

Finding Money **Workbook**

Some Secrets To Raising Business Capital

This book is designed to assist you in the construction of your business plan and the preparation of the successful presentation of your request for business capital.

Businesses Need Capital

Successful businesses are well planned and well capitalized. Being well capitalized, is having the ability to access capital when you need it. Being well planned, will help you to be well capitalized. This book is designed to first help you become well planned, and then lead you to becoming well capitalized.

We have watched many entrepreneurs lose valuable opportunities because they thought the cost of the capital was too high. They spent too much time negotiating over the cost of the money, while their window of opportunity passed them by. You should try to cut yourself a good deal, but the cost of capital should only be a consideration of the function of losses sustained by not having it. Simply, if it costs you one dollar in order to make two, are you ahead or behind?

Libraries and book stores are full of financial "How To Books" (I highly recommend you read as many as you can). These books will tell you about; generic sources of capital, debt versus equity financing, business planning, goal setting, etc. This book will brush these topics, but its main focus is:

- What information to present to Lenders or Investors;
- How to package your request to get noticed;
- The format the presentation package should take; and,
- Where to find the Funding Source to provide the capital.
(If you don't know where to send your request, what's the point?)

While there is no new technology discovered here, the methods are proven and you will surely benefit from using them. This book is designed to be a workbook. Get out your pencil and fill in each section as you go. Each chapter will guide you by asking you questions and giving you a place to arrive at your answers. When you are finished you will be able to remove the questions and your business plan will be complete, ready to submit to your potential funding sources.

The statistics show that 90% of all new businesses fail. We believe that is a direct result of the failure to plan. Take the opportunity to plan and increase your chances of success.

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1. *Plan For Success*

Capitalizing your business is a full time endeavor. Developing your business plan is the single most important step you can take toward your success. To maximize your potential to receive capital, it is vital that you develop a business plan that will guide your company and allow outsiders to picture where you are going and how you plan to get there. Take great care in preparing your plan, it is the road map that will lead you where you want to go.

Lenders or Investors, which way do I go? They tend to look at transactions from very different perspectives. Lenders are mostly concerned with "Can you repay?". While investors are more

interested in "How far can you go?" There are certain items of information common to both. That will be the information to be disclosed at the start.

Executive Summary

This is it! Grab them here and you may never lose them. This summary is an overview description of your product or service, its market, your niche, the management, the mission, company structure, pro forma highlights, funding request, use of funds and proposed terms. No more than two pages, sell the sizzle not the steak.

EXECUTIVE SUMMARY WORK SECTION

Give a brief yet concise explanation of the following items. Remember, you will fully detail and support each of these later on in your plan, so keep it short.

Desired Amount: _____

Desired Terms: _____

Company Name: _____

Industry Type: _____

Time in Business: _____

Principals: _____

Use of Funds: _____

Collateral Offered: _____

Narrative Briefly describe what your company is all about.

History

Your reader needs a summary of how this venture came to be. Where did the idea come from? How did it evolve? Who is responsible? Be concise but give dates, background, etc. Paint a short picture from how you started, to where you are today.

Mission Statement

One sentence defining what the Company is all about. Think about it and "*make it mean something*". Don't just write a bunch of flowery words.

Stage

Clearly identify what stage of funding you are at. Is your business a start-up, initial growth, positioning for going public, seeking a strategic partner, looking for near future acquisition or sale?

Market Niche

It is important for any funding source to know where you fit in the economic food chain. What niche is your business exploiting that will make it jump over your competition? What are you doing that is better, faster, or newer than what everyone else is doing? For this part you must be very detailed. Remember the investors know nothing about your business. You must prove to them you know what you are doing or are about to do.

Market Research

This is yours or a third parties research that supports your determination that there is a market and a need for your product or service. This will form the back bone of support for the price points and revenue assumptions contained in your pro forma projections indicating to investors or lenders how your company can turn a substantial profit.

Financial Overview

Here is where you briefly highlight, graph and preview your outstanding financial projections. This provides a glimpse into where your gross sales, net income, net worth, etc. should be in years one , two and three. Remember this is only an overview. It should contain no details or support information. That will come later in your financial pro forma section.

2. Players

Funding Sources are going to want to know with whom they are dealing. Important issues become; what are the qualifications, experience, goals and most of all the character of those in the management of this venture?

Personal

Lenders and Investors are both concerned with whether or not you have what it takes to be successful. Highlight information that demonstrates you have the ability to make this business a success. Detail your education, past successes or failures that made you stronger. Indicate how you started this business and what makes you believe it will be a success.

Character

Who are you? Take a deep look inside. Character is not only about winning. It's about getting up again and again when you've been knocked down. Will you panic in a crisis? Will you run for cover when things get rough? Are you the Captain that brings the ship in against all odds? Character is staying power!

To be a successful entrepreneur you must not only be able to start well, but you have to be able to finish strong. For most, running a business is a hard road and not an easy one. Search your soul. If you don't have this kind of character, do yourself and others a favor and don't even start.

Management

Good management is essential. Funding Sources desire to see that you understand your market and have the skills to succeed. Are you a stand alone player, or are there others helping you? If alone, do you plan to keep it that way? Who will comprise your management team? Give detailed resumes of all those involved, along with a description of the vital roles they will play in the business' success. If your management skills or your team is weak, take on the task of building it up in order to support your own success, as well as the success of your funding request.

Third Party Professionals

Listen to "GOOD" advice, and forget "BAD" counsel. Carefully seek out and select professionals who can help you. Do your homework in advance of your need to avoid delays. These legal, financial, tax, marketing, etc., professionals may be willing to advise your company

for a piece of the glory to come or can act as consultants once you have the money to pay them.

Survivorship

What plans have you made to ensure your business will continue to survive without you? Have you trained someone to take over? Is there going to be key man insurance in place for the possibility of illness, disability or death? Without you, can the business continue to survive? Describe how your management team will be able to step up and work the plan.

