

CAPITOL CREDIT

November Program

Date: Tuesday, November 11, 2008
Board Meeting: 4:30 - 5:30 p.m.
Networking: 5:30 p.m.
Dinner: 6 p.m.
Location: **Sizzler Restaurant**
1151 Lancaster Dr. NE, Salem
Cost: **\$20 (Per person)**
\$30 (non-CFDD member)

Menu

Choice of Flat Iron Steak; Hibachi Chicken (Offered with your choice of baked potato, mashed potatoes, french fries, or rice, and a onetime salad bar. Please indicate choice on reservation form.); or All You Can Eat Salad Bar. Beverage choices include coffee, tea, or soft drink.

Directions to the monthly meeting

North of Lancaster Mall on the west side of Lancaster.

Meeting Program

“Special Terms—When Can You Offer Them?”

Speaker

Brenda Terreault, Collection Services Manager, NACM Oregon

Brenda graduated from the University of Maine with a degree in broadcast journalism, and received her law degree from Rutgers University School of Law in Camden, New Jersey. Upon graduation from law school, she clerked for Justices Harry C. Martin and I. Beverly Lake, Jr. of the North Carolina Supreme Court.

Brenda is a member of both the Oregon and Virginia State Bar Associations and has more than 15 years’ experience as an attorney, bankruptcy specialist, investigator and operations manager in governmental, corporate and law firm settings. Immediately prior to joining NACM Oregon, she worked with a bankruptcy trustee and Federal equity receiver on complex cases, several of which involved Federal regulatory agency actions.

November 2008

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Special Incentive/ Donation

For the remainder of 2008, NACM Oregon will make a donation of \$100 for each membership referral which results in a new NACM Oregon membership. This special incentive will be paid to the scholarship fund of the CFDD



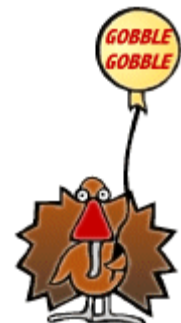
Chapter generating the referral. This will be in addition to the regular membership incentive paid to the individual making the referral.

To participate in this program, the referring individual should provide information to the designated officer of the CFDD Chapter, who will then provide the contact information to Kathy Linscott for follow-up.

If the referred company joins NACM Oregon, payment will be forwarded to the Chapter Treasurer.

CFDD Member Achievements

If you know of a CFDD member who has had a notable achievement, please let us know so we can recognize their achievement.



Presidents Message

Dear Members:

We missed all who could not attend last month's meeting on "Liens, UCC, and Letters of Credit" presented by Michael Knapp. This was great information on how we can better secure our companies investment in its customers.

This month's meeting will be a dinner meeting on "Special Terms—When Can You Offer Them?" presented by Brenda Terreault with NACM Oregon.

As we are going into the holidays, be sure to put Friday December 12 on your calendar for our Holiday Dinner. We are planning to have an Oral and Dessert Auction and will be donating half of the proceeds to the Food Bank. If you cannot attend but wish to provide an auction item, please contact Donna, Air BP Aviation Services, at dcherryholmes@epic-aviation.com to make arrangements. More information to come so be sure to watch for it.

Hope to see all of you at the November meeting and a wonderful Thanksgiving to all.

Sincerely,
Julie Rees, CBA, President
Salem/Albany CFDD

Membership News

Please contact Gina McKenzie, Membership Chairman, for membership information or if you have a referral at gmckenzie@epic-aviation.com, (T) 1.800.616.2030 ext. 536, (F) 503.566.2336.

November Birthday

None for November



Share Your Ideas

If you have some helpful credit management hints or methods that work, please share them with other CFDD members by submitting them for inclusion in your monthly *Capitol Credit* newsletter. Email to katham@saif.com.

Salem-Albany
"Teamwork—Working Together"



Chapter Chatter

Eugene/Springfield CFDD

Downtown Athletic Club Conference Center
999 Willamette St., Eugene

Wednesday, November 12, 2008

Networking: 5:30 p.m.

Dinner: 6 p.m.

Program: "TBA"

Presenter: TBA

For reservations: Cindy DeHollander, CBF, MLS, Inc.,
541.431.3037 or email to cindyd@mlsinc.com.

Portland CFDD

Red Lion Convention Center
1021 NE Grand Ave., 6th Floor, Portland

Thursday, November 13, 2008

Networking: 5:30-6 p.m.

Dinner: 6 p.m.

Program: "How to Enforce Judgments"

Presenter: Albert Schlotfeldt, Attorney, Duggan, Schlotfeldt, and Welch

For reservations: Nick Ropp, CCE, BMC West, 503.825.4550
or email nropp@bmcwest.com

Successful Professionals

Indicators of Trouble—When Does a Company Go From Having "Minor Financial Problems" To a High Risk Status?

