, here it’s risky to agree with the CEO, especially if I’m wrong.”

Two As One
Joe Kanfer’s value for the views of his more than 1,000 employees is more than matched by his value for the insights of Marcella Kanfer Rolnick, his eldest daughter of four children and the purpose-driven vice chair of GOJO.

“Despite their generational differences and the perspectives that come with that, Joe and Marcella are two people acting as one,” says Neil Kaback, a partner at Cohen & Company who has worked closely with the Kanfers on family, business and tax matters for nine years. “They are equals, each comfortable with the other acting in their place. It’s an extraordinary relationship to see in action.”

Marcella first worked on the factory floor of GOJO as a teenager. She earned her MBA from Stanford and worked for an international consulting firm and a digital media social enterprise before returning full time to GOJO. Marcella was part of the early team working on the consumer launch of PURELL®. Additionally, in the early 1990s she led the effort to make GOJO an early digital adopter.
TRY TO IMAGINE MANY OTHER ENTERPRISES IN WHICH PURPOSE AND PROFIT ARE MORE PURELY ALIGNED THAN AT GOJO.
Company. Walnut Ridge is what is typically referred to as a family office, an entity created to manage the wealth and complex financial affairs of a high-net-worth family.

But, Walnut Ridge, with a staff of eight full-time management and financial professionals, and with Cohen & Company as its guiding CPA firm, is a more sophisticated and aspirational family office model than most. Conceived by Marcella and co-chaired with her father, Walnut Ridge, according to Marcella, “is a means to manage the various for-profits and nonprofits that our family stewards and to nurture multi-generational family culture.”

Some of the expansive philanthropic efforts overseen by the office include the family’s own foundations. Lippman Kanfer Family Foundation facilitates the family’s learning about critical issues. Most recently they finished a three-year cycle on hunger and poverty, which they will continue to work on with the next generation, and they’re starting a new cycle on global climate change. Lippman Kanfer Foundation for Living Torah aims to connect “Jews and others to Jewish wisdom, sensibilities, and experiences that are enriching people’s lives and inspiring them to incorporate Jewish insights and practices into their daily actions.”

Walnut Ridge is uniquely conceived, from helping Joe and Marcella make wise decisions about their investments in GOJO and their other businesses, to serving as the back office of the independent foundations, to operating as a social enterprise (an organization that applies commercial strategies, to make improvements in human and environmental conditions).

“Neil Kaback and Frank Dixon of Cohen & Company have been tremendous advisors to our family and Walnut Ridge,” says Marcella. “We will talk with them about what Joe and I want to accomplish on behalf of the family, and they take the lead in how to interpret the law as it relates to the tax code. They’ve been instrumental in our estate planning.”

Opportunity Seized
The backstory of GOJO Industries is an archetypal 20th century American entrepreneurial rags-to-riches story. Growing up, Joe Kanfer lived in Akron, Ohio, in his grandmother’s house with his extended family, including his Aunt Goldie and Uncle Jerry Lippman, who lived in the third-floor attic.

Goldie had worked in a rubber plant during World War II. Jerry sought a safer solution for the chemicals Goldie and her co-workers used to clean their hands. With the help of a Kent State University professor, Jerry created a heavy-duty soap that was made in the basement of the grandmother’s house in a washing machine used as a mixer. He began selling the soap out of the trunk of his car to mechanics and garage owners.
Eventually, Jerry patented the first portion-control hand cleaner dispenser. Sales to gas stations and other workplaces regionally and nationally rose steadily over the next 20 years.

In the early 1970s, after college and law school, Joe forewent a Wall Street opportunity to join his beloved Uncle Jerry at GOJO. The two expanded GOJO’s product offerings, and the innovation of a sanitary-sealed dispenser technology in 1983 paved the way for GOJO to make inroads into healthcare and foodservice, where hand hygiene is a priority.

