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The Importance of Forecasting Cash Flow

By Jeff Hipshman and Curtis Campbell, HMWC CPAs & Business Advisors

The combination of high operating costs, low profit margins, tight credit and a challenging economic environment can mean poor cash flow. In turn, effectively managing cash flow can mean the difference between a sustainable or collapsed business.

However, it can be difficult to clearly assess cash flow. HMWC CPAs & Business Advisors prepares a "Statement of Cash Flows" for our clients, who find that it is a highly useful document that allows management to track key financial information and, more importantly, forecast financial trouble. In fact, in the current economic situation, it is often vital for companies to manage their business on a 13-week cash flow forecast.

Key facts

Your company's financial statement is composed of a balance sheet, an income statement and a cash flow statement. All three statements comprise the same accounting information, but each one serves a different function. The balance sheet provides a presentation of your company's assets, liabilities and net worth. The income statement indicates the business's profitability during a specified period. The cash flow statement, however, connects the two to provide a more comprehensive view of your finances.

A cash flow statement is a financial accounting document that is essentially concerned with the flow of cash in and out of a business. It shows how changes in balance sheet accounts and

income affect cash and cash equivalents. The statement captures both the current operating results and the accompanying changes in the balance sheet. As an analytical tool, the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills.

How and when is a cash flow statement useful in analyzing a company's financial situation? When analyzing your company's liquidity, for example, cash flow information is more informative, while balance sheet data is more static, measuring a single point in time. The income statement is also not quite as useful in assessing liquidity because it contains many arbitrary non-cash allocations, such as pension contributions and depreciation and amortization.

A cash flow statement reconciles both of these much in the same manner that a checkbook would reconcile a checking account. It records the changes in the other statements and nets out the bookkeeping, showing the amounts and sources of profits and losses for any given period. The cash flow statement also maintains records of your company's fiscal transactions.

A snap-shot of activities

If you're operating under the accrual method of accounting, sales and expenses often appear on financial statements before payment is received or made. A cash flow statement converts financial data recorded on an accrual basis in the income statement and balance sheet to a

cash basis. The statement shows sources of cash receipts, where cash is spent, and the net change. To arrive at the net change, the statement focuses on three areas of activity:

1. Operations. Operating activities are a company's daily internal activities that generate cash or require its expenditure. These include cash collections, operating expenses (such as payroll, rent, supplies and inventory) and income taxes.

2. Investing. This varies depending on your industry. For example, with manufacturers, investing generally involves the purchase or sale of equipment.

3. Financing. Loans and leases that provide or require cash generally fall under financing.

You can measure cash flow using the direct or indirect method. The direct method uses the cash activity recorded in the company's checkbook. Cash receipts and disbursements shown are totaled and classified in the three categories above. The more common, and more complicated, indirect method uses information gathered from the income statement and balance sheet.

Cash for investing and financing is calculated in the same manner under both methods, but the calculation of operating receipts and disbursements differs. Under the indirect method, the income statement must be adjusted for any non-cash items and any changes in the business's current assets and liabilities, such as accounts receivable and accounts payable.

Regular analyses

Even if a company is turning a profit, it can still go out of business if it is experiencing negative cash flow and is unable to pay its bills. By regularly analyzing cash flow statements, you can pinpoint reasons for negative cash flow, such as poor collections or changes in fixed assets and debt. You can then begin to develop plans to remedy them by implementing ways to reduce your company's day-to-day operating expenses.

You might, for example, find it more cost effective to outsource certain areas of the business, such as human resources, payroll and benefits management, or information technology support. Or you might choose to implement inventory management agreements with suppliers that allow you to house inventory at their sites for longer periods, allowing you to save on storage and interest costs.

Cash flow ratios

You can plug data found on your cash flow

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Are You Getting the Most from Your Bank?

The three questions you should ask

It seems as though just a few years ago, business banking was pretty simple and straightforward. The typical company had checking and savings accounts, and clients paid by cash, check or credit card. Then along came a dizzying array of bank offerings – credit products, online banking, cash sweeps and a myriad of other services.

The good news is that today's banking tools can help your company become more efficient and profitable than ever. The difficult part is choosing which solutions make sense for your particular operation. The wrong choices can cost both time and money, while the right ones can boost both productivity and balances.

When evaluating which banking services are right for you, it helps to start by asking a few simple questions:

1. How can I maximize the interest and income in my bank accounts?

If you're like most business owners, you probably have several bank accounts – one for operating and day-to-day expenses, and another for larger purchases, emergencies and general reserve funding. The first type of account typically pays little or no interest, while the latter usually provides a better return.

