ALSO INSIDE:

GOOD VIBRATIONS
One family’s perseverance led Bonal Technologies and an entire industry to new heights

BREWING A WINNING FORMULA
North American Breweries is innovating its way into the new age of beer making

TIDES OF CHANGE
How Bear Diversified’s CEO saved the family business and turned it into a world-class company

THE POWER OF A FAMILY FIRST BUSINESS MODEL

Family values drive the DiGeronimos’ successful excavation, construction and real estate firm
Innovation, perseverance and an appetite for risk — these are just a few of the qualities necessary to transform ideas into thriving businesses.

And throughout that journey to success, leadership teams need to navigate through many unforeseen twists and turns — such as ownership succession, changing customer demands and competitive disruption. Fortunately, the best of the best always seem to find a way to acknowledge the lessons of the past, while throttling toward the future.

Just ask any of the companies featured in this issue, each steeped in its own rich history. Vic, Rob and Kevin DiGeronimo of DiGeronimo Companies, a third-generation family company, value the family bonds that created and sustain their business, which now includes construction, excavation and real estate development.

Matthew Friedman of Bear Diversified honored his dad’s hard work when he overcame significant challenges to grow the family’s metal stamping plant beyond his father’s dreams. Tom Hebel of Bonal Technologies recognizes his family’s 70-year legacy of innovative metal-treating technology while continuing to reinvent the company’s product and its application. And Steve Brecher and Janine Schoos of North American Breweries are devoted stewards of some of the nation’s most beloved brands, helping them flourish as they simultaneously innovate for the ‘next big thing.’

Respect for the past is always a solid springboard for the future. I hope you enjoy reading how these fantastic companies have done it, and done it right.

Of course, call or email me anytime if I can be helpful to you, or if you just want to chat, at 216.774.1102 or rmyeroff@cohencpa.com.
Q&A: DIGITAL GOLD?
Understanding cryptocurrencies and their place in our world

GOOD VIBRATIONS
One family’s perseverance led Bonal Technologies and an entire industry to new heights

THE POWER OF A FAMILY FIRST BUSINESS MODEL
Family values drive the DiGeronimos’ successful excavation, construction and real estate firm

TIDES OF CHANGE
How Bear Diversified’s CEO saved the family business and turned it into a world-class company

INSIDE VIEW: WHERE ARE WE NOW?
How far did tax reform really take us and what should taxpayers focus on ahead?

BREWING A WINNING FORMULA
North American Breweries is innovating its way into the new age of beer making

WHAT THE SQIF? BALANCING ACT
Simplifying the challenge of making healthy choices for the mind, body and spirit
This innovative asset class presents many opportunities and, along with it, significant risks. One thing is for certain: some embrace cryptocurrencies, some do not and some still don't understand the idea enough to choose a side. But this dynamic is intriguing to Corey McLaughlin, co-president of Cohen & Company’s Investment Industry Services Division and a practitioner involved in the cryptocurrency world from near inception. McLaughlin discusses the basics, helping remove some of the mystery surrounding these “new” currencies.

**Taxonomics: What is a cryptocurrency, and how does it compare to traditional currencies?**

**McLaughlin:** Traditional currencies, such as the U.S. dollar, are regulated by a government/central authority and take a physical form that can be handed to someone to complete a transaction. Cryptocurrencies are solely electronic. Instead of being backed by a centralized system, they operate via a decentralized peer-to-peer network, which uses specialized encryption techniques as a secure way to record transaction activity. While there are more than 1,500 cryptocurrencies, each with varying degrees of risk, liquidity, value, etc., Bitcoin is the original and probably most commonly known cryptocurrency today.

**Taxonomics: How can a new currency just be created and have its own value?**

**McLaughlin:** Anyone can, theoretically, create a private currency. What matters is that each person in the transaction has faith in the currency as a legitimate and authentic exchange of value.

The value of most currencies is largely driven by two primary beliefs. First, the issuing government has the ability to back the currency. Obviously, this belief works best in developed and stable countries. A lack of faith in government-issued currency can be crippling to unstable countries. In some cases where using a decentralized currency is viewed as a positive, the use of cryptocurrencies has helped spur economic growth.

The second driver of value for traditional currencies is authenticity — the fact that the currency is “real” and extremely difficult to replicate. If everyone could create U.S. dollars in their own home, the value of the dollar would decrease significantly. Similarly, people trust the authenticity of a cryptocurrency, largely in part because of the blockchain technology that protects it.

The electronic nature of cryptocurrencies is also driving their value. Much of our wealth today is recorded via accounts for which we have electronic access but we do not physically hold those assets. Cryptocurrencies are built to easily transact in a digital environment. Imagine a world where you travel across borders without exchanging currencies because cryptocurrencies have no geographic boundaries.

Generally speaking, as societal acceptance of cryptocurrencies has risen over the past several years, there has been a dramatic rise in their value. And, as with any asset, an increase in demand means an increase in value and price. Still, there is a lot of speculation in this asset class, which can drive significant volatility.
Taxonomics: You mentioned blockchain technology as being integral to exchanging cryptocurrencies. How does blockchain work?

McLaughlin: In its simplest form, blockchain is a digital ledger that validates and records thousands of transactions. Each transaction is recorded on a block and one transaction builds on the next, hence the name blockchain. Blockchain is built on the concept of a decentralized network, which works on a peer-to-peer basis. So when someone enters into a transaction using a cryptocurrency, that transaction must be approved by the decentralized network, which verifies the transaction by performing sophisticated math called cryptography.

Taxonomics: How does someone buy cryptocurrencies?

McLaughlin: There are websites known as crypto exchanges, such as Coinbase, through which anyone can use traditional currencies to purchase cryptocurrencies, like Bitcoin, Ethereum and Litecoin. Some crypto exchanges do not accept traditional currencies, but do accept cryptocurrency as payment for other cryptocurrencies offered on their sites.

Crypto exchanges are currently not regulated like banks or stock exchanges. After a cryptocurrency is purchased, most people move their holdings off of these platforms to other storage options, such as electronic wallets stored online or offline. If stored online, good cybersecurity controls are important to have in place to mitigate the risk of hacking. Regardless, it is critical to protect the private keys that provide access to these assets. If the keys are lost, there is no other way to access the purchased cryptocurrencies. Custody of cryptocurrencies is a top priority, so a strong information technology security environment is critical.