Further product line, industry and global expansion marked the remainder of the 1980s and 1990s for GOJO. Today it sells more than 1,400 products in more than 70 nations and is a world leader in B2B skin-health and hygiene solutions. However, it is the new approach GOJO’s scientists developed to hand disinfection, which revolutionized hand-hygiene practices in both the healthcare and food service industries, that most people associate with GOJO.

And yet, after all of this success, Joe’s disdain of the “CEO as hero” business myth still makes it difficult to get him to discuss his own role in the explosive growth of GOJO. But those who know him say Joe’s ability to discern the company’s next best move, identify and inspire talent, weather setbacks and apply his general wisdom about life rooted in Judaism make him the successful leader he is today.

Onward

“I find it fulfilling to work alongside my family,” Marcella says. “We are a family that loves to create meaning and value.”

If that sounds lofty, try to imagine many other enterprises in which purpose and profit are more purely aligned than at GOJO, which has a mission to bring better hand hygiene to the world to save and improve lives, and makes a profit from that very same thing.

Whatever the future looks like for GOJO and the Kanfers, discussions and planning sessions are underway, under the auspices of Walnut Ridge, a think tank for the family’s ideas and dreams.

Joe appreciates the Yogi Berra quote, “When coming to a fork in the road — take it.” By which, Joe means, “Don’t let either fear or ego stop you from moving with conviction. If you’re wrong, then run back and take the other road. And along the way, there’s nothing like a sense of humor and a bit of humility. It helps in business like it helps in life.”

The Kanfers do not elevate their objective to be profitable over their mission to do social good.

For a discussion on how Cohen & Company can help your family business create more value and meaning, contact Neil Kaback, CPA, at nkaback@cohenqpa.com.
“I’ve made a couple of bad decisions that did not kill me,” relates Joe Kanfer, CEO of GOJO Industries, “and a couple of good ones I got lucky on.”

“When I borrowed a significant amount of money to try to launch a consumer shower product, someone asked, ‘Aren’t you afraid to take on Procter & Gamble,’” Joe recalls. “I said, ‘My relatives owned a business in Russia, had it stolen from them and were dragged into the streets and beaten. So, taking on Procter & Gamble is not a legitimate reason to be afraid.’”

Interestingly enough, that consumer shower product failed. But, lessons were learned, and the eventual launch in 1988 and ultimate success of PURELL® hand sanitizer is what most people associate with GOJO.

“It took nine years for PURELL® to get into the black,” Joe says. “But, we were motivated by saving lives. People were dying due to bad hand hygiene in healthcare settings. A few leading hospitals were with us from the beginning. But, change comes hard. It takes time.”

Given the number of times they have patient contact, doctors and nurses in clinical settings should wash their hands an average of 60 times a day. But, as that’s not practically possible, GOJO scientists developed a new approach to hand disinfection, revolutionizing hand hygiene practices in both the healthcare and food service industries.

Even so, it was not until 1997 that PURELL® was launched as a consumer product, and it took a winding business path to its present global success.

In 2004, Pfizer, the pharmaceutical giant, made an extraordinary offer: Sell us the rights to PURELL® as a consumer product, and we can put our larger resources behind it to grow it, but you can keep the B2B rights. The Kanfers said yes.

Two years later, after investing very little in advancing PURELL®, Pfizer sold the consumer rights to consumer products giant Johnson & Johnson. Three years later, after seeing that Johnson & Johnson had similarly ignored PURELL®, the Kanfers bought PURELL® back.

“We did sell high and buy it back low,” says Marcella Kanfer Rolnick, vice chair of GOJO. Sounds like an obvious win, right? But, business and social enterprise visionaries don’t necessarily think in obvious terms. “From our perspective, those four years we did not have it were four years the brand was not advanced.”

And then in 2009, the H1N1 virus hit, a pandemic that created worldwide focus on the importance of hand hygiene. Marcella recalls, “All the accounts who previously would not return our calls about PURELL® were suddenly our best friend, and demand went through the roof. We had to have executives on the floor helping with pack-outs.”

