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Chapter 6

In this section we're going to be talking about one of the most important things when you get involved in a business whether it's a start-up business, whether it's an existing business or even after you buy that company or get it started, you're going to find this key thing that's going to keep you going, the key thing also that's going to enable you to expand is knowing how to finance that business. For those of you listening to this tape that are interested in either expanding your business or maybe you're interested in starting a business, the only thing that's not going to basically apply in your area would be the first thing which is owner financing. But, you're going to find that the rest of these different items that we have in here will apply in all different areas of business.

Now, even though you haven't heard about a lot of these different techniques that I'm about to talk about on this tape, the thing I want you to realize we've been out working on the financing business in business for over 30 years now, and although the average technique that you read about if you're bought one of those crazy books on how to start to buy a business mention things like going to banks and using the Small Business Administration, you're going to find although we mention that and we'll be going through that in this section, you are going to find they are not material. We don't use those that often. We're normally using things like bank financing for short-term financing which we then try to replace with financing that costs us a lot less money and maybe gives us more time to pay it back.

The first thing you're going to run into is a thing called owner financing, and keep in mind there's three basic categories in areas of financing. Number one – we have a

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thing called owner financing. A second broad category that we're going to go into in this tape is a thing called supplier and vendor financing. Again, these are people that you're in business with and these are your suppliers, your vendors, people that you're supplying with goods and services. The third general category is going to be institutional financing. As we go through this in order to define it for you, we've divided into those three sections in this chapter which is chapter six, and then what we've done also is we have another section where we're going to go into a number of other financing areas that tie into these different areas.

Now, first of all, let's start off by talking about what happens if there's no owner financing. Well, for those of you that have very little money or you're out financing a business and don't really have a lot to work with, one of the things that's going to give you trouble if you don't have owner financing is the fact that it's going to kill your cash flow because you're going to find the owners in most cases are willing to carry back financing. They're willing to let you put so much down as a buyer of that business and then they will finance the 75 percent whatever it happens to be over a period of time.

When an owner is not willing to do that, they give you problems. Number one – if you look at page 6-1 what we're telling you is if there's no owner financing available, number one – lending institutions consider this a danger sign and will be reluctant to lend their money to you for two reasons. A – the owner is usually telegraphing the fact that he thinks that you the buyer can not run the business properly, or the business doesn't make enough profit to repay the loan. Remember also it lowers the value of business when you're buying it, and we talked about that in the section we discussed the pricing or valuation of the business.

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The thing you have to realize in this area, and I want to emphasize this a number of times if you don't get the owner financing, you're going to have to come up with a bit of money of your own because the other type financing you have that you'd normally replace this with is five year financing at very high interest rates. As you go through this section, you're going to find if we get the owner financing, we not only have 10-15-20 years to pay for this, but we also have it at a lower interest rate which means you have more cash.

In most cases, when you go out to finance, if you're able to finance a business 100 percent without the owner financing, and without funds of your own, you usually find that the amount of money you have left is very little, and in most cases you're going to find you have negative cash flow.

For those of you lucky enough to go out without owner financing and still finance it 100 percent, you're going to find that you have a little bit of cash left, and what happens is during that five year loan period, if there's a little bump in the economy you're going to end up sinking your ship. I just want to tell you something, over the years, I've had an opportunity to work with hundreds and hundreds of people from our programs, and every one of them that went out and didn't listen to me in this area did not get the owner financing ended up having massive problems.

The basic thing you're going to have problems with is you're going to find this fantastic business. You're going to buy it, and for five years, you're not going to have anything. All of a sudden you're going to run into somebody else from our program. They went out and bought the same size business, got the right financing, and right from

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day one they had the great life. They had the good life. What are you going to do, wait five years to get it?

I'm telling you is I'm warning you if you don't get the owner financing, what I suggest you do is give the business back to the owner and side-step down the street. I don't like businesses when they don't have financing available. In our brokerage businesses, we wouldn't allow our brokers to handle businesses or list them if they don't have financing. Why? They're just too tough to put together.

Going down to B on 6-1, we're talking about the normal down payment, and what you're going to find with owner financing – the average owner in the United States is going to ask you to put down 25 percent, and they'll finance the other 75 percent. In this area we start to get into negotiation technique, and what we've talked about in this program is the fact that we don't like you to make an offer until you've talked to the other party at least three times whether you're the buyer, seller, agent, whatever you happen to be in this transaction. The buyer and seller should get together at least three times to verbally negotiate, and what happens is then during the verbal negotiation of your three or four meetings before you make the written offer the buyer and seller get a chance to know each other, have a chance to trust each other.

Now, over the years, I've been involved in selling a number of businesses I mean with me being the seller, and again, even though I've said I'd take 25-30-50 percent down, I was really kidding myself with the person I was talking to because I didn't know who the person was going to be that was going to be that was going to buy the company. Would I finance? Probably, if I knew and liked the buyer, but if we didn't know the buyer, if I didn't like the buyer, if I didn't the buyer, I wanted all cash.

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So, this is the thing you have to keep in mind as you negotiate. If you find that you as the buyer are not able to get to talk to the seller because there may be a broker in the middle or something like that, what I suggest you do is figure a way to get around that broker or what you're going to have to do is consider buying a different business. Again, why not do that. There's more of them out there then you can possibly buy. So, don't get hung up on one specific business.

Now, as you start to negotiate, you have to realize there's only a few things that you're really going to be negotiating between buyer and seller. One thing is the price. The other thing is what kind of financing you have available and the terms of the financing. Although we're not going to talk about it now, the other thing is will the seller stay for a while and train? And, we have three sessions with buyer and seller and maybe you're spending an hour or two each session, you're going to find in any one or two hour session that you do have, you're probably going to spend seven, ten, maybe 12 minutes discussing the details, and the rest of the time you're going to be getting to know the other party. So, don't get hung up on it. In fact, let's get rid of the word of negotiation. You're going to have a rap session. You're going to have a discussion session with the other party.

The first thing we do as we're talking to the owner, and again, we're trying to arrive at the price. We talk about it each time. The owner will say, "I want X number of dollars." And, we then try to find out how firm or soft that price is, and if they start at $100,000, we're asking, "Would you accept $90,000 or $80,000?" Try to find out where their hot button is, and then cutting it off at each meeting and trying to bring them down

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lower again using that technique. Then, later in the program, we'll be talking about using the balance sheet.

Now, as you start to think about this financing, what we're going to ask the owner is, "Would you like to have all cash? Would you like to finance?" Again, I know you're trying to get a "yes" response, but the thing you should realize is try to find out if the owner will finance, and most owners, if they are reasonable people and are starting to like you are going to say, "Yes, we will let you in with so much down."

Now, I'm not going to say some owners won't start off with 100 percent and want all cash, but why not talk to them, work with them, verbally negotiate, and once they get to know you, you're going to find most of them will finance. If they don't, you better beware. You better find out why they want all cash, and you're usually going to find there's some other problem here.

Now, the first thing we do is try to get 20-year financing when we're talking about the financing. Now, some owners are going to start off by saying, "Gosh, I'll give you one, two, three, four years to pay for it." And, most of them will also add that the reason they're asking for the money in one or two years is they're helping you. You should then go back to the seller and explain that if you have to pay it off in two years, you're going to have negative cash flow. You're going to have to add other money to the business which doesn't make sense.

Now, what happens then especially in the larger businesses over $50,000 many of the sellers have already talked to their CPAs and worked it out financially, and many of them are very smart people and they realize that if they don't give you the buyer enough

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breathing room on your financing, your chance of making it isn't very good. So, a lot of them will start with 10-year financing which is beyond what we normally talk about.

