



July 2005

The National Portable Storage Association Newsletter

The GLOBAL container

Association Grows in Membership, Services & More!



Within the last twelve months (from June 30, 2004 to June 30, 2005) your association has grown by exactly 100%, from 131 members to 262 members. Record attendance was achieved at the 2004 Annual Conference, Resale Expo and a new record is expected to be established at the upcoming 2005 Annual Conference. To meet the demands of a growing and diverse membership, the association is looking to expand its affinity programs and service offerings. We have already partnered with Merchant Essentials and Corporate Business Services for credit card processing and Professional Employment Services, respectively. We are also looking to partner with a credit reporting and a collection services organization and have those programs in place before the end of the year.

In a very exciting development, the association has undertaken a major industry research project which is being co-sponsored by **Container-It**. We have contracted with **National Analysts**, a major research firm out of Philadelphia. Please look for additional information concerning your participation in this valuable endeavor. This project will help us to acquire hard data on the industry and enable you to have documentation to provide your financiers and underwriters to ensure they understand your business and do not misclassify you into a higher risk than necessary as well as compare your business to other businesses within your region and nationally.

The association also continues to march forward with ongoing improvements to the website (portable storage leads, archived speaker presentations & newsletters, updated membership directory and more), preliminary plans for a tour of container manufactures in China, springtime planning meeting in Cancun, additional affinity programs (discounts on office supplies, insurance, etc.), increased vendor participation at the trade show, working with members on dealing with local governments, certification programs, insurance programs and much more.

Your Board of Directors and Staff have been proud to work with the membership of this association to advance your industry and meet your business needs. We are always here to serve you and encourage you to contact us with any ideas on how to improve the association and help your business. Thank you for your support and we look forward to seeing you in Las Vegas.

2005 Conference & Exhibition

We are extremely excited about this year's 2005 NPSA Conference & Exhibition to be held at Caesar's Palace, Las Vegas, Nevada, September 11-13. We are expecting over 500 to attend this year making it the largest attended NPSA event to date. This is a tremendous achievement for such a newly formed association and a testimony to all of you who have put your faith in us and helped to strengthen your industry.

NPSA has been working very hard to make sure attendees at this year's show will be among the first to see fantastic new industry products on the Trade Show floor, have the opportunity to hear fascinating and highly education speakers discussing up-to-date industry topics during the educational sessions and of course, attend the lavish breakfasts, breaks, lunches, dinners, receptions, golf outings, recreational activities, etc. that provide exclusive industry networking opportunities.

To ensure you get the most out of this year's tradeshow we have invited a select group of vendors to participate. Exhibitors who have committed as of the date of this publication include: **American Container Lifting, Box Trotters, Business Computer Systems, Cam Knot, Charleston Marine, Container-It, Contral-Evaco, Corporate Business Solutions, Flex Box, Gold Container, Hempel Paints, Highwood Enterprises, Incisive Computing Solutions, Intransit, Janus International, Landoll Corporation, Martec International, Merchant Essentials, Moffett, One Way Lease, Paramount Financial, RMI Corporation, Textainer, TAL-Trader, Walker Schork-Swing Thru, West Callaway Insurance.**

Listening to member feedback on what issues are important to you, we were able to put together fantastic educational sessions. Some of these sessions include: A keynote address by TAL International, use your existing fleet in exciting new ways, Coast Guard container inspection; safety, security, and technology, variables involved in the purchase of new vs. used containers, sales taxes- when and how to charge them, extending the life of your container through proper use of paint, paint types- how to tell



Continued on page 5



Cash Is King

Pay Attention to Your Cash Flow Statement



By Anders Norlin

Good Cash Flow – what does it mean?

Operating cash flow is what keeps your company afloat, but do you know what it means for your business? We all talk about the profitability of our companies and pay a lot of attention to the income statement and the balance sheet. However, what is most important for the health of our business is the operating cash flow.

For two main reasons, operating cash flow is a better measurement of a company’s financial condition than net profit. First of all, if your company can generate cash over the long term it will prevail. Secondly, cash flow is more difficult to manipulate under the accounting rules than net income. Having negative cash flow is not necessarily bad if it is caused by investments in revenue generating assets, but it is detrimental if it means that the business is drained of its resources.

In the financial world, the measurement ‘Earnings Before Interest Taxes Depreciation and Amortization’ (EBITDA) is often referred to as the amount of cash a company generates. However, it does not capture the changes in working capital (accounts receivables, inventories, etc.). Therefore, EBITDA really represents earnings before the effects of financing and capital investment. The true cash flow measurement of your business is found in the Statement of Cash Flows.

Overview of the Statement of Cash Flows

The statement of cash flows for most companies consists of three main parts:

- **Cash Flow from Operating activities**– The net cash generated from operations (net income and changes in working capital).
- **Cash Flow from Investing activities** - The net result of capital expenditures, investments, acquisitions, etc.
- **Cash Flow from Financing activities** - The net result of raising cash to fund the other flows or repaying debt.

