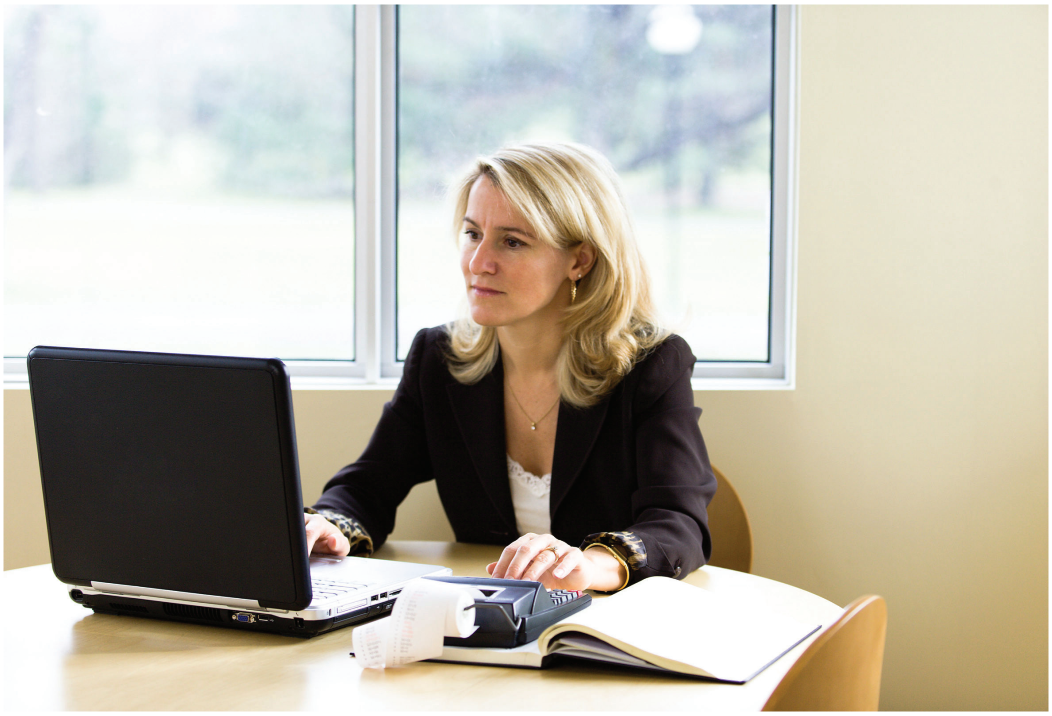
## WHAT YOU NEED TO KNOW

**In all cases, the prospect of a profitable investment as shown by a sound business plan is a key step to seeking financing.**

Financing for your business may be obtained from private investors, lenders, and other financial institutions. In Colorado, as nation-wide, most new businesses are initially financed by personal investments from the owner, family, friends and personal business contacts. While it is not impossible, it is often more difficult for new businesses to obtain outside financing. The vast majority of outside financing for small businesses comes from commercial banks, savings and loan institutions. Commercial finance companies, leasing companies, insurance companies, and private or public stock offerings are other financing vehicles that may suit a particular small company's needs. The next three sections review the different financing sources and some of the advantages, disadvantages and limitations of each resource. As you seek financing for your business, there are questions you should ask: For what do I need financing? How much do I need? How much may I borrow? For which programs does my business qualify? What information do I need to provide the lender/investor? Do I have to pay interest? If so, will the interest rate vary over the term or will it be a fixed rate? Will I be required to "share" ownership in my business? How long will it take to acquire the money? What are the repayment terms?



No matter which type of loan or financing option you choose, the lender will judge your ability to repay the loan and evaluate your collateral. He/she will ask for information to determine how you manage your business, how likely you are to default on the loan, the size of the loan compared to how much you have (your debt to tangible net worth ratio) and your company's ability to liquidate its current assets. In all cases, the potential for a profitable investment as reflected in a sound business plan is a key step to obtaining the financing you need. Assistance in how to prepare a business plan is available through a number of government offices and private management and financial consultants. See the Sources of Assistance chapter of this Guide.

Financing needs may generally be categorized into three major classifications: short-term, intermediate and long-term financing as well as equity financing.

