



Fine Print

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Financing Your Business

by Thomas C. Washbush

Maybe you have been able to finance the start-up and early growth of your business through the use of your own capital. But now, in order to sustain or grow your business, you need additional financing. What financing vehicles are out there for the average "lifestyle" business that does not expect to be the next Google?

The most commonly used financing options available to your business can be grouped into six categories:

1. credit cards;
2. angel investors;
3. venture or private equity financing;
4. factoring;
5. asset-backed lending; and
6. working capital lines of credit.

Many entrepreneurs finance initial business growth through the use of personal, uncollateralized credit cards. While images of plunging personal credit ratings, high interest rates and unmanageable debt may make credit card financing unattractive, it should not be ruled out. A number of national organizations offer small business owners credit cards with low, fixed interest rates and attractive payment terms.

Angel investors are high net worth individuals seeking better returns than offered through more

conventional investment vehicles. They enjoy investing money, and sometimes time, in attractive businesses. There are many angel investors throughout Ohio and the Midwest. Moreover, individuals in group angel funds sometimes invest their own money through "sidecar" investments. Business should be aware, however, that strings may be attached to angel funds.



Venture and private equity funds abound, but the trick is to find one that would be attracted to your type of business. Think carefully about who to approach and what type of debt and/or equity arrangement each might seek. Some funds require you to relinquish ownership control. Most want some vote in all impor-

tant business decisions and all want to thoroughly understand your "exit strategy." Moreover, most venture and private equity funds must exit your business within a short time period and return their capital to their respective investors. There are three exit options: (1) sell the company; (2) have a public offering; or (3) undertake a recapitalization. Without an exit strategy, you may have trouble attracting fund investors.

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Planning to Sell Your Business?

by Thomas C. Washbush

Merger and acquisition activity is near an all-time high. When transaction results are tabulated, it is expected that 2005 will have yielded more than 9,000 transactions worth more than \$1.2 trillion. Also, increasing bank competition is creating the opportunity for companies to use bank financing to bridge the gap between traditional bank financing and private equity. Moreover, many companies are putting their unused cash to work through acquisitions.

These trends, coupled with an uncertain economic outlook, lead many small- and medium-sized business owners to consider selling

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Factoring is a viable option for some, particularly those businesses with account receivables that are slow to be paid and, therefore, hurt cash flow. A factoring company buys your receivables at a particular percentage of their stated value (say 80 percent). Some factoring arrangements allow the factoring company to “put” the receivables back to you should they fail to collect. While the cost is certainly higher than traditional bank financing, it is often a good short-term arrangement for the business experiencing less

than stellar credit, poor cash flow or rapid growth.

Bank financing, be it asset-based or working capital, is the most traditional financing vehicle and the most difficult to attract. Asset-backed financing may be available to the business owner who might not be able to attract a cash flow lender, but who has sufficient hard assets to cover the bank’s credit exposure. Cash-flow lending requires a lender to study the company’s financials and determine whether the business will remain cash-flow positive so it can repay

the bank. As added security, lenders traditionally will secure all the business assets and may seek to secure personal assets.

An experienced advisor can assist you in negotiating the maze of financing options and help prepare and review the necessary documentation any financing entity will require from you before investing in your company.

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their businesses while the market remains upbeat.

Ideally, a business owner should be positioning his business for sale from the day he incorporates, but most business owners are too busy running and building the business to do this. At the least, business owners should begin implementing a serious plan of action at least a year before putting the business up for sale.

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If you, as a business owner, are thinking about selling your company, consider the following:

- Shore up your management team. While some business buyers only want to acquire business assets or a particular product, most look to current management to help build the business with them. Review key personnel and hire appropriate people to fill any existing gaps. The additional salary cost may yield a higher selling price.
- Modify your business plan. Seek professional assistance to hone your business plan and ensure it reflects your current operation and any growth plans.
- Review your financials. If you

have failed to consistently meet projections, revise them to more realistically reflect the realities of your business and true growth opportunities. Hire competent tax professionals to insure that the financials reflect standard accounting principles.

Follow corporate formalities. Make sure your business has annual meetings; record the minutes of all board meetings. Engage a board of directors/

advisors to give you input on key decisions. Update employee handbooks and other corporate policies.

Make peace. Whether it is with the IRS, a former customer or an employee, try to resolve all outstanding disputes and legal challenges.

Maintain financial discipline. Take charge-offs now for bad debt and other problems. Repay any shareholder loans, take non-working family members off the payroll and finance only true business expenses.

Make appropriate capital expenditures. Sellers often delay capital expenditures when selling the business is within sight. This merely causes a disproportionate reduction in the

purchase price. Make the expenditure now and remove that burden from the new owner.

- Maintain all personal and real property in working order. Allowing equipment to fall into disrepair sends a strong negative signal to potential buyers.
- Meet with your business advisors. Let your accountant and attorney know of your plans to sell so that they can begin to advise you about maximizing your purchase price, minimizing any potential taxes and optimal deal structures.
- Keep your eye on the ball. Positioning your company for a sale takes a great deal of time and effort, but don’t forget to tend to the day-to-day running of the business so there is something of value to sell.

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The Ohio Department of Taxation (ODT) is offering a limited-time “tax amnesty” program from January 1, 2006 to February 15, 2006.

For more information and an application, visit the 2006 Ohio Tax Amnesty Web site at www.taxamnestyohio.com, or call (800) 304-3211.