HAVING the right lender on your side may be one of the most important aspects of a business’ development. It can be the difference between a simple infusion of cash vs. genuinely preparing your organization with the right resources, capital and advice to take it to the next level.

Fortunately, there are some truly outstanding professionals making up the Los Angeles lending landscape. We’ve listed (alphabetically) a baker’s dozen of them here, along with some basic information about their careers, practice and some relevant recent projects they’ve been involved with.

Congratulations to the trailblazing professionals who made this list and thank you for your contributions to the local business community’s success!
Kathleen Chapman

**First VP, Commercial Officer**  
California Bank & Trust

- **Years practicing:** 25  
- **Years with current firm:** 15  
- **Education:** Loyola of Chicago; Woodbury University

Kathleen Chapman is a seasoned banker, businessperson and trusted advisor with over 25+ years of lending experience in the greater Los Angeles area. Her experience, including time spent both inside of banking and on the regulatory side of the industry gives her a well-rounded perspective on balancing the requirements needed to build a successful lending team and financial institution.

As Senior Vice President and Los Angeles Regional Manager at Torrey Pines Bank, Chapman is involved with lending from both a high level, in overseeing the Beverly Hills team, as well as in working with clients directly to provide them with customized solutions. She is tasked with growing the bank’s presence and client base in the LA area.

Chapman has been instrumental in several of Torrey Pines Bank high-profile deals in Los Angeles within the last several years, including: facilitated working capital lines of credit and treasury management depository services for regionally based law firm; helping a well-known, high-end airline catering firm and restaurateur secure financing for owner-occupied CRE loan to expand their operation, as well providing the client with an operating line of credit; and facilitating equipment finance and operating lines of credit for a manufacturing and distributing client in the area.

Patrick Davern

**SVF Team Lead**  
Torrey Pines Bank

- **Years practicing:** 20  
- **Years with current firm:** 2  
- **Education:** California State University-Fullerton

As Senior Vice President and Team Lead at Torrey Pines Bank, Patrick Davern draws on over 20 years of banking experience. Davern’s focus at the bank is two-fold: foster an environment that focuses on understanding business clients’ specific needs to offer the best financing options to propel them forward, while also helping to expand the bank’s loan and deposit portfolio in the Los Angeles area.

Davern works with clients directly, and also manages a commercial banking team for the Downtown Los Angeles office where of the average production for bankers is in excess of $20 million each. His team fills a very important niche for the business community in providing personalized service and thinking outside of the box, when it comes to lending. Davern and his team consistently work with clients to understand their needs and find innovative lending solutions.

In the last few months, specific deals that Davern has worked on include: providing financing to a growing mortgage company in Southern California for an $8 million facility; obtaining lending to finance land for a hotel and retail project valued at approximately $7 million; and putting together a depository and treasury management package for a private long-term university in Southern California, enabling development of a new ophthalmologic campus.

Malcolm Johnson

**SVF/JP Morgan**

- **Years practicing:** 9  
- **Years with current firm:** 3  
- **Education:** Notre Dame University (BS); Carnegie Mellon University (MBA)

Malcolm Johnson, who leads JPMorgan’s real estate banking group in Los Angeles, always envisioned he would have a career working to build up the community. He just never dreamed those building blocks would involve a commercial real estate portfolio worth nearly $1 billion in neighborhoods spanning from his native Washington, DC to Southern California. Johnson is one of JPMorgan’s top West Coast executives. The senior vice president joined the company in 2012 to launch the firm’s real estate banking group in Los Angeles. He helps JPMorgan’s institutional real estate clients, including private equity funds, developers and operating companies, build and acquire multi-million dollar office buildings, malls, apartment complexes and industrial warehouses in markets across the United States.

In the three years since joining JPMorgan, Johnson’s group has done business with some of the premier real estate companies in Southern California, including publicly traded titans like Kennedy Wilson, Oaktree Capital and RXford Industrial and well-regarded privately held firms like Topa Management Company.

Johnson has also quickly made himself an integral part of JPMorgan’s significant community outreach efforts. He serves as West Coast chair for JPMorgan’s Commercial Banking Campus Hiring Diversity Committee, whose overall goal is to further the firm’s nationwide effort to hire diverse junior talent into the its various Commercial Banking businesses.