◆ Controlled Disbursements:

The smart business manager keeps as little in the operating account as possible, allowing any excess funds to accumulate interest in higher interest-bearing accounts. Some services, like California Bank & Trust's Controlled Disbursements, help you to maintain the right balance between interest and non-interest bearing accounts.

The Controlled Disbursements service provides you with a notification each morning as to the funds needed to cover the checks that are slated to clear that day. This allows you to maintain or transfer only the funds you need in your operating accounts, leaving the rest to accumulate interest in other accounts. And because the service is automated, it requires little time and effort on your part.

2. How can I decrease the time my staff spends on banking and accounting?

We've all heard the axiom, "time is money." And certainly, this is one adage on which nearly all business executives can agree. The less time you and your staff spend on activities such as billing clients, reconciling banking accounts or correcting accounting errors, the more time and money you'll have for income-generating activities.

How can you reduce the time and energy your staff spends on general administrative duties and increase the accuracy of banking and accounting tasks at the same time? The following are a few

of the most popular services for streamlining your processes:

◆ Remote Deposit:

Today's remote deposit services allow your staff to deposit clients' payments immediately right from their desks without ever leaving the office – saving time for them and salaries for you. CB&T utilizes an easy-to-use scanner that plugs into almost any PC so you can electronically deposit checks, on your schedule—days, nights, and weekends.

◆ ACH Collections and Disbursements:

Are you still manually writing and mailing checks for regular payments such as payroll, dividends, or other types of disbursements? Do you still receive physical checks for incoming payments? If so, you may want to consider an automatic disbursement and collection service. One example is California Bank & Trust's ACH Disbursements and Collections solution.

With ACH, the recurring payments you make, such as rent, office maintenance and payroll are automatically credited to your payees' accounts on a pre-established date. On the flip side, pre-approved receivables, such as client account and monthly retainer payments are automatically withdrawn from your customers' accounts and deposited to your account.

ACH reduces the cost of check preparation, mailing, and account reconciliations and is also more convenient for your employees, clients and vendors. What's more, incoming receivables are available more quickly and reporting is automatic and more accurate.

◆ Automatic Account Reconciliation:

Is your staff spending significant time manually reconciling your company's checking accounts and deposits? If so, CB&T Automated Account/Deposit Reconciliation service is one way to dramatically reduce time and effort. Automated reconciliation services have come a long way in the last few years. Businesses typically find that they not only save on staff time, but also that accuracy and fraud control are improved.

