



Evolve Construction Summit

September 12, 2024

Hosted By:



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SUMMIT 7
PLATINUM



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Morning Keynote Presentation

Michael Bellaman
President
Associated Builders & Contractors, Inc.



"Leadership is the authentic expression of who you are in such a way that creates the conditions for others to achieve."

- Alan Medville

"Safety leadership is the authentic expression of who you are in such a way that creates the conditions for all to return home safer, healthier, happier, and fulfilled."

"The culture of any organization is shaped by the worst behavior the leader is willing to tolerate."

- Steve Gruenert and Todd Whitaker

If done right, an employee value proposition offers a compelling answer to the question – “Why should a highly talented person choose to work for us?”

According to an article written by Richard Mosley of Universum in the *Harvard Business Review* – “If you can’t attract, engage and retain top talent, you are unlikely to achieve your business objectives – the employee value proposition captures the essence of who you are and how you are seen in the marketplace. It clarifies what makes you different and sets out the qualities that make you ‘special’ to your employees.”

Networking Break!



Owner Panel Discussion

Rusty Blackwell
Pam Johnson
Will Mitchell
Kerrick Whisenant



Construction Owner Panel



Pam Johnson
President
Quality Glass
Panelist



Rusty Blackwell
President
Halliburton
Panelist



Tiffany Brightwell
President
Associated Builders &
Contractors of North Alabama
Moderator



Kerrick Whisenant
President
Limestone Building
Group
Panelist



Will Mitchell
President
Stewart Electric
Panelist

Lunch & Networking – Ballroom D



New Service Line Introduction

Alissa Phelps, SHRM-CP
Director of HR Consulting Services
Anglin Reichmann Armstrong



Alissa Phelps, SHRM-CP



- ▶ Benefits support
- ▶ Compensation benchmarking
- ▶ Compliance reporting
- ▶ Crisis communication plans
- ▶ Employment regulation guidance
- ▶ Emergency response plans
- ▶ HR audits & strategic planning
- ▶ Leadership development

A Guide to Captive Insurance How Contractors Can Take Control of Their Insurance Costs

Marsh McLennan Agency Speakers:

Steve Norton, Executive Vice President, Chairman

JD Seymour, Vice President

Johnny Van Osborne, Senior Vice President





MarshMcLennan
Agency

Introduction to Captive Insurance

Johnny Van Osborne, Senior Vice President

Steve Norton, Executive Vice President & Chairman, Captive Risk Practice

J.D. Seymour, Vice President, Captive Risk Practice

Your future is limitless.SM

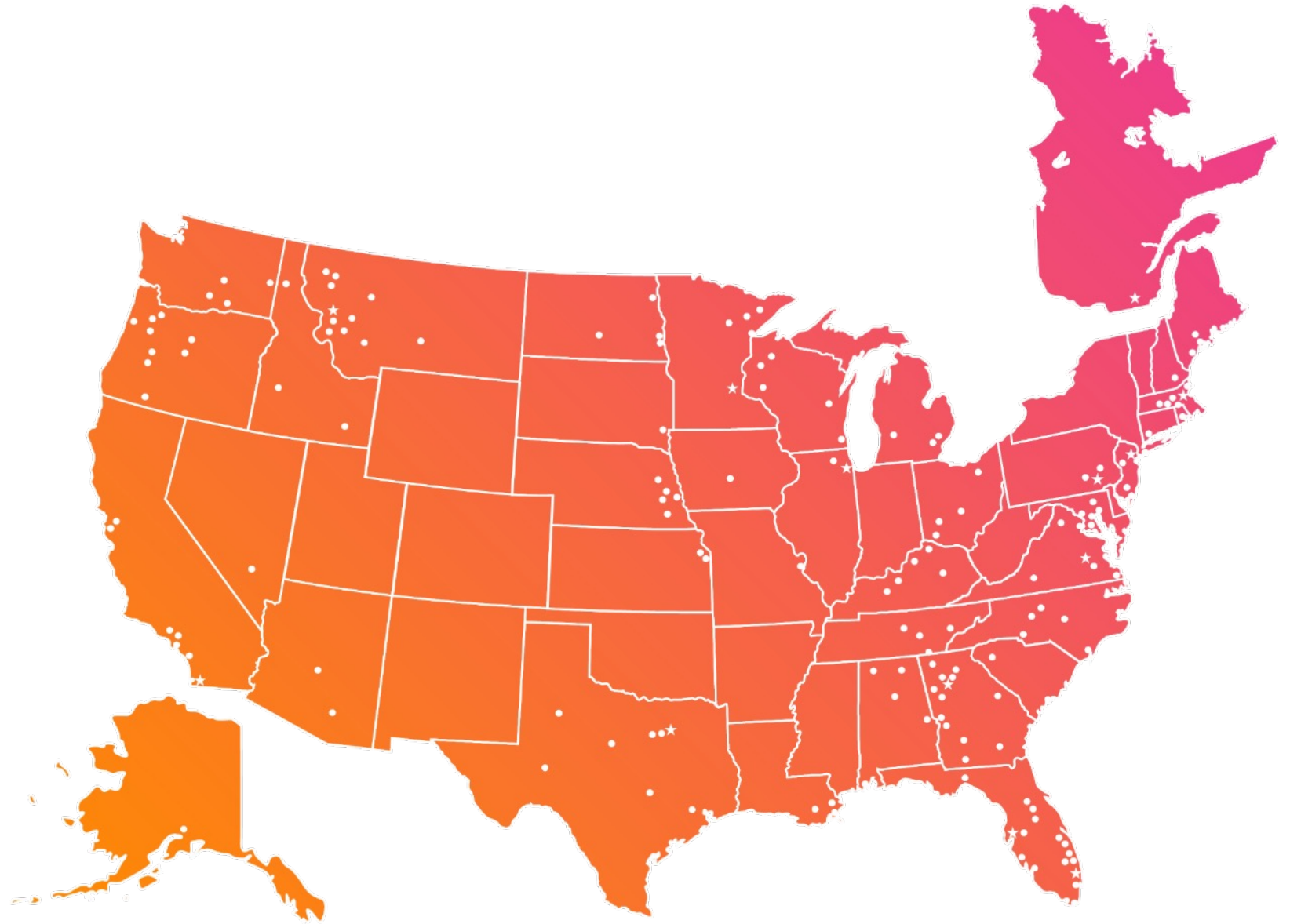
MMA today

9,000+ colleagues

160+ local offices

Local specialists, global resources, endless opportunities.

We're MMA.



MMA and Marsh Captive Statistics

20%

Growth in MMA/Marsh group captive membership in each of last 3 years

7000

Members in Group Captives

1,900

Single Parent Captive under management

98%

Retention ratio of members is group captives



Johnny V. Osborne

Senior Vice President – Risk Management Consultant

Johnny.Osborne@marshmma.com

256-890-9076

Johnny is a Senior Vice President and risk management consultant with Marsh & McLennan Agency. He joined the firm in 2014. He partners with organizations to evaluate both existing and potential risk exposures and helps them establish the appropriate policies and procedures to transfer, mitigate, and minimize those said risks. Johnny leads the overall relationship management, program placement and service model for his team. His experience lies heavily on large, complex risks with both domestic and international exposures. His main focus is working with Construction, Manufacturing and Technology risks.



Steven P. Norton

Executive Vice President – Captive Risk Practice Chairman

MMA

Steve.Norton@marshmma.com

770-683-1018

Steve joined the insurance industry in 1985 and J. Smith Lanier & Co. (JSL) in 2003 to establish the firm's Alternative Risk Financing and Captive Insurance Company practice after spending nearly 10 years with PricewaterhouseCoopers LLP (PwC) where he led their Insurance & Risk Management Consulting Practice in London and Atlanta. In February, 2017, JSL merged with Marsh McLennan Agency, LLC (MMA) and Steve was named Chairman of the MMA Captive Risk Practice in August, 2017.



J.D. Seymour

Vice President – Captive Risk Practice

Jd.Seymour@marshmma.com

630-605-5299

JD oversees the alternative risk financing and strategic programs for the organization by leveraging his extensive industry knowledge and developing personalized programs for his clients and prospective clients. JD's industry experience lies heavily with single parent, protected cell and group captives. Prior to joining MMA, JD was an account executive of business development for a global captive management firm.

What is a Captive?