3. Strategic Position

Assume that your reader knows nothing. Even if you know they are experts, remember that the Lenders or Investors want to see that you know more about the industry and your market than they do.

Market Overview

- General industry definition
- Current size and demand
- Potential target market
- Potential market growth
- Market share of competitors
- Technical evaluation of industry
- Direction of industry
- Current condition of industry

Market Approach

- Initial plan to obtain a market share
- Resources available or allocated to market penetration
- Clearly defined long range market strategy
- Support assumptions on ability to hold market share

Market Analysis

Who are the customers?

	Percentage of Business
Private sector	_____
Wholesalers	_____
Retailers	_____
Government	_____
Other	_____

We will target customers by:

Product lines or services	_____
Geographic area	_____
Sales	_____

Feasibility

Have you analyzed how successful your product or service can be?

What is the total potential market?

Is there really a market for you at all?

Does your company have the strength to get the job done?

Let outsiders know why this will work and be able to support what you believe in!

Product Protection

What measures have you taken or will you take to insure the proprietary nature of your product?
Patents, Trademarks, Copyrights, Trade Secrets, Proprietary Contracts, etc.

Product or Service Analysis

If your product or service is of a proprietary nature, take steps to protect it. Have a non-disclosure/non-circumvent agreement for partners or investors to sign. Keep it simple. If it is too long or contains too many legal words, no one will sign it.

What is your product/service and what does it do?

What advantages does our product/service have over those of the competition?

What are the unique features, patents, expertise, etc.?

What disadvantages does your product or service have?

Where will you get your materials and supplies?

Outside Factors

List the important economic factors that will affect your product or service. Consider things such as country growth, industry health, economic trends, rising prices, etc.:

What are the legal factors that will affect your market?

What are the government factors?

What factors, that you cannot control, will affect your market?

Commercial Viability

Look for outside opinions on the commercial prospects of your product or service. There are numerous low cost or no cost organizations, such as retired executives or small business network groups to run your ideas by.

4. *Market Strategy*

If you don't know where you are going and how you will get there, you are already lost.

Market Position

What kind of image do you have? Are you; inexpensive, exclusive, customer service oriented, high quality, convenience, or fast?

List the features you will emphasize:

What pricing strategy will you use?

% Markup on cost _____

Competitive _____

Below competition _____

Premium price _____

Are your prices in line with your image?

What is the percentage of profit margin have you allowed for?

What customer services will you provide?

What are your sales/credit terms?

Advertising/Promotion

Write a short paragraph that best describes your business:

What advertising/promotion sources will you use?

Television _____

Radio _____

- Direct mail _____
- Internet _____
- Magazines _____
- Newspaper _____
- Personal contacts _____
- Trade associations _____
- Yellow Pages _____
- Other _____

What are the reasons you consider the chosen media to be the most effective?

What features will you promote?

- Applications _____
- Price _____
- Performance _____
- Delivery _____
- Reputation _____
- Service _____
- Exclusive _____
- Components _____
- Colors _____
- Sizes _____
- Uses _____
- Rugged _____
- Design _____
- Availability _____
- Installation _____
- Terms _____
- Workmanship _____
- Other _____

What rationale will you appeal to?

- Accurate Performance _____
- Increased Profits _____
- Economy of Purchase _____
- Increased Production _____
- Durability _____
- Labor Saving _____
- Economy of Use _____
- Time-Saving _____
- Simple Construction _____
- Simple Operation _____
- Ease of Repair _____
- Ease of Installation _____
- Space Saving _____
- Other _____

What buying motive hot buttons will you use?

- Bigger Savings _____

- Increased Sales _____
- Greater Profits _____
- Reduced Cost _____
- Time Saved _____
- Prestige _____
- Greater Convenience _____
- Uniform Production _____
- Economy of Use _____
- Reduced Upkeep _____
- Continuous Output _____
- Leadership _____
- Ease of Use _____
- Reduced Inventory _____
- Low Operating Cost _____
- Simplicity _____
- Reduced Waste _____
- Long Life _____
- Other _____

What emotional responses can you use to your benefit?

- Pride of Appearance _____
- Pride of Ownership _____
- Desire of Prestige _____
- Desire for Security _____
- Desire for Recognition _____
- Desire to Imitate _____
- Desire to be Unique _____
- Desire for Variety _____
- Fear _____
- Desire to Create _____
- Convenience _____
- Curiosity _____
- Other _____

Initial Market Penetration

How long will it take?

What capital resources will be required to acquire the initial share?

5. Setting goals

Having your short and long term goals set to paper is one attribute of all successful entrepreneurs.

Benchmarks/Milestones

These are critical development stages the company has set to meet. Without these visible and obtainable milestones your company and your investors may lose their way. What are the first ten priority items to be accomplished as soon as your company gets the money? How long should it take to complete them?

Priority	Time
1. _____	_____
2. _____	_____
3. _____	_____
4. _____	_____
5. _____	_____
6. _____	_____
7. _____	_____
8. _____	_____
9. _____	_____
10. _____	_____

Short Term

Near future...One year success points. Define levels of your projected success that must be obtained in order to allow your pro forma to come true. Set to paper obtainable goals that will show your investors how you plan to keep the company on track.

Long Term

Lenders/Investors don't have your company vision. Here is where you must paint a picture of the future for them. This is the word version that supports what your pro forma has projected will take place over the next five years.

Exit Strategy

Funding Sources want to know how you plan to pay them back. Will the business generate a cash flow large enough to support the debt? Is the product or service so in demand that the company will go public? These questions and more will not only help determine your success, but they will also narrow your search for the lender most likely to fund your request.

Personal

While your personal goals may not matter to your potential Lenders or Investors, they do matter to you and your company. Deciding to be an entrepreneur can have great effects on your life and the lives of those around you. Set down your personal goals just as you are writing this business plan. Discuss them with your family. Take the time to find out what your business associates expect of you.

6. Competition

Know your competition. They can help you or bury you.