3. Should I alter my banking practices in a changing environment?

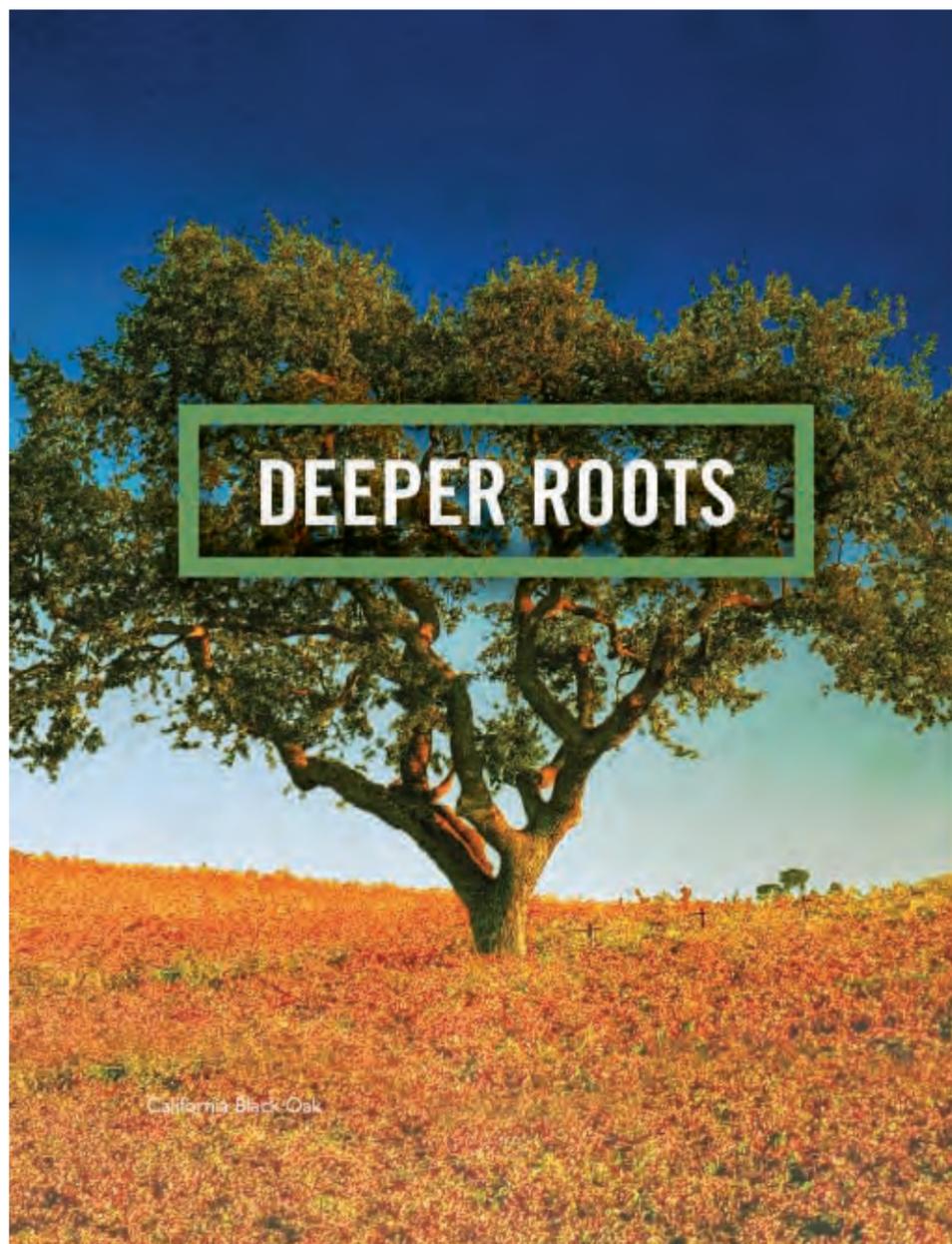
Whether you're just starting out in business or are an established concern, getting to know your banker can pay dividends in changing market conditions. A good banker will understand your industry and the environment in which you do business and can offer valuable suggestions. The bankers at CB&T want to see our clients succeed and proactively look for ways to assist by sharing information and ideas. We have deep roots in our local communities extending back more than 50 years, so

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California Bank & Trust, a subsidiary of Zions Bancorporation (NASDAQ: ZION), is one of the largest banks headquartered in California with over \$10 billion in assets and more than 100 branches statewide. CB&T bankers provide connections to a full array of financial solutions for

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The Sunwest Bank Charitable Foundation's donation to the North County Community Services Food Bank provided for the acquisition of a refrigerated box truck



Mike Stafford of Sunwest at The Rehabilitation Institute of Southern California in Orange

Sunwest Bank Recognizes the Importance of Corporate Social Responsibility

Local bank identifies community beneficiaries for its Sunwest Bank Charitable Fund

Sunwest Bank, one of the strongest and healthiest banks in the Western Region, understands that one of the most important things about being part of a community is giving back to it. For this very reason, the Sunwest Bank Charitable Foundation was formed to foster charitable giving and support worthy of charitable endeavors within the Bank's local branch communities and throughout the U.S. and other areas of the world in need of humanitarian and economic support.



Sunwest Bank's Board of Directors authorized an initial contribution of \$2 million to the Foundation at the end of last year, and since then has announced six charitable organizations that have been chosen as beneficiaries of the Sunwest Bank Charitable Foundation.

"Sunwest has grown dramatically over the past few years, both organically and through our acquisitions," said Glenn E. Gray, CEO of Sunwest Bank. "Because of this growth, the Sunwest Bank Charitable Foundation was created to allow us to give back to the communities in which our customers work and live."

Six Beneficiaries of Sunwest's New Charitable Foundation

The six charities chosen are:

- ◆ Orangewood Children's Foundation in Santa Ana, Calif.
- ◆ Family Assisted Ministries in San Clemente, Calif.
- ◆ The Rehabilitation Institute of Southern California (RIO) in Orange, Calif.
- ◆ North County Community Services Food Bank, San Diego, Calif.
- ◆ The Old Town Mission in Cottonwood, Ariz.
- ◆ St. Mary's Food Bank Alliance in Flagstaff, Ariz.

