RIGHTLY INTERPRETING TAX LAW FOR ECONOMIC ADVANTAGE

Taxonomics

SPRING 2015

LESS RISK, SOLID REWARDS
How Chase Properties’ focused strategy is creating new opportunities — for the firm and for investors

ALSO INSIDE:

LIGHTS, CAMERA, ACTION!
Inside Mitchell’s Homemade Ice Cream’s delicious business success story

THROUGH THE ROOF
Raising customer service to new levels, Al Romanini has built Willoughby Supply into an industry leader

DRIVE FOR SUCCESS
How a clear strategy has kept Anderson Coach & Travel on course

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Never miss an opportunity.
<table>
<thead>
<tr>
<th>Page</th>
<th>Section Title</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>02</td>
<td>CEO PERSPECTIVE</td>
<td>The priceless value of an enduring strategy</td>
</tr>
<tr>
<td>03</td>
<td>Q&amp;A: CLOSING THE DEAL</td>
<td>How taxes impact a transaction</td>
</tr>
<tr>
<td>05</td>
<td>LIGHTS, CAMERA, ACTION!</td>
<td>Inside Mitchell’s Homemade Ice Cream’s delicious business success story</td>
</tr>
<tr>
<td>09</td>
<td>LESS RISK, SOLID REWARDS</td>
<td>How Chase Properties’ focused strategy is creating new opportunities — for the firm and for investors</td>
</tr>
<tr>
<td>14</td>
<td>TAX TIPS: TIMING MATTERS</td>
<td>The impact of pre-transaction estate planning when using GRATs</td>
</tr>
<tr>
<td>15</td>
<td>THROUGH THE ROOF</td>
<td>Raising customer service to new levels, Al Romanini has built Willoughby Supply into an industry leader</td>
</tr>
<tr>
<td>20</td>
<td>DRIVE FOR SUCCESS</td>
<td>How a clear strategy has kept Anderson Coach &amp; Travel on course</td>
</tr>
<tr>
<td>22</td>
<td>OPPORTUNITY: LIFETIME LEARNING</td>
<td>Cohen University bolsters a culture of ongoing excellence</td>
</tr>
<tr>
<td>23</td>
<td>INSIDE VIEW: ENTREPRENEURIAL INSIGHTS</td>
<td>Three ways entrepreneurs differ from (most of) the human race</td>
</tr>
<tr>
<td>24</td>
<td>WHAT THE SQIF? A SHARED VISION</td>
<td>CNEW sees a new way to attract and retain female CPAs</td>
</tr>
</tbody>
</table>

Taxonomics: Cohen & Company’s philosophy of rightly interpreting tax law to our clients’ best economic advantage.
“Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat.”

— Sun Tzu, Chinese military general, strategist and philosopher
Truly outstanding companies shine by defining a clear strategy that unites the entire enterprise — and then propels it forward.

What appear to be fads, roadblocks and other distractions need to be acknowledged in the periphery to consider any noteworthy changes in trends and market conditions. However, the best-of-the-best companies quickly sift through the “noise,” make any necessary adjustments, and align strategy with their core vision and competitive advantages.

That is certainly the case with the savvy clients we profile in this issue of Taxonomics. Each has been able to stay the course, inspire their teams and succeed with clear and differentiated visions. Take our cover story on Chase Properties, the commercial real estate development and management company co-founded by Stuart Kline more than 40 years ago. His differentiating strategy — enhanced by insights from his son, Andy Kline, and son-in-law, Yoel Mayerfeld — has provided Chase Properties with rock-solid growth through volatile markets and changing consumer demands.

The story of Pete and Mike Mitchell of the wildly popular Mitchell’s Homemade Ice Cream attests to the quality-of-life value of knowing from the beginning the kind of opportunities you are — and are not — interested in pursuing. In the case of Willoughby Supply, Al Romanini watched his father build the roofing distribution company from the ground up. By continually understanding their competitive advantages, Romanini has built Willoughby Supply into a regional leader in the industry.

And Doug and Sue Anderson have certainly focused on the key factors of success for Anderson Coach & Travel, responding to challenging market changes by coming full circle to renew their father’s founding vision.

All of the entrepreneurs featured in this issue of Taxonomics remind me that, while remaining flexible is necessary to navigate unforeseen challenges, staying true to a solid, strategic vision will inspire your stakeholders and take you far.

Call or email me anytime to discuss your aspirations for challenging your own status quo: 216.774.1102 or rmyeroff@cohencpa.com.
Buyers — strategic and private equity firms with billions to invest — are more actively coming to the table, making it a seller’s market. Heightened activity means more opportunities to save money with tax planning. Addressing key tax concerns prior to the negotiation process can often help bridge the gap between what the sellers want and what the buyers are willing to pay.

Taxonomics looked to Cohen & Company Tax Partner Mike Kolk to break down the essential tax issues and opportunities of a successful transaction.

Taxonomics: As a seasoned M&A tax professional, what trends are you noticing in the market?

Kolk: In the last three to five years, more deals have involved private equity firms. These sophisticated buyers and sellers are tax savvy and know how to structure the deals to their best financial advantage. As a result, large multiples are being paid and some deals are taking on unique structures. The smaller buyers are still out there, but it is much tougher for them to contend, so they have to be more flexible on how they structure a deal. That flexibility, however, may result in a more advantageous after-tax result for the seller than an offer with a higher headline price.

Another trend is that sellers are taking a more holistic approach to the deal. Often, their personal financial situation is integrated with the business so the two must be addressed simultaneously. It’s not uncommon for our clients who are selling their businesses to work with our related entity, Sequoia Financial Group, or another qualified financial planner to develop a financial model that examines how much money will be needed to live comfortably in retirement based on their unique situation and desires. Then we work on the tax side of the business sale to structure the deal to meet, if not exceed, the seller’s personal financial goals.

Taxonomics: What are the primary deal structures to know in any M&A transaction?

Kolk: It’s typically either an asset sale or a stock sale. Buyers tend to want to buy assets; sellers often want to sell stock.