Taxonomics: How secure are cryptocurrencies?

McLaughlin: Cryptocurrencies can be very secure if those who hold custody of the assets have the appropriate IT security controls in place. The blockchain depends not on people to secure transactions but on sophisticated cryptography. Cryptography was difficult to create and adds a very secure way to validate the transactions that occur.

Also, the protocol of the blockchain is built so that the block cannot be modified once it is recorded. The public nature of the blockchain also creates a much more secure environment than a centralized network. In a centralized network there is a single point of data collection and storage, which means a hacker only needs to gain access to that one single point to manipulate or modify transactions. In a decentralized network, there are multiple points within the network that are critical to a transaction, making entry by an unauthorized individual into that network much more difficult.

Taxonomics: Some predict that large, national governments will soon become cashless societies only dealing in digital currencies, although likely on a centralized network. What are the implications for cryptocurrencies?

McLaughlin: This asset class is still in its infancy, which means there’s still a lot of speculation about its future. There has been discussion that some central banks are considering their own cryptocurrencies, including China, Japan, Sweden and even the United States, although that may be years away. But users like cryptocurrencies specifically because they are not regulated by a central bank, and are thereby free from government influence. So even if that happens, users may continue using existing cryptocurrencies on decentralized networks.

The biggest area that I am excited to watch is how blockchain technology may be adapted in many ways to help businesses run more efficiently and help society have better transparency and confidence in transactions. It could really change the way we do business.

Corey McLaughlin, CPA, has significant expertise in audit and consulting for the investment industry, including funds that trade cryptocurrencies. Contact him at corey.mclaughlin@cohencpa.com.
Disruption is nothing new. Amazon, Uber and Apple all revolutionized the way people think about business. But, not every disruptor sets out with that lofty goal in mind. As Tom Hebel — president and CEO of Bonal Technologies, Inc. and its parent company, Bonal International, Inc. — tells the story, his dad didn’t set out to change the face of technology.

He just wanted the stress relief technology his machine shop used to actually work — consistently. And, as they say, necessity is the mother of all inventions.

August G. Hebel, Jr. (Gus) bought Bonal Machine Company, based in the Detroit, Michigan, area, in the early 1950s. He upgraded the machine shop, which specialized in planing metal parts for automotive plants, to a planer-mill machine facility so it could cut more metal, faster.

Part of its machining process included outsourcing for a high-heat stress relief technique so the parts wouldn’t distort or crack. But the process itself plus shipping time to and from a heat-treating company could take several days, if not weeks.

After more than a decade in the business, Gus and his oldest son, George Hebel, an electrical engineer who joined the business in 1963, began looking into a different method of treating the metal — vibratory stress relief. This technique seemed much more efficient than heat treating. It took only a few minutes, and the equipment was portable, meaning any company could use it on site.

So the Hebels bought a vibratory stress relief system with three goals in mind: apply the technology to
parts they machined at their own company, offer the service to other machine shops, and ultimately sell the equipment to other local machine and fabrication shops.

With their plans for the company’s future firmly in place, the Hebels assumed it would be smooth sailing. The problem, as they quickly learned, was that vibratory stress relief didn’t always work. In fact, they discovered it worked about half of the time. This meant that the other half of the time the metal parts distorted after machining and resulted in wasted time and money. A 50-50 chance of success wasn’t good enough.

“My father said that it didn’t make sense,” explains Tom Hebel, who joined the business in 1974. “He decided to take it upon himself to figure out what was going on.”

Stress Management

Gus was a tool-and-die maker with an associate degree in engineering. But he also was a perfectionist who insisted things be done right.

“He always wanted to improve whatever he was working on,” Tom says. “He had that kind of a mind. For a year and a half, he recorded everything he could about using vibrations on metal parts.”

Gus found the solution in the level of vibratory energy applied to the metal parts. During a stress relief treatment, vibrational energy is slowly increased. As the elevation in energy is increased, the metal dissipates the energy internally; if plotted on graph paper, a relatively flat line would appear. Then, suddenly, the metal vibrates violently, meaning that it can no longer dissipate the incoming energy. The line on the graph paper would spike at this point, then drop and become flat again, leaving a bell-shaped curve.

Before Bonal came along, vibratory stress relief was always applied at the violent phase, that is, at the top of the bell-shaped curve. That’s why the results were inconsistent, Gus discovered.

“They had been trying to beat the stress out of the part,” Tom says. “But metal doesn’t respond to being beaten. It responds to softer, milder energy input. It’s almost like sitting in an easy chair and feeling those gentle vibrations massage your back.”

Gus started applying vibrational energy at the bottom portion of the bell-shaped curve, before the metal was overwhelmed by energy, and it worked every time. Thrilled, he called the company that manufactured the vibratory stress relief equipment for Bonal, believing they would hail him as a hero. Gus said he would mail the results of his research in a letter to the company.

But before he could drop his letter in the mailbox, the company sent its own letter, saying it was not interested in changing its process. Further, it wanted nothing more to do with Bonal. For Gus and other company executives, the response was a turning point.

“They were absolutely, totally stunned,” says Tom. “The supplier said, ‘We’re bigger than you and we haven’t approved anyone changing our process, and you are no longer a dealer of ours.’ We were kicked to the curb.”

Gus didn’t toss away the letter. He simply changed the mailing address to the U.S. Patent and Trademark Office. And soon enough, Bonal received all rights to the new-and-improved technology, and started making and selling its own vibratory stress relief equipment under a new entity called Bonal Technologies, Inc.

The company dubbed its stress-relief system Meta-Lax®, short for metal relaxation. Today, Meta-Lax equipment is sold throughout the U.S. and in 64 foreign countries through a network of national and international distributors.

Over the years, the Hebels have continued to sharply focus on offering and improving their vibrating stress technology. One thing, however, they did not focus on was the tax-savings opportunity of their dedicated research and development activities.

“Three years of missed R&D credits were staring us in the face,” explains Dan Sexton, the tax senior manager who works closely with the Hebel family. “It was clear how much innovative research they were doing; they just weren’t taking any of the credit for it — literally.”

The area had never been fully explained by the company’s former accountants.

“We thought to receive tax credits, R&D had to be associated with a new patent, but Cohen & Company helped us understand it was anything new to the industry,” Tom says.

