



EXCEEDING EXPECTATIONS

news, tips, solutions



HOW TO FUND YOUR BUSINESS'S GROWTH

Most business owners aspire to grow their companies, even in uncertain economic times. But growth brings many new challenges, especially when it comes to financing. Growing a business requires money — for new equipment, additional inventory, more staff, new marketing initiatives, etc. — which can place a severe financial strain on the company. Owners who don't plan carefully for the financial impact of growth can end up growing themselves right out of business.

For starters, growth usually requires a significant increase in receivables and inventory to support the higher level of sales that will result. This cash must come from either owner's equity (i.e., retained earnings, capital or personal funds) or outside financing.

DEBT VS. EQUITY

Since few companies can finance growth completely on their own, one of the first tasks for most owners who want to grow is to secure financing to support growth. This kind of financing generally takes one of two main forms: debt or equity.

Traditional debt financing is usually provided by banks, which loan money to businesses with the expectation that it will be repaid with interest within a certain time frame. Equity financing, on the other hand, is provided by investors — usually venture capitalists, private equity firms or so-called “angel” investors — in exchange for a share of ownership in the company.

Generally speaking, debt is preferable to equity financing because it doesn't require giving up any ownership in your business. Each share of ownership you divest to an equity investor is an ownership

share out of your pocket, with unknown value in the future. For example, imagine an early-stage investor in Microsoft who secured just 10 percent of ownership in the company in exchange for financing, and what that 10 percent share is worth today!

In addition, most equity investors expect a high rate of return on the companies they invest in — typically 25 percent per annum or higher — because they know that for each home run they hit, there will also be a number of strikeouts.

But with debt financing, you retain 100 percent ownership in your company. That's because banks aren't “investors” — they are lenders. Your cost of funds with a bank loan is simply the interest rate that you pay on the loan.

TAKING ON DEBT

While debt financing is generally less costly in the long run than giving up equity, obtaining a business loan may be easier said than done. Banks have very specific criteria and expectations for repayment and return of their capital and take steps to minimize their risk of loss as much as possible.

These steps include collateralizing loans (i.e., requiring that assets, such as equipment or accounts receivable, be pledged as collateral in case the loan is not repaid) and requesting detailed financial information from potential borrowers to help them analyze their true ability to repay the loan. The challenge for many companies in a growth phase is that they may not have the kind of collateral or balance sheet a bank wants to see before making a loan.

Bankers also want to see that owners are prepared to invest some of their own money into their business. One rule of thumb is to be able to show one dollar of equity for every three dollars of debt you want to assume.

The two most important factors to consider before approaching a bank for a loan to support business growth are:

1. Your personal creditworthiness - Many banks closely examine the “global” cash flow of small business borrowers — in other words, both the business's finances and the owner's personal finances — and require owners to personally guarantee the debt. This makes it critical to maintain a strong personal credit history if you plan on borrowing for your business, and to obtain a copy

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of your personal credit report before applying for a loan to make sure that it's accurate.

2. Your business growth plan - You should carefully prepare a business plan that details how much money you want to borrow, how much owner's equity you will contribute to your growth plan, and how the money you borrow will be used and repaid. This plan should include detailed financial projections and assumptions.

Also keep in mind that different banks tend to specialize in lending to certain types of businesses; for example, companies in certain industries, at different stages of development or of a particular size. Do some research to determine which banks in your area specialize in lending to businesses like yours, and don't give up if you're turned down by the first bank you approach.

TYPES OF FINANCING

The primary types of business financing include:

Line of credit - A line of credit is a common financing tool that allows you to borrow up to a pre-determined amount of money for any purpose, but usually to plug short-term cash flow gaps, fund accounts receivable or purchase additional inventory.

Term loan - This is a longer-term loan typically used to finance the purchase of equipment, property, plant or any other type of business expansion that requires long-term financing.

Lease - Leasing may be an attractive alternative to buying many types of equipment that can help your business grow — everything from computers and high-tech equipment to office furniture and vehicles.

TAKING ON INVESTORS

If you're unsuccessful in obtaining a loan to support growth, you may want to consider taking on investors in your business.

Venture capitalists (VCs) seek to identify and fund companies they believe offer opportunities for a high return on their investment, in exchange for a piece of the pie. How much equity this type of funding will cost you depends on many different factors, but primarily on how risky your business venture is perceived to be in relation to the potential reward should the business become successful.

Your business growth plan is especially important when approaching venture capitalists, who will scrutinize it carefully

to determine your prospects for success and the degree of risk involved. It is important to note that VCs have an obligation to invest the money they've raised in transactions which match very specific criteria. With this in mind, make sure that any VC you approach has a true mandate to invest in your particular variety of company.

Angel investors are typically wealthy individuals investing primarily in early-stage companies in exchange for ownership shares. Generally speaking, angels invest in start-up companies or entrepreneurs with whom they have a personal connection.

As a result, angels tend to make much smaller investments than VCs — on average, between \$25,000 and \$35,000 per investor, per company — while VCs may invest millions of dollars at a time. Like banks, VCs and angels tend to specialize in lending to certain types of businesses, so do some research before seeking this type of financing.

THE "BANK" OF FAMILY AND FRIENDS

Finally, if you are unsuccessful in obtaining a bank loan or VC or angel funding, you might consider approaching your family and friends for financing to support business growth. This can take the form of debt or equity, depending on the needs and expectations of both sides.

If you go this route, be sure to formalize the terms of the agreement. Document everything in writing, with repayment terms and interest rate or equity specifics, so that it's not treated casually by either party.

We can help you secure financing by assisting you in the search for a bank that meets your specific needs, and by helping you prepare a package of information for use by a bank or outside investor coordinating your financing and/or investment. Please contact Doug Fay, partner, at 401-752-0507 for more information.