Complementary Products

Show that you have searched out all those companies who offer competitive or related products. Define those who offer complementary products in the same or similar industries. Explain how competitive relationships can be turned into joint ventures, strategic partnerships, buyouts, acquisitions, etc. in the future. Lenders or Investors take comfort in the fact that you have defined possible exit solutions if things don't go as planned.

Who are your three major competitors?

Competitor #1 _____

Address _____

Years in Business _____

Market Share _____

Price/Strategy _____

Product/Service _____

Competitor #2 _____

Address _____

Years in Business _____

Market Share _____

Price/Strategy _____

Product/Service _____

Competitor #3 _____

Address _____

Years in Business _____

Market Share _____

Price/Strategy _____

Product/Service _____

Compare your strengths and weaknesses to your competition's. Consider such things as location, size of resources, reputation, services, personnel, etc.

Strengths:

Weaknesses:

Current Market Share

It is vital that you demonstrate an expert understanding of what your industry is all about.

Where is your industry going?

What is the current condition of your industry?

Why are the current market distributions the way they are?

What has your competition done to achieve their market share?

What advertising media is most effectively used by your competition?

Trade Associations

Give a reference to all trade associations that cover your industry. Use material supplied by these organizations to support statements and assumptions you have made throughout your funding request.

List the trade associations that service your industry:

7. Amount Requested

Conservative Request

It is extremely important that your financial projections fully support the amount of funds you are seeking. If you are seeking debt financing your request must be very specific. Lenders frown upon you having to come back to ask for more, because you underestimated. Investors may not be inclined to keep your management team in place if you can't make the funding work.

Downside Planning

Take the time to plan for the downside. It is far better to over estimate your capital requirements than to run short and be forced to go hat in hand back for more.

Supportable Assumptions

Both Lenders and Investors are going to want to know that you have reasonably estimated and supported your costs and projected revenues. Your financial pro forma should include detailed information and trade references on the costs of each expense you list.

Association Documentation

In your income projections be sure to include Trade Industry support information or other market information that lends credibility to the conclusions you have drawn. Most associations publish reports of standard industry costs, margins and financial ratios.

8. The Terms

Know what you want, what you can afford and what you will give up.

How Long?

This should be based on your financial pro forma or the useful life of the asset being financed. Receivable and contract financing are less than 12 months, equipment normally one to five years, real estate and other long term assets 5 to 20 years.

Amortized versus Interest Only

Most ventures take some time to begin making money. New equipment or other acquired assets take time to begin paying for themselves. Think about an initial period of interest only or skip payments to offset your lack of cash flow.

Interest Rate

The rate you pay for the funds you need can directly affect your profitability. On the other hand, if by paying 50% interest, you yield 100% profitability, you are way ahead of where you began.

Fixed or Adjustable

With a fixed rate of interest you know where you are. With adjustable rates you're betting on the future. Anybody remember Jimmy Carter interest rates? Normal is Prime plus one to three percent or LIBOR (London Index) plus three to five percent. Rates vary as you add or subtract risk.

Points and Fees

Most, if not all, funding sources charge points (percentage of amount funded) and fees (costs of putting your transaction together). These can run from 1% to 10% depending on what you're looking for and the degree of risk. Fees are sometimes payable 50% at commitment and 50% at closing. Try to get 100% at closing or at least deposit the 50% into a trust or escrow account. Beware of those sources who must have your money before you see theirs'.

Prepayment Penalties

Funding sources spend time, energy and money picking deals to invest in. Once they lend or invest they want to stick with it. Pre-payment penalties are one way to insure you'll leave the funds in place. Try to negotiate these away, or limit them to one or two years.

Blanket & Specific Liens

Blanket means "all". Specific is just that. Blanket liens will restrict your ability to raise cash in the future. Always attempt to have specific liens.

Personal Guarantees

How committed are you? If you won't sign personally, then you may not get any money. This is a gut check. If you don't believe in your success, why should anyone else? As you and your company perform, you should be able to get these released.

Covenants & Conditions

Be very careful. These spell out just what you can and cannot do. No management or ownership change, quarterly filing requirements, no borrowing from anyone else, deposits maintained, collateral pledges, etc. Read and evaluate the fine print.

% Ownership You Will Offer

What's fair? 80%, 50%, 20%... I can't tell you. You must define it, support it, and defend it. While most lenders won't ask, most investors will demand. Be prepared from the start. Do your homework on your potential funding sources.

Stock Repurchase Agreement?

What happens if you hate your investor? Are you locked together forever? Try to negotiate

escape clauses that will allow you a way out if you need it or can afford it. Be able to buy your stock back at a predetermined price, if possible.

Management Controls?

Most entrepreneurs are in business to make decisions for themselves. Some investors want almost a partnership. Once again, pre-plan and know what you are looking for and what you are willing to give up.

Collateral Anyone?

Will you risk it all? If you don't believe, neither will anyone else?

- Accounts Receivable
- Contracts
- Equipment
- Inventory
- Marketable Securities, CD's, T-Bills
- Purchase Orders
- Real Estate
- OP (Other Peoples)

9. *Use of Funds*

Entrepreneurs tend to spend too much time looking for money and not enough time making money. This problem stems from the lack of adequate pre-planning given to the initial use of funds. In order to determine what your short and long term capital needs are going to be, you must perform accurate financial projections.

Those projections must consider:

- Immediate Need For Capital (Bills to pay)
- Research and Development (Estimate, then double)
- Capital Asset Acquisition (Required equipment, etc.)
- Inventory Floor Planning (Necessary raw materials)
- Working Capital Requirements (Payroll, payables, etc.)
- Market Penetration (When will the cash flow begin)

The cash flow model is the best tool for determining what your capital needs will be. Don't be overly optimistic or conservative, either one will hurt you. Know what factors will affect your projections to the downside, (sales, costs, price breaks, etc.). Work closely with third parties, financial advisors, accountants, industry consultants, retired executives, etc., to keep from having tunnel vision and missing the big picture. Your cash flow model should be month-to-month for one year and quarterly for the next four years.

