

Popcorn, Property Taxes and Tortilla Chips

THERE'S A NEW SNACK GAME IN TOWN

By Michael Tobin

What goes around comes around, and that's true for money and caramel corn. Junction City-based 4Him Food Group, the parent company of popcorn manufacturer Cosmos Creations, filed for bankruptcy in July 2019, citing the loss of two major sales accounts in 2015-16 that represented 70 percent of its revenue.

Internal changes within Costco and Sam's Club, the company's two biggest accounts, led to Cosmos' losing business and entering a period of unprofitability, Cosmos General Manager John Strasheim said in an interview with *Eugene Weekly*.

"When you lose 70 percent of your business pretty quickly, it's hard to recover," Strasheim says.

But Cosmos has a future: Hood River-based Juanita's Fine Foods, known for those tortilla chips in the red plastic bag, purchased Cosmos in a deal valued at close to \$11.4 million, with \$9.2 million in cash.

From 2015 to 2017, Cosmos did not have to pay property taxes when it was the beneficiary of an enterprise zone exemption in Lane County — an economic development incentive that waives businesses' property taxes in exchange for promising to create jobs. As of 2017, the company had 68 employees, 40 more than what it started with before receiving the exemption, according to Oregon Department of Revenue records.

As part of a settlement filed in December 2019, Cosmos paid Lane County, a secured creditor, \$146,368. That's more than the \$94,140 Cosmos received in property tax breaks during its exemption, Department of Revenue records show.

A September 2018 *EW* investigation found that Lane County has given out nearly \$15 million in said tax breaks over the last decade. Despite having the ability to exercise oversight over the program, and ensure that the companies are creating the jobs they report on county forms, *EW*'s investigation found that local officials chose not to do so.

The amount Cosmos paid back to the county represents unpaid property taxes, unpaid business personal property tax and interest and warrant fees, according to county spokesperson Devon Ashbridge.

Now, Juanita's is applying for a spot in the enterprise zone. Due to the lack of a completed enterprise zone application, it's unclear how many jobs the company says it will create as Junction City is still working with Juanita's to resolve issues related to Cosmos. Jason Knope, city manager of Junction City writes in an email. Knope says he assumes that once those issues are resolved, Juanita's will finish its application.

But what will happen to Cosmos' employees? As part of the purchase agreement, Juanita's is not responsible for Cosmos' prior employees, but Strasheim says they are sticking around. The company now employs about 50 people, and Strasheim attributes the decrease to the downturn after losing the Sam's Club and Costco accounts.

SWEET SIDE ECONOMICS

Business was booming in 2015 for Cosmos. With the help of sales to Sam's Club and Costco, the company posted almost \$17 million in revenue in 2015 — a huge increase from revenue of \$300,000 a few years earlier.

But the kernels stopped popping because of changes at Sam's Club and Costco. As a result, Cosmos couldn't pay back a line of credit from its bank, which then led to the bank limiting Cosmos' ability to borrow. Cosmos had to turn to alternative lenders that provided loans with high interest rates, according to bankruptcy court documents. Cosmos stayed open, but couldn't break even as quickly as initially thought and the bank scheduled a foreclosure of Cosmos' assets on July 3, 2019; Cosmos filed for bankruptcy on July 2.



In October 2018, Cosmos engaged middle market investment bank Armory Securities to solicit potential suitors. The search yielded two possible buyers. Boston-based business advisory firm Gordon Brothers offered \$7.5 million to purchase all of Cosmos' assets through a reorganization process, but Strasheim says that Gordon Brothers' price wasn't reflective of the company's value. Summit Investment Management offered to purchase all of Cosmos' existing debt under the condition that the company could raise an additional \$2.5 million in equity, which Strasheim says wasn't possible due to Cosmos' debt and unprofitability.

Around March 2019, Strasheim approached Juanita's independently to discuss a transaction and Strasheim negotiated for what he described in bankruptcy documents as "the highest possible purchase price." Strasheim preferred to complete the deal outside of bankruptcy while Juanita's insisted that it be done under bankruptcy.

"The idea of the bankruptcy and the sale was to maximize the value of the assets so that creditors could receive some money," says Cosmos attorney Timothy Solomon of Sussman Shank LLP.

A SWEET AND SALTY FUTURE

In the wake of the sale, Strasheim said that the company is coming back. He says that while the first quarters are unprofitable due partially to seasonal trends and Cosmos' financial situation, he expects for Cosmos to be profitable by May or June. Strasheim said that the company has learned quite a bit about what works and hasn't worked for Cosmos and that the company has had success with its private label products.

New snacks are coming too, with Strasheim saying that the company will be introducing new lines of tortilla chips. ■

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