Talk about establishing and ultimately owning a brand category.
THE LOGISTICS OF SUCCESS

Third-generation entrepreneur Brad Maloof creates opportunity out of crisis
Remarkably, we have also come to know many entrepreneurs, initially battling to survive the crisis, who discovered opportunities to rise above its currents and expand their businesses in ways that might not have been otherwise achievable.

IN 2006, BRAD HAD HIS “EUREKA MOMENT” FOR HIS THEN SOLID BUT NOT REMARKABLY SUCCESSFUL COMPANY.

Brad Maloof is one such entrepreneur, and his compelling story is a reminder that sometimes a game-changing business idea, holding latent promise, just requires the right timing and conditions to bear fruit.

In 2006, Brad had his “eureka moment” for Amware, his then solid, but not remarkably successful, warehouse and trucking company. Like most exceptional business ideas, it wasn’t really an isolated moment of startling insight. It was the culmination of a process, in this case one inspired by Brad’s admiration for the “right away and all at once” methodology of the “Go Forward” plan developed by Gordon Bethune and Greg Brenneman to turn around Continental Airlines in the 1990s.

When the economic conditions of 2008 hit full force, the idea Brad and his leadership team had proffered for more than two years as a solution to an expansively common problem in the freight industry finally began to gain interest. Brad’s plan for how to cost-effectively transport Less Than Truckload (LTL) freight was met with a receptivity that has fueled the impressive growth of what are now five separate but intersecting companies.

Silver Spoons Not Included

As elite athleticism runs generationally in some families, an aptitude for entrepreneurship seems to be a characteristic of others. Third in a generational line of successful entrepreneurs, Brad recalls his childhood. “Growing up, business was talked about all the time. Dinner table conversation was often about how do you approach something strategically, how do you grow business.”

Owning and operating parking lots in and around Greater Cleveland was a core business of both his grandfather and father. “I was seven when I started working the Muni Lot for Browns’ games,” Brad says, “wearing one of those metal coin changers on my belt and giving people change for their $2.50 fee.”

The approach both his grandfather and father took with Brad, now 44, over the course of his career can be summed up as: Kid, we’ll back you when it makes sense, but we aren’t putting any silver spoons in your mouth. It would be doing you a disservice.

His grandfather, George, now 94, still goes to work every day. Brad estimates that about a quarter of land upon which Progressive Field and Quicken Loans Arena now sit were once parking lots or buildings owned by his grandfather (who is still not thrilled that some land was taken by eminent domain).

Bill Maloof, Brad’s father, was also in the parking lot business. But, upon seeing an opportunity, later moved into the propane gas business, eventually building one of the largest independent propane distributors in the country.

Building Toward the Eureka Moment

After graduating from Boston University in economics, Brad worked in operations and dispatch at propane distribution locations across the country for his father. “I learned about dispatching product efficiently, with logistics, better routing, planning and sequencing.”

We know that the global financial crisis of 2008 is considered the worst economic crisis since the Great Depression of the 1930s. In fact, according to a Federal Reserve estimate, an entire year’s worth of American economic activity — nearly $14 trillion — was effectively wiped out during the recession. From late 2007 through early 2009, the recession first battered the housing and financial sectors, and spread like a contagion through most parts of business and industry.
In 1994, Bill bought Amware, a public warehouse behind one of his parking lots, for the land, not for the business. In 1998, with his grandfather’s backing, Brad bought the Amware business from his father. “Looking back, I paid him too much for it,” Brad says, acknowledging with annoyed admiration his father’s penchant for getting a good deal.

For the next three years, Brad grew Amware steadily. “We were starting to build momentum,” Brad says, “and then 9/11 happened, the dot-com bubble burst and times got tough.” Still, between 2002 and 2005, more growth ensued as he shifted Amware’s focus toward trucking and less toward warehousing.