That sort of proactive support has gone a long way with the Hebel family.
“We’re not a big company, but Cohen & Company makes us feel special,” says Tom. “We feel they are looking out for our best interests, and they come up with suggestions to really help us.”

To Outer Space and Beyond
Bonal Technologies continues to operate as a family affair. In addition to Tom’s role as president and CEO, his nephew, Hal, serves as the company’s chief financial officer. Paul Hebel, Tom’s brother, runs the original machine shop. These individuals, along with Tom’s sister, Betty Jean; nephew, John, George Hebel’s son; and George Harrison, a securities expert, serve on the board of Bonal International.

Something else that hasn’t changed — the pushback Bonal Technologies receives from potential clients opting for traditional heat treating.

“We have realized that we can only help companies that don’t mind thinking outside the box,” Tom says. “They are receptive to new technology. But most engineers and metallurgists are skeptical, and won’t give our stress relief technology a try. They are content with what they have.”

However, if companies that use heat treating suffer high scrap rates, competitors beat them in pricing, or they lose business due to the long lead times, they often become more open-minded.

Greg Merritt, who serves as vice president of the company and is responsible for marketing, says Bonal rents out equipment to hesitant companies. Beyond that, he tries to educate the metalworking industry at trade shows and through other means.

“We have to teach companies the technology, how and why it works, and explain the benefits,” Merritt says. “We show we can do it faster and cheaper, as well as greener because we don’t use a lot of fossil fuels. But, it can be a challenge.”

Bonal Technologies, under a contract with NASA, has used Meta-Lax on parts of the Hubble Space Telescope. Bonal has stress relieved metal structures that hold rockets in place as they are moved to the launch pad. The company’s customers also include a “funny car” drag racing team, and a firm that designs and builds race car engines. As an example, Meta-Lax stress relief has enabled connecting rods in drag race cars to last in excess of 300 runs, whereas untreated connecting rods would typically explode after 50 to 70 runs.

Later this year, Bonal will unveil new equipment that computerizes most of Meta-Lax’s functions. The machine will scan parts and create settings based on the metal’s weight and alloy. Then it will automatically stress relieve the part, resulting in a consistently effective stress relief — just as Gus Hebel would have insisted on.

“This one will be a game changer for the industry,” Tom says. Hopefully the industry will be ready for it this time.

Does your company need a partner who will look out for your best interests? Contact Dan Sexton, CPA, at dsexton@cohencpa.com.

Research & Development Findings

Challenge
Find opportunities for a new client to save more money to reinvest into the company.

Opportunity
Knowing the important role innovative research played in Bonal’s success, upon being hired Cohen & Company immediately began evaluating the company’s use of tax credits. The team discovered Bonal was not taking advantage of potentially significant research and development (R&D) credits. Cohen & Company sat down with Bonal to help clarify what qualifies for the credit and how to capture activity as the business continues to expand. In its first year with the firm, Bonal secured retroactive tax credits of approximately $36,000, plus another roughly $13,000 in credits for that year. For the past three years, R&D tax credits have paid for approximately 40% of the company’s annual tax liability.
Family values drive the DiGeronimos’ successful excavation, construction and real estate firm.
Kevin DiGeronimo can’t stand that he’s wearing a suit. It doesn’t matter that it’s a tailored suit, is the hue of blue that’s in right now or that he wears it well. If you’re a DiGeronimo, you don’t wear a suit to a job site.

But, Kevin is at this job site — a large, upscale retail, office and residential development called Pinecrest — for a photo shoot for a story. If the story will bring positive attention to Pinecrest, with its 1 million square feet of constructed space scheduled to open northeast of Cleveland, Ohio, in early spring, then, yeah, he’ll wear a suit.

“Pinecrest is being built,” Kevin says matter-of-factly, as he surveys the expanse of the development from a fifth-story window, “in the midst of America’s retail apocalypse, and developers and retailers across the country are watching to see how we do.” This apocalypse includes a projected 4,000 physical stores closing — presumably shuttered by the competition from online retailers — between 2015 and 2019.

“The DiGeronimos don’t do substantial projects without extreme due diligence,” says Dave Sobochan, the tax partner at Cohen & Company who works closely with Cleveland-based DiGeronimo Companies. “They combine diligence with extraordinary business instincts. So, no one should be surprised if Pinecrest becomes a national model for how to do retail right in this challenging era.”

During the photo shoot, Kevin, who at 33 years old is president of DiGeronimo Development (one of 10 construction industry-related companies under the DiGeronimo Companies banner), discusses the progress at Pinecrest with Bernie Kinsinger, the general superintendent at the site. Kinsinger, in his Carhartt overalls and spattered steel-toed boots, has four decades of construction experience.

But, the two talk like contemporaries. Despite Kevin’s age, he’s been in excavation, construction and development for just over two decades himself. Like many of the 25 DiGeronimos currently in the family business, by the age of 12 Kevin was hanging around and helping at job sites. Over the years, no job was too dirty or too unimportant to provide a valuable learning experience.

In fact, talk to Kevin’s cousin, Vic DiGeronimo, Jr., CEO of DiGeronimo Companies (and a 2017 Northeast Ohio EY Entrepreneur of the Year*), and he will tell you the key to the family’s success is in the dirt, literally and figuratively.

From a literal standpoint, Independence Excavating, formed in 1956, was the first of the DiGeronimo Companies. According to Vic, the “secrets” learned over the years through the hard and dirty work of excavation and site development — how to identify and mitigate risk, and how to create value through on-site mining and recycling of rock, metals and concrete — have been key to the DiGeronimo family successfully moving from excavation into verticals like demolition, then into general contracting and, over the last decade, into real estate development.

From a figurative standpoint, Vic believes that general contractors and developers who “don’t just work from their offices, who stay close to the field work and still get their hands dirty” have advantages in this competitive field.

For the DiGeronimos, those advantages have translated into annual revenues in the hundreds of millions, employing more than 1,500 employees in peak season, and being involved at any given time in projects throughout more than 40 states.

**Family First**

Rob DiGeronimo, president of Independence Excavating, is Vic’s cousin and Kevin’s brother. The three represent the third generation now leading the family business. “The second generation of leadership, my father and my uncles, taught us it’s about family first,” says Rob, “and the business is most importantly a way of keeping the family together.”

Consider how radical that statement actually is — the business is really a means of keeping the

Kevin DiGeronimo
family together — in light of the reality that ugly family dynamics are often what burdens otherwise good businesses, and ultimately breaks them. Only about 5 percent of family businesses last into the third generation.