As soon as they start to mention 10-years, as you negotiate verbally ask them if they would consider going 20. Most of them will. As you get to the point where you have them out at 20 years, you're great. You're in a good position. If the person happens to be highly motivated and really wants to sell and they're a 10 out of 10 on a scale of motivation, I'd suggest you try to push it out to 25 or 30 years. Now, in doing this you're not going to pick up a lot of additional cash flow on the business, but again, maybe it's just principle.

Now, remember as you do this and we're asking to pay it off in 20 years or 25 or 30, it's 20 or sooner. That gives you the opportunity as the buyer to pay it off sooner and not have a penalty by having to pay maybe all the interest because what we're trying to do is get you the maximum amount of time to pay for it, and if you decide because things are doing well or you feel better without financing, you can pay it off in five years or whatever you decide to do, but give yourself a lot of breathing room.

If the owner then backs off or balks or refuses when you're asking for 20 year payments, and he backs off and he says, "Look, I want to retire 15 years from now", what you say to him is, "Look, let's amortize", and by amortizing we're talking about let's have nice equal payments as if we were going to pay it off over a 20 year period.

Now, what we're going to find is it's not going to go 20 years and the owner wants the money in 15. Now, if the benefit to the buyer is to get the longest payments possible as if it were going to go 20, what we do then to satisfy both the buyer and the seller we do a thing called ballooning it. In other words, we will have a due date in 15

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years, and we end up with a balloon payment. What does that mean? That means we make nice equal payments starting from year one as if we were going to pay it off in 20 years. At the end of 15, since we still have five years to go there's going to be an amount of money due that we still have to pay over the next five years.

What we do then is have a due date. All the money becomes due at the end of 15 years, and we have a thing called a balloon which is a large amount of money which is money you owe for the next five years, due and payable at that time.

You're going to find that a 15 year balloon is not going to hurt you bad, too bad in business. You're going to find though that we don't like you to balloon or end up with a balloon payment under ten years, and a lot of you are going to run into balloon payments of five, six, or seven. I'm trying to warn you, you're going to get in trouble. Why? Because a business is very difficult to refinance because once you refinance it, you're not going to have the big basic thing you had which was owner financing. So, what I want you to do is consider one thing – try to get it out to at least ten. By that time, you'll have paid down the loan. Inflation will have made the dollars a lot cheaper, and you'll have a number of things that you own free and clear. So, if you did have to finance something or refinance something, you can do it and you're not going to get hung up. But, remember – no balloons under ten years. If you do that, you're going to become another sad story, another horror story.

As soon as you've worked out the period of years, and again, you're doing it over three or four meetings, and again, if you get it up to ten years in the first meeting that's fantastic, and then move it on meeting by meeting as you verbally negotiate with the seller.

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The next thing you're going to have here is a thing called the interest rate, and the thing that goofs many people is many of you offer too high and interest rate. Remember, the repayment period on a loan can be 10-15-20 years. Even if the going interest rate is high and it can be, it probably will not remain that high. Banks tend to give us all a feeling in the United States that interest rates are always going to remain at the level they're at or go higher.

We usually recommend paying only seven or eight percent interest on carry-back. Naturally, as a buyer if a seller's highly motivated, why not offer six? If you happen to be the seller on the other hand, let's face it, this program's addressed to both buyers and sellers, you might want ten percent or twelve.

But, keep in mind one thing and think about this especially if you're the buyer negotiating with the seller. Ask the seller, "What has the average interest rate been over the last 20 years?" And, most of them will agree as they search their memory that the interest rates only been six or seven. So, what you have to realize is in most times even in the worst times when the prime rate went up into the 20s, most owners were carrying back financing at nine or ten percent. As the interest rate went down below that, we got it down to seven, eight and nine percent interest again.

Again, we are not in the business as business owners to charge interest rates that banks do because we don't want to end up destroying the buyer. So, even though some sellers may start off at a higher interest rate, you're going to find by negotiating which is just verbally talking to them, you're going to be able to get them down a nice interest rate, and what you're going to find is it will improve your cash flow which is what you're after.

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Now, once you have arrived at the owner financing, and again I want to tell you something – most of you don't spend enough time working on the owner financing when you're buying existing business. Now, since the owner financing represents 75 percent of the total financing that you need, this is the mistake you make. You get so hung-up on the down payment financing. You get so hung-up on working capital which are the small numbers, but you don't take care of the big one, the 75.

If you set up in the 75 percent financing for a nice long term at a very low interest rate, you're going to find there's enough cash flow let so it's easy to finance the rest and also have money left. In almost every case when I'm working with you and you've come back to me and big tears in your eyes to tell me you can't finance the business you're working on, it's usually because the basic financing which is 75 percent of the total value is the one you skipped over, and what you have to do is concentrate on the big number. Once you have the big number worked out you're going to find that the other numbers fall in. Think about it from a common sense standpoint. Wouldn't that make sense? And it does.

The next thing we have that we get involved with as a general category is a thing called inner business financing, and we're talking about actually having people that we're doing business with finance us. We're talking about suppliers. They supply us with goods and services. These are people we're supplying. Why do they do this? To keep us in business because we're supplying. We're a good source of whatever their product happens to be or they're trying to sell to us. In many cases, we are their customer.

Now, the first thing you're going to run into in any business financing as we talk about financing categories or areas of business whether it's on start-up or whatever – this

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works on start-up it works on expansion, it works in all areas – the first one is unsecured open book trade credit, which means people will come to your business. They will then provide you with credit. They'll let you pay in a week, two weeks, a month. Again, as you establish better credit with these people, they're going to give you longer and longer to pay for it. But, the first one we're talking about, category one, it's due in a few days.

The next category, the one we run into most often is a thing called extended trade credit which means we're paying 30-60 days, 90 days, more than normal, which means we have more time to pay for it, and what you're going to find is we can use this also as a source of financing because what you're going to find and we talked about this example in another section of this program - you're going to find that on the average, you have a thing called accounts payable, and they're $100,000 and you have to pay them every so often. In fact, if you want to make it easier, why don't we go back to the original example we used in one of the other sections on creative financing and we'll talk about a business that had $200,000 of accounts payable.

In that business we had $200,000 of accounts payable and they were due in 30 days. Now, again, we keep talking about this is the fact that some owners pay cash and they think pay in 30 days gives you bad credit. We're also going to find that people who pay in 30 days think people that pay cash are stupid, and what you're going to find is 30 days although it's a standard in the books, as you get out in the real world, you're going to find that you can get 45 days credit and 60, 90, 120, 180.

On the other hand for those of you non-believers that think that everything's going to be 30 days wait until you get out into the real world and find that your customers are coming to you and they're going to ask for 60 or 90, and what you're going to find is

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if you don't keep the receivables and payables balanced out, you are going to end up going to the bank to have to borrow money.

As we are able to extend credit, and let's say we did have $200,000 and it was due in 30 days, if we are able to extend that another 30 days, we're going to end up with another $200,000 of working capital that we can use. Although we use a large part of that for working capital, as you become more knowledgeable in buying businesses, you're going to find that you don't have to put all the money down.

If the owner wants $25,000, you can always give them $10,000 down during the escrow or closing period, and then pay them the rest of the money maybe 10-15-20-30 days after the close. You may even have to make it 60 days after the close. How would you pay for it then? Well, as you get your credit extended out say for an extra 30 days, the supplier money that you normally would have paid to the supplier with that period which is not due now because you have more time to pay for it, you could use that money to pay off that loan. Again, we'll talk more about that later.

The next category is long-term open book, and this is credit where it's due in six months or several years. When we run into this quite often is when we're borrowing money from a supplier, and we're borrowing money for the down payment. We're not talking about extended credit. We're actually talking about borrowing money from the supplier, and what happens is they want us to pay it back in six months, maybe several years. Sometimes it's only called when the customer drops the supplier. In other words, your supplier's going to lend you the money say when you're buying a business of for expansion or starting a business. In many cases, they don't want you to pay it back for a very good reason. What they'd like you to do is be kind because you happen to be a good

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customer. A way to tie you to them is to lend you money, and you're going to find that as long as you're doing business with them, you don't have to pay it back.