Shu-Yuan Lai

**Executive Vice President, Director of Business Development**  
Cathay Bank

- **Years practicing:** 41  
- **Years with current firm:** 23  
- **Education:** National Taiwan University (Bachelor of Commerce); State University of New York at Buffalo (MBA)

Shu-Yuan Lai is the EVP and Deputy Chief Lending Officer (effective April 1, 2015) for Cathay Bank, managing more than $940 million of international trade lines of credit and term loans. Lai also maintains the commercial and industrial loan portfolios, having achieved the industry recognition as top producer and number one team for the past twenty years. Additional responsibilities for Lai involve bringing in new accounts, which includes million dollar accounts, Letter of Credit fees income and Wealth Management income (401K, annuity, and fee base). Since 2002, she has brought in three new loan projection plans, a $4.5 million cash management account and two annuity accounts.

In addition, Lai supervises, manages and trains loan officers on all aspects of the banking business, leading these teams for the past 23 years to exceed their established loan goals.

With over two decades of banking experience, Lai has derived and set up a profitability model to determine the proper interest rate and loan terms for commercial lines of credit. Her innovative model is still currently used for every corporate line renewal at the bank. Significant recent deal highlights for Lai include securing a Letter of Credit Loan for a client in the amount of $10 million and a $2 million purchase order financing.
YOU’VE ALWAYS KNOWN THE SKY’S THE LIMIT FOR YOUR BUSINESS

PERHAPS THE RIGHT PARTNER CAN HELP YOU GET THERE

In building your business, you always have to be one step ahead of the competition. Fortunately, our seasoned bankers know that and they are here for you whether you need cash flow and liquidity strategies, smart treasury management solutions or commercial real estate financing. Access to local decision-makers can truly make all the difference.

With the capacity and flexibility of a banking partner with $10 billion in assets, Torrey Pines Bank is where business gets done.

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SVP/Regional Manager
Direct Line 310.623.8901
kchapman@torreypinesbank.com

LOS ANGELES | CHRIS GRASSA
SVP/Regional Manager
Direct Line 213.362.5236
cgrassa@torreypinesbank.com

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*As a division of Western Alliance Bank, asset figure is as of 12/31/2014.
### MOST INFLUENTIAL LENDERS

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**Michal Miron** is a Senior Vice President who manages the Commercial Lending Department in the Los Angeles office of Bank Leumi USA, the largest subsidiary of the Leumi Group. Miron is responsible for the Bank's commercial lending platform in L.A. After graduating from Bar-Ilan University in Tel Aviv, Israel, he pursued graduate studies there and received her MBA in Finance. Miron is a veteran leader with 19 years of experience. She brings the boutique touch of a small bank but leverages the equity of the Leumi Group to close financings upwards of $100 million.

Miron leads a team of bankers on transactions ranging from asset based loans to complex real estate, C&I and healthcare financings. Since 2012, she has been instrumental in developing the Bank's healthcare lending platform. She leads a team of bankers who routinely participate in complex financings of nursing home facilities in need of a bridge to HUD financing. She is recognized for her innovation, experience and banking strategy. Many of these financings are approx-imately $20 million dollars in size, but whether Miron is involved in a $5 million financing or an $80 million financing, she brings a personal touch and relationship approach to business challenges. This asset has proven invaluable in developing innovative solutions that result in transactions closing on schedule.

**Bennett Pozil** heads the Corporate Banking Division at East West Bank where he specializes in entertainment lending, middle market lending, trade finance and cross-border business opportunities between the U.S. and Greater China.

Through Pozil’s leadership and an exclusive bridge banking strategy, East West Bank is able to add value to landmark cross-border partnerships, like taking the lead on debt financing for the co-investment deal between Lionsgate Entertainment and Human Broadcasting. On the forthcoming “Hollywood Adventures,” the largest Chinese language film ever shot in Los Angeles, East West Bank worked with Perfect Storm Entertainment co-founders, Taiwanese-American director Justin Lin and his mainland coun-terpart Bruno Wu, on not only the financing, but connecting them with Hollywood production teams and shooting locations, generating business in the local creative community. In the U.S. market, since 2011, Pozil's entertainment team has made over $1 billion in loans to this sector to finance the production and distribution of film and television product. Deals include the financing of industry-shaping drama series like “Orange is the New Black” and “Marco Polo” for Netflix.

Aside from entertainment, Bennett and his teams seek out opportunities in China that in turn increase business here in the US. China Genetics, for example, selected East West Bank as a financial partner who understands its specific cross-border business needs.