In a greater sense, the secret to the DiGeronimos’ success is not in the dirt. The secret lies in how well they “do” family, and how that translates into a business that thrives.

There are seven DiGeronimo families living next door to one another in one neighborhood in Independence, Ohio, and several more families living within a few miles of that neighborhood. The family that works together, and prospers together, stays together.

Rob explains the source of the DiGeronimo family dynamics this way: “We were taught that relationships are everything, and that our personal wishes and goals sometimes have to be secondary to the best interests of family.”

Vic points to the example set by his father, Vic DiGeronimo, Sr., one of five second-generation brothers who took a small construction business started by their Italian immigrant father, Sam, and laid the foundation for the large, national enterprise the third generation has built.

“My Dad is like the patriarch and has set an example for us. He would never fuel a fight, and he’d never let a fight continue. He has an uncanny ability to keep everybody on the same page. And that example just carried down to the third generation,” says Vic.

“I just know,” says Kevin, “that anytime the third generation tell our fathers or uncles about some big new excavation project or report some good numbers, they’re more excited to see we are in a meeting getting along, doing things together.”

But it’s not just their own family the DiGeronimos care about, according to Keith Klodnick, the Cohen & Company partner in charge of the relationship with the family. “They care about people in general, not just profits. I’ve rarely seen a company so focused on employee issues, like safety, for instance, which of course is critical in their industry. They hire great employees and often family members of those employees as well.”

Every Generation Makes Its Mark
In family businesses that sustainably grow across generations, each generation likely had a game-changing event — a strategic decision, important innovation or transformative project — often in

Consulting on a Captive

**Challenge**
Help maximize the tax benefits of implementing a captive insurance company.

**Opportunity**
With DiGeronimo Companies planning to self-insure via a captive insurance company, to both better manage insurance risks throughout their many affiliated companies and to find additional tax benefits, Cohen & Company worked with company leadership and external advisors to evaluate the right structure. The collaboration resulted in a separate legal subsidiary known as a single-parent captive insurance company. This option allowed DiGeronimo Companies to take a large deduction in year one, and an even larger deduction every year since. The single-parent captive structure also allows the company to defer the recognition of income — approximately $800,000 to $1 million annually — into the captive until cash is taken out, which will then be taxed at preferential capital gains rates rather than higher ordinary income rates.
reaction to a shift or new opportunity in the marketplace that launches the business beyond what the previous generation had accomplished.

For the second generation of DiGeronimos, brothers Don, Vic Sr., Bobby, Richard and Tony, the breakthrough project was the 1972 excavation of the site for Cleveland’s Justice Center. It was a squatty behemoth of a building that housed multiple courts, offices and the Cuyahoga County Jail. “That was a big step-up project for my father and uncles,” says Vic, “probably a million dollar job that equaled half their average annual revenues at the time.”

Successfully handling the outsized Justice Center project on time and on budget was the leverage that eventually initiated a cascade of major utility and civic projects through the 1970s and ’80s. That same success continued with site development projects for Cleveland’s downtown arena, baseball field, football stadium, Rock and Roll Hall of Fame and more.

The second generation also began innovating ways to take the rock, concrete and metals in all those excavating projects and recycle, repurpose and resell them, instead of simply dumping them in landfills. They could sometimes bid lower than competitors on excavation or demo jobs because of additional revenues from their mining and recycling innovations. The third generation has not only embraced this concept, but has taken it to even more innovative and higher revenue-generating levels, leading Vic to launch new vertical companies like Independence Demolition and DiGeronimo Aggregates.

For Vic, Rob and Kevin, the strategic decision to move into general contracting, and perhaps especially into real estate development, is to date the most significant evolution they have brought to the family enterprise.

Into the Eye of the Storm

The DiGeronimos are in lock-step agreement that they don’t intend to ever get out of subcontracting or services like excavating, demolition, and asbestos and lead abatement.

But, the financial markets meltdown of 2008, and the expansive shadow it cast on the real estate development market for at least three years after that, “caused us to evaluate how to reposition ourselves as a business,” says Rob, “and not be as vulnerable to market forces. When the markets collapsed, some projects we were contracted for were cancelled, and we were left holding major receivables. We did not want to put ourselves in that dependent of a situation again.”

And so, in 2011, the DiGeronimos got into real estate development in a big way, purchasing the 1.8 million-square-foot former Twinsburg Chrysler Stamping Plant in what was perhaps the largest real estate transaction in northeast Ohio during the post-market crash era.
“My uncles have bought and sold various pieces of real estate for years,” says Kevin. “But, the Chrysler plant was really the first major development piece for us. We saw an opportunity in a really down market. And because we knew how much steel we could recover from the property, and that we could use our own demo, scrap and environmental teams, we knew we would maximize that opportunity better than anyone who competed with us. So, we were confident buying it even in tumultuous times.”

That confidence proved to be well founded, as the former Chrysler plant, now known as Cornerstone Business Park, is now home to large distribution centers (each over 250,000 square feet) for FedEx and Amazon, as well as a host of other light industrial tenants. Hundreds of jobs were created to help offset the loss of local jobs from Chrysler’s closing.

In 2012, with projects like Cornerstone Business Park underway and more likely to come, the DiGeronimos recognized they needed a CPA firm with greater capabilities. According to Rob: “It evolved to a point where we needed a broader depth of overall financial guidance, and we chose Cohen & Company, who immediately helped us navigate troubled areas and get a more strategic tax approach in place. They also pointed to areas of our business we could improve, ranging from bank rates to financial technology solutions.”

A number of highly successful development projects have followed, from multiple automotive dealerships throughout northeast Ohio, to a mixed-use retail center in Hawaii and more.

But, none are necessarily of the magnitude of Pinecrest, not just because of its size and cost, but because it is flying right into the teeth of the national retail armageddon. And the DiGeronimos’ reputation for combining due diligence with hard-earned business instincts will be put to the test in a very visible way.

It’s important to note that as Kevin takes one more look at the development through the fifth-story windows, pointing out the snow-draped outdoor grand staircase; the well-designed public, soon-to-be green space that will host evening concerts; and an array of other large-scale amenities, he is not naïve to the possibility of failure. He remembers the aftermath of the market meltdown, with myriad stalled or cancelled projects, and the pain of furloughing long-time team members.