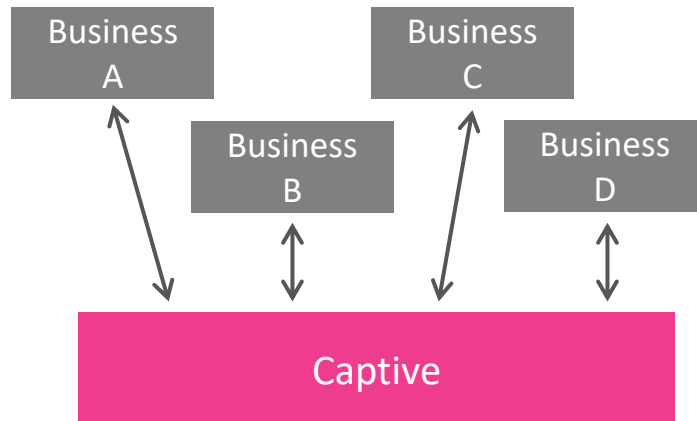
**An insurance company
wholly owned and
controlled by its insureds
(owners).**



Common Types of Captive Strategies

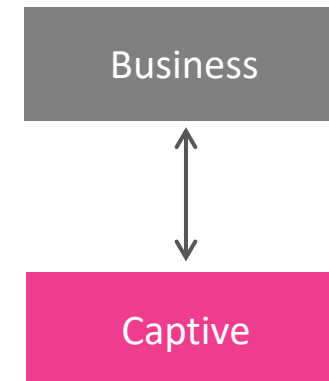
• Group Captive

- Insures a group of unrelated businesses.
 - Typically insures Work Comp, GL, Auto, Medical Stop Loss
- Retaining a layer of risk and collectively buying reinsurance as a group
- Captive premiums and losses shared amongst the members.
- \$100k-\$3M in aggregated premium (WC, GL, Auto)



• Single Parent Captive

- Owned by and insures one owner or affiliated group.
- Applies to larger insureds typically already on loss sensitive (deductible programs)
 - Great flexibility on kinds of insurance written by captive. P&C and Employee Benefits
 - Premiums and losses not shared with others (unless participating in a risk pool).



Captive Candidate Profile

- **What makes a good captive candidate?**
 - Desire to control future insurance costs
 - Avoid market fluctuations and premium being impacted by performance of others
 - Best in class – safety, claims management, corporate culture
 - Ability to control and manage losses
 - Excellent loss ratio
 - Risk tolerance
 - Financially strong
 - Minimum premium \$250K for Workers Compensation, General Liability and Auto Liability

I.e.- the most profitable clients for insurance carriers


Why Do Companies Turn to Captives?


 Premium Based on Loss Experience

 Long Term Stability

 Return of Underwriting Profit

 Greater Control

 Ability to Take a Quantified Amount of Risk

 Ability to Earn Investment Income

Common Concerns and Challenges

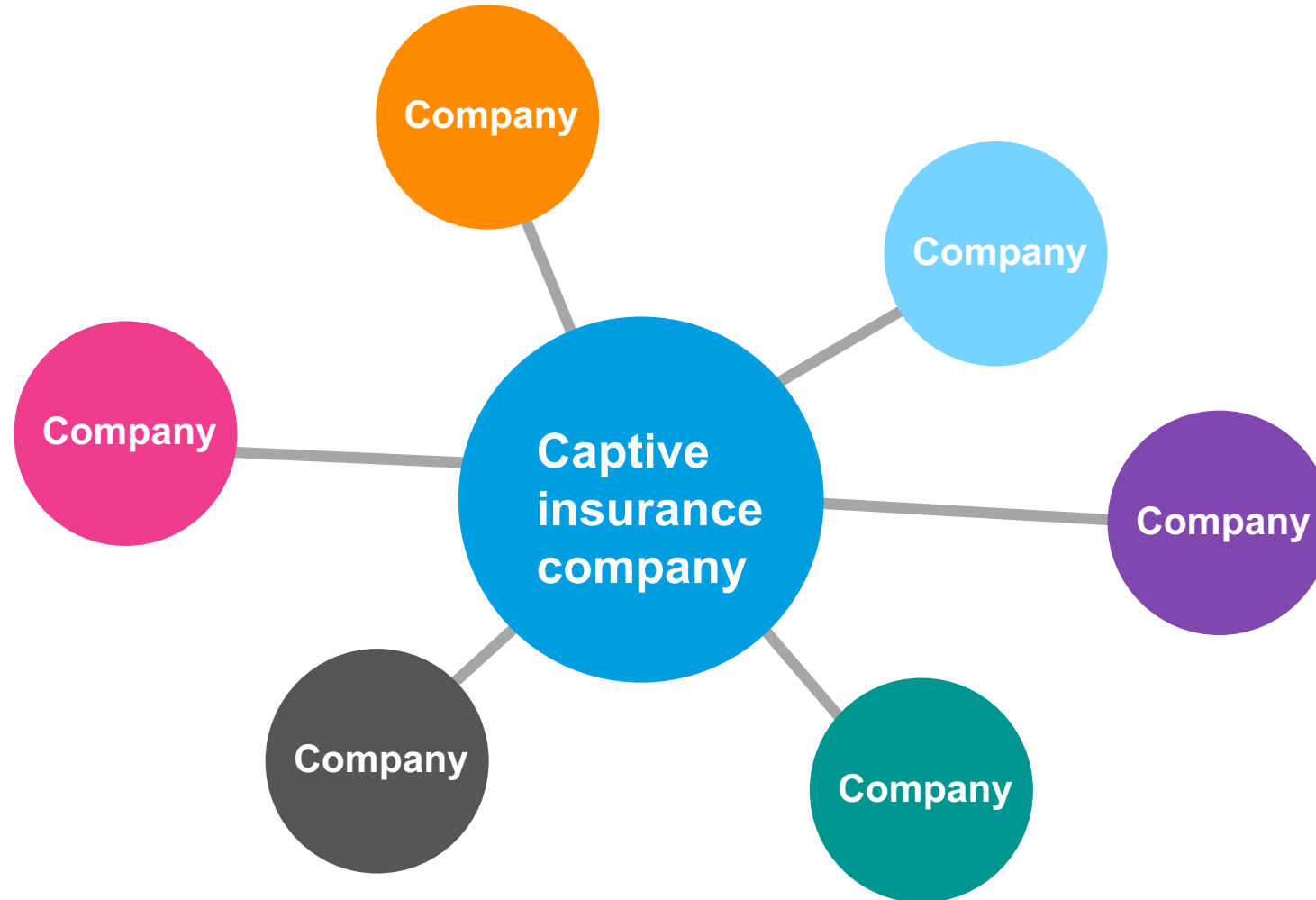
- Risk Tolerance
- Risk Shifting and Sharing
- Collateral Requirements
- Financial Stability/Cash Flow
- Private Equity



Group Captive Insurance

What is a group captive

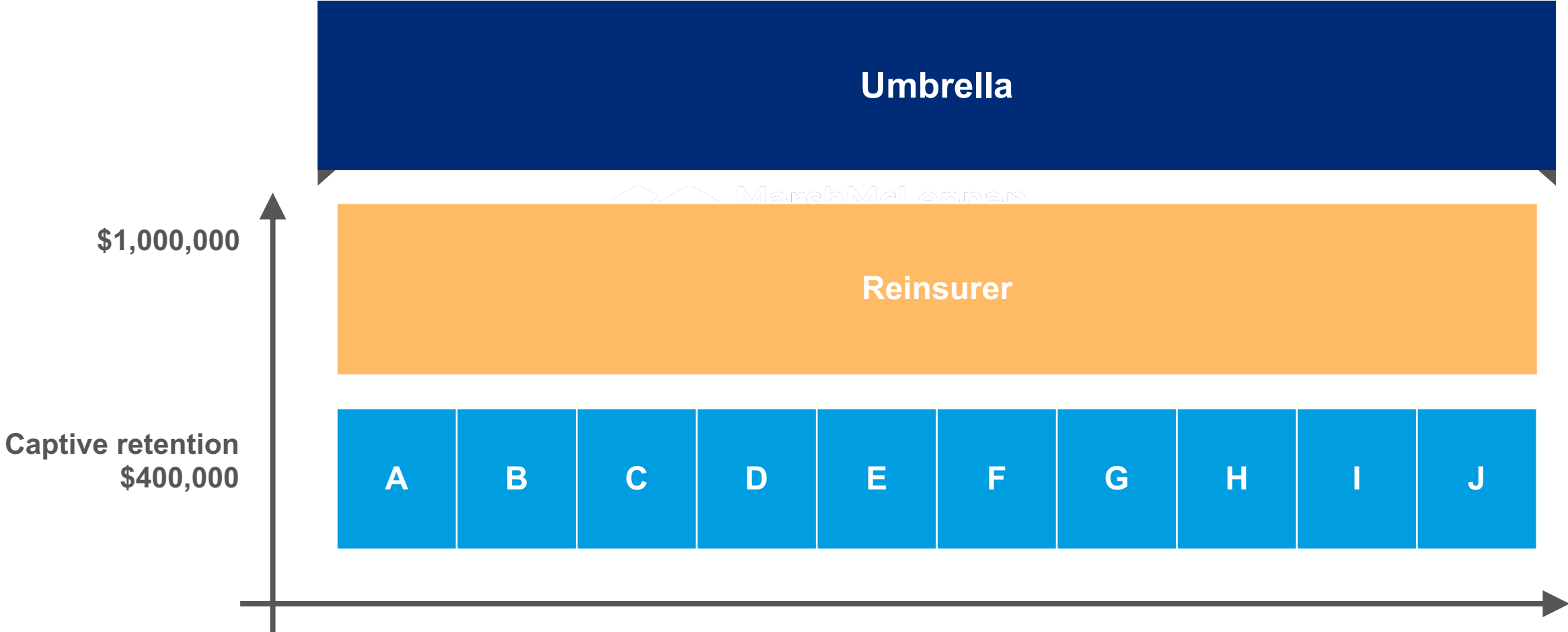
A group of companies that join together to form their own insurance company