Each is a nonprofit charity that was carefully chosen by Sunwest because of their ability to serve the community effectively and efficiently and their capability to use the donation to truly benefit those in need.

"The six charities were chosen by Bank leaders in local branch locations who are directly connected to those respective Sunwest communities. In fact, some of the charities selected are our own clients, and to be able to give back to the individuals and the business that make us strong is a great accomplishment for the Bank," added Gray. "Sunwest has dedicated itself to be a Community Bank that truly benefits the community."

About Each Sunwest Beneficiary

Orangewood Children's Foundation in Santa Ana, Calif. focuses on the needs of children in the foster care system, developing a wide range of activities, scholarships, support and programs. The Orangewood Children's Home shelters children of abuse, neglect or abandonment within the foster care system. Because of Orangewood's impressive reputation in the Orange County community they were an obvious choice as the recipient of Sunwest's largest grant of \$100,000.

San Clemente, Calif. based Family Assisted Ministries is a non-profit organization that provides temporary living expenses and job counseling for families and individuals in need to assist them in becoming positive members of the community. Family Assisted Ministries has been a Sunwest customer for three years.

The Rehabilitation Institute of Southern California, or RIO, located in Orange, Calif., has been a Sunwest Bank customer for more than 14 years. RIO serves the disabled community with a goal of improving the quality of life for disabled persons through comprehensive programs that increase the persons function in the community.

North County Community Services Food Bank provides food to 75 nonprofit agencies benefiting their 18,000 clients each month, distributing over 1.4 million pounds of food in the last fiscal year. The Sunwest Bank Charitable Foundation's donation provided for the acquisition of a refrigerated box truck, which makes daily food deliveries throughout the North San Diego County area. The donation will also fund the truck's operating costs for the next three years.

The Old Town Mission is a nonprofit that serves the Sedona/Valley Verde Community in Arizona by helping to meet the needs of individuals struggling in poverty. From basic needs like food, clothing and hygiene products to back to school programs and legal clinics, The Old Town Mission is dedicated to helping those less fortunate and/or struggling individuals.

St. Mary's Food Bank Alliance, based in the Flagstaff, Ariz. region, prides itself in being the world's first food bank. This organization strives to alleviate hunger in the community by gathering and distributing food to facilities that serve the hungry. They provide enough food to provide 300,000 meals per day.

Sunwest Bank Remains Committed to Corporate Social Responsibility

Each charity has proven itself as a great contributor to a Sunwest community. As a community bank, Sunwest sees it as its duty to help the communities in which it conducts business. Charitable organizations like these, that make a true impact on the lives of those in need, are a perfect way for Sunwest to ensure that the Foundation money is used most effectively and benefits as many individuals as possible.

With nearly 40 years in business, Sunwest Bank partners with entrepreneurs to personally take their businesses to a new level of success. The bank's solid balance sheet includes significant liquidity, resulting in an ability to lend in an environment where many banks are unable or unwilling to do so. Sunwest Bank has branch offices in Tustin, Anaheim, Newport Beach, Laguna Hills, San Clemente, Encinitas, California, in addition to three branches in Flagstaff and one in Cottonwood, Arizona. The bank, specializes in meeting the credit and cash management needs of small and mid-size businesses.

Additional information can be found at www.sunwestbank.com.



Orangewood's impressive reputation in the Orange County community made them an obvious choice as the recipient of Sunwest's largest grant of \$100,000



Tony Rodriguez presents a check to Family Assisted Ministries

CORPORATE FINANCE

Post-Default Enforcement of Rights Under UCC Financing

by Leonard M. Shulman and Rika M. Kido, Shulman Hodges & Bastian LLP

During these tough economic times, as more commercial borrowers default on their loans, it is important lenders with loans secured by personal property are aware of their rights under the Uniform Commercial Code ("UCC"). In foreclosing on their security interest, the secured lender may take possession of the property and dispose of it through a "commercially reasonable" sale. It is important collateral is disposed of properly. If disposed of improperly, the secured lender may lose the opportunity to recover a deficiency judgment against the borrower or any guarantor. This article provides a quick guide to the rights of a secured lender under the UCC to dispose of its personal property collateral through a commercially reasonable foreclosure sale.

Taking Possession of the Collateral

If collateral used to secure the defaulted loan is personal property, the secured lender may take possession under UCC Article 9. The secured lender may take possession either pursuant to judicial action or without judicial action if they proceed without a "breach of peace." UCC 9-609 validates security agreements requiring the borrower to assemble the collateral in a mutually convenient place. If the borrower is uncooperative, the lender must pursue court action to obtain possession.

