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TO: Community Economic Development Agency / City Administrator
FROM: Theo F. Oliphant, Office of Mayor Ronald V. Dellums
RE: Merritt Bakery & Restaurant Loan in the amount of \$150,000
DATE: April 14, 2010

RE: Report and Resolution Authorizing the Agency Administrator to provide a loan to McKinney Griff, Inc., dba Merritt Bakery & Restaurant ("Merritt Bakery") in the amount of \$150,000 to preserve the approximately 55 jobs maintained Merritt Bakery.

SUMMARY

The City Council is asked to approve a Resolution authorizing the City Administrator to enter into a Loan Agreement ("Loan Agreement") with McKinney Griff, Inc., dba Merritt Bakery and Restaurant for \$150,000. The draft resolution is attached.

In October 2009, the Agency extended a loan in the amount of \$162,000 to Merritt Bakery and commissioned Fare Resources, an independent business consulting firm to conduct a comprehensive operations and financial review of Merritt Bakery to "best facilitate the assessment and proposed expansion of Merritt Restaurant and Bakery in order to boost sales, efficiently pay back outstanding loans, retain jobs and regenerate the volume and success with which Merritt [previously] operated" at \$5 Million annual revenue. The Fare Resources report was issued in January 2010 and is attached hereto as **Exhibit B**. The Agency provided an additional \$46,000 of interim debt financing in March following the issuance of the report.

The Fare Resources report suggests up to \$800,000 of funding for (a) approximately \$400,000 to be "invested in façade and tenant improvements", and (b) \$400,000 to provide operating cashflow by repaying some existing debt and providing some working capital. See **Exhibit B, page 22 and 23**.

This report recommends that the Agency provide \$150,000 of additional funding to enable the continued operations of the current business and retention of the 55 employees by Merritt Bakery, and that Agency Staff and the Mayor's staff work with Merritt Bakery, its landlord and creditors to leverage the \$150,000 of new Agency funding.

FISCAL IMPACT

The proposed \$150,000 loan to Merritt Bakery would be funded from Agency Funds, and would not result in any direct adverse fiscal impact to the City's General Fund. It should be noted that Merritt Bakery reported sales taxes paid to the City of \$139,000 in 2008, and \$176,000 in 2007, respectively. Increasing the retail sales base is an important component of strengthening the City's general fund. The City Council adopted a new business recruitment policy that allows for qualifying businesses to obtain public subsidies based on creating at least 20 new jobs and sales tax generated. Similarly, this business would retain (though not create) approximately 55 jobs¹, and generate meaningful sales tax revenue.

BACKGROUND

Merritt Bakery is located at 203 East 18th Street, at 2nd Avenue in Oakland, California. The restaurant is widely viewed as a landmark, community asset with nearly 60 years of service to the City of Oakland and the Lake Merritt Community. According to the Fare Resources report, McKinney Griff, Inc. purchased the Merritt Bakery restaurant approximately 11 years ago, and grew sales 100% in the first 3 years with sales peaking at \$5 Million in 2001. At that time the business employed over 100 workers. **See Exhibit B, page 3.** Currently the restaurant has approximately 55 employees, and the restaurant has a dining room capacity of 170 guests.

Merritt Bakery experienced substantial disruption to their business during the construction and expansion of the Albertson's Supermarket (now operating as a Lucky grocery store). According to the Fare Resources Report, this construction lasted for two years, and dramatically reduced the parking spaces allotted to Merritt Bakery. Merritt Bakery filed a lawsuit against the landlord. The landlord and Merritt Bakery entered into a comprehensive settlement agreement that resolved the dispute and resulted in a long-term lease extension, and financial consideration.

KEY ISSUES AND IMPACTS

This City Council adopted a new business recruitment policy that allows for qualifying businesses to obtain public subsidies based on creating at least 20 new jobs and sales tax generated. Similarly, this business would retain (though not create) approximately 55 jobs, and generate meaningful sales tax revenue.

Business attraction and retention initiatives, as well as public subsidies to any development project, inherently benefit some businesses to the exclusion of others. Importantly, the critical considerations are whether important public objectives are furthered by the public subsidies. Here, enabling the company to continue to provide

¹ The Report states that there were 58 employees as of January 2010. Merritt Bakery's owners stated that the number of employees is now 55 as of March 2010.

gainful employment to 55 employees serves an important public interest. In particular, Fare Resources noted:

“Merritt offers strong benefits to the [local] economy and community, most notably:

- it’s an African American and female-owned business
- employs 55 employees, 90% of whom live within Oakland’s borders and come from 13 different ethnicities
- the restaurant is an Oakland institution and landmark with more than half a century of service to patrons.” **See Exhibit B, page 4.**

PROJECT DESCRIPTION

The Fare Resources Report suggests up to \$400,000 in public assistance to fund capital improvements to the restaurant. This report does not recommend that the Agency provide such capital improvements funding at this time. Rather, staff recommends that only funding to stabilize operations within the current restaurant footprint be provided. If Merritt Bakery is able to achieve self-sustaining operations with the reduced funding recommended by this report, then it may be advisable to revisit this issue later to determine if there is further public benefit sufficient to warrant investment in capital improvements.

SUSTAINABLE OPPORTUNITIES

Economic: This proposal will assist a well-known community institution in remaining open to serve the community, continue to employ 55 employees, and provide sales tax revenue to the City’s General Fund.

Environmental: No material environmental impacts.

Social Equity: Merritt Bakery provides working class, entry level jobs for dozens of persons and some managerial positions. Many of the employees have barriers to entry such as limited English proficiency, no educational attainment beyond high school, and/or previous incarceration.

DISABILITY AND SENIOR CITIZEN ACCESS

Our understanding is that Merritt Bakery is in compliance with all applicable State and Federal accessibility laws and regulations. The business has a substantial senior citizen clientele.

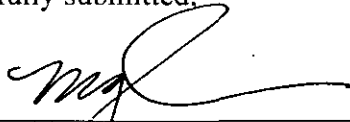
RECOMMENDATION AND RATIONALE

This report recommends that the Agency provide \$150,000 of additional funding to enable the continued operations of the current business and retention of the 55 employees by Merritt Bakery, and that Agency Staff and the Mayor's staff work with Merritt Bakery, its landlord and creditors to leverage this funding with other resources.

ACTION REQUESTED OF THE REDEVELOPMENT AGENCY AND THE COUNCIL

Adopt the Resolution authorizing the Agency Director to enter into a Loan Agreement without returning to City Council with McKinney Griff, Inc. dba Merritt Bakery, and to lend \$150,000 to the business pursuant to such Loan Agreements.

Respectfully submitted,



Marisol G. Lopez
Chief of Staff

Mayor Ronald V. Dellums

Prepared By:

Theo Oliphant

Office of the Mayor

Executive Director of Private Public Partnerships

January | 2010

Merritt Restaurant and Bakery Business Plan for Expansion – Building and Services

Prepared by: Gabriel Cole, dba, Fare Resources

The Business Plan contained in this document is a guide to improving the overall functionality of the Merritt Restaurant and Bakery through thoughtful assessment, creation and proposed implementation of procedures and systems.