10. *Repayment Plan*

Repayment is tied directly to your success. In order to repay your Funding Source, you must clearly define how you are going to make money and how much money you are going to make.

R&D Requirements

How much research and development remains before you can enter the market? Does your product require regulatory approval? What is your time table? What delays are foreseeable that could affect your time table? Are there any alternative plans if tests, approvals, patents, licenses, etc., don't go as planned?

Break Even Analysis

Exactly where is it? Must you sell 10,000 wiggits? How will price breaks effect you? Can your salespeople survive on your commission structure? What about material price increases? Here is where you are going to demonstrate that you understand your product, its market, its costs and your industry.

Current or Projected Debt Coverage Ratio

Remember 1.25 to 1. It's a figure that can affect your future. For lenders if your net income is below 1.25 to 1, it may mean no loan, a higher rate or more collateral. Simply put, it determines your ability to service debt. Your net income should be 1.25 times higher than the debt payment you are proposing to take on. Hopefully you have analyzed your debt coverage ratio and found it to be much higher. If it's not, this leaves a pretty slim margin for error.

With investors, because there is no debt, they are concerned with profit margins and retained earnings. The projections should support ratios of better than 2.0 to 1 to generate any serious investor interest.

Amortization or Dividend

- Return on investment
- Return of investment

These are terms that all funding sources want to know. If they give you the money, what do you project your time table to be for them to get their investment back? Then, when does the return on the investment start?

Pre-Planning

Always try to arrange for funding when you don't need it. Entrepreneurs are famous for seeking capital in a crisis. When your need is great (payroll, taxes, sales drop, etc.) rates always seem to go up or you can't find capital at all. Do your best to forecast your capital requirements at least six months in advance.

11. *Pro Forma Financials*

Projection Information

Being able to present a clear, concise, logical and supportable financial projection is probably the most important key to having a chance of obtaining the capital you desire. If you don't have financial forecast ability, hire someone who does. Have your pro forma give a month-by-month breakdown for the first year and then annually for the next four years. Include and fully support:

- Sales Estimates
- Administrative Costs
- Production Costs
- Sales Costs
- Capital Expenditures
- Gross Margin by Product Line
- Sales Increase by Product Line
- Interest Rates on Debts
- Income Tax Rate
- Accounts Receivable Collection Plan
- Accounts Payable Schedule
- Inventory Turnover
- Depreciation Schedules
- Usefulness of Assets

The Income Statement (Profit & Loss)

The income projection enables the owner/manager to develop a preview of the amount of income generated each month and for the business year, based on reasonable predictions of monthly levels of sales, costs and expenses.

1. Total Net Sales (Revenues)

The total number of units of products or services you realistically expect to sell each month in each department at the prices you expect to get. Use this step to create the projections to review your pricing practices. What returns, allowances and markdowns can be expected?

2. Costs of Sales

The key to accurately calculating your cost of sales is not to overlook any costs that you have incurred. Calculate the cost of sale of all products and services used to determine total net sales. Where inventory is involved, remember transportation costs and any direct labor.

3. Gross Profit

Subtract the total cost of sales from the total net sales to obtain gross profit.

4. Gross Profit Margin

The gross profit is expressed as a percentage of total sales (revenues). It is calculated by dividing the gross profits by the total net sales.

5. Controllable Expenses

- Salary expenses -- Base pay plus overtime.
- Payroll expenses -- Include paid vacations, sick leave, health insurance, unemployment insurance and social security taxes (employer paid portion).
- Outside services -- Include costs of subcontracts, overflow work and special or one-time services.

- Supplies -- Services and items purchased for use in the business.
- Repair and maintenance -- Regular maintenance and repair, including periodic large expenditures such as painting.
- Advertising -- Include desired sales volume and classified directory advertising expenses.
- Car delivery and travel -- Include charges if personal car is used in business, including parking, tools, buying trips, etc.
- Accounting and legal -- Outside professional services.
- Dues and subscriptions.
- Utilities.

6. Fixed Expenses

- Rent -- List only real estate used in business.
- Depreciation -- Amortization of capital assets.
- Insurance -- Fire or liability on property or products. Include workers' compensation.
- Loan repayments -- Interest on outstanding loans.
- Licenses and permits.
- Miscellaneous -- Unspecified; small expenditures without separate accounts.

7. Net Profit (or Loss)

(before taxes) - Subtract total expenses from gross profit.

Taxes - Include inventory and sales tax, excise tax, real estate tax, etc.

(after taxes) - Subtract taxes from net profit (before taxes)

Income Projection Worksheet

Revenue Projection

Total net sales (TNS)	\$ _____
Costs of sales (COS)	\$ _____
Gross profit (TNS-COS=GP)	\$ _____
Gross Profit margin (GP/TNS)	_____ %

Controllable expenses

Salaries/wages	\$ _____
Payroll expenses	\$ _____
Legal/accounting	\$ _____
Advertising	\$ _____
Automobile	\$ _____
Office supplies	\$ _____
Dues/Subscriptions	\$ _____
Utilities	\$ _____
Other	\$ _____

Fixed Expenses

Rent	\$ _____
Depreciation	\$ _____
Insurance	\$ _____
License/permits	\$ _____

Loan payments	\$ _____
Other	\$ _____
<u>Total expenses</u>	\$ _____
<u>Net profit (loss) before taxes</u> (GP-Expenses)	\$ _____
<u>Taxes</u>	\$ _____
<u>Net profit (loss) after taxes</u>	\$ _____

This form should be used to project month to month income and expenses for year one and then to provide annual projections for the next four years.

The Balance Sheet

Assets

List anything of value that is owned or legally due the business. Total assets include all net values. These are the amounts derived when you subtract depreciation and amortization from the original costs of acquiring the assets.