The other thing you're going to find especially in dealing with suppliers, if they do lend you money, very seldom will they ever charge you interest which is a very good way to go because you can improve your cash flow.

The next category is the inventory sent to the customer on consignment, and supplier retains title and control. That's what we're after because in the area on pricing where we talked about pricing or valuing a business, the thing we had problems was the fact that you have to really pay yourself a return on any amount of money that you have invested in inventory, and wouldn't it be nice to have $100,000 of inventory and not owe any of it, not to have to pay yourself a return, not have your $100,000 tied up in the inventory? And, one way to do it is have it there on consignment which means basically there are placing that material that inventory in your place of business, but you don't own it. What happens is at that last moment if somebody buys it the money is handed to you. You then give them the title to it and or possession of it, and you then end up paying the person that has given you these goods on consignment, but the great thing about it is you are basically selling something that you don't have any money invested in.

You're going to find in business if you want to become very successful in business, you don't really want to own inventory. You don't want to own equipment. You don't want to own anything because in a business you really want to understand it, and we're going to go through this a number of times. What we want you to understand is all we want you to own is what? The cash flow. Who wants to own all these other crazy

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things? You want to own the cash flow. You want to own the money. That's the purpose in business. As we say, that's the bottom line.

Inventory sent to the customer, again, we're on number five, using a field warehouse. In business today, I can't predict where you're going to be whether you're going to be the person as a supplier or the person receiving the goods, but what's happened over the years is many people have abused a thing called flooring which I'll talk about in a little while and what happens is somebody will come in and they abuse flooring or they abuse consignment, and how do they abuse consignment? Well, people with consignment goods and they give you these goods to show and sell, they don't want to leave them there for four or five years. What they tell you basically, is they're going to put them there on consignment, but what they'd like you to do is sell them in 60 days or 90 days. When that doesn't work too well, many times they will convert consignment and call it flooring. When they call it flooring, they're doing the same basic thing as they do in consignment except what they say to you is, "For 60 days we're going to floor you, and there's no charge. Then, after that we're going to have a rate."

For those of us that are having problems and need more consignment or they need more flooring, we will then go back on the counter attack as we negotiate and ask them to set up a field warehouse. A field warehouse, and we're going to get to the definition in a short while – a field warehouse basically is a situation where maybe your credit isn't too good, or maybe there's some special financing with a bank which I'll talk about later in this section, but what happens is they may take a token amount in the back of your business or the back of your warehouse. They may fence it off. There maybe a person

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from a warehouse company that will be in there, a warehouseman checking the goods in and out.

As your credit improves, you're going to find that they will turn the actual warehousing control over to one of your people, and then as your credit gets even better or you have a better relationship, they'll take the fence down.

What we're after is we try to get people to set up a field warehouse and have the supplier, the person supplying the goods, supply it. We also get the supplier – instead of having to go to a bank and pay a large interest rate – we ask the supplier to provide this, and naturally trying our supplier to do this at no cost. What we end up doing by doing it this way if we get it at no cost, we end up getting consignment by calling it a thing called field warehousing, and you may say, "Gosh, you're Mickey Mousing this area, playing games." Well, it may be a form of business playing or business games, but the thing I want you to realize is this any worse than the companies you're working with and they're telling you that basically you had consignment and it's now going to become flooring. What you're trying to do is get the consignment to go back to a thing that doesn't cost you anything, and what are you going to call it? One thing that we use quite often is a thing called field warehouse.

Six – a dealer's accounts receivables financed by the supplier. Later in this section, we're going to talk about financing accounts receivable, going to a person, a factoring company, going to a bank, going to a finance company, and actually borrowing against accounts receivable. Did you ever think of going to a supplier and having them finance them? Again, what you can do is you can put them up as security. You can

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borrow against them, but the fascinating thing is most suppliers won't charge you interest on it which means you save a ton of money if you have to borrow on receivables.

The next thing is the accounts receivables are sold to the supplier. Later in this section as we talk about factoring, you're going to find that you can take your receivables as you receive them and sell them to a factor o n a daily basis. What happens then is they convert those to cash, and you can use those for working capital and running your company, but did you ever think of going back to your suppliers and selling to your suppliers? Because if you do this you save a lot of money because factoring could be very expensive. If you can get your suppliers to do that for you, you're going to find it works very well.

You're probably wondering why suppliers and other people are going to do this. You have to realize that you are the customer, and you're always right. For those of you of little faith, as you go through this section and don't believe this can be done, as you get into business, you're suddenly going to find within a couple of months that the things that you didn't believe could be done are going to be done. How? People working with you are going to come to you for this type financing. What I'm trying to get you to do is go out and get as much as this financing as possible before they come back on the other side and get it from you because he or she who doesn't listen to me, and doesn't go out and get this financing and get more of it from the other person before they get it from you, whoever doesn't do that has to go where? You have to go to the bank.

Whoever's at the end of the line and is not getting some other type financing from another person in business is going to have to go to the bank to borrow money, and what

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you end up doing is you end up being in the banking business and you don't want to do that. If you haven't found out why, you will as you get into business.

The next area is the supplier lends the equipment to the dealer, and if you get involved in grocery stores, convenience marts, a lot of you have a feeling that in the big supermarket that the supermarket chain owns everything, and you're going to find that the ice cream boxes are owned by the ice cream companies. You're going to find the milk boxes and other boxes and shelving in there are actually supplied and given to you or loaned to the person that owns that business. Why? That's one of the conditions they have in that type business. If you want the shelf space, if you want to put your product in, then you supply the container, the racks or the freezer boxes or the refrigeration boxes.

If you're one of these persons that likes to go out and buy this equipment, I think you're crazy, and you're going to say, "Gosh, if I go out and do that they're going to charge me a lot more." No, they're not because what they're doing is they're trying to buy themselves a location, and if they then end up buying a location and raising their price what's going to happen is you're going to replace them with somebody else. Keep in mind one thing, there's always more people trying to enter any one area of the market then there are openings, and what the smart people do are the people do with money is they buy their way in and that's why we're able to get financing. That's why we're able to get a lot of extra things as long as you know what area to go after.

Supplier leasing equipment to a dealer – now, again, you're going to say, "What do you save on leasing?" On the average lease, when you're going out to buy new equipment or even picked up used equipment, you're going to find the lease payments are one of the most expensive types of financing you're going to get from a bank or finance

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or a leasing company. You're also going to find the terms are three, four, five years normally, maybe a little longer, but usually that, which means that the amount of money you're going to have to put every month to make these payments is horrendous.

You're going to find that by going to a supplier many times, you're going to take this large piece of equipment, let them buy it, and you can lease it back from them. When you lease it back, we usually try to keep the interest rate very low. As a matter of fact, what I want to tell you is we always go after paying no interest because a normal interest rate paid from business owner to business owner, any type financing or any type of credit is zero.

Now, I don't want to put this down and say, "Well, gosh, always go for zero." If you find that you have to go to the bank, and the bank's going to charge you 14 or 15 percent or whatever the amount happens to be, and your supplier wants seven or eight, well, I'd rather pay zero. But, if push comes to shove, and it's the only financing I can get and it's less expensive than the bank financing, don't call me and ask. What I want you to do is go out and get it.

