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Advisors to Management
Investment Bankers

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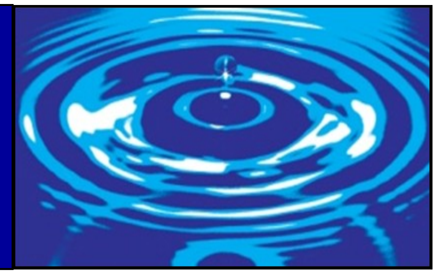

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Investment Banking

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- Restructurings
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- Recapitalizations
- Corporate Finance
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Management Advisory

- Corporate Leadership
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- Interim Management

Lazarus Real Estate Advisors, Inc.

- REO asset Management
- Distressed Asset business plans
- Debt and Equity Financing
- Loan Workouts
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- Syndications
- Business Brokerage

Building a Balanced Company (Part II)

(Revolving Credit cont'd)

Revolving Loans should be used to finance short term needs. If you think about it, accounts receivable financing seems pretty unfair; after you have gone to the expense of making a product or delivering a services, and after you have shipped and invoiced a customer, all you have to do is wait for the cash to come in. That's when the lender comes along and offers to give you the money early, and charge you.

But properly used, this financing will allow you to shorten your cash cycle and grow exponentially faster than if you had to wait for the cash. Revolving loans should be used to bridge the gap during fluctuations in cash flow. It allows you to purchase inventory or pay for services in order to deliver more sales. It can cover seasonal rises in sales, and temporary slowdowns in customer payments.

It should not be used to finance long term assets or long term growth. When short term financing is used to finance new initiatives, acquisitions, equipment, or other things, problems can occur, and probably will. When the underlying assets dip or roll over in aging to ineligible, the corresponding reduction in credit available can actually cause greater cash flow problems.

When the principal amount of short term financing remains unpaid for long periods of time, it becomes "Perma-Debt". If I have a base of $1 million in accounts receivable all the time, but seasonally I bump up to $1.5 million, I should look at obtaining longer term financing to provide the working capital necessary to carry the $1 million and revolving loans to cover the fluctuation of $500,000.

Properly managing your accounts payable can increase your cash flow, but have you ever done the math to figure out what it costs you to miss taking advantage of terms such as "net 30, 2%/10"? In case you're wondering, it equals about 37% interest per year in the average company. Sometimes it is cheaper to factor or borrow against your receivables and pay your vendors early.

Long Term Assets

Carefully plan out how much space, equipment, etc. that you need. Too little equipment will limit your growth and can be costly in adding manual processes and higher payroll costs.

This is part II of a multi-part article which will continue in subsequent news letters. To request a copy of the entire article, please contact us at:

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However, too many fixed assets can add losses through depreciation and maintenance. Ask yourself, does the company really need to own that building, or those cars?

Most important, ask yourself, do my assets produce income? Long term assets that produce income or contribute to the creation of income are called growth assets. Long term assets that don't are called liabilities.

Continued next month…..

All or Nothing?

With the shortage of available financing to fund operations or buyouts, many owners are faced with the dilemma; should I sell all or part of my company?

Several strategies are beginning to take shape to deal with economic and market realities: strategic mergers and alliances can strengthen market share and enhance balance sheets; partial recapitalizations, or equity infusions can shore up the company and provide partial liquidity to owners; and mezzanine financing (subordinated debt with warrants or preferred stock) can bridge the financing gap.

The sale of non– essential assets or the sale lease-back of property and equipment can raise much needed cash.

Many private equity firms are now considering minority positions more seriously, with an eye to completing the buyout when the company has proven itself. This can provide needed capital and expertise, along with a ready buyer when the time is right to exit.

Even in the weaker economy, there are options available to most companies looking to turn around, or expand. It is a good idea to ask yourself, does it have to be all or nothing?

Lazarus Resources can help you explore your options.