Current Assets

- Cash -- List cash and resources that can be converted into cash within 12 months of the date of the balance sheet (or during one established cycle of operation). Include money on hand and demand deposits in the bank, e.g., checking accounts and regular savings accounts.
- Petty cash -- If your business has a fund for small miscellaneous expenditures, include the total here.
- Accounts receivable -- The amounts due from customers in payment for merchandise or services.
- Inventory -- Includes raw materials on hand, work in progress and all finished goods, either manufactured or purchased for resale.
- Short-term investments -- Also called temporary investments or marketable securities, these include interest- or dividend yielding holdings expected to be converted into cash within a year. List stocks and bonds, certificates of deposit and time-deposit savings accounts at either their costs or market value, whichever is less.
- Prepaid expenses -- Goods, benefits or services a business buys or rents in advance. Examples are office supplies, insurance protection and floor space.
- Long-term Investments -- Also called long-term assets, these are holdings the business intends to keep for at least a year and that typically yield interest or dividends. Included are stocks, bonds and savings accounts earmarked for special purposes.

Fixed Assets

Also called plant and equipment. Includes all resources a business owns or acquires for use in operations and not intended for resale. Fixed assets may be leased. Depending on the leasing arrangements, both the value and the liability of the leased property may need to be listed on the balance sheet.

- Land -- List original purchase price without allowances for market value.
- Buildings
- Improvements (Including leasehold improvements)
- Equipment
- Furniture
- Automobile/vehicles

Liabilities

Current Liabilities

List all debts, monetary obligations and claims payable within 12 months or within one cycle of operation. Typically they include:

- Accounts payable -- Amounts owed to suppliers for goods and services purchased in connection with business operations.
- Notes payable -- The balance of principal due to pay off short-term debt for borrowed funds. Also includes, the current amount due of total balance on notes whose terms exceed 12 months.
- Interest payable -- Any accrued fees due for use of both short-and long-term borrowed capital and credit extended to the business.
- Taxes payable -- Amounts estimated by an accountant to have been incurred during the accounting period.
- Payroll accrual -- Salaries and wages currently owed.

Long-term Liabilities

Notes payable -- List notes, contract payments or mortgage payments due over a period exceeding 12 months or one cycle of operation. They are listed by outstanding balance less the current position due.

Net Worth

Also called owner's equity, net worth is the claim of the owner(s) on the assets of the business. In a proprietorship or partnership, equity is each owner's original investment plus any earnings after withdrawals. In a corporation it is the capital investment paid for the issuance of stock, plus the surplus paid in by the principals, and the after tax retained earnings.

Total Liabilities and Net Worth

The sum of these two amounts must always match that for total assets.

The Balance Sheet Worksheet

As of _____, 20_____

Assets

<u>Current Assets</u>	(Net Values)	
Cash		\$ _____
Petty cash		\$ _____
Accounts receivable		\$ _____

Inventory	\$ _____
Short-term investment	\$ _____
Prepaid expenses	\$ _____
Long-term investments	\$ _____
Fixed assets	
Land	\$ _____
Buildings	\$ _____
Improvements	\$ _____
Equipment	\$ _____
Furniture	\$ _____
Automobile/vehicles	\$ _____
Other Assets	
1.	\$ _____
2.	\$ _____
3.	\$ _____
Total Assets	\$ _____

Liabilities

Current Liabilities (within 12 months)	
Accounts payable	\$ _____
Notes payable	\$ _____
Interest payable	\$ _____
Taxes Payable	
Federal income tax	\$ _____
State income tax	\$ _____
Self-employment tax	\$ _____
Sales tax (SBE)	\$ _____
Property tax	\$ _____
Payroll accrual	\$ _____
Long-term liabilities (over 12 months)	
Notes payable	\$ _____
Total Liabilities	\$ _____
Net worth (owner equity)	\$ _____
If Proprietorship or Partnership	
(name's) equity	\$ _____
If Corporation	
Capital stock	\$ _____

Surplus paid in \$ _____
Retained earnings \$ _____

Total Net Worth \$ _____

Total Liabilities and Total Net Worth \$ _____

(Total assets will always equal total liabilities and total net worth)

Cash Flow Projections

Having a model of how much cash it is going to take and when that cash must be available, is just like having a road map. With it you can go far, without it you run out of gas. Detailed first year cash flow projections, followed by a summary overview of how the next four years will flow, are a must.

1. Cash on hand (beginning of month) \$ _____
Cash on hand same as (7), Cash position, previous month.

2. Cash receipts - (a) Cash sales \$ _____
All cash sales. Omit credit sales unless cash is actually received.

(b) Collections from credit accounts \$ _____
Amount to be expected from all accounts.

(c) Loan or other cash injection \$ _____
Indicate here all cash injections not shown in 2(a) or 2(b) above.

3. Total cash receipts (2a+2b+2c=3) \$ _____

4. Total cash available (before cash out)(1+3) \$ _____

5. Cash paid out - (a) Purchases (merchandise) \$ _____
Merchandise for resale or for use in product (paid for in current month).

(b) Gross wages (excluding withdrawals) \$ _____
Base pay plus overtime.

(c) Payroll expenses (taxes, etc.) \$ _____
Include paid vacations, paid sick leave, health insurance, unemployment insurance, social security (employer portion). These might be 10 to 45% of 5(b).

(d) Outside services \$ _____

(e) Supplies (office and operating) \$ _____
Items purchased for use in the business (not for resale).

(f) Repairs and maintenance \$ _____
Include periodic large expenditures such as painting or decorating.

(g) Advertising \$ _____
This amount should be adequate to maintain sales volume.

(h) Car, delivery and travel \$ _____

(i) Accounting and legal \$ _____

(j) Rent \$ _____
Real estate only (See 5(p) for other rentals).

(k) Telephone \$ _____

(l) Utilities \$ _____

(m) Insurance \$ _____
Coverage on business property and products (fire, liability); also worker's compensation, fidelity, etc. Exclude executive life (include in 5(w)).

(n) Taxes (real estate, etc.) \$ _____
Plus inventory tax, sales tax, excise tax, if applicable.