“We were making some money,” Brad says, “but, really just spinning our wheels. So, we engaged in a process like Bethune and Continental where we relentlessly went after identifying what expertise we had to really bring value to our clients.” And that’s when Brad and his team hit upon the idea of attempting to solve a universal bane of moving freight: how to cost-efficiently move less than truckloads (LTL). Cost efficiencies break down when, for example, you are a manufacturer who needs to get 10 pallets of product to 10 different customers, none of which are located near one another, and all of which need to get the product fast.

One Incisive Strategic Move Opened Up An Array of Opportunities with Customers Who Suddenly Saw Amware in a Differentiating Light.

Every choice you face — from doing it yourself to hiring a carrier to using multiple trucks, drivers and excessive amounts of fuel, to paying a broker to figure out and negotiate the logistics of what combination of carriers might be able to take a pallet on a truck already going in the right direction — is going to eat into your margins.

Brad and his team, along with a friend from high school, Mike O’Campo, who had become an accomplished software developer, created a web-based transportation management system. “Think of it as Travelocity for LTL freight,” says Brad.

The software could be licensed to customers and provided a means for efficiently identifying LTL freight opportunities across multiple carriers all at once. This, along with prior carrier cost aggregation agreements provided by Amware, reduced costs.
SECOND CHANCE:
Overlooked Opportunities Can Make an Impact

Through a team approach, Cohen & Company’s advisors frequently uncover opportunities for new clients to mitigate tax burdens or strengthen financial statements.

One area that is examined closely is the issue of expensing items that could have been capitalized. Keith Klodnick, a partner in the Accounting & Auditing Department, says he sees many companies expense assets, which could have been capitalized, because they wanted to pay lower taxes. “However, they don’t realize they would not have paid taxes due to Section 179 and bonus depreciation currently available in the tax code.”

Expensing fixed assets that could build a collateral base leads to a weaker presentation of the financial statements to the bank. And weaker financials could mean a less attractive interest rate or tougher covenants to financing terms, such as lower distribution amounts or stipulations on acquisition activity.

In the case of Amware, Cohen & Company helped them create a fixed-asset capitalization policy, explains Klodnick. “So, now they capture fixed assets on the balance sheet that will be appropriately depreciated over the life of those assets.”

Software development costs is another area that often deserves a second look. If the process being developed meets certain GAAP requirements, it can be shown as an asset and amortized over its life, yet can still be expensed under the research and development expense.

“There was one problem,” Brad recalls. “Prior to 2008, too many of the companies who would benefit were making so much money they wouldn’t listen to our pitch. But, when the crisis hit, companies looking for any way to do more with less were suddenly very interested.”

One incisive strategic move opened up an array of opportunities with customers who suddenly saw Amware in a differentiating light. Today Brad heads up five companies, Amware Distribution Warehouses, Amware Express, Amrate Logistic Solutions, Recycle-it and Amware Drayage. An all-star roster of customers now includes B.F. Goodrich, Bayer, Ford, Hitachi, International Paper and other Fortune 500 firms.

As often happens when the growth of a company is outstripping the capabilities of its existing CPA firm, Brad turned to Cohen & Company and provided them with his financial statements and tax returns. “Our tax team found a lot of opportunities,” says Keith Klodnick, a partner at Cohen & Company. “We captured assets he had not shown, took advantage of missed tax credit opportunities, put him on the basis of GAAP financial reporting and overall showed he had a much stronger financial statement than previously demonstrated. All of which also allowed him to access better rates with his partnering financial institutions.”

Brad concludes, “We are in growth mode and looking to expand into different cities. We will likely combine organic growth with acquisitions. Knowing I have Keith Klodnick and the team at Cohen & Company on board for their tax strategizing and strategic guidance makes me confident we are prepared for any opportunity or challenge.”