To determine the deal structure, you first must identify any business or legal issues that could affect the deal’s framework. For example, consider a seller who has a contract with a large customer that stipulates it cannot be assigned to a successor. In an asset sale, the new buyer may not have the rights to fulfill that contract without time-consuming...
HEIGHTENED ACTIVITY MEANS MORE OPPORTUNITIES TO SAVE MONEY WITH TAX PLANNING.

J. Michael Kolk, CPA, MS, JD
Cohen & Company Tax Partner

negotiations. In a stock sale, the company would be the same legal entity and the customer contract could continue.

Generally speaking, sellers fare better if they can sell ownership units (shares) because they have only one level of taxation at the lower capital gains rate. Buyers prefer asset sales because they can step up depreciable cost basis, but sellers can get hit with two levels of taxes — at the corporate and shareholder levels. We work with clients to modify the form of the sale to get better tax results, creating a win-win scenario for the buyers and the sellers.

**Taxonomics: What payment structure options are available?**

**Kolk:** A key element for sellers often is how the payment terms will impact the timing of taxes. If they defer payment and carry a note from the buyer, they receive interest on the entire purchase price and the tax impact is dispersed over the term of the note. However, with longer terms, the sellers must be confident in the buyer’s ability to operate the business.

Equity-rollover structures are more popular today because many sellers are younger and aren’t ready to get out of the business entirely. However, they don’t want to keep all their financial worth tied up in the business either. In these situations, a seller retains a portion of the business even after the sale. The right deal structure is important to avoid double taxation when the retained percentage is eventually sold.

In some cases, it may make sense to create a clean separation and do a deal where 100 percent of the business is sold in an asset sale, and the seller reinvests in equity in the buyer’s new entity.

Another option is a deferred compensation deal. These are sometimes tied to an earn-out — the additional amount a buyer would be paid based on future performance of the business. While it could be structured as an additional purchase price, the buyer benefits more if the payment is structured as deferred compensation because the buyer is then eligible for a tax deduction.

**Taxonomics: What is the tax impact of the sale (asset or stock)?**

**Kolk:** It comes down to how the purchase price is allocated. Buyers and sellers usually have opposing preferences. If it is a capital-gains sale for the seller, the buyer typically cannot amortize the cost any quicker than over 15 years, if at all. If the sale triggers ordinary income tax to the seller, the buyer typically receives an immediate write-off or short-term depreciation deduction. There is a lot of gamesmanship in purchase price allocations.

**Taxonomics: What other tax issues can come into play?**

**Kolk:** State tax nexus is certainly one of them. Identifying the recognized locations of the business is critical, especially since more states and local jurisdictions are looking for additional funds to help support their shrinking budgets.

Sometimes a seller has nexus in a given state but hasn’t filed properly. While the seller may be comfortable taking that risk, those tax obligations will be transferred to the buyer on the close of the sale. It is a significant area to address in the due diligence process.

Other factors to address in closing a deal could fill a two-volume treatise and will always be somewhat deal specific. The thing to remember is that the right tax strategies can play a huge part in helping to close the deal — whether producing tax savings to improve net proceeds for the seller, or effectively reducing the purchase price and/or risk for the buyer. Both sides stand to benefit from a well-planned, tax-efficient sale.

J. Michael Kolk, CPA, MS, JD, advises businesses and their owners on complex tax and business issues, including transactions. Contact Mike at mkolk@cohencpa.com to help identify the tax opportunities that could affect your next deal.
LIGHTS, CAMERÁ, ACTION!

Inside Mitchell’s Homemade Ice Cream’s delicious business success story

Mike and Pete Mitchell
In the script, the business wouldn’t have been launched as a result of McKinsey & Company reporting their recommendations to the family after due diligence into projected global food consumption trends. No, the business would have been started seemingly on a lark.

So, we cut to 1997 when recent The Ohio State University grad Mike Mitchell is visiting his older brother Pete, who is selling mutual funds for KeyBank in Seattle, Washington.

Mike is a philosophy major who grew quite the landscaping business as a college student, partly because he knew he was too quirky to work for anyone but himself. Pete, hailing from Kent State University, is more conservative than Mike, but he’s got an adventuresome streak his suit and tie can’t repress.

Part of the backstory to understand is that each of the brothers thinks the other one is probably the greatest guy on the planet. One night out at dinner in Seattle, they’re discussing how great it would be to find some business path to pursue together. But, one problem, they have no idea what that could be.

The brothers pay their bill, get up from the table and Mike says to his brother, “Hey, what’s the best local ice cream around here?” (And so, our better-than-a-script entrepreneurial story begins.)

They asked around and were referred to well-known national ice cream chains, but nobody knew anyplace local that stood out, leading to a conversation that went something like: ‘Hey, we could make and sell great homemade ice cream. Yeah! Why not us? How hard can it be? And everybody loves ice cream!’

This is the tale of how native Clevelanders Pete and Mike founded Mitchell’s Homemade Ice Cream, and a model for how well-aligned partners with a clear vision can create a profitably delectable life.

Mom, Entrepreneurship
And Faith In Ice Cream

From day one, every key business decision these two brothers have made symbolizes what Pete and Mike are all about.

First, they are about making great ice cream, the pursuit of which began to bloom in earnest on the night Pete and Mike searched for great local ice cream in Seattle. Here’s an excerpt from their mission statement:

“We believe in delicious ice cream. Has there ever been a bad mood that ice cream couldn’t help fix? Are some of the happiest moments from your childhood set around ice cream? Is there a better way to end dinner or a movie than with delicious ice cream? Just asking. Ice cream is the reason nobody says, ‘Hey, let’s go out for cake.’”

When Mike and Pete could not find that great ice cream, their first thought was to open up ice cream shops in Seattle. But, shortly after Mike jumped headlong into trying to learn the mystical secrets of making great ice cream, they came to terms with the second thing they really care about,
their hometown, as also expressed in their mission statement:

“We believe in Cleveland. Our customers are our community; the life of Cleveland is our life. We buy from local suppliers and donate time and money to local organizations. We appreciate that you’re buying local with every scoop you order.”