(o) Interest \$ _____
Interest on loans as it is injected (See 2(c)).

(p) Other expenses (specify each) \$ _____
Unexpected expenditures may be included here.
Equipment expenses during the month should be included here (non-capital equipment).
When equipment is rented or leased, record payments here.

(q) Miscellaneous (unspecified) \$ _____
Small expenditures for which separate accounts would be practical.

(r) Subtotal \$ _____
This subtotal indicates cash out for operating costs.

(s) Loan principal payment \$ _____
Include payment on all loans, including vehicle and equipment purchases on time payment.

(t) Capital purchases (specify) \$ _____
Non-expensed (depreciable) expenditures such as equipment, building purchases on time payment, leasehold improvements, etc.

(u) Other start-up costs \$ _____
Expenses incurred prior to first month projection and paid for after start-up.

(v) Reserve and/or escrow (specify) \$ _____
Example: insurance, tax or equipment escrow to reduce impact of large periodic payments

(w) Owner's withdrawals \$ _____
Should include payment for such things as owner's income tax, social security, health insurance, executive life insurance premiums, etc.

6. Total cash paid out (5a through 5w) \$ _____

7. Cash position (end on month) (4 minus 6) \$ _____
Enter this amount in (1) Cash on hand following month

Essential operating data (non-cash flow information)

This is basic information necessary for proper planning and for proper cash flow projection. Also with this data, the cash flow can be evolved and shown in the above form.

A. Sales volume (dollars) \$ _____

This is a very important figure and should be estimated carefully, taking into account size of facility and employee output as well as realistic anticipated sales (actual sales, not orders received).

B. Accounts receivable (end of month) \$ _____

Previous unpaid credit sales plus current month's credit sales, less amounts received current month (deduct "C" below).

C. Bad debt (end on month) \$ _____

Bad debts should be subtracted from (B) in the month anticipated.

D. Inventory on hand (end on month) \$ _____

Last month's inventory plus merchandise received and/or manufactured current month minus account sold current month.

E. Accounts payable (end of month) \$ _____

Previous month's payable plus current month's payable minus amount paid during month.

F. Depreciation \$ _____

Established by your accountant, or value of all your equipment divided by useful life (in months) as allowed by Internal Revenue Service.

Monthly Cash Flow Projection Worksheet

1. Cash on hand (beginning month)	\$ _____
2. Cash Receipts	\$ _____
2. (a) Cash sales	\$ _____
(b) Collections from credit accounts	\$ _____
(c) Loan or other cash injections (specify)	\$ _____
3. Total cash receipts	\$ _____
4. Total cash available (before cash out)(1+2+3)	\$ _____
5. Cash paid out	\$ _____
(a) Purchases (merchandise)	\$ _____
(b) Gross wages (excludes withdrawals)	\$ _____
(c) Payroll expenses (taxes, etc.)	\$ _____
(d) Outside services	\$ _____

(e) Supplies (office and operating)	\$ _____
(f) Repairs and maintenance	\$ _____
(g) Advertising	\$ _____
(h) Car, delivery and travel	\$ _____
(i) Accounting and legal	\$ _____
(j) Rent	\$ _____
(k) Telephone	\$ _____
(l) Utilities	\$ _____
(m) Insurance	\$ _____
(n) Taxes (real estate, etc.)	\$ _____
(o) Interest	\$ _____
(p) Other expenses (specify each)	\$ _____
(q) Miscellaneous (unspecified)	\$ _____
(r) Subtotal	\$ _____
(s) Loan principal payment	\$ _____
(t) Capital purchases (specify)	\$ _____
(u) Other start-up costs	\$ _____
(v) Reserve and/or escrow (specify)	\$ _____
(w) Owner's withdrawal	\$ _____
6. Total cash paid out (5a through 5w)	\$ _____
7. Cash position (end of month)(4 minus 6)	\$ _____

Essential operating data (non-cash flow information)

A. Sales volume (dollars)	\$ _____
B. Accounts receivable (end of month)	\$ _____
C. Bad debt (end of month)	\$ _____
D. Inventory on hand (end of month)	\$ _____
E. Accounts payable (end of month)	\$ _____
F. Depreciation (in months)	\$ _____

Key Indicators and Ratios

Being able to summarize your important financial points allows the Lender/Investor insight into whether or not you understand how the money world operates. Provide support for: sales revenue, price points, fixed costs, gross margins, and net income. The financial industry judges your potential success by RMA (a lending trade association) standards and ratios. If you're not a good numbers person ask your accountant to calculate the following ratios:

- Current Ratio (1 to 1 or better) Current assets divided by current liabilities.
- Quick Ratio (0.5 to 1 or better) Current assets less inventory divided by current liabilities.
- Debt to Worth Ratio (3 to 1 or better) Creditors capital to owners capital.
- Gross Profit Margin (60% or better) Gross sales less cost of goods sold.
- Net Profit Margin (10% or better) Gross sales to net income.

- Debt Coverage Ratio (1.25 to 1 or better) Net income divided by debt payment (Principal & Interest).
- A/R Turnover Ration (as close to 12 as possible) Gross Sales divided by accounts receivable.
- "SIC" Standard Industrial Code (know yours) Lenders will compare your ratios to those of your industry.

There are many good computer financial programs available to assist you in formatting your projections. If you aren't computer literate, recruit someone who is. After you have taken a run at the numbers by yourself, it is always a good idea to have your accountant look them over.

12. Preparing Your Presentation

Take great care in your preparation of all the items mentioned in chapters 1 through 11 of this book. Unfortunately, you normally only get one shot per funding source, so make it your best!