But, the family did not come to this decision lightly. They are together on the rightness of this project, at exactly this time, and confident in the demographics of the ring of communities that surround Pinecrest.

Clearly, the DiGeronimos believe that every economy has its opportunities, and considering the radical and profound idea driving their enterprises — the business is really a means of keeping the family together — Pinecrest is already a success.

10% Method for Projects in Progress

Challenge
Assist DiGeronimo Companies in finding industry-specific tax savings.

Opportunity
The Cohen & Company team began by analyzing DiGeronimo Companies’ contracts for projects currently in progress. Identifying some projects on the books that were not scheduled for completion until the following year, the team saw an opportunity to apply specific IRS rules addressing contracts. By using the 10% Method, contractors can defer income on contracts less than 10% complete by the end of the year in which the project began. Part of the diligence process to take the election included reviewing past returns to ensure it hadn’t been used in prior years, which would have required additional filing documentation. The deferred income has resulted in significant tax savings over the years.

Challenge
Assist DiGeronimo Companies in finding industry-specific tax savings.

Opportunity
The Cohen & Company team began by analyzing DiGeronimo Companies’ contracts for projects currently in progress. Identifying some projects on the books that were not scheduled for completion until the following year, the team saw an opportunity to apply specific IRS rules addressing contracts. By using the 10% Method, contractors can defer income on contracts less than 10% complete by the end of the year in which the project began. Part of the diligence process to take the election included reviewing past returns to ensure it hadn’t been used in prior years, which would have required additional filing documentation. The deferred income has resulted in significant tax savings over the years.

10% Method for Projects in Progress

Challenge
Assist DiGeronimo Companies in finding industry-specific tax savings.

Opportunity
The Cohen & Company team began by analyzing DiGeronimo Companies’ contracts for projects currently in progress. Identifying some projects on the books that were not scheduled for completion until the following year, the team saw an opportunity to apply specific IRS rules addressing contracts. By using the 10% Method, contractors can defer income on contracts less than 10% complete by the end of the year in which the project began. Part of the diligence process to take the election included reviewing past returns to ensure it hadn’t been used in prior years, which would have required additional filing documentation. The deferred income has resulted in significant tax savings over the years.

DiGeronimo Companies
www.digeronimocompanies.com

Are you looking for someone who can take a broader look at your next project? Contact Keith Klodnick at kklodnick@cohencpa.com.
As a young man, Matthew Friedman had always been close to his father, Mickey. When Matthew was a boy, he’d accompany his dad to the office on weekends, and he always assisted with year-end inventory.

“I idolized him,” Matthew says of his father. “I was always interested in what he was doing, and I know that meant a lot to him.” Regardless, Matthew wasn’t sure he wanted to join the family business.

Mickey was in the steel service industry. He and a partner owned Manchester Steel. And when one of their customers, a struggling stamping shop near Cleveland, Ohio, slid into Chapter 11 bankruptcy, the duo purchased it and renamed the company Northern Stamping.

At that time, cutting and shaping steel didn’t exactly stimulate Matthew’s imagination. So he continued to pursue his education, eventually embarking on a successful legal career.

“My father was my mentor and my best friend,” Matthew says. “He was a guy I would go to with problems, and I would seek his advice daily.” And, whenever Mickey needed help with company legal issues, Matthew of course was ready to assist.

Then, something happened that changed Matthew’s perspective. During the mid-1990s, Northern Stamping evolved from a simple stamping plant serving the automotive industry into a design, engineering and manufacturing firm. This was after General Motors awarded Northern Stamping with a series of redesigned stampings and complex welded assemblies on its new pickup trucks and sport utility vehicles.

As Northern Stamping branched out and grew, the company needed its own leader. Mickey hoped his son would take over. Matthew, excited by the new direction, joined Northern Stamping in 1996 and became president the next year.

“I was ready,” Matthew says. “I had been involved and engaged in the business by that time. And it wasn’t the steel business I had grown up in. This was a very different opportunity.”

But just a few months into Matthew’s new role, Mickey was diagnosed with cancer. He died in
1999 at the age of 56, never experiencing the growth he and his son set out to achieve.

“I knew when he was diagnosed that, for good or for bad, my main purpose was to make sure his dream and vision of growing Northern Stamping came to fruition,” Matthew says.

A Rough Road Ahead

After Mickey died, his partner wanted to sell Northern Stamping. He asked Matthew to buy him out, but he didn’t have the capital. So in 2000, the company was sold to a firm called Hilite International. Matthew stayed on and was appointed general manager of Northern Stamping.

It was painful, but during the process Matthew met Ron Campbell and Ian Hessel, both vice presidents and partners at Hilite. From the start, Campbell and Hessel were impressed with Matthew and Northern Stamping.

“It was a well-run, smaller company with good cash flow,” Hessel says. “There weren’t too many companies like that.”

But after a few years, Hilite started focusing on transmissions and engine controls, and suddenly Northern Stamping wasn’t a priority. To complicate matters, Hilite wanted to sell itself, and potential buyers didn’t understand how Northern Stamping fit in. So in 2006, Hilite placed Northern Stamping on the market.

While Matthew waited anxiously to learn the fate of his father’s company, the recession of 2008 hit. With no prospective buyers on the horizon, Hilite seriously considered liquidating Northern Stamping, but the relationships Matthew had formed with Campbell and Hessel helped save the company.

“It would have been easier for Hilite to walk away from Northern Stamping and focus our resources on our core business,” Campbell says. “But we had relationships with Matthew and the Cleveland community, and we didn’t want to put a lot of people out of work. We wanted to keep it going, so we came to a buyout agreement with Matthew.”

Matthew bought Northern Stamping back in 2009. To finance the deal, he borrowed from family members who had made money when the company was sold to Hilite. Also, Northern Stamping’s price had dropped due to the recession and because of the general state of the automotive industry at the time. As part of the deal, Hessel joined Matthew as his minority partner.

“During the hard times, all my key employees stuck with me,” says Matthew, who felt a responsibility to his workers. “Even though we were in a recession and jobs weren’t as readily available as they are now, people had opportunities and offers, but they stuck around. They trusted me to work out the details.”

Making a Name for Itself

“We learned early on that Northern Stamping needed to differentiate itself by being nimble and by being problem solvers,” Matthew says. “The idea was to do it better, faster, cheaper. We’re a company our customers come to when they need to solve problems.”

