

# THE MONTHLY CEO ADVISORY™

revenue

A hand in a light blue shirt is drawing a red arrow on a whiteboard. The arrow starts from the left and curves upwards to the right, ending in a sharp upward-pointing arrowhead. The background is a blurred office setting.

AUGUST 2021

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Dear Friends,

I am pleased to provide you the August 2021 issue of ***The Monthly CEO Advisory***<sup>TM</sup>.

My article this month covers two subjects; the first on why you need to remove poisonous employees from your payroll, and second, why you need to work on improving your business model.

If it sounds like I am on a rampage against underperforming, poorly behaving employees who are disloyal, internal terrorists long past the point where they have made meaningful contributions to your company, I am. Nothing can slow growth and reduce profits faster than bad employees on your payroll.

Leading a business is the single most challenging task someone could ever take on, and as you know, it is all consuming. This means that you likely have little time to learn about all the topics you should. To make it easier for you, each of our articles are short (only one page) and includes the following categories:

- Growth & Profits
- Tax News
- Human Resources Compliance
- Commercial Insurance
- Manufacturing Excellence
- Information Technology
- Company Benefits
- CFO Insights
- We Can Do Better
- Alternative Financing
- Social Media
- Insolvency Advising
- Estate Planning
- Mergers & Acquisitions
- Business Law

Please feel free to pass along the CEO Advisory to others in your network who might benefit from learning something that could positively impact their business.

Please enjoy all the articles in this issue and thank you for allowing us to be part of your continuing business education, growth and success. Stay safe.

Sincerely,



Ken Keller  
CEO

## STRATEGIC ADVISORY BOARDS

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# Business Growth Opportunities to Consider in 2021

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The Monthly CEO Advisory is a publication for business leaders. Please enjoy the articles, send us any suggestions of topics you would like to see covered and pass this on to others so that they might benefit. Thank you. Ken Keller

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# BUSINESS GROWTH & PROFITS

## TWO ISSUES TO TACKLE IF NOT NOW, WHEN?

First, fix the glaring failure of long term employees past their shelf life. This is not about age. I'm taking about under-performance and bad behavior.

Both are a result of having an entitlement attitude.

Let me clarify my definition of bad behavior. It could be bullying, passive aggressive actions, intimidation of coworkers or simply thinking and acting as if the rules, norms, policies and procedures of the company are fine for others but do not apply to them.

This is interesting because I believe that the longer a person is employed somewhere, the better example they should be setting when it comes to following policies, procedures, rules and norms.

Bad behaviors do not go away, and when not addressed, are repeated, and often escalate. Others believe they can join the bandwagon.

You know who these individuals are. In your mind, if not on paper, you already have your list.

Your harder working, more committed employees have already brought to your attention that these individuals

are screwing things up, can't do their jobs, aren't taking ownership and are making the company (and you) look bad with customers or suppliers or both.

You may consider these individuals to be loyal. In reality they are a liability. They are the Internal Terrorists. These individuals need to be fired and everyone knows it.

Termination should have happened long ago. Maybe you thought that these employees would either improve or leave.

They haven't left and they won't.

Do you know why? Because your tolerance of their lousy performance and bad behavior has been interpreted by every employee, customer and supplier that you approve of their failure to achieve results and you find it acceptable as to how they behave.

Don't like to terminate people? No one does. But you will be doing these people a favor by freeing them to pursue opportunities elsewhere.

When you finally let these people go, their fellow employees will line up to ask you, "What took so long?" How will you respond? What excuses will you make?

Let these individuals become some other CEOs issue.

If you are concerned that these employees won't find a job, please know that there has never been a better time to be unemployed.

In the job market today, the only people who are not working are those choose not want to be.

Second, it's time to pivot. For the last 18 months you have likely been in survival mode. If the pandemic is in your rear view mirror, you need to work to improve your company's business model.

If you are not working on the business model, you are not focused on the future of your company.

It's not just that you need to add "Global Pandemic" under Threats in your SWOT Analysis. It's time to take a long hard look ahead at the future of your industry.

The pandemic was painful, but had silver linings. CEOs discovered that some offerings were not profitable and were no longer wanted in the marketplace, at any cost. Others found that their companies were seriously overstaffed. Many companies found significant efficiencies and reduced costs accordingly.

These are internal changes forced by circumstance. What can you do now to challenge the marketplace with game changers?

Visit [StrategicAdvisoryBoards.com](https://StrategicAdvisoryBoards.com) today to learn about nationwide peer groups on Zoom or call Ken Keller at 661.645.7085.



### Ken Keller

Ken Keller facilitates Strategic Advisory Boards, bringing small & midsize company CEOs together to improve planning, performance and growth to increase revenue, execute plans, and grow profits. SABs meet via Zoom and clients are worldwide, in just about any industry.

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# TAX NEWS

## PURE IMAGINATION

Fifty years ago on June 30, Paramount Pictures released an enchanting spun-sugar delight of a movie that remains a classic. *Willie Wonka & the Chocolate Factory* features Gene Wilder as the reclusive confectioner who hides five Golden Tickets in his candy bars and promises the finders a tour of his mysterious factory and a lifetime supply of chocolate. It's a magic ride down a river of chocolate, set to music that snagged an Oscar nomination for [Best Original Score](#).

They say there's a fine line between genius and insanity. I think we can all agree that Wonka just obliterates it. It takes a genius to stock a candy store with the likes of Squelchy Snorters, Gelatin Frogs, and Scrumptiddlyum-tious bars. But only a madman could look at that oeuvre and think, "no, what I really need is some three-course-meal gum, fizzy lifting drink, and flavored wallpaper you can lick." (The snozzberries taste like snozzberries!)