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Introduction and Statement of Purpose

Fare Resources has been contracted by the City of Oakland (City) to draft a Business Plan to best facilitate the assessment and proposed expansion of Merritt Restaurant and Bakery (Merritt) in order to boost sales, efficiently pay back outstanding loans, retain jobs and regenerate the volume and success with which Merritt operated at in its peak year (2001), with year-ending revenue of \$5 million.

The strategy outlined in this plan will address the need to revamp operations, proactively reach a decision regarding a parking issue disrupting the restaurant and construct tenant improvements to provide an updated aesthetic to ensure Merritt's sustained growth and profitability.

History of Merritt and Legal Structure

Merritt is located at 203 East 18th Street at 2nd Avenue in Oakland, California and occupies 12,900 square feet of commercial restaurant and retail storefront. It has been a landmark restaurant in the Lake Merritt community since 1952. It offers patrons from every walk of life a quick service, diner and coffee concept as well as a full-service bakery specializing in wedding cakes. It has seen numerous owners, and for the last 11 years has been owned and operated by McKinney Griff, Inc., (Company). The Company purchased Merritt in December 1998 and grew sales 100% in their first three years of operations. Sales peaked at \$5 million in 2001. At that time the Merritt employed over 100 workers.

The Merritt seats 170 guests in the restaurant. It is open seven days a week and operates from 6:00 a.m. to 10:00 p.m. on Sunday through Thursday and 6:00 a.m. to 12:00 a.m. on Fridays and Saturdays. The restaurant is open 365 days a year.

The Merritt is owned by McKinney Griff, Inc., a California corporation created in 1998 for the purpose of purchasing and operating the Merritt. The principals of this corporation, Patricia Tyler Griffis and Charles Griffis, have 70 years of combined business management experience. Their extensive fast food and restaurant operational experience includes owning and operating numerous Popeye's Famous Fried Chicken, Chicken Charlie's and McDonald's.

They have tried to overcome prolonged obstruction to their establishment during a two-year span (October 2003 to August 2005) of construction caused by their neighbor, Albertson's grocer (currently Lucky's). The number of parking spaces allotted to Merritt

customers during that time was reduced from 265 to 20. The construction on Albertson's lasted 27 months, 18 months beyond the original project estimate.

Merritt offers strong benefits to the economy and community, most notably:

- It's an African American and female-owned business.
- Employs 58 employees, 90% whom live within Oakland's borders and come from 13 different ethnicities.
- The restaurant is an Oakland institution and landmark with more than half a decade of service to patrons.
- It is part of the Lake Merritt Master Plan, a city initiative beautifying the lake and improving access to residents.
- The principals have operated more than 30 other quick-service food establishments.

Ms. Griffis manages the strategic direction of the organization, while Mr. Griffis is responsible for daily operations, finance, business development and staff training. They employ a strong management team, which has more than 60 years of combined experience in the foodservice industry and is capable and committed to adapting and growing the business to the strong establishment it was in years past. Susan Sotello acts as General and Counter Manager; Joe Barham is the Restaurant Manager; and Amanda Coronado is the Bakery Manager.

Merritt sales consist of five revenue streams: restaurant, bakery, to-go bar, lotto and ATM. These are the five cost centers and areas for operational improvements we will investigate throughout this plan. As a result of a fledgling economy, a parking situation that stymied the Merritt, and an overall lack of control over the internal operations, Merritt is in need of assistance in order to regain its economic stability.

Marketing Research and Plan

Consumer demands shift constantly and customer desires have a significant effect on how restaurants operate and adapt. Many current trends in the restaurant industry (including fast-food) point to price and local sourcing as the most important factors for people who choose to eat out, and these are two key areas for growth.

Charles has stated that Merritt "serves fast food on a plate," indicating his commitment to pleasing the customer while offering a home-style experience. The fast food industry has taken steps to change its image by offering healthy and sustainable options. One of the leading forecasters of top restaurant trends is National Restaurant Consultants, Incorporated. In an article titled "Top Trends for 2010", it states, "*Consumers are more value conscious today, and discretionary income is under pressure like never before, and restaurant sales reflect this. The restaurant industry in general will see a sharp downturn in key sectors. The restaurant operators that will succeed are those that have a clearly defined a food/value relationship that makes sense for the guest. We have recently seen in*

some major players a reduction in portion size and lower quality, but not price. This will not work for their guests. The allocated food dollars will be scrutinized more closely and an inferior product or poor service will not be tolerated. No second chances if the guest experience is negative, just no return visit."

Health.com surveyed the nation's 100 largest fast-food chains, as defined by the number of locations, and found many have created menus that look more and more like what we'd cook ourselves if we had the time. Menus include items ranging from nutritious soups and healthy salads to fresh whole grains and sensible desserts.

Not only are the tastes and desires of customers changing, so are the types of people who may potentially eat at the Merritt. There have been major shifts in Oakland demographics in the last 10 years, particularly the influx of whites (up 6%) and the decrease of African Americans (down 6%). The two largest age groups in Oakland are 25-34 at 18.1% of the population and 55 and over with 17.9% of the population. These are two crucial market segments on which we recommend the Merritt research and eventually focus advertising.

At the moment, we advise the Company not to advertise and promote Merritt for a couple of key reasons. First and foremost we think it is of critical importance to develop and adjust internal, cost-savings and tracking methods before taking on more complex business adjustments, such as advertising new menu promotions or concepts. Second, we believe the Merritt needs to immediately address the parking issues as outlined in the parking section later in this document. However, we feel there are other ways to increase sales without contributing to the existing parking problems.

Keeping up with food and beverage trends is crucial to developing the right menu mix. Each year the National Restaurant Association (NRA) each year surveys professional chef members of the American Culinary Federation. The latest survey, conducted in 2009, was based on the input of more than 1,800 chefs. Respondents ranked 214 items by how trendy they would be in 2010.

The NRA cited trends in an article dated December 31st, 2009. Chefs ranked "sustainability" as the top ranked culinary theme for 2010. The runner-up was "farm/estate-branded ingredients", and another of the top five contenders included "nutrition and simplicity". Chefs are feeling the demand from restaurant customers to modify menus and sourcing practices to use sustainable ingredients in simple, healthy dishes. A recent survey of restaurant patrons in the US southwest region of the U.S. compliments the NRA chef survey results cited above. This consumer survey, sponsored by the International Food and Agribusiness Management Association (IFAMA), showed that price is the primary factor determining consumer choice for restaurant menu items.

However, the use of locally grown ingredients was the second highest determinant, ranked ahead of the type of restaurant.

Overall consumer interest in the concepts of sustainable, organic and locally-produced food has grown tremendously in the past decade. Much of this interest has developed in conjunction with the growing awareness of environmental and health issues. Consumers are increasingly conscious of how their daily choices, from food to fuel, have an impact on environmental and social change. This is most apparent in the Bay Area.

Adaptability within the Local Market

Due to its progressive politics and longstanding farming traditions, coupled with the fact that 90% of the world's produce can be grown in California, the metropolitan areas are at the cutting edge of the local and healthy food trend.

