Without Health You Have Nothing

By WILLIAM CASWELL

“When you have your health, you have everything. When you do not have your health, nothing else matters at all” — Augusten Burroughs, author

As business leaders and employers, we know that our greatest company asset is our people. The quality of their work determines the quality of the goods and services our companies provide and, ultimately, the viability of our enterprises.

It’s also fair to say when our employees have good health—mind, body, and spirit—they come to work with a higher level of engagement, are more productive, and companies experience higher employee attendance. Similarly, workplaces that promote cultures of health can impact “presenteeism”—the problem of employees who come to work, but are unable to fully function due to personal illness, emotional issues or social/family related challenges. We all know of people who work with migraine headaches, bad colds, or serious family issues. They’re on the job, but they’re distracted and not fully effective in their work. A Harvard Business Review article said “…presenteeism appears to be a much costlier problem than absenteeism.”

Taking only a medical care approach to address presenteeism would have limited impact on your firm’s health. This is because there are more dominant factors that influence one’s personal health. Research shows the health of our employees is multi-faceted and medical care accounts for only 10% of the determinants of personal health. Other drivers include family history and genetics (30%), environmental and social factors (20%), and personal behaviors (40%). (See graphic)

Positively influencing personal behaviors can make a huge difference in individual health, workplace productivity, and business performance. Employers recognize that multiple factors impact employee well-being and workplace performance; hence they’re making significant investments in workplace health strategies. A survey on wellness program spending (Fidelity Investments and the National Business Group on Health) reveals that companies with more than 20,000 employees increased their per employee investment to $878, up from $717 in 2014 (22%).

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earing in mind the importance of good leadership to business, con-

sider the following lineup of skills, strategies and attributes:

1. **Be inclusive.** With a smaller opera-
tion, it's essential that everyone feels like
an equal and involved part of the team. A
good employer is certain to treat each
employee fairly, not only in terms of
salary and other forms of compensation,
but also in how that employee is
involved in the daily function of the
business. Encourage feedback, innovation
and creativity so employees feel genuine-
ly engaged. You need to create an envi-
ronment of integrity, trust and respect to
make absolutely certain that everyone is
treated fairly, regardless of the differences
they may have. It's essential to be inclu-
sive, because that keeps everyone on the
same page when it comes to the busi-
ness's long-term goals.

2. **Mission, not just money.** Very few
businesses operate out of sheer altruism,
but that's not to say that turning a profit
is the primary philosophical and practical
focus. Rather, an effective boss establishes
a genuine business mission. How that
takes shape depends both on the business
and on the overriding focus the boss
wants to set. For instance, a restaurant
owner may push speedy lunchtime serv-
ience as a way of serving the time-strapped
business community. By contrast, a med-
ical supply outfit may emphasize how its
products improve customers' health. Not
only can a clear mission serve to moti-
vate employees, it can also infuse a sense
of importance in their jobs.

3. **Nothing to fear but fear itself.**
Many of us have had bosses who would
be right at home with a guillotine next to
their desk calendars. Make one mistake
on the job and feel free to slip your nog-
gin right in beneath the blade.
Conversely, an effective boss encourages
his or her employees not to be gun shy
about an occasional snafu along the road
toward better job performance.

4. **Don't just lead — coach.** It's com-
mon to hear a sports reporter observe
that one coach out-coached another in a
particular game. The same dynamic holds
true for your business, in which you view
your position both as a leader and a
coach who teaches, encourages and, if
need be, corrects employees. A coach
sees things very differently than the play-
ers. It's important to use that different
perspective to educate and encourage.

5. **It's their careers, too.** Don't forget
that the people who work for you are
looking to you to help them navigate
and advance their careers. If an employee
has a goal of becoming a manager or
running his or her own business someday,
nurture that goal.

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On Friday, July 24th, the Los Angeles Business Journal and the San Fernando Valley Business Journal will host a
roundtable style discussion on economic trends and forecasts for Los Angeles County and Southern California.
Our panel of regional experts will share their insights on the biggest headlines of 2015 and where they feel the
market is going this year. Moderated by the Los Angeles Business Journal’s Publisher and CEO, Matt Toledo, the
discussion should be informative and insightful. Don’t miss this opportunity to be a part of the conversation, meet
industry leaders and get informed.

**PANELISTS**

- **ROBERTO BARRAGAN**
  President and Chief Executive Officer
  VEDC

- **GREGORY MAY**
  Executive Vice President, Regional Managing Director
  Newmark Grubbi Knight Frank

- **WILLIAM CASWELL**
  Senior Vice President of Operations and Chief Operating Officer
  Kaiser Permanente
  Southern California

- **MARLA CLEMOW**
  EVP, Region President Wells Fargo’s L.A. Metro Community Bank
  Wells Fargo & Company

- **PHILIP WILSON**
  Partner-in-Charge, California Region
  Marcum LLP

- **DEAN JOAQUIN**
  Partner, Tax Services
  McGladrey
NGKF Capital Markets, the financial services division of Newmark Grubb Knight Frank, provides its clients with strategic solutions to their real estate capital concerns. Through creative advisory, transaction management, deal structuring and marketing expertise, our professionals deliver exceptional capital solutions. Private, corporate and institutional clientele including investment banks, major law firms, insurance companies and media companies, as well as major private equity firms, have turned to NGKF Capital Markets for their financing, acquisition, disposition and leasing needs.

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www.ngkf.com
Q / What are the three most important pieces of advice you would give an international investor seeking to place capital in Los Angeles?