**Mark A. Mitchell** is one of the two strongest performing Middle Market Relationship Managers in Union Bank's Commercial Banking group (Middle Market is defined as covering companies headquartered in California, Washington and Oregon with revenues ranging from $20 million to $150 million). He handles the largest, most complex, and most profitable relationships in the Greater Los Angeles region for the team.

One of Mitchell’s strong suits is his ability to develop very strong trusted advisor relationships with the decision makers of the companies that he banks. His success has been based on his ability to retain his clients, generate significant cash flow income from them, as well as his ability to consistently bring in new relationships to the Bank, based on a very disci-plined, organized and well thought out cold calling strategy and also receiving solid referrals from his referral source network.

Mitchell’s performance has been outstanding year after year, but last year he outdid himself by generat-ing $3.3 million in total income for the Bank, ranking him #1, by a large margin, in all the Middle Market RMBS in the Bank’s Commercial Banking group. This is the highest amount of income generated by anyone in the Bank’s Middle Market groups over the last 5 years.

**Robert C. Petersen** is the most senior lender in Union Bank’s Mid Corporate group (defined as covering companies headquartered in California, Washington and Oregon with revenues of $150 million to $2 billion). He handles the team’s largest, most complex and most profitable relationships in Los Angeles, including LACMA, City of Hope, Panion, AECOM, Unified Grocers, Vallarta Markets, and Superior Markets, just to name a few.

One of Petersen’s main strengths is his ability to develop very strong, trusted advisor relationships with the decision makers of the companies that he banks, which invariably results in him being able to extract a disproportionate share of wallet on the cross sell side, for Union Bank, from those clients. Another one of his strengths is the level of pre-call preparation that he undertakes prior to attending any prospect or client call.

In 2014, Petersen outdid himself by generating $9.8 million in total income for the Bank. This is by far the highest amount of income generated by anyone in Commercial Banking since Union Bank started rank-ing its Relationship Managers in 2005. His outstanding performance was partly fueled by his strong rela-tionship at all levels of AECOM’s Executive Management, which led to him winning his bank a lead right position in the $6 billion syndicated financ-ing in support of AECOM’s acquisition of URS.

**Tim Trout** is a Senior Vice President with experience obtaining financing approvals, overseeing loan pool acquisitions and dispositions, arranging loan participations and syndications, as well as managing the loan documentation and closing process.

His portfolio consists of over $275 million of comm-ercial real estate secured loans, ranging in size up to $38 million. He has demonstrated an ability to lever-age his portfolio through loan participations, having developed a network of participant banks. Significant recent transactions include Class A multi-family and retail secured loans in the $20-40 million range, which have been participated to banks, thereby reducing net exposure to 50% or less. Trout has also developed a specialty in low-income house tax credit bond transac-tions, having closed numerous deals of this type in the last 18 months. Trout takes a highly personalized approach to serving the complex financial needs of his clients.

**Elworth (Brent) Williams** is a Senior Vice President and Regional Loan Team Manager in the Commercial Banking Group of Wells Fargo Bank, N.A. where he is responsible for the Bank’s commercial lending in Los Angeles.

After graduating from the University of Pittsburgh and pursuing graduate studies at the University of Michigan where he received his MBA, Williams has become a veteran lender with 20 plus years of experience.

Williams has been instrumental in developing the Bank’s Commercial Finance sectors in Los Angeles. Brent leads a team of bankers on transactions ranging from asset based loans to complex real estate financings. He has been recognized for his innovation, expe-rience and banking strategy. Whether Williams is involved in a smaller profile financing or high profile financing, he brings a wealth of good humor to any transaction where he applies a practical approach to business challenges. This asset has proven invaluable in developing innovative solutions that result in trans-actions closing on schedule.

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Congratulations!

We are proud to congratulate Brittaney Kimmel and Malcolm Johnson for the honor of being named two of the 2015 Most Influential Lenders in L.A. County. We thank them for their invaluable dedication and leadership to the L.A. business community.

For information on JPMorgan Chase, visit: chase.com/executive-connect
Solutions Group. An engaged and welcome sponsor for California-based Credit Impact Partners (and a sponsor for Next Point Capital) and a senior secured loan and equity co-investment for The Acumen Group. Many institutions would have difficulty replicating. Breakaway to structure transactions in a unique manner. Woo's focus on creative and innovative, "non-cookie cutter" financing solutions allows transactions. Woo's approach to doing business with them, and a banker who is able to give your firm the financial advice that it needs to thrive in today's ever-changing economy. In return, your firm should reward this bank with your business and loyalty.