Sadly, though, Wonka's genius doesn't translate to tax planning. As the glass Wonkavator screams into the sky, carrying Wonka, Charlie Bucket, and Grandpa Joe high above the town, Wonka explains that he staged the entire contest to find someone worthy enough to take over the factory when he retires. (It's scary to think what a guy like Wonka could do in retirement when he has even more time

to putter around in the kitchen.) Lucky Charlie doesn't just win a lifetime supply of chocolate — he wins the factory that makes it!

Here's the problem. It has to do with something called "basis," and it's boring to explain. We all know that when you give someone a gift, it's gauche for them to sell it. But if they do, when it comes time to pay tax on their gain, they don't get to start with what it was worth when you gave it to them. They have to use something called "carry-over basis" — the amount you would have used if you had sold it. Now, you can say it serves them right for selling your gift. And you'd be right! But it still means paying more.

However, if Wonka waits to bequeath the factory to Charlie at his death, Charlie gets something called "stepped-up basis." That means if he sells, his basis is the factory's fair-market value as of the date of Wonka's death. That lets Charlie avoid tax on the gains during Wonka's lifetime entirely!

Let's not forget transfer tax considerations. If Wonka gives the factory to Charlie, there's gift tax due now — but he avoids transfer tax on future appreciation. If he bequeaths it, there's an estate tax payable. Wonka appears young and healthy — Wilder was just 37 when he filmed the part — so maybe an irrevocable life insurance trust makes sense. (The Princess Bride's



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Dread Pirate Roberts solved a similar problem by creating what was essentially a "dynasty trust" for his title.)

The movie leaves a couple of other important questions unanswered. We know that Wonka paid the Oompa-Loompas with cocoa beans. What are the Section 83(b) consequences of fluctuating commodity prices? And what demented Hollywood producer woke up one morning in 2005 thinking, "Let's remake the whole thing, but with Johnny Depp as a really creepy Wonka"?

At this point, you may be wondering why we're spoiling childhood memories with boring tax talk. (At least we're not fat-shaming Augustus Gloop.) But there's a real lesson here. Someday you might want to sell your chocolate factory, too, whether you inherited it, won it, or built it with your own two hands. When that day comes, we've got all sorts of tasty recipes for keeping your gains away from the Slugworths at the IRS!

# COMMERCIAL INSURANCE

## WHAT DO WE DO NOW?

### AFTER THE ATTACK

The earlier the encryption process is stopped during a Ransomware attack, the better the odds you have of containing the malware from spreading and causing far reaching damage and downtime. Here are some critical steps your company should take if a Ransomware attack is detected.

### ISOLATE INFECTED MACHINES

Most ransomware will attempt to crawl through your computer system and spread malware across your entire network and all its connected end-points. In order to inhibit the spread of the encryption process, cut the machines, including laptops off from all its connection points.

### POWER DOWN IMPACTED AND VULNERABLE MACHINES

Infected machines should immediately be powered down and isolated from the network. Label all PCs and laptops before powering them off so they can be identified later. Even if a machine is not showing any indicators

of compromise, power it off. It will be much safer to restore and resume using a machine after a full assessment of the network has been completed.

### SECURE YOUR SYSTEM'S PERIMETER

Ransomware attackers seek to gain elevated administrative credentials within your system. They then use these credentials to turn off systems that would detect their attack, and to access sensitive applications like domain controllers and backup systems. If you notice the attack early, you may be able to evict the attacker from your network before the attack is completed.

### CLOSE ALL REMOTE CONNECTIONS TO THE INTERNET

Regardless of how secure you may believe them to be, close all RDP ports, then review the login attempts and logs to determine if this was the point of ingress.

### CHANGE CREDENTIALS FOR ALL ADMINISTRATORS AND USERS

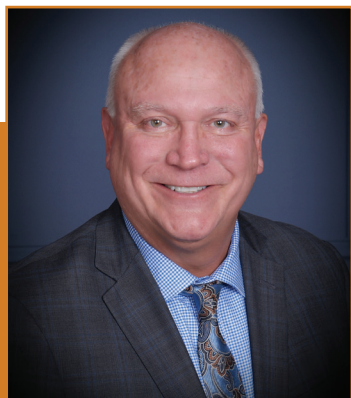
Assume that either current administrative credentials have been compromised, or a new set of adminis-

trative credentials were created by the attacker. Immediately end all logged in administrator sessions and reset all administrative credentials. If this step is not taken, the attacker may observe your recovery effort and re-encrypt your network. To ensure that users credentials are not reused, and the same elevated status granted a few hours later, force a password change across your entire user base.

### LIMIT ACCESS TO YOUR NETWORK FIRST

Securing access always takes priority over initiating a system restore. If the attacker can still access your system before backups are used, the attacker will likely encrypt the restore. They may also locate your back up, then encrypt or wipe that backup so that restoration is no longer an option. Only after you are confident that unauthorized access has been made impossible should you begin to check your backups to ensure they have not been impacted, then use them to restore your system.

At this point you should contact your insurance broker and report the incident to your Cyber Crime insurance carrier. Work closely with the carrier's response team to identify your company's responsibilities and limitations under their policy, let them address the ransom demand for you, and help you put a response plan into effect.



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# HUMAN RESOURCES COMPLIANCE

## WHY EMPLOYERS NEED AN UPDATED COVID-19 PREVENTION PLAN (CPP) AND RETURN-TO-WORK PLAN (RTW)

In the past few weeks, we have been receiving phone calls from employers with questions regarding the new requirements under Cal/OSHA, vaccinations and acceptable employer procedures. These questions included "Can we ask potential new hires (job applicants) about their vaccination status?", "Can we provide incentives to our new hires or employees to get vaccinated?", and "Can we require every employee be vaccinated?" among a host of other questions. The first step to obtain answers to these questions is to make sure you are current and compliant with the new Cal/OSHA Emergency Temporary Standards (ETS).