The supplier sells the equipment to the dealer on a time plan, and again, if you go out to buy equipment your payments are going to be very high, and again, the amount of time you have to pay for the equipment is not a long period which means your payments per month are going to be very large, not an easy way to do it, but again, it's the same thing as vendor leasing. Go to the supplier. Let them buy it, and set up a time payment plan with them, and again, the interest rate is normally nothing or very little. For those of you with little faith, if you don't believe people will do this, again, people eventually are

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going to come to you and have you do it for them. Why will you do it? Because the customer's always right.

A cash loan to buy equipment – yes, a lot of times we'll need cash and instead of going to a bank, we'll go to another person we're in business with or working with and borrow the money from them.

A short term note – the only reason I put this in there as number 12 is the fact that with a short term note, what we're talking about is possibly paying back a supplier for money they loaned you for working capital or to buy a business. Quite often you're going to find that the owner of a business when they're lending you money will not ask you to sign a note and you as the person borrowing it, very nervous, and you wonder why you don't have to sign something. The reason they don't ask you to sign is say you're borrowing, $30-40,000 maybe $50,000 – your company that you're buying already owes $80,000 or $100,000 just on the goods that they delivered that you didn't pay for, and on the goods they deliver, they didn't ask you to sign a note. So, what you're going to find is it's sort of pretty loose. But, if you do insist that you want to sign a note, fine, sign a note. That's the only reason I mentioned it here.

The next thing is a term loan to a dealer for any purpose. I hate to mention this, we have not only gone out over the years and borrowed from other people in business for business purposes, I haven't done this personally, but we have a number of people in our program that during times when money was very tight actually went to suppliers to borrow money for a home. Although you may say, "Gosh, how could I borrow $100-$200-$300,000 from a supplier?" Well, you have to realize everything is relative, and maybe on a $300,000 business is not practical. It's not going to work. But, if you're

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working in an area of business maybe where you're doing five or ten million a year and one supplier is doing one or two million with you or three million, you have to realize the amount you're borrowing probably only represents the same amount of the goods you're buying from them every month. In fact, the amount you're borrowing in this area is not much more than what they deliver to you in goods. So, they trust you in that area. So, you have to think of it from a relative standpoint. Even though some of these numbers are a little larger than you're used to working with.

Equity investment in the dealer's business, and for those of you of little faith who don't think you can get the supplier or vendor to lend you money, I always give you a little tricky thing and say, "If you don't have any confidence in what I'm teaching or trying to project to you, why don't you go out to a supplier or vendor and say, 'Look I'd like to borrow $50,000, but I don't want you to have no security. I'll give you a note, but I'll also give you 25 percent of my business.' Why don't you do that?" Once you then have secured the money from the other party and you're about to close and take over the business, why don't you just turn to them and say, "You know I've given you 25 percent of the business for you putting up the money. Would you have forwarded the money if I didn't do that and give you part of the business?" In almost every case they're going to say, "Yes, I would." Which means you just gave away part of your business, but for those of you with little faith, if you don't think it works any other way, try it with a note.

The last area is flooring, and again flooring is something that we already mentioned, and what we're doing here is we're talking about flooring goods. What they means it they're delivering goods to you and it's sort of like an offshoot of consignment

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which means they are placing automobiles with you, refrigerators, stoves, and instead of having you pay for them now, they are flooring them.

Now, we're going to get to the actual definition later, and when they are flooring them, again there might be an interest rate due in two months or three months. What they end up doing is saying, "Okay, the first month's flooring is free." Now, that is not always the case because with flooring you may find they are delivering the goods. They are basically keeping title of them, and what they are doing is they are financing for you. Later in this section, I'm going to show you how banks do the same thing with a thing called flooring. I'll show you how that works and you'll have a more complete definition.

The next area and the one we've been talking about is our third category – our third general category, and it's called Lending Institution Financing. In other words, working with banks or working with the Small Business Administration. These are the institutional type financing, and if you've already gone through the pricing section, you'll notice this is the same way we break it down when we're trying to analyze a business to try to figure out how much it's worth. What kind of financing do we get? And, one of the categories we do get a lot of financing from is lending institution. Again, you're going to find as we go through the program that we usually try to convert this to something we can live with a lot better.

Let's get through the types of loans here on 6-5, and the first type loan you're going to find is a simple commercial loan. It's usually a loan for 30-90 days based on a financial statement, often unsecured.

Now, for those of you that buy a lot of real estate or have been involved in a lot of real estate, you're going to find when you buy real estate they're going to put a lien on

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your real estate – date of trust, mortgage, something like that. The thing that's going to fascinate you in the business for those of you with little faith, you're going to find that in many cases, the lending institutions are lending you money and it's not secured. They're not asking you to put up something in security. There's always good news and bad news. Of course, the bad news in this area is you've also signed personally which means they can go after you in attach or go after any assets you have.

A character loan – these are made as individual rather than business credit. In other words, you're going in to borrow money on your business, and what they're really doing is lending money to you the individual based on your ability to do things. Again, you're usually signing personally here.

Over the years, I have signed personally a number of times, and I don't know how many times, but I say up into the hundreds or maybe thousands of times, and every time I have it has backfired on me. Today, my motto is, "If I have to sign personally, I'm not going to do it." Although many of you are starting out for the first time, I promise you in the next few years that almost every time that you sign personally it's going to end up burning you. Whenever you can, try not to sign personally.

Now, for those of you listening to this tape that are lending the money, I would suggest that you tie up everything you can. This is a difficult thing when you're trying to teach or educate people in a program like this. We're trying to protect buyers. We're trying to protect sellers, agents, attorneys, CPAs. I keep trying to tell you over and over again, let's go after win-win situations. Let's go after situations where the buyer and seller both make out. Why do we have to rip-off the other party?

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I've been in business many years, and I've done very well. I've found out one basic thing. You can make more money honestly in business than you can dishonestly in spite of some of the soap operas you watch.

Installment loans – again, these are used for many business purposes. I'm sure many of you know what an installment loan is. You've been involved in them. And, they're usually used by larger banks. As loans reduce, it's possible to refinance it at a better rate. The loans may be tailored to a seasonable requirement of the business, and you're going to find as we get into the program that in certain business especially like retail maybe around the Christmas Season, you're going to have a special requirement, and we'll get involved in that as we cover other categories.

The second part and we've turned to seven, we're talking about lending institution financing. One of the first things we have is a short-term loan which is one year or less. These are usually easier to get than intermediate loans which are one to five years. These are often unsecured. As we're going in we're asking for a 90 day loan. We're normally asking for a working capital loan. Again, working capital may also constitute part of the down payment. Why don't we say it's down payment? Most people don't like to hear down payment. They don't like to know we're borrowing that part of it, and for those of you bankers that are listening to this tape, I just want you to realize that the people we educate if they follow the complete program will not only end up financing a business 100 percent or close to it, but they also end up with a large percent of cash left over and what we're trying to look for is usually 30-50 percent of the cash left, and the reason we've done that is most banks we work would like to see at least 30, and since we tend to

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be a little more conservative, we try to push it up to 35-40 or 50 percent. It is possible mathematically. Now, remember these are easier to get. They're often unsecured.

Once we've gotten these 90 days loans, you're going to find that once you've renewed it and what will happen is you go in every 90 days, and the bank then will ask you to pay interest and then if you want to renew it you can, or pay it off, and if you've been a good boy and good girl, they'll renew it for another 90 days, and you don't have to see them for another 90 days.

Once you've done this a number of times, the banks will normally increase these and make these 180 days so they don't have the processing problems. I just want to say one thing. I had a few of these over the years, but I always feel bad about them because I feel like something's hanging over my head. It's a loan that's easy to call. It's a loan that may not be renewed, and usually if it did come up and not be renewed it probably would be at a time when I was having problems and I couldn't repay it. So, try to get these paid off as soon as possible. Also, if you sign personally, try to get these paid off. It's just good business sense.

