

# San Diego Computer Recyclers, LLC Case Study

## Part 1 “Initial Start Up”

In May of 2006, you were contacted by Ms. Barbara Jones, one of the founding partners of San Diego Computer Recyclers, to advise them on the formation of their business. San Diego Computer Recyclers was a start up electronics recycling facility that was being formed by six individuals. You were not given much detail in the initial telephone conversation, but the company is a start up that is not yet in existence. The founders were busy working on developing a business plan so that they could raise the necessary capital to open the facility.

Ms. Jones said that her tax accountant, a member from CSTC, had given her your name because you were more experienced than he was in dealing with business entities. A couple of weeks later you had an initial meeting with three of the founders of the company (Barbara Jones, Sherry Flint, and Julie Davis). Julie, who is the acting CFO of the company, informed you that they were in the process of obtaining an accountant to advise them on what to do in their start up. She mentioned to you that after speaking with several other accountants, the group felt most comfortable engaging your services based upon the strong recommendation from Robert and Barbara Jones personal tax accountant (**IT PAYS TO BE A MEMBER OF CSTC**). At the conclusion of the meeting, the three women asked you to attend a meeting the following week, in which all of the founders were to be present, including the company’s attorney and a few other individuals who were advising the group during start up.

The purpose of the meeting was to determine the structure of the company, determine ownership stakes, as well as identify potential funding sources for initial start up capital. At the next meeting, Julie provided you the following information about the company in order to bring you up to speed:

### Proposed Ownership:

Controlling interest and ownership of the company is divided as follows: Robert and Barbara Jones, 51%; Larry Brown, 17%; Julie Davis, 15%; Daniel and Sherry Flint, 17%. Preferred class shares will be issued to investors.

### Management Team:

The management team is comprised of seasoned professionals with varied backgrounds within the electronic recycling industry. All key members of the management team have an ownership interest in the company. Robert Jones, CEO; Barbara Jones, President; Larry Brown, COO; Julie Davis, CFO; Daniel Flint, CTO; and Sherry Flint, CMO.

### Company Profile:

San Diego Computers Recyclers will concentrate on the proper destruction of Covered Electronic Wastes (CEWs), which are obsolete electronics eligible for payment

under the State of California's CEW Recycling Program.  
Covered Electronic Wastes (CEWs) are described as:

- Cathode Ray Tubes (CRTs)- Computer Monitors
- Cathode Ray Tubes (CRTs)- Televisions
- LCD Monitor (i.e.: flat screen)
- Laptops
- Other electronics with a visual display.

Other Electronic waste will be accepted (some for an additional recycling fee). These may include:

- Computer towers
- Computer Accessories (keyboard, mouse, speakers)
- Printers
- Cell Phones
- Radios/Stereos
- Adding machines
- Fax machines
- Copiers
- Phones/ cell phones

After reviewing the information, your initial question to the group was how much capital was going to be needed to start the business? According to an initial draft of their business plan, total funding being sought was \$1,000,000 in debt financing and \$400,000 in equity contributions. The following is a breakdown of the initial start up requirements for San Diego Computer Recyclers:

#### Use of Funds

##### Initial Start Up Expenditures:

Recycling Facility Expenses	\$127,000
Cost of Sales Expenses	\$35,000
Warehouse Equipment	\$366,000
Office Equipment	\$12,000
<b>Total Start Up Expenditures:</b>	<b>\$540,000</b>

##### Working Capital:

First three months operation	\$415,000
December Working Capital	\$273,000
January Working Capital	\$280,000
February Working Capital	\$292,000
<b>Total Working Capital:</b>	<b>\$1,260,000</b>
<b>TOTAL USE OF FUNDS:</b>	<b>\$1,800,000</b>

**See Exhibit 1 for a detailed allocation of funds for initial start and working capital needs over the first three months of operations.**