We foresee the largest area for increased sales, while not taking up any additional parking stalls, is in the offering of wholesale baked goods, wedding and birthday cakes and catering deliveries. These areas have an established client base, and with a strong strategic marketing effort, we anticipate these as high yield areas for Merritt. This offering utilizes Merritt's long-term brand recognition and community involvement, and relies on a system that doesn't need much additional infrastructure. Specifically, Merritt currently pays wages to support the increase in business, purchases appropriate food supplies, has ample storage for products and owns a truck to make deliveries. We advise targeting pre-existing accounts to determine further demand in this area and provide additional contacts and leads for growth.

SFGate.com featured an article in October of 2009 titled, "Food processing plants make a comeback in Oakland." We envision Merritt growing to be a small-scale food processor itself, drastically increasing the volume of popular baked goods for wholesale purchase. Backing the case to expand Merritt's production the article states, "This is part of the yuppie food revolution, which has made people more conscious about what they eat and how far it has traveled to their table," said Richard Walker, a geography professor at UC Berkeley, who has written extensively on the Bay Area's role in food production. "People's tastes seem to be changing, but Americans are still very accepting of commercial, standardized foods."

A sample of the food companies recently opened in Oakland shows a trend toward gourmet tastes or environmental, healthy sensibilities, and small-to medium-size production facilities. A recommendation to source local and sustainable produce would be our first step to improve product quality; however, as of January 2010, it is difficult to see the advantages. Due to the Southwestern freeze (mainly in Florida) and dismal weather conditions, it is not an ideal time to search for possible cost saving, highly marketable produce and apply these proposed changes. We advise waiting until the spring or summer and watching as seasonal and local prices rebound with the weather.

Marketing Healthy Products

The Company has already altered its menu to reduce food costs by removing daily specials that weren't selling. It has also begun taking monthly inventory (Appendix H) and more closely monitoring food costs.

It is estimated that 60% to 70% of all food served at Merritt is processed and served from food sources containing additives, chemicals and other non-food related ingredients. As overall health and specific food sources become increasingly important to consumers, we suggest altering at least 10% of current menu items to include locally-sourced produce and freshly-prepared food.

The modification of menu items should be carefully considered and executed with 60% to 70% of all top-selling, high-profit margin items to remain. Of the additional menu items, we suggest altering at least 10% to more well-rounded and healthy options. For example, instead of using romaine lettuce, Merritt could use locally-grown mixed greens. This substitution has many benefits. It will bolster the Merritt's marketability, keep dollars in the local economy, add to the aesthetic look of the salad and reduce the labor costs associated with prepping and chopping of romaine lettuce. Additionally, because the lettuce is chopped, it becomes oxidized and spoils sooner which reduces its shelf life and increases the likelihood of waste.

Note: On 12/27/09 the Company purchased approximately 10 pounds of conventionally grown green cabbage at \$0.89 a pound. On the same day, Veritable Vegetable (the largest organic produce supplier in the country) sold organic and locally grown green cabbage for \$0.54 a pound. With proper planning, Merritt would save approximately \$16 per case (45 pounds), while being able to market organic and locally-grown produce.

Catering and Wholesale Bakery

Targeting and soliciting pre-existing clients for additional and more consistent sales within the catering business and wholesale department will offer opportunities for diversifying revenues. Current long-term catering clients include:

- Local 250 and Local 1021
- Red Cross
- Gatorade
- Clorox

- Scottish Rite
- KTVU – Channel 2
- Greater St. John Missionary Baptist Church

By expanding the sale of goods in large quantities, the Company expands the Merritt brand while immediately increasing revenue. This does not greatly inflate direct costs and could provide expansion to a new market segment. Other areas for possible catering and wholesale growth include targeting:

- Local, family-owned supermarkets and corner stores
- Local institutions and corporations such as hospitals, churches, sports teams, schools, government branches and large companies with more than 100 employees

Wedding Cakes

Modern Baking acknowledges, “Cakes continue to dominate as the largest sales category in bakery departments. In-store bakeries' broad selection of cakes for any occasion draws customers and high profit margins, making the category key to a bakery’s success.” We suggest developing the wedding cake department by contacting and soliciting these key areas to further develop growth and sales:

- Contact wedding planners and ask to be placed in wedding registries
- Attend local wedding conferences and expos
- Use substantial customer base and brand to solicit additional clients

Smaller Portions Gain Traction

Reducing the portion size of everything from pizza to burgers, to cupcakes and entrees is on everybody’s list for continuing trends in 2010. This trend is more prevalent with desserts and sweets, especially in the elder demographics. As the obesity and health concerns like diabetes continue to increase, especially in America, so does the need for watching caloric intake and diet habits.

A growing sub-category in a bakery’s offerings are individual desserts. These comprise a variety of products sold by the slice or in smaller serving sizes, including cheesecakes, tiramisu and parfaits. The national average sales of individual desserts increased 28% over 2009, and across all regions individual desserts grew compared to the previous year.

Developing Wholesale Accounts

We suggest hiring a Sales Manager (or promoting a current employee) to acquire and bolster the wholesale accounts listed above. There is great potential within the wholesale bakery, wedding cake and catering business for the Company to mature while utilizing its existing labor and relying on its current resources.

With solid infrastructure already in place, including a commercial delivery vehicle and driver, adequate physical space to hold additional product and a staff to expedite the production, we see these as key ways to generate additional sales.

Currently the Company does not separately track and monitor wholesale, catering and bakery accounts, and we recommend inputting and aligning these revenue streams within its Point of Sales (POS) and financial tracking (QuickBooks) systems immediately. This organized and effective method will improve the Company's overall business growth.

Other Ideas for Sales Growth Include:

- Extended hours of operations, creating additional jobs and revenue.
- Advertise Merritt as a family and locally-owned business.
- A promotional idea based on the lack of parking asking patrons to bring in their bus ticket, prove they rode their bicycle or walked there to receive a free cup of coffee.
- Offer senior discounts due to the already large number of older patrons.
- Gain more knowledge of new customer base from over 300 Yelp (a powerful and innovative user-generated critique website) reviews about Merritt
- Utilize the power of online, social media outlets such as Yelp and Facebook to appeal to Oakland's shifting demographic. There are already more than 300 Yelp reviews to use to the Company's advantage.
 - Buy cheap advertising space to appeal to a new, untapped market segment (white, middle-aged, working class)

Comment Card

One immediate action we suggest is for Merritt to conduct a simple survey offer comment cards with its dropped checks to more appropriately gauge customer information. This will give patrons a chance to voice feedback and provide instant and valuable research. Some sample questions include the following:

- How many times have you been to Merritt in the last 12 months?
 - 1-5
 - 5-25
 - 25-100
- How many times in your lifetime have you been to Merritt?
 - 1-5
 - 5-25

- 25-100
- Did you walk, ride a bicycle, take public transportation or drive here?
- Did you enjoy your meal?
 - I really enjoyed it
 - It was just okay
 - I've had better
- What would you like to see the Merritt improve on? _____
- What is your favorite thing about Merritt? _____
- Please leave your email address if you are willing to be contacted in the future by Merritt for information, deals and news. _____

Menu Overhaul

One of the most immediate areas for improvement is within menu pricing. As noted in an article from QSR Magazine titled, *"Finding the Balance: Increasing menu prices remains the easiest way for quick serves to recoup losses in a sagging economy but risks customer loyalty."* Striking the right balance that works for everyone is key. "Consumer perception often stands as the most looming impediment to menu price hikes, perhaps rightfully so in today's economic climate where tightened discretionary spending forces consumers to dine at home more often. Such a hurdle urges many quick-serves to investigate how they can raise prices most effectively, efficiently, and with sensitivity for the consumer in mind."