For example, when GM needed to meet new federal standards for child restraints in rear bucket seats, the carmaker had only 18 weeks to come up with a design. Northern Stamping made it happen.

“That was unheard of,” Matthew says. “We knew it would take a lot of time to build the tools we would need. But we raised our hands. We knew we were taking a risk, but it gets your name noticed.”

In 2014 and 2015, the federal government ordered Chrysler, now Fiat Chrysler Automobiles (FCA), to make a rear-end enhancement to certain vehicles. The auto giant turned to Northern Stamping, which hired engineers and laborers to design the parts and turn out 750,000 of them in nine months.

It was the FCA project, and Northern Stamping’s purchase of an additional stamping plant called Highlands Diversified, in London, Kentucky, that led to the formation of Bear Diversified in 2015. The parent company was named after Matthew’s nickname, Bear, given to him by his golf buddies. He has no idea why they started calling him that. “But I’m extremely competitive, and I like the ferocious connotation,” he says.

Having kept in touch with Campbell from their days at Hilite, Matthew and Hessel asked Campbell to be their business partner. He agreed and now serves as Bear’s chief administrative officer and vice president of finance.

“Ron brings a tool set that Northern Stamping didn’t have on a corporate level, from due
diligence to bank relationships to human resources," Matthew says.

And when Matthew needed someone to lead Highlands Diversified, he reached out to Hessel, who now serves as Highlands’ president and Bear’s chief financial officer.

“The relationships we built were vital,” Hessel says. “Without that trust and those relationships, we probably never would have even owned the company.”

There’s another relationship Matthew and the others have built that has been instrumental to success — the relationship with Cohen & Company. The firm worked hand-in-hand with Matthew to help restructure and simplify the growing organization, which also resulted in additional tax savings.

“We noticed inconsistencies between Northern Stamping, Highlands and Bear that were causing tax inefficiencies,” says Josh Messina, the tax partner on the account. “By then we had worked with the company for a couple of years — long enough to have a good grasp on their business goals — so we were confident we could help.”

Matthew appreciates Cohen & Company’s professionalism and can relate to its entrepreneurial approach. He values good relationships and has been able to build them with the accounting firm.

“From the beginning, Cohen has listened to us,” Matthew says. “They want to understand our growth strategy.”

Within the last couple of years, Bear has indeed grown — purchasing Lamtec in Queretaro, Mexico, and London Automotive in Ontario, Canada — mostly because its customers, including GM, established a presence in those countries and wanted their vendors close.

The thriving company also solves design and engineering challenges for giants such as FCA and Toyota Boshoku, and is now helping AT&T design satellite dishes.

But, in the midst of all the growth and success, Matthew doesn’t want to forget the past.

“Everything we went through made us stronger, and will continue to make us a strong contender no matter what the future holds.”

Positioning for Growth

Challenge
Help Northern Stamping and its new holding company, Bear Diversified, find tax efficiencies and prepare for the acquisition of Highlands Diversified.

Opportunity
In anticipation of the pending acquisition, Cohen & Company’s transaction services team conducted due diligence to help confirm the addition would align with the existing organization’s financial goals. The firm’s relationship with Northern Stamping, and solid understanding of its tax situation and business priorities, allowed the tax team to recommend a more cost-efficient structure for the entities — namely restructuring the stamping company and moving its year-end to October 31 to mirror Bear and Highlands.

As the companies grow, the Cohen & Company team has continued to provide tax insights at every turn, including international expertise for subsequent acquisitions in Canada and Mexico.
For some, not as much as expected. For others, the long-term impact could be significant.

“It’s not what we thought, or maybe hoped, it was going to be in some respects,” says Tracy Monroe, the Cohen & Company tax partner who spent the better part of a year analyzing and blogging on the reform discussion. “It started out with this notion of simplifying tax reporting so each individual could file on a postcard sized form. That didn’t happen, but individuals and corporations will both see real benefits.”

There are key areas into which taxpayers should take a deeper look to better understand the opportunities and potential obligations created by the new law.

When the Sun Sets

From lower tax rates to a standard deduction that nearly doubled to fewer itemized deductions, is the new tax regime better for individuals? The answer is yes, mostly.

“For individuals, the new tax law is about more than a lower top tax rate of 37%,” says Monroe. “It’s about lower rates coupled with deductions and credits that many taxpayers were ineligible for previously but now, with higher thresholds, can combine to make a big difference. We’re seeing it in our tax projections already.”

For example, take the enhanced child tax credit. Increased from $1,000 to $2,000, it’s the higher phase-out amount of $400,000 (married filing jointly) in adjusted gross income — up from $110,000 previously — that will allow higher-income taxpayers to benefit.

One area that did not change, to the disappointment of many taxpayers and CPAs, is the net investment income (NII) tax. Monroe says it would make a big impact to high-net-worth taxpayers if the NII tax went away. She also notes that some high-income earners, in the $400,000 to $600,000 range, may not see much difference on their personal returns due to the new tax brackets and fewer deductions.

But what taxpayers of all income levels need to pay close attention to is the fact that most of the changes impacting individuals are temporary, scheduled to sunset after 2025.

“This is the same situation we found ourselves in with the Bush-era tax cuts,” says Monroe. “We will plan for what we have now but also must keep an eye on what may be coming in eight short years. Some of these provisions may be extended, but we can’t rely on that.”

In general, the key will be proactive tax planning — engaging in bracket management and managing taxpayers’ liability over the next three to five years and beyond as the 2025 sunset draws near. Since there will be fewer itemized deductions for many taxpayers, Monroe suggests “bunching” expenses, such as making large, single-year contributions to
a donor advised fund. Looking at ways to deduct state and local real or personal property taxes incurred in a trade or business also could be beneficial.

And while higher thresholds for the federal estate tax mean that about 90% of taxpayers will not be subject to it, Monroe cautions that it’s important to keep an estate-planning mindset.

“Besides the fact that the higher threshold is temporary, individuals also need to consider estate tax ramifications imposed by their state, income tax basis planning and non-tax estate planning, such as planning for the needs of children or loved ones,” Monroe says.

To Be a “C” or Not to Be
Private companies have often preferred organizing as pass-through entities, such as S Corporations, partnerships and LLCs, generally as a way to avoid the double taxation of a C Corporation.