## SHORT-TERM FINANCING METHODS

### Credit Lines

Under a revolving line of credit line agreement, the lender, usually a bank, supplies a business with funds intended to fill temporary shortages in cash that are brought about by timing differences between cash outlays and collections. Credit lines are typically used to finance inventories, accounts receivable or for project or contract related work. You must often have a track record before you can receive a credit line, and collateral may be required. There is usually a time limit that is negotiated on the credit line. Banks will generally require that you maintain a designated balance of funds in your commercial bank account.

### Short-term Loans

These types of loan may be used for seasonal build-ups of inventory and receivables, as well as to take advantage of supplier discounts or pay lump sum expenses, such as taxes or insurance. Generally, you repay short-term loans in a lump sum at loan maturity. Short-term loans are generally made on a secured (or collateralized) basis and are for a term of a year or less.

### Asset-Based Loans

These are loans where the lender advances funds to the small business based on a percentage of your current assets, usually accounts receivable or inventory. The loan is used as a source of funds for working capital needs. The lender takes a security position in the assets owned by your business.

### Contract Financing

One method of arranging financing for contracts for goods or services or purchase orders is to use your contract(s) as collateral for a short-term loan(s). In contract financing, funds are advanced to you as work is performed. Payments by the contracting party, the business for whom you are working, are generally made to the lender. Obviously, a major consideration for a lender is your business' ability to satisfactorily perform and complete the contract or purchase order.

**Factoring**

This is somewhat similar to accounts receivable financing with one notable exception. Factors actually buy your receivables and rely on their own credit and collection expertise. Essentially, your customers become their customers. Your buyer makes payments directly to the factor. Firms unable to obtain bank financing generally use factoring. As a result, the cost of factoring is usually higher than other forms of short-term financing. However, factoring can offer you several advantages. Factoring relieves small companies of the expense and responsibility of maintaining a credit and collection department. The factor normally provides all of these services for a fee. Factoring also offers flexibility in the amount of borrowing. Factoring is commonly provided on a continuous contractual basis rather than on a one-time transaction. As new receivables are generated, they are sold to the factor. Therefore, as your company's sales grow, additional financing becomes available. The sale of receivables to the factor may be either with recourse or without recourse. Without recourse is the method preferred by most small businesses because it means that the factor assumes the full risk of non-payment by the company that owes the receivable.

## INTERMEDIATE AND LONG-TERM FINANCING METHODS

**Term Loans**

These can be used to finance your permanent working capital, purchase of new equipment, construction of buildings, business expansion, refinance existing debt and business acquisitions. Commercial lenders are the major source of term loans. Other sources include commercial finance companies and government agencies. The maturity of term loans varies significantly. The term of the loan is based largely on the useful life of the assets being financed or used to collateralize the loan. Term loans are repaid from the long-term earnings of your business. Therefore, your projected profitability and cash flow from operations are two key factors lenders consider when making term loans. Most term loans are repaid on an installment basis, and your cash flow must be sufficient to cover the payments. Generally, interest rates on long-term loans are higher than for short-term loans. Collateral and compensating balances are generally required and the lender will often impose restrictions on your business to reduce the bank's risk.

- **Equipment and Real Estate Loans:** These are term loans fully secured by the equipment being purchased. Commercial banks will typically loan from 60-80 percent of the value of the equipment being purchased. The loan is repaid monthly over the life of the equipment. Commercial banks and other financial institutions make long-term loans secured by commercial or industrial real estate. The loan is usually approved for up to 75 percent of the value of the real estate being financed. You will repay the loan in installments over a 10-20 year period. Commercial banks, commercial finance companies and other financial institutions will also make second mortgages on commercial and industrial real estate. The amount of the second mortgage is based upon the appraised market value of your property minus the amount of your first mortgage.
- **Leasing:** This has become a significant source of intermediate-term financing for small companies in recent years. Virtually any type of fixed asset may be financed through a leasing arrangement. Leasing can be accomplished through a leasing company, commercial bank, the equipment owner or a commercial finance company. Leasing offers a great deal of flexibility as it can be used to finance even small amounts. If you are interested in leasing a fixed asset, your business will be subject to the same type of review as you do when seeking a loan. The leasing company will be particularly interested in the cash flow of your company. The value of the leased equipment and its useful life are used to determine the amount of financing available. Generally, equipment leases are for three to five years. When leasing, the total cash outlays may be greater than the total cost of an outright purchase or even a loan to finance the purchase. However, the after tax costs must be determined to compare the actual cost of each option. At the end of a lease, there are three options: purchase the equipment, renew the lease or return the equipment to the lessor.