A / The first key is to understand L.A.’s demand drivers and then follow them. The growth of technology in L.A. has spurred higher rents and prices across virtually all sectors of commercial real estate. However, new economy tenants are extremely focused on their working environment and thus are picky about location and product type.

The next important piece is to focus on quality. In good times and in bad, the highest quality product in L.A. has outperformed its competitive set. It is worth it to pay extra or spend more repositioning a project so that you own best in class.

The last piece is to make sure your buying process is commercial. In order to invest in the U.S., foreign investors need to have cash available within the U.S. and must have an approval process that is transparent and streamlined.

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Q / What product type and locations in L.A. do you believe has the greatest potential for appreciation over the long term?

A / I believe multi-family properties that are located near mass transit will likely have the greatest appreciation over the long term, especially in submarkets where there are high barriers to entry for new development.

While the office space market remains soft, due to limited new construction in the past few years, I expect an increase in rents outpacing most people’s expectations. Many well located office buildings are available for well below replacement cost, which suggests that over the long term, office building investments will pay off. Investing in retail buildings is about location, location, location, and density, density, density. Urban in-fill properties in the L.A. basin are the best bet for long term appreciation.

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Q / What factor do you believe poses the biggest near-term risk to L.A. real estate?

A / Lower rental rates mean lower valuations which ultimately defeats the aim of the market. Over the next 12 months, the most significant factor to watch is the impact of the California pension crisis. Lower rental rates means lower valuations which ultimately defeats the aim of the market. Lower rental rates mean lower valuations which ultimately defeats the aim of the market.

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Q / What attracts CIM to this market?

A / CIM was a leader in bringing residential and retail to downtown Los Angeles approximately 15 years ago, and today continues investing in the area. The growth of technology in L.A. has spurred higher rents and prices across virtually all sectors of commercial real estate. However, new economy tenants are extremely focused on their working environment and thus are picky about location and product type.

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Q / On a risk adjusted return basis, what Los Angeles focused investment strategies do you believe will be most attractive over the next 12 months?

A / If foreign capital retrenches, there will likely be negative adjustments in the market. The ensuing bubble-like behavior of the Treasury market poses a distinct adjustment to the real estate market. Investors need to be cautious about the interplay between global and international demand has distorted the market by artificially driving prices across virtually all sectors of commercial real estate. However, new economy tenants are extremely focused on their working environment and thus are picky about location and product type.

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Q / Proposals to overhaul Proposition 13 are being debated within state government. What are the most significant repercussions on tenants and owners if split roll is enacted?

A / This would have a titanic effect on many groups. First, long-time owners of real estate which are predominantly family offices and mom-and-pop owners of smaller buildings will suffer the greatest impact on the ownership side. Their property tax levels are currently low compared to the market and, therefore, they would experience a sudden spike in property taxes. Assuming their leases are either triple net or modified gross with a base year, then it will be the tenant suffering all of the impact.

Ultimately, this will place a lot of pressure on tenants, which could force owners to reduce base rental rates in order to compensate for the increase in property taxes in order to keep tenants in the properties. Lower rental rates mean lower valuations which ultimately defeats the purpose behind this legislation of increasing taxes. If split roll passes, we could see a new wave of businesses leaving California yet again.
NGKF Capital Markets, the investment sales and finance division of Newmark Grubb Knight Frank, provides clients with strategic debt/equity and transaction solutions. The firm’s Southern California professionals serve a private, corporate, and institutional clientele.

JASON CHOULOCHAS
MANAGING DIRECTOR | NORTHSTAR ASSET MANAGEMENT GROUP

Q / Of the $44 billion in Los Angeles CMBS-backed loans set to mature through 2025, over $18 billion is set to mature in 2016-2017. What will be the result of all of these loan maturities?

A / Los Angeles is the entertainment capital of the world and we’ve been to this movie before. Clearly upcoming maturities will be a source of opportunity for investors. However, I do not believe that asset level pricing, for either debt or equity, will change materially. Today’s capital markets are so liquid that these loan maturities can be absorbed. Further, we have the benefit of increasing valuations which continues to narrow the refinance gap facing many borrowers with looming loan maturities.

Mezzanine lenders and preferred equity providers abound and have positioned themselves to provide capital to address the so-called “wave” of maturities. The speed at which this plays out will be governed by property owners’ willingness to dilute their position by bringing in new capital. However, owners are now able to access higher leverage debt, typically from non-bank lenders, to refinance maturing loans. While this bridge capital is more expensive than bank alternatives, it can help to effectuate a refinance while providing the borrower the flexibility to sell at any time.

SONDRA WENGER
1ST VICE PRESIDENT - INVESTMENTS | CIM GROUP

Q / CIM was a leader in bringing residential and retail to downtown Los Angeles approximately 15 years ago, and today continues investing in the area. What attracts CIM to this market?

A / Downtown Los Angeles has been a long-time CIM qualified community that meets the criteria of having an underserved real estate infrastructure need, improving demographic trends over a long period, sufficient level of private sector investment, public commitment to real estate investment consistent with our view, and the potential to make a significant equity investment in the area. In all of CIM qualified communities we continually monitor potential investment opportunities in that market. As downtown Los Angeles evolves, and because CIM has investment, development and operating experience in all types of commercial real estate as well as multiple platforms with a prescribed risk profile, we are flexible to evaluate all investment opportunity.

GREGG HALL
MANAGING DIRECTOR - ACQUISITIONS & DEVELOPMENT | STEELWAVE

Q / What factor do you believe poses the biggest near-term threat to the surging Los Angeles real estate market?

