

Angel investment -- Like venture capital financing, angel investing involves high-wealth individuals who invest in early stage companies with high-growth potential. Angel capital is a personal investment rather than institutional. Angel investments are typically subordinate to bank debt and have a higher interest rate.

Asset-based loans -- Usually short-term loans that use an asset such as equipment, inventory or receivables as collateral. The maximum amount of the loan is tied directly to the value of the assets by a formula. It is common to see this type of loan structured as a revolving line of credit based on current assets such as A/R and inventory. Typically a firm could borrow up to of 80% of domestic A/R (that are not overdue more than 90 days) and a lesser % against the inventory, depending upon the type of inventory (e.g. raw materials and finished goods usually have a higher collateral value than work in process). Companies whose financial situation does not meet typical lending standards often rely on asset-based loans which normally have very stringent reporting requirements and a higher rate of interest.

Commercial credit - The terms vendors offer to customers. If you give buyers 30 days to pay, you are offering an interest-free loan.

Credit cards -- Despite its high cost, the convenience and ready availability of credit can be useful for start-ups to purchase office supplies and equipment, travel, client meals, and incidentals.

Customer financing -- Vendors that take on large projects or those that require a long time to complete often require customers to make a down payment or progress payments and thus, finance operations. Another variation of this is when a customer furnishes raw material or other components.

ESOP -- Employee Stock Ownership Plans can finance a change in ownership from a single or small group of owners to every employee in the organization becoming an owner.

Factoring -- The vendor essentially sells its accounts receivable to the factoring business for a percentage of the face value. Customers then pay the factoring business the full value. The rate of the face value paid by the factor will vary depending on whether the factor assumes the credit risk.

Friends and family -- This is typically low-cost financing for start-ups in terms of dollars, but can be high-cost in terms of relationships gone sour. Equity in the new venture is often given as an incentive to secure money from friends and family.

Government lending initiatives -- SBA (Small Business Administration) loans and special municipal lending programs e.g. MEDC (Milwaukee Economic Development Corp.) are sometimes available to small businesses especially in certain areas where a city is working to develop industry and promote job growth.

Leasing -- Machinery, computers, copiers, phone systems, automobiles and other tangible items can be leased, freeing up capital. The leasing company owns the property and the lessee returns the property to the lessor at the end of the lease term unless there is a buyout provision. While leasing has advantages like not requiring a down payment, it precludes a company from realizing all depreciation tax benefits like additional first year depreciation.

Mezzanine financing -- A blend of equity and debt financing that provides the lender a high return on investment in exchange for assuming higher risk. The borrower pays a manageable interest rate but gives up a portion of the firm's equity down the road. Mezzanine financing often is used for expansion.

Preferred Stock -- Capital infusion received from private investors or venture capital firms is often treated as preferred stock. This form of equity usually is non-voting stock but also requires payment of a preferred dividend that is cumulative (if the dividend cannot be paid each year the liability will nonetheless accumulate). Preferred Stockholders often demand certain rights including preferential treatment in the event of liquidation or sale of the company.

Private Placement -- The sale of stock that is not registered with the Securities and Exchange Commission (SEC) Private placements are normally regulated by state securities laws. Typically an intermediary like an investment bank will bring the buyer and seller together.

Public offerings -- The sale of stock in accordance with the rules of the SEC. While a public offering of stock can provide an established business with substantial growth capital, there is a high cost due to the complexity of the ongoing reporting requirements. Offerings are conducted through an investment banker.

Real estate mortgages -- The transfer of an interest in real estate to a lender as collateral for a loan.

Receivable financing -- In this type of financing, a capital source agrees to lend a vendor up to a percentage of the value of receivables. When the vendor receives payment, it repays the lender.

Subordinated debt -- Commonly used for acquisitions and buyouts, with the loans coming from owners, related parties or a specialized lenders. Most often this debt is subordinate to bank debt in terms of both collateral and repayment.. Subordinated debt normally carries a higher rate of interest because of the increased risk.

Venture capital -- For early-stage companies that have high-growth potential. Venture capitalists obtain part ownership of the company and often bring managerial expertise. They have an exit strategy that envisions a substantial return on investment from sale of the company. Venture capital is used frequently in management buyouts.

If you'd like to discuss financing options, give us a call at 414-273-8060 or, outside of Milwaukee, at 800-358-8060. You can also send us an e-mail at John.Lauber@LauberCFOs.com. One of our LauberCFOs would be happy to confidentially discuss how various financing would fit your particular business situation.

"Tips from LauberCFOs" is published by LauberCFOs, Inc., Milwaukee, WI. The material contained in this publication has been prepared for our clients and business associates for general information purpose. It is not intended to be used as the basis for specific action without obtaining further professional advice. Feel free to contact LauberCFOs for additional information. © Copyright 2009. All rights reserved.