Now, lending institutions financing – the next one is intermediate credit as we go down to section three here and we're talking about loans that are basically one to five years. We're using it for capital for other than temporary needs. It's used to purchase equipment, existing businesses, provide additional working capital. Again, we're trying to get up to five years, and although I say a range of one to five years most of the loans we work on are five year loans.

While the loans in force, you'll have restrictions on managing your business to protect the lender against drastic reductions, and a lot of times bankers will go down and

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visit your business at least once a month. What we try to do is set it up so that we see our bankers once a month, maybe have lunch, and then take them to see the business, and you're going to find then at least the business is going to be running the way it normally is. If you leave it up to chance, I guarantee you everytime the banker walks in it will be that day of the month that everything got screwed up. I don't know why that happens, but it does.

The other thing we should be talking about here in lending institution financing – one you start to think that you want to start a business, buy a business or may you want to expand your business and you're going to need bank financing, institutional financing, what I'd like you to do is go down to the bank and start to get to know some of the bank officers, have coffee with them, have breakfast, get to know them, play golf, whatever it happens to be. Give yourself lead time maybe three, four, five visits. Get to know them. The reason for that is the same as your negotiation between buyer and seller. It's very difficult for a bank officer to sit there and feel good about the loan you're asking for when they just met you. It makes it a lot nicer if you've gone in and laid the groundwork. You've done your homework. Again, you're just being nice to your local bank officer. Again, bank officers like to make loans to people they know. They like to make loans to people they trust.

I should've made this number one. They like to make loans to people that can repay the debt and repay it safely which is the key to working with bank officers because they don't like risk. I understand what they're talking about.

The next thing as we go to 6-9 on lending institution financing – we'll talk first of all about equipment financing, and you're going to find in a business you go to a bank or

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a lending institution and you can borrow money against the equipment. It will be secured by the equipment, and again I'm just giving you averages here and it's going to vary year by year. It's going to vary by the equipment, and it's going to vary all over the place. But, generally we're talking about borrowing about 50 percent of the appraised value.

You're going to find as you become more knowledgeable in business, you can figure out ways to borrow more than 50 percent, but 50 percent is what we can get. You're going to find there are techniques to borrow more.

The next thing is the inventory financing. We can usually, again, borrow about 50 percent of good inventory. Many institutions are wary because of control problems. You may be able to minimize a problem by placing an inventory in a bonded or controlled warehouse set-up. When you do that, we have run into banks and lending institutions over the years that will go up to 80-90 percent of the value. What are the lending institutions looking for? Security. In other words, they'd like to know that if they're going to lend you the money against an asset that they're not going to get ripped-off, that they're going to be repaid.

Accounts receivable financing – in this, we already talked about this generally, you pledge or assign all or parts of your accounts receivable security, and you can borrow a percentage of the amount pledged. In some industries you can borrow 50 percent. We find nationally the average is about 80 percent. So, you can borrow against your receivables, and incidentally, you're going to find that you can borrow against the accounts receivable when things are going bad. We've seen companies borrowing on receivables when they're going down the tubes. As a matter of fact, most of the accounts receivable that we run into in the United States, these are companies that are in trouble.

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Why are people able to lend money against receivables or even buy them from you? The value of the receivables has nothing to do with how well your company's doing. What it has to do with is how good are the people that owe you money through the accounts receivable program, and if they are good for it and they've been paying on time that means it's something you can borrow against easily, that you can finance easily.

It's a good source of cash flow for your business, but I do want to tell you one thing. It's a danger area because once you can start converting your receivables to cash and do it immediately; many business owners become very weak. So, I would like to suggest that you use that as a last resort unless you're in an industry like the garment industry where it's a way of doing business, but in most categories we find that it's a danger sign.

Accounts receivable factoring something we mentioned before – in this area a person called a factor buys all of your accounts receivable as they arise. They are purchased at a discount, and the cost could be very high. But, keep in mind, what they're doing is buying them here. They're buying them from you. So, instead of borrowing against them, you're actually going in and selling them to somebody and receiving cash from them the next day or a couple of days later.

Borrowing on contracts not performed, and this is an area that a lot of people are not aware of, but you can borrow on contracts that you haven't performed on yet because on accounts receivable, you're really borrowing on what? On something that's already been done. We're now talking about borrowing on contracts not performed, but the thing you have to keep in mind, you can't go to normal lending institutions. What you're going to have to do is go to your Yellow Pages, and look up "Other Financing Companies".

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These are companies that may charge a little more, but they're not the banks that do this. Very few banks that I've ever run into get involved in this area. They like to borrow on something you've already done, or lend you money on something you've already done.

You're going to find that you have to go to regular finance companies and they're listed in the yellow pages. If you go to them, you're going to find the rates are really not that outrageous. They're very nice people.

The next category that we're talking about on 6-11 is a line of credit. An internal formal understanding, or it can be informal, between a businessman and his bank. The bank agrees to grant loans up to a maximum amount often unsecured. Used in business with a seasonal need for short term funds, and again, we're talking about the example here – a retail store during the Christmas season.

Now, what you may do is you may just decide you're going to go out and have working capital which means you're going to have $100,000 sitting there all year. Now, if you happen to be in a business where $100,000 is only required maybe in October and November and part of December, why have that money tied up there continually, and you may find that it may be better to have a line of credit which means you go to the bank, talk to the bank, and they will grant you what we call a line of credit say up to a $100,000, which means you can borrow up to $100,000, and you're really only going to be charged based on how much you borrow which is a very good way to go. It also helps you develop a better relationship with your bank because that's required to get that line of credit. Incidentally, if you do get that line of credit, use it because if you get one for $100,000 and you don't use it, you're going to have a hard time getting it again because the banks in the lending business to make money.

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Once you've used the $100,000, then you're going to find if you've been a good boy or a good girl, you can go back maybe next time and get $120 or $150, and the way to build up is your ability to borrow the line of credit is once you do get the credit, use it.

Line of credit on home, and this is a new program that just started recently, and you're going to find that a home is used as security for a loan. What will happen is they will take a second mortgage or a trust deed for security, usually not in third position. They want to be in second position. You pay an upfront fee, and then a percentage above prime on the money borrowed.

Now, you're going to say, "Gosh, why are you saying that we should get a line of credit against our house?" Well, if you're in an existing business and you have a short-term need or maybe you want to have this available just as back up just in case something goes wrong, I suggest you think about this. A lot of you out there that are buying existing businesses and you're living in a certain level home, maybe $100,000 home, when you go out and buy a business and say the business is making $150 or $200 or $300,000 a year, I hate to tell you this, within a few months after you own that business, you're not going to want to leave in your sweet little home that you were satisfied when you're making $25 or $30,000 a year, and you're going to buy a larger business. But, again, you know my feeling on using your home as security. It's a court of last resort, and usually it means that something's wrong with what you're doing in business. But, again, there's nothing wrong with having a little extra back-up, a little extra protection. Usually when you do that it doesn't happen.

Warehouse receipt loans – we've talked about this, and here's the definition. The inventory's delivered to a professional warehouse where it is stored on the premises of

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the buyer. The receipts are issued to the buyer to give the bank to give to the bank as collateral for a loan. When the orders are received, the borrower will buy back from the bank enough warehouse receipts to fill the order. So, it's a bank financing device. What we've talked about before was using a supplier, and the main difference here is we're paying the supplier normally no interest which means we don't have a cost on it, or we're paying them very nominal interest rate which is a lot less than you pay at the bank.

Floor planning – we talked about this before also but not with the definition. We use this to finance inventory such as autos, appliances. The dealer has possession of the merchandise but the title remains with the lender. In other words, you'll have possession, but the bank will have the title. When you the dealer sell the unit, you pay the lender the amount due – very easy. Again, what I was saying here is sometimes when you're working with the person that is leaving the goods there, they will allow you to floor plan and they'll do it and not charge you anything for the first 60 days. When you're working with a bank, they charge for the total period.