Raising the prices of sides and beverages is probably the easiest way to get margins back in line while encountering the least amount of resistance. Also reformatting the menu itself remains a simple trick for veiling price increases. Below are three ways in which we recommend altering prices while attempting to maintain customer loyalty:

1. Align menu prices based on direct costs.

It is our understanding that Merritt has increased its menu prices three times over the last year in an attempt to garner profits. This has negatively impacted its customer base and alienated first time customers who patronize Merritt for perceived affordable prices, as that has been its concept over the years. With the recent computing of menu cost analysis by the Company, Merritt has an opportunity to price its menu based on profit margins rather than dwindling sales.

2. Move the most profitable items to be first and last in a menu section.

The first price in a section will sell more, just because it's first. The last item is also a strong position. Once you know the gross profit of each item, make the changes. Sales of both will increase, as will the overall profit. The same logic applies to specials and desserts. Everyone has an opinion about menu design, but make sure decisions are best for the bottom line.

3. Add an expensive item as a "decoy price."

Consumers love value so we encourage considering a variety of factors when choosing top prices to charge. Decoy pricing is a good example. For example, consider a menu with main courses in the \$10-\$20 range with nothing over \$20.95. If you added one more item for \$23.50, all the other prices look more reasonable. Even if this expensive item doesn't sell, it's done the work of repositioning value on the menu.

Increasing Check Averages

Up-selling is essentially a practice of making suggestions aimed at getting the guest to spend more money. It is a valuable marketing strategy, but it must be trained and practiced in order to be effective as a sales technique. Restaurant servers, cashiers and kitchen staff who have contact with the customer should know appropriate and effective ways to up-sell menu items. Up-selling does not always come naturally, and, therefore, we recommend making it a part of the training regimen.

By offering tips and suggestions to restaurant workers and servers at the start of every shift, as well as during initial training sessions, this has potential to being a great addition to sales. Food Service Warehouse, a one-stop shop for all restaurant needs offers the following suggestions to managers and lead servers to help staff to up-sell:

- **Allow servers to taste menu items.** Provide opportunities for servers to taste menu items, including daily specials.
- **Train in menu knowledge.** Make menu knowledge a priority, so servers can speak intelligently about the preparation and quality of food.
- **Suggest vivid descriptions.** Offer ideas for how to use colorful language when describing dishes. For example, avoid simply offering "a slice of chocolate pie" and instead up-sell "an exquisite slice of delicate chocolate mousse pie with a drizzle of caramel." The second description makes a big difference in sales and experience.
- **Role play with servers.** Role play with servers to demonstrate how to ask questions or offer more items.
- **Provide rewards.** Hold contests and offer incentives for servers who sell the most dessert or daily special, giving food or gift cards as prizes.

We encourage the Company to employ a secret shopper to assess the sales strategies of servers and timeliness of food preparation, to assess food quality and to review the overall efficiency of the restaurant. This can also be done in the bakery and to-go bar areas.

Competitors Menu Prices

We wanted to highlight a few menu prices from direct competitors of Merritt to show what may be leading to additional loss of revenue from dissuaded customers due to increasingly high menu prices.

- Lake Chalet – Merritt’s closest competitor in terms of proximity and menu offerings offers a Caesar salad for \$9.00. Merritt offers its Caesar salad for \$11.95.
- The Terrace Room – Offers a “Terrace Club” with organic chicken breast, apple wood bacon, tomato, avocado, organic field greens and lemon aioli at \$11.00 while Merritt offers its Turkey Club for \$12.50.
- Home of Chicken and Waffles – Offers three pieces of chicken wings and a waffle for \$10.25 while Merritt offers the same dish for \$13.00

Menu Layout and Aesthetics

The reprinting of Merritt’s menus costs \$12 each, with a minimum print run of 100. This results in a \$1,200 expense each time a menu price is altered. To save on printing costs, we advise switching to a paper menu, non-laminated, until menu cost analysis is complete.

We have met with a graphic designer regarding the general layout and look of the current menu to discuss adjustments. The designer suggested the following menu design improvements:

- Change menu background color and consider including red, which has been proven appetizing to patrons
- Hire a food stylist to re-shoot menu pictures
- Consider using the cover of the current menu as the background throughout to maintain integrity of Merritt as a classic institution
- Consider switching to an easier to handle, 8.5x11 menu (similar to the current specials menu Merritt uses)
- Reposition menu options to make it easier to read

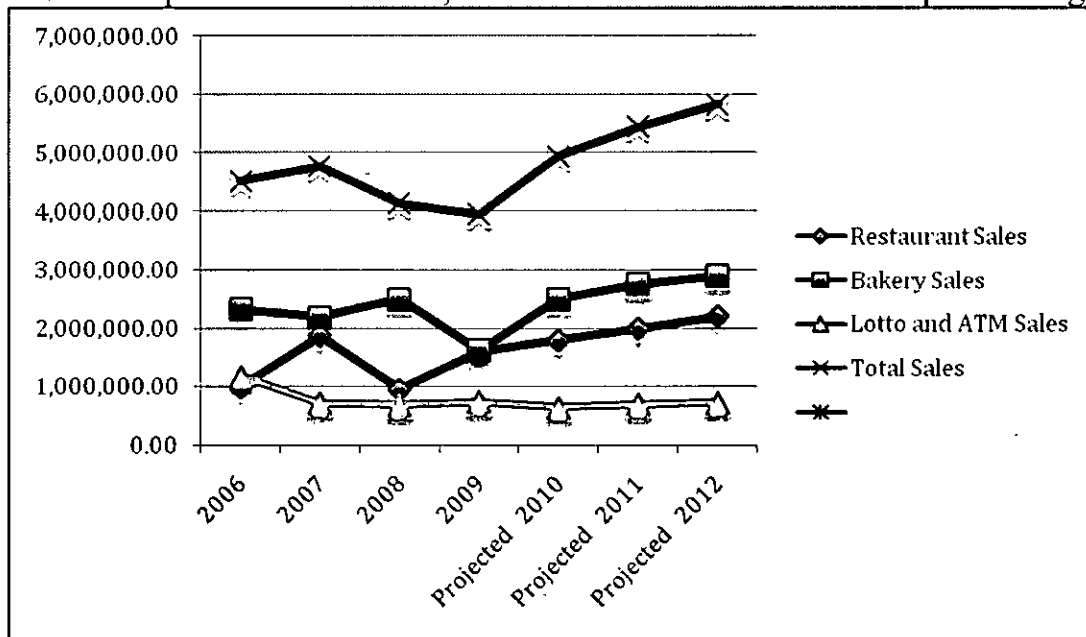
Merritt has recently created a daily specials menu, which has been selling well since inception. We encourage them to continue to develop and up-sell profitable menu items.

Sales Trends

As new restaurants in Oakland continue to open and defy conventional restaurant models, there is an increasing need not only to adapt conceptually as well as operationally. One noticeable pitfall to Merritt’s business is the ability to properly track and account for profits and losses. The holes in the Company’s accounting practices, as outlined in the Iryna Accounting Corporations Suitability Analysis, (Appendix B) make it difficult to fully assess prior financials and forecast the progression of sales for the Company.