A / Investors need to be cautious about the interplay between global geopolitical crises, rising interest rates and asset valuations. Throughout the recent recovery, the U.S. has been a safe haven for foreign markets and international demand has distorted the market by artificially driving interest rates lower than they would be in the absence of foreign capital. The ensuing bubble-like behavior of the Treasury market poses a distinct risk to the current recovery. Any fallout in Greece, or elsewhere globally, would affect the rest of Europe and the U.S. given our trade exposure. If foreign capital retrenches, there will likely be negative adjustments to U.S. financial markets and increases in interest rates. This is a risk that isn’t fully understood today. The low cap rate environment we’ve been enjoying could change quickly as interest rates normalize. Though this may not immediately affect value, over a medium-term horizon (5+ year) higher reversionary cap rates will have a large negative affect on exit pricing which likely can’t be recovered through income gains during the hold period.

MARK FLUENT
MANAGING DIRECTOR - HEAD CRE BANKING US WEST | DEUTSCHE BANK SECURITIES INC

Q / How is the possibility of a rise in interest rates affecting your firm’s near-term investment strategy?

A / Rates have been rising slowly but surely, which we think is the Fed’s intention. As the market leader, Deutsche Bank expects to still issue $250-$300 in CMBS loans this year alone. We will also continue to use our balance sheet to the benefit of our clients with floating rate loans and for special situation lending. As for underwriting new loans, we are stress testing all short term loans to make sure that they qualify for take-out financing at the higher long term rates, which we expect to see in the near future. We are also encouraging borrowers to consider taking longer term loans. All of us, as lenders and borrowers, have been lulled to sleep, forgetting that LIBOR does in fact rise above 20 basis points. If you own a property that has stable cash flow, take advantage of the last few innings of this historically low interest rate environment — and buy yourself 10 years worth of the peace of mind that comes with a fixed rate, non-recourse loan.

SCOTT SELKE
Senior Managing Director
Newmark Grubb Knight Frank | Capital Markets

As evidenced by the responses from the institutional investment and finance community, Los Angeles remains high on the list for new deals. The caveat is that investment will flow to the risk profiles, neighborhoods and property types that offer the highest adjusted return. Shifts in investor behavior continue to be primarily influenced by the cost and availability of capital. Capital is making considerable efforts to underwrite the expected upward trend in interest rates over the next three to five years.
Women, Minority-Owned Businesses Power LA Economy and Strengthen Communities

By ROBERTO BARRAGAN

More women and minorities operate small businesses in Los Angeles County than any other county in the nation making critical contributions to the region’s economic engine. Beyond impacting gross product and tax receipts, the micro and small businesses established by women and minorities are vital to strengthening under-served communities by creating sustainable jobs and increasing personal income.

In addition to access to capital, many small businesses in low- to moderate-income communities need business development services. More than 5,000 small businesses access free VEDC workshops each year, along with consulting, risk education, and training programs for loan clients. Locally, VEDC operates a Small Business Administration (SBA) sponsored Women’s Business Center, Pacoima Development Federal Credit Union, and two Los Angeles Business Source Centers. VEDC’s strategy recognizes that a combination of technical assistance, access to capital, and partnerships with local workforce and business assistance agencies are critical to entrepreneurial success.

Roberto Barragan is President and Chief Executive Officer for the VEDC.

The Four Components of an Effective Business Plan

By MARLA CLEMOW

aving a well-thought-out business plan can help a business owner stay focused on company goals. According to a recent Wells Fargo survey, only 33 percent of small business owners said they have a formal, written business plan. Even though many business owners have ideas for plans in their heads, those who put plans in writing are more optimistic about the coming year. In the survey, business owners with formal plans were more likely to say they plan to add jobs at their companies, expected revenues to increase and expected their companies to be in any business plan. Here are the key areas to address:

Company overview – The overview should provide a description of the business, including what products or services you sell. It should outline your professional or industry experience, the history of your business, and your business structure, including staffing and management roles and responsibilities. In addition, the overview should house a detailed marketing plan.

Analysis - Competitive intelligence and market insights are key to developing your business plan. In this section, you should include data on competitors within your industry. It’s also a good place to explore prospective customers that might be a fit for your products and services, and define how you intend to reach them. Building this information into your business plan is intended to provide you with a competitive advantage, and helps you to fine-tune your marketing efforts and maximize sales.

Financial Data – A business plan should include a financial data section. It’s the place to outline your starting balances, how you plan to make money and sales forecasts. Keeping financial information updated and organized can be a challenge for many business owners, yet an essential step to more easily plan for growth, manage cash flow and prepare for unexpected expenses.

Executive Summary – This part of the plan is often considered the most important when seeking financing. This section provides a high-level summary of the business, and recap the key features of your business plan in one page or less, including who you are, what you sell, and who you sell to, and a financial summary.

To help simplify the business planning process, Wells Fargo recently introduced a new, comprehensive resource on Wells Fargo Works.com: The Business Plan Center. This new, complimentary offering includes two new tools:

• The Business Plan Tool is step-by-step guide for creating your own written business plan;

• The Competitive Intelligence Tool provides business owners with up-to-date insight on competitors in the market.

The Business Plan Center delivers an integrated learning experience, and is available to all business owners – both customers and non-customers. It is a natural extension of the support you can currently offer through Wells Fargo Works for Small Business.

Developing your business plan isn’t a one-time process. It requires regular maintenance as your business evolves and your needs change. Every business owner will experience successes and challenges on their entrepreneurship journey, and revising your business plan during these times will help you celebrate accomplishments, establish new goals, and plan for the future based on lessons learned. As a business owner, your focus is on running the business, and time away from day-to-day tasks is limited. Yet we’ve learned from business owners we serve that taking time to develop and maintain a streamlined business plan can save you time and better manage your money in the long run.