## GOVERNMENT DIRECT SOURCES OF FINANCING

At all levels of government, there are a number of finance programs to assist you in making your business successful. In most cases, these government programs improve your chances of obtaining financing by providing both longer and more flexible loan terms. In limited instances, some state and local governments do provide direct financing. Guaranteed loans are loans made through commercial lending institutions that are backed by a government agency. With guaranteed loans, the commercial lending institution disburses all loan proceeds and collects all loan payments. Direct loans are loans made directly to the business by the government agency. Each government finance program has its own restrictions and unique qualifications. Program restrictions include geographical location, type of business, eligible uses of loan proceeds, maximum and minimum loan amounts and required equity injection by the borrower. The first step in obtaining a government guaranteed loan is to contact a commercial lender in your area.

## U.S. SMALL BUSINESS ADMINISTRATION (SBA) FINANCE PROGRAMS

Though the SBA does offer a variety of guaranteed loan programs, the agency has no funds for direct lending or grants.

**SBA's Loan Guaranty Programs**

The 7(a) Loan Guaranty Program provides short- and long-term loans to eligible, credit-worthy start-up and existing small businesses that cannot obtain financing on reasonable terms through normal lending channels. The SBA provides financial assistance through its participating lenders in the form of loan guaranties, not direct loans. SBA does not provide grants for business start-up or expansion. Loans under this program are available for most business purposes, including purchasing real estate, machinery, equipment, and inventory, or for working capital. The loans cannot be used for speculative purposes. The SBA can generally guarantee a maximum of $1.0 million under the 7(a) program. The guaranty rate is 85 percent for loans of $150,000 or less; 75 percent for loans greater than $150,000, and 90 percent for loans made under the Export Working Capital Program. Generally the interest rate cannot exceed 2.75 percent over the prime rate as published in The Wall Street Journal, except for loans under $50,000, where the rates may be slightly higher. Maturity may be up to 7 years for working Capital, 10 years for equipment and up to 25 years for fixed assets. Contact a commercial lender or the SBA's Colorado District Office at (303) 844-2607 for more information on the following programs.

- **504 Certified Development Loan Program** The "504" Program provides long-term, fixed-rate financing to small businesses to acquire real estate or capital machinery and equipment to expand or modernize. Typically at least 10 percent of the project is provided by the borrower, at least 50 percent under a commercial loan by a lender, and the remainder provided by an SBA-guaranteed debenture. The maximum SBA debenture is generally $1 million. This program is delivered through Certified Development Companies (private, nonprofit corporations established to contribute to the economic development of their communities or regions). Contact the SBA's Colorado District Office at (303) 844-2607 for more information.
- **Low Documentation Loan (SBA LowDoc), a 7(a) Loan Program** This loan guaranty program reduces the paperwork involved in loan requests of $150,000 or less. The SBA uses a one-page application for SBALowDoc that relies on the strength of the applicant's character and credit history. Once an applicant satisfies all of the lender's requirements, the lender may request an SBALowDoc guaranty from the SBA. Contact a commercial lender for more information on this loan guaranty program.
- **SBAExpress, a 7(a) Loan Program** This program encourages lenders to make more small loans to small businesses. Participating banks use their own documentation and procedures to approve, service and liquidate loans of up to $250,000. In return, the SBA agrees to guarantee up to 50 percent of the loan.
- **CAPLines, a 7(a) Loan Program** This program finances the short-term and cyclical working-capital needs of small businesses. Under CAPLines, there are five distinct short-term working-capital loans: Seasonal, contract, builders, standard asset-based and small asset-based lines. For the most part, the SBA regulations governing the 7(a) Loan Guaranty Program also apply to CAPLines. The SBA generally guarantees up to a maximum of $1.0 million under the program.
- **Export Working Capital Program (EWCP), a 7(a) Loan Program** This program enables the SBA to guarantee up to 90 percent of a secured loan, or $1 million whichever is less. Loan maturity may be for up to three years with annual renewals. Loans may be for single or multiple export sales and may be for pre-shipment working capital, post-shipment exposure coverage or a combination of the two. Proceeds may only be used to finance export transactions. This program targets export-ready small businesses. Contact the SBA at (303) 844- 2607 for more information.
- **International Trade Loan (ITL), a 7(a) Loan Program** This program offers long-term financing to small businesses engaged or preparing to engage in exporting, as well as to small businesses adversely affected by import competition. The SBA may guarantee up to $1.25 million for a combination of fixed-asset financing and working capital. The working capital portion cannot exceed $750,000. Contact the SBA at (303) 844-6622 ext 18 for more information.
- **SBA Export Express, a 7(a) Loan Program** Small business exporters may now obtain loans of up to $250,000 through the lender-expedited SBAExpress program, with SBA guaranteeing 75-85% of the loan amount. Loan proceeds may be used for buildings, equipment, other fixed assets, for-