Have Additional Information Packaged and Ready

- Schedule of Assets
- Personal Financial Statements
- Credit Report Releases
- Business Tax Returns
- Personal Tax Returns
- Articles of Incorporation
- Copies of Orders or Invoices
- Customer Testimonials
- Trade References
- Banking References
- Title Reports (equipment, real estate, etc.)
- Asset Appraisals
- Patents, Trademarks or Licenses

Presentation

- First impressions are lasting, make a good one.
- Use a color product brochure as a cover.
- Bind the material in such a way that allows for easy reading.
- Tab each section for direct access.
- Keep your information concise and to the point.
- Pictures are worth a thousand words; include good ones.
- Support assumptions with facts, not more assumptions.

13. *Type of Capital Desired*

It's easier to find something, when you know what you are looking for and in what direction it might be.

Debt Versus Equity

Debt funding is normally cheaper and easier to find than equity funding. Debt typically carries the burden of monthly payments, whether or not you have positive cash flow.

Equity investors expect little or no return in the early stages, but require much more extensive reporting as to the company's progress. They have invested on the gamble of very high returns. Therefore, investors anticipate that goals and milestones will be met.

Debt financing is usually available to all types of businesses. Equity is generally restricted to businesses with fast and very high growth potential.

Debt Considerations

- For what type of debt financing can my company qualify?
- How much debt can I afford?
- Can I handle the payments if cash flow is off?
- What happens if interest rates rise?
- Am I willing to pledge company and personal assets?
- What about my personal guarantee?

Debt lending is more analytical than personal. Are your ratios right? Do you have the assets? Are you credit worthy?

Equity Considerations

- What type of investors do I target?
- Am I willing to share control and future profits?
- Do I really want investors as partners forever?
- How big of a share am I willing to give up?
- Will I be able to keep up with all the required reports?
- What about disclosing company secrets to potential investors?

Investors will want to take a much larger share of a start-up venture, than they will of a company with a two or three year track record of success.

Angels

Angels are individual private investors who make up a large portion of "informal" venture capital. These investors usually keep their money close to home (50 miles or so). They tend to invest small amounts (\$25,000 to \$250,000), and they can be difficult to locate because they usually don't belong to networks or trade associations.

Angels are found among friends, family, customers, third party professionals, suppliers, brokers and competitors. For the most part, once they invest in two or three deals they are out of money.

There are a few private investor locating services out there. Beware of those who charge large (\$1,000 or more) advance fees in order to put you in an investor. Do your homework, check these people out and negotiate a commission if your request is placed.

Caution: Don't advertise in your local paper for investors until you have spoken to a securities attorney, or the SEC may give you a call.

Venture Capital

These investors are out looking for huge returns not just good ones. Venture capital is extremely hard to get and the competition is fierce. These funding sources get thousands of requests each year and only invest in three or four.

The managers who invest these funds are great at finding oysters that will produce pearls. They usually are very bright, well educated and extremely arrogant. Tread lightly here and I highly recommend you go another direction if you can.

Joint Ventures/Strategic Partnerships

My personal favorite. This is where two companies with parallel interests get together based on their mutual needs:

- They have the money...you have the plan.
- You have the product...they have the distributors.

Do your homework. Seek out companies with parallel interests to your own. You have the world's best new phone design and they are AT&T. This requires much more research than simply asking for a loan. Most of these partners will settle for 20% to 40% equity in your company. Be careful to protect your ideas by having any potential partners sign a non-circumvention document.

Small Business Administration (SBA)

A tremendous resource, but the paperwork can be tiring. This is a great place to look. The SBA has many different programs. Your local bank should have an SBA loan officer who can explain them to you. The most aggressive SBA lending sources nationwide are AT&T Capital, The Money Store and GE Capital, look them up in your local phone book.

If you need \$100,000 or less and have excellent credit the SBA Low Doc program could be for you. It is a simple application and they tell you yes or no in about 72 hours.

Small Business Investment Corporation (SBIC)

These firms leverage their private capital into government money to form a sort of venture capital fund. Most SBICs are part of commercial banks. They offer both long term loans and equity participation. They are conservative investing mainly in established companies for management buyouts, funds to go public, strategic partnerships and bridge financing.

Commercial Paper

This is a short term debt instrument typically issued from 2 to 270 days. An issue is normally a promissory note that is unsecured and discounted from its face value. The issue is usually backed by a letter of credit or some other form of credit guarantee. The company may pledge assets to obtain a credit guarantee that is then leveraged into an issue of commercial paper.

Letters of Credit

Issued to your funding source on your behalf, as a guarantee that you will pay. If you don't pay the issuer does. Your bank might issue the L/C based on your pledge of a receivable or other hard asset.

Receivable Factoring

An age old method of financing. Funds are advanced against goods sold, accepted and not yet paid for. Normal advances on accounts receivable are 80% to 90%. The lenders are looking for ninety (90) days or less to be paid. Funding is available for older accounts receivable, but the rates take a dramatic turn upwards.

Purchase Order Advances

Leveraging your future. If you have purchase orders with your customer base, you may be able to get advances towards their completion. The typical advance is less than 50%, and the rates are very high. Don't choose this one unless there's no other way.

Equipment Leasing

You can think of this as renting assets. You gain the capital equipment you need and agree to pay rent for a specific period of time. There is no interest rate here, but the rates tend to be higher than commercial loans. Some of that is offset by being able to expense 100% the payments (pretax). Check with your tax accountant to be sure.

Asset Sale Lease-Backs

If you are cash poor and asset heavy, this may work for you. Here you are selling your asset for cash to a funding source who leases it back to you (typically with a lease end purchase option). The downside of this approach may be capital gains or sales tax.

Private Placements

A do it yourself stock offering. A great way to raise small amounts of capital (\$500,000 or less) with a few investors (typically less than 35). These are now available in a boiler plate format in most states. Contact your state's Department of Corporations for information on what is required to stay out of trouble.

Public Offerings

504, 505 & 506 Offerings.

Forms of stock offerings that let you raise more money and have more investors than private placements. These are great vehicles if you take the time to figure them out. Contact the SEC, they will be happy to send you the rules and the forms.

