



Memorandum

To: Clients, Associates & Friends of Pro@ctive CPA
From: Mark Wyssbrod, Managing Member
Date: May 10, 2011
Re: Where's The Beef? & Importance of Working Capital

Introduction

Where's the beef? I am not referring to the 1980's Wendy's commercial; I am talking about first quarter small business performance. The tentative financial information we have begun to review is one sided. Small business owners are happier because revenues are increasing, stable (low, but stable) gross profit margins and bottom lines are beginning to increase. However, the driving forces have not improved the overall position of small business. In other words, many small businesses made money, but have no cash, have minimal working capital, lots of debt, and minimal equity. It makes me wonder where the money will come from to pay the tax on the profits!?

The conclusion from our current round of small business financial performance is we are heading towards a "feel good" recovery. We "feel good" because we have higher revenues, but in reality the business costs and cost of living are rising faster than revenues. The moment of any good economic news oil spikes, interest rates spike, food increases in price and in 2013 federal taxes will increase (state and local have already increased). Small businesses must be careful not to let their "good feelings" derived from increases in revenue distract them from focusing on solutions for other aspects of their business position and personal finances.

The time to prepare for your business and tax challenges is now! Delaying can cause the problem to worsen by building and building upon itself, just like a snowball. We urge small businesses to prepare for these challenges as soon as they can!

We hope your business blossoms like the Spring,

Your firm

The Importance of Working Capital

Hard work and capital doesn't mean you have working capital, but it's a good start! Working capital is your current assets less current liabilities. You want working capital to be a positive number! Your current assets include cash, collectible accounts receivable, sellable inventory, investments and other items which can be converted into cash within 30 days. Your current liabilities include accounts payable, credit cards payable, short-term portion of long-term debt, lines of credit and other bills which you need to pay in the next 30 days.



How can you boost your working capital? Below are four suggestions that can help:

- **Use profits to build cash and/or reduce debt** - Be careful! To avoid cash flow surprises be certain you are using after-tax profit to do so.
- **Sell non-performing assets** - Use the funds to build cash and/or reduce debt.
- **Reduce owner compensation and equity distributions** - The sacrifice now will be well worth it! The sooner you can strengthen your working capital, the less dependent you are on a financial institution to survive. Additionally, you can self-fund your future growth and be rewarded with larger cash flow!
- **Raise Capital** - Use new equity to build cash and/or reduce debt. But, be aware! Raising capital will dilute ownership of the business and most small business owners like being fully in control, not having to justify their actions. Of course, a little accountability can be a good for a business as it make management talk through and form plans instead of acting on “gut” feelings.

To discuss these ideas and more customized solutions for your business give us a call! We look forward working with you and using our human capital to build your working capital.

Merge and Succeed!?

The stock market continues to march forward no matter what apocalyptic event occurs (earthquakes, tsunami, nuclear meltdown, revolution after revolution, etc.). A part of the continued advance is the merger and acquisition market is heating up. That is large corporations continue to get larger. Perhaps small business should look at this for an opportunity. Mergers and acquisitions work well then the companies can be easily combined (cultures, services, products, values, etc.). The mergers hopefully lead to overhead savings and increase in gross profit and net profit margins.

However, small business mergers and acquisitions seemed to have a more challenging time. The power struggles which occur between owners can destroy the atmosphere and morale of the employees. Unrelated owners may believe they are working harder than the other owners and are not being compensated fairly. A “business divorce” is more emotionally and financially draining than a “marital divorce”.

Look for opportunities, but complete due diligence before beginning a joint venture, merger or acquisition.

Black Swan Event

Wednesday, April 27, 2011 – The Chairman of the Federal Reserve holds a press conference to provide information directly to the public and states future press conferences will be held on a regular basis.

Sunday, May 1, 2011 – US Special Forces raid and kill the FBI’s most wanted person, Usama Bin Laden (Osama Bin Laden).



Deadline Reminders:

- May 15th – Non-profit tax returns (or extensions) due with annual year-ends
- May 20th – Georgia sales and use tax returns due
- June 15th – 2nd quarter estimate tax payments due

Financial Ratio of the Month

G & A Payroll to Sales

= G & A Payroll Expense / Sales

Explanation: This metric shows G & A payroll expense for the company as a percentage of sales. You can use the ratio to determine if your revenues can support your compensation packages to your employees (including yourself).

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