Employers have been on a rollercoaster for the past 4-6 weeks as the California

Department of Public Health (CDPH) and Cal/OSHA have been wrestling with updated rules and regulations for employers. Cal/OSHA finally issued their updated ETS on June 17, 2021 that necessitates employer actions including:

- Reviewing the Amended ETS
- Updating your Written COVID Prevention Plan (CPP)
- Updating your Return-to-Work Plan
- Reviewing vaccine considerations
- Stocking up on N95 masks
- Updating employee notices with respect to COVID

The CPP must include a number of important items including but not limited to:

1. Identification, Inspections and Evaluation of COVID-19 Hazards
2. Correction of COVID-19 Hazards
3. Control of COVID-19 Hazards including, physical distancing, face coverings, engineering controls, cleaning and disinfecting, shared tools, equipment and personal protective equipment (PPE), hand sanitizing, personal protective equipment (PPE) used to control employees' exposure to COVID-19
4. Investigating and Responding to COVID-19 Cases
5. System for Communicating to Employees
  - Documenting Vaccination Status
    - ✧ Employees provide proof of vaccination for HR files
    - ✧ Employees provide proof of vaccination and employer keeps record but not documentation
    - ✧ Employee self-attest on certification form
6. Training and Instruction
7. Exclusion of COVID-19 Cases from the workplace

8. Reporting, Recordkeeping, and Access
9. Return-to-Work Criteria

In addition to all of the above, there are a number of notices and memos to employees that every employer should have prepared including:

- Memo for Employers With Steps When There is a COVID-19 Case in the Workplace
- Notice to Qualifying Individual who has tested positive for COVID
- Notice of Close Contact to employees that have been within 6 feet of the COVID employee for 15 minutes during a 24 hour period
- Notice to All Employees at Worksite During Infectious Period
- Notice to Employer of Subcontracted Employees/Third Party at Worksite During Infectious Period such as vendors who visit your company
- Notice to All Employees regarding the Disinfection and Safety Plan
- Notice Regarding Testing employees that have had close contact with a COVID infected employee
- Return to Work Attestation
- Employee Vaccination Self-Certification form
- Communication to Employees regarding collection of vaccine-related information
- Employer Face Covering Policy
- New Entrance Mask Signage for customers, visitors and guests
- Acknowledgment of Employer Provided N95 masks

If you have not updated your CPP and RTW plans or have these notices now is the time. JorgensenHR has assisted many clients with creating or updating their CPP and RTW plans. Make sure you are ready and lower your risk of a lawsuit from a disgruntled employee and their lawyer.



**Barry Cohn, CEO**  
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I work with top executives of companies with 20-2,000 employees, providing HR solutions including outsourced HR, monthly HR consulting, workplace investigations, and almost everything HR.

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# MANUFACTURING EXCELLENCE

## ADAPTING TO A RE-SURGING ECONOMY

Small to mid-size manufacturers, like other small businesses, have had to make significant reductions to operations as demand dramatically declined during the pandemic. As the economy recovers, it is time to re-think the operational challenges ahead.

As the economy recovers, demand will increase. The challenge for manufacturers will be to re-engage with Lean Manufacturing fundamentals to take advantage of their new baseline. Staffs and operations have been scaled back to skeletal crews and operational hours. Now is the time to re-evaluate operations, charting a new path forward.

Rather than accepting pre-COVID operational standards, it is time to set new productivity and quality targets. With rising commodity prices and wage increases, manufacturers must either dramatically improve productivity, suffer losses to the bottom line, or lose market share while raising prices. While declining markets have their

winners and losers, so do growing markets.

One of the key measures of productivity is cycle efficiency. Simply stated, this is the ratio of value added time divided by total cycle time. Total cycle time is the time from the receipt of material to shipping the final product. Value added time is the actual touch time during machining, assembly, coating, etc.

The shocking statistic is that the typical manufacturing cycle efficiency is 2.5%-5%. If you flip the ratio, this means that for every hour of actual time the unit is being worked on, total cycle time is 20-40 hours. What are the other 19 to 39 hours? Waiting. Waiting in inventory because of excess purchases. Waiting in queue for machine operations because machine capacities are out of balance. Waiting for production bottlenecks. Waiting because of line disruptions caused by quality issues. Waiting because the next work cell is down one operator for the day. Waiting because inspection and shipping are under-staffed. And the list goes on.

While this state of affairs may be dismaying, it is also grounds for hope.

The best manufacturers are able to achieve cycle efficiencies of up to 25%. That may not sound like a lot to those outside of manufacturing, but think about the implications. The volume produced in a world class operation is 10 times that of a "normal" manufacturing operation. The same simple part, for example, which requires 1 hour of actual touch time can be produced in a half day, versus a full week. Parts with a typical 2 week manufacturing cycle can be completed in a day.

This is revolutionary, and is not only possible, it is being done by the best manufacturers. Through focused, dedicated efforts to deploy the entire suite of Lean Manufacturing tools, these stunning results are achievable.

Processes need to be analyzed, measured, improved and controlled. Bottlenecks need to be resolved. Best practices need to be identified and staff re-trained.

It is a lot of work. It takes the conviction of leadership and the engagement of the entire staff. And the opportunity to make it happen is now while volumes are relatively low. As demand surges, there will be no time to revitalize the organization. Not only will it take time, it will take financial resources. What better investment than to transform your organization into a manufacturing juggernaut?