And so, with a passion for ice cream and Cleveland in their hearts, it made sense that 15 years ago Pete and Mike’s mom put up her home as collateral for the $150,000 loan they needed to open their first store in the Greater Cleveland suburb of Westlake. And it was a booming success from the very first …

No, wait, that’s how it might go in a different script.

“It was October when we opened,” Mike recalls. “Things were slow for about a year. We had no brand and no profits. Some people were thinking we were idiots.”

Pete of course had given up a good job in financial services — for this?

“Well, in retrospect,” says Pete, “it was a good thing. We needed to get better at making a first impression, from making better ice cream to having a system, and therefore providing a better customer experience.”

So, with Mike acting as the chief ice cream designer and Pete in charge of operations, they worked pretty much seven days a week for two years, learning the business one scoop at a time.

**The Right Recipe For Growth**

“I’m usually focused on two things in the kitchen,” says Mike, “flavor and mouth feel. You shouldn’t have to guess. If it is strawberry, it should taste exactly like fresh strawberries in your mouth. And you should feel a nice, creamy and clean melt in your mouth, not gummy or dry.”

Pete worked and reworked the operations and customer experience — he wants it to be the friendliest and cleanest ice cream store experience you’ve ever had. After two years, when they thought they had it somewhat figured out — indicated by a steady growth in sales and reputation — they opened a second store. Eventually, there would be eight stores, including their new flagship location in Ohio City, plus availability of their ice cream in select Greater Cleveland grocery stores.

While Mike and Pete’s focus remains local, anyone who has stood in a 20-minute-long line outside of a Mitchell’s Homemade Ice Cream location can assume

**SINGLE OR DOUBLE: WHAT’S YOUR FAVORITE SCOOP?**

Mitchell’s Homemade Ice Cream is synonymous with rich, decadent flavors and local, wholesome ingredients. And those who have tried it know the selection is out of this world. So what’s your favorite?

- Bing Cherry Chocolate Chunk
- Vanilla Bean
- Caramel Fudge Brownie
- Toasted Hazelnut
- Dark Chocolate Raspberry Truffle
- Wildberry Crumble

Tell us your favorite flavor and be entered to win a free scoop certificate. Vote at www.cohencpa.com/SCOOP
Historic Development Takes Historic Tax Credits

Financing a large-scale development project that benefits both a business and the community at large is not an easy task. But Pete and Mike Mitchell of Mitchell Brothers Ice Cream made it happen when they developed their new flagship store and manufacturing facility in the Ohio City neighborhood using complex, but highly beneficial, tax credits. But it wasn’t a straight path to success.

Historic tax credits, which are available for the rehabilitation of qualified historic buildings, can provide significant tax benefits — if the deal is structured appropriately. If not, there can be unforeseen and significant tax consequences.

And an improper structure is what Cohen & Company discovered after examining existing documents on behalf of the Mitchells.

“The new entity being developed was improperly structured, which would have resulted in a significant deferred developer fee being taxable all at once in the year accrued, rather than incrementally over a number of years,” says Dave Sobochan, a tax partner at Cohen & Company who has a specialized focus on tax credits and incentives. “So, first we had to restructure the deal to properly provide for critical income deferral,” says Sobochan.

But there were concerns to address with other stores too. “When we examined who really had been fronting the costs related to the rehab of their other locations, we found that Mitchell Brothers Ice Cream was incurring the costs, but they were being reported on the landlords’ books.”

This improper reporting limited the brothers from maximizing a significant tax deduction for qualified retail/restaurant improvements, which allows taxpayers to write off up to $250,000 of costs incurred. The Cohen & Company team amended and properly restated the costs, reducing taxable income by hundreds of thousands of dollars and resulting in significant tax savings on future returns.

Sobochan adds, “When all was said and done, the Mitchells saved substantial tax dollars, and Ohio City added a great new business to its roster.”

that their per-store cash flow and profitability more than exceeds industry standards. So, as their business grew, and particularly as they approached an endeavor to create their dream headquarters, they recognized the need for more sophisticated CPA services and, after due diligence, selected Cohen & Company.

“My love of ice cream finally paid off,” says Kerry Gubics, the partner at Cohen & Company who oversees the account. “When Pete and Mike called me to discuss their accounting, I was already such a big fan of their product we hit it right off.”

Today a large and strikingly renovated 100-year-old theater in Ohio City near downtown Cleveland serves as the flagship store, manufacturing kitchen and headquarters for the ice cream empire.

Funding for the sparkling and large-scale Ohio City gentrification project proved to be far more complex than the loan document (risky as it was) Mom signed years ago. Cohen & Company’s tax team, led by Tax Partner Dave Sobochan, provided critical business and tax advice related to the New Market Tax Credit and Historic Tax Credit initiative that helped make the deal, funded by Pete’s former employer, KeyBank, happen.

Through it all, Pete and Mike have been in alignment not only about what they do want, but what they don’t want.

“We want to have very few locations and enjoy our lives,” says Mike. “We see our business as a very personal thing. We want to keep our farmers and suppliers close by, and know our employees.”

Pete confirms, “We are not trying to build something to sell. We don’t want franchises outside of Cleveland, and we are hoping to do this for decades to come. It makes us happy.”

To see if Cohen & Company’s flavor of accounting suits you, contact Kerry Gubics, CPA, at kgubics@cohencpa.com.
How Chase Properties’ focused strategy is creating new opportunities — for the firm and for investors

Stuart Kline
In most entrepreneurial success stories, there is often one (or more) great crisis or failure, self-imposed or the result of greater economic forces, whereupon the entrepreneur can recount how they nearly lost it all — or did lose it all — and, like the mythical Sisyphus, had to start again from the bottom and push that rock back up to the top of the mountain.

Who doesn’t love to hear that part of a successful entrepreneur’s story? It encourages us to realize we can overcome our own defeats. And even more so, we’re often told we can learn as much — or more — from failure as from success.

