

# San Diego Computer Recyclers, LLC Case Study

## Part 2 “Year One”

After months of delays in being able to obtain a suitable location for the facility, and constant back and forth haggling amongst the shareholders in regards to a reaching a final agreement, San Diego Computer Recyclers commenced operations in September of 2006. According to the terms of the final shareholder agreement, five of the founding members were to contribute \$370,000 in capital for the initial formation. Julie Davis, CFO, was the only shareholder who did not contribute any capital. Instead, she was given an 8.5% interest in the company because of her work done in writing the business plan. Furthermore, in order to minimize further delays in obtaining the additional capital needed for the recycling operations, the company obtained \$1,000,000 in equity financing from an angel investor. The terms of the investment were as follows:

- Ray Romano will invest \$1,000,000 as a preferred stockholder. In exchange he will be given a 25% interest in the company.
- He is to be paid an annual dividend of 10% of his capital contribution. The dividend is cumulative.
- After the dividend has been paid in full, his interest converts to a common stock ownership interest of 25% of the outstanding shares.
- He has no voting rights a preferred stockholder.

There were a total of three classes of stock issued: Class A Preferred (Ray Romano), Class B Preferred (Larry Brown), and Class C Common (Robert and Barbara Jones, Daniel and Sherry Flint, Larry Brown, and Julie Davis. Additionally, it was stipulated in the shareholder agreement that Larry Brown was to be granted a priority dividend of an amount determined by the board, until his additional capital contribution of \$90,000 has been repaid in full.

### Final Ownership Allocations Per the Shareholder Agreement:

Robert and Barbara Jones, 33%; Ray Romano, 25%; Larry Brown, 13%; Julie Davis, 8.5%; Daniel and Sherry Flint, 20.5%.

Exhibits 1 and 2 show the year end financial statements for San Diego Computer Recyclers. As expected, the company is going to generate a Net Operating Loss in its initial year. Since, this is the initial return for the company, what elections should you make, or possibly forego?

## Balance Sheet

As of December 31, 2006

	Dec 31, 06
<b>ASSETS</b>	
<b>Current Assets</b>	
Checking/Savings	
Payment Bond Time Deposit(DTSC)	28,850
UB Money Market	509,577
Union Bank Checking	49,140
<b>Total Checking/Savings</b>	587,567
<b>Accounts Receivable</b>	
Accounts Receivable	9,742
<b>Total Accounts Receivable</b>	9,742
<b>Other Current Assets</b>	
Prepaid Expenses	38,200
Prepaid Insurance	31,594
Prepaid Recovery Payments	13,502
<b>Total Other Current Assets</b>	83,297
<b>Total Current Assets</b>	680,606
<b>Fixed Assets</b>	
Baler	123,802
Cellular Phones & Radios	1,874
Equipment-Office	6,627
Forklifts	25,289
Leasehold Improvements	29,470
Scales	4,962
Seperating Machine	102,644
Shredder	45,574
Tool Box Set	1,646
Work Benches	6,404
<b>Total Fixed Assets</b>	348,292
<b>Other Assets</b>	
Business Start Up Expenses	9,324
Lease Deposit	54,432
Organizational Expenses	860
Security Deposit	4,735
<b>Total Other Assets</b>	69,351
<b>TOTAL ASSETS</b>	<b>1,098,249</b>
<b>LIABILITIES &amp; EQUITY</b>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts Payable	
Accounts Payable	39,949
<b>Total Accounts Payable</b>	39,949

Accrual Basis

## Balance Sheet

As of December 31, 2006

	<u>Dec 31, 06</u>
<b>Credit Cards</b>	
Capital One Visa	2,823
Lowe's	360
<b>Total Credit Cards</b>	<u>3,183</u>
<b>Other Current Liabilities</b>	
Insurance Payable	1,653
Sales Tax Payable	585
<b>Total Other Current Liabilities</b>	<u>2,238</u>
<b>Total Current Liabilities</b>	45,370
<b>Long Term Liabilities</b>	
H West Capital Lease	82,985
Yale Capital Lease - 002	10,586
Yale Capital Lease -001	15,509
<b>Total Long Term Liabilities</b>	<u>109,080</u>
<b>Total Liabilities</b>	154,449
<b>Equity</b>	
Class A Preferred Capital	648,302
Class B Junior Preferred	70,000
Class C Common Capital	225,000
Retained Earnings	191,121
Net Income	(190,623)
<b>Total Equity</b>	<u>943,800</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u><u>1,098,249</u></u>

# Income Statement

For the period July 5, 2006 through December 31, 2006

	<u>Jul 5 - Dec 31, 06</u>
<b>Ordinary Income/Expense</b>	
<b>Income</b>	
CEWs	0
Downstream Recycling	28,079
Non CEW E-Waste	18,983
<b>Total Income</b>	<u>47,062</u>
<b>Cost of Goods Sold</b>	
Depreciation	31,775
Direct Labor	33,517
Equipment Rental	4,426
Freight	6,530
Fuel	1,077
Truck Expenses	1,472
Warehouse Supplies	6,524
Waste Disposal-Trash	578
<b>Total COGS</b>	<u>85,900</u>
<b>Gross Profit</b>	(38,838)
<b>Expense</b>	
Advertising/Marketing/Promotion	2,196
Amortization Expense	242
Automobile Expense	2,605
Bank Service Charges	570
Cleaning Supplies	28
Depreciation Expense	945
Dues and Subscriptions	2,260
Employee Benefits	250
Equipment Leases	642
Guaranteed Payments	24,375
Insurance	5,527
Licenses and Permits	1,820
Maintenance	1,181
Office Supplies	3,798
Payroll Expenses	3,352
Postage	174
Printing and Reproduction	103
Professional Fees	16,705
Rent	83,226
Taxes	1,244
Telephone	2,998
Tool Supplies	1,900
Travel	2,031
Utilities	3,505
<b>Total Expense</b>	<u>161,676</u>

Accrual Basis

## Income Statement

For the period July 5, 2006 through December 31, 2006

	<u>Jul 5 - Dec 31, 06</u>
Net Ordinary Income	(200,514)
Other Income/Expense	
Other Income	
Interest Income	4,577
Other Income	6,973
Total Other Income	<u>11,549</u>
Other Expense	
Interest Expense	1,659
Total Other Expense	<u>1,659</u>
Net Other Income	<u>9,891</u>
Net Income	<u><u>(190,623)</u></u>