Marla Clemow is Region President for Wells Fargo’s Los Angeles Metro Region. She can be reached at marla.clemow@wellsfargo.com. To help more small businesses achieve financial success, Wells Fargo introduced Wells Fargo Works for Small Business – a broad initiative to deliver resources, guidance and services for business owners. For more information about Wells Fargo Works for Small Business, visit WellsFargoWorks.com or follow them on Twitter @WellsFargoWorks.
The Entrepreneur’s Story Always Starts with a Dream to Win Big
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Select Recent Transactions

Beauty Care

Too Faced
a portfolio company of WESTON PRESIDIO
has sold a majority stake to GENERAL ATLANTIC
in conjunction with Too Faced founders and senior management

Software-as-a-Service

Drawloop
has been acquired by NINTEX
a portfolio company of TH Associates and updata PARTNERS

Market Research/Data Analytics

Arlington Global Financial Limited
has acquired BIG STRIKE from The Gores Group

Apparel

Chatters
has been acquired by ONCAP
in partnership with the existing management team

Beauty Care

Building Products

RSI HOME PRODUCTS, INC.
has completed a private equity placement from BIC Investors, LLC

Professional Audio

PreSonus
has completed a senior and subordinated debt financing led by PRESIDENTIAL FINANCIAL

Action Sports & Apparel

HYBRID
has completed a recapitalization with ALTMONT CAPITAL PARTNERS and concurrent investment in Fox Head, Inc.

Digital Marketing

has been acquired by ZEALOT

Beauty Care

Product Club
has been acquired by BURMAX

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Los Angeles Business Journal’s 2015 Mid-Year Economic Forecast & Trends
Featured Panelist Jim Freedman, Managing Director
The Entrepreneur’s Story Starts with a Dream to Win Big

By JIM FREEDMAN

Five years ago, we set out on a journey to bring together a team of exceptional individuals driven by a common vision to help entrepreneurs maximize the value of their companies, which in many cases represented a lifetime’s work. Los Angeles was built by small business owners; there are more middle-market companies in LA than in any other major metropolitan area of the country. With nearly $5 billion invested in LA startups since 2009, this city of entrepreneurs is known for its ability to access both debt and equity capital.

As a leading force in the world economy, Southern California plays host to numerous video gaming and technology companies in our “Silicon Beach,” a burgeoning green-tech ecosystem, and a vast array of service companies that are creating jobs at a rapid pace. Los Angeles particularly has shown positive and consistent growth in employment over the past few years, and the county anticipates it will add 150,000 jobs across all industry sectors such as technology, healthcare, finance and insurance, and professional, scientific and technical services over the next two years. Los Angeles continues to be a global economic leader, great place to work and live, and we believe it’s a great time to operate or sell a business in Los Angeles. Taking action and being proactive is a requirement for business and life success. This will create value for your company and make it extremely attractive to potential buyers or investors.

Jim Freedman is Chairman and Managing Director of Intrepid Investment Bankers, a specialty investment bank that provides M&A, capital raising and strategic advisory services to middle-market companies across various industry sectors. We have a unique culture rooted in our founders’ successful 30+-year history of advising entrepreneur and family-owned businesses, financial sponsors and major corporations. Learn more at www.intrepidsbb.com.

How to Grow Your Business: Position Your Company to Be Bought Rather than Sold

Well run and successful companies typically attract capital providers and acquiror interest. A business becomes more valuable when you run it like you plan to own it forever. Investing in the right people, process, technologies and a performance-oriented culture will set you apart and enable a business owner to focus on what you do best: executing business strategies that drive the value for your company’s growth.

Furthermore, reducing a company’s reliance on the owner and establishing a professional management team is key to promoting the sale of a business. Your management team will make your company an attractive acquisition target. Lastly, an effective management team will provide continuous growth, reduce risk and improve profitability, all of which drive value for your company.

Where Capital Flows Opportunity Follows

In the U.S., there are more than 5,000 commercial banks and 3,000 private equity and venture capital firms vying for the entrepreneur’s attention. Insurance companies and hedge funds as well as online platforms like crowdfunding and peer lending sites are also good sources of capital. Financing options range from equity and bank loans to senior and subordinated debt alternatives. While each investor and lender has its own unique expertise, investment criteria and return expectations, an experienced advisor who can help source the right capital provider can make all the difference in securing an optimal capital solution.

We recently worked on a debt capital raise with PreSonus, a company that manufactures and distributes professional audio equipment, selling its world-class products in 80 countries. Our client’s products sit in famous recording studios, historic churches and concert halls from New York to New Delhi. We ran an advisory process to align our client with a lender who was truly in it for the long haul. We also recently advised Too Faced Cosmetics, one of the largest independent prestige cosmetics brands on its majority stake sale to General Atlantic, a global growth equity fund. The significant growth investment they received will help drive continued brand momentum and its efforts for global expansion.

While doing business in California and Los Angeles specifically can be challenging relative to other markets due to the cost of living, state and local taxation and a looming minimum wage increase, there is an abundance of capital ready to invest in great companies in Southern California. Our firm Intrepid is feeling that growth; we’ve closed as many M&A transactions and capital raises compared to this time last year. Los Angeles continues to be a global economic leader, great place to work and live, and we believe it’s a great time to operate or sell a business in Los Angeles. Taking action and being proactive is a requirement for business and life success. This will create value for your company and make it extremely attractive to potential buyers or investors.

