

# REVOLVING LOAN PROGRAM

## CREDIT MEMORANDUM CITY OF LONG BEACH ECONOMIC DEVELOPMENT DEPARTMENT 333 W. OCEAN BLVD., 3<sup>RD</sup> FL. LONG BEACH, CA 90802

NOVEMBER 28, 2017 – 3:00 PM

### LOAN MODIFICATION – CHANGE OF GUARANTOR

**LOAN OFFICER:** Andria Martinez

**BORROWER:** **Restauration LB LLC dba Restauration**  
2708 E. 4<sup>th</sup> Street, Long Beach, CA 90814 (**Council District 2**)

**BUSINESS:** Eat-in restaurant, specializing in lunch, dinner and weekend leisure dining.

**OWNERSHIP:** The business is a Limited Liability Corporation, owned 50% by Dana Tanner (Robertson) and 50% by Philip Pretty.

**ORIGINAL LOAN:** \$85,000 Revolving Loan approved on 7/1/2014 - (Balance as of 10/31/2017 \$48,024.50)

**FUNDING SOURCE:** EDA funds

**TERM & INTEREST:** A 7-year fully amortized loan with monthly principal and interest payments of approximately \$1,191.42. Interest rate will be fixed at 4.75%, which is 1.5% above the current prime rate. Loan fee is 2% (\$1,700).

**PURPOSE:** To provide funds to purchase patio furniture, fixtures and equipment, and working capital.

**LOAN BENEFIT:** Job Creation: At least 10 full-time equivalent employees will be hired within the next 2 years. A total of 16 jobs created to date.

#### SOURCES AND USES OF FUNDS:

Sources	City Loan	Equity	Total
	\$85,000	\$60,000	\$145,000
Uses			
Working Capital	\$15,000	\$2,000	\$17,000
FF&E	\$70,000	\$6,000	\$76,000
Tenant Improvement		\$20,000	\$20,000
Inventory			
Business Acquisition		\$32,000	\$32,000
<b>Total</b>	<b>\$85,000</b>	<b>\$60,000</b>	<b>\$145,000</b>

**SOURCES OF REPAYMENT:** (1) Business cash flow  
(2) Liquidation of assets  
(3) Recourse to guarantors

**COLLATERAL:** UCC-1 Broadform Filing on all business assets

**GUARANTOR (S) IF APPLICABLE:** An unlimited personal guarantee of Dana Tanner (Robertson).  
An unlimited personal guarantee of Philip Pretty.

**SUBORDINATION:** None. All equity investments are classified as a paid in capital.

**CREDIT REPORT: (Redacted)**

**SITE DESCRIPTION:** **Restauration** is located at 2708 E. 4<sup>th</sup> Street, Long Beach.

**BACKGROUND:** Restauration is an eat-in restaurant, specializing in lunch, dinner and weekend leisure dining in the Long Beach neighborhood of Belmont Heights/Alamitos Beach. Opened in the third quarter of 2014, Restauration is situated in a destination neighborhood with boutique shops, services and local restaurants with an immense sense of local community. It is also one of Long Beach's most popular social hubs.

In 2014, an existing restaurant was purchased and rebranded by Rob & Dana Robertson who had a combined 30+ years of hospitality industry experience including purchasing, operations, menu design, recipe development, marketing, HR and even fixing the kitchen sink. They invested \$60,000 of their own capital and received an \$85,000 EDA loan from the City as described in the Sources and Uses above.

Rob and Dana initiated divorce proceedings in late 2016 and the restaurant ownership structure has subsequently been reorganized. A Surrender and Indemnity Agreement between Robert Robertson and Restauration LB LLC was executed on November 21, 2016 whereby Mr. Robertson surrendered his 50% interest in the company based on a number of terms and conditions delineated in the agreement. Mr. Robertson has since been removed from all bank accounts, licenses, permits, and the lease agreement. The last step is to remove him as a personal guarantor on the City of Long Beach EDA loan.

On November 21, 2016, an Investor Agreement and a new Operating Agreement for the company was executed whereby Philip Pretty invested the sum of \$90,000 in return for 50% ownership interest in the company. Philip Pretty is the new chef partner of Restauration who is responsible for all menu development, kitchen staff, food inventory and pricing. Mr. Pretty is professionally trained as a chef and has been working in the industry for more than a decade. Dana is responsible for all front of the house operations and staffing, beverage inventory, marketing, payroll and administrative operations.

Sales have remained very steady [REDACTED] since the first full year of operations in 2015. The company currently employs 23 FTE's and 2 part time staff.

**PERSONAL FINANCIAL  
STATEMENTS:  
(Redacted)**

**ANNUAL INCOME & PERSONAL BUDGETS:  
(Redacted)**

**HISTORICAL & PROJECTED FINANCIAL INFORMATION:  
(Redacted)**

*Financial projections have been prepared and based closely on historical trends and information furnished by the borrower.*

**CASH FLOW ANALYSIS & COVERAGE RATIOS:  
(Redacted)**

**STRENGTHS:**

- The business has been operating for 3 years and has a very positive reputation and excellent reviews with many loyal customers.
- The current owners have significant culinary education and more than 25 years of combined experience in the field.
- The business revenues have remained consistent over the past 2 years [REDACTED]
- Existing cash flow for the interim period in Q3 2017 is strong at [REDACTED]
- Adjusted cash flow for the projected periods (2017 and 2018) is strong at [REDACTED] based on existing revenues and growth trends.
- The company has a positive repayment history on the existing EDA loan, despite some late payments, and has reduced the loan balance by more than \$35,000.

**WEAKNESSES:**

- Existing cash flow for the historical period in 2015 and 2016 was insufficient to cover the debt service due to net losses being reported in both years. However, they have not missed any payments. In 2016, the overhead costs were not being managed properly during the ownership transition and there was some costly staff turnover. In addition, there were some one-time expenses related to repairs & maintenance and debt pay offs related to the change in ownership. In 2017, these issues have been corrected and many costs have been reduced and/or eliminated as evidenced by an improvement in the margins for Q3 2017.
  - Despite pledging all business assets, there is a collateral shortfall of 0.55 to 1 due to the heavy discounts (20% of book value) taken on the fixed assets of the company based on used restaurant equipment not retaining much value in a liquidation scenario.
- [REDACTED]

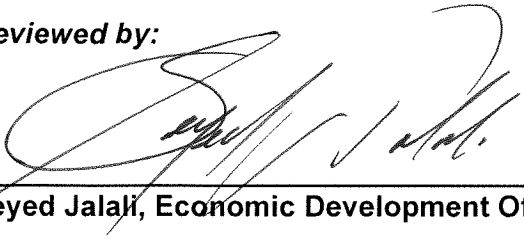
*This credit memorandum was prepared by:*

*A. Martinez*

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Andria Martinez, Grow America Fund Loan Officer

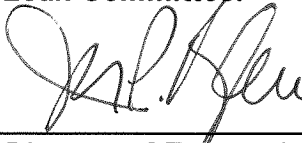
**Reviewed by:**



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**Seyed Jalali, Economic Development Officer**

**Approved for Loan Committee:**

 11/16/17

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**John Keisler, Director of Economic Development**