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Chapter 7

This is one chapter in the programs that we put on in the last number of years that changes quite often, and the reason we're phasing out this more and more even going back to the first days when we started teaching programs and putting out books and cassette programs years ago, the thing you have to realize, we have never been into creative financing. Our basic goal and the thing we've pushed is the fact you go after nice simple things. Don't put together creative transactions. Go out after things that are straightforward.

The reason for that is most people in a transaction are not afraid of things they understand. As soon as you start to become creative, the basic thing that happens is you scare the other parties in the transactions. Professionals have to become very defensive because they don't know really what they're looking at. They keep thinking, "There has to be a hook there. There has to be some Mickey Mouse." And, what they end up doing is holding back their clients. So, what we try to do is stay away from creative financing.

If you've been a follower of our program ever since we started many years ago, you will find that the creative financing section probably has as much or more change than any other section in the book that we've changed and modified and taken things out. What we're trying to do as we improve the program is get it to the point where we really don't have anything that can really be called marginally creative.

What we're about to go through on this tape in the different sections, and I don't really consider creative because you're going to find each one of the techniques that we have here have been used for a number of years and have worked very well.

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The normal M.O. or method of operation that I follow is that I will then keep the things we're about to go through in this section over the next year or two. As we then get more experience and they become more accepted as standard ways of doing it, we will move them into the normal financing section.

My goal over all the years in teaching has been to get to the point where someday as I'm phasing out of teaching and retire or whatever I decide to do or pass on to the great beyond, is to have nothing in the book that has to do with creative financing. Everything is by the book. Everything is by the number.

As we go through this section, I also want you to realize, again, as I already said, it is not creative. It is something that we do everyday. The thing you have to realize it's a little out of the ordinary.

The other thing you're going to find as you go through this section, don't be confused by the fact that we call it creative financing. You may call is miscellaneous financing.

The techniques I'm also about to take you through are techniques that we use quite often, and you're going to find can be very beneficial for pushing that transaction along.

Keep in mind as we go through the ideas here that these work on buying a business. They work on selling a business, and for those of you that don't realize it yet, if you're in the process of selling your business, if we can teach thousands of buyers every couple of months how to buy a business and finance it 100 percent, you have to realize if you flip it around the other side and you're seller, you're going to find that you can actually sell that business and pull out all the cash.

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Now, if you decide not to do that, you're going to find in this section there's two techniques that you can use as additional security. So, if you do decide to finance that business that you're selling, and you find that the buyer maybe isn't strong enough, you're going to find that there is available now on the market, financial statements that the buyer can rent which means between the buyer and the joint venture partner which is worth X number of hundred-thousand or million dollars, you the seller of the business don't have to worry about taking the business back because you have that additional security.

For those of you that want a little more security, you're going to find that over the last years we've developed a program to use real estate, and using real estate as security, you're going to find that you can take the complete security on the sale of the business as the real estate. So, as you leave you get a down payment of X number of dollars. You then have the security on the financing you provide of the real estate don't the street or something that you like. It could be land. It could be an apartment building or a shopping center, and with that you don't have to worry about taking back the business because you have a lien against the real estate down the street which maybe you feel a lot better about. You feel more secure with than maybe the business you're selling.

The first area I want to get us involved in now is a thing called Large Accounts Receivable and Accounts Payable, which is Section One in this chapter. Now, when you start to think about it, you're going to find many small businesses have a large investment in accounts receivable and accounts payable. Usually the sellers have been advised to keep their accounts payable and receivables. This usually requires the buyer to come up with more cash to make the transaction work. I'm going to take this through this now.

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I'm going to show you how it does require more cash. I'm also going to show you how to use these techniques to finance business purchases, sales. We also use it to finance part of the working capital we have because one of the reasons that people go through our program and learn the basic types of financing end up doing so well year after year is the financing not only works when you're starting a business or selling it or buying. It also works when you're expanding it, which means you have to understand the basic techniques of financing businesses not only when you're going in or going out, but you also have to know on a continuing basis because if you have to go to the normal sources of financing when you're in business to expand or take care of a problem, you're going to find your payment period is usually very short, the interest rate's very high, and whatever goal you have to accomplish by expanding or solving problems a lot of times the financing you end up getting buries you even further or ends up wiping out the benefits that you're after.

Now, let's start thinking about this now. When you go in and look at a business, first of all, let's think about our Accounts Receivable. When you're in business, what you like to do is receive all cash. The reason we have a thing called Accounts Receivable is a lot of people come along when you're in business and say, "Hey, I'd like you to finance." Again, it could be supplier, vendor, whoever you're working with, but they want you to finance. They don't want to pay you cash. They want to pay you in seven days, 14 days, 30, 60, 90, 180. They want to pay you back in a year. So, you end up with a thing called Accounts Receivable. So, every month your in business, you receive part of it as cash, and if you're in the financing business, whether you realize it or not when you have accounts receivable, you are. So, what happens is you end up with a lot of accounts

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receivable. You're in the financing business, and every time you're in the financing business, it means you're going to have losses. You sold $100,000 worth, $100,000 was credit. You may only collect 90 percent of it. We'll talk about that later.

The next category we talk about a thing called Accounts Payable, and accounts payable means when you are in business that although you have the pressure of somebody coming to you and asking you for credit, a lot of the pressure of the people asking for credit is taken away in business. How does that happen? It doesn't happen with bank loans. It happens because other people in the business that you do business with allow you to pay in seven days, 14 days, 30 days, 60 days. The ideal situation from a standpoint of win-win is to have the payables balance out the receivables that way you're not in the financing business and either is the other party.