Benefits of captive ownership

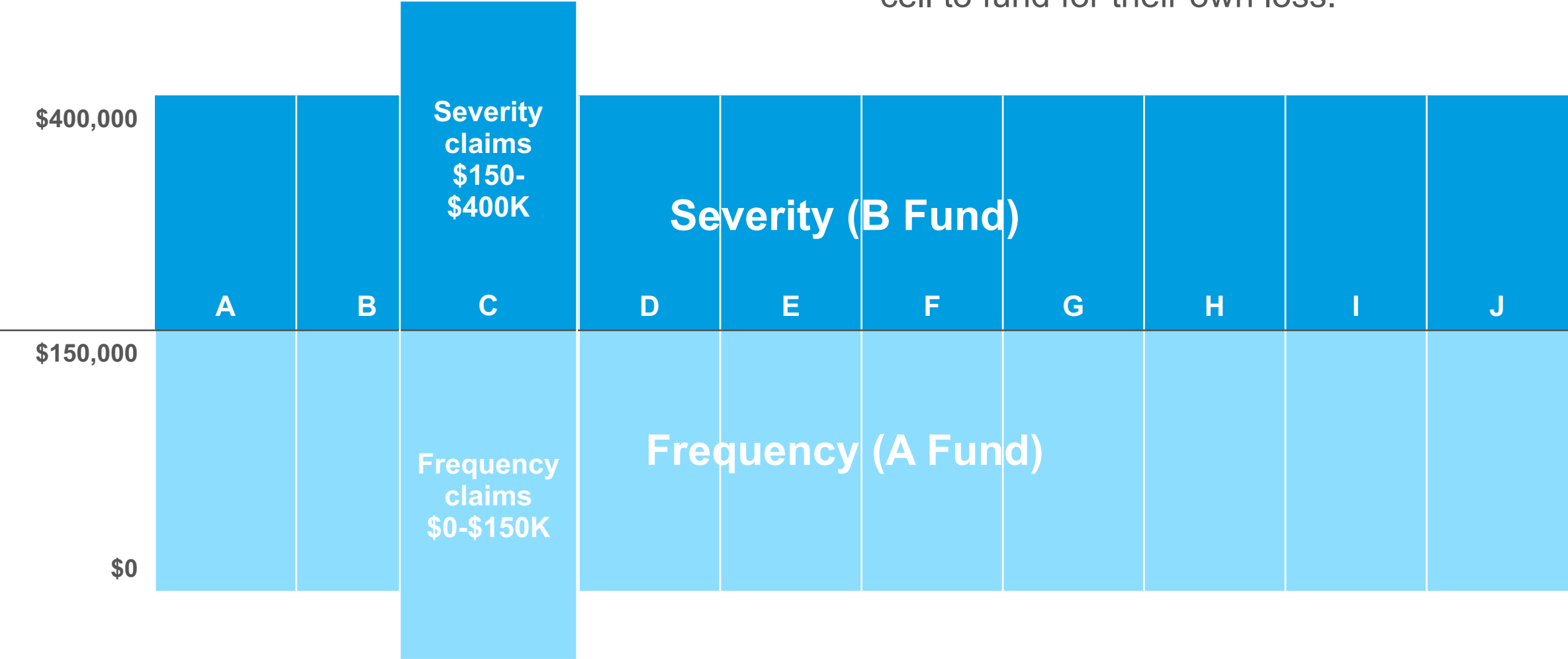
Control	Operational improvement	Returns
<ul style="list-style-type: none">• Ownership• Partners• Claims process• Loss experience/funding	<ul style="list-style-type: none">• Best practices• Accountability• Relationships with quality business owners	<ul style="list-style-type: none">• Underwriting profits• Investment income

Risk Structure

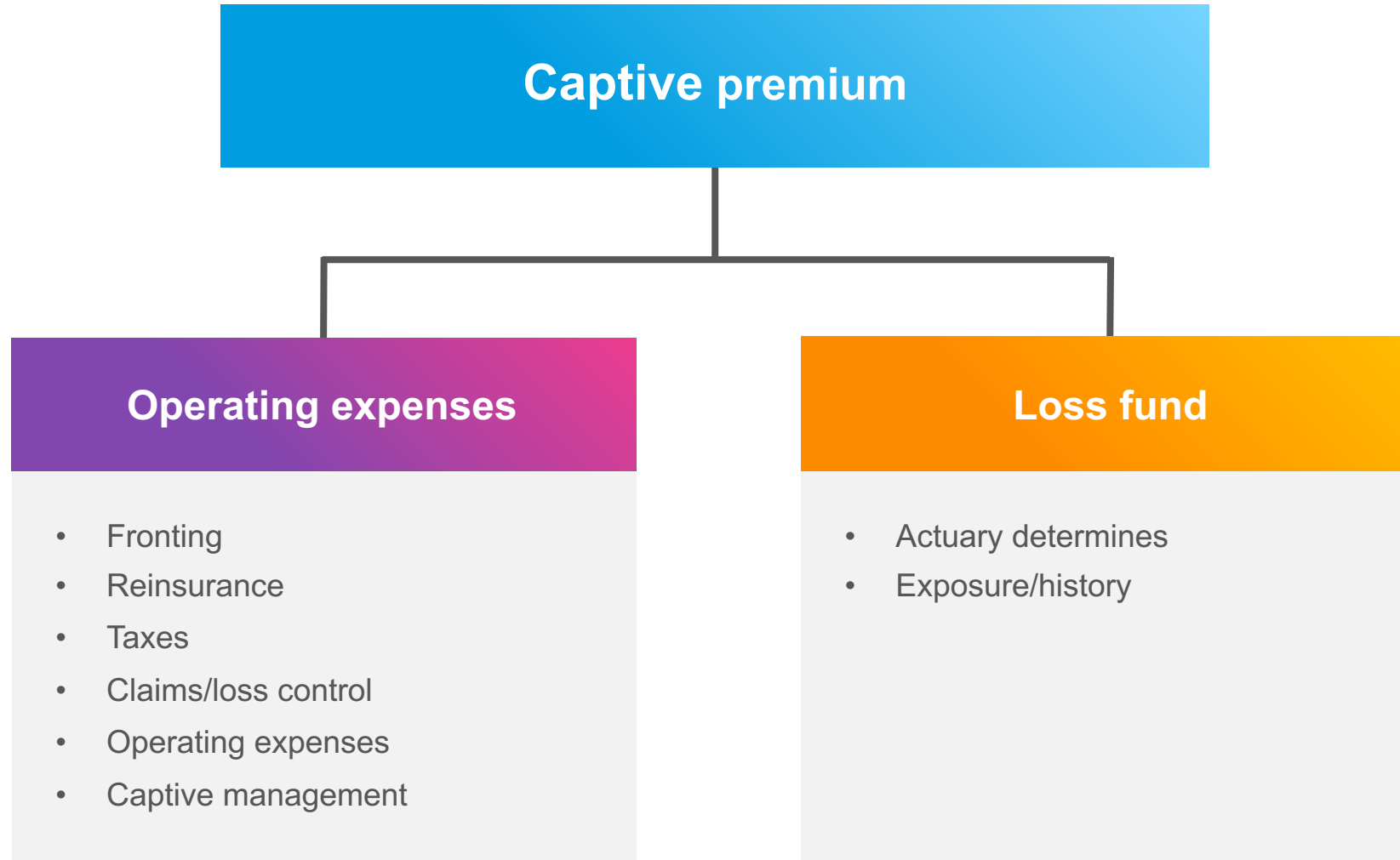


Captive structure

Each company has their own cell to fund for their own loss.



