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Food Digest

ADDRESSING THE ACCOUNTING, TAX AND BUSINESS NEEDS OF FOOD & BEVERAGE INDUSTRY EXECUTIVES

AUGUST 2010

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Business owners are continually searching for better ways to handle day-to-day production and operational issues, while also managing financial and human resource issues. The most challenging aspect of these responsibilities is that there is no "one size fits all" methodology to deal with these issues.

In this issue, we address three commonly asked questions from food and beverage industry executives in Los Angeles.

Balancing Rising Costs with Pricing Pressures

How should a food company deal with pending inflationary pressures on food costs when the consumer is very price sensitive?

Todd DeMann
Chairman & CEO of Freshology, Inc.

Many companies in the industry are struggling to manage the rising costs of raw materials and labor while simultaneously reacting to growing market pressures to keep their selling prices low.

If raising the selling price is not an option, companies must continue to find ways to control costs. Some of the largest expenses to manage are raw materials and labor. Fortunately, this also means that these are areas that have the best opportunities for cost savings.

Many companies have turned to just-in-time ordering systems, where they can track inventory and order only the amount needed, improving cash flow and reducing wasted inventory. Investments in systems to help with just-in-time ordering may be eligible for tax breaks or may qualify for capitalization on the balance sheet.

Additionally, switching from a LIFO to FIFO method for accounting for inventory and the cost of goods sold can help by using lower inventory costs as the basis for measuring revenue. Of course, this only works for non-perishable items that can be stored for a longer period of time. Additionally, there are stiff regulations for making this type of accounting methodology change. It is best to consult with a qualified CPA to determine how just-in-time ordering and inventory accounting can benefit your company.

The other major expense for food companies is labor. Since labor demands can fluctuate seasonally, it may be worth researching external companies that can supply seasonal labor. Additionally, many employment companies take care of the required benefits and taxes for employees as part of their hourly rates. Your company could benefit from only paying for labor when you need it.

If you are not able to outsource labor, your company can also save money by reducing or even eliminating overtime hours, where rates can double or even triple over normal, hourly rates. To help avoid overtime, a company can find areas to consolidate production runs and avoid having runs stretch beyond an 8-hour day.

Obtaining Capital in a Tough Economy

How does a small or medium size food company get working capital in this very tight economic environment?

Brian Khoddam, CEO of Cravery Kitchen, and Michael Balyasny, Co-Founder and CEO of Echo Beverages.

Even in the best of economic times, it's not easy for startups or companies that only have been in business for several years to receive bank loans.

Most lenders look for a long track record of earnings (three to five years), and some don't lend to new companies at all. However, here are some alternatives to traditional bank loans that young companies may look to for additional financing:

- Borrowing on home mortgages – traditional or second
- Drawing on credit cards
- Working with suppliers to stretch payments
- Financial support from friends and families
- Leasing instead of buying
- Venture capital funding
- Obtaining SBA loans
- Factoring of accounts receivable

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The most important planning that an entrepreneur can do while seeking financing is to continue to build the business and profit.

When the time comes for a traditional banking lending relationship, the company will need to show a track record of profitable operations. In addition, the company will have to come prepared to show its bankers that the company is a low risk proposition.

Preparation on the company's part means to have the following internally prepared documents:

- Current year financial statements
- Business plan with forecasts covering the next 3-5 years including expected cash flows
- Last three years tax returns
- Completed loan documentation
- Personal financial statements

Expectations from the New Healthcare Bill

What type of added costs and/or requirements can we expect during the next two years from the new government health care bill? And are there any new taxes or tax increases we should plan/budget for through 2011?

Roy Nishimori
President of San Miguel Produce, Inc.

Perhaps the most important changes that will affect taxpayers in the next couple of years as a result of the passage of the Patient Protection and Affordable Care Act (PPACA) will be the additional reporting requirements in the Act. These provisions will significantly increase the burden of reporting transactions which were previously not subject to reporting.

Amongst these reporting provisions is the expansion of Form 1099 reporting to include reporting of payments to corporations. Previously, Form 1099 reporting was required for cumulative payments of over $600 to all entities other than corporations. This provision will go into effect starting in 2012. The overwhelming majority of additional costs will go into effect starting in 2013 and thereafter.

As far as taxes are concerned, unless legislation is passed before the end of 2010, corporations will face significant tax increases as a result of expiring tax cuts passed in 2001 and 2003. This will mean individual tax rates will revert back to pre-2001 levels with the highest income taxpayers being subject to top marginal tax rate of 39.6%. This will have a significant impact on small businesses that file income tax returns as a Sub chapter S Corporation or other forms of flow through entities.

There will also be increases in capital gain tax rates up to 20% and dividend tax rates will be increased up to ordinary tax rates. Estates with values in excess of $1 million will again be subject to tax at the pre 2001 tax rate of 55%.

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.

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