The thing you have to keep in mind in this example right here is we have a business that happens to have accounts receivable of $200,000. They have accounts payable of $200,000. So, they sort of balance each other out. They do.

Now, you say, "Gosh, supposing I don't take them over. I'll just take over the other assets or buy the stock of the corporation or whatever." That's fine, but let's analyze this and see what happens if you decide or the seller decides not to sell these to you. First of all, when you take over the thing you have to realize in selling this business if you happen to be the seller, or you're working with the seller is the seller normally has to pay off the accounts payable, and although every one of you says, "Gosh, the business owes $200,000. The owner will have to pay off the $200,000 before I take over the business as a buyer." Well, the thing you have to realize is these things have to be paid off. Well, how do you pay off the $200,000? Oh, simple, we go out and we collect the

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$200,000 owed to the business. We then paid back the $200,000 that we owe. It doesn't work that way.

The people that you owe money to when they find out you're selling, want to be paid right now. The people that owe you money don't want to pay you for 14 years or never, and they're going to slow down. So, what happens is the average seller, when they decide to keep these usually find that they can't collect the receivable. They then have to go to their own bank account to pay off the payables. They find that irritating, and when they do that, most of the sellers that I run into will not go ahead with the transaction. What they end up doing is saying, "I don't want to sell." They don't tell you the reason. They give you some other reason. "I'm not going to do it – no reason." What happens is you end up not being able to go ahead with the transaction. You don't know what happened to you. The key thing was they couldn't pay off the accounts payable because they couldn't collect the receivables. What is a general Hamel rule and a good rule of the business? No matter whose rule it is, over 90 percent of the time, you're going to find that collecting the receivables or taking over the receivables and payables work. It is one of the greatest types of financing, and in this cassette we take it from many different sides. But, the thing you have to realize is it's one of your largest types of financing whether you're starting a business or you're buying a large one or you're selling. It works very well, or you want to expand. It's a fantastic way to finance companies.

Now, let's look at it from another side. Supposing you take over this business, and there are no receivables, no payables. Why? Because what happened is the owner kept them. The thing you have to realize is accounts receivables means that you have provide a certain amount of credit. What you don't realize is the first month or two that you take

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over that business, the receivables or going to climb from zero when you start to $200,000. That means $200,000 that you expected in cash is now going to be what? Money owed to you which means it's a loan.

If you had taken over this company, and you had assumed the accounts receivable, the accounts receivable would run about $200,000 that you took over. They would fluctuate during the month. All that would happen is people who owed you from the month before would pay you. You would then grant new credit and at the end of the month, it would still be running $200,000. What would have happened? Part of the money would come in, part of it would go out, but you'd still be staying at the level of $200,000.

When you take over a company and you do not take over the receivables, the thing you have to realize is you are going to have to have extra working capital to cover the amount of accounts receivable that it's going to grow to in the next 30 to 60 days. Why? You need the cash to cover what? The credit you're going to give out, because that $200,000 that becomes credit or accounts receivable to your company is money that you needed to pay bills, and if you don't have that money because you're in the credit business, what you have to do is have what? You have to have cash to cover that. So, you end up with what? An extra requirement for more working capital. What is the easiest thing to do? Whenever possible, assume the receivables and payables.

Let's discuss some of the reasons owners don't let you take them over. Number one, a lot of owners worry about the fact that you can take the receivables, collect on them, and rip them off on the business. Again, what you have to do is reassure them or put up guarantees in some areas so that they don't worry about that.

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The other thing is a lot of times in receivables, a lot of them are not collectable, and because the receivables are not collectable, the seller becomes very embarrassed by it especially his best friends probably don't pay him on time. What happens is he protects his ego and also doesn't have to tell you about a problem he has by keeping them, and what you have to do is dig out what the problem is and tell him it's not going to bother you. If there are things that aren't collectable, you just don't want to take them over.

Now, from the buyer's standpoint, you're probably sitting there now worried, "Oh my gosh, if I take over those accounts receivable, how do I know I can collect them?" Well, in this program the complete cassette program that you're listening to and the book you'll be going through, by the time you finish there's two things you're going to realize. Number one – every transaction what we do is we do a thing called aging, and later when you get to the chapter on balance sheet and you go through a thing called Aging of Accounts Receivable, you're going to find that we will actually lay out all of the money owed to the company while we're buying it or running it and find out who's past due, who isn't paying on time, and what we end up doing then is try to get the seller to keep those. Why do we want the seller to keep them? Because we don't want to take over receivables where we can't collect. Again, there's no fixed rule on it. if you go to the section on balance sheet, we cover that more in detail. So, what you have to do is worry about that area as far as the accountability.

Now, the other thing is when you go to the other chapter in the book that has to do with making the offer to purchase, what you're going to find is in the offer to purchase and in negotiating, we also have the seller do what? We have the seller guarantee the accounts receivable that are not collectible. We don't normally do it in every case, but if

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you're really worried about them, what we normally do is build into the contract, and again, when you get the contract you may decide to add that – a little paragraph that states that if the receivables are not collectible, you can then subtract the amount you didn't collect from the next payment to the seller. Does that always work? It works most of the time. Sometimes the seller does get irritated, but if you set it up properly and analyze them and only take over the ones that you know are pretty good, you're not going to run into