Premium structure



Sample Group Captive Indication – 40% Operating Expenses

Effective Date: Proforma Pricing	Annual	Pro-Rata
Frequency Fund	225,000	168,075
Severity Fund	75,000	56,025
MEMBER LOSS FUND	\$ 300,000	\$ 224,100
OPERATING EXPENSES		
<i>Specific Excess Reinsurance</i>	85,000	63,495
<i>Policy Issuance & Aggregate</i>	47,500	35,483
<i>Operating Expense Contribution</i>	5,000	3,735
<i>Claims Administration</i>	30,000	22,410
<i>Captive Consulting</i>	25,000	18,675
<i>Loss Control</i>	7,500	5,603
TOTAL EXPENSE	\$ 175,000	\$ 149,400
TOTAL CAPTIVE PREMIUM	\$ 500,000	\$ 373,500
State Assessments	TBD	TBD
Terrorism Surcharge WC	TBD	TBD
Broker Fee	\$ -	\$ -
TOTAL PREMIUM	\$ 500,000	\$ 373,500

Collateral LETTER OF CREDIT/CASH **\$ 150,000** **\$ 112,050**

The amount of the collateral (equal to two-thirds of the frequency fund) is based on the most recent 36 months in which you were a policyholder and must be provided by you to the captive:

MAXIMUM PREMIUM **\$ 725,000** **\$ 541,575**

Based on the Loss Fund and Policy Acquisition Costs, the maximum premium you will pay for this policy year (2 times the Frequency Fund plus the Severity Fund plus the Policy Acquisition Cost), subject to a premium audit adjustment is:

Minimum **\$ 175,000** **\$ 149,400**

Equal to captive expenses plus below the line charges, which could include: state assessments, Terrorism Surcharge, Reinsurance below the line and Brokers Fees

Sample Return of Underwriting Profit

	2020	2021	2022	2023	2024
Premium	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000
<i>Frequency Fund</i>	\$ 225,000	\$ 225,000	\$ 225,000	\$ 225,000	\$ 225,000
<i>Frequency Fund Losses</i>	\$ (221,929)	\$ (112,887)	\$ (61,907)	\$ (114,852)	\$ (48,707)
Net Frequency Fund	\$ 3,071	\$ 112,113	\$ 163,093	\$ 110,148	\$ 176,293
Severity Fund	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000
<i>Severity Fund Losses</i>	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Assumed Risk Shifting & Sharing</i>	\$ (25,000)	\$ (25,000)	\$ (25,000)	\$ (25,000)	\$ (25,000)
Net Severity Fund Balance	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
(Assessment)/Distribution	\$ 53,071	\$ 162,113	\$ 213,093	\$ 160,148	\$ 176,293

Estimated Captive Savings \$ 764,718

Loss Summary - Workers Compensation, GL & Auto				
Year	WC	GL	AL	Total
2024	\$ 22,367	\$ -	\$ 26,340	\$ 48,707
2023	\$ 1,297	\$ -	\$ 113,555	\$ 114,852
2022	\$ 2,287	\$ 42,500	\$ 17,120	\$ 61,907
2021	\$ 37,344	\$ -	\$ 75,543	\$ 112,887
2020	\$ 119,214	\$ 82,326	\$ 20,389	\$ 221,929

Loss Stratification				
Under 150k	150k-400k	Captive Losses	Excess 400k	Total
\$ 48,707	\$ -	\$ 48,707	\$ -	\$ 48,707
\$ 114,852	\$ -	\$ 114,852	\$ -	\$ 114,852
\$ 61,907	\$ -	\$ 61,907	\$ -	\$ 61,907
\$ 112,887	\$ -	\$ 112,887	\$ -	\$ 112,887
\$ 221,929	\$ -	\$ 221,929	\$ -	\$ 221,929

Sample Return of Underwriting Profit CAT Claim

	2020	2021	2022	2023	2024
Premium	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000
<i>Frequency Fund</i>	\$ 225,000	\$ 225,000	\$ 225,000	\$ 225,000	\$ 225,000
<i>Frequency Fund Losses</i>	\$ (221,929)	\$ (262,887)	\$ (61,907)	\$ (114,852)	\$ (48,707)
Net Frequency Fund	\$ 3,071	\$ (37,887)	\$ 163,093	\$ 110,148	\$ 176,293
Severity Fund	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000
<i>Severity Fund Losses</i>	\$ -	\$ (250,000)	\$ -	\$ -	\$ -
<i>Assumed Risk Shifting & Sharing</i>	\$ (25,000)	\$ -	\$ (25,000)	\$ (25,000)	\$ (25,000)
Net Severity Fund Balance	\$ 50,000	\$ (175,000)	\$ 50,000	\$ 50,000	\$ 50,000
(Assessment)/Distribution	\$ 53,071	\$ (37,887)	\$ 213,093	\$ 160,148	\$ 176,293

Estimated Captive Savings \$ 564,718

Loss Summary - Workers Compensation, GL & Auto				
Year	WC	GL	AL	Total
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2023	\$ 1,297	\$ -	\$ 113,555	\$ 114,852
2022	\$ 2,287	\$ 42,500	\$ 17,120	\$ 61,907
2021	\$ 1,037,344	\$ -	\$ 75,543	\$ 1,112,887
2020	\$ 119,214	\$ 82,326	\$ 20,389	\$ 221,929

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\$ 48,707	\$ -	\$ 48,707	\$ -	\$ 48,707
\$ 114,852	\$ -	\$ 114,852	\$ -	\$ 114,852
\$ 61,907	\$ -	\$ 61,907	\$ -	\$ 61,907
\$ 262,887	\$ 250,000	\$ 512,887	\$ 600,000	\$ 1,112,887
\$ 221,929		\$ 221,929	\$ -	\$ 221,929

Johanna Sampleton

Case Study

- Electrical Contractor that joined captive in 2016
- Excellent Loss history
- Committed to safety & risk management
- Prior to joining captive, expected savings were \$1.02M
- Client experienced a 60% decrease in pay-in rate per 100 after 3 years in the program
- Net results are too green but with 0 losses, the insured could reduce cost to \$0.65 per 100

Historical Premium	Total Incurred Losses	Captive Fixed Cost (40%)	Captive Cost	Risk Shifting & Sharing	Net Captive Cost
\$ 415,211	\$ 35,849	\$ 166,084	\$201,933	\$ (20,761)	\$ 222,694
\$ 435,226	\$ 31,689	\$ 174,090	\$205,779	\$ (21,761)	\$ 227,540
\$ 421,030	\$ 3,328	\$ 168,412	\$171,740	\$ (21,052)	\$ 192,792
\$ 388,235	\$ 2,584	\$ 155,294	\$157,878	\$ (19,412)	\$ 177,290
\$ 349,877	\$ 8,389	\$ 139,951	\$148,340	\$ (17,494)	\$ 165,834
\$ 2,009,579					\$ 986,149
	Estimated savings	\$ 1,023,430			

	Total Premium	Payroll	Pay-in rate per 100	Net rate after losses & assumed 5% RS&S
Pre Captive	\$ 421,030	\$ 10,541,488	\$ 3.99	n/a
Pre Captive	\$ 435,226	\$ 11,811,788	\$ 3.68	n/a
Pre Captive	\$ 415,211	\$ 11,505,000	\$ 3.61	n/a
Captive Yr1	\$ 397,712	\$ 17,728,748	\$ 2.24	\$ 1.14
Captive Yr2	\$ 461,847	\$ 23,650,000	\$ 1.95	\$ 0.94
Captive Yr3	\$ 447,588	\$ 31,005,000	\$ 1.44	\$ 0.65

Considerations

- Collateral is Required
- Long-term commitment
 - UW profit takes 3-5 years to be returned at the board's discretion
- Risk Sharing
- Only allows WC, GL and Auto coverage
 - Need to take umbrella and other insurance costs into consideration
- Will provide best long-term stability on WC, GL & Auto

Which Captive Is Right For Me?