The example below shows how the operating cash flow of a business is established by adjusting the current net profit with the changes of the balance sheet over the current period. Increases of assets, such as accounts receivable, and inventory and decreases of liabilities, such as accounts payable and loans, will reduce the amount of cash available. Decreases of the assets and increases of liabilities will increase the cash available. The current profit is also increased by reversing the amount of depreciation since it is simply a reduction of the value of assets and has no bearing on cash.

By taking net income and making adjustments to reflect changes in the working capital accounts on the balance sheet (receivables, payables, inventories) and other current accounts, the operating cash flow section shows how cash was generated or tied up during the period. It is this translation process from accrual accounting to cash accounting that makes the operating cash flow statement so important.

Accrual Accounting vs. Cash Flows

The key differences between accrual accounting and real cash flow are demonstrated by the concept of the cash cycle. A company’s

Current Year Net Profit	100
Operating Activities, Cash Flows Provided By or Used In:	
Current Year Depreciation	10
Increase in Accounts Receivables	-20
Increase in Inventory	-15
Increase in Accounts Payable	12
Total Cash Flow From Operating Activities	-13
Investing Activities, Cash Flows Provided By or Used In	
Increase of Equipment Rental Fleet	-75
Increase of Machinery and Other Equipment	-20
Decrease of Buildings and Land	0
Total Cash Flows From Investing Activities	-95
Financing Activities, Cash Flows Provided By or Used In	
Decrease of Credit Line	-35
Increase of Long Term Loan	50
Increase of Capitalized Leases	25
Total Cash Flows From Financing Activities	40
Operating Cash Flow	32

cash cycle is the process that converts sales (based upon accrual accounting) into cash as follows:

1. Cash is used to make inventory.
2. Inventory is sold and converted into accounts receivable.
3. Cash is received when the customer pays.

There are many ways that cash from legitimate sales can get trapped on the balance sheet. The two most common are when the customers delays payment, resulting in a build up of receivables and for inventory levels to rise because the product is not selling as fast as planned or is being returned.

For example, a company may record a \$20,000 sale but because the customer pays in another fiscal period, the sale does not have the positive effect reflected in the income statement until the funds are received. If the payment occurs after the close of the end of the fiscal year, accrued earnings will be greater than operating cash flow because the \$20,000 is still showing as a receivable.

Harder to Manipulate Operating Cash Flows

Not only can accrual accounting give a rather provisional report of a company’s profitability, but it also allows management a range of choices to record transactions. While this flexibility is necessary, it does allow for earnings manipulation. Because owners will generally book business in a way that will help the company either look good in the eyes of their banks or minimize profits for tax

purposes, it is usually safe to assume that the Income Statement always should be compared to the Cash Flow Statement.

To increase sales, a company can book a sale of equipment before the customer has taken formal delivery. Inventories will then be reduced on the books and a sale will be recorded. Accrued earnings will increase, but the customer is not really committed to the purchase until the equipment is delivered or picked up. The earnings are therefore misleading. Assuming that the sale is consummated at a later date, this is simply a way to transfer earnings from one fiscal period to another. On the other hand, if units are held by a third party on consignment and this is recorded as a sale, the earnings are clearly misrepresented.

The operating cash flow statement will catch these manipulations. When operating cash flow is less than net income, there is something wrong with the cash cycle. In extreme cases, a company could have consecutive fiscal periods of negative operating cash flow and suppliers, lenders and shareholders should understand the source of the cash hemorrhage (inventories, receivables, etc.) and determine whether this situation is a short-term issue or a long-term problem.

Cash Exaggerations

While the operating cash flow statement is more difficult to manipulate, there are ways for companies to temporarily boost cash flows. Some of the more common techniques include: delaying payment to suppliers (extending payables) and reversing charges made in prior quarters (such as restructuring reserves).

Some view the selling of receivables for cash—usually at a discount—as a way for companies to manipulate cash flows. In

some cases, this action may be a cash flow manipulation, but it is also a legitimate financing strategy.

Cash Is King

A company can only live by good earnings alone for a limited time. Eventually, it will need cash to pay its bills to suppliers and, most importantly, the bankers. There are many examples of once-respected companies that went bankrupt because they could not generate enough cash, more often due to rapid growth rather than slow times. Strangely, despite all this evidence, owners are consistently focused on the growth of sales, market momentum and good earnings and tend to overlook the signs of financial conditions visible in the Statement of Cash Flows.

<h1 style="margin: 0;">BOX CREDIT</h1> <p style="margin: 10px 0 0 0;">Financial Services for the Portable Storage Industry</p>	<ul style="list-style-type: none"> ▪ Financing of Containers ▪ Leasing of Containers ▪ Sale & Evaluation of Fleets ▪ Advisory Services <p>Phone: 415-381-8542 Fax: 415-329-1773 Email: info@boxcredit.com Url: www.boxcredit.com</p>
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