The next category is 6-13, and we're talking about lending institution financing long-term because what we've been talking about so far is basically terms up to five years. Now, we're talking about loans from the Small Business Administration, and when we do this, we're talking about getting loans that will go maybe seven or eight years or ten years, and you're going to find as you look at this, you're going to find that these are guarantee loans, and what will happen is, again right now at the time we're recording the tape, the government was under law guaranteeing these bank loans for up to 90 percent of the $500,000. So, 90 percent is guaranteed by the government. The

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government for the last few years has been talking about raising this to $750,000. So, you might watch out for this.

Now, the loans again are usually for seven to ten years. They're usually two and a half to two and three-quarters over prime, and for those of you who think these are very good loans, before you go to the Small Business Administration even though that great book you bought told you to do it, I suggest you look at every other source.

Now, before we get down to some of the problems, let's just tell you that most of you think that just banks can provide this financing, but you're going to find that Controlled Data has a number of business centers around the United States. Yes, that's Controlled Data the computer company, and they have business centers around the country. They're very nice people, and you're going to find that they provide financing. They will work on SBA Guaranteed Loans, and they are easier to work with than the banks.

You're also going to find there's a couple of stock brokerage firms, and one of them is Dean Witter, and they are also able to provide these loans, and they usually process them very fast. The thing you're going to find in working with a bank, they tend not to like those type loans and the end up taking quite a long period of time.

For those of you going after SBA loans and you want to go through a bank, if you're in the Midwest, East Coast, Southeast, you're going to find a lot of SBA loans available. As you get to the West Coast, most of the banks there provide loans at the same rate or less without all the other red tape. So, most people just end up going with straight bank loans.

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Now, let's take a look at the requirement here. You have to have evidence of the ability to operate the business successfully. So, you have to have some track record or bring somebody in with you. You can't finance 100 percent. They have requirements as to how much you have to put down, and you're also going to find they want additional security – your home. In fact, you're going to find in most cases, they want everything you have. So, you're going to find that maybe it isn't as good as you thought.

As you know right now for the last few years, the government has been trying to get out of the loan guarantee business, and we're just going to have to see over the next couple of years how these programs do. What you're going to find in most cases, the people that work with me have been through different programs stay away from government financing. Why? It takes too long. It's too difficult to get, and there's too many strings attached. Besides, there's too many other ways of doing it.

The next page 6-15, we're going to be talking about equity financing. Now, the thing I want to mention that I should've mentioned sooner is the fact that in this chapter as you go through the book especially up until about 6-15, you start to lose more control and the financing is more costly. Once we get into the next miscellaneous section, you're going to find it varies by the type of financing you're going after, but generally the financing that is closer to the front of the section if you just want an easy rule of thumb is that the financing that's going to give you the best cash flow is the buyer.

The next category we said here under equity financing, we're saying venture equity high-risk capital. In other words, these people are coming in They're willing to come in a do more high-risk. A bank doesn't want risk. So, what you're going to find is these people are going to want a piece of the business.

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Now, you're going to say, "Well, gosh, I don't want to give up a piece of the company." Let's analyze it. Would you rather own all of a company that makes $50,000 a year, or would you rather own 51 percent of a company, control of a company that makes $500,000 a year. This enables a lot of you that maybe would have to started with a smaller company to start with a lot larger company, and believe me it's better – not exactly starting at the top – but, it's better starting in the middle than it is starting at the bottom. It's a lot easier.

First category we have are small business investment companies called SBICs, and they're again listed in the yellow pages, or you can go down to a different section of the library and they have books that just cover all the SBICs in the country. These companies provide equity financing. They buy stock outright in convertible debentures, and C-1 down below describes a convertible debenture.

They also make long-term loans, we're saying five or ten but we've seen them longer than that, and for those of you that need bank guarantees – in other words the bank wants a guaranteer or a co-signer – you'll find people in these companies will do that for a fee and a piece of your company. They're privately owned corporations licensed and regulated by the Small Business Administration, and what happens is they go out and raise funds. They make loans to people like you and I, and then what they do is based on the loans they've set up and how much risk is involved, they're able to go back to the Small Business Administration and borrow additional funds from them based on how much money they have out, and the government then lends them the money at very favorable interest rates. They then relend it back to people like you and I at a little higher

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interest rate, and on the spread, they make a very good living. There's a lot of these companies around.

In fact, those of you who have gone to banks and the bank turns you down and says, "Look, we'd like to lend you only 20-25 percent of the value of the company. You want 70. We like to stay 20 or 25 because there's that risk there." If you want to work with that bank organization what you ought to do is ask them if they have a division of SBIC which is a joint venture or a risk division, and you'll find that most banks over the years – the larger companies, larger banks – have set these up, and you go to them and although the main bank that is not in the risk business turns you down, these people will say, "Gosh, we will lend you 70 percent but we're going to want a certain percent of your company." In other words, they want a share of the action, too.

The next area Minority Enterprise Small Business Investment companies MESBICs – they specialize in lending to minority owned businesses. They're also privately owned corporations licensed and regulated by the SBA. Those are minority SBICs.

Venture Capital Companies – again, if you want to find a venture capital companies if you go to the library, they have all sorts of books on venture capital companies. They specialize in different types of lending. You're going to find that although they have a glamour name and they're nice people to work with, you're going to find in most cases today unless you really have a lock on your company and put up a lot of money, they're going to want controlling interest in your company. The best that's going to happen is they're going to buy the stock outright or through convertible debentures which mean they can convert them as debentures to control on your company.

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What we're saying here in section one is they're convertible to common stock of the corporation at agreed upon terms. In other words, they can convert them later and end up kicking you out. We don't like situations like that. We like control of our companies. They specialize in their areas of expertise. They usually want control, and as you go to the different books that list these venture capital companies, they're going to list who the officers are, who to contact, how much money they'll lend out, how much they have available, what kind of companies they lend to, and don't write to them. What I want you to do is give them a call, go over there, talk to them, and have a package ready on what you're trying to do. Show them houw you're going to repay it, what you're willing to give up. In other words, act professional and don't try to shotgun. If you're going to hit four of them, spend the time, spend an hour or two talking to these people and be prepared before you go there because these people are very successful people, and they're going to be lending money to things you're going to make a lot of money on.

Local development companies – these are local corporations whose main interest is expanding local industry or attracting new industry usually in smaller areas where there are not a lot of other funds available for business. No individual may own more than 25 percent. SBA loan limitations are a maximum of $500,000 for each small business, and what you're going to find is maturity up to 25 years, and you're going to find over all the years although I've heard of someone working with one, I've never got any details on it. I, myself, have never personally had the opportunity to work with them.

One of the last categories we have right in this general category is a thing called "going public", and again, the investment banking houses will handle the details, and what you should do is discuss in detail with all of your financial advisors. Also, don't do

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this at the last moment. Give yourself a year or two to start doing the publicity and other things involved. What I suggest you do if you have a good company and a good product, I suggest you go with one of the better investment bankers and even though they're going to charge a lot more, not a lot more but more than the smaller ones – you're going to raise the money a lot faster. You have more chance of raising it, and then as you need more funds in the future, you're working with the top people. So, I recommend going that way.

As you turn to 6-17, you're going to start getting involved in other financing methods, and the first one is a thing called a joint venture. I'm sure most of you have heard about that. Again, joint venture is usually for a year, sometimes for two or three years, but it's a limited life because most people getting involved in a joint venture that have the money really don't want to have something going on for too many years because they like to roll their money into some other investment. They don't want to tie it up for too long.