With nearly $5 billion invested in LA startups since 2009, this city of entrepreneurs is known for its ability to access both debt and equity capital.

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“The tools in the Business Plan Center are golden for anyone who’s looking to grow their business.”

Carolyn Miye
Oodles 4 Kids, est. 2012
Portland, Oregon

Our complimentary Business Plan Tool can help you focus on the things that will make your business thrive.

Like most small business owners, Carolyn Miye* was so busy running her business that she found it hard to organize ideas for her company’s future into a business plan. Using the Business Plan Tool from Wells Fargo, she gained valuable insight to help her focus on what to do next. It’s just one of the complimentary resources in the new Business Plan Center. To learn more, visit WellsFargoWorks.com.

*Wells Fargo rewarded Carolyn Miye $10,000 to help with her marketing plans.
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Cybersecurity: Investing in Your Firm's Future

By Heather Wearfield

Recent cybersecurity breaches such as Target and Neiman Marcus have caused the U.S. Government to start implementing new regulatory initiatives throughout all sectors to help defend against cyber-attacks. Companies too often operate in reactive mode based on the latest attack by remedying the now known vulnerabilities in the organization. The initiatives are challenging industry sectors to take on a proactive role in protecting their organization against potential threats. Clearly cyber-attacks rarely come in the same form; however, protecting to the extent reasonable is the challenging organizations are now facing. According to a global survey of securities exchanges, 89% identified cybercrime as a potential systemic risk and 53% reported experiencing a cyber-attack in the previous year. Investment firms can be particularly vulnerable to cybersecurity attacks due to the sensitive nature and significant value of client information and assets held, respectively, which is why the Securities and Exchange Commission’s Office of Compliance Inspections and Examinations (SEC OCIE) in 2014 has started to include in its Examination Priorities a focus on technology, including cybersecurity preparedness. Major technology sections in the Examination Priorities include: 1) Identification of Risks/Cybersecurity Governance; 2) Protection of Networks and Information; 3) Risks Associated with Remote Customer Access and Funds Transfer Requests; 4) Risks Associated with Vendors and Other Third Parties; and 5) Detection of Unauthorized Activity. As part of its document requests to advisers and broker-dealers, the OCIE will likely seek detailed information regarding: • Understanding and procedures for detecting unauthorized network and device activity along with who in the organization they are responsible; • Documenting the number of cybersecurity breaches since January 1, 2013 and associated remediation efforts; • Policies for onboarding of new technology, service providers and business partners who conduct remote maintenance and cybersecurity risk assessments on vendors and partners; • Logical security measures including: authentication procedures for customers including PINs, on-line account access, and information regarding cybersecurity threats provided to enhance customer awareness.

Over 50 cybersecurity examinations of registered broker-dealers and registered investment advisers will be conducted by OCIE. A Risk Alert was issued in April 2015 describing SEC’s Examination initiative and includes a detailed sample request list of information. Preparedness for one-on-one correspondence with this Risk Alert is essential. It can be found at www.sec.gov/ocie.

Furthermore, on March 26, 2014, the SEC sponsored a Cybersecurity Roundtable to better inform the SEC, the markets, and industry, and the private sector as to what cybersecurity risks they are facing and how best to combat them. The two major categories discussed at the roundtable were issues potentially impacting public companies and issues impacting the capital market infrastructure and SEC-regulated entities. Chair Mary Jo White stated that Self-Regulatory Organizations and large alternative trading systems are a key area of focus. Chair Mary Jo White emphasized the need for stronger partnerships between the government and the private sector to combat these threats.

So, what can Investment Firms do to prepare?

• Review and update the firm’s Information Security Policy. Then identify the Information Security Policy is a key item as it provides governance over the controls and procedures in place to protect the organization against cyber-attacks.
• Perform a gap analysis. The gap analysis will allow the investment firm to document what has previously been done, the current environment in place, and where the firm needs to be for regulatory or compliance reasons.
• Risk identification and assessments are the first steps in establishing a strong defense against cyber-attacks:
• Identify any area that is considered to be high or medium risk and that should be determined by analyzing the probability of occurrence and impact of event. Current controls for these risks should also be identified and analyzed to determine if the control is appropriate. Areas of risk would be access to managed devices such as desktop computers and laptops, as well as Bloomberg terminals, software platforms for portfolio, general ledger and other accounting systems and application operations for security trading and wire transfers, as well as network architecture, vendor management, and logical and physical access.
• Developing mitigation plans should be done to identify where a risk has been identified for having weak or no mitigating controls in place. Security controls that are developed should be measurable to ensure the effectiveness of control can be determined. Implement security controls to reduce risk to an acceptable level.
• Monitor security controls that are implemented to ensure the effectiveness of the control.
• Protecting the Network and Access to Information:
• Conduct a periodic assessment performed on controls in place helps ensure the confidentiality and integrity of the network and data. Areas that should be evaluated in the assessment include high risk areas as well as remote access to the network and ensuring the integrity of data transmission outside of the organization.
• Vulnerability assessments are another mechanism to help an organization detect any gaps or deficiencies with their network.
• Implement 3rd party vendors and service providers of critical business processes have strong controls:
• Implement a strong Vendor Management program for all service providers including prime and executing brokers, fund administrators and pricing services. A strong Vendor Management program will assess risks associated with vendors and will allow an organization to put controls in place to mitigate those risks. Included in a strong Vendor Management program would also be a vendor selection process, as well as obtaining Service Organization Control (SOC) reports for current vendors to a review of their controls can be conducted.