**Assessing Your Banking Relationship**

Warren C. Woo, who has spent his entire 29-year career in Los Angeles, is a Founder and Managing General Partner of Breakaway Capital Partners Fund, a fund focused on unitranche and other types of debt investments in lower middle market companies. From 2011 to 2014, he was a Managing Director and General Partner at Monroe Capital Funds Partners, a $250 million credit fund, focused on debt investments in lower-middle market companies. Woo has spent his entire career in Los Angeles. He designed Breakaway Capital as an LA-based private investment firm with approximately $50 million of committed capital under management. Focused on companies with up to $5 million of EBITDA, Breakaway provides senior debt, subordinated and mezzanine debt, unitranche structures, structured equity and common equity to companies for leveraged buyouts, acquisitions, recapitalizations, restructurings and growth capital for both sponsored and non-sponsored transactions. Woo's focus on creative and innovative, "non-cookie cutter" financing solutions allows Breakaway to structure transactions in a unique manner. Many institutions would have difficulty replicating.

Breakaway completed two key financings in 2015 – a senior secured loan and equity co-investment for The Thomas Kinkade Company (recapitalized by Los Angeles-based sponsor Next Point Capital) and a senior secured loan for Irvine-based Wave Technology Solutions Group.

**Tips for Small Business Owners: Assessing Your Banking Relationship**

It's always a good time for small business owners to reassess their company's financial health and their relationship with their bank. The American Bankers Association offers the following tips to help small business owners enhance their current banking relationship or choose the best bank for their needs.

**1)** My firm has a bank relationship manager assigned to our account and we have contact (by phone or in person) at least once per quarter to update the bank on recent developments at our firm and within our industry.

**2)** Our bank relationship manager understands our industry, our position in the industry, our firm's value proposition, where we are today and where we'd like to be in the future.

**3)** We provide our banker with updated financial information (historical and projected balance sheet, income statement, cash flow information to include projection assumptions and commentary on actual performance) regarding our progress toward achieving our goals on a timely basis.

**4)** Our senior management team meets annually with our relationship manager and his/her boss to discuss our firm's financial performance and challenges and to understand the bank's perception of our performance.

**5)** Our relationship manager proactively brings us ideas to help us achieve our goals.

**6)** We understand how the current economic crisis has affected our bank and our relationship with the bank (i.e., the availability of credit to our firm and the safety of our deposits).

**7)** Our firm makes sure that our banker is aware of all of our business with the bank (e.g., both business and personal) and that it makes money on our total banking relationship. In addition, our firm provides our banker with referrals to other profitable businesses.

If you were able to respond "true" to all seven of these statements, you have positioned your firm well with your banker. If you answered "true" to four or fewer, you still have room for improvement in developing a meaningful dialogue with your banker and benefiting from his or her advice and counsel. If you answered "true" to four or fewer, you have not positioned your firm well with your banker and are putting your firm at a competitive disadvantage in terms of:

- receiving the funds you need to grow and prosper;
- obtaining the best rates available for the financial products and services your business needs to operate; and
- receiving "ideas and advice" to help you achieve your desired business goals.

Your firm should seek a bank that rewards a relationship approach to doing business with them, and a banker who is able to give your firm the financial advice that it needs to survive and thrive in today's ever-changing economy. In return, your firm should reward this bank with your business and loyalty.

Information for this article was provided by the American Bankers Association.

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**Warren C. Woo**

Founder & Managing General Partner

Breakaway Capital Partners

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Congratulations

Shu-Yuan (Sue) Lai
Most Influential Lenders 2015

With Cathay Bank’s innate understanding of the western and eastern cultures, coupled with local market knowledge and flexibility to structure loans, Cathay Bank offers a unique advantage to our clients as they navigate to success in the global economy.

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Five Tips to Increase Your Chances of Getting a Small Business Bank Loan

The American Bankers Association has released the following tips to help small business owners best position themselves to obtain small business bank loans. These tips provide a rare glimpse into how bankers think and are intended to help small business owners develop a mutually beneficial relationship with a bank, prepare to get loans and evaluate offers.