1. Willingness to purchase product at a high price or sell at a low rate

What difference does it make if a financially poor company or a scam artist pays well above the market? They may never intend to pay you back. Also, a financially strapped company or a scam may sell at a low price to raise quick capital to pay off debts or to flee town.

2. Continued heavy usage of bank lines of credit without gradual reduction

This is a very, very tough indicator to read. Many times a bank credit facility is used for the purchase of product and normal financing of business, however, it could also indicate a heavy dependency on bank financing due to lack of internal strength. Watch carefully for movement in credit lines to moderate levels from heavy usage.

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3. Sharp increase in buying with dozens of companies being contacted for product

This can be normal as some companies purchase heavily for the season, hire a new salesperson or a department for a new product has been added to the company. However some companies purchase very heavily from dozens of companies only to liquidate the product for cash and disappear. Keep alert for increased trade reference requests on a given customer and be aware this could be a dangerous sign.

4. Call from a company with whom you have not dealt with or had very little recent activity

This signal is becoming a critical indicator of trouble. Ask why is this company coming to me for product? How did they find out about my company? Once again the purchase can be totally justified and normal, as a company may need your product. It could also be that a company is calling dozens of companies throughout the country and looking to purchase product with no intent of paying. Check out new companies or infrequent buyers carefully.

5. Wide cancellation of orders or very inactive operations..

When you spot a once active company slowing down, question the downturn. Is this due to seasonal factors, industry sluggishness or is the company looking to cease operations? There are situations when a company simply realizes it is time to liquidate and closes its business and will not purchase any further. All past invoices are paid and inventory sold off. However, unfortunately some companies stop purchasing, pay off bank debt, and settle with creditors for a fractional percentage of the amount due.

6. Heavy inventory position with little movement

This can be very damaging to a company as holding inventory can be extremely costly with regard to financing and storage charges. The real key to this signal however is that it indicates a sluggish market with little movement, perhaps buying at very high prices with a sudden drop in the market. A company stuck with high-priced inventory may have to sell the product at a huge discount and this could result in heavy overall losses. A heavy use of the line of credit and lack of inventory movement due to a falling market or sluggish demand also prevents a company from purchasing additional product, as little room exists on the line of credit. To calculate how many times the inventory of a firm is sold and replaced during an accounting period, use the formula of cost of goods sold divided by average inventory. This ratio can also be applied to certain key product items to see how well each is moving.

7. Slowness in the collection of accounts receivable

This warning sign can indicate a company is selling weak accounts, which could cause a cash flow problem during the year or cause bad debt write-offs. A lack of incoming

capital on a steady basis could cause a company financial problems or at the worst, the loss of the business itself. Some companies go out of business due to failure to collect amounts due and due to heavy bad debt losses. Slow collections should direct that a more aggressive position be taken to collect outstanding monies. To find the average number of days it takes for a firm to collect its receivables, use the formula: gross receivables divided by net sales divided by 365. Please note: dividing net sales by 365 should be used when looking at a year-end financial statement. If quarterlies, or other interim statements are being used, substitute this number by the number of days in that particular accounting period. This should calculate how well a given company is collecting its receivables. For greater accuracy, substitute total credit sales for the total sales figure and an average accounts receivable figure.

8. Heavy bad debts and writing off large dollar amounts

Some companies in the food industry will take risks and extend substantial credit to marginal or financially poor accounts. This can turn out to be fatal to the creditors business as the loss of substantial money in bad debt losses can, in turn, cause the creditor itself to be in financial distress. Make a note of the largest creditors on a given bankruptcy list and determine if the dollar loss will affect that particular creditor. Also make a listing of creditors that appear often on various bankruptcies. Constant bad debt losses signal a lack of effective credit controls or could signal an urgent need for the company to rid itself of inventory.

9. Change in longtime management

How many times have we seen, no matter what industry is involved, certain companies experience financial difficulty shortly after a change of management? Some companies have been in business for many years and in a short period of time the financial condition changes. This is especially true where long hours, dedication, ethics, and knowledge make a company successful. New management taking over a business may not have the same business knowledge or the dedication of the previous management and as a result a business can begin to falter. This red flag obviously does not apply to all businesses. Some continue to progress or remain the same under new management, while others benefit from new direction and leadership.

10. Slowness with trade and slowness with banks

This may seem obvious, but how many times have creditors with slow-paying accounts stated certain accounts always paid that way. Generally chronic slow-paying accounts eventually experience financial difficulty at some point in time. Watch carefully for sudden changes in the payment habits of accounts and for changes in bank loan payments. Do not ignore this obvious but critical warning.

