GREEN HASSON & JANKS LLP
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Food Digest

A Food Industry Newsletter

March 2010

Coming Soon!

Food Executive Roundtable

GH&J is planning to launch a 15 - 20 member food executive roundtable, which will meet on a quarterly basis to discuss topics such as market growth opportunities, revenue building, cost saving strategies and peer feedback.

Please contact us for more information.

Debt financing questions and concerns have come up in almost all of year end conversations with my food processing and food service clients. In this Food Digest article, I am excited to introduce David Orr, Senior Vice President with Manufacturers Bank as a guest author. David is contributing a timely article on how companies are dealing with this tough credit market and provides a list of valuable recommendations for conversations with their banks.

Finding and Keeping Your Financing Sources in a Difficult Economy

Regardless of what facet of the food industry you are in, there are certain common financing issues that all businesses must address. In this unprecedented economic environment, it is important to review some of these issues in order to avoid unhappy outcomes when dealing with your company's financial resources.

Financing for your business can come from a broad array of secured and unsecured sources. Regardless of the type of financing, certain themes remain constant; in today's environment, lenders remain skittish. In the face of that reality, here are some suggestions on how to deal with your lenders in order to obtain the optimal outcome.

1. **No Surprises**
   Make sure that you keep your lender advised of the progress of your business. Regardless if the news is good or bad, the lender will be more understanding if they feel that you have been honest and upfront with them. Hiding bad news in hopes that things will rebound will only reduce the lender's confidence in you and your management.

2. **Select lenders with industry experience.**
   In selecting a lender, inquire as to the level of experience that lender and his/her institution have in your niche. Working with experienced lenders can simplify the relationship and lead to better results.

3. **Educate the lender.**
   Even if your lender appears to have a deep understanding of the issues in your sector, make sure that you "lay your cards on the table" regarding the risk issues you see in your business. Lenders will respect the person that identifies key risk issues and shares with them the businessperson's approach for addressing these issues.

4. **Share the vision.**
   What are your plans for the future of the company? New product lines? New plants or equipment? Organic growth or growth through acquisition? What is your exit strategy? Experienced lenders will ask these questions if you don't raise the issue yourself.

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Regardless of the lender's level of experience, by understanding where management and ownership want to take the company, the lender can be ready to assist within the scope of his/her field. Lenders may be able to provide the financing themselves, or they may be able to refer in the appropriate specialist to help finance that next step. If the lender doesn't understand the vision, he/she can't help you achieve it. When a lender discovers that you have obtained specialty financing or capital for your vision without discussing it with that lender, the relationship can suffer (See #1 – "No Surprises").

Also, lenders thrive on referrals. If a lender can't provide the financing for a project itself, the next best thing may be to refer the situation to another lender that can accommodate the request. By feeding his/her referral network, the lender hopes to get opportunities referred back.

5. **Adapt to a more conservative environment.**
Lenders will remain skittish until general economic indicators improve consistently. Fewer and fewer companies demonstrate positive trends in revenues and profit. Be prepared for the lenders to require tighter controls, lower limits, more collateral and higher interest rate margins. Companies that previously borrowed from a commercial bank may now need to borrow from a commercial finance company, factor, or other non-bank source until the lending environment and the individual borrower's financial profile improves.

Loans that are based in part on inventory or equipment will face closer scrutiny as to the true liquidation value of those assets. Likewise, the capital markets side of the finance world also remains in turmoil. As a result, companies will have to rely more on capital supplied by ownership and less on loans or capital investments from third parties.

Although borrowers have benefited from the lower interest rates, lenders are suffering with much thinner margins. For the first time in my 27 year career, I am seeing an increase in interest rate margins: Companies that borrowed in 2007 and 2008 at or below Prime now borrow above Prime. Many lenders are requiring minimum interest rates (floors) on revolving credit lines. Loan fees are also being instituted or increased.

Many of these hints are common sense in nature. Nevertheless, as with any good practice, it can be helpful to review these ideas from time to time to ensure that your business is on the right track with regard to its lending relationships.

David Orr is a Senior Vice President and Regional Manager with Manufacturers Bank. David is a 27 year veteran of the banking industry, specializing in banking products and services for privately held manufacturers, wholesalers and distributors in Southern California. Loans to the food industry make up the largest industry concentration at Manufacturers Bank. David can be reached at (818) 380-0909.

About Don Snyder
Don Snyder, CPA, is an Audit Partner with Green Hasson & Janks LLP, and a well known business consultant in the food distribution, food processing and manufacturing industries. He has written numerous articles geared towards improving internal controls and fraud prevention measures. Don has over twenty-five years experience in public accounting.

Green Hasson & Janks LLP is a CPA firm specializing in audit and accounting, tax planning and preparation and general consulting services. For more than 55 years we have worked with clients who require more than traditional financial statements and tax returns. We provide services to a variety of industries, including manufacturing and wholesale distribution, entertainment, real estate, nonprofit and environmental.

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