But, the story of Chase Properties offers a different kind of lesson, perhaps a more valuable one. A lesson in how a brilliantly simple strategy, consistently and skillfully executed, can result in long-term wealth creation free of the drama of nearly-lost-it-all experiences. Their story proves it’s even possible in the volatile, risk-fraught world of commercial real estate development and management in which Chase Properties competes.

Seemingly Simple Strategy
Co-founded by Stuart Kline and the late Lou Weisberg, Chase Properties ranks among the top 100 community shopping center owners in the nation, with nearly six million square feet of retail space.

In 1973, Lou, who had previously invested in a real estate deal with Stuart’s father, invited Stuart to come home to Cleveland from New York (where he worked with a shopping center development company) to start their own venture developing shopping centers. The combination of Lou’s capital and business experience, plus Stuart’s energy and preternatural insights into what made for a good retail location, lead to early successes.

It was over the course of Stuart’s location scouting trips to small communities in Ohio and neighboring states on behalf of one of their large retail clients that Stuart developed what would become Chase Properties’ distinctive strategy for the development and management of their own shopping centers.

“We began operating on a simple principle,” says Stuart. “In a smaller town, we wanted to own the best center in that town. In a larger city, we wanted to have the best center in whatever submarket we selected.”

Yoel Mayerfeld, Stuart Kline, Andy Kline
For more than 40 years that seemingly simple strategy — enhanced over the last few years by a new capital strategy conceived by Stuart’s son, Andy, and son-in-law, Yoel Mayerfeld — has enabled Chase Properties to grow steadily without crisis through the rise and fall of myriad competitors and retail tenants, changing consumer shopping preferences and four national recessions.

Andy elaborates on his father’s founding strategy: “Over time, our properties in smaller markets have done better on average than our properties in larger markets, showing more stability. During the most recent recession, some major markets experienced rental rate reductions of 50 percent. However, rental rates at the strongest properties in smaller markets, such as those we operate, did not experience any decrease.”

“No only do we achieve better yields by buying in smaller markets, but we ensure long-term tenant demand by acquiring the best property in these markets.”

Excellence In Execution

Of course, without excellent execution even a brilliant strategy is just an idea, and ideas by themselves don’t make money.

Cohen & Company has been Chase Properties’ CPA firm of record for nearly 30 years, providing tax, accounting, due diligence and business consulting services and growing alongside Chase as it developed or purchased more and more shopping centers in a wider swath of states across the eastern United States.

In commercial real estate, executing effectively includes properly discerning the deals you don’t want to make, as well as coming to favorable terms on the deals you do.

The Earned Insights of Stuart Kline

After more than 40 years in the commercial real estate business, Stuart Kline has developed a cache of wisdom about growing a company over the long term. He shares a few of his earned insights below:

Eliminate ego from the decision-making process.

“My co-founding partner, Lou Weisberg, had a great ability to understand people. He helped me understand how to discuss any business issue and not allow personal ego to get in the way of making the best business decision.”

Keep debt down, and you can ride out almost any storm.

“We never really had any significant financial problems. We engineered our way through many recessions: ’73 and ’74, ‘90 to ’92, the early 2000s and the more recent financial market meltdown. Ours has been a story of slow, steady growth. We keep our debt down because, in real estate, doing so is a key to getting through any recession.”

You can’t split authority from responsibility.

“You need to be willing to give up authority as well as responsibility. You can’t split the two. You can’t hold someone responsible for something you haven’t given them authority over.”

Know the cost of entrepreneurism before you leap.

“You have to be prepared for a significant dry spell until you are able to build up some capital and substance in your business. Lou told me back in 1973 that it takes about five years, and I think that’s usually correct. More often than not someone is leaving a stable salary and the potential for promotion and security for — an idea.

You have to ask yourself: Am I really willing to slug this out for five or more years before it, hopefully, becomes self-sustaining?”
And just as important as some of the deals that closed were the deals that Stuart, and then later Andy and Yoel, ultimately decided not to pursue. “We passed on a lot of opportunities,” Andy says, “that turned out to be good opportunities to pass on.”

Yoel recalls his first couple of years onboard with Chase Properties: “During my first years in the business from 2006 to 2008, while the rest of the world seemed to be chasing real estate, we stayed disciplined and did very little, which is often the hardest thing to do. This discipline paid off and after the recession, we were in a very sound position to take advantage of some great opportunities.”

And while it’s one thing to identify the best potential property in a smaller market, it’s another thing to negotiate the right pricing to close on it, and to convince the right tenants (Chase Properties’ anchor tenants include Target, T.J. Maxx, Lowes, Walmart and Kohl’s) to come on board.

Both Andy and Yoel cite Stuart’s knack for getting deals done as a model for their own approach.

“You need to put yourself in the position of the person you are negotiating with,” says Stuart.

“You have to understand what is motivating them, what is important to them and what is not. What are the issues that would cause them to walk away. What are the things that they say are important to them, and yet you realize would not cause them to walk away.”

Ramping Up
Mirroring the transition of greater responsibility passing to the second generation of leadership at Chase Properties, Cohen & Company has integrated its next generation of leadership, passing the baton from long-time advisor and Partner Andy Finger to Partner-in-Charge of the Real Estate and Construction Group, Adam Hill.

“Collaborating with the family over many years and helping them achieve their vision has been a real privilege,” says Hill. In addition to working with Stuart, Andy and Yoel, Stuart’s wife, Terri, was in charge of the company’s financing operations for 12 years, and daughter, Lindsey, currently works part time as an attorney for the firm. “Whether helping them structure a complicated 1031 transaction, analyzing a sale or assisting them on the formation of their new funds, it has been really
interesting and fun work. Everyone at Chase Properties sees the value that we can provide and gets us involved on the front end of transactions, which is a proven strategy that I advise all my clients to follow."