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# INFORMATION TECHNOLOGY

## THE 10 STEPS TO PROTECT YOUR BUSINESS FROM RANSOMWARE

The latest wave of ransomware attacks hitting the world shows how difficult the battle against hackers continues to be. The attacks hitting the Colonial Pipeline and the major JBS meatpacking operations are only the latest examples of a burgeoning cybercrime industry with the potential to inflict pain and extract profits. At least \$18 billion was paid to ransomware attackers last year alone!

And, we've seen that remote work has made networks more vulnerable and human error is still one of the biggest vulnerabilities.

So, how does a small business appropriately protect themselves while also just keeping the lights on? The answer is to get ahead of the bad actors as quickly and thoroughly as possible while understanding that this is a moving target that also requires constant vigilance.

The following provide the steps needed to protect your business against these sorts of attacks and help you from being held hostage.

### 1. EDUCATE YOUR EMPLOYEES

User education and awareness are among the most important components of defeating ransomware. By training your staff to implement appropriate "internet hygiene" practices, you will help to prepare them for dealing with potential ransomware attacks, such as knowing to treat suspicious emails with caution.

### 2. USE A MULTILAYERED APPROACH

Protection from ransomware extends beyond simply having a firewall (this should be a given). Security is critical and can be extended through the use of intrusion prevention and software layers on all devices on the network.

### 3. PROTECT ENDPOINTS

Endpoint security solutions (ie: antivirus) are important in helping to prevent data breaches. Because users primarily interact with corporate and private devices, endpoints are potentially high-risk areas when they are not adequately managed or lack appropriate antivirus and anti-malware protection.

### 4. ANTI-VIRUS BY ITSELF ISN'T ENOUGH

Ensure ALL of the computers on your network are protected by a current and business level Anti-Virus system AND that it's being managed. Simply thinking that because you have AV on your systems, you're protected isn't enough. It's critical that your AV is complete (across all machines) and is kept up-to-date. Also, make sure your email system is protected by an enterprise level Anti-Spam system as well.

### 5. PATCH YOUR SYSTEMS AND APPLICATIONS

Think of this as your system receiving its vaccinations. Because many attacks are based on browser, plug-in, and app vulnerabilities, it's critical to ensure updates and patches are promptly applied to your programs.

### 6. IMPLEMENT NETWORK SECURITY POLICIES

Lock down user rights and remove local Administrator level rights from all users. This prevents most ransomware from running because the program simply doesn't have the rights to do so.

### 7. SEGMENT YOUR NETWORK TO STOP SPREAD

Most ransomware spreads via the endpoint to the server/storage where all mission-critical data and applications reside. By segmenting the network and isolating critical applications and devices on a separate server or virtual LAN, you can help to limit the damage and minimize the spread if hit.

### 8. IMPLEMENT THE ADDED LAYER OF AN INTERNET PROTECTION SOLUTION

A tool like Cisco Umbrella prevents callbacks to malicious sites when users unknowingly click on a ransomware link. It's a cloud-based security platform that serves as the first line of defense enforcing security at the DNS layer.



## Craig Pollack

### FOUNDER & CEO

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### 9. SECURE YOUR "WORK FROM HOME" MACHINES

In our collective rush to be able to work during the pandemic, more and more people are working from home. But - are they doing this securely? Again, don't just assume that Anti-Virus is enough. Every home computer is like adding another office to your network and you should secure it similarly.

### 10. BACK UP FILES REGULARLY

This point cannot be understated: A significant safeguard against being forced to pay ransom is having a robust backup and recovery solution in place. Depending on a variety of factors, including how quickly the security compromise is detected and how widespread the data loss, recovery from a backup often can be one of the best options.

### RECAP

Is your network protected? While each of these is great on their own, implementing these strategies together can make a world of difference to your organization's cybersecurity protection.

# COMPANY BENEFITS

## EIGHT WAYS TO COPE WITH PANDEMIC RE-ENTRY ANXIETY

More than 300 million vaccine doses have been administered in the US and employers are moving forward with return to work plans. As more companies are "returning to work" I am receiving questions about how to return-to-work, how to deal with employees who do not want to return to work among many others. According to the American Psychological Association, 49% of American adults are uneasy about resuming in-person interactions and returning to work. I learned about the term Pandemic Re-entry Anxiety. `

When I Googled "Coping With Pandemic Re-entry Anxiety in the Workplace" I received over 76 million hits. After speaking with clients and reading some of the literature from SHRM, the HR trade association, Zywave, and Harvard Business Review I thought this article is very appropriate and timely.

Pandemic Re-entry Anxiety is a real "thing" especially among unvaccinated people and younger workers. Re-entry Anxiety is an overall uneasiness or uncertainty about returning to the way things were before the COVID-19 Pandemic. Remember your post-pandemic workforce is not the same one that left. Whenever people undergo a traumatic situation such as the pandemic of the past 18 months, they are often unable to reflect and adjust. As people return to the office, this repressed trauma can make itself apparent in anxiety, exhaustion and depression.

Re-entry anxiety can come in many different forms. Mental health experts report there are generally two groups of people who experience re-entry anxiety.

1. Those who worry they will catch or spread COVID-19
2. Those who find it challenging to reengage in social interactions

Here are some common scenarios that can cause re-entry anxiety:

- Running essential errands
- Returning to work in person
- Having dinner with friends
- Attending outside events

### COPING WITH RE-ENTRY ANXIETY

Different people have different coping strategies, but here are some common ways everyone can cope with re-entry anxiety. If your employees are feeling anxious as you transition back to your pre-COVID work life, consider the following six coping tips.