To identify opportunities that could strengthen the financial status of your business, contact Keith Klodnick, CPA, at kklodnick@cohencpa.com.
Finding Balance
The tax complexities of diversifying with hedge funds

Hedge funds are an increasingly common alternative investment for investors with significant net worth and liquidity. In considering whether an investment in a hedge fund is appropriate, it is important to understand the tax ramifications of the investment.

Understanding the Basics
Hedge funds tend to invest primarily in publicly traded positions, and often use hedge positions like short sales, with the goal of earning a positive return that does not generally correlate to what is happening in the traditional markets. While hedge funds tend to hold relatively liquid assets, most funds place limits on liquidity, have minimum holding period requirements and may suspend redemptions in certain circumstances.

From an investment strategy standpoint, the private placement memorandum and the operating agreement outline the overall strategy. However, they also usually grant the investment manager wide discretion to deviate from that strategy. So, in addition to closely examining these documents, reviewing the actual investment strategy being implemented is important.

Hedge funds generally do not have to be registered with the Securities and Exchange Commission (SEC) if their capital is raised solely from a limited number of accredited investors. To be accredited, individuals must have at least $1 million of net worth, excluding the value of their primary residence, or income of at least $200,000 ($300,000 with spouse). So, while some hedge funds are registered, the vast majority are not.

“These registration exceptions apply under the assumption that accredited investors are more sophisticated than the general public,” explains Rob Velotta, a tax partner at Cohen & Company specializing in the investment industry. “The idea is that more experienced investors do not need the same protection from the SEC.”

Know What Questions to Ask
There are basic, yet key, areas to understand that will ultimately impact the tax opportunities or consequences an investor will face. The structure of the hedge fund is one such area. The most straight-forward scenario is when a U.S. taxpayer invests in hedge funds that are structured as U.S.-based partnerships. However, some funds may be structured in offshore jurisdictions, most commonly a tax haven jurisdiction like the Cayman or British Virgin Islands. In these cases, passive foreign investment company tax treatment or reporting requirements for investing in foreign partnerships may come into play and significantly complicate tax compliance requirements.

It’s also extremely important to understand the activities in which the hedge fund invests, as this will help investors evaluate the fund’s tax efficiency, according to Velotta. He says to ask questions such as:
- Is the fund generating short-term capital gain taxed at up to 43.4% or long-term capital gain at 23.8%?
- How much in unrealized gains does the fund have?
- Is the fund trading derivatives that may cause gains to be taxed at different rates?
- How are the expenses of the fund being treated (as ordinary expenses or investment expenses subject to limitations of exceeding 2% of AGI and AMT limitations)?
- Is the investment suitable for an IRA account?

Two hedge funds with the same pre-tax performance can have drastically different after-tax performance depending on the answers to many of these questions. Investors along with their advisors need to be asking the right tax-related questions to fully understand their tax position and their ultimate returns.

A Ripple Effect
Investment in a hedge fund may cause a delay in the timing of the receipt of K-1s used to prepare tax returns and uncertainty in regards to estimated tax calculations. In fact, most hedge funds provide little to no estimated taxable income information, primarily because this information can change drastically throughout the year. For direct investing funds, K-1s are generally available to investors before April 15, but funds-of-funds (or funds investing in other hedge funds) K-1s are often extended and not available until closer to September 15. In either scenario, it may create uncertainty in managing cash flows for taxes.

As with any investment, the decision whether or not to add hedge funds to a portfolio should only be made after careful consideration with financial and tax advisors. Elevated returns, and risk, are areas to certainly evaluate, but investors should be sure to analyze the comprehensive tax impact of the investment as well.

Rob Velotta, CPA, MT, focuses on tax issues for hedge funds, RICs, fund-of-funds, private equity/venture capital funds and investment advisors. Visit cohencpa.com/blog for a more in-depth article on hedge funds or contact Rob at rvelotta@cohenfund.com to discuss the tax implications of your complex investment.
Most entrepreneurs are focused on daily reality. In growing their ideas and companies and keeping them from being crushed in a hundred different ways, the big picture often gets blurry — if not completely obscured.