eign trade show costs, translating company literature, export transaction costs, or other working capital needs. Applicants must have been in business for a least one year and must demonstrate that the loan will help the firm enter a new export market or expand in an existing export market. Contact the SBA at (303) 844.6622 x 18 for more information.

**THERE ARE NO GOVERNMENT GRANTS FOR STARTING A NEW BUSINESS.**

- **MicroLoan Program** This program provides short-term loans of up to $35,000 to small businesses for working capital or the purchase of inventory, supplies, furniture, fixtures, machinery and/or equipment. Proceeds cannot be used to pay existing debts or to purchase real estate. Loans are made through SBA approved non-profit intermediaries. These intermediaries also receive SBA grants to provide technical assistance to their borrowers. For a list of micro-lenders in Colorado, contact the SBA's Colorado District Office at (303) 844-2607.
- **USDA-Rural Development (USDA-RD)** The USDA-RD Business and Industry Loan Program provides loan guarantees and limited direct loans for business and industrial development in rural areas of the state. Rural areas include all territory of a state that is 1) not within the outer boundary of any city having a population of 50,000 or more, and 2) not within an area that is urbanized or urbanizing. Priority is given to rural communities and towns of 25,000 or smaller. The maximum percentage of guarantee is 80 percent for loans of $5 million or less, 70 percent for loans between $5 million and $10 million, and 60 percent for loans exceeding $10 million up to $25 million. Loan proceeds may be used for working capital, purchase of machinery and equipment or to purchase fixed assets. For more information, contact the Community & Business Programs section for Rural Development at 655 Parfet Street, Lakewood, Colorado 80215, call 720-544-2903 or visit their website at http://www.rurdev.usda.gov/.
- **Colorado Housing and Finance Authority (CHFA)** CHFA offers a number of loan programs to small businesses.

**Direct Loan Programs**

- **SBA 504** With as little as a 10% down payment business can finance commercial owner-occupied real estate. A typical loan structure includes a first mortgage from CHFA representing 50% of the total project, with the SBA providing a second mortgage for 40%. Both loans include a 20-year fixed interest rate and may be used to finance machinery for up to 10 years. By limiting down the payment requirement, firms are able to preserve cash for investment back into their businesses.
- **CHFA Direct** provides owner-occupied real estate financing for loan amounts ranging from $50,000 to $20,000,000 with down payments as low as 15%. It features a fully amortizing, fixed rate with loan terms up to 20 years. This program also allows financing of manufacturing equipment. Prospective businesses should apply directly to CHFA.