1. Give employees control over how and when they return to work.
2. Start small and gradually build up to larger social interactions in the workplace
3. Set boundaries by allowing your employees to let other people know what makes them comfortable. Make sure employees do not harass, bully or single out employees who are not comfortable with the actions of the majority of your employees.
4. Have your employees create a post-pandemic bucket list to shift their thinking from anxious to positive. A lot has changed due to the pandemic, but employees can focus on the new possibilities.
5. Provide your employees an Employee Assistance Plan (EAP) if you do not have one to provide employees a safe place to discuss their personal feelings and issues.
6. Have your employees do what makes them happy, even if only for a few minutes a day, it is important to have employees regularly engage in something fulfilling for them.
7. Make sure your employees are taking their meal and rest breaks to they can take care of themselves and set aside time to relax and reset their minds.
8. Train your leaders, managers and supervisors on how to support employees.

Re-entry anxiety can be alleviated when managed in a healthy and productive way. If you have questions or would like information about Employee Assistance Plans please connect with me.



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# ALTERNATIVE FINANCING



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## TERM LOANS VS LINES OF CREDIT

Figuring out how to finance your business is just of one of the many challenges facing business owners. For example, is a term loan or a line of credit the best fit for your business? These are the two most common forms of business financing so let's take a look.

### TERM LOANS

With a term loan, you borrow a set amount of money and pay it back over a pre-set period of time. Once your business is approved for the loan, you'll receive the entire lump sum at once and start making payments on a predictable schedule.

Term loans either have a fixed interest rate, where your rate remains the same over the course of the term, or a variable one, where your rate may change depending on the markets.

A term loan works great for:

- Larger investments that have a clear return on investment
- Specific business expenses
- Purchasing inventory in bulk
- Buying equipment
- Purchasing commercial real estate
- Refinancing existing debt

The best part of a term loan is that it can give you the freedom and financial security to move forward with big purchases that you need to take your business to the next level. They are also structured so you can stay on track with your payments.

We've talked about some of the term loan options available through our network. There are SBA loans on the lower risk, lower cost side in our network and short-term cash advances on the higher risk, higher cost side. As always, it comes down to what you can qualify for and how soon you need the funds. We can help you navigate this process.

### LINES OF CREDIT

A line of credit gives you access to a specific amount of money that you can use as needed on an ongoing basis.

Similar to a credit card, you don't make payments or accumulate any interest until you actually use the funds. And unlike a term loan, you can use your funds repeatedly as long as you pay them off.

A line of credit works best for:

- Short-term financial needs
- Ongoing operating expenses
- To help even out cash flow
- Payroll
- Seasonal expenses
- Unexpected costs

The money from a line of credit is designed to give you increased financial flexibility, which is why it's important not to use the funds to pay off long term investments.

### FLEXIBLE LINE OF CREDIT AVAILABLE NOW

We work with lenders that offers revolving lines of credit up to \$250,000.

- Easy application process with decisions in less than 24 hours
- Next day funding
- No origination fee or maintenance fee
- Simple interest beginning below 1% per month
- 2+ yrs. In business, FICO 650+, 250k/yr. in sales or more

### DECISIONS

Before you decide which direction to go for funding, it's important to consider your business needs. What are you going to use the funds for? While these are two different financing solutions, both term loans and lines of credit can be very valuable tools for your growing business.

# WE CAN DO BETTER

## AN ISSUE OF MORALITY



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A great friend and mentor of mine sent me an article about James Baldwin. I admired James Baldwin as his goal was never for the supremacy of one race, but to unify and help those in power understand that until we truly “see” one another that we are all in moral peril. This article was from 1962 and had excerpts from a talk show led by a man named James Jackson Kilpatrick. Mr. Kilpatrick was known as the country’s leading “salesman for segregation” at the time. Malcom X, the leader of the Nation of Islam was invited as well, a person who wanted black rights to be acknowledged, but also wanted much of the same supremacy that Mr. Kilpatrick spoke about for the black race. After so many years of injustice and abuse, Malcom X felt it was deserved and if it wasn’t given, it should be taken. This is an excerpt from the article.

“Over the years, Baldwin had shown remarkable empathy for what we might call “reflexive racists,” the men and women who had been raised to believe in racial hierarchy and hardly devoted a moment’s thought to why they held these views. These unthinking racists, he argued, were among white supremacy’s greatest victims. These folks had been taught to believe that their whiteness was their primary source of power and that they ought, therefore, to do all they can to maintain the racial caste system. Baldwin thought that the reliance on one’s racial identity as a source of power was nothing short of disastrous. He had made this much clear in his reflections on the Nation of Islam and the doctrine of white supremacy was every bit as worthy of condemnation. In both cases, Baldwin argued, the reliance on race as a lever for power was rooted in despair and delusion. Faced with a feeling of

powerlessness, the average white person clings to the delusion that his whiteness has moral value. This idea did not come down from God on high; it was preached by men like Kilpatrick for generations. The doctrine of white supremacy had been created by particular human beings for particular reasons and Baldwin was about to expose Kilpatrick for what he really was.”

This is such an amazing understanding that when we feel we are better than someone else or have more privilege due to the color of our skin, those in the masses, hurt themselves, whether you are white or black. Baldwin wanted his statement to be that holding blacks back to lift yourself up wasn’t a right: it was an issue of morality. And if blacks were trying to do that, they would be wrong as well. His goal, and ours is today, is to see if white people are willing to take responsibility for groups like the Nation of Islam or even the present-day Black Lives Matter. The despair these groups respond to is real, and until our society is ready to do something about the roots of that despair, there will be little cause for hope. Therefore, our hope is, we learn, we educate, and we listen. Let’s achieve the morality that Mr. Baldwin hoped for us all.

# CFO Insights

## HOW MUCH IS MY BUSINESS WORTH?

***Selling Your Business. A series of articles providing information to business owners who are starting to think about exiting their business.***

### HOW MUCH IS MY BUSINESS WORTH?

The \$10 million, \$20 million, \$30 million question.