Put aside the biggest picture (mortality, afterlife, the meaning of existence), and it's hard for many entrepreneurs to envision that distant time in life after they've transitioned a successful business.

A Bucket List Won’t Cut It

“This is one of my hot points in all the years I’ve worked with entrepreneurs,” says Ron Cohen, the (technically) retired founder of Cohen & Company.

“We think about the financial aspect of what happens after we sell our business: Do I have enough money to last the rest of my life? But, often there are no specific plans as to the non-financial aspects: What do I want to do with the rest of my life? I’m not talking about a bucket list of trips or experiences. But, what will I do that will be fulfilling to me?”

You can find stories, case studies and books galore about how entrepreneurs built their wealth. But, as a white paper issued by Columbia Business School titled “Life After An Exit: How Entrepreneurs Transition to the Next Stage” noted, “It is surprising to find so little written about what happens to an entrepreneur after a liquidity event.”
Perhaps not so surprising, all the drama and interest is in the chase. When the chase is over, we don't find the story as interesting. But, what if it's your story — aren't you interested in what happens next?

It's Going To Be Different Than You Imagine
While there may not be a lot of data on how entrepreneurs fare after they sell the business upon which they built their financial success, one common thread seems to be that they are surprised that it's different than they thought. Not disappointing, and often the opposite, but unexpected.

Cohen & Company client Jack Harley, who built and sold a successful business in the power generation industry and was asked to stay on in a continuing role, was unpleasantly surprised to find that, "For the 10 months that I worked for the new company, I was given tasks to do rather than being a part of strategy, decision-making and product development. I was back to being a beginner at a large company again, which was one of the reasons I had started my company 20 years before."

Needless to say, Harley did not stay on. He got an MBA, which he enjoyed, went into consulting (finding that only intermittently rewarding) and ended up buying back a small portion of his business, which he enjoys leading again. But, now it's hardly all work and no play for Harley: “We travel a lot. I am just back from an Alaska motorcycle trip with one son. My wife and I will hike and bike with our children near Santa Barbara soon and then go to southern France for bicycling in the fall. Life is good.”

What Matters Will Still Matter
Bo Burlingham, author of *Small Giants: Companies that Chose to be Great Instead of Big*, has said that many entrepreneurs find that selling the company they built is less difficult to face than leaving the people they built it with.

John Susong used Cohen & Company to help sell his large fabricating company at his ideal price in late 2013. Susong is staying on board for an extended time with the new regime, whom he respects. He’s motivated to stay not only because of the earn-out provisions hammered out during the deal, but because, he says, “There’s been a big culture change. I want to help ease the transition for the employees that helped build the company into what it is today.”

Susong knows the value he represents to the new ownership group gives him standing to effect the policies and compensation plans that impact those employees. “I tell the new ownership, ‘if I’m in the way or playing devil’s advocate too often, let me know.’ But, they keep assuring me I’m bringing value and even asking me to think about staying longer.”

Still, in conversation you can hear his mental engine revving as he discusses the steps he will take upon his exit, which include a long-awaited commercial development project, though he professes, “I’m also looking forward to being bored for a day, because I haven’t been for so long.”

But, does any entrepreneur really want to be bored, or even know the sustained relaxation often portrayed in retirement commercials?

For Ron Cohen, the answer is definitely no. Cohen sold his interest in the firm to his partners over 15 years ago. Now 81, he spends much of his time doing pro-bono consulting for high-potential start-ups. “I am bursting with pride over how my successors have accelerated the growth of Cohen & Company,” say Cohen. He now feels a similar level of achievement seeing fledgling entrepreneurs find their wings.

When asked how long he intends to keep active, Cohen replies, “Who knows? My idol is Warren Buffett who, while still doing deals at 86, declares he no longer wants to become the richest man in history, but the oldest man in history!”