- **Heterogenous vs. Homogenous**

- Construction specific captives provide broader coverage terms & industry specific loss control meetings
- Heterogenous captives typically have lower operating costs

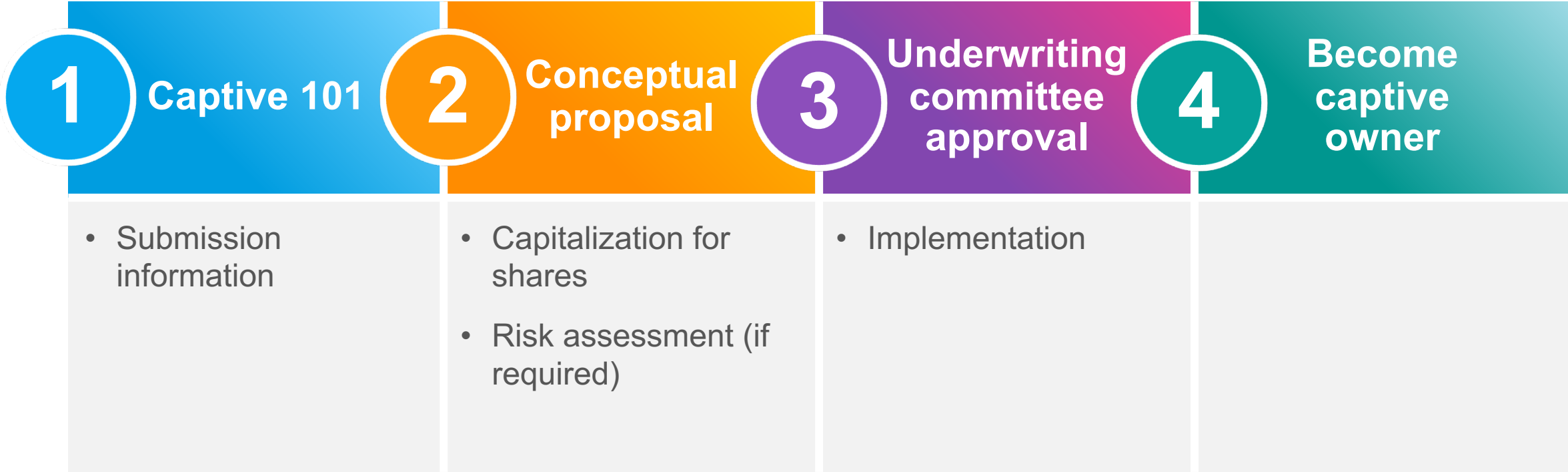
- **Onshore vs. Offshore**

- More captives are starting to form onshore to ease travel and time associated with board meeting commitments

- **Multiple Captive administrators**

- Captive Resources, Innovative Captive Strategies, Artex, Alternative Risk Underwriting, Insurance Carrier and Broker specific captives

Evaluation Process

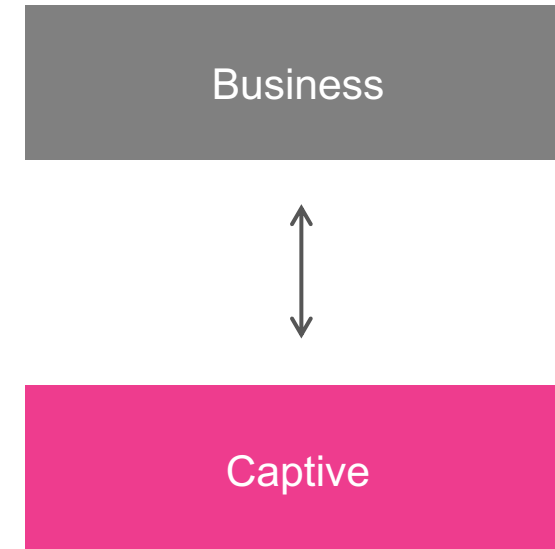




Single Parent Captives

Single Parent Captive

- Owned by and insures one owner or affiliated group.
- Applies to larger insureds typically already on loss sensitive (deductible programs)
 - Great flexibility on kinds of insurance written by captive. P&C and Employee Benefits
 - Premiums and losses not shared with others (unless participating in a risk pool).
 - Most common structure is deductible buy-downs
 - Applicable for subcontractors' default insurance



Value a Captive can Provide

- **Cash Flow**

- Fund for retained risks and smooth cash flow impact in the event of loss event and protect parent P&L/budget
- Stabilize financial impact of losses over time through captive loss reserves
- Fund risk management and loss control activities
- Ability to offer insurance to owner operators and other affiliate drivers/companies

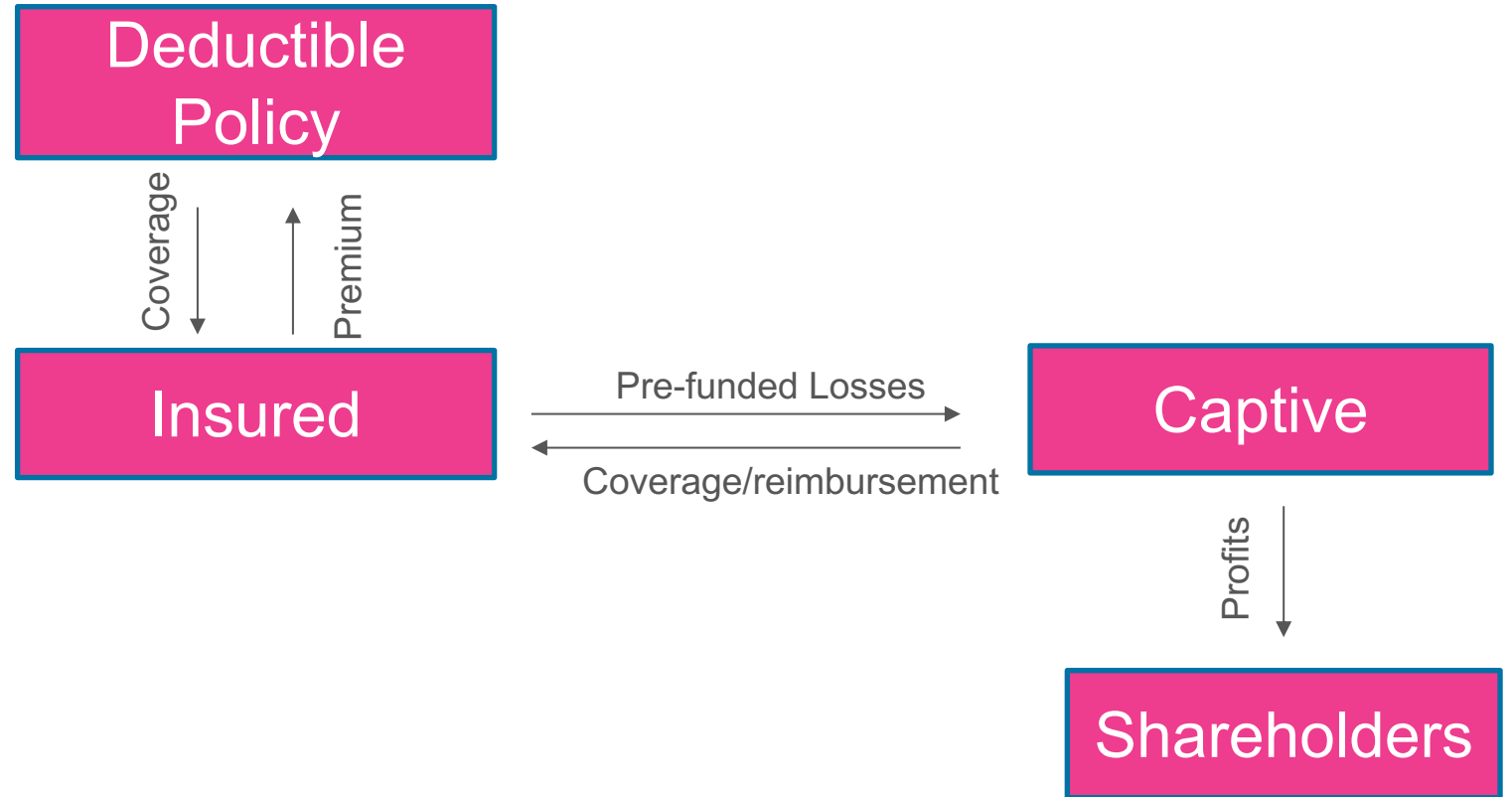
- **Flexibility in Program Design**

- Flexibility to increase or decrease retained limits as warranted by market conditions
- Ability to insure exposures not insurable or cost prohibitive to insure in the conventional commercial insurance market.
- Direct access to reinsurance markets
- Manuscript policies and tailor coverage to specific needs

- **Provides a tool to monitor retention decisions and risk mitigation efforts**

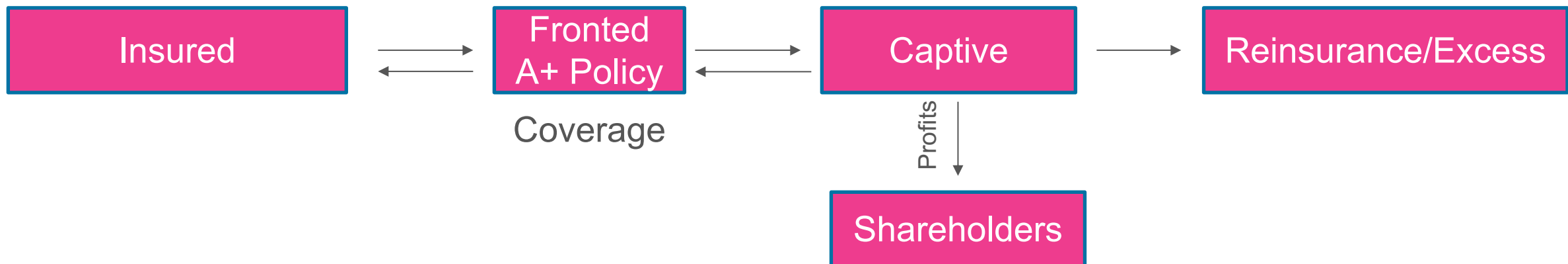
Deductible Buy-Back

- Reduces balance sheet volatility
- Build up surplus overtime
- Fund other self-insured risks



Fronted Structure

- Reduces balance sheet volatility
- Greater control over policy language
- Potential access to reinsurance
 - Captive typically reinsures up to policy limits
- Fund other self-insured risks
- Reduces operating costs by isolating fronting fees
- Fund other risks overtime



An iceberg floating in the ocean. The tip of the iceberg is above the water line, and the much larger, submerged part is below. The sky is blue with some clouds, and the water is a deep blue. The iceberg is white and jagged.