Detection of Unauthorized Activity

There is a vast array of systems that compile event logs and perform an analysis for irregular activity. All of these systems allow organizations to have better insight into what is being performed, when, and by whom for all of their systems. This allows for the monitoring of the organization as a whole which is critical in identifying threats by irregular activity early.

More Regulation for SRO’s

Cybersecurity: Investing in Your Firm's Future

Cyber-attacks are so effective because they are constantly evolving: constantly changing and we are always in a reactive mode to protect against the last known incident. Simple targeted attacks could include the fact that the names and titles of an Investment Firm’s executives are now known vulnerabilities in the organization as a whole which is critical in identifying threats by irregular activity early. Unfortunately with the use of any technology, unavoidable risks are encountered. The possibility exists that unauthorized users could access sensitive information through public access points and utilize that information in an inappropriate manner.

By Heather Wearfield

Unfortunately with the use of any technology, unavoidable risks are encountered. The possibility exists that unauthorized users could access sensitive information through public access points and utilize that information in an inappropriate manner. The possibility exists that unauthorized users could access sensitive information through public access points and utilize that information in an inappropriate manner.
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Morale-Boosting Tips for Your Employees

A n employee’s relationship with her supervisor is a prime determinant of job satisfaction. Here are some cost-free ways to start building morale:

1. Concentrate on helping employees learn and grow from their mistakes rather than on assigning blame. Create a culture of continuing education. Admit that you also have room to grow.

2. Encourage open communication and allow for respectful disagreement. Make your expectations clear. Share information, future plans, and company direction.

3. Use small perks like allowing an employee to knock off work a few hours early after completing a big project. This reinforces to employees that hard work is recognized and appreciated.

4. Solicit advice and input on changes, procedures, or plans that affect your employees. Pull opinions from timid employees by asking direct questions like, “Brad, what are your concerns?” and “Cheryl, do you have anything to add?” Admit that you sometimes make mistakes and don’t always have the right answers.

5. Give frequent feedback. Report the wins as well as the losses. Tell your employees what they’re doing right as often as you tell them what they’re doing wrong. Use an outstanding performance as an example of how to do things the right way.

6. Praise your employees publicly for their successes. Praise them to others when they’re not around to hear it. There’s no greater compliment than hearing from a third party that someone has been saying good things about you.

7. Manage disruptive employees. One person can poison an entire culture if left unchecked. Start by addressing the disruptive employee’s concerns. If you can’t come to a mutually satisfactory solution, termination may be necessary.

8. Discipline privately and discreetly. Don’t allow disciplinary action to become personal. Be brief and to the point, and then let it go. Never humiliate or demean an employee. Never bad-mouth your employees to others.

9. Build trust by backing your employees, protecting their interests, and shielding them from unfair criticism.

10. Address employee concerns promptly, and give verbal status reports on issues that you are still working to resolve. If you can’t resolve an employee concern, be up front about why. It’s important for employees to know that you didn’t forget about them due to lack of interest.

11. Learn something about each employee’s personal life and show an interest in it. Share some part of yourself with them. Loan an employee one of your favorite books, share a recipe, or swap tips on the best places to go for a walk.

12. Give employees control over their workspace, desk, decorations, lighting, and other small matters. Everyone needs an occasional win.

Continued from page 25

average for companies with between 5,000 and 20,000 workers rose to $466.1, up from $493 in 2014 (34%). There is clearly an ROI for firms to invest in their employees!

As we come to understand and appreciate the fuller meaning of employee health, let’s not forget other allies who could help us on that journey. Health plans, provider organizations, and community resources can be great partners in supporting employers (and employees/dependents) in building a health culture.

There is an inextricable relationship between employee health and corporate viability. As business leaders, we know that a workplace culture of health can positively influence a company’s performance. As an individual or as a business leader, having health takes on a whole new meaning – “...because when you have your health, you have everything.”

William Cassell is senior vice president and COO for Kaiser Permanente Southern California Region. He is also 2015 chairman of the board for the Los Angeles Area Chamber of Commerce.
Minimizing the Burden and Maximizing the Benefits of Global Statutory Audits

By MATT DOLLARD

Taking advantage of global opportunity often means expanding into numerous foreign jurisdictions. International expansion offers tremendous strategic advantages, while opening risks in dealing with statutory audit requirements and other compliance burdens in every jurisdiction. Too many companies see these compliance activities as a burden and often pay insufficient attention to addressing them timely or effectively, leaving management of statutory audits to their foreign operations and providing little assistance or oversight. That can be a costly mistake. Consider the risks. Failure to comply with these obligations can mean:

- Fines and penalties which, depending on the jurisdiction, can be substantial
- Loss of your license to do business in a jurisdiction
- Personal liability for your executives and directors, including the possibility of arrest

Effectively meeting your statutory audit obligations is a vital part of managing your global risk and maintaining solid corporate governance and citizenship. But the benefits of an effective global statutory audit approach extend beyond managing risk. A timely, effective statutory audit process can provide reliable information on operating results that will help you manage international tax planning and compliance, including transfer pricing, and that will support your global strategic planning efforts.

At a minimum, an effectively managed global statutory audit program will minimize the overall work and expense of your audit efforts, shorten audit delivery times and better align your audit resources with your global operations.

Five Steps for Managing Your Global Statutory Audit Challenge

1. Make sure you're performing statutory audits everywhere they are required. Centralize document the statutory audit thresholds, rules and deadlines in every country where you have operations, establish a plan to ensure that you are conducting all required audits on-time, and in accordance with local regulations, and conduct an annual review of all local operations against local requirements to ensure your approach is up-to-date. While the cost of compliance may seem high, the cost of failure is higher. When you balance the expense of a disciplined global statutory audit approach against the potential of losing your business license in key jurisdictions, possible fines and potential legal liability for your company and your leadership, you'll see that effective compliance is a relative bargain.