“I’M ALSO LOOKING FORWARD TO BEING BORED FOR A DAY, BECAUSE I HAVEN’T BEEN FOR SO LONG.”

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Real estate comprises one of the firm’s largest industry specialties, so it’s not surprising that team members are actively involved with local and national industry associations. Dave Sobochan, a tax partner in the Real Estate Group, serves on the executive committee of NAIOP Ohio, the Commercial Real Estate Development Association, and as chairperson of the tax and finance committee on a national level. His involvement with the organization has enabled him to personally comment on proposed legislation before Congress and Ohio’s General Assembly. “Having that level of direct involvement not only allows me to be a voice for the industry regarding tax issues, but it also allows me to provide meaningful insights and value that can help our clients succeed,” says Sobochan.

Another key learning opportunity for the firm’s staff comes from attending industry-focused conferences hosted by a variety of organizations. The firm’s training curriculum encourages staff to select local, regional and national programs that will most directly benefit their clients. Strategic programs have included the AICPA’s Global Manufacturing Conference, as well as Association of Corporate Growth and Small Business Investors Alliance events.

Of course, not all industries have large associations or conferences, so the Cohen team heads right to the source — clients. Touring facilities, sitting in on company meetings, subscribing to industry publications and being voracious readers all provide insight. In the case of Mellissa Reed, director-in-charge of the Not-for-Profit Group, she finds the best way to immerse herself in her clients’ world is by volunteering her time with both client and other not-for-profit organizations. “Serving on the board of the Akron Area YMCA gives me first-hand understanding of the challenges my clients face on a daily basis,” explains Reed. “It’s one thing to say you need to make cutbacks. It’s another thing to be the one helping to decide what those cutbacks might be.”

But becoming more involved in an industry and its issues doesn’t mean advisors are stuck in the been-there-done-that routine. “That’s the value in being innovative thinkers and advisors,” says Lisa Loychik, a tax partner. “An idea that worked well in the manufacturing industry may also be applied in a different way to a transportation client. Being able to transition that knowledge comes from industry and technical expertise, as well as collaboration with clients and colleagues.”

At Cohen & Company, passion for the job doesn’t stop at learning basic accounting rules and regulations. Living the “never miss an opportunity” philosophy requires the team to go deeper into technical rules and regulations to understand the nuances of what they mean for clients. But, even that alone is often not enough. The firm’s commitment also requires a deeper dive into clients’ industries to make a lasting impact.
“We get so many questions about state and local taxation — businesses want to know their risk,” says Hannah Prengler, partner-in-charge of Cohen & Company’s State and Local Taxation Group. She says the most frequently asked questions are:

- Do I have nexus, and should I file?
- What’s the exposure if I file, and how do I mitigate it?
- What’s the likelihood of being identified by the state if I don’t file?

While the answers vary based on each situation, Prengler says that all businesses should evaluate the potential impact now more than ever.

“States are ramping up their efforts,” says Prengler. “They have hired more auditors and updated systems to get much better at identifying non-filers.” In the past, tax-collecting entities used systems that couldn’t talk to each other — even within the same state. Now, the ability to share data electronically makes it simpler to cross-check both intrastate and interstate filings to see if the companies match up like they should, even if there actually is no filing requirement.

In some cases, it’s the companies’ own promotion that tips off tax collectors. State auditors, who often are rewarded for finding non-filers, will review a business’ website, which often reveals all locations or outside representatives who sell the product. Auditors also have been known to visit companies unannounced, ask for the CFO or get a tour or more information from front-line workers — enough to determine if the company should be filing in a respective state. Furthermore, auditors for the states of Washington and Illinois reside and work in Ohio with the sole purpose of identifying and auditing Ohio businesses that should be filing in those states.