But the new law introduces an interesting twist — permanently dropping the corporate tax rate from 35% to 21%. The move was largely to encourage a more competitive business environment in the U.S. and abroad, but it may have pass-through entities considering a change in entity structure.

Not so fast, warns Monroe. While changing to a C Corporation could have its benefits — particularly for older business owners who will benefit from only paying one level of tax upon death — double taxation still applies. So even with the lower corporate rate, a pass-through entity may still be a better option.

“The overall tax rate after doing the math might surprise taxpayers,” says Monroe. “Pass-throughs come out just under 30%, if they qualify for the new, yet temporary, 20% Qualified Business Income Deduction — a deduction that was created to ‘even’ the playing field with corporations. But C Corporations come in just under 40% once you add back in the double tax and pay the NII tax, making a C Corporation desirable only if there is an opportunity to minimize that second layer of tax.”

To determine if that opportunity exists, Monroe emphasizes that owners must first evaluate alternatives carefully with tax and legal advisors.

Entertaining Options
Many businesses were caught somewhat off guard by the TCJA’s meal and entertainment expense provisions. Namely, entertainment expenses went from 50% deductible to being completely nondeductible beginning with the 2018 tax year.

Additionally, items such as employer-provided meals held at the office went from being fully deductible to now only 50% deductible.

The problem with the new rules, according to Monroe, is that in addition to losing some popular tax benefits, there is still too much room for interpretation.

“When a business person attends a sporting or theater event with a client, it’s clear the event is nondeductible now as entertainment,” explains Monroe. “But what about the meal beforehand with the client, during which business is discussed? It appears that meal is also nondeductible as part of the entertainment event. However, until we receive guidance from the IRS on specific scenarios such as this, we have to rely on our best interpretations.”

To prepare for those gray areas, Monroe recommends a best practice of creating separate general ledger accounts for meals and for entertainment, so if guidance changes it will be easier at year-end to properly handle each item.

The good news is that other expense deductions remain unchanged — such as employee meals while out of town on business or at a conference, which are still 50% deductible, and employer-hosted parties for employees, which remain fully deductible. Going to lunch with a prospect or client also remains 50% deductible with the appropriate substantiation.

Monroe points out that while some activities can no longer be deducted in one particular category, they may be deductible as something else. For example, giving sporting, theater or other entertainment event tickets to an employee can be deducted as wages, if properly recorded by the employer.

As tax practitioners continue to peel back the layers of the TCJA, one thing is certain: There are many areas of the law that remain unclear as to how taxpayers should apply them. For now, practitioners are interpreting the law with the information currently available.

Moving forward, Monroe expects more guidance to come on many fronts, including some formal technical corrections, but the time frame for that to happen is just as vague.

“One thing we do know is there is plenty of opportunity to begin planning for the 2018 filing season,” says Monroe. “And we will be ready for it.”

Contact Tracy Monroe, CPA, MT, at tmonroe@cohencpa.com to discuss the TCJA and its impact on you and your business.
The role of the CFO has been undergoing a transformation in recent years, finding a permanent seat at the strategic business table. CFOs are being called upon to go beyond budgets and forecasts to help the organization make better, more informed decisions for the overall health of the business.

This is encouraging news for CFOs interested in expanded leadership opportunities and share of voice within an organization. It’s fantastic news for proactive and experienced CFOs like Steve Brecher, who leads the finance organization for Rochester, New York-based North American Breweries.

Brecher’s financial background is impressive, previously serving as CFO for the nation’s third-largest dental supply distributor and working for high-profile food companies like Kellogg’s and Frito Lay. But, it’s a quarter century of unique experience not on his resume that adds to Brecher’s ability to deliver results to the nation’s seventh-largest brewing company.

“I’ve been an amateur brewer for about 25 years,” he says. “My experience gives me a deeper understanding of the manufacturing process, which makes me a more informed and strategic partner when it comes to identifying ways to be profitable.”

The More the Merrier
Steve began brewing beer just as America’s craft brew movement took root in the 1990s, a phenomenon that has dramatically shaped today’s $100 billion American beer industry.

How dramatically? According to the National Beer Wholesalers Association, in 1983 there were just...
80 breweries in America, producing mostly light lagers. As of 2017, there were more than 6,000 domestic breweries producing innumerable types of beers and hard ciders.

With America’s increasing fondness of craft brews, companies like North American Breweries must compete for market share by having a diverse portfolio of beverages, ranging from craft brews to traditional legacy brands.

“An important aspect of our winning strategy is to have great products that fall into almost all the categories of beer,” says Brecher. “For example, we own two craft breweries. Magic Hat is East Coast and Pyramid is our largest brand on the West Coast. We also own the regional, much-loved legacy Genesee brand that operates in the value category. Labatt’s is our Canadian produced premium, and we own the rights to Seagram’s flavored malt beverages, a category in which we’ve experienced eight straight years of significant growth.”

Another winning strategy for Brecher and North American Breweries: bringing on Cohen & Company in 2015. The firm’s work with Brecher and his team has ranged from providing accounting and auditing services, to analyzing state and local tax opportunities, to most recently helping the company plan for the new tax law.

“I consider Cohen & Company an extension of my own team, just as they were when I was at my previous employer,” says Brecher. “I have a relatively small tax team because I know Cohen has a larger one. A great example is the new tax reform bill, which was over 400 pages. For my small tax department to figure out what that meant for us would impact our ability to get our daily work done.”

According to Phil Ryan, the partner at Cohen & Company who manages the North American Breweries relationship along with Tax Partner Hannah Prengler, “Steve Brecher is the prototype of the CFO who doesn’t just measure his company’s performance, but provides financial and operational insights to his C-suite colleagues that help them positively impact the organization’s performance.”

A Living Legacy
As Brecher will tell you, beer is a part of American history and remains important today, with consumers partaking in an average of 27.5 gallons of beer and hard ciders per year.

But, all that passion for beer also translates into a competitive market so fragmented by the explosive growth of breweries and beer drinkers’ demand for diverse options that even large brewers have to identify and take advantage of niche opportunities. For North American Breweries, that includes a strategy of not only innovating craft brew spin-off versions of the brand for younger beer lovers, but keeping a value category legacy brand relevant for an older demographic of drinkers as well.