Overall sales of Merritt have fluctuated over the last four years as it has been operating at a loss since at least 2006. However, it is important to point out that in fiscal year 2009, the Company reduced its labor costs by 3%, cost of goods by 25% and operating expenses by 10%. This results in a turnaround of roughly \$550,000, as noted below.

We foresee positive sales increasing in fiscal year 2010 (see chart below) for a number of reasons. As the economy rebounds and customers are more apt to dine out and two current trends are comfort food and affordability, both of which the Merritt will covet in this coming year. Due menu changes, in price and product, improvements to the building and facade and the addition of patio seating, we assume restaurant sales will increase by a minimum of 5%. Coupled with an increase in wholesale bakery accounts and a strong effort to acquire those accounts, we know the Merritt can show a profitable gain this year.



Operational Improvements for Profit Maximization

We encourage the Company to use the following suggestions as a basis for overhaul opportunities, which we feel are not only warranted, they are necessary. A number of key operational changes must be made in order to maximize profit and business security. These changes, once implemented and monitored, will contribute to a higher gross profit, significant marketing opportunities and more efficient use of labor and food costs. This will immediately increase the bottom line.

It should be noted that the Company has already begun to implement some suggestions below including but not limited to: costing out of recipe and menu items, restructuring and reducing labor, and tracking and recording inventory (Appendix H). There is a definite need to further analyze menu costing, inventory and purchasing procedures and trends

within the financial systems to better track each area of costs, sales and profit. This will lead to a better understanding of areas for growth and improvement.

Tracking exact cost from end products to raw materials is always a challenging endeavor for the fast-paced food service industry. However, highly accurate cost control on all levels is of critical importance to profits and the bottom line.

Restaurant Improvements

Merritt Restaurant Manager Joe Barham has projected that on average, six to 10 groups of patrons per day are seated and immediately leave after viewing the high menu prices. With guest table averages hovering around \$25 this equates to roughly \$200 a day and \$6,000 a month in lost revenue.

Currently the Company is manually calculating recipe and menu items, and although this is a profitable step forward, there are now very accurate and efficient technological systems for tracking and monitoring food costs. One such piece of software is Recipe Manager. This program helps businesses to calculate at the smallest possible level, on a per-unit basis from a single ingredient portion, calculated directly from inventory purchases. All unit conversions are performed automatically when ingredients (inventory) are added to recipes. Both the single portion and complete recipe cost is generated for the user. A price can be entered for further analysis of profit margins.

Recipe Manager will provide a list of ingredients that contribute to this recipe's cost. For each ingredient, there is a cost that is tallied into the total recipe cost information. Based on the recipe's yield (for example, our hypothetical recipe yields 55 orders), the portion (for example, each single portion or serving of this recipe equals nine ounces), and the number portions (the total number of portions you can get out of the yield), values will determine the exact, actual costs. Cost values are tracked to the penny by a single portion (in this example, a single nine ounce portion of a jambalaya recipe costs the restaurant \$0.51) or all portions (in this example, the entire yield of 55 portions costs the restaurant exactly \$27.98 to produce). From these cost numbers a profit margin can be derived when a price is entered. With this kind of complete cost tracking by recipe or portion, you can additionally track costing for an entire menu. Additionally, this program allows you to enter new inventory prices, immediately altering your menu prices and giving you an exact snapshot of that item as food prices fluctuate.

Restaurant/Food Cost-Saving Suggestions:

- Review job descriptions for each prep and line cook to ensure menu item consistency, proper use of inventory, product utilization, minimizing of waste are proper employee protocol. Areas for improvement within the kitchen include:
 - Create and monitor preparation lists for each station of the kitchen

- Thorough use of the recipe book which has been created yet is seldom used
- Labeling of product to ensure proper rotation and use
- On-task monitoring, including cleaning and preparation duties during slow times
- Retraining by a certified Health Inspector or ServSafe Manager to ensure all staff are adhering to proper Hazard Analysis and Critical Control Points (HAACP). This guarantees the health and safety of all workers and patrons and can be of serious detriment if not addressed in a timely manner. Getting shut down again by the Health Department could lead to the indefinite closure by the Department and create the possibility for permanent closure of Merritt through horrible press.
- Continue to record inventory (weekly for center of plate items and monthly for dry goods and less expensive food items) resulting in minimal visits to the grocery store, more concrete purchasing decisions and effective forecasting of cost of goods.
- Create and log food waste daily and align preparation lists using the foresight of previous waste logs.
- Utilize products that may go to waste such as turning a special prime rib one day into a soup the following day. We refer to these as Value Added Products and see an abundance of opportunities in this area.
- Prepare center of plate items in-house as opposed to buying items already prepared. For example: Merritt spends \$1.17 a pound on 8-way chicken — its highest selling menu item. Buying whole chickens would save \$0.38 per pound and an average of \$600 per month. This is also a great opportunity to use extra chicken pieces such as necks and backs for stocks. This would not only increase margins and reduce food costs, purchasing whole chickens would also add quality and marketability by offering products made from scratch.
- Rather than buying pre-made mixes and sauces, the Merritt should investigate making items in-house such as donuts and breads, waffle mix, spaghetti sauce and chili. This would save money and increase the value of each product made.
- We advise implementing and posting waste logs and preparation lists to track spoilage and more closely monitor costs of goods and end of year deductions. Once this process is put in place, we estimate a monthly savings of 10% of monthly food costs or \$3,000 per month.
- Meet with outside food vendors to discuss the possibility of matching or beating prices the Company is currently paying. Vendors would also deliver goods and allow Merritt to save on labor costs. Its current purchasing practices require an employee to spend time driving and shopping.
 - Given the Company's current credit roadblocks and vendor credit application process, we have talked to a number of distributors (Greenleaf, Bi-Rite and Veritable Vegetable) who will accept a check on delivery (COD) until the

Company has proven it can meet regular payment obligations. Eventually, this will also be an effective way to build good credit.

Labor

The number of people employed by the Company has been steadily declining over the years. In 2002 Merritt employed 100 full and part time workers, in 2007 it employed 86, and it currently employs only 49. This has been a difficult decision for the Company given its strong loyalty to its employees, but was done out of necessity as a result of dwindling profits. Based on ADP's (Merritt's payroll company) Statistical Summary (Appendix C), Merritt has reduced its monthly labor costs by 50% since 2006. However, in fiscal year 2009, the company was still more than 12% above the national average for labor in restaurants, at 44% (Appendix B).