Hill, assisted by Senior Tax Manager Donna Weaver, works with Chase Properties on their newest ventures as well. The ramped-up funding strategy conceived and implemented by Andy, Stuart and Yoel has kept the Cohen & Company team busy with property purchases, development projects and all the accompanying complex strategies and tax work that are integral to major commercial real estate transactions.

Specifically, Andy, Stuart and Yoel have put together two successful private real estate funds to accelerate Chase Properties’ ability to purchase properties that fit their proven model. The first fund in 2011 exceeded its goal and raised $17 million; the second in 2013 exceeded its goal and raised $30 million. A third is now in the initial planning stages with a target of raising $50 million to $100 million.

The funds allow Chase Properties to focus on acquiring high-quality, stabilized shopping centers in secondary and tertiary markets; and, for the first time in its history, provide outside investors with an opportunity to reap the benefits of the company’s successful marketplace strategy.

Andy gained valuable experience working for two real estate development firms in Chicago, first as a buy-side analyst for a real estate investment firm and then doing real estate acquisitions. Yoel worked on Wall Street in the complex world of trading equity derivatives. Their complementary skills form a savvy team, yet each credits Stuart and his legacy for the relative ease with which the first two funds sold and were successfully closed.

“After a few years it became clear to both Andy and me that, given our backgrounds, there was an opportunity for us to pursue these funds and grow the firm,” says Yoel. “But, the truth is we’ve done it very easily based on Stuart’s track record, and the trust he’s earned in the marketplace.”

As the third fund moves forward, and as the reins of leadership eventually transition fully to the second generation, Chase Properties’ core strategy, conceived more than 40 years ago, will likely remain unchanged — for proven reasons. ■
While there are many estate planning tools to help individuals maximize their opportunities, one often overlooked vehicle is the Grantor Retained Annuity Trust (GRAT).

**In GRATs We Trust**

A GRAT is an irrevocable trust, which pays a fixed annuity for a term of years back to the individual who established the trust. The annuity payment is based on a fixed percentage of contributed assets plus an IRS-prescribed interest rate. Once the GRAT term expires, the assets remaining plus any appreciation transfer directly to the trust's beneficiaries — estate-tax free.

“Much of the success of a GRAT, as well as many other estate planning techniques, depends on the rate of return of the contributed asset versus the current IRS interest rate,” says Andy Whitehair, a director of tax at Cohen & Company and a key member of the firm's Family Wealth Group.

To illustrate the point, let's assume we have a business owner, Mick, with 50% ownership in a business, Stone Inc., with a value of $40 million. Mick believes the business will grow 20% annually until his retirement in five years. After consulting with his advisors, Mick decides to transfer 25% of Stone to a GRAT with a five-year term.

Mick transfers units of Stone, which are worth $10 million; but for gift tax purposes those shares are valued at $7 million. Mick receives an annual annuity, and at the end of five years, models suggest that the trust will pass $9.1 million free of estate tax to its beneficiaries. With a current estate tax rate of 40%, this strategy produces estate-tax savings of $3.6 million five years after funding. Those savings will only grow since all future growth in the value of the business will benefit Mick's heirs.

Mick's co-shareholder, Keith, waits to implement a gifting strategy until a sale is imminent, so the expected growth rate, post-sale, may only be the 7% earned on a portfolio of marketable securities. Keith makes the same 25% transfer to a five-year GRAT, but, because of the timing of the impending sale, the $10 million gift is valued at $9 million. After annuity payments and future growth, approximately $1.8 million will transfer free of estate tax at the end of the GRAT's term, producing an estimated tax benefit of $720,000.

**Don't Dis-Count Valuation Discounts**

Valuation discounts can provide an added boost to tax savings before a sale. In the example above, even though economically a 25% interest in Stone was worth $10 million, the value for gift tax purposes was lower. Because the shares Mick and Keith transferred to their GRATs were non-marketable and non-controlling, a valuation analyst adjusted the shares' value down for these limitations, thus creating a valuation discount.

“While the rate of return is a huge driver of the success of many estate planning techniques, the valuation of the gifted asset makes a big difference too,” says Whitehair. “In the above examples, Mick's early planning allowed him to receive a 30% valuation discount versus only 10% for Keith. That's because both shareholders' interests were valued based on all of the factors known at the time of the gift. Keith's valuation discount needed to take into consideration the impending sale. With no sale on the horizon when Mick made his gift, a higher valuation discount was justified. Clearly, Mick's early planning produced a larger benefit, because early on he transferred much of the business' growth to his heirs. The benefit is there if business owners plan for it ahead of time.”

Whitehair emphasizes that, as is the case with many fruitful tax strategies, planning early and executing well in advance are key. “Identifying options before a sale is on the table can truly maximize the time value of money and any associated valuation discounts. Doing so can position a business owner for the best case scenario when it comes to minimizing estate tax and preserving family wealth.”

Andy Whitehair, CPA/PFS, is a member of Cohen & Company’s Family Wealth Group and focuses on complex technical areas of wealth and estate planning. To take advantage of your planning opportunities, contact Andy at awhitehair@cohencpa.com.
THROUGH

THE ROOF

Raising customer service to new levels, Al Romanini has built Willoughby Supply into an industry leader

Al Romanini
The story of how Al Romanini has built Willoughby Supply into a $100 million business is another illustration of how a disruption to the normal way of doing things in an industry can reap huge rewards.

Their is not a story of a technology disruption, although Romanini’s roofing supply distribution business uses an impressive array of digital tools. As he points out, Willoughby Supply is in many respects a logistics business. In this case, the eye-opening innovation that Romanini has brought to the roofing products industry is not about better logistics software or even roofing products.

Romanini’s compelling story is about successfully bringing “white glove” service to an industry with a rough-and-tumble reputation and a customer base that’s generally price-motivated and not known for vendor loyalty. He is doing this in a way that demonstrates his value for his employees and allows for a sense of balance in his own life.

**White Glove Strategy**

Residential and commercial roofing is approximately a $46 billion industry, employing about a quarter of a million people. Last year alone more than 80,000 contractors were involved in putting up about 225 million square feet of roofing. In this often localized and brutally competitive industry, no roofing contracting firms have a dominant national market share.

