

# BUSINESS LOAN PROGRAM

## CREDIT MEMORANDUM

CITY OF LONG BEACH  
ECONOMIC AND PROPERTY DEVELOPMENT DEPARTMENT  
333 W. OCEAN BOULEVARD, 3<sup>RD</sup> FLOOR  
LONG BEACH, CA 90802

SEPTEMBER 27, 2016

**LOAN OFFICERS:** Andria Martinez & Diana Sasser - NDC

**BORROWER:** **Wide Eyes Open Palms Inc.**  
416 Cherry Ave, Long Beach, CA 90802  
(Council District 2)

**BUSINESS:** Coffee Shop

**OWNERSHIP:** The business is an S Corporation, owned 50% by Katherine McIver and 50% by Angie Evans

**REQUEST:** \$25,000 Revolving Loan

**FUNDING SOURCE:** EDA funds are proposed subject to availability.

**TERM & INTEREST:** A 10-year, fully amortized loan with nine (9) months of interest only payments followed by monthly principal and interest payments of \$265.16. Interest rate will be fixed at 5.00%, which is the current WSJ prime rate plus 1.5%. Fees total 2% of the loan amount (\$500).

**PURPOSE:** To provide funds for working capital and furniture, fixtures & equipment.

**PUBLIC BENEFIT:** Job creation. At least one full-time employees will be hired within 24 months.

### SOURCES AND USES OF FUNDS:

<b>Sources:</b>					
	<b>City Loan</b>	<b>Jewish Free Loan Assoc</b>	<b>IMHOFF Family Trust</b>	<b>Equity/Family Funds</b>	<b>Total Project</b>
	\$25,000	\$15,000	\$30,000	\$70,500	\$140,500
<b>Uses:</b>					
Leasehold Improvements	\$0	\$0	\$30,000	\$51,000	\$81,000
Contingency	\$0	\$0	\$0	\$6,000	\$6,000
Furniture, Fixtures & Equipment	\$24,500	\$10,500	\$0	\$0	\$35,000
Soft Costs and Working Capital	\$0	\$4,500	\$0	\$13,500	\$18,000
Loan Fees	\$500	\$0	\$0	\$0	\$500
<b>Total:</b>	<b>\$25,000</b>	<b>\$15,000</b>	<b>\$30,000</b>	<b>\$70,500</b>	<b>\$140,500</b>

**SOURCES OF  
REPAYMENT:** (1) Business Cash Flow  
(2) Liquidation of Assets

**COLLATERAL:**

First position UCC Filing on all equipment purchased with the loan proceeds and a first position UCC-1 Broadform Filing on all other business assets.

**CREDIT REPORTS:****GUARANTOR(S)  
IF APPLICABLE:**

An unlimited personal guarantee of Katherine McIver.

An unlimited personal guarantee of Angie Evans.

**SITE DESCRIPTION:**

**Wide Eyes Open Palms** is opening its first permanent location at 416 Cherry Avenue, Long Beach near the Retro Row area on 4<sup>th</sup> Street. The business is currently a mobile coffee shop at the local farmers markets, which the owners plan to continue upon opening the new location. The proposed location is adjacent to the high traffic walking and retail district of Retro Row, LGBTQ Center of Long Beach, the historic Art Theatre and 2 blocks from the owners' home. The owners have watched this neighborhood develop and grow over the last 10 years into a thriving arts and culture destination for people in Long Beach, Los Angeles and Orange County. The owners will be building out the space from basically a white box, with only electrical and very basic plumbing in place at this time. The cafe space itself is just about 600 square feet with high ceilings giving it a spacious feel. The indoor seating will be limited, but the owners are hopeful about the possibility of utilizing the wide sidewalk in front of the space for additional seating and exploring opportunities for a parklet. There will be 1 ADA accessible bathroom, a small kitchen/prep space and a front of house coffee counter.

**BACKGROUND  
STATEMENT:**

Wide Eyes Open Palms (We-Op) was started in November 2013 as a farmers market based coffee shop and pop-up cafe. It travels around to the various Long Beach farmers markets to serve coffee and pastries. Most of the income comes from the Sunday Farmers Market, service coffee and fresh made food to order. It has also catered and collaborated with local businesses, including Rose Park Roasters and Sura Korean BBQ and Tofu House to help market the business. It currently offers specialty coffee (single cup/small batch pour over coffee, cold brew, cold brew concentrate cold brew lattes), tea and tisane, food and pastries including seasonal breakfast/brunch items. The owners also offer events, classes and catering. Angie's most popular class is Introduction to Hand Brewing, where she walks her participants step-by-step through five of the most popular coffee brewing methods and gives them hands on experience on how to do it and the different flavor profiles each method

produces. Kat teaches classes about how to shop and cook from the farmers market. Each session is tailored to the needs and dietary preferences (vegan, gluten-free, paleo, refined sugar free, etc.) of the client, but includes a basic introduction to knife skills, menu planning and nutrition.

