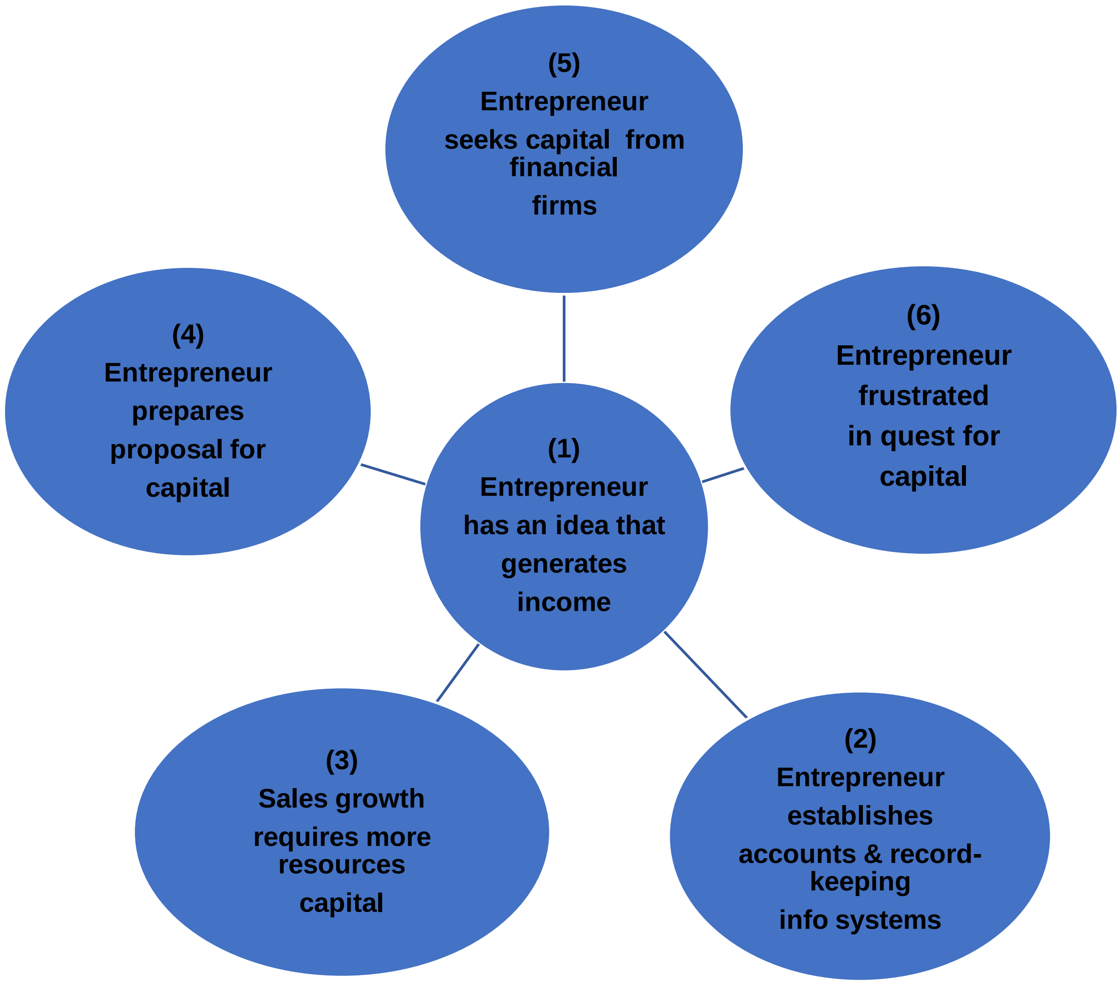
The Financing Game

The rules for financing the growth of a business are clear, specific, and aside from certain legal and regulatory considerations, have remained the same for generations. The financing of a typical business can be charted as follows:



Many businesses seeking financing have trouble when they present their financial documents for review to a third party. This is the point where the quality of a business's financial information (tax returns and business financial statements) clash with the expectations of the financing source.

The various scenarios in which these separate interests typically clash are described as follows:

- *Scenario 1*: You may desire to show a loss on your business tax returns to avoid payment of taxes. However, if tax returns are your only financial statements and you consistently generate losses, you will be denied financing by your bank. Banks do not finance companies that generate losses or with marginal net worth. *Profits* and *solvency*, not losses, demonstrate an ability to repay a debt obligation. To avoid this scenario, you should plan for profits and consult with an accountant about preparing financial statements that give a *complete* picture of your business's finances, allowing more accurate assessments of cash flow and profit potential.

- *Scenario 2*: Your business may grow too fast causing its expenses to outpace its profits. Losses during a growth phase are not uncommon. However, such losses should not be allowed to continue indefinitely. To avoid this pitfall, you must manage your business's growth. If you fail to do so, your financing options will be limited.

- *Scenario 3*: Your business may be experiencing financial hardship. Sales are declining, cash inflows are significantly behind cash outflows. In this scenario, financing may be available through a factoring firm that provides cash to your business based on the quality of its accounts receivables and not on the strength of the business or your personal financial condition. Once your business gets financially stronger and obtains stability, you can pursue a more traditional lending relationship with a bank.

- *Scenario 4*: Your business may be fine. However, your balance sheet and/or income statement needs to be analyzed and assessed by an objective third party to help you understand your financial strengths and weaknesses.

Businesses go through a variety of stages in their life cycles. Your firm may be at a stage in its life cycle where one of these scenarios applies. The causes may involve industry factors, the general economy, or inadequate business funding. To move your business in the right direction, analyze the issues that drive your business's profitability and solvency and obtain quality financial information. This is critical to your success as your business grows and needs more capital to expand.