1. Get to know bankers at several financial institutions in your community. Before requesting a loan, find out which financial institutions in your market make loans to firms like yours. Not all banks specialize in business loans. Some specialize in lending only to firms in certain industries. Others lend only to those in certain stages of the business life cycle (no startups, for example). Work with bankers who understand your industry and find out how the current financial crisis has affected credit availability in your community. Not all banks have been equally affected by today’s financial crisis.

Another reason to deal with banks experienced in your industry relates to the financial advice they can offer. Because these bankers work with firms facing the same industry-related problems that may challenge you, they’re in a better position to provide helpful advice and financial products tailored to your firm’s needs. Many times the advice a banker gives is far more important than the product or service they sell. Seek a banker who can give financial advice that will help you survive and thrive in today’s economy. In turn, you should reward that banker with your business and your loyalty.

2. Be able to articulate your firm’s “value proposition” to its target markets and your business plan to reach them.

Because these bankers work with firms facing the same industry-related problems that may challenge you, they’re in a better position to provide helpful advice and financial products tailored to your firm’s needs. Many times the advice a banker gives is far more important than the product or service they sell.

If you can’t clearly articulate why other companies or customers should do business with you and how you’ll effectively compete in your chosen target market segments, the chances of getting a loan are slim. Develop a business plan that has three different scenarios: best case, most likely case, and worst case. You want the banker to understand all three since possible repayment alternatives. Be sure to discuss these options with your banker before the loan is made. Secondary repayment resources could include the pledging of business or personal collateral as well as the addition of a loan guarantee by the firm’s owners, suppliers or customers.

3. Think like a banker.

Understand the risks of operating in your industry. Have a plan to mitigate those risks and share it with your banker. Bankers are going to do a risk analysis anyway, so it’s important to help them. Most likely, you can provide a perspective that the banker hasn’t considered. It’s important for the banker to see that you recognize the risks of operating in your industry and that you have a plan for dealing with them.

4. Develop at least two ways to repay the loan.

Bankers look for primary and secondary loan repayment sources. For the sake of your business, you should, too. You are in the best position to determine possible repayment alternatives. Be sure to discuss these options with your banker before the loan is made. Secondary repayment resources could include the pledging of business or personal collateral as well as the addition of a loan guarantee by the firm’s owners, suppliers or customers.

The more certainty that the banker has that the loan will be paid “as agreed,” the more likely it will be that you not only receive a favorable loan decision, but also the best interest rate. Smart business owners understand that now is the time to think about alternative repayment sources, not when their business gets into trouble.

5. Don’t ask for loans that should be funded with equity injections.

Bankers aren’t paid to take equity risks; they get paid to make loans that will be repaid on time.

The amount of equity you need to operate your business will depend on several factors. One of the most important relates to your industry and what role your business plays in that industry. The amount of equity required for a manufacturer will be different from that required to run a wholesale distribution business. Retailers in the same industry will also have different equity requirements.

The stability of the industry is also an important factor.
The Los Angeles Business Journal is proud to announce the 2015 Asian Business Awards. We are seeking businesses within the Asian American business community who are setting the example for excellence throughout Greater Los Angeles. We invite you to nominate a client, a vendor, or even your own organization for consideration of this award.

Nomination Deadline: Wednesday, May 20, 2015

Categories include:
- Small Public Company
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- Small Private Company
- Large Private Company
- Nonprofit
- Outstanding Asian American Executive
- Lifetime Achievement Award

To nominate, please visit www.labusinessjournal.com/bizevents, or contact Jennifer Hakim at 323.549.5225 ext. 213 or jhakim@socalbusinessjournals.com.
Seven Steps to Spring Clean Your Finances

This season for spring cleaning is in full swing and while many may be focused on organizing closets or scrubbing floors, the American Bankers Association encourages consumers to clean up their finances, as well.

“Spring is a great time to take a hard look at your finances and identify ways to manage them more efficiently,” said Frank Keating, ABA president and CEO. “By getting your financial house in order, you can set the stage for a stronger, more successful future.”

ABA offers the following tips to help consumers cut back on financial clutter this spring:

• Evaluate and pay down debt. Take a look at how much you owe and what you are paying in interest. If there are better rates available now, consider requesting a lower credit card interest rate or refinancing your mortgage. Begin paying off existing debt, whether that’s by chipping away at loans with the highest interest rates or eliminating smaller debt first.

• Review your budget. A lot can change in a year. If you’ve been promoted, had a child, or become a single income household, be sure to update your budget. Determine what expenses demand the most money and identify areas where you can realistically cut back. Develop a strategy for spending and saving and stick to it.