Traditional Risks

Insured Risk

Workers Comp - Auto

General Liability – Property

Group Health/Benefits

Enterprise Risks

Uninsured Risk

Deductibles / SIR

Policy Exclusions

Operating Risks

A/R Concentration

Credit Default

Disability

Administrative Actions

D & O / E & O

Captive Tax considerations

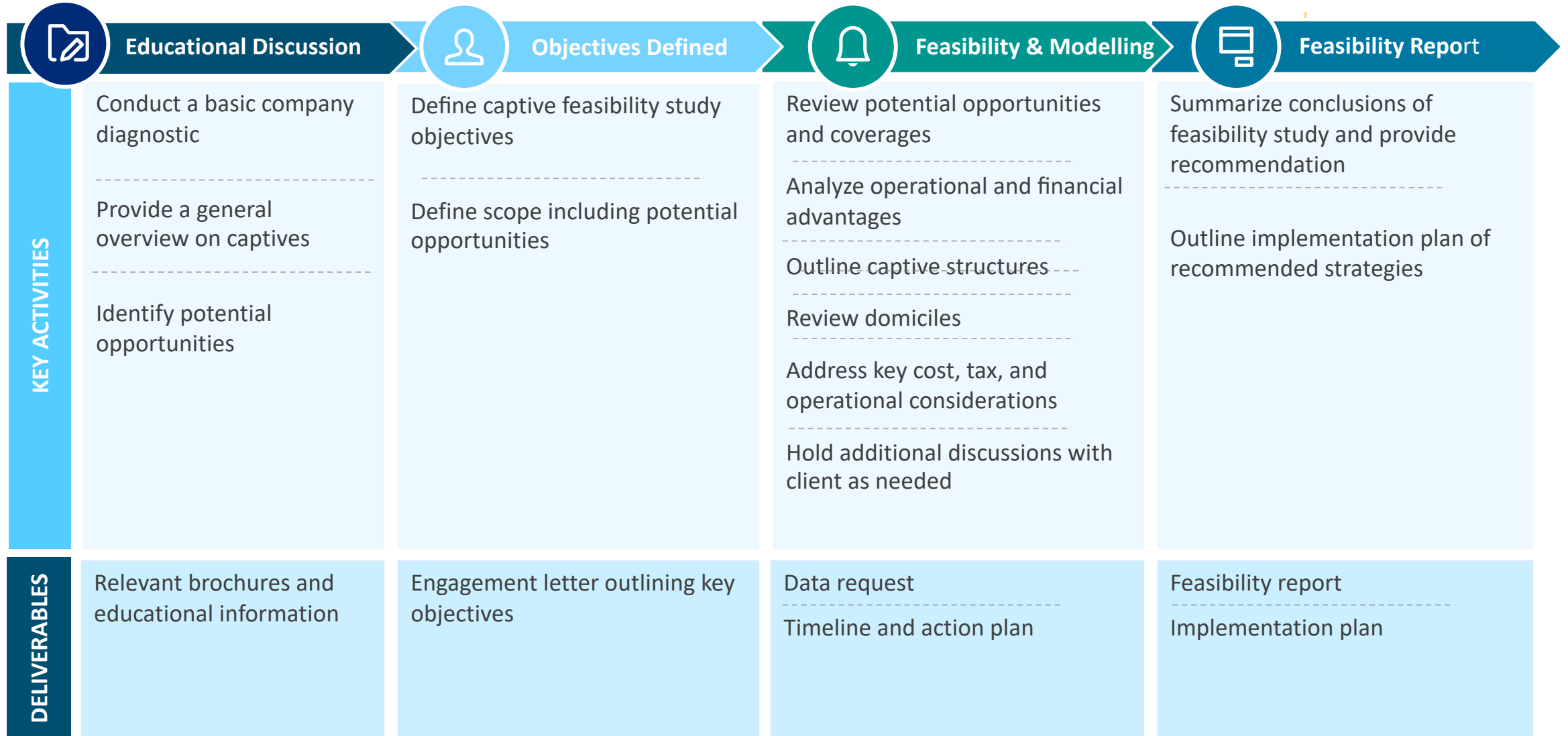
- Two common captive tax elections
 - 831(a)
 - Default tax election. Allows insurance companies to take a deduction for loss reserves to offset long-term liability
 - Captive pays federal tax – no state income tax applies
 - No ownership restrictions
 - 831(b)
 - Applicable to captives receiving less than \$2.8M in gross premium on an annualized basis
 - No federal or state income tax. Captive only pays tax on investment income
 - Dividends are long-term capital gains
 - Heavy IRS scrutiny based on abuse in the marketplace
 - Ownership restrictions to mitigate estate planning abuse
- Captive must meet risk distribution in order to be treated as an insurance company for tax purposes
- **50% of licensed captives do not take a tax position**

Risk Distribution

- To be an insurance company for tax purposes organization needs to meet risk distribution
- Risk distribution is adequate spread of risk associated with various operated entities, “risk units” or third-party risk
- Most middle market business don’t qualify for risk distribution on their own
 - Reinsurance risk pooling can achieve risk distribution. Marsh has a reinsurance treaty call BERT that will help achieve risk distribution

Evaluating a Captive

The Process





Questions?

Your future is limitless.SM

MarshMMA.com



**MarshMcLennan
Agency**

A business of Marsh McLennan

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Federal Cybersecurity Regulations and Their Impact for Business Owners

Daniel Akridge

Director of Engagement

Summit7Systems

SUMMIT 7 SYSTEMS

Federal Cybersecurity Regulations and Their Impact For Business Owners

Agenda

- 01** Intro to Federal Cyber Regulations for Suppliers
- 02** When will a cyber regulation impact us?
- 03** What do I have to do?
- 04** How much does it cost?
- 05** Questions



Intro to Federal Cyber Regulations for Suppliers

U.S. Indicts North Korean in Ransomware Attacks and Theft of Military Data

Funds from the ransomware attacks on hospitals subsidized military espionage activities, prosecutors say.

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Federal prosecutors announced that they had indicted a North Korean national in a conspiracy to hack hospitals, military bases and NASA. Nick Ingram/Associated Press

Russian Ransomware Group Breached Federal Agencies in Cyberattack

The top U.S. cybersecurity agency said it did not have evidence that the group was acting in coordination with the Russian government.

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The Cybersecurity and Infrastructure Security Agency, a division of the Homeland Security Department, announced the breach. A senior official said only a small number of federal agencies had been affected. Manuel Balce Ceneta/Associated Press

How China Transformed Into a Prime Cyber Threat to the U.S.

Over the past decade, China reorganized its hacking operations, turning into a sophisticated and mature adversary.

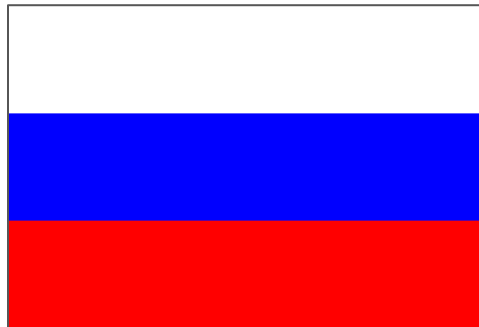
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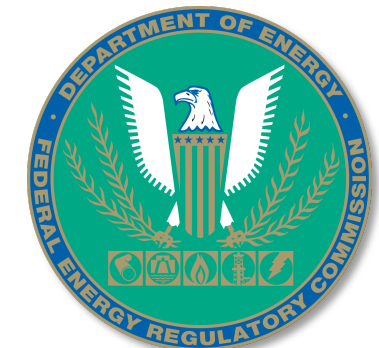
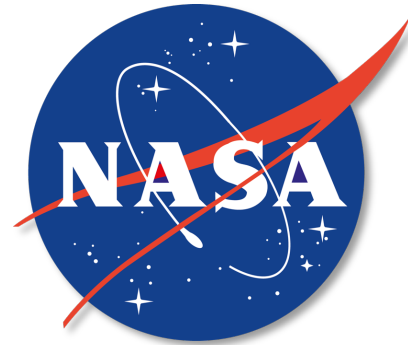


Hacks that were conducted by units of China's People's Liberation Army are now carried out by an elite satellite network of contractors. Alex Plavevski/EPA, via Shutterstock

How do federal regulations impact us as a supplier to federal agencies?