If the collateral is accounts, the secured lender proceeds under UCC 9-607. The secured lender may notify the account debtor to make a payment. If the account is one in which the secured lender has perfected its lien by possession, the secured lender may apply a balance of the account to it or direct the bank to make payment. The secured lender may also institute collection efforts, but must proceed in a commercially reasonable manner.

After the secured lender has taken possession of personal property collateral, they must obtain the value of the collateral and apply that value to either reduce or satisfy the amount owed. Value of the collateral will be realized through a liquidation of the property by a collateral foreclosure sale.

Liquidation by Collateral Sale

Before the collateral sale, the secured lender must provide notice as set forth in UCC 9-611. Collateral which is perishable or threatens to decline rapidly in value or is of a type customari-



Leonard M. Shulman



Rika M. Kido

ly sold on a recognized market does not require notification. For all other collateral, the secured lender must send a "reasonable authenticated notification of disposition" to the debtor, any secondary obligor or guarantor, and three classes of specified interested persons.

UCC 9-612 requires reasonable timely advance notice. Generally, this means notification must be sent at a reasonable time before the date of the public sale or after the date of a private sale. For a non-consumer transaction, 10 days or more constitutes reasonable time. This 10-day notice period is intended only to be a "safe harbor" and not a minimum requirement. In order to qualify for the "safe harbor," notification must be sent after default and in a commercially reasonable manner. While periods shorter than 10 days may be "reasonable," if possible, one should fit within the safe harbor guidelines.

A sufficient notification will: 1) describe the debtor and secured lender; 2) describe the collateral; 3) state the method of disposition; 4) state the debtor is entitled to an accounting of the unpaid indebtedness and provide the charge for accounting; and 5) state the time and place of public disposition or the time after which any disposition is to be made. Unless the parties agree otherwise, no additional information is required. A sample form of notification may be found in UCC 9-613(5) or UCC 9-614(a)(3).

The collateral sale process is described in UCC 9-610. A secured lender must dispose of the collateral in a "commercially reasonable" manner following default. A disposition of collateral is commercially reasonable if disposition is made: 1) in the usual manner of any recognized market; 2) at the price current in any recognized market at the time of the disposition; or 3) otherwise in conformity with reasonable commercial practices among dealers in the type of property subject to the disposition.

The collateral may be disposed of in either a public or private disposition. At a public disposition, the secured lender may purchase the collateral with no restrictions. At a private disposition, the secured lender may only purchase the collateral if it is of a type sold on a recognized market. In short, the secured lender cannot have a private sale for goods not normally traded and then personally buy them.

Conclusion

The UCC provides the framework for conducting foreclosure sales on personal property col-

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Shulman Hodges & Bastian LLP was founded as a boutique bankruptcy firm representing parties facing insolvency issues. Since then, the firm has diversified to address legal issues facing any size business or its principals. By assembling an experienced and talented group

of attorneys with broad backgrounds and practice areas, the firm has evolved into a full-service business law firm. Shulman Hodges & Bastian LLP successfully represents a wide variety of clients in the areas of Business Formation, Bankruptcy, Real Estate, Intellectual Property, Insurance, Estate Planning and all facets of litigation, including appeals.



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Small Business is Big Business!

Small business is big business! That's the philosophy of Citizens Business Bank. Citizens Business Bank is the largest bank headquartered in the Inland Empire area of California. Citizens Business Bank is widely recognized for its commitment to its customers and communities, as well as its strong financial performance. Citizens Business Bank serves businesses, professionals and individuals through 51 conveniently located offices in the Inland Empire, Orange County, Los Angeles County and Central Valley regions of California.

Small business accounts for more than half the private workforce in the country and more than half of all sales. Small business also has the highest potential for growth of any sector of our economy, creating roughly 60 percent of all new jobs. Citizens Business Bank is geared to provide small businesses with loans designed for them to help fund growth.

Does Citizens Business Bank make commercial loans to small businesses?

Commercial banks such as Citizens Business Bank are the primary source of business financing. The bank with which you have an established banking relationship is the logical place to start your search for a business loan. Be prepared before you approach your banker. Lenders are conservative because they want to assure that their loans will be repaid. The things that lenders look for in evaluating a loan application are a business plan, equity in the business, the ability to repay the loan, good credit history, liquidity and ample collateral or secondary source of repayment to fall back on.