REGISTER ONLINE

To receive the electronic version of Exceeding Expectations, please visit www.sansiveri.com and select the Subscribe to SKiM Newsletter icon from our homepage.

Contact Eileen Fullaway with any questions at 401-752-0552.



GETTING AND STAYING ORGANIZED

Many business owners spend so much time managing and organizing their business finances that they sometimes neglect



to do the same with their personal finances. It's the old "cobbler's kids have no shoes" syndrome.

Now that tax season has come and gone, it's a great time to take the next step in getting your personal

finances in order. The first step is determining exactly what records and paperwork you need to keep and for how long. Here are some guidelines:

- **Tax records** - Taxpayers must keep records that support the items shown on their returns until the statute of limitations for that return runs out. The normal examination limit is three years, but there is no examination limit if a return is not filed or fraud is committed.
- **IRA contributions** - Keep nondeductible IRA contribution records indefinitely to prove that you already paid tax on this money when the time comes to withdraw. See IRS Form 8606 for more details.
- **Brokerage statements** - Keep these documents for three years after you sell the securities, since you'll need them to determine capital gains or losses at tax time.
- **Home purchase and improvements** - Keep all records documenting the purchase price and cost of permanent home improvements. Also keep records of expenses incurred in selling and buying the property for at least three years after you sell.

To organize your financial paperwork and records, first sort everything by category, and make sure your tax information (tax returns, receipts, copies of W-2s, 1099s, etc.) is sorted by year. All important financial documents (e.g., car titles, stock certificates) should be stored in a fireproof file cabinet or bank safe deposit box. Finally, be sure to create a system for keeping all incoming financial paperwork organized and stored properly — so you can stay on top of everything going forward. Should you have additional questions, or you would like assistance in organizing your personal finances, please give SKM Wealth Management a call at 401-331-1575.

EMPLOYEE NEWS



We're pleased to announce that Daniel T. Connor, a senior accountant in SKM's audit department in Providence, has earned the designation of Certified Fraud Examiner. Dan will work with firm clients of all sizes to assist them in detecting and preventing fraud.

The CFE designation is awarded by the Association of Certified Fraud Examiners to select professionals who meet a stringent set of criteria, including strict character, experience and education requirements. Dan also recently became a licensed Certified Public Accountant in the state of Rhode Island. He is currently pursuing his master of business administration from Providence College, expected spring of 2008.



We are pleased to share that Andy Nelson (senior auditor) and his wife, Danielle, welcomed a baby boy on February 15, 2008. Andrew D. Nelson Jr. ("Drew") was born at 8:21 a.m., weighing in at 7lbs 2oz.



Please join us in welcoming Kerry A. O'Shea, who joined SKM Wealth Management, L.L.C. in a full-time administrative support function and will be working with clients regarding their account applications, transfers, data base maintenance and many other support functions.



A warm welcome also goes to Debra Bair. Debra joined the SKM Newport staff in January, 2008 as a Tax Specialist. Debra will be assisting our professionals with tax returns and advising small businesses and their owners in areas of income tax planning.

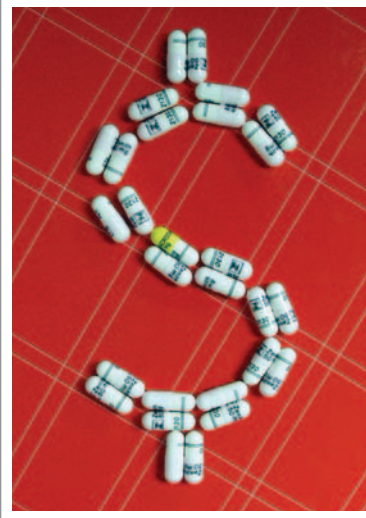
SKM EARNS TRAINING GRANT

The R.I. Governor's Workforce Board has awarded SKM one of 77 "Comprehensive Worker Training Grants" for 2008. Funds totaling \$1.59 million, which help provide on-the-job training for 3,500 Rhode Island workers, were distributed. Employers will match the grants, bringing the total to \$3.2 million. SKM earned the maximum award of \$50,000. The goal of the training grants is to not only help companies improve their productivity in the short term, but also help Rhode Island improve its talent pool for the future.

CAN YOU SAVE ON YOUR HEALTHCARE COSTS?

Surprising, the answer just may be “yes”. With today’s escalating healthcare costs, it’s almost accepted that businesses can expect their yearly costs to increase at an average of 12%. Rather than accept the inevitable, you may actually have some new options, while still maintaining (or even improving) the healthcare services you already provide to your employees. And believe it or not, you can benefit from these new options regardless of the size of your company.

SKM has been working closely with Starkweather and Shepley Insurance Brokerage, Inc. to monitor and control our own healthcare expenses, as well as to review and offer suggestions as to how some of our clients may benefit. One new program worth consideration is called a Health Reimbursement Account (HRA), compatible with all major health carriers. These plans can be used in conjunction with an employer’s existing section 125 plan.



On the surface, the plan raises employee deductibles; however, there is no actual out-of-pocket expense to the employees themselves. Employers pay the difference in the increased deductibles with a separate account specifically set up for this expense. This increased cost is offset by the

lower healthcare insurance premiums charged to the employer. Starkweather and Shepley estimate that this program can save money for approximately 70% to 80% of businesses they review; an impressive statistic!

Since every account is unique in its make-up and there are at least 20 different programs offered by just Rhode Island healthcare insurance carriers alone, it is important to have your account assessed for potential savings. Please contact your SKM professional at 401-331-0500. We will be happy to assist you with

the preliminary step in your healthcare plan assessment and introduce you to our contacts at Starkweather and Shepley.