## Business Loan Fund (BLF) Offices

| | | |
|---|---|---|
| Northeastern Colorado BLF | (970) 848-3150 | 6 Northeastern Counties |
| Weld/Larimer BLF | (970) 356-4565 | Weld & Larimer Counties |
| Clear Creek County BLF | (303) 569-2133 | Clear Creek & Gilpin Counties |
| Lincoln County BLF (Prairie Development Corp.) | (719) 348-5562 | 4 Eastern Plains Counties |
| Prowers County BLF (SECED) | (719) 336-3850 | 5 Southeastern Counties |
| Pueblo County BLF | (719) 545-8680 | Pueblo County |
| Otero County BLF | (719) 383-0183 | Otero & Las Animas Counties |
| Chaffee County BLF (UAADC) | (719) 395-2602 | 6 Central Colorado Counties |
| Rio Grande County BLF (SLVDRG) | (719) 589-6099 | 6 San Luis Valley Counties |
| La Plata County BLF (Region 9 EDDSC) | (970) 247-9621 | 5 Southwestern Counties |
| Montrose County BLF Region (Region 10 LEAP) | (970) 249-2436 | 6 Western Counties |
| Mesa County BLF (WCBDC) | (970) 243-5242 | Mesa County |
| Summit County BLF (Northwest Loan Fund) | (970) 468-0295 x119 | 9 Northwestern Counties |
| El Paso County BLF (P.P.R.D.C) | (719) 471-2044 | El Paso County |
| Huerfano County BLF (Inactive) | (719) 738-2380 | Huerfano County |

Manufacturing businesses with project amounts exceeding $2 million may be eligible for special tax exempt financing.

- **Non-Profit Real Estate Program,** CHFA provides a long term, fixed interest rate combined with a low down payment requirement, creating the opportunity for non-profits to acquire real estate. Eligible 501(c)3 entities may also qualify for tax exempt financing at below market fixed rates. Prospective borrowers should apply directly to CHFA.
- **The Rural Development Loan Program (RDLP)** For existing businesses located in rural areas of the state, CHFA provides special rates and terms on its direct loan products. With down payments as low as 10%, businesses receive a fixed rate for a term of up to 20 years on commercial owner-occupied real estate.

**Secondary Market Programs**

- **Quality Investment Capital (QIC) Program,** a program in which CHFA purchases the guaranteed portion of SBA 7(a) loans that are originated by local banks throughout the State. By purchasing the guaranteed portion of the loans, the borrower is able to take advantage of a long-term fixed-rate loan. The bank gains liquidity by selling the guaranteed portion of the loan, and makes fee income from a servicing fee paid to the lender (from CHFA).
- **Quality Agricultural Loan (QAL) Program,** a program in which CHFA purchases the guaranteed portion of agricultural loans guaranteed by the Farm Service Agency ("FSA"). Bankers throughout the State originate the loans, then sell the guaranteed portion to CHFA; thereby allowing the borrower to take advantage of a long-term (up to 30 years) fixed-rate loan for farm and ranch related purposes.
- **Business and Industry II (B&I II),** a program whereby CHFA purchases the guaranteed portion of Business and Industry loans guaranteed by Rural Businesses Services (RBS). The Program is targeted to businesses in rural locations of the state and allows the borrower to take advantage of a fixed interest rate for up to 25 years.

**Special Programs**

- **Manufacturing Revenue Bond Program,** a program that provides favorable tax-exempt Private Activity Bond financing targeted to small manufacturers in Colorado. The program provides for the financing of real estate, machinery and equipment associated with expansion projects specific to manufacturers. Borrowers must meet all eligibility thresholds, all federal tax code requirements, and often must compete for available Volume Cap.
- **Brownfields Revolving Loan Fund,** a newly established partnership between CHFA, and the EPA, the Colorado Department of Health and Environment, and several municipalities throughout the State whereby funds are pooled by the partners and used to finance cleanup of environmentally contaminated commercial properties for future reuse or redevelopment. Financing terms include below market rates, flexible loan terms and creative loan structures. CHFA serves as the fiscal agent for the fund. For more information on CHFA's loan programs, contact the Colorado Housing and Finance Authority, 1981 Blake St., Denver, CO 80202, (303) 297-7329 or 1-800-877-2432.

**The Colorado Office of Economic Development and International Trade (OEDIT):**

OEDIT offers financial assistance to existing Colorado businesses and to businesses relocating to Colorado.

