

# 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

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## 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

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## Sections of the Business Plan

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



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## Business Plan – Sources of Assistance

- ▣ Attorneys and accountants
- ▣ SCORE
- ▣ SBDC



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## 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)



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## 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



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## 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



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## 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



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## 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

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## 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

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## 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](http://www.sbirworld.com)

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## 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

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## 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!

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## Venture Capital

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

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## 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

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## 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

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## 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

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## 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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Mr. Singleton provides legal services to business clients in corporate, intellectual property, securities law, and real estate areas. He has frequently assisted entrepreneurs select and organize an appropriate entity and obtain capital. He has formed limited liability companies, subchapter S corporations, subchapter C corporations, professional corporations, and not-for-profit corporations, including publicly supported organizations and private foundations. Mr. Singleton has also assisted clients with mergers and acquisitions and with implementing stock option programs.

A member of the patent bar, Mr. Singleton has represented clients in patent prosecution, trademark registration, negotiation of licenses, research and development agreements and joint development agreements. He is familiar with the University of Illinois policies on technology transfer and has negotiated licenses of University technology. Mr. Singleton's real estate law experience includes purchases and sales, leases, installment contracts, like kind exchanges, and zoning and land use issues.

Mr. Singleton is active in both the business and educational communities. He has served on the Advisory Councils of numerous technology companies and served on the list of advisors at the Illinois Technology Center. He is a member of the business plan review group Second Saturday and has served as a judge for the Academy for Entrepreneurial Leadership Innovation Teams Competition and V. Dale Cozad Business Plan Competition.

Mr. Singleton maintains an adjunct faculty appointment with the University of Illinois College of Medicine. He has given guest lectures for the University of Illinois MBA course on technology commercialization, the senior Capstone Design Course in the Department of Agricultural and Biological Engineering, the Academy for Entrepreneurial Leadership Idea to Enterprise Workshop, the Technology Entrepreneur Center, the Advanced Invention to Venture workshop, the University of Illinois College of Veterinary Medicine and for medical residency programs throughout the state.

The recipient of the 2008 Entrepreneur Advocacy Award, and of the Chemical Rubber Company Chemistry Award as an undergraduate student, Mr. Singleton earned a Bachelor of Science Degree in Geology from the University of Illinois in 1988 and a Juris Doctorate from the University of Illinois College of Law in 1991. Following law school and prior to founding Singleton Law Firm, P.C., he practiced with Webber & Thies, P.C. as an associate and then shareholder.

Mr. Singleton is currently a member of the American Bar Association Sections on Business Law, Intellectual Property Law and Science and Technology Law, the Illinois State Bar Association Sections on Corporation and Securities Law (Member, Section Council) and Intellectual Property Law (Member, Section Council), the American Intellectual Property Law Association, the Intellectual Property Law Association of Chicago, and the Midwest Business Brokers and Intermediaries.

Mr. Singleton has chaired the EDC/techCommunity Mentoring Program, has served on the board of the Don Moyer Boys and Girls Club, and serves on the boards of the Mahomet Area Kids Endowment Foundation and the Mahomet Area Youth Club.

Mr. Singleton is married to local family practice physician Deborah Singleton, M.D. They have three children.

*Singleton Law Firm, P.C. is dedicated to serving the legal needs of business and individual clients of east central Illinois and beyond with an emphasis in the areas of corporate, intellectual property (including patent) and real estate law. The firm was founded by attorney Alan R. Singleton and paralegal Elizabeth C. Kellner following Mr. Singleton's practice at another local firm as an associate and then shareholder. Ms. Kellner's experience includes work at the University of Illinois business incubator and then service as the coordinator and then executive director of techCommUnity. Both Mr. Singleton and Ms. Kellner are active in their efforts to grow the local business community. Both maintain contacts in the local business community and beyond which allow them to serve as a team to meet the needs of business and individual clients through the provision of value added quality legal services.*