An example like this what we could have is we could have Party A – they're the manager, the owner. They usually don't have a lot of assets. Party B would be the joint venture, which is the investment owner. So, you have two parties, and the second party which is Party B ends up being what we call the silent partner. Again, the cash partner usually wants some control, but as you get involved in this, you're going find maybe they want 25-30-40. It's going to depend on weak the person is that's going to the person with the money. There's some hard-noses out there, and I'm again I'm not criticizing. I'm saying I would be the same way. They're going to want control as the silent partner.

But, for those of you going out to start for the first time that don't have a lot of money and are going to need money to expand, and you have to give up something, keep

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in mind one thing. Most of these people have a buy-out clause which means that although you may be giving up more than you want to in the beginning, you're going to have a chance to buy them out in a year, two years, or three years.

Again, why pass up good opportunities just because you're looking for an absolute. There are no perfect tens out there in business or in financing. So, what you're going to have to do maybe is give a little away in the beginning. Again, if you don't give away in the beginning anything, what you're going to find in most cases, you won't accomplish anything. So, be prepared to give away a little in the beginning and then as you become stronger and wealthier, then you will be in the control situation, but you'll never get there if you don't bend a little.

The next area, the limited partners, and what we're talking about is setting up a limited partnership and if you happen to be the person that we or somebody else is raising the money for, you the buyer of the business or maybe the person wanting to expand or the person starting a business would be the general partner. We would then put together, or you would put together a group of limited partners.

Now, again with the group of limited partners, you're going to find that they basically have no say in management, and that's what the law is. You're also going to find most limited partners want to get out in one, two, three, four, five years. So, you have a buy-out, and even though you may have a situation where you have people in with you, remember, they don't have a say in the business, and if you want to have absolute control and own all of it, you're going to have the opportunity in the next couple of years to buy them out. This gives many of you an opportunity with limited funds to either expand or buy a company, to buy something larger as your first stepping stone.

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Again, the main thing is the buyer ends up with a business and the control, and also the investors make out. They end up getting tax benefits. They get a good return on their money, and if you're doing something that's middle of the road which is what we suggest doing, they don't also have a lot of risk.

The next thing is an ESOP. It's an Employee Stock Ownership Plan, and again, what we have here without getting into the details of it because there's a lot of information out there on it. If you want to go down to the library, they have all sorts of books and records and all sorts of pamphlets on ESOPs and how they work. They thing you have to realize with an ESOP, an Employee Stock Ownership Plan, this usually only works in companies where they have over $500,000 a year in payroll, but you're going to find an ESOP can supply equity capital, cash, or money to liquidate the owner. You're also going to find you can use it for expansion, but it does assist in financing an acquisition or for those of you trying to sell a company, it's a great way to go.

If you happen to have an ESOP, you're also going to find you may be able to contact one of the large merger and acquisition firms. Look in the yellow pages. Most of the better, larger merger and acquisition firms are also in the business of ESOPs. They have a division within their company where they handle ESOPs, a managed program to set them up. They're very nice to work. They can provide other types of financing, but they also can give you advice and assistance on how to handle financing using the ESOP.

The next one is an employee stock ownership trust, and it has different laws as to how that is controlled and who controls it and how it can be funded, but the key thing is it also is the same as number three in that you can use it for financing, and it's a great tool to use. Incidentally, one of the things I forgot to mention, it also is not only a great

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source of cash, it's a great tax write-off. It's also a great benefit for employees, and we've been involved in these over the years, and while they don't work too well with the people that are maybe in their 20s and 30s, but as people start to think about getting older, maybe at 40 and so, we find it starts to become a little more effective and they become more interested in how much they have vested in their stock ownership programs. We find they work very well.

Financing about one million dollars, A – there's two different categories. One is offshore financing, and I'm sure you've heard it time and time again, and we're telling you to contact National Business Marketing Corporation or National Business Finance Corporation, and what will happen is by contacting one of the companies that I own, they will provide information for you, and they will show you how to do this, or if you want them to do it, they can. There's two general sources we run into, and one is offshore which means it's basically could be through the Caribbean. It could be off the islands, off the coast of England, or you could be talking about the Pacific. But, again, what we like to do is sit down and talk to you and warn you about the difficulties in this area, and the fact that most of the programs that you hear about in these areas don't exist. In other words, it's just a fantasy.

The next one are European sources, and we're talking about working through programs. We're working with people in Switzerland. We're talking about Amsterdam, and also normally London. Again, there are different sources back there, and again, you end up with the same flakey-wakey factor. There are some that are good and that are real and do exist, and other ones that don't. For those of you that want to come back and ask me about sources of money from the people in the Middle East, the Arabs – we're always

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talking about the Arabs – I have a lot of friends that are Arabs, and in all the years that I've been working with these people, I have never worked with one that is in the financing business. I'm sure they are, but I'm sure what's happened over the years is they've turned the handling of the financing over to the banking institutions in Switzerland and also in Amsterdam. Again, that's just our belief.

The next thing is a CPA, an accountant, finance fees – a lot of you that go out don't realize the different levels of financing available in all categories. You're going to find A – if you start a business or buy a Mom and Pop, CPAs and accountants usually want a cash retainer in front. If you buy a business making over $50,000, they ask you to pay at the close of escrow. You're also going to find that most of them will accept payment after the close.

Now, why do they do this? Pretty simple, they'd like to have you as a customer or as a client, and they like ones that they pay their bills. They also like to handle larger companies. If you want to get this financing, just ask.

You're also going to find attorneys finance their fees, and again, I'm sure the attorneys and the CPAs and the brokers are going to come after me for even bringing this up, but since it is a source of financing, you should be aware of it. If you start a business or buy a Mom and Pop, again you have the same problem, they usually want a cash retainer. Why? Because they want to make sure you pay. Once you've established something like you buy a going business, you find out that you get to pay at the end of the close. They don't ask you for money upfront. Why? Most of the time, they assume you're a winner because you're buying a large company. You're going to be in a position to pay at the close. Why? Because you have this large company. You're also going to

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find they will accept payment after the close. They'll carry back a note. Some of them, attorneys or CPAs might even like a piece of the business. We usually just rather pay them. We have enough partners.

The other category we have here is the business broker financer fees, and we're in the brokerage. We also have a lot of good friends that are in the business brokerage. I'm sure they're going to kill me if they hear me talking about this, but you have to realize they will also finance their fees. The fee that we have in a business, in a sale, is usually about ten percent. This fee represents a large percent or all of the down payment, because although the average down payment on the smaller businesses is about 25 percent, as you start to get up in the business that are hundreds of thousands or millions of dollars, quite often the down payment starts to approach ten percent. In that case, it means that maybe you should start to be treating your business broker a lot nicer in the beginning because most business brokers do very well, and since they do well, many of them are willing to finance as long as they get part of it in cash.

The other reason they're will to finance, it helps to defray part of the taxes they have to pay especially those that are up in the higher tax brackets.

Number nine, we're talking about creating a note here. Now, we're talking about creating a note against real estate. What we do is we offer to create a note secured by the real estate you own, and you can use it as a down payment or you can use it as additional security. Somebody's worried about the business, they don't want to have maybe the total business in security and they'll ask you for real estate in security, or you can have a note with real estate as security.

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What you have to realize, you say, "Gosh, I already have a first mortgage, a first deed of trust on my real estate." Well, that's fine. You can still put a second on it or offer to create a second in it. I'm not going to get involved with the tax ramifications, but the reason we offer to do it is you don't want to create it, put it on the business, and then use it. It is much better to create it in the escrow or closing. Again, you can discuss that with your CPA.