**Community Development Block Grants (CDBG):**

These grants are provided to the State of Colorado by the U.S. Department of Housing and Urban Development (HUD). In turn, OEDIT uses these funds to assist rural communities with their economic development efforts. Businesses receiving CDBG assistance are required to create or retain jobs for low- and moderate- income persons. In some situations, businesses may be eligible if the owner of the business is of low- to moderate- income and the business qualifies as a microenterprise. OEDIT uses these funds to further economic development in two ways: First, the CDBG Infrastructure Program in support of a specific business or businesses. Local government-sponsored projects may generally receive infrastructure grants of up to $500,000. Local matching funds may bee required. Second, OEDIT provides financial resources to 15 regional Revolving Loan Funds (BLFs), which use the funds to make loans to businesses within their service areas. The BLF programs are available locally, each with its own loan review committee and Board of Directors. The BLFs have considerable flexibility to make small loans from a few thousand dollars up to $250,000. In some cases, loans greater than $250,000 have been approved. For both the Infrastructure and BLF Programs, applicants can be existing or start-up businesses. OEDIT and, when appropriate, the Governor's Financial Review Committee reviews and approves all requests for funding.

**NOTE:** The stat's CDBG program does not cover any of the metropolitan areas of Colorado (known as "entitlement" areas), because those areas receive their own allocation of CDBG

## SBIC LICENSEES IN COLORADO

Appian Ventures L.P. – Phillip Dignan
1700 Lincoln St., Ste. 1800
Denver, CO 80203
(303) 830-2450
E-mail: phillip@appianvc.com

Roaring Fork Capital L.P. – Eugene McColley
5350 S Roslyn ST
Greenwood Village, CO 80111
(303) 694-1300
E-mail: Ctiffany@roaringforkcapital.com

Vista Ventures Advantage L.P. – Catharine M. Merigold
1011 Walnut St., Ste. 410
Boulder, CO 80302
(303) 543-5716
E-mail: catharine@vistavc.com

funds directly from HUD. For more information on the CDBG programs, please contact OEDIT's Finance Staff at (303) 892-3840, or for loans, contact the BLF in your service area directly (see BLF listings).

**Certified Capital Companies (CAPCO)**

The Colorado State Legislature created the Certified Capital Companies' Program in 2001 to provide financial assistance in the formation of new businesses and the expansion of existing businesses. CAPCOs may provide a variety of funding alternatives to eligible Colorado businesses including debt, equity and debt/equity hybrid instruments. The legislation provides CAPCOs an incentive to invest in businesses located in rural parts of the state and in distressed urban communities within the state. Each individual CAPCO generally determines what type of business it will fund, the use of such funding and the amount of funding, within very broad parameters provided by the legislation. For general information on the CAPCO Program, contact OEDIT's Finance staff at (303) 892-3840. To be considered for CAPCO funding, contact each of the six CAPCOs:

Advantage Capital Colorado Partners, I, L.P
(303) 321-4800 ext. 228
Enhanced Colorado Issuer, LLC
(303) 504-5337
Murphree Colorado CAPCO, L.P.
(719) 634-7070
Stonehenge Capital Fund Colorado, LLC
(720) 956-0235
Waveland Colorado Ventures, LLC
(303) 794-1220
Wilshire Colorado Partners, LLC
(303) 446-5904

**Venture Capitol Authority (VCA)**

The Colorado State Legislature in 2004 redirected $50 million in premium tax credits to a new Colorado Venture Capital Program. This legislation established a Venture Capital Authority (Authority) to oversee the new program, with assistance from the Colorado Office of Economic Development and International Trade (OEDIT). The Authority will convert the premium tax credits to cash through a competitive bid process and then will use the cash to fund selected venture capital funds. The venture capital funds will use the cash to make investments in businesses located in Colorado as follows: 25% for rural businesses; 25% for businesses located in distressed urban communities; and 50% for businesses located anywhere in the state.

For General information on the VCA Program, contact OEDIT's Finance staff at (303) 892-3840. To be considered for VCA funding, contact the Fund: Colorado Fund 1 (303) 381-2646.

## EQUITY FINANCING

This type of financing allows investors to buy into the ownership of your business.

**Advantages**

Equity financing provides capital on a permanent basis with no repayment of principal or interest required. It adds to your company's net worth, thereby improving the financial stability of the business and its ability to obtain debt financing. It can also result in outside expertise being added to the management or board of your business.

**Disadvantages**

It carries with it a higher cost of capital and is therefore more expensive. It dilutes your ownership control of the business and profits must now be shared. Equity financing is a permanent investment and may be difficult to obtain. It can create a conflict of interest between yourself, the business founder and the outside investor(s). It will also require more detailed and timely reports.