B2B CFO® surveyed business owners on their biggest concerns regarding selling their business. 62% of respondents identified business valuation as their top concern. Not surprising, valuing a business is complex. Business appraisers utilize an alphabet soup of methodologies such as discounted

cash flow (DCF), comparable company method (CCM), etc. The appraiser selects methodologies based on factors including reason for the appraisal and industry. They may also use multiple methodologies and average them. What none of these methodologies do is determine the price a willing buyer and a willing seller agree to.

The most common valuation methodology utilized in business sales is the EBITDA method (Earnings Before Interest, Taxes, Depreciation and Amortization). This is an adjusted earnings-based methodology that applies a multiple to calculate the value of the business.

EBITA		Multiple		Value
\$ 1,000,000	x	6	=	\$6,000,000

### ADJUSTED EBITDA

There are two components of the EBITDA method, adjusted EBITDA and the multiple. Let's discuss the adjustments to adjusted EBITDA first. The earnings of the business include revenue and expense items that will not carry-forward after the sale. As an example, the owner's son nominally works in the business and collects \$100,000 annual salary. The buyer will not retain the son as an employee. As such, earnings are increased by \$100,000 removing this expense. There can also be negative adjustments. The Company buys supplies at a 10% discount from the brother of the owner, resulting in \$500,000 lower annual expenses. The only reason for the favorable terms is because of the relationship between the brothers. Since this discount will not be available to the buyer, there is a \$500,000 adjustment reducing earnings.

### VALUATION AND TAX STRATEGY

Many business owners make decisions that result in minimization of taxes. As you plan your exit, reconsider these strategies. First, buyers will review these strategies which you may not be comfortable with. Second, some of these strategies may not be included on the adjustments list. In this case, a deduction that saves you 40 cents in taxes, may cost you \$6 in sales proceeds.

The **Success Team™** introduced in my April 2021 article titled "Is Your Business Salable" will analyze the business to determine what adjustments are required to normalize earnings.

### THE SALES MULTIPLE

The second component of the EBITDA method is the sales multiple. The multiple buyers are willing to pay is influenced by various factors including market conditions, industry factors and company performance. As discussed in my May and June 2021 articles titled "Who Should I Sell My Business To – Parts 1 and 2, a significant factor is the motivation of the buyer. To recap, internal buyers will generally pay less than external buyers. For external buyers, strategic buyers will generally pay more than financial buyers. The investment banker on the Success Team™ provides guidance on the appropriate range of multiples a business owner should expect when selling the business.

Are you ready to sell your business? Would you like to learn more about which buyers may be most appropriate for your business? If you are ready to start planning your exit now or would just like to know more about what exit planning is all about, please call me.



**Donald Stevens,**  
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I provide strategic, financial, and operational advisory services to the owners of privately held businesses. My goal is to help business owners achieve their success, as they define it.

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# SOCIAL MEDIA

## FACEBOOK UPDATES IOS 14.5 ENCOURAGING USERS TO KEEP DATA TRACKING ON

On April 26, 2021, Apple announced its launch of the new iOS update 14.5, which includes an “App Tracking Transparency” (ATT) update that will likely have a significant impact on app developers and potentially businesses who use online ads as well.

According to [Apple](#): “App Tracking Transparency (ATT) requires apps to get the user’s permission before tracking their data across apps or websites owned by other companies for advertising or sharing their data with data brokers.”

### WHAT DOES THIS MEAN?

While users have always had the freedom to opt-out of tracking in their settings, the default has previously always been to opt-in. Now the script is being flipped. It’s a fair assumption that most people when prompted directly will opt-out of being tracked, whereas before they may not have thought to go in and disable this function.

Facebook’s business model is heavily based on ads. And while Facebook can still use ads and gather data from within their apps, they are not allowed to share it with third parties unless users consent. This is what allows them to give tracking data to businesses using personalized advertising—and that’s a huge part of their revenue.

So, what does all this actually mean for small businesses?

### PREPARE FOR CHANGES

Given that a large chunk of iOS users may now opt-out of tracking, you may see the effects if you use paid advertising, particularly on Facebook and Instagram. You can get a sense now of how much of your current customer base uses iOS by checking your analytics.

In the long term, you will want to focus less on conversions and more on generating leads and creating brand awareness—which has always been a sound strategy for a small business.

### RELY LESS ON TRACKING

It’s important to consider how this change may impact the effectiveness of the Facebook tracking pixel. If Facebook is not able to track user behavior because they are not giving permission, overall the pixel’s reporting of conversions is going to be inaccurate.

Targeted and personalized ads will be impacted as well. This means that your current ad dollars being invested into Facebook and Instagram may become less effective.

But targeted advertising may not actually be all it’s cracked up to be. According to some [studies](#), revenue from targeted advertising doesn’t usually reach the actual creators of the content—it mostly goes to data brokers, such as Facebook and Google.

Not to mention, the focus on targeted advertising as the primary method



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to reach an audience actually decreases the value of ads that aren’t targeting users, and it also diverts attention and funding away from discovering other advertising methods that may not involve invading individual privacy.

Consider this change one that is not inherently bad in the long-term—though it may have negative effects to begin with. Imagine the possibility of a system where small businesses had a level playing field with large corporations and didn’t need to fight with ad dollars just to keep up. Plus, as individuals and business owners, it’s important to consider the balance between individual privacy and successful business practices.

[Get in touch](#) with Social Spice Media to learn more about creating a marketing plan for your business and how you can effectively spend your marketing dollars. We serves the local needs of Ventura County and Santa Barbara as well as nationally.