Willoughby Supply itself does not install roofs or even manufacture roofing supplies (such as shingles, metal roof decking, gun nails, etc.), but rather distributes them to thousands of roofing contractors. Some contractors are large, but many...
Recognizing that his expanding company had outgrown the capacity of his existing CPA firm, Al Romanini, CEO of Willoughby Supply, asked Cohen & Company to demonstrate how it would meet his increased needs. Romanini was also clear about his concern about fee increases when moving to a more sophisticated firm.

“Our goal is always to pay for the enhanced services we offer clients through tax savings,” says Ray Polantz, a director in Cohen & Company’s tax department who works closely with Willoughby Supply and its management team. “Right off the bat we identified some opportunities on the company’s returns. But, it was actually how the shareholders — Al and his three brothers — were being taxed at the individual level that offered the most significant tax-saving opportunities.”

Polantz explains: “The brothers purchased the company from their father via an installment note. The interest income paid to their father was not classified as an acquisition interest expense, meaning this deduction was being incorrectly limited and providing very little tax benefit.”

Fixing the issue going forward and amending three years of prior returns resulted in a savings totaling more than $1.7 million in taxes for the brothers, including nearly $700,000 in tax refunds from Ohio and the IRS.

“Of course, not every new client presents such a large, upfront tax-savings scenario,” says Polantz. “But, whether the benefits realized are immediate or over time, we try to leave no stone unturned in helping clients realize tax savings.”

Romanini believes that the attention to detail about how everything is done and how everything looks at the corporate headquarters is key for that mindset to filter through to Willoughby’s 12 branches, nine throughout Ohio and three...
in southern Florida. And as the key brand ambassador, Romanini himself — longish but well-groomed hair, slight stature, easy smile and fashionable wardrobe — stands out from what you might expect of a guy who grew up in the building trade business.

Rise Of An Entrepreneur
Romanini’s father, Ron, initially founded Willoughby Supply as both a roofing contracting and supply business, eventually focusing strictly on the supply side. Al worked in various capacities from the time he was a young teenager, serving as a warehouseman, truck driver, etc. It was after graduating from John Carroll University, when he went on the road as an outside salesman, that he conceived the strategy that would help Willoughby Supply rocket in growth from a decent local business to a regional powerhouse.

“The sales role gave me crystal clear visibility of our customer needs, what turns them on and what turns them off,” says Romanini. “I learned what they weren’t getting from our competitors and how we could fill that need: consistency, accuracy, flexibility — ‘If the weather changes and now I need product today instead of tomorrow, will you get it to me?’”

“Customers come to understand that while they might see a slightly higher number on the invoice, over time they typically see a lower cost of labor because our products are always there, exactly what they ordered and needed, meaning less crew downtime.”

Romanini almost makes it sound easy, but many an entrepreneur has been burned by listening to what customers say they theoretically want — only to find these preferences weren’t really the driver for their purchasing decisions. And, of course, even if your differentiating strategy is on target, then comes the matter of execution. No small thing, especially when it comes to delivering what Romanini demands: “amazing customer service.”

“Look, the products we offer are widely available, everything hinges on our customers’ belief in our

{ FINDING BALANCE }

When asked about the types of leaders who inspire him, Al Romanini references his grandfather’s framed shirt and picture, which hang in Romanini’s office.

“I would be remiss if I did not mention my maternal grandfather. He started a business after coming out of World War II, while going to John Carroll University and starting a family that would see six children, an extremely successful 50-plus-year marriage and lots of friends.

He and grandma traveled and celebrated life, and he was still working up into his 70s.”

“The leaders who inspire me, such as my grandfather — when you look at their lives holistically, they are the ones who do not sacrifice quality in one area for quality in another. Seemingly, they thrive in all aspects of their life. There are many characteristics that I admire and try to emulate from those I’ve crossed paths with. Employees, colleagues, business and political leaders have all impacted how I aspire to lead and who I aim to be.”
service,” says Steven. “We have to manage plenty of delivery capacity for short notice and quick turnaround. We measure all our key metrics, and we are consistently near 99 percent for on-time and accurate delivery.”

“Al’s father understood roofing, and now Al has taken it to another level because he understands roofing and has the business perspective he’s earned over the years.”

The creation of Willoughby Supply University, an ongoing educational program for customers about best practices in the roofing industry, is an example of how Romanini provides unique added value and in turn creates customer loyalty. Additionally, Willoughby Supply is perhaps the only roofing supply provider that picks up and disposes of the large containers that many contractors use for roof teardowns.

Moving Forward

Willoughby Supply had been using a small, local CPA firm for its tax compliance and planning, and a larger regional CPA firm to assist them with the shareholder buyout. But as Willoughby Supply grew, so did the complexity of their financial needs, and that’s when Romanini switched to Cohen & Company.

“Whenever we begin a new relationship, we vigorously review what has been done before to make sure we are maximizing the client’s opportunities,” says Ray Polantz, a director of tax at Cohen & Company who works closely with the company. “Usually we can tweak certain practices that result in additional tax savings. Sometimes we find major opportunities, as was the case with Willoughby Supply, that realized a seven-figure savings related to the shareholders’ tax burden.”

It’s not surprising to hear Romanini say: “Going with Cohen has been one of the single best decisions we’ve made in the last five years.”

In fact, each year Rob MacKinlay, president of Cohen & Company’s Private Company Services, participates in Willoughby Supply’s off-site strategic planning meeting. “I truly enjoy being integrated into the business with Al, Brad and their team,” says MacKinlay. “Being able to listen, learn and provide my perspective on business strategy is one of the most satisfying, and fun, parts of my job.”

Looking toward the next five years and beyond, Romanini and Steven have plenty in the works to drive Willoughby Supply to its next level of success. While acquisitions and geographic expansion are things they are looking at in the future, right now their focus is on successfully adding a new product line, siding, to their offerings.