• Check your credit report. Every year, you are guaranteed one free credit report from each of the three bureaus. Take advantage of these free reports and check them for any possible errors. Mistakes can drag down your score and prevent you from getting a loan, or cause you to pay a higher interest rate.

• Set up automatic bill pay. By signing up for automatic bill pay, you’ll never have to worry about a missed payment impacting your credit score. You can set it so that money is withdrawn from your checking account on the same day each month.

• Consolidate your accounts. Managing several accounts can be challenging. If you have open accounts that you rarely use, consider closing them. It’s important to note that canceling accounts may come with a fee or impact your credit score. Other options include streamlining all your accounts under a single bank, or using a bill management service that allows you to view all of your financial accounts, bills, subscriptions and travel rewards in one place with a single password.

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• Sign up for e-statements and paperless billing. Converting to paperless billing will help keep your house, physical and financial, more clean and organized.

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Here’s to another 40 years together.
How to Make Your Company More Appealing to Banks

By John Hefner

Banks and institutions that lend money have a lot of knowledge about the success rate of small businesses. Bankers are often overly cautious in making loans to small businesses. For that very reason, it makes sense to study their approach, even though it may seem discouraging at first glance.

**The Banker’s Ideal**

Bankers look for an ideal loan applicant, who typically meets these requirements:

- For an existing business, a cash flow sufficient to make the loan payments.
- For a new business, an owner who has a track record of profitability owning and operating the same sort of business.
- An owner with a sound, well-thought-out business.
- An owner with financial reserves and personal collateral sufficient to solve the unexpected problems and fluctuations that affect all businesses.

Why does such a person need a loan, you ask? He or she probably doesn’t, which, of course, is the point. People who lend money are most comfortable with people so close to their ideal loan candidate that they don’t need to borrow. However, to stay in business themselves, banks and other lenders must lend the money deposited with them. To do this, they must lend to at least some people whose credit worthiness is less than perfect.

**Measuring Up to the Banker’s Ideal**

Who are these ordinary mortals who slip through bankers’ fine screens of approval? And more to the point, how can you qualify as one of them? Your job is to show how your situation is similar to the banker’s ideal.

A good bet is the person who has worked for, or preferably managed, a successful business in the same field as the proposed new business. For example, if you have profitably run a clothing store for an absentee owner for a year or two, a lender may believe you are ready to do it on your own. All you need is a good location, a sound business plan and a little capital. Then, watch out Neiman-Marcus!

Further away from a lender’s ideal is the person who has sound experience managing one type of business, but proposes to start one in a different field. Let’s say you ran the most profitable hot dog stand in the Squaw Valley ski resort and now you want to market computer software in the Silicon Valley of California. In your favor is your experience running a successful business. On the negative side is the fact that computer software marketing has no relationship to hot dog selling. In this situation, you might be able to get a loan if you hire people who make up for your lack of experience. At the very least, you would need someone with a strong software marketing background, as well as a person with experience managing retail sales and service businesses. Naturally, both of those people are most desirable if they have many years of successful experience in the software marketing business, preferably in California.

**Use the Banker’s Ideal**

It’s helpful to use the bankers’ model in your decision-making process. Use a skeptical attitude as a counterweight to your optimism to get a balanced view of your prospects. What is it that makes you think you will be one of the minority of small-business people who will succeed? If you don’t have some specific answers, you are in trouble. Most new businesses fail, and the large majority of survivors do not genuinely prosper.

Many people start their own business because they can’t stand working for others. They don’t have a choice. They must either be boss or bum. They are more than willing to trade security for the chance to call the shots. They meet a good chunk of their goals when they leave their paycheck behind. This is fine as far as it goes, but in my experience, the more successful small-business people have other goals as well.

A small distributor we know has a well-thought-out business and a sound business plan for the future. Still, he believes that his own personal commitment is the most important thing he has going for him. He puts it this way: “I break my tail to live up to the commitments I make to my customers. If a supplier doesn’t perform for me, I’ll still do everything I can to keep my promise to my customers even if it costs me money.” This sort of personal commitment enables this successful business owner to make short-term adjustments to meet his long-range goals. And while it would be an exaggeration to say he pays this price gladly, he does pay it.