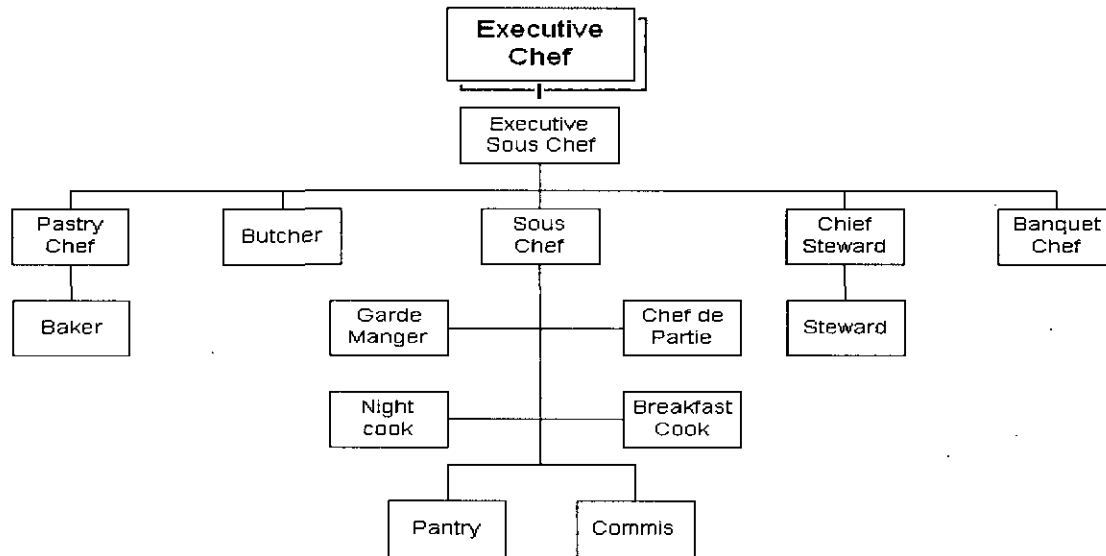
There are certain employees earning higher wages than the general market wage for those particular jobs at the Company. It is recommended, especially in today's job market, the Company and management hold an employee review for each individual to assess value, work ethic and compensation.

Teamwork is a vital asset to any successful business, and it is estimated that there are 13 ethnicities working at Merritt. With numerous native dialects spoken at Merritt, it is critical to have strong communication with an emphasis on teamwork and accountability. There needs to be a more clear and direct chain of communication between owners and management, management and employees, and employees and patrons. It is also important for management and owners to be stern and diligent with employee protocol. Follow-through, reprimand, praise and accountability all need proper attention and care.

The lack of a chain-of-command in the kitchen creates serious risk in a high cost area of business. With no clear communication line to upper management in the back-of-house and limited consistent input from upper management in the daily kitchen operations, we see the lack of direction and communication between kitchen staff and upper management in critical areas such as: food waste from an over abundance of prepped food, non-labeling of products resulting in a minimum of 10% weekly loss of product due to spoilage and misuse, lack of cleanliness procedures (as cited on numerous occasions by the Department of Health), on-task monitoring and a general lethargy leading to loss of man hours and wages.

The development and creation of a Kitchen Manager role is imperative to monitor and manage the kitchen properly. We recommend expanding current job descriptions and re-training and monitoring employee tasks (daily, weekly and quarterly). We also think creating and outlining an Organizational Chart (example below) for employees is a critical component to smoothing kitchen operations.

Kitchen Organization Chart



Reducing Fixed and Variable Costs

We have found other ways in which the Company can save money beyond the core areas of business. Two are listed below.

In a report provided by Pacific Gas and Electric's (PG&E) Food Service Technology Center, titled: "Promoting Energy Efficiency in Food Service", by following their suggestions, it is estimated the Company could save an average of \$5,548.00 annually.

With proper planning and preparation lists restaurants can save a lot of time and money. For example, instead of running water in the sink over a case of chicken for hours to defrost it, plan properly and put it in the fridge the night or two before. This simple task will save hundreds if not thousands of dollars a year on labor, food and quality costs.

Using wise purchasing decisions for service ware, such as buying re-useable ramekins instead of plastic ramekins, is a great way to save money. Three disposable containers to a salad equate to \$22.00/case in cups and \$27.00/case in soufflé lids. We estimate they use a case of each a month, a value of \$49.00 per month.

Parking Improvements

We have provided a detailed outline with help from a Retail Property Professional (Denis Mathewson) to address and ultimately resolve the parking issues facing the Merritt. We think the Company's landlord, Lucky's, and the City created the parking problem. We are

aware that a Transportation Demand Management Plan (TDMP) is necessary before administering building permits and one was not performed in 2002 before the issuing of permits to Lucky's. We are aware of a lack of 67 stalls in the parking center occupied by Merritt and Lucky's. We are also aware of a recent TDMP (created in 2009) but have been told it is not being enforced. Below are facts outlined by Mr. Mathewson to further explain the parking situation.

1. The new Albertsons, now Lucky's, increased the size of their market from 17,800 square feet (sf) to 36,400 sf. Additionally, Lucky's closed its store on Lakeshore Boulevard resulting in a sharp increase in volume and need for parking at the Lucky's near the Merritt.
2. The absence of a TDMP in 2002 resulted in a parking variance that decreased the parking stalls required by City code from 253 to 186. Forty of the 186 stalls are located behind the restaurant and are inaccessible to customers. The 146 stalls in front) provide 2.86 stalls per 1000 sf. versus the required five stalls per 1000 sf. A TDMP would have addressed the parking needs of the expanded center and should have provided parking mitigation measures to increase the number of on-site stalls as a condition for the permits of the new market.
3. The recommendations in the 2009 TDM Plan concerning the enforcement of the two-hour parking limit and excessive use of the rear parking by vendors is not currently enforced by Lucky.
4. The Merritt needs more parking close to the entrance of the restaurant. The addition of roof parking for Lucky and or exclusive use of the parking in front of the Merritt for the restaurant should provide a solution to the demonstrated parking problem.

If up to 40% of Lucky's 27,000 weekly customers did not use a car, the center would still have to accommodate over 16,000 Lucky customers per week. *Note:* See my October 31 report for details. Compounding the parking woes is the fact that it has been observed that customers of businesses across 18th Street use some of the parking stalls in front of the Merritt.

We see four possible scenarios to address the parking issue. However, we are not experts in these matters so we have taken suggestions from other professionals in the field and will leave the final decision up to the City and the Company:

1. Phase 1 – Post signage immediately on 2nd Avenue and in front of Merritt designating parking for the Merritt.
2. Phase 1 – Hire a security guard or parking coordinator with the power to write tickets or tow vehicles (especially during peak times), to facilitate patrons parking and enforce who is parking where.
3. Phase 2 – Explore reconfiguration of 2nd Avenue to include an additional 13 parking spaces (as outlined by AE3 partners, Appendix F).
4. Phase 2 – Explore building a multi-deck parking unit behind the Merritt where there are currently 41 parking stalls.

Since the City did not require a TDMP report in 2002 before issuing Albertson's building permits we think it is the city's responsibility to expedite and resolve the parking situation, while reaching an agreement with the lenders to support Merritt and further guaranty the Company's loans, if necessary. We recommend the City make haste and resolve this issue before incurring additional fees and negatively affecting the Company's need for immediate customer expansion. We worry that an increase in customers, due to a strategic marketing campaign, will result in additional grievances with both existing loyal customers and first time visitors.

The Company is also convinced that many of their customers have already been dissuaded by more than two years of construction and the five years of lack of parking. This has abruptly or steadily deterred patrons from Merritt since 2003. Given this older demographic, research provided and our general conclusions, we urge the City and the Company reach resolution as soon as possible.