The City Loan will be in conjunction with a Jewish Free Loan Association in the amount of \$15,000 and Imhoff Family Trust in the amount of \$30,000 to purchase equipment, complete leasehold improvements, including contingency, soft costs and working capital.

**BUSINESS  
DEVELOPMENT:**

When **Wide Eyes Open Palms (We-Op)** has a brick and mortar space, it will be possible to set up the electrical and water supply needs that are required to serve espresso drinks, which is currently not feasible in the pop-up model. Angie, has 8 years of experience behind an espresso machine and is a level 1 certified Barista by the Specialty Coffee Association of America. It will serve espressos, macchiatos, cappuccinos, lattes and all of the specialty lattes it currently serves as cold brew lattes, as hot drinks. It will also add batch brew coffee, which is the quick and affordable solution for folks on the go. It plans to brew larger batches of coffee through Fetco machines that are much less involved than the manual brew processes it currently offers, but still yield a delicious cup. Rent on the new location does not start until October 2017 but there was an upfront rent payment of \$4,800 due and paid on July 1, 2016. It is a five (5) year lease with one five (5) year option to extend the lease, for a total of 10 years.

**PERSONAL FINANCIAL STATEMENTS:****REDACTED****ANNUAL INCOME & PERSONAL BUDGET:****REDACTED****PROJECTED FINANCIAL INFORMATION:****REDACTED**

Based upon conversations with the owner and the business plan proforma, sales for 2016 are projected at [REDACTED] with only the end of the year in the new place. Sales for 2017 and 2018 are also projected, with full years in the new permanent location. These numbers are based off the fact that gross sales are \$ [REDACTED] per week at the farmers markets, with only 10 hours of sales. The Sunday market, where most of the revenue comes from, will stay open even after the new place is open for business. Coffee and tea will be sold for about \$4.50 each and cookies and pastries will start at \$2 each. The ability to sell espresso drinks will increase its capacity, as it will speed up the time it takes to process the coffee (pour over coffees take longer). The target segment is actually quite varied. Of course there is a segment of its customers who are the Whole Foods shoppers, artists, hippies, hipsters, musicians and the LGBT community. But it also has regulars from every walk of life, every race, class and gender. The target audience is Long Beach. It wants to continue to bring in that wide variety of people who all live in our city and give them a place to be friends. It also specifically target its marketing towards women, they tend to have a palette that appreciates the more subtle, light roasted coffees it serves and because the owners are feminists who believe that having a woman friend environment in a male dominated industry is important. There was also a recent study that came out from the Specialty Coffee Association of America that said women are 20% more likely to be customers of specialty coffee. The owners have found that to be reflected in its clientele.

**CASH FLOW ANALYSIS & COVERAGE RATIOS:****REDACTED****HISTORICAL FINANCIAL INFORMATION:****REDACTED****CASH FLOW ANALYSIS & COVERAGE RATIOS:****REDACTED****STRENGTHS:**

- The owners, Kat McIver and Angie Evans, have a combined over 15 years of experience in the food, beverage and service industry. They successfully launched the coffee pop-up and made it profitable; and
- Sales have increased 43% from 2014 to 2015 and an additional 56% in 2016 so far; and
- Adjusted cash flow for the interim reporting period is strong at 2.45 (08/31/16 based on internal financials); and
- It's projected debt to equity ratio is very low for the company, at 0.66:1, as We-Op has very little debt; and
- The City of Long Beach will have a first lien on machinery and equipment.

**WEAKNESSES:**

- Adjusted cash flow for the reporting periods is low, however this is almost a start-up, with some existing cash flow because of the existing mobile coffee shop [REDACTED]
- Risk associated with a permanent location. The owners understand that adding a permanent location can be risky but are starting small. In addition, they will continue their farmer's market mobile coffee shop, as it is a marketing tool and will continue to bring in revenue to cover debt service.

*This credit memorandum was prepared by:*

*D. Sasser*

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*Diana Sasser, Grow America Fund Loan Officer*

*Reviewed by:*



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*Seyed Jalali, Economic Development Officer*

*Approved for Loan Committee:*



*Kathryn McDermott, Interim Director of Economic and Property Development*