



Financing: Debt

Positioning Your Company for Debt Financing

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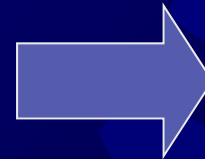
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Stick to the fundamentals

- ✦ Build your company incrementally
- ✦ Follow a prepared business plan
- ✦ Watch expenses
- ✦ Build sales
- ✦ Make proper credit decisions involving each of your customers
 - ✦ COD
 - ✦ Net 30 day terms
 - ✦ Etc.



Knowing what commercial finance companies look for will make you a much more attractive prospect!

1. Concentration

- ✦ Incoming revenue must be spread evenly over a number of customers
- ✦ Continue your sales efforts even when you have a large customer
- ✦ Too much revenue associated with a single customer, is a high risk -- what happens if you lose that customer?

2. Creditworthiness

- ★ **Perform due diligence on all new customers**
- ★ **Institute a thorough credit checking process and demonstrate that your customers are stable and creditworthy**
- ★ **Customers with bad credit have no problem placing large orders**

3. Bookkeeping

- ★ **Keep a *qualified* bookkeeper on staff**
- ★ **Your ability to produce an instant fiscal snapshot of your company shows the sophistication of your operation**
- ★ **Finance companies appreciate businesses that keep a close eye on their books**

4. Taxes

- ★ The IRS is an expensive funder
- ★ The IRS can become first lien holder in the event of tax non-payment
- ★ IRS lien places finance companies collateral at risk – resulting in default
- ★ Owing taxes does not mean you cannot get financing - a subordinated debt agreement can be negotiated.

5. Bankruptcy

- ★ **Disclose any type of bankruptcy history, personal or business**
- ★ **Your past financial shortfalls are matters of public record**
- ★ **Being up front about the circumstances will enhance the necessity to overlook the past difficulties**

6. Applications

- ★ **Finance companies get security through extensive background information**
- ★ **They are not trying to steal your secrets, instead they need to feel comfortable with you and your company**
- ★ **Typically, expect to provide**
 - **Interim Balance Sheet and Income Statement**
 - **Interim Profit and Loss Statement**
 - **Last Year End Statement**
 - **Accounts Payables, Receivables Aging Reports**
 - **Tax Returns**

7. Contracts

- ★ **Be prepared for very tough legal language**
- ★ **The finance company enters the relationship prepared for the absolute worst case scenario**
- ★ **Even if you start having financial difficulties, you can greatly reduce the chance of default by showing that you are proactive with your situation**

8. The Right Tool

- ✦ Use the proper finance vehicle for the most efficient use of funds
- ✦ Term vs. Line of Credit vs. Lease
- ✦ Improper financing can choke your ability to gain access to additional capital.
- ✦ Learn about the UCC-1 (Uniform Commercial Code)

9. Management Integrity

- ★ **Start with a strong management team**
- ★ **Any key management departures may give finance companies the sense that something is wrong.**
- ★ **Finance companies are partners in your success; keep them abreast of breaking news**

10. Be Professional

- ✦ Answer calls and messages expeditiously
- ✦ Be prepared with information
- ✦ Show up on time
- ✦ Call with the bad news, mail in the good news



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