The Federal Government is worried about sensitive information (CUI) being sent to or generated by suppliers getting into the hands of foreign adversaries.





When will a cyber regulation start impacting us?



January 2025



December 2025

What is the DoD calling it?



January 2025

**Cybersecurity Maturity Model Certification
(CMMC)**

DFARS 252.204-7021

**If you have DFARS 252.204-7012 in existing
contracts, it's a leading indicator you will
be required to do CMMC.**

What will I have to?



January 2025

Implement NIST 800-171 Rev 2

Report Cyber Incidents within 72 Hours

Flow down to all your Subcontractors

Use FedRAMP Moderate Certified Cloud Providers

Pass a 3rd Party Certification, only after that will you be awarded contracts

What will it be called for the whole Federal Government?



FAR CUI Clause

December 2025

What will I have to do?



December 2025

Implement NIST 800-171

TBD: Report Cyber Incidents within 72 Hours

Flow down to all your Subcontractors

TBD: Use FedRAMP Moderate Certified Cloud Providers

TBD: Pass a 3rd Party Certification, only after that will you be awarded contracts

Okay, but what is NIST 800-171 Rev 2?

110 Technical and Non-Technical Controls

To meet them you must check off 320 Assessment Objectives

Multi-Factor

User Security Awareness
Training

Remote Work Policy

Controlled Network Traffic

Incident Response

Change Control Management

Users no longer being Admins

Application Deny List

Endpoint Protection

Spam Filter

FIPS 140-2 Validated
Cryptography

Documentation

How much does it cost to do all of this?



Implement NIST 800-171 Rev 2

Report Cyber Incidents within 72 Hours

Flow down to all your Subcontractors

Use FedRAMP Moderate Certified Cloud Providers

Pass a 3rd Party Certification, only after that will you be awarded contracts

What did the DoD estimate for suppliers?

REVENUE	\$1M	\$5M	\$10M	\$25M	\$50M	\$100M
BUDGET (0.5%)	\$5,000	\$25,000	\$50,000	\$125,000	\$250,000	\$500,000

Based on figures from the Defense Technical Information Center it is estimated that 6,555 contractors would be handling unclassified controlled technical information and therefore affected by this rule. Of the 6,555 contractors it is estimated that less than half of them are small entities. For the affected small entities a reasonable rule of thumb is that information technology security costs are approximately 0.5% of total revenues. Because there are economies of scale when it comes to information security, larger businesses generally pay only a fraction of that amount.

[LINK: https://www.federalregister.gov/documents/2013/11/18/2013-27313/defense-federal-acquisition-regulation-supplement-safeguarding-unclassified-controlled-technical#p-140](https://www.federalregister.gov/documents/2013/11/18/2013-27313/defense-federal-acquisition-regulation-supplement-safeguarding-unclassified-controlled-technical#p-140)

What did the DoD estimate for suppliers?

Based on what the DOD published for a NIST 800-53 Implementation we were to calculate what the DOD estimated cost would be for NIST 800-171/CMMC L2.

Cost	Term
\$175,000-\$265,000	One-Time
\$50,000-\$127,000	Annual

What did the DoD estimate for suppliers?

If you take the average of both the one-time and annual cost, you end up with \$309,000 in Year 1 spend.

REVENUE	\$1M	\$5M	\$10M	\$25M	\$50M	\$100M
BUDGET (0.5%)	\$5,000	\$25,000	\$50,000	\$125,000	\$250,000	\$500,000
YEAR 1	\$309K	\$309K	\$309K	\$309K	\$309K	\$309K
	✗	✗	✗	✗	✗	✓

AVERAGE IT SPENDING

FOR REGULATED INDUSTRIES

Finance	Healthcare	Telecommunications
4.7 – 9.4%	3.0 – 7.0%	5.0 – 10.0%
<ul style="list-style-type: none">• Data Security Standards• Cybersecurity Standards• Identity & Access• Management (IAM)• Business Continuity & Disaster Recovery (BCDR)• Cloud Computing Regulations• Third-Party Risk Management	<ul style="list-style-type: none">• Health Insurance Portability & Accountability Act (HIPPA) Compliance• Electronic Health Record (HER) System Compliance• Health Information Exchange (HIE) Compliance• Meaningful Use (MU) Compliance• Data Security & Privacy Regulations• Telemedicine & Remote Patient Monitoring Compliance• Medical Device Regulations	<ul style="list-style-type: none">• Federal Communications Commission (FCC) Regulations• Data Privacy & Security Regulations• Network Neutrality Compliance• Telecommunications Act Compliance• Spectrum Licensing & Management• Emergency Communications Compliance• Universal Service Fund (USF) Compliance

AVERAGE IT SPENDING

FOR REGULATED INDUSTRIES

Finance	Healthcare	Telecommunications
4.7 – 9.4%	3.0 – 7.0%	5.0 – 10.0%

Defense Industrial Base (DIB)	
5.0 – 8.0%	
<ul style="list-style-type: none">• CMMC• IA PRE	<ul style="list-style-type: none">• NNPI• Export Control

BUT... WHY SO MUCH?

- **3rd Party Certifications**
- **Lack of Expertise (Compliance, IT, Cyber)**
- **Compliant Cloud Providers & LOB Providers**
- **Compliant Hardware**
- **Supply Chain Cybersecurity Risk**
- **New Regulations/Requirements (FAR CUI, CIRCIA, IA PRE)**
- **Managed Service Providers Requiring Certification**
- **US Persons and/or Citizens**
- **Additional Internal Time Required to Maintain Compliance**

GOOD NEWS

The whole defense industrial base (DIB) is going to have these requirements.

All Products, Goods, Services, etc.... will be expected to increase across the supply chain.

Simply Meaning: All ships will have to rise with the tide.

WAIT, WHAT ABOUT SCOPE?

PRO

- CHEAP
- EASY DEPLOYMENT
- BOLT-ON TO EXISTING SOLUTION

CON

- USER DISCRETION (**HUGE RISK**)
- VERY LIMITED “CUI” COVERAGE
- SUPPLEMENTAL TOOLS NEEDED
- VERY DIFFICULT TO MIGRATE OUT
- CAN’T CONTROL HOW DATA IS RECEIVED

PRO

- CONTAINED CUI BOUNDARY
- LEAVES CORP OUT OF SCOPE
- EASY TO SCALE/DEPLOY

CON

- *CUI DATA FLOW RESTRICTED TO CLOUD
- TWO ENVIRONMENTS TO MANAGE
- CUI ON-PREMISES

PRO

- SINGLE ENVIRONMENT TO MANAGE
- FULL COMPANY PROTECTION
- CYBERSECURITY INSURANCE
- PROTECTION FROM FUTURE REGULATIONS (**HUGE PRO**)

CON

- LONG DEPLOYMENT TIME
- EXPENSIVE

COMPLIANCE RISK METER

FILE SHARING
TOOLS

VIRTUAL DESKTOP
CLOUD ENCLAVE

ALL IN
(WHOLE COMPANY)

WAIT, WHAT ABOUT SCOPE?

UNDERSTANDS CUI LOCATIONS

<15% of REVENUE IS DOD (CUI)

<15% of COMPANY IS CUI USERS

UNSURE OF CUI LOCATIONS

>15% of REVENUE IS DOD (CUI)

>15% of COMPANY IS CUI USERS

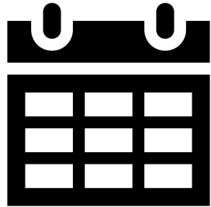
COMPLIANCE RISK METER

**VIRTUAL DESKTOP
CLOUD ENCLAVE**

**ALL IN
(WHOLE COMPANY)**

SO...WHAT DOES IT ALL COST?