Next thing is creating a note on personal assets. A lot of people forget about this category. Offer to create a note secured by personal assets. Use it as a down payment or additional security, and again, by personal assets I don't care if you use all the clothing that you as a male or a female happen to have. I don't care if you take all the items you have in your garage – your lawnmower, your boat – whatever it happens to be. You're going to find that you can use personal items, and if you don't believe it, you ought to go out and find what the average buyer used when they bought that business.

Again, you don't have to put this in the offer in writing. Why don't you discuss this verbally in negotiation?

Next thing's creating a note against the auto. Offer to create a note secured by your automobile. Use it as a down payment again, or additional security. Even if it already has a loan on it or putting it up as additional security on an item. Again, we talked about the motor home, the boat, the plan, whatever it happens to be. Again, why do we use these things? Because as long as you get yourself in a position in the creation of this note, and you're getting in a business where you can pay that loan back and do it safely or okay. If the thing is too close, I'm going to suggest you not put anything else up. Why? You're going to end up losing it.

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Refinancing real estate, and one thing you don't think about – many times the real estate that's included in the transaction has been around for ten, 15, 20 years, and although they may have started off with a 20-30 year loan, the loan only has five years to go. What you can do is refinance it, and by refinancing the real estate in the transaction, we can use the cash for working capital or as a down payment in the transaction, and that's done quite often also.

Sale and leaseback – we do this probably at least once or twice a month, and what we're doing here is we're selling the real estate in the transaction to an investment group for a price based on what? The return. And, what you're going to find is in the transaction, you may find that the going rate on what you're having to pick-up the real estate for is maybe $300,000. You may find that by selling it to an investment group and guaranteeing a return, you may be able to pick-up another $100-$200,000 in cash that you can use in the transaction. Again, we're not ripping anybody off. What we're doing is we're going to an investment group and we're selling them the real estate package based on not what we paid for, but we're basing it on what the return is we're going to be guaranteeing back to that investment group. Again, I use the word guarantee sparingly because we're trying to guarantee as little as possible. I also don't want you to think we're trying to rip somebody off because what we're also doing is we're fully disclosing what we're doing in each transaction. We're disclosing our profit.

Now, again, we're talking about using the extra cash to finance your business purchase, or working capital, or expansion, or it could be the start-up. On page 6-23, under financing, we have number 15 – industrial revenue bonds – which is another great source especially on financing start-ups. Cities and states will float bonds to entice you to

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move your new business to their area. They do this if your business creates jobs or creates revenue for the area.

A scenario over the years that we have found more start-up companies use than existing, and it's really fantastic because these bonds are at favorable rates to you. In fact many times the real estate that's involved, the land and the building, will be at a token rate – ten dollars a year, maybe a hundred dollars a year. You're also going to find that at the end of the 10-15-20 year period, whatever is agreed to, in many cases, they will actually deed over or turn over the land and buildings to you at a token amount.

You're also going to find that they'll set up the tax rate to be very favorable. They'll set up special incentives for people who want to go to work there. But, you're going to find it's good for start-up and existing businesses. Again, with a lot of manufacturing companies distributorships, you can find you can move to almost any area of the United States without influencing your market.

The next area, number 16, real estate guarantees, is a program that we've had for the last couple of years, and it's basically broken down into two areas. One time you're going to find that the people putting up real estate as guarantees on a business are going to ask for cash and the reason we have this program is a number of times, people that own a business are going to say, "Gosh, I'd like to have some other security than the business." Again, what we're trying to stay away from basically especially with sellers, is we really don't want to have to give them the security of the business and real estate or some other security. The reason for that is we don't believe they're entitled to that because why should we as buyers if I happen to be a buyer, why should I have to give the person, the seller of the business more security than they have right now?

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In other words, there's a risk factor involved in being in business as a seller and if they're able to sell it to somebody else and take out the risk completely, I don't think it's fair or if they want to do it that way, then they're not entitled to very much interest payment on the amount of money they receive. But, on this, we have many real estate owners who will guarantee part of a business or all of a purchase, financing with the real estate. In other words, they're at risk also in case you goof up that business. So, we usually verify this and check it out quite carefully to make sure that our good real estate friends don't get ripped off.

They're usually asking for a ten percent cash return on the equity pledged, and they'll deliver land, apartments, shopping center, industrial – whatever you happen to want, and we have found we can deliver this by state, by area, anyplace in the United States probably in the world as a guarantee. Whatever the seller happens to want.

And, for those of you listening to this that happen to be sellers, this enables you as a seller not to have to worry about that transaction. You can either take it as additional security, or as a security instead of a security of the business. Again, almost picking and choosing what you want.

The next category is a category for those of you who say, "My gosh, I'm trying to buy this business, and I really can't afford the ten percent return. It's going to kill my cash flow." Well, there's another program we've developed the last couple of years with people that own real estate, and what we have here is the people, again, will guarantee all or part, but you're going to find in this case we're going to promise them or give them a six percent cash return on the equity they put up, and then also, tax benefits from the corporation or company which you can pay back to them, and also a possible piece of the

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action. Even if you have to give them a piece of the action, you're going to find every one of them or almost every one of them will agree to a buy-out clause.

When we get to the next page number 18, we start to talk about savings and loan guarantees, and we're talking about savings and loan actually placing part or all of their assets – not all but part of their assets – for a return. What will happen is we're saying the savings and loan will guarantee the loan on the purchase of the business for an annual fee. Sometimes they want a piece of the action. Again, we have found – we give them less often than the average individual a piece of the action. They don't ask for it very often, but quite often they'll go with five percent. So, instead of having to pay $10,000 on $100,000 real estate, in this case we're only pay $5,000.

Insurance company guarantees – an insurance company will guarantee the loan on the purchase of a business for an annual fee. Sometimes they want a piece of the action. In other words, you can have an insurance company with their massive assets put this up, and what it does is enable you as a buyer to put the transaction together because of the guarantee at a much lower interest rate. For those of you who are sellers, it enables you then to sleep soundly after you sell your business without worrying whether you have to take it back or not because it's been guaranteed by maybe one or more sources.

Trusts, pension plan guarantee – a trust or pension plan or fund will guarantee the loan on the purchase of business for an annual fee. Sometimes, again, they want a piece of the action. So, we're talking about all sorts of things that you never read about, but these are things that we work in, and the reason we develop these programs over the last few years is we don't like to have people come back to us and say, "Gosh, I can't do something for the following reason." Because it's always been our belief that if the

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business happens to be good, the concept good in starting a business, there has to be a way of doing it. We have found over the years, that maybe it takes us a couple of days or maybe a week to develop a program, but if we do have something or we run into something that really seems impossible, do come back to us, and give us a chance to maybe develop a program in that area, or maybe we have one.

The next category is a stock broker, and we find many stock brokers have many clients that will invest for joint venture, and most of you don't think about the stock broker because what they'll do is a lot of times they'll have a business owner and the business owner will go to them and say, "I'd like to invest my money in the stock market." Again, they don't have the money in the stock market all the time. Sometimes they'll pull the money out of the market, and it gives the stock broker a chance to make some more money, and you're going to find that quite often we can get very favorable rates. Very seldom do they ask for a piece of the business, but if they do you can build in a buy-out clause. Again, use your stock broker.

The last one in this category and probably one we should've used over and over again is Mommy, Daddy, friends, relatives, and again, we said probably we should've started here. Again, you don't have to borrow money from them. If you happen to have a friend, a relative, a mom, a dad, whoever it happens to be, a member of the family that happens to have a good financial statement or maybe better than yours, but just having them agree to a joint venture and go ahead with you, you're going to find you're going to open up all the doors to brokerage offices, to banks. If you partner then or a family member, whoever it happens to be, decides to back out later or maybe you back out, at least it's opened the door for you. In some cases, we find also we'll go into business with

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these people with a buy-out clause. All I'm saying is it's a fantastic source, and we think you ought to consider it.

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