## Exhibit 1

### Startup Costs

		Month 1	Month 2	Month 3	3 month Total
<u>One time initial expenses:</u>					
Facility	Deposit	\$ 100,000			\$ 100,000
	Leasehold Improvements	\$ 14,000			\$ 14,000
	Bond Security Deposit	\$ 10,000			\$ 10,000
	Signs (Advertising cost)	\$ 3,000			\$ 3,000
	<u>Facility Subtotal:</u>				<u>\$ 127,000</u>
Cost of Sales	Freight In: CEW	\$ 7,000	\$ 10,500	\$ 10,500	\$ 28,000
Start Up Expenses	Gas (Van/Forklift)	\$ 600	\$ 600	\$ 600	\$ 1,800
	Warehouse Supplies	\$ 1,925			\$ 1,925
	Waste Disposal-Trash	\$ 1,248	\$ 1,248	\$ 1,248	\$ 3,744
	<u>Cost of Sales Subtotal:</u>				<u>\$ 35,469</u>
Equipment Purchases	Workbenches	\$ 4,800			\$ 4,800
	Pallet Racking	\$ 10,000			\$ 10,000
	Pallet Jacks	\$ 2,200			\$ 2,200
	Scales	\$ 4,790			\$ 4,790
	Seperating Machines	\$ 26,000		\$ 26,000	\$ 52,000
	Conveyors	\$ 6,400			\$ 6,400
	Shredder	\$ 25,000	\$ 25,000		\$ 50,000
	Small Compressors			\$ 400	\$ 400
	<u>Equipment Purchases Subtotal:</u>				<u>\$ 130,590</u>
Office Equipment	Phone System	\$ 2,500			\$ 2,500
	Chairs	\$ 1,000			\$ 1,000
	Desks	\$ 4,000			\$ 4,000
	Filing Cabinets	\$ 2,000			\$ 2,000
	Fax Machine	\$ 500			\$ 500
	Cell Phones	\$ 1,745			\$ 1,745
	<u>Office Equipment Subtotal:</u>				<u>\$ 11,745</u>
General Expenses	Advertising/Marketing	\$ 1,230			\$ 1,230
	Cleaning Supplies	\$ 500			\$ 500
	Credit card fees	\$ 150			\$ 150
	Licenses	\$ 1,000			\$ 1,000
	Office Supplies	\$ 400			\$ 400
	Professional Fees	\$ 4,650		\$ 3,300	\$ 7,950
	Salaries	\$ 1,000	\$ 1,000	\$ 34,000	\$ 36,000
	<u>General Expenses Subtotal:</u>				<u>\$ 47,230</u>
Employee Expenses (related to # of workers)	Occupational Services	\$ 200	\$ 240		\$ 440
	Tool Supplies	\$ 3,550	\$ 4,260		\$ 7,810
	<u>Employee Expenses Subtotal:</u>				<u>\$ 8,250</u>
<b><u>Total One time Start-Up Expenses:</u></b>		<b>\$ 241,388</b>	<b>\$ 42,848</b>	<b>\$ 76,048</b>	<b>\$ 360,284</b>
Operating Expenses	Monthly Budget Working Capital	\$ 60,000	\$ 100,000	\$ 92,000	\$ 252,000
	Prepaid Insurance	\$ 46,000			\$ 46,000
Financing Payments on LTO Assets*	Down Payments	\$ 900	\$ -	\$ 2,000	\$ 2,900
	Monthly payments	\$ 452	\$ 5,257	\$ 5,923	\$ 11,632
Cash Reserves	For Unanticipated Costs	\$ 282,256			\$ 282,256
<b><u>Total Start Up Expenses for first three months:</u></b>		<b>\$ 630,996</b>	<b>\$ 148,105</b>	<b>\$ 175,971</b>	<b>\$ 955,072</b>
<u>Additional Working Capital Needs:</u>			December:		\$ 273,085
			January:		\$ 280,336
			February:		\$ 291,507
<b><u>Total Start Up Expenses for first six months:</u></b>					<b>\$ 1,800,000</b>