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## SDBJ Poll

Will rising gasoline prices affect your plans to expand your business this year?

- Yes, greatly.
- Yes, somewhat.
- Yes, but slightly.
- No.

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## Assess Risk Before Obtaining Financing

### Small Business Help Line

#### Question: What are my options for financing the growth of my business?

**Answer:** Before you seek financing, you need to know what you need the money for. For instance, will it be to fund ongoing operations, to introduce a new product or service, or to grow through acquisition?

You need to match the form of financing with the type of risk. Many business owners try to raise debt financing when they really should be raising equity. Or they sell equity in their company because it's "free," i.e., it carries no requirement to pay a current return.

The liabilities shown on a company's balance sheet list capital in the order of preference in case of foreclosure, liquidation or bankruptcy. Listed first, senior debt carries the lowest cost and is backed by collateral and the company owner's personal guarantee. It may include a revolving loan on the company's accounts receivable and possibly a term loan for hard assets. Banks are not risk-takers — they lend money and want it paid back.

Preferred stock or sub-debt, often lumped together as mezzanine financing, are subordinate in priority of payment to senior debt, but is ahead of common stock. This is an option for strong middle market companies with robust cash flow seeking to expand. Small companies can't often tap the mezzanine market because they don't meet the qualifications of the institutions that provide this level of financing.

Equity financing is the capital appropriate for the highest risk investments, such as starting up a company, developing and introducing a new product line or entering a new market. In exchange for taking this higher risk, the equity investor will expect a much higher return than a bank or mezzanine provider, making this the most expensive financing option. Typical sources for equity financing are the owner of the company, key executives/partners in the firm, friends and family. Companies need to post revenues of \$20 million or more to even begin thinking about equity from an institutional source.

Know what you will spend the money on. Understand the risk you are asking the capital provider to make. Then go to the source that fits your needs ... and good luck.

*Written by David B. Duval, Claiborne Advisors, sponsor of the Chairmen's RoundTable, a nonprofit volunteer organization comprised of current and former chief executive officers who provide free business advice and*

**Reach Business Decision Makers**

*mentorship to small-business owners. To learn more about the San Diego-based group, visit <http://www.chairmensroundtable.com/>.*

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