For many years Genesee has been the quintessential, low-cost beer. In fact, it is one of the oldest-running breweries in the U.S. The challenge for North American Breweries is that it’s the kind of beer that has generally fallen out of favor in the wake of the rise of craft brews.

Meeting that challenge head-on is the task of one of Brecher’s colleagues, Janine Schoos, associate brand director for Genesee.

“On the one hand, it’s challenging to have 139 years of customer perceptions to address,” says Schoos.
“However, having a legacy brand that generations of people connect to offsets the challenges in the value brand segment. I get emails of family pictures; I get questions about memorabilia and, yes, people sometimes request old cans for their grandfather’s ashes. Genesee is special. It has a legacy that has been a part of families for generations. I am fortunate enough to hear the personal stories and all the times they’ve shared over a Genny.”

Impressively, as other legacy value brands have declined in sales over the last several years, sales of Genesee have remained stable. This is due partly to Schoos’ decision to update Genesee’s packaging to get back to an interpretation of its classic look, and partly to successfully using social media to reconnect people to this favored brand and make new connections.

Genesee’s staying power is also credited to the innovative strategy of opening the Genesee Brewhouse in Rochester, a kind of brewery/tavern/visitor’s center. Legacy Genesee customers come to visit from far and wide. But, it’s also a test kitchen for noted brewmaster, Dean Jones, who pilot batches a variety of beers that diverge from the original recipe, but result in excellent, complex versions of Genesee, like Scotch Ale or an Imperial Black IPA. And though some of these pilot batches remain just that, the more well-loved iterations are making their way into retail stores.

**What’s in Store**

Today, consumers can walk into a convenience store, see 300 beer brands in the cooler and wonder, ‘How do I decide?’

“You’re going to see some evolution in retail that makes it easier for consumers to discover what they want,” explains Brecher. “But, at the same time, the innovations — whether in ingredients, flavors, calories, alcohol levels — are going to continue.”

The brewmasters at North American Breweries will continue to innovate, and the brand managers, like Schoos, will seek new ways to connect to consumers’ lives. Meanwhile, Brecher will continue to provide historical, strategic and forward-looking analysis and recommendations that help advance the finance organization.

Beer drinkers don’t necessarily care about any of that, but they are among the vital ingredients of a successful enterprise in a huge, highly competitive industry.

**Reorganization Yields State Tax Savings**

**Challenge**

Streamline North American Breweries’ complex 21-entity structure, brought on by numerous acquisitions over the years, to realize state tax savings and greater administrative efficiencies.

**Opportunity**

Upon analyzing the business’ numerous entities, which operated across multiple jurisdictions, the tax team at Cohen & Company worked closely with North American Breweries’ management and legal counsel to reorganize the corporate structure. Through a series of internal mergers and entity conversions, the total entity count was condensed to seven. By converting certain entities from C Corporations to disregarded LLCs, the company was able to offset income earned by some of its business units with operational costs from others. As a result of the simplified and more efficient structure, North American Breweries continues to realize significant annual state tax and compliance savings, and reduced administrative efforts.

**Tax Takeaway**

Do you need a partner that will respect your company’s past but help you prepare for the future? Contact Phil Ryan, CPA, MBA, at pryani@cohencpa.com.

Janine Schoos

North American Breweries

www.nabreweries.com

Janine Schoos
Getting eight hours of sleep, eating foods high in Omega-3s and making time for a 45-minute workout may sound great, but following through on making healthy choices is not always easy in today’s fast-paced world.

The team at Cohen & Company is trying to change that, though, by ramping up its wellness initiative. “We wanted to create a program that would help enhance employees’ overall health and well-being,” says Alexandria Flynn, co-lead for the program. “Our approach is holistic, combining mental, physical and social/team building activities.”

Aiming to motivate, the first phase of the program began as a three-month challenge. Almost 300 employees, approximately 50 percent of the firm, participated and were asked to complete one relatively simple task daily — such as meditating for five minutes, trying a new healthy recipe, doing 20 push-ups or visiting therapy dogs brought into the office to help employees relax. A weekly challenge also was offered, including doing 30 minutes of aerobic exercise or drinking half of your body weight in ounces of water each day during the specified week.

“Participants earned one point for every task,” explains Erica Virzi, who co-leads the program with Flynn. “Each month, employees were entered into a raffle based on how many points they had accumulated.”

Prizes included gift cards to national retailers related to health and fitness, such as Whole Foods Market, Athleta, Dick’s Sporting Goods and Lululemon, and an Apple watch was the coveted grand prize.

“You could feel the genuine excitement around the firm from this ‘group’ approach to getting healthy,” says Virzi. “I think it gave people that extra push to start creating some healthy habits. That was our goal.”

Nate Kreutzer, an accounting and auditing senior, is one of the individuals making some changes. “Some of the activities in the challenge were things I would never have tried on my own, but now I am incorporating them into my routine,” says Kreutzer.

But the firm wants the program to have legs beyond the three-month kick-off, which will take more planning and coordination. Modeled after the firm’s Cohen Cares committee, the Cohen Wellness committee, led by Flynn and Virzi, will collaborate as a group twice a year to brainstorm and hammer out new initiatives. Each of the firm’s 10 offices can tailor the ideas based on their needs and local opportunities, yet work within the same set of guidelines.

Some of the additional activities being discussed include offering group discounts for fitness classes near each office, bringing in smoothie bowls or other healthy treats, and creating a “hike and happy hour” group to encourage outdoor fitness and camaraderie during the summer months.

There are other reasons to be excited, too, says Michelle Childers, partner-in-charge of employee engagement at the firm. “Not only is having a formal wellness program great for the overall health and happiness of our employees, but sponsoring firm initiatives that promote wellness, camaraderie, leadership and teamwork speaks to our culture,” Childers says. “We support both career and personal development activities that empower employees to thrive.”

Cohen & Company’s culture revolves around the notion of “SQIF” — Service, Quality, Innovation and Fun.
Engage with us

Discuss Your Opportunities
800.229.1099

Stay Informed & Connected
Insights and more at cohencpa.com

Thank You
We wish to thank all of our clients featured in this issue of Taxonomics for sharing their stories of success and achievement.

Taxonomics is published by Cohen & Company for our clients and professional associates. Cohen & Company is not rendering legal, accounting or other professional advice. Any action taken based on information in this publication should be taken only after a detailed review of the specific facts and circumstances.
© 2018 Cohen & Company, Ltd. All rights reserved.