Business Site Expansion

Fare Resources was tasked with re-configuring the Merritt building to bolster sales and increase its marketability. After further review of relevant information we have concluded that it is not currently a good time to renovate or construct the building unless the expansion/addition of parking stalls is handled. Factors contributing to this are as follows:

- Merritt does not have adequate capital for renovations.
- There are more pressing matters which need tending, as outlined in this Business Plan, before Merritt undertakes façade or tenant improvements (TI).
- The current Merritt lease stipulates the Company pay for all TI and general maintenance of the property including: "All heating, lighting, plumbing, electrical and air conditioning installations made by tenant shall be and become the property of Landlord upon installation and not be deemed trade fixtures." (June 1st, 2009 Lease, Merritt Restaurant and Bakery and Landlord, Garrett P. Scales and Lilia Ticen).

On January 14th, 2010, the Company and its private consultant, Denis Mathewson (Retail Property Services) met with City officials Theotis Oliphant and Marisol Lopez to discuss a workout plan. Fare Resources received an email from Mr. Mathewson, outlining the City's desire to help the Company regain its economic strength. We then met with Mr. Oliphant the following day, on January 15th and he confirmed the City's willingness to help.

He stated that he had witnessed the need for more parking and did not see any on site parking solution in close proximity to the restaurant. He mentioned the widening or closure of 2nd Avenue as a possibility and said that he thought, but was not sure, that the City traffic staff was addressing this problem. He said that the City was prepared to spend

\$700,000 to \$800,000 to make tenant improvements to Merritt and again inject cash flow to keep the Company stable.

Mr. Griffis has said that with the remodeling, continued internal controls and a solution to its parking shortage, they could increase the sales to \$5 million annually within 18 months from the date of completion of improvements and parking resolution.

We have included plans created by AE3 Partners (Appendix F), at the Company's request for future renovations to the building. They have presented a scenario providing Merritt with an outdoor patio, opening of the windows to expose patrons to 2nd Avenue, widening of the street to include more parking stalls and improving the interior. All of these improvements would drastically help the Company in important areas. However, we recommend these plans not be implemented (except the proposed parking scenario) until the Merritt shows a profitable return for a minimum of three months, including debt reimbursements.

It is our understanding that the Company has additionally applied for two grants (TI and façade improvements) from the City of Oakland totaling \$65,000. We think this money would be well spent on recessed lighting and a stripping of the current wooden wall paneling to instantly and cost-effectively provide the Merritt with an aesthetic facelift. We would hope this can take place as soon as possible.

Business Site Contraction

Fare Resources was originally contracted by the City, represented by Roberto Costa. Mr. Costa is a Business Development Specialist for the Economic Development Division of the City of Oakland. He was our direct contact and liaison throughout this process. He originally tasked us with drafting two Business Plans proposing both expansion and contraction of Merritt's building. We understand it was Mr. Costa's goal to effectively address the reduction of overall costs to the Merritt within both scenarios. Mr. Costa noted on numerous occasions that one of the most important components of this Plan was appealing Mr. Griffis and the Company so they would be happy and willing to implement suggested improvements.

When we began exploring the contraction scenario and discussing possible reductions of physical space, we realized it would be very difficult to present a scenario that addressed contracting the building and appealed to the Company. We discussed the idea at length with Sarah Blaylock, Real Estate Professional at Retail West who helped draft the Letter of Intent (LOI). She agreed that contracting the space was unmanageable for the Company. We deduced the potential hardships to the Company and took these into account when preparing the LOI (Appendix D).

We further expressed to the Company the possible effects of reduced menu offerings, the space that Merritt occupies and the staff they employ. They were not pleased with these

ideas and for good reason. They would be further cutting jobs and losing their friends, allies and number one marketing voice. They would undertake a renovation process for a currently unknown and highly unlikely tenant, instead of renovating to suit their needs and have to listen to customer complaints about their favorite missing menu items. After developing the two scenarios, as even possible yet highly improbable routes, we came to the conclusion that these would both be potentially detrimental to the Company.

Two possible plans arose: carve-out and renovate three to five thousand square feet of space. Either renovate the front of the Merritt, where the bakery counter currently resides. Or, renovate the back-of-house, which houses production facilities and storage space. Both of these scenarios present troubling problems to the Company.

The first proposal would demolish the prime and long-term retail space, directly in front of the parking lot where Merritt has built its brand and customers have come to know them. It is highly unlikely for the Company to invest in the costs to move the bakery counter (presumably, knock out seating in the restaurant).

The other alternative would not affect the prime retail bakery counter, but would instead make room for a tenant in the back-of-house (which does not have visible store front space or an accessible customer entrance). The back section we discussed leads to the loading dock of Lucky's and the employee parking lot that incurred a lack of parking and accessibility since the Lucky's was expanded.

Both of these scenarios require the Company to pay for renovations, as the landlords have clearly stated in the lease (Appendix J) they will not pay for any building reconfigurations. We see these scenarios as not only detrimental to the volume and sales that Merritt can potentially attain, but would add to the parking pitfalls with another tenant occupying space in the Center.

These facts are compounded by the lack of desire (even if the funds became available) from the Company to give away space to a new tenant especially since the lease makes it difficult for the Company to attract another tenant. All these reasons equate to a failed contraction scenario.

Debt Obligation/Workout Plan

It is our recommendation that the Company meet with all current lenders (Wells Fargo, Nor Cal, One Cal and City of Oakland) and deliver a thorough presentation of its current financial situation. This will demonstrate areas in which it currently has plans to improve the bottom line and begin to pay back the outstanding loans listed below. We think it is necessary for the Company to exude transparency and full disclosure to lenders as they have expressed interest in discussing with the Company ways to renegotiate payments.

Currently the Company owes \$823,840 to four lenders:

1. One Cal \$218,016
2. Nor-Cal \$100,000
3. Wells Fargo \$343,325
4. City of Oakland \$162,000

We strongly encourage adoption of Iryna Accountancy Corporation's (Iryna) suggestions outlined in Appendix B. One of the objectives outlined in the accounting analysis would be to adopt a debt repayment plan (we suggest using the City's new \$800,000 proposed loan to start lender repayment) to avoid interest rate inflation and possible foreclosure. We are also aligned with all of Iryna's additional suggestions including: establishing business transparency and delegating control to lenders, integrating a POS system with main accounting software, retaining and reconciling all financial data and hiring a full-time position to take on these duties.

Once internal cost control changes are implemented, we forecast a monthly savings amount of \$20,000 to \$30,000 (\$15,000 in kitchen control procedures, \$6,000 in increased patronage from menu price adjustments that align more accurately with food costs, \$500 from PG&E proposed energy improvements, and \$5,000 in expansion of wholesale and catering accounts). This is manageable from monitoring and tracking internal systems more carefully and adhering to the basic cost saving/retaining principals outlined in this plan. We are only scratching the surface and know there are other ways to reduce costs and increase profits.

Once the Company successfully operates with these changes, the additional revenue can be injected straight to the bottom line. We hope the Company would use these funds to stay current with rent and direct costs. With the proposed \$800,000 from the City, the Company could immediately start to repay lenders. If the Company is able to avoid default with its landlord, it will receive \$150,000 in December 2010. The Company could potentially use this financial accrual as leverage and eventually distribute it towards a workout plan designed with all lenders.

Of the proposed \$800,000 it has been discussed (with the Company) that \$400,000 would be invested in the facade and tenant improvements. This would immediately appeal to customers through a more visible storefront on 2nd Avenue and the addition of an outdoor patio on that side facing the lake.