John Hefner is an independent business consultant based in Studio City.
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When and How to Sell Your Business

By SCOTT ROUSE

When a wave of consolidation hits an industry - a classic example is funeral homes, but many others are developing — an independent owner is forced into some choices. You can sell, and join the trend, or you can maintain your independence — and face stiffer competition than ever before.

The consolidators have access to more plentiful and more inexpensive capital, and they benefit from economies of scale. They can drive prices down when they choose to seek market share. It can be advantageous to be the first in your region to sell to the consolidator. You might get a higher price, and you might be chosen as a “flagship” for the area. Other acquisitions made in the region would then come under your management — and you might enjoy acquiring other businesses with someone else’s money. If you delay, your profits might be reduced by the impact of new competition, and you would have a less robust business to sell.

The best advice is to be prepared. A company making several acquisitions in an industry is comparing managements. Many well-run and highly profitable businesses function perfectly well without a business plan, but professional managers in public companies have such plans, and today you can acquire software to help you accomplish the task for about $100. Many well-run and highly profitable businesses function perfectly well without a business plan, but professional managers in public companies have such plans, and today you can acquire software to help you accomplish the task for about $100.

Documentation, like a business plan, allows a prospective buyer to evaluate a business more readily. The buyer’s focus is on expected profits, and a business plan is where you tabulate these projections. It means less disruption of your business if much of the evaluation of your business can be accomplished off-site. And disruption of your business can unsettle employees and customers, and it can threaten its value.

Financial statements are central to any discussion of selling a business. They become more important than ever, and professional presentation will impress the buyer and allow the transaction to proceed quickly. Audited or certified statements would allow you to make the best possible impression, and might allow you to demand more in cash at the closing (because the audited statements reduce the buyer’s risks).

Mistakes Sellers Make

Overconfidence is the first mistake commonly made. Buyers know the subtleties of mergers and acquisitions; for sellers it is usually all new. It is not an even match. So sellers should consult lawyers and accountants early to understand the tax and other issues that recur. You can sell the assets of your business, or you can sell the shares of your corporation, and the tax consequences are quite different. Buyers typically prefer to buy assets, and sellers typically prefer to sell shares. You must consult professionals to understand, in advance, how much money is at stake. You need to know the tax treatment of payments for a consulting agreement, or a non-compete agreement. The buyer is likely to suggest that part of the price be attributed to such agreements, but the taxes on these payments are higher than the capital gains rates that usually apply to the sale of the business.

Timidity can be another problem. Sellers don’t ask buyers enough questions, especially about the financing. Buyers often want to borrow part of the purchase price from someone — usually a bank, or the seller, or both. Notes owed to sellers are almost always subordinated to bank debt, and the unsuspecting seller does not discover this until final papers are being reviewed. A seller who expects to be owed money by the buyer after the closing — for notes, payments under a non-compete agreement, or a consulting agreement — should understand the buyer’s proposed balance sheet for the day after the closing. Few sellers ask enough questions about the planned financing.

Negotiations

If you want to sell your business, you strive to get an offer in writing. It is a key milestone towards the target. But too early it is a problem. An offer in writing routinely asks the seller to accept within about two weeks, and it routinely asks the seller to stop talking to other buyers. A seller should not accept an offer before developing a sense of what other buyers might be willing to pay — and this takes time. Take time to understand an offer thoroughly — is the buyer going to assume the debts in your business, or expecting you to pay them off out of the price?

The best weapon of a seller in negotiations is a good, credible alternative, another buyer or a decision to keep the business. The smartest sellers keep the buyer guessing — guessing about how interested they are in making the deal, and at what price. They know that getting too friendly too early (this is tempting, and a natural instinct in these circumstances) can be costly — buyers won’t stretch to the top end of their price range if the deal appears “in the bag.”

Negotiations for the sale of a business extend beyond one day, and they often last several weeks. After a handshake on the price, the buyer investigates the business, the due diligence. The buyer can often point to some new information and say this is a reason to decrease the price. The seller is now weaker than the buyer — the buyer can walk away without stigma; the seller, on the other hand, may be considered “soiled goods” if the deal is not completed. This underscores the importance of doing your homework about the buyer, and talking to others that have dealt with them, before you shake hands on a deal.

The stakes are high, financially and emotionally. The best price usually comes when the seller agrees to run the business for the new owner for a few years. Then price is not the seller’s only concern. The working environment could cause extraordinary stress, and exact a price of its own.

Scott Rouse is a freelance writer and merger/acquisition specialist.
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