# INSOLVENCY ADVISING

## INSTALLER OF GLASS CONTINUES TO SHINE

Remember when you were young, you  
shone like the sun.  
Shine on you crazy diamond.  
Now there's a look in your eyes, like black  
holes in the sky.  
Shine on you crazy diamond.  
You were caught on the crossfire of child-  
hood and stardom,  
Blown on the steel breeze.  
Come on you target for faraway laughter,  
Come on you stranger, you legend, you  
martyr, and shine!  
You reached for the secret too soon, you  
cried for the moon.  
Shine on you crazy diamond.  
Threatened by shadows at night, and  
exposed in the light.  
Shine on you crazy diamond

-David Gilmore

The Company was a leader in glass contracting. Some notable projects included installing the glass steps at the Apple stores and building the glass lookout platform at the Grand Canyon. This Company was the contractor that furnished the glass skins to the Las Vegas City Center complex of hotels, casinos, conference facilities and retail. The owner of the development declared bankruptcy and left the Company with vast sums of unpaid bills. The operations were funded by borrowing on their line of credit from the bank.

The owner of the Company was a woman in her mid-seventies. She pledged her personal real estate collection as collateral

for the loan. As an aside, she was getting the Company ready for an employee stock ownership plan (ESOP). The current state of the Company was resulting in a low valuation for the ESOP. Until the value of the Company went up substantially, the ESOP was on hold. Furthermore, the bank was concerned and wanted a financial advisor to prepare an evaluation. Working capital at the time was limited. Although there were ample projects, many of them resulted in little or no profit.

In distressed situations like this one, financial institutions encourage the borrower to engage consultants to assist with rehabilitating the credit and/or moving the credit to another lender. Our team was tasked with:

- Preparing a 13-week cash flow and projections for three years.
- Investigating projects and identify why they were not meeting profit projections.
- Submitting a report to the bank on the health of the Company and its future plans.

As our engagement ended, we were able to achieve clarity for the bank, renewed confidence for the company and a road map for growth and stability. Major accomplishments included:



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- The bank continued to fund the loan.
- Identification of a major flaw in how the Company was estimating projects that lead to missing profit goals.
- Reduction of non-essential operating expenses and shifting key fixed costs with variable cost alternatives.
- Creating cash reporting guidelines for the finance staff to implement to foster cash monitoring.

Today the Company is an ESOP. The owner was able to retire and pass on ownership to the employees at a desirable valuation. For her efforts through this journey, the CFO was promoted to CEO. The Glass Company continues to shine on. It has won awards both for its civic contributions and its building acumen.

# ESTATE PLANNING

## WHAT WILL BE YOUR LEGACY?

I bet you didn't know that August is "What Will Be Your Legacy Month?" While there is an awareness day or month for almost everything under the sun, this one is **very personal**.

The first assignment from my business coach years ago was to write my obituary.

At first, I thought, "hmmm, as an estate planning and elder law attorney, I can do this!" As I proceeded with the assignment, it was harder than I imagined. For many people, thinking about how they want to be cared for and what their wishes are after they are gone, is challenging. But this is usually planning for some unknown point in the future. Contrast that with planning backwards in a way that impacts what you do and how you live today; harder, right?

While I held the pen, looking at the words, "**My Lifetime Legacy**" with a blank spot below it, nothing profound came to mind in the first few seconds. That surprised me, I am usually full of ideas.

I glanced at the next section, "**My 5 Top Lifetime Goals**." This was easier; what is most important to me? 1) being a mother, 2) the environment where I live, a la "The Secret," 3) business goals related to impact, personal fulfillment and financial success, 4)

bonds and love of family and community and 5) travel, adventure and "bucket list" experiences. Without getting into the nitty gritty, I expanded upon each one and felt confident that they captured how I want to be remembered.

The next section was to identify "**10 Goals for the Next Year**" that move the needle forward with my Lifetime Goals, address health and wellness and all of the other big stuff on my plate. It was hard to narrow it down to 10. The Lifetime Goals, could be a little pie in the sky but as any good business coach will explain, goal setting must be realistic. What 10 things can I accomplish in the next 12 months during a pandemic, homeschooling, caring for my family, including all our animals, working harder at Goldfarb & Luu than ever before and planning for the launch of Life, Love & Legacy (more on that another time)? I did the best I could and felt good about it!

I turned the page, knowing what was next, "**My 90-Day Focus**." This part felt more real, what can I get done in this quarter to etch away at the bigger goals? Okay, done!

You guessed it, the next section is a "**Weekly Planner**" I do every Monday and a "**Daily Focuser**" I do every



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morning. I'm not be perfect at this, but like with anything, practice makes it easier.

Our lives are finite. In 2019, our life expectancy in the US was 78.8 years. This is better than what it was in 1860, only 39.4 years! This breaks down to 28,762 days. **Where are you on that spectrum? How do you want to live the days you have left?**

"Our goals can only be reached through a vehicle of a plan, in which we must fervently believe, and upon which we must vigorously act. There is no other route to success." Pablo Picasso.

Now, back to the blank spot below, "My Lifetime Legacy." This is still a work in progress but so far it is, to feel happy and to make a difference in the lives of others and my community.

**What is yours?**

# BUSINESS MERGERS & ACQUISITIONS

## FIVE REASONS WHY NOW IS THE PERFECT TIME TO SELL YOUR BUSINESS

The Mergers and Acquisitions market is experiencing tremendous activity given the rare confluence of the five unique factors. There may not be a better time to sell over the next decade.



### 1. PENT-UP DEMAND

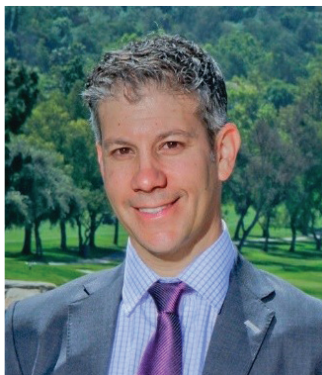
Many deals were put on hold in 2020 due to COVID, its impact on specific industries, and relative global economic uncertainty. Since we are now seeing a significant recovery in most industries, many of the stalled M&A processes of 2020 are becoming active again. Private Equity and Strategic Buyers that were unable to deploy capital in 2020 are now seeking to double their efforts in 2021.