Audits of other companies, such as vendors or service providers, also can lead to a call or visit from the tax collector. For example, the state of New York audits Company XYZ and pulls a sample of invoices. Among the invoices is one from EFG Co. for tangible property. The New York auditors will look to see if EFG Co. collected sales tax and if it is registered in that state. “I’ve seen many companies be identified because they didn’t collect sales tax on an invoice,” Prengler says. “And that one invoice can open up the company to a more exhaustive, and potentially costly, examination.”

Another area often scrutinized is where a company’s people — both W-2 and 1099 recipients — are filing. If they’re working in a state in which the company has not filed, the filing of the worker’s payroll reports and income taxes can trigger state nexus inquiries regarding the company’s filing requirements. Finally, in some cases where a company commits an egregious non-filing error, the state may alert other states to the problems so they can follow up as well.

Prengler’s advice? Companies with any type of activity or employee in more than one state should conduct a nexus activity study — whether formal or informal. Prengler advises businesses to look annually at all their touch points in each state then rank the states in order of the company’s potential exposure (keep in mind states can go back 10-plus years, collecting taxes that should have been paid as well as interest and penalties).

“Businesses can’t bury their heads in the sand,” says Prengler. “State systems are well equipped to identify non-filers, and auditors are getting more creative in their search for violators and unpaid tax liabilities. It’s just a matter of time before non-filing companies are contacted.”

Many states and municipalities are mining a relatively untapped resource to bring in additional revenue — companies that fall under their jurisdictional oversight that haven’t paid state and local taxes. And between advances in technology and motivation to export tax burdens, the risk of being identified as non-compliant is higher than one might expect.
Cohen & Company talks a lot about its culture. Ongoing training, collaborative environment, intramural sports and even Olympic-style competitions are nothing out of the ordinary for the firm. But a big part of what makes Cohen, well, Cohen, is how much employees care about others.

For the past 15 years, Cohen has hosted a Community Service Day to do some good while also building camaraderie. Everyone is encouraged to participate. Volunteer activities typically consist of painting, cleaning and performing community service tasks to improve local communities. This year the firm dedicated time to the Cuyahoga Valley National Park, Ohio City, Western Reserve Land Conservancy, Feeding America and Easter Seals — pulling plants, cleaning up streets, splitting wood and packing food.

In 2014, the firm launched its Cohen Cares committee to encourage volunteer opportunities throughout the year. The committee develops initiatives to help the firm stay involved — such as a chili cook off to benefit local food banks or a lunch-and-learn program to educate staff on charitable organizations.

“I’ve helped coordinate a lot of community events for the firm,” says Alexandria Flynn, a Cohen Cares team member. “I am continually impressed by the high level of participation, whether employees are cleaning up a park, mentoring students or volunteering time outside of the office.”

Others find different ways to contribute to causes close to their hearts, spearheading teams and/or fundraising efforts for Junior Achievement® Bowl-a-Thon; Autism Speaks® Walk Now; Ohio Society of CPAs’ Financial Education Teaches Children Healthy Habits® or FETCH®.

A particular firm favorite is watching the men of Cohen & Company cultivate their mustaches each November to raise money for men's health awareness during the national Movember event.

Board participation is also present throughout the firm. President of Summit County Habitat for Humanity Board of Directors and Tax Partner Kim Palmer has been integrally involved in Habitat since joining the finance committee in 2010. Palmer has helped the organization stay on track financially and maximize its budget, noting that it's pretty special to use her skills “from the financial and business world to help a great organization provide more affordable homes to the community.”

But it's the spirit of cooperation and support when it matters most that creates a foundation of goodwill among team members.

“I was really touched by how much my colleagues supported me in raising funds for a cause that personally touched our family,” says Megan Howell, a marketing manager at the firm. “Their caring and concern went above and beyond, and is just one of the many ways that demonstrates the strength of our team.”

CEO Randy Myeroff adds, “The privilege of giving back is far from an annual initiative, it is truly part of the fabric of the firm.”

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