Of the remaining \$400,000, we suggest \$300,000 be injected into the Company to float cash flow burdens over the next six months. This \$50,000 a month injection would secure a break-even amount for six months. Let it be known that the Company is currently averaging a loss of \$50,000.

The remaining \$100,000 would be used to begin repayment to lenders and act as adequate debt payments for 18 months, see Appendix A. This would appeal to lenders and ensure the Company stays out of default.

At the request of One Cal, we contemplated the resale value of Merritt but do not see a positive scenario for either the Company or One Cal. At this time there are seemingly insurmountable inhibitors facing the Company and we do not foresee the Company being able to reimburse any lender besides Wachovia, which was the initial lender to the Company. We foresee numerous roadblocks if the lenders attempt to foreclose and sell the Merritt's assets:

- Landlord oriented Lease and the Prohibited Assignments (section 17 of Lease, attached) whereas the Landlord would not approve the Lease transfer to new tenant, making Merritt still liable.
- Tenant rights to assign and sublet the building are minimal at best.
- It's highly unlikely the contraction would be approved by the landlord and would almost certainly result in a price hike, possibly charging the Company triple net
- All maintenance responsibilities fall on the tenant and make the tenant more apprehensive.
- Lack of parking is an obvious problem and will only increase if a new tenant arrives.
- The age and depreciation value on equipment is marginal but was not fully taken into account due to lack of an adequate assessment of assets.
- Lack of inventory assets, especially due to the fact that Merritt does not sell alcohol, which can sometimes be the most "liquid" asset in a restaurant
- The building is old, and coupled with the extensive improvements needed, make it difficult to see this arrangement coming to fruition.

Proposed Financing

It should be noted that we do not feel the need to affix a grand total to the amount the City float the Company to resolve all issues. Rather, we feel there is a need for the City to pay the average dollar amount the Company has been losing monthly (roughly \$50,000) in order to break-even. It is our recommendation that the City cover this amount until they have adequately resolved the parking issues facing the Merritt.

The City has proposed funding up to \$800,000 to the Company. We are offering further suggestions that may yield capital gains and increase Merritt's bottom line.

- The Company has already applied for façade and tenant improvement grants. We recommend follow-through of these applications
- Secure funds from Measure DD, a \$198 million Oakland City park bond measure.
- Investigate funds from the Enterprise Zone, which gives employers tax credits for hiring new workers.

Conclusion

We are pleased to hear that the City is open to providing parking improvements and injecting capital to the Merritt. We strongly advise the Company meet with City officials involved in this process (CEDA staff as well as Mr. Oliphant and Ms. Lopez), its lenders, Mr. Mathewson and anyone else proposing to help with this situation. It is of the utmost importance to openly communicate with all parties to come to amicable debt repayments terms. We also recommend the Company present an Action Plan to the parties mentioned above outlining the revival of the Merritt.

The Company and its managers have the combined experience and knowledge to implement the above mentioned procedures and systems and should see a positive cash flow scenario within six months of implementation of certain procedures. We hope the Company use this as a tool to locate other areas of interest and savings to regain its status. Below are some examples covered in this Business Plan and we guarantee more will emerge after their thoughtful completion:

- Exude complete transparency with lenders, City officials and landlord.
- Proactively work with the City to best resolve the parking issues.
- Create and adhere to all the internal cost control methods you can think of
- Create a marketing strategy with a marketing professional to implement changes for sustained growth.
- Configure Aloha (POS system) and QuickBooks operating procedures for more effective and efficient financial monitoring.
- Instill new management procedures including updated employee handbook and training, new job descriptions and on-task spreadsheets (cleaning, preparation and waste).
- Clean house from front to back, adjust menu prices and layout as well as update the interior and exterior of the building to appeal to customers

Merritt has the infrastructure to drastically expand its wholesale and catering business immediately, which will not increase the adverse effects of limited parking and will only marginally contribute to additional overhead and expenses. They are also in need of updates throughout their business. We want to stress the importance of adding innovative techniques and systems to adapt and adjust their concept and identity. We feel it is critical to do this while maintaining the integrity and classic brand that has kept the Merritt open since 1952.

Appendix:

- **A - Quarterly Pro-Forma for 2010, 2011, 2012 - Including Debt Reimbursement**
- **B - Iryna Accountancy Report**
- **C - Payroll Reports and Improvements**
- **D - LOI**
- **E - Denis Mathewson Report**
- **F - AE3 Drawings for Parking and Façade Improvements**
- **G - Teresa Navarro Report**
- **H - Merritt Inventory Tracking Reports**
- **I - PG&E Food Service Technology Center Report**
- **J - Current Merritt Lease**

2010 APR 15 PM 4:00

CITY OF OAKLAND

Resolution No. _____ C.M.S.

A RESOLUTION AUTHORIZING THE AGENCY ADMINISTRATOR TO PROVIDE A LOAN TO MCKINNEY GRIFF, INC., DBA MERRITT BAKERY & RESTAURANT, IN AN AMOUNT NOT TO EXCEED \$150,000 TO PRESERVE APPROXIMATELY 55 JOBS MAINTAINED AT MERRITT BAKERY.

WHEREAS, according to an independent report commissioned by the Redevelopment Agency of the City of Oakland, Merritt Bakery employs 55 employees, approximately 90% of whom are Oakland residents; and

WHEREAS, Merritt Bakery provides a valuable service to the community and generates approximately \$150,000 per year in gross sales tax from its business; and

WHEREAS, Merritt Bakery has requested a loan in the amount of \$150,000 to avert the closure of its business and the resulting unemployment of its 55 employees; and

WHEREAS, the City has adopted various business attraction and retention policies designed to encourage the growth of private companies producing jobs and sales tax revenue for the City's General Fund; and

WHEREAS, the City and its residents have made substantial investments in recent years to enhance Lake Merritt and its surrounding amenities through Measure DD expenditures and Redevelopment Agency investments; and

WHEREAS, the proposed loan to Merritt Bakery will: (1) avoid the blight that would result from the closure of Merritt Bakery, (2) enable the company to continue employing approximately 58 employees, (3) generate sales tax revenues for the City, and (4) provide a valuable service to Oakland residents and in particular the community surrounding Lake Merritt; and

WHEREAS, the terms of the proposed loan to Merritt Bakery would be at six percent per annum with interest payments deferred for a period of 2 years to enable the company to achieve self-sustaining operations without further financial assistance from the City; now, therefore, be it

FURTHER RESOLVED: That the City Council authorizes the Agency Administrator, or designee, to negotiate and execute a loan agreement with Merritt Bakery under the terms stated herein and the Agenda Report; and including other conditions and enforcement mechanisms as may be recommended by the City Attorney, and take whatever other steps are necessary to implement the agreement, consistent with the intent of this resolution.

IN COUNCIL, OAKLAND, CALIFORNIA, _____, 2010

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, DE LA FUENTE,
KAPLAN, KERNIGHAN, NADEL, QUAN, REID, and PRESIDENT BRUNNER,
NOES -

ABSENT -

ABSTENTION -

ATTEST:

LaTonda Simmons
City Clerk and
Clerk of the Council
of the City of
Oakland, California