### 2. BUYERS ARE FLUSH WITH CAPITAL

Financial buyers (Private Equity firms and Family Offices) had an abundance of capital ready to deploy in 2020. In fact, Private Equity has raised an additional \$1.6 Trillion in new capital over the past year. As the economy bounces back, the need for Buyers to deploy capital is now even more pressing, having effectively lost 2020. Corporate Buyers also have cash earmarked specifically for growth through acquisitions.

### 3. LIKELY TAX INCREASES

While we don't yet exactly know how the Biden tax proposals will impact taxes, it is safe to assume that corporate, individual, and capital gains taxes will likely be increasing. Business



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owners considering selling in the next few years should ask themselves the following question: "Why kill myself for a few more years to sell later, only to net the same amount, even if the company grows between now and then?"

### 4. HISTORICALLY LOW INTEREST RATES

We know that current interest rates are extremely low, very likely the lowest we will see for the rest of our lifetimes. Acquisitions are analogous to the housing market where interest rates are inversely correlated to purchase price—the lower the interest rate, the higher-priced house one can buy. Similarly, the lower the interest expense, the more one can borrow from a bank (assuming, of course, that the business has sufficient cash flow to support debt-coverage ratios). Simply, rock bottom rates enable buyers to pay more for businesses and still have ample cash flow to service the debt.

### 5. INCREASED DEMAND FOR PANDEMIC "WINNERS"

Just as the pandemic has further widened the wealth gap, it has also exposed the strengths and weaknesses of various businesses. Naturally, when ten years of e-commerce adoption occurs over three months, there are bound to be winners and losers. The wide swath of COVID 'winners' (e.g. digitally native brands, work-from-home products, and plumbing/HVAC) are especially in demand. Buyers are willing to pay a premium for pandemic resilient businesses.

Aside from these five factors, business owners are re-evaluating their life priorities given the past 16 tumultuous months. The cumulative effect of COVID, social unrest, increased regulation, and emerging cyber threats has caused business owners, especially ones approaching retirement age, to realize that having time to enjoy a higher quality of life may be the priority over continuing to run their businesses indefinitely.

For these reasons, we expect the M&A market to be especially hot over the near term (next 12-18 months). If you are a business owner contemplating selling, it makes more sense than ever to eliminate some risk and gain liquidity.

# BUSINESS LAW



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## COPYRIGHT, TRADEMARK, AND PATENT – OH, MY!

Copyright, trademark, and patent are only three of a handful of rights called intellectual property rights. Any time someone creates or invents something, or wants to claim ownership over something that isn't physical property (such as art, music, ideas, code, or designs), it falls under intellectual property law. Here's a primer on the basics on these three areas of law and how they're similar, and different.

### **(C)OPYRIGHT: FOR (C)REATIVE (C)ONTENT**

Copyright law is all about creative content. The purpose of copyright law is to protect the creator's right to control, and make money off of, their creation in the hopes of incentivizing them to continue to create.

Copyright law automatically kicks in when someone creates something that is 1) fixed in a tangible medium, 2) original, and 3) creative. Fixed in a tangible medium means that the creation must be recorded or written down somewhere, so something like a speech or dance will NOT be protected unless it is also recorded. Original and creative means it must be a work of the creator, and have something unique and new added to it. It can't just be a list of facts (like a phone book) or something that didn't take much creativity (like a template form). It also can't have a functional use – functional items are in the realm of patents, which we discuss below.

If a creation meets these criteria, copyright protection automatically kicks in, and the author gains the sole rights to reproduce, distribute, prepare derivative works, publicly perform, and publicly display the work.

### **TRADEMARK™: FOR BRAND IDENTIFIERS**

Trademark law applies to brand identifiers, such as a business name, logo, or slogan. Contrary to popular belief, the purpose of trademark law is not to protect businesses –

it is to ensure that consumers can be confident that they're getting their goods/services from the right place. If there were five different companies calling their soda Coca Cola, we wouldn't know which one was the "real" Coke!

Like copyright law, trademark law automatically kicks in when certain requirements are met. If the mark is distinctive, identifies the brand, and is used in commerce, a business can stop someone else from using the same or similar mark if the second party's use could confuse a potential customer.

Although some rights automatically apply, it can often be beneficial to register a mark with the United States Patent and Trademark Office.

### **PATENTS: FOR USEFUL INVENTIONS**

Patent law applies to any intellectual property that is useful. Patent law gives a creator a time-limited monopoly in exchange for making their design open to the public. The goal is to encourage innovation by releasing this information.

Patent law only provides protection if the person/business applies for, and successfully is granted, a patent. Inventions are eligible to receive a patent if the invention is novel, useful, and non-obvious. Patents are very difficult, time-consuming, and expensive to get, so if you think you may have a patentable idea, it is important to consult with an experienced patent lawyer.

Unsure of which intellectual property laws  
apply to you?

[ABL](#) is here to help!

[Book a consultation today.](#)

# EXPLORING THE PROFIT ZONE



- A one-hour webinar covering the 9 activities that impact business profitability.
- You will assess how you are doing in each activity to get you started on making things better.
- There is no selling, this is an educational program to help CEOs, Owners & Leaders.
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[Ken.Keller@StrategicAdvisoryBoards.com](mailto:Ken.Keller@StrategicAdvisoryBoards.com)
- Reserve your space now for webinars in August, September, October and November.