2. Understand what's needed in each jurisdiction. You may not need to complete a statutory audit in every jurisdiction. Some countries allow foreign subsidiaries to opt out of a local audit if they are below certain thresholds. That doesn't mean, however, you don't need an accurate accounting of local results. Some companies choose to have an audit anyway for internal control purposes. However, a full audit is expensive and is not the best way to ensure an internal controls are in place. Conducting limited, agreed-upon procedures focused on key areas can be a more effective and less expensive way to manage risk.

3. Know when to re-evaluate your compliance requirements. Multinational acquisitions, carve-out acquisitions, and global restructuring events can all affect your compliance requirements. Understanding the statutory audit ramifications of such events should be built in to your planning process. Different jurisdictions can have vastly different statutory audit rules for newly acquired businesses. You may be able to get out of an audit or extend the audit period beyond 12 months. Carve-out acquisitions, for example, have a reset effect in most countries, which may allow you to extend an audit beyond 12 months, possibly as long as 24 months. Understanding the rules allows management to balance the costs and benefits of all options.

4. Analyze locations that are getting audited twice. A U.S. consolidated audit, which is conducted shortly after year-end, often includes audit procedures at foreign locations. Companies then sometimes see the auditor sending a second team later in the year to address the local statutory audit. Working with your auditor to combine consolidated audit and statutory audit work can yield significant savings.

Some U.S. parent companies that have European holding companies with multiple foreign entities are required to have a European consolidated audit and another consolidated audit at the parent company level. This requires a lot of effort and expense for both the company and its auditor. A U.S. company may be able to streamline its reporting if the European country allows a business to use its U.S. consolidated report in place of the European report. However, companies must understand the trade-offs. While this may save the company time and money, it also means that its U.S. financial statements may become publicly available in Europe. For a public company, this is not an issue. But private companies will want to consider the ramifications of revealing their financial statements to the world to save costs.

5. Analyze your global audit provider network. The firm performing your global consolidated audit is not always the right firm to use for your local statutory audit needs. The firm conducting the global audit will conduct its work according to the relative materiality of your various foreign subsidiaries, which could mean that they are not the most effective or cost-efficient resource to meet your statutory audit needs. By considering alternative relationships with global networks that are better scaled to the size of your foreign operations and coordinating that work with your consolidated audit, you may realize a better service value.

Statutory audits are vital to your global compliance effort, can provide information to support transfer pricing and other important international strategies and can provide key insights into improving your global operations. If your company is treating them like a compliance nuisance, not only may you be risking enforcement trouble with local jurisdictions, you also are failing to leverage their inherent value and may well be driving up the overall effort and expense of your global accounting effort. Give statutory audits the attention they deserve, and you can gain real benefits for your company.

Matt Dollard is International Director of McGladrey LLP. He can be reached directly via Matt.Dollard@mcgladrey.com.

Seven Signs that its Time to Re-Evaluate your Statutory Audit Approach

Consider the following indicators. The more of them that apply to your global organization, the more likely your business could benefit from an analysis of your current statutory audit compliance program:

- You have critical foreign mass, meaning six or more foreign locations, though this number can be lower depending on complexity of activities, corporate structure, maturity of internal controls and other issues
- You do not currently have an annual process to analyze and document foreign audit requirements in each country from a centralized location
- You do not currently gather, analyze, or house completed foreign audit reports centrally, nor maintain that information accessible to those who need it
- You have multiple overseas subsidiaries held under foreign holding companies that require a foreign consolidated audit
- You have recent overseas mergers and acquisitions / or restructuring activities
- You have experienced substantial deviations of global audit fees from agreed-upon fees, indicating efficiencies may be possible
- You have foreign locations that are audited twice – once for the global audit, then again for the statutory audit
US Households Ready to Drive Economic Growth During Second Half

BY JOE BRUSUELAS

fter a disappointing start, the U.S. economy likely experienced a modest rebound in the second quarter, which points to much better performance in the second half of this year. Growth in the second quarter will probably come in above trend at 2.7 percent (trend growth is 2.15 percent) compared with the contraction of 0.2 percent seen in the first quarter. Revised spending and residential investment data both point to better than 3 percent growth in the second half as the economy moves past weaker foreign demand and the transitory impediments that dragged down growth during the first three months. The risks to that outlook lie squarely in the external sector. The European Central Bank may deem it necessary to flood the euro zone with liquidity to address the aftermath of what appears to be a Greek sovereign default and possible exit from the common currency bloc. As a result, another sharp depreciation of the euro may occur, which would potentially trigger an adverse shock to net U.S. exports and the balance sheets of firms with large international exposure. Export growth is likely to slow to near 4 percent in the second half while imports should pick up noticeably and experience near 6 percent growth linked to strong domestic demand and increased purchasing power thanks to a stronger dollar. While most large and internationally active firms should already have effective hedges in place against exchange rate volatility, there may be a negative impact on corporate balance sheets under these conditions when coupled with rising wages.

The major policy shift in the United States in the second half of the year will be the long-awaited first step in policy rate normalization by the Federal Reserve. The noticeable improvement in economic data during the past several weeks should result in a 25 basis point rate increase by the Fed in September and another possible 25 basis point increase in December. In the Fed’s September economic projections, 15 of 17 central bankers thought it appropriate to raise rates once this year and another 10 thought two rate increases would be necessary. Again, this is contingent on the crisis in the euro zone remaining relatively well contained. If not, the Fed would likely postpone the start of policy normalization until early next year.