Per usual, their decision about expanding into siding has been carefully thought through, as they understand the dangers of diluting their strong and focused roofing brand. “We’re not talking about adding a new customer,” says Steven. “We’re providing a new product to the same customer, since many roofers also do siding.”

But, Romanini is clear that it’s not new product lines, geographic territory or acquisitions that will drive continued growth. He will remain obsessed with the culture of his company and the well-being of his employees: “Their mood and motivational level,” Romanini says, “drives everything.”

Since the example set by the business owner is often the biggest driver of employee morale, and given Romanini’s own “through-the-roof” motivational style, Willoughby Supply’s customers will likely continue to experience the best “white glove” service for years to come.
In 1937, O.D. Anderson saw a business opportunity when he began driving students to a newly consolidated one-room schoolhouse. Three years later, he married the school’s teacher, Dot, and they bought their first new school bus.

On weekends, however, their big investment sat idle in their driveway until the couple saw a new opportunity — they began offering private trips to Pittsburgh destinations 65 miles away. And so Anderson Coach & Travel was born.

Through the next two decades, the couple grew as a family and as entrepreneurs. They dabbled in some unrelated business ventures — including the sale of milking machines. But by 1957, they wisely understood that the future required focus on a single business — passenger transportation.

O.D. and Dot’s four children lived the business, sharing their home address and even the same phone line with the transportation company. Much like on a farm, the children grew up helping their parents, from washing buses and changing tires to anything else that was needed to operate a successful business.

A true family enterprise, three of the children — Doug, Sue and Lyle — continued in the business as adults as well. Sue met her now-husband, Nick, in the business. And now a third generation is learning the ropes, including Sue and Nick’s son, Ryan, and Doug’s son, Evan.

But O.D. and Dot’s children didn’t start their careers in the executive suite. Even after graduating from Edinboro University, Doug still started from the ground up. “I spent most of the first 15 years learning the business from the roadside,” Doug says. “I got to learn by being behind the wheel — not only the driving and safety aspects, but also forming strong relationships within the tour and travel industry that we still have today.”

By 1957, they wisely understood that the future required focus on a single business — passenger transportation.

In 1990, O.D. died unexpectedly and Doug, by now well-versed in the business, became president, a role in which he continues today. O.D.’s death sparked new discussions related to the family and the business, including the need for a stronger advisory relationship with their accountant. This realization and subsequent search brought them to Cohen & Company. “We have been privileged to help Doug and Sue not only through the transition of the business from one generation to the next, but to advise them on estate planning and other critical
issues related to the business,” says Frank Dixon, a Cohen & Company tax partner who works with the family.

“The change was reflective of yet another turning point in our business,” Doug says. “Cohen has provided a host of strategic services, in addition to compliance services. They really help us plan on a personal as well as a business level.”

As the family’s involvement in the business evolved, so did the passenger transportation industry. In the 1980s through the mid-1990s, federal deregulation opened up interstate travel opportunities, allowing Anderson Coach & Travel to grow throughout Ohio and Pennsylvania. But as the 21st century debuted, the company encountered the unthinkable — the tragedies of September 11, 2001, which affected almost everything in its industry except daily student transportation. As Doug explains, “There was a concern about traveling to almost every major metro area. We went through tough times, pulled back, made some conservative moves and were still struggling to retain the tour and charter bus business.

By 2007 the company was seemingly back on its feet, but, in 2008, the economic downturn hit the consumer-based business hard. Similar to their parents’ visionary decision back in 1957, Doug and Sue decided to focus on a customer base with less volatility moving forward.

While the charter and tour business continues, Anderson Coach & Travel has grown its daily transport business, operating 120 school vehicles daily, as compared to 30 in previous years, for schools, colleges and even large companies. “Contract work provides stability in a very capital and labor-intensive business,” says Sue, the company’s vice president. “The strategy provides us with a strong base from which we can continue moving ahead.”

In the case of Anderson Coach & Travel, Cohen & Company helped the company and its family transition both wealth and the business in a way that minimized the tax impact to all involved. “The transfer tax regime is usually more punitive than income tax,” says Frank Dixon, a Cohen & Company tax partner who works closely with the company and its family. “A married couple can pass $10.5 million to their heirs without having to pay federal estate tax, but any inheritance after that is subject to a 50 percent transfer tax. In contrast, the highest income tax rate would be 40 percent.”

SUCCESSFULLY PASSING WEALTH ONTO THE NEXT GENERATION INVOLVES TWO KEY ELEMENTS — ECONOMICS AND EMOTION.

But tax outcomes are just part of the equation. Emotion is the other side of family dynamics to address during the planning process. “A family business is not just an asset to be transferred; there are emotions that go with it,” Dixon explains. “During the planning process, we advise the heads of families to address tough issues now, not leave them for the next generation to resolve.”

Dixon adds, “The ultimate goal is to help preserve true wealth, and as business advisers, work to keep families intact.”

Company founder, O.D. Anderson
What you will find are professionals with a passion for learning. From those just out of school to 20-plus-year industry veterans, each attends a range of courses during the year offered through Cohen University. Aimed at arming and empowering the best in the profession, the curriculum keeps staff members at the top of their game when it comes to advising businesses, entrepreneurs and investors.

“An extension of our firm’s ‘never miss an opportunity’ philosophy, Cohen University’s mantra is ‘more opportunity,’” says Mark Schikowski, an accounting and auditing partner informally deemed university provost. “It means more opportunity for our employees and our clients. On-the-job experience is not enough to cultivate truly knowledgeable advisors. Cohen University reinforces the firm’s core competencies, such as deep technical expertise, attentive client service, high productivity and collaborative staff development/teamwork. The University provides employees with targeted training that enables them to better understand technical and business issues, resulting in top-tier advisors for our clients.”

Cohen University is composed of the College of Business Excellence and College of Technical Advancement. Courses offered throughout the year are mandatory for some, optional for others and are all detailed on the firm intranet under the course catalog, complete with prerequisites and program descriptions.