50-100 Person Company



ONE-TIME

\$200,000 - \$400,000

CMMC Implementation
"All In" or Enclave

Policy & Procedure
Documentation

Hardware

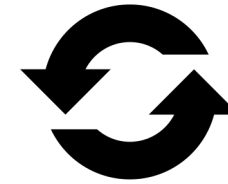
LOB
Migration

Internal Resource
Time

Migration of
Email/Files

Mock/Gap CMMC
Assessment

Formal CMMC
Assessment
(Every 3 Years)



ANNUAL RECURRING - PER USER

\$400 - \$4,000

LOB
Licensing

Hardware
Refresh

User
Training

M365 GCCH
Licensing

Managed
IT

Managed
Security

Azure
Subscription

US
Support

Managed
Compliance

WE KNOW WHY NO ONE HAS DONE THIS YET

JOE'S MACHINE SHOP

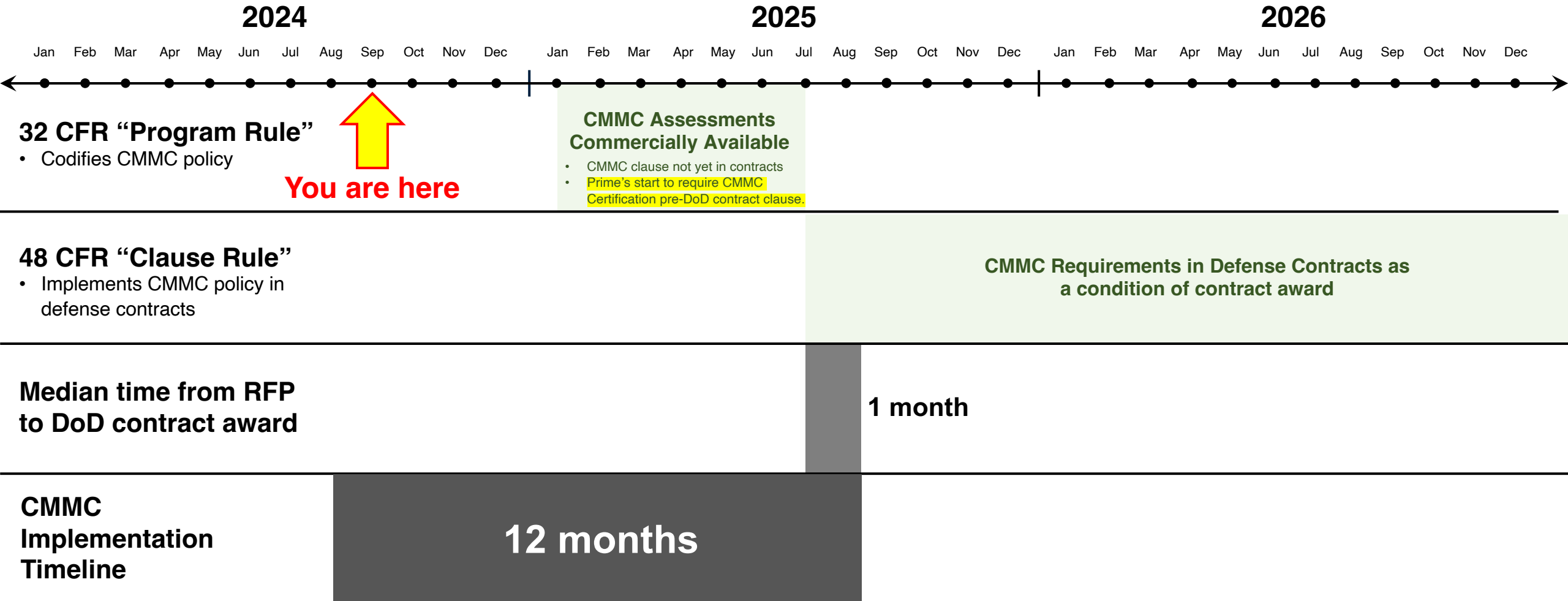
Parts + Labor + Cyber Compliance = \$10 Per
Widget

STEVE'S MACHINE SHOP

Parts + Labor = \$8 Per
Widget

Which one does a Lowest Price
Technically Acceptable (LPTA) contract
select?

BUT NOW YOU CAN NO LONGER WAIT



1) <https://www.gao.gov/products/gao-24-106528>

Q&A

FOR MORE INFO CONTACT: DANIEL.AKRIDGE@SUMMIT7.US

Networking Break – Sponsored by Summit7Systems





Transition and Succession Planning

Gary Anglin, CPA

Partner

Anglin Reichmann Armstrong, P.C.



About your Presenter:



Gary S. Anglin, CPA, CGMA
Partner, Anglin Reichmann Armstrong, P.C.

Areas of Responsibility:

- Firm Management & Administration
- Business Strategic Planning & Advisory Services
- Mergers & Acquisitions Advisory Services
- Business Succession and Transition Advisory Services
- Executive and Incentive Compensation
- Business and Individual Tax Planning
- Estate & Gift Tax Planning

Certifications and Designations:

- Certified Public Accountant, State of Alabama, 1987
- Chartered Global Management Accountant

Small Business Statistics

According to the US Chamber of Commerce

- Currently there are an estimated 33.2M small businesses currently in the US
- 99.9 % of businesses in the US are considered small business (500 employee or less)
- These businesses employ 61.7M workers or 46.4% of the US private workforce
- 600,000 new businesses are started each year

Success Rate

It is estimated:

- 20% will fail in the first year
- 30% will fail in the second year
- 50% fail after 5 years
- 70% fail by their 10th year in business

Current Small Business Ownership

According to Guidant Financial

- Boomers - 44%
- Gen X - 41%
- Millennials - 13 -16%
- Gen Z - 2 - 3%

- Many business owners have little to no exit planning in place despite the fact that 80%-90% of their assets are in the business.

Now What?



There are Options!



Exit Strategies

- Sell to a third party
 - Financial buyer
 - Strategic buyer
 - Partial buyout
- Internal Sale
 - Family
 - Management
- Employee Stock Ownership Plan (ESOP)
- Liquidation

Small Business Sales

According to bizbuysell

- 9,093 small businesses sold in 2023 with an enterprise value totaling \$6.5B
- 9,054 in 2022 valued at \$6.3B
- In the next 10 – 15 years over 12M businesses will be sold and that number is expected to rise

Sell



Financial buyer, such as Private Equity, is looking for ROI



Strategic buyer, such as a competitor, a customer or a supplier, has a strategic objective



Partial buy out, the existing owner maintains a minority ownership

- Provide working capital for growth
- Provide management and resources
- Strategic relationships
- Provide liquidity to founder(s)

Private Equity (PE)

- In 2022 there were 8,500 Private Equity deals
- In 2021 PE deals targeting small and medium businesses sharply increased and made up roughly 50% of all acquisitions
- PE represented 40% of all US M & A activity in 2021 and 2022
- 2023 saw a 25% - 30% decline in PE deals due to rising interest rates, inflation and tightening credit markets

Sale Process

- Investment bank / Existing relationship
 - Non-disclosure Agreement (NDA)
 - Financial records
 - Letter of Intent (LOI)
 - Due diligence
 - Sale structure / tax ramifications
 - Legal considerations
 - Purchase Agreements
-

Internal Sale

- Preserve Legacy
- Orderly transition over time
- Current owner can slow down but continue to work
- Less disruptive to customers and employees
- Strategies can be tailored for individual needs
 - Owner financing
 - Gifting strategies
 - Tax strategies

Considerations

- Requires long-term planning to get the right team in place
- Many tools available to shift ownership
 - Stock options and grants
 - Restricted stock
 - Deferred compensation
- Leverage
- Management team and oversight
- Financial reporting and controls

ESOP

- Business continues with legacy in place
- Existing owners can sell all or part
- Can use debt to fund the buyout
- Incentive that rewards current and future employees
- Attractive tax benefits
- Can have substantial administrative costs
- Trustee represents the interests of the ESOP

Best Practice to Enhance Value

- Management and bench strength
- Financial controls and reporting
- Modernization and industry practices
- Customers
- Employees
- Market share and growth

Services Available

- Strategic planning
- Retirement and financial planning
- Estate planning
- Valuation services
- Quality of Earnings report
- Financial controls, policies and procedures
- Financial reporting
- Due diligence

Thank You



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Mobilizing (Not Motivating) Your Team

Vincent E. Boles
Major General, USA (Retired)





Vincent E. Boles
Major General, USA
(Retired)

Sharpening Your Leadership Axe Specifically...

- THE CHALLENGE OF CHANGE...LET ME SHOW YOU WHAT HAPPENS...YOU'LL NEED A PEN/PAPER
- IT'S NOT ABOUT MOTIVATION...WHO'S NOT MOTIVATED ON THEIR FIRST DAY?...WHAT HAPPENED...WHO/WHAT STOLE IT?...IT'S REALLY ABOUT **MOBILIZING THEM!!**
- **HOW?.. PEOPLE AREN'T LED WITH AN ALGORITHM/PPT SLIDES/ MGT ≠ LEADERSHIP**
 1. WHEN/HOW DO YOU TELL YOUR TEAM HOW IMPORTANT THEY ARE TO GETTING "IT" DONE?
 2. DO YOU KNOW WHERE THEY SIT? (JOB/CAREER/CALLING)
 3. ASK TWO QUESTIONS WHEN YOU GO AROUND YOUR TEAM (What you working on? How's it going?)
 4. ASK YOURSELF ONE QUESTION (HOW CAN I HELP?...TAKE EXCUSES AWAY)
- **Questions ...WHAT'S ON YOUR MIND?**

THOUGHT TO LEAVE YOU WITH



- YOUR THREE QUALITIES

Closing & Wrap Up



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Join us for Happy Hour!

