

Business Financing



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General Concepts



- Risk vs. return
- Equity (i.e. stock ownership) vs. debt (i.e. a loan)
- “Smart” money vs. “dumb” money
- “Free” money
- Dilution
 - Substantial outside equity investment at early stage of company will cause loss of control whereas same dollar investment when company is more mature and more valuable might not
 - Small piece of big pie worth more than 100% of marginal company

Business Plan



- Written business plan required by most financing sources
- Even if outside funds are not being obtained or a friend or relative is providing the funds, a written business plan is a good idea

Sections of the Business Plan



- Executive Summary
- Description of Business
- Marketing
- Financial Plan/Statements
- Management Team

Business Plan – Sources of Assistance



- Attorneys and accountants
- SCORE
- SBDC

Sources of Funding



- Personal funds
- Friends and family
- Champaign County Regional Planning Commission
- Banks (SBA)
- Loan brokers
- Bootstrap (company profits)
- Government and foundation grants
- Joint development agreements
- Angel investors
- Venture capital
- Bonds
- Initial public offering (IPO)

Personal Funds



- People who are considering loaning you money or otherwise investing in your business are more likely to do so if they see that you are also investing some of your own funds

Friends and Family



- Run the risk of losing a friend or straining family relationships if there is difficulty with repayment
- Best reserved only for situations where the friend or family member can afford to lose the money

Banks



- Asset based lenders
- Risk averse but the cost of borrowing is less
- Require good credit record
- Will want to see a written business plan
- Typically want 20% financed by you
- SBA loans through banks can allow bank to take on more risk

Champaign County Regional Planning Commission



- Provides debt and equity financing to qualifying small businesses in Champaign County
- Preference towards capital intensive and/or technology oriented businesses
- Must create a specific number of full time jobs
- Can't constitute more than 50% of the total project investment
- Work with a local bank as well

Bootstrap



- Use company profits to grow the business
 - Revenues from sale of product
 - Revenues from consulting used to support product development
 - The old fashioned way
 - Not possible for some businesses

Grants



- Available only under very limited circumstances
 - Typically not available for retail, restaurants, etc.
 - “Free” money but not “easy” money
 - Don’t have to repay
 - Typically retain ownership of intellectual property
 - Submit in response to a specific request for proposal (RFP) from a government agency
- www.sbirworld.com

Joint Development Agreements



- Big company interested in small company's technology will “give” small company money and resources to refine product
- May lead to eventual license of intellectual property (IP) to big company
- Be careful with respect to ownership of IP generated under the JDA
- Nondisclosure agreements needed
- Risks associated with dealing with big company include superior litigation resources available to big company in event of dispute

Angel Investors



- Angel investors are typically high net worth persons or an entity owned by these individuals
- Three types
 - Passive
 - Ones that add value to company through expertise or contacts
 - The kind that think they add value but really don't!

Venture Capital



- Difficult to obtain
- Very costly
- Only available for certain types of businesses (commercializing a technology for example)

Stages of a Venture Capital Transaction



- Courting process
- Letter of intent
- Term sheet
- Due diligence
- Final agreements
- Ongoing input from VC
- Assistance with location of follow on rounds
- Exit

Bonds



- Debt whereby the issuing company or governmental body promises to pay the bondholders a specific amount of interest for specific amount of time and to repay principal on expiration date
- Can offer a very favorable interest rate and no loss of equity
- Typically feasible only for substantial amounts of capital

Initial Public Offering



- Very few companies actually go public
- Most exit through sale to another company or just operate and then wind down
- Very expensive
- Very difficult to go public in current market and economy

Attorney Roles



- Advisor – assist in identifying appropriate funding sources and preparing a credible presentation to financing sources
- Referral source – to venture capital firms, bankers, private investors
- Assist by reviewing and negotiating terms of the financing and by making sure you understand what you are signing

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