What are SBA "guaranteed" loans and what can you use the money for?

Commonly known as SBA loans, these loans are provided in conjunction with the Small Business Administration via the 504 and 7(a) programs. SBA loans are available for the purchase of real estate, equipment, and inventory. Refinancing of business debt and working capital are also possible eligible uses.

What are the benefits of the SBA programs?

The benefits of a small business loan include lower down payments and longer maturities with competitive rates (fixed and variable) and terms.

Is it difficult to get SBA assistance?

Citizens Business is a Preferred Lender. This is the highest designation that can be achieved by a bank that participates in SBA lending. As a Preferred Lender Participant, the Small Business Administration allows Citizens Business Bank to make credit decisions on SBA guaranteed loans. The SBA performs a minor review for eligibility which greatly reduces the processing time for an SBA loan. Citizens Business Bank received this designation because of the Bank's commitment to the SBA program, their proven success record, and because Citizens meets and exceeds the high standards met by the SBA.

What is the difference between the 7(a) and the 504 loan programs?

Citizens Business Bank offers two types of SBA loan programs. The 7(a) Loan is the primary business loan program of the SBA. It is commonly used for business expansions and to meet the varied short-term and long-term needs of established businesses. The 7(a) loan can be used for most business purposes, including machinery and equipment purchases, working capital, inventory, business acquisition, debt refinance, real estate purchases and construction.

The 504 Loan provides long-term, fixed-asset financing through Citizens Business Bank and a local Certified Development Company. A 504 loan may be used to purchase, improve or construct commercial real estate property, as well as purchase machinery and equipment. 20-year fixed rate loans are standard for the SBA's portion. Today's rate on the SBA portion is under 5%.

How do I know if the SBA program is right for my small business?

The first step in securing financing for your business is "NOT" filling out a loan application. Instead, the business owner needs to develop and refine a business strategy. Nothing improves one's chance of securing financing like a thorough business plan with informed financial projections and a well thought out business plan.

Is today the perfect time to expand your business? Buy new equipment? Purchase your facility or refinance existing debt? For more information about an SBA loan, contact Mark Richardson, the head of our Real Estate Banking Group. Mark can be reached at 626.564.6234. You can also visit our website at www.cbbank.com.



Mark Richardson



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THE IMPORTANCE OF FORECASTING CASH FLOW

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statement into simple ratios to gain a better understanding of your company's financial condition. For example, if cash is critical to servicing long-term debt, then "cash flow to long-term debt" would be a useful ratio.

Using the "operating cash flow" ratio helps gauge your short-term liquidity by comparing the amount of cash generated to outstanding debt. This can help you understand how your current liabilities are covered by the cash flow generated by your company's operations, giving you a quick appraisal on whether you'll be able to manage future loans, interest payments, payroll and other expenses.

Seek our assistance

A cash flow statement provides information that is not easily extracted from an income statement or balance sheet, such as where your cash is and where it's being generated. Only by analyzing the components together along with other critical data can you understand your company's financial outlook. HMWC CPAs & Business Advisors can help your company by not only preparing financial statements but also assisting you in analyzing them so that you can more effectively manage your business.

Jeff Hipshman and Curtis Campbell, are partners at HMWC CPAs & Business Advisors (www.hmwc CPA.com) in Tustin. Contact them at (714) 505-9000 to discuss how your company or client could benefit from the firm's services.

ARE YOU GETTING THE MOST FROM YOUR BANK?

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we're truly in a position to understand and discuss regional economics, our clients' industries and their specific circumstances.

We recommend meeting with your banker on a quarterly basis. Discuss any business changes or challenges you are experiencing and provide current financial information. Update him or her on your business goals and objectives and review your short and long-term plans and your cash flow and capital needs, as well as your overall operations and competitive advantage.

To learn more about these and other services or for more information, please visit www.calbanktrust.com.

POST-DEFAULT ENFORCEMENT OF RIGHTS UNDER UCC FINANCING

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lateral. Lenders beware that many "trip-wires" exist and claims for deficiencies can be lost if procedural rules are not properly followed.

Leonard M. Shulman is the Managing Partner of Shulman Hodges & Bastian LLP. He concentrates his practice in Commercial Law and Bankruptcy and handles all aspects of litigation, creditors' rights, mergers and acquisitions, trustee, creditor's committee and the representation of debtor's in the insolvency context and can be reached at lshulman@shblp.com.

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