MIDDLE MARKET INSIGHT: McGladrey’s proprietary Middle Market Leadership Council survey data show that a full one-third of respondents intend to increase the current inventory level, another sign of growing optimism among the fastest growing portion of the economy. U.S. households will be the primary engine of growth in the second half of the year. With wage growth likely to exceed 3 percent, and inflation-adjusted personal disposable income rising at a 3.5 percent rate, there is ample room for growth in spending. The revised May retail spending data shows Americans are tapping growing nominal income and savings thanks to cheaper year-over-year gasoline prices. On a three-month annualized basis, retail sales are up 6.1 percent, and excluding gasoline prices are up 6.7 percent. In our estimation, this provides upside risk to our call for 3 percent growth in the second half.

MIDDLE MARKET INSIGHT: More than half of respondents to McGladrey’s Middle Market Leadership Council survey indicated they plan to increase capital expenditures. Meanwhile, the pace of private sector investment should more than double the 2.4 percent pace posted during the first three months of the year. That gain will be driven by a robust increase in residential investment. Forward-looking building permits point toward an increase to 1.275 million housing starts at an annualized pace, up from the current pace of 1.09 million starts. In addition, our proprietary Middle Market Leadership Council survey indicates that slightly more than half of respondents plan to increase capital expenditures. Given a tightening labor market, we expect that firms of all sizes will increase outlays on fixed business investment, which places some upside risk on the consensus forecast for a 5.4 percent average increase in capital expenditures in the second half.

Given the political division in Washington locked in until at least 2017, the pace of government expenditures should remain somewhat modest and increase nearly 2 percent during the final six months of the year. Special supplemental bills to support greater defense outlays would not be surprising given ongoing operations in the Middle East and Africa.

Joe Brusuelas is chief economist at McGladrey LLP. For more information, visit www.mcgladrey.com.
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LAEDC Celebrates 200,000th-Job Milestone in Los Angeles County

Over $91 billion in total economic impact

Earlier this year, the Los Angeles County Economic Development Corporation (LAEDC) announced its 200,000th job saved or attracted in LA County since its Business Assistance Program began in 1996. Designed to provide free-of-charge, on-the-ground business assistance, the program has assisted thousands of businesses – large and small – overcome challenges, helping them come to, expand and hire in L.A. County.

For close to two decades, the LAEDC, a non-profit public-benefit corporation has helped retain and attract jobs at businesses from all industries, ranging from production-based sectors, such as food processing and aerospace, to fast emerging “New Economy” sectors, such as space commercialization and biomedical. There is no “prototypical” business assistance project. Instead, LAEDC business assistance projects run the size gamut, from saving a few jobs at a multigenerational family-owned business to saving a few thousand aerospace manufacturing jobs. What counts most is that every job saved matters to the individuals and families it supports.

“The impact of our life-changing work continues to be felt across the neighborhoods and communities in which we serve and save jobs,” said Bill Allen, president and CEO of LAEDC. “We know that persistent joblessness is directly connected to lower well-being for the unemployed individuals, their families, and their communities. At its core, the LAEDC Business Assistance Program was purposely created and continues to this day to alleviate the damaging effects that joblessness has on the wellness of our County’s communities.”

The overall economic impact and fiscal contribution of 200,000 jobs saved or attracted into the region is staggering: Total jobs directly retained and attracted: 200,000
Estimated labor income of these direct jobs (includes benefits): $12.3 billion
Economic Impact:
• Total jobs (direct, indirect and induced): 443,135
• Total labor income (direct, indirect and induced): $24.4 billion
• Total value of output in Los Angeles County supported by all jobs: $91.2 billion
Fiscal Contribution:
• Est. state and local tax payments: $5.7 billion, of which county revenue was estimated to be $1.1 billion
(State and local taxes include property taxes, sales taxes, income taxes, social insurance taxes, and other fines and fees paid to state and local governments)

Speaking about this historic milestone, LA County Supervisor Michael D. Antonovich, an early champion of LAEDC when the County created it in 1981, noted, “I am very pleased by the progress that LAEDC has brought to our county by the retention and expansion of 200,000 jobs. It’s very important we have these public-private partnerships that will bring vitality and jobs, opportunity and growth to the County of Los Angeles, benefiting not only the County but the entire region.”

The LAEDC reached the 200,000th-job milestone helping the Covina-based aerospace company Composites Horizons, which builds high-temperature advanced ceramic and carbon fiber composite products for jet engines. One of the jobs saved was Elias Sanchez’s. Sanchez started at the company as a temp, but climbed the career ladder to autoclave manager, a highly skilled job. Speaking about the LAEDC’s work saving his job, he offered: “This job helps me out a lot, for my family and my kids, and helps me put my kids through schooling — without this job I couldn’t do it.”

Echoing Sanchez, Peter Conley, a company production manager, said: “I think LAEDC is doing great work, they are trying to keep jobs here in L.A. County. If this company had moved to another part of the country, I wouldn’t have had this opportunity.”

As the Southern California region’s premier economic development organization, the Los Angeles County Economic Development Corporation (LAEDC) provides collaborative and strategic economic development leadership to promote a globally competitive, prosperous and growing L.A. County economy to improve the health and wellbeing of our residents and communities and enable those residents to meet their basic human need for a job. We achieve this through objective economic research and analysis, strategic assistance to government and business, and targeted public policy. Our efforts are guided and supported by the expertise and counsel of our business, government and education members and partners. Visit www.LAEDC.org

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