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11. Out of compliance with financial or other covenants of a lending agreement

This is such a critical red flag and it is a question that should be asked every time a bank reference is conducted. The reason this is such a critical question is that if a borrower falls out of compliance, the bank has the right to cease lending to the borrower, foreclose on collateral and demand payment of the loan in full. These actions are usually not used immediately as such actions could cause the borrower to file for immediate bankruptcy. A bank generally works with the borrower and will develop a plan of action allowing the borrower to come back into compliance.

12. Increased heavy buying of product from a friend

The supplier, considered a friend, just got a call from a buddy to supply substantial product on credit terms. While this action could be totally justified, it could also mean the buddy cannot get product elsewhere and is now leaning on its friends, suppliers it knows will sell it. Check out friends just as carefully as other companies.

13. Leveraged buyouts - heavy interest charges and sharp depletion in equity

The 1980s saw the birth of the leveraged buyout, or LBO. Financially strong companies undergoing an LBO suddenly became financially weak overnight. By definition, an LBO is the takeover of a company, using borrowed funds. Most often, the target company's assets serve as security for the loans taken out by the acquiring firm, which repays the loans out of cash flow of the acquired company. LBOs however cause many problems as the staggering debt incurred causes heavy interest payments in turn contributing to tight cash flow. While many companies have continued on under an LBO structure, there are many others that ultimately have filed for bankruptcy.

14. Loss of major accounts

Many companies go out of business or experience financial difficulties due to the loss of a major account or accounts. Entities ideally should not be too heavily dependent on one company or only a few companies for revenues.

15. Supply shortage of certain item(s) needed to support heavy sales volume

Be especially wary of entities that experience large seasonal sales peaks. One year they are flooded with product, the next year supply is short. Some companies experience financial problems and unprofitability due to lack of availability of certain items or in the off-season for those items. Certain companies depend very heavily on one or two items and when the supply is short, those companies could experience a sharp downturn in business thereby impacting their financial condition.

16. Strong reluctance to supply financial statement data when such data was willingly supplied in the past

This could be just a change in company policy but it could also indicate an unwillingness to supply a financial statement due to poor operating results. Ask the company why the statement will not be supplied and probe into the references supplied even more carefully.

17. Frequently changing banks

While at times this could indicate shopping for a better loan package or lower interest rate, it could also reveal unsatisfactory experience at the prior bank(s). Some companies do not want suppliers and potential suppliers to know of returned checks or other unsatisfactory experience and rather than let suppliers find out they will clear the slate and start off with a new bank. If you realize a recent bank change, always call the former bank(s) to see if all prior experience was satisfactory.

18. Nonrenewal of a company's line of credit by the present financial institution

At times a bank will not renew a company's line of credit due to an overall policy but more often than not the non-renewal of a line of credit is due to unsatisfactory operating results on the part of the subject company. Once again, question the present or former bank as to why the line of credit was not renewed.

19. Sharp reduction in checking account balances and money market accounts

This often indicates an outflow of cash from the entity and the possible weakening of its financial condition. It could also indicate a heavy buying surge or pay down of credit facilities but it could also be that money is leaving due to heavy demand on the account or on occasion a possible fraud situation where the funds are being placed in a personal account. A sharp reduction could also signal pay down of secured debt to eliminate personal risk.

20. Unprofitable net results

Any company can reflect a loss at a given time, but continued and heavy losses will eventually weaken a company and will lead to insolvency. When you learn of a loss find out its extent and act quickly to reduce credit exposure.

21. Returned checks

This is one of the most revealing signs. Unfortunately it is often ignored. It totally indicates lack of money and sometimes lack of a bank's faith in the company when the banker will not back the checks or provide financing to cover the returns. The best course of action upon receipt of a returned check is to demand the funds be replaced by wired funds.

Program Registration

(Please reserve by 11 a.m, Thursday, November 6, 2008.)

NAME _____

NAME _____

FIRM _____

Menu: Flat Iron Steak (Cooked): _____ Hibachi Chicken All You Can Eat Salad Bar
 Baked Potato Mashed Potatoes Fries Rice

COST: \$20, per person (CFDD members); \$30, per person (non-CFDD members)

Check payable to "Salem-Albany CFDD" enclosed **Bill on NACM statement**

Pay for guests in advance, at the door, or by billing to your company.

Please return to: Theresa Quillard, Air BP Aviation Services, PO Box 12249, Salem, OR 97309-0249

Phone: 503-362-3633 x539 **Fax:** 503-566-2339 **E-mail:** tqillard@airbpaviation.com

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