- **Private Investors** These include family, friends and colleagues, as well as sophisticated private investors, such as wealthy individuals or so-called "angels." This final category represents an excellent source of capital for small growing ventures. Often the size, growth rate and investment amount of a small business are too small to attract a venture capital firm. However, this may represent an excellent opportunity for the wealthy individual or successful entrepreneur looking to assist another entrepreneur. Private investors are difficult to find and require detailed business plans. Investors may be identified by contacting accountants, bankers, stockbrokers, venture capitalists or entrepreneur clubs. You must determine that your goals are compatible with those of your prospective investor.
- **The Colorado Capital Alliance (CCA)** This is a not-for-profit organization created to facilitate the match between private "angel" investors looking for investment opportunities and entrepreneurs seeking capital. Investors and entrepreneurs complete applications outlining their respective needs. Entrepreneurs must have a completed business plan to apply. There is an annual participation fee of $395 for entrepreneurs. Investors are sent investment opportunities that meet their criteria. Entrepreneurs are introduced to investors expressing further interest in their project. For more information contact CCA at PO Box 19169, Boulder, CO 80308-2169 or call (303) 499-9646.
- **Venture Capital Firms** These are the most risk-oriented investors. Most venture firms have specific investment preferences - both in terms of business stage (ranging from seed stage to buyouts and acquisitions) and industry. In addition, venture capitalists generally have a large minimum size investment requirement. They are looking for rapid growth and high returns. The most important factor a venture capitalist considers is the management team and the ability to recapture his/her investment with a substantial return within five to seven years. Venture capital is typically available to less than one-half of one percent of all new businesses.

**SBA's Venture Capital Programs**

- **Small Business Investment Companies (SBICs)**

These provide equity capital, long-term loans, debt-equity investments and management assistance to small businesses particularly during their growth stages. The SBA's role consists of licensing the SBICs and supplementing their capital with U.S. government-guaranteed debentures or participating securities. SBICs are privately owned and managed, profit-motivated companies, investing with the prospect of sharing in the success of the funded small businesses as they grow and prosper. For more information, check out www.sba.gov/financing/investment.html.

**• Angel Capital Electronic Network (ACE-Net)**

This provides an Internet-based secure listing service for entrepreneurs seeking equity financing of $250,000 to $5 million from accredited "angel" investors. The "angels" using ACE-Net can negotiate directly with listed companies to provide equity capital funding and advice for a stake in the entrepreneur's corporation. ACE-Net is operated as a partnership between the SBA's Office of Advocacy and a number of nonprofit organizations nationwide. For more information, go to SBA's home page, under Offices & Services or ace-net.sr.unh.edu/pub/

**• Private Or Limited Stock Offerings**

This is a form of equity financing that may be ideal for the small company. It affords the company the opportunity to raise significant amounts of equity from outside investors without the high cost and regulatory burden of a full-scale public offering of stock. These sales are still subject to some state and federal regulation, and you must make sure they comply with all the provisions that exempt them from the more rigorous registration process involved in a public offering. Your private offering must consist of equity, debt or a combination of the two. The private placement may be sold to wealthy individuals, venture capital firms or institutional investors, such as insurance companies, pension funds, trusts or mutual funds. Institutional investors prefer to purchase private placements in the form of debt instruments since they prefer to receive a fixed, relatively safe return on their investment due to their fiduciary responsibilities.

**• Going Public**

While not many small companies elect to go public, offering shares of stock in the company to the general public, it is certainly an option for the profitable, well managed, growing small business. There are several reasons why you might decide to go public. It gives the business access to growth capital and can allow you to cash in your equity in the company. Through the growth in the equity base, the business can be leveraged to allow for increased borrowing capacity. Public market funds are not restricted and more attractive incentive plans can be structured. It can also enhance your reputation. However, the negative aspects of going public include the loss of control of your business and increased pressure to grow and produce greater earnings. There may be pressure to shift your business' emphasis to increase stock value over generating a profit. There will be increased documentation, reporting, regulation and higher legal and accounting expenses. The public offering process is expensive and time consuming.