Business courses range from Cohen 101, introducing basic business concepts throughout multiple classes; to Leadership Foundations, designed to help new managers learn how to motivate, encourage and develop others in the firm. More experienced professionals may apply for the Cohen Institute of Leadership. These “graduate-level” courses mentor the firm’s future leaders to help them understand more fully how the firm operates, and to give them the chance to delve into firm-wide issues and opportunities.

“Technical courses include specific tax and accounting training throughout the year — including weekly tax meetings covering hot tax topics, basic refreshers and brainstorming on the most complex client issues; quarterly half-day technical training sessions; and the firm’s flagship, three-day off-site training event. These are in addition to outside CPE courses and other technical training each professional attends throughout the year.”

“The program is tailored to the needs of individuals and lets them play an active role in their own development,” says Tracy Campbell, a manager at the firm and program chairperson of the College of Business Excellence. “Every employee of the firm annually receives a PEP, or Personal Education Plan, to advise on the courses that are required or recommended for the coming year, depending on level, needs and skills.” And the rolling entrance periods of many of the programs help professionals plan and manage their course of studies according to their workload and other responsibilities.

“We want our employees to take charge of their own development path and work with their managers to coordinate their goals with the learning opportunities available,” adds Schikowski. “What we are offering are the tools and the foundation on which employees can build the skills needed to provide clients with the best experience possible.”
Let’s Be Candid
My experience is that publicly traded company executives can be tight-lipped, but entrepreneurs are disarmingly frank.

Take David Camiener’s comments on how he re-engineered the company he once owned, Amaresco, into a far bigger player in the life sciences industry. “Well, I had my head up my posterior. So, first I had to change myself.”

Bernie Moreno of The Bernie Moreno Companies empire shared how close he came to losing it all after the 2008 financial meltdown because he was over-leveraged during the sweeping economic downfall.

Entrepreneurs tell the interesting stuff, the human drama of doing business, including the fear, the mistakes and the home runs — with a genuine passion for the journey that got them where they are today.

Risk? What Risk?
Calling someone in the music industry a “One-Hit Wonder” sounds pejorative, but most musicians would give anything for that one hit song. Similarly, any entrepreneur with even one substantial success is just that — a success.

Still, there’s something unique about those who risk their reputations or accumulated wealth to outdo their initial accomplishments.

In his mid-20s, Tom Embrescia earned a $600,000 windfall for engineering a radio station deal for his boss. Instead of enjoying or saving his earnings, he invested in a fairly risky, leveraged media deal of his own. It turned into a big win, and Embrescia went on to create even more wealth through a series of other successful deals.

Nearing her 80s and in the shadow of the fallout from the 2008 financial crisis, real estate entrepreneur Iris Wolstein risked nearly all her wealth to see the vision her late husband and her son had for the half-billion-dollar Flats East Bank development project come to fruition.

It’s one thing to take a risk when you have little to lose or few other options. It requires another level of courage to pursue new endeavors that risk the gains of your initial victories.

Profitable Prophets
Of course, the battlefield of business is strewn with the dead dreams of people who risked — and lost — it all.

The individuals I have profiled certainly did their due diligence before making a move. But, my personal estimation is that the right facts give you only about two-thirds of what you need to know. And then what I call the “entrepreneur’s prophetic gut instinct” has to make the right business call.

Bernie Moreno did the opposite of most car dealers during the financial crisis, doubling his advertising and hiring good car salesmen other dealers were laying off. Moreno bet that by gaining a bigger share of the existing market he would not only survive but emerge a far stronger player. He was shockingly right.

During that same global-market slowdown, Ed Gonzalez of Ferrous Metals Processing scraped out every possible cost, because his instinct was that survival was everything. When markets picked up, Gonzalez quickly reinvested: “You have to be conservative but know when to pull the trigger” and move on.

Successful entrepreneurs don’t always zig when others zag. Rather, the best entrepreneurs have a whole other level of instinctive foresight, as elite athletes have another gear that kicks in at crunch time.

And, in my view, like elite athletes, some of the greatness that successful entrepreneurs possess is hard earned, and some is a gift within them from birth.
Harness. Perspective. Empower. Succeed. These are just a few themes that combine to create the vision of CNEW, or Cohen Network of Empowered Women, an employee resource group aimed at providing a forum for the education, advancement and retention of women at the firm.

“About half of Cohen & Company’s workforce is composed of females, which closely mirrors national figures that report approximately 60% of all accountants and auditors in the United States are female,” says Pam Dunlap, accounting and auditing partner at Cohen & Company. Dunlap is also the individual responsible for launching the CNEW initiative in 2014. “Retaining top, female CPAs is something every great firm needs to address.”

Specifically, CNEW, which hosts programs year-round, focuses on promoting leadership, showcasing skills, fostering relationships and supporting various career paths for the firm’s female employees. Year-one events included a goal-setting workshop to provide practical tools to create a roadmap and achieve success; a group discussion facilitated by a guest speaker based on themes from Sheryl Sandberg’s well-known book, *Lean In*; and a panel discussion with three of the firm’s long-time partners — male and female. Panel members candidly shared their perspectives and personal stories about their rise to success and the role of women in leadership.

“Members of the firm have always reached out on a one-on-one basis to help our female accountants find the balance that works for them and to encourage them to continue achieving their goals,” says Rob MacKinlay, president of Private Company Services at the firm. “Launching CNEW is a way to raise the bar and offer more structured support in the form of knowledge-sharing opportunities to further retain, develop and empower the women at the firm.”

Dunlap along with committee members Kim Palmer, Holly Price and Laura Ward are gearing up for CNEW’s second year of programming beginning in May. The group hopes to provide new experiences for attendees, including off-site programs such as the fundamentals of “business golf,” still one of the most popular networking and business development tools used by top rainmakers. But how will the group measure success as it continues to evolve?

“If CNEW can provide even one golden nugget of information that helps a colleague successfully reach that next step in her personal career plan, and especially if that leads to retaining more phenomenal female talent at the firm,” adds Dunlap, “then I would say that we’re accomplishing our mission.”

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.