Limited Partnerships

You can look for one or form your own. Limited partnerships usually exist for the purpose of investing. The general partner has all the exposure and management duties, while the limited partners have put up all the money. There are numerous Limited Partnerships out there that have been formed to invest in businesses. You can search them out or inquire with your State as to the requirements for forming your own.

Convertible Debt

This is normally a loan than can be converted (at the lender's option) into an ownership position

in the company. These are most common with seed or start-up funding where the lender would like a piece of the rock in the event you become a tremendous success.

State Bonds

Most states have revenue bonds. These bonds are usually designed as debt instruments, where the company issues the bond and the state agency underwrites it. These bonds are generally issued to promote manufacturing facilities that will create jobs.

Lines of Credit

A revolving account that is continuous in its nature. The funds are available as draw downs against the total line. These types of accounts are most commonly secured with accounts receivable and inventory as collateral.

This book covers the major types of business financing. There are numerous creative ways to finance your business. If one of those comes your way take a moment to investigate it. You can never know too much about how to capitalize your business.

14. Find Your Funding Source

America's Business Funding Directory

The **Internet's First Business Capital Search Engine** *Connecting entrepreneurs who are searching for capital, directly to Funding Sources with capital available to place.* That's really the whole point, isn't it? This service is designed to match your specific funding request with the lending or investing criteria of thousands of Funding Sources nationwide.

It is far better to go directly to a Funding Source whose criteria you already match, then to try to make your request match what they do. Don't waste your valuable time talking to sources who can't help you. Get your request in front of those Funding Sources that are pre-qualified to match your specific funding request.

This service is provided by Business Funding Services, Inc. and contains the criteria of Funding Sources world wide with entries from every type of funding category listed in the previous chapter and the service is **FREE**.

Remember that Funding Sources come and go, and along the way they change what they are looking for. Printed material tends to get out of date. That's why I recommend using **America's Business Funding Directory** to locate business capital funding sources that match your specific request for capital. This directory is The Internet's First Business Capital Search Engine with information that is updated **DYNAMICALLY**. Once again, best of luck in your search for financing.

Venture Capital

Investments are normally more than \$500,000 placed in industries and businesses that exhibit extremely high growth potential. If you fit the profile, we have categorized almost a thousand of these companies.

Commercial Lending

Commercial Lending is normally renewable shortterm loans to finance the working capital needs of a business. Qualifying for this type of capital typically involves the pledging of some form of asset or equity. Take a look, you may have assets you never thought of!

Investment Related

We have listed many sources for Investment in you business. If you are searching for equity capital or some type of offering, it can be found in the directory.

Equipment Related

Is equipment acquisition a major part of your need for business capital? All the equipment related funding sources you will ever need are in the directory.

Government Programs

Believe it or not, our Government is one of the major sources of small business capital. We have listed those Funding Sources that are outlets for U.S. Government programs.

Real Estate Related

Need Funding for a Real Estate project? You can find Funding Sources for every type of real estate project under the sun.

How Do I Use The Directory?

Get to the Internet somehow. If you don't have a computer with a modem then, visit your local computer store and ask them to help you visit us, try your local Chamber of Commerce, some libraries have Internet connections, your local college or university may be able to assist you. Once you have the access then the directory's Internet address is <http://www.businessfinance.com>

To Receive More Information

- Visit the Internet Website at "<http://www.businessfinance.com>"
- E-mail to abfd@ix.netcom.com

15. The Internet Factor

If you aren't already on-line, get there. A wealth of the world's information is available at the click of a mouse. The Internet is expanding by quantum leaps everyday. There has never been anything like it. The opportunity to do business and locate customers here is world wide.

If your company isn't on the Internet, you are already behind your competition. Pick up one of a dozen magazines for the Internet. Most of these publications will tell you how to get a "Home Page" for your company. It should cost you around a \$1,000 in total for the design work. Select an Internet service provider that will bill you a flat rate, typically no more than \$19.95 per month. Your home page (or website) address on somebody else's server unit should cost no more than a couple of hundred dollars per year. This is the fastest growing media the world has ever seen, don't be left behind.

"**America's Business Funding Directory**" is available on-line at Internet address

"<http://www.businessfinance.com>" Drop in and submit your funding request electronically. Not only are you given specific Funding Source matches, but a summary of your funding request can be posted on the Internet for all the world to see!

The America's Business Funding Directory's web site also contains a valuable index to hundreds of Internet sites that are available to post or advertise your company's product, service or funding request. Most of these sites are free or for a very low cost. If you need more information about promoting your business on the Internet visit **<http://www.businessfinance.com/busres.htm>**. This unique Internet resource may help you expand your business fast.

16. Negotiating Your Deal

First learn to say **NO**. Now you're ready to negotiate. Most Entrepreneurs approach the issue of negotiating with great stress and anxiety. This leads directly to weak negotiations or becoming defensive about being asked too many questions. Either way, you lose! In order to avoid this happening to you, please go back to chapter eight "Terms" and make sure you have clearly defined what you are looking for before the negotiations begin. Then...

- Determine which points are worth fighting for.
- Express your objections and questions to any point.
- Get it in writing, leave nothing to verbal agreements.
- Subject everything to your long range goals.
- Pay close attention to what triggers default.
- Establish ceilings and caps. You don't want to be stuck paying huge payments if rates go up.
- Plan for the downside. Attempt to have an "interest only" clause or "skip payment" provision in the event of slow downs.
- Look for no pre-payment penalty or the right to buy back your stock at a fixed price.
- Pay attention to covenants, conditions, ratios, restrictions or other clauses that can have serious long term effects.
- Try to minimize pledging collateral. You may need those assets in the future to raise additional capital.
- Seek professional counsel before you sign anything. Lawyers and accountants may not help you fund your deal, but they can help you spot the small details that may burden you down the road.

Close

This is a good place to do just that. Remember you are out there selling yourself and your company. Be a closer! Only accept "No", as being one step nearer to "**Yes**". We hope the material presented here will help you plan for your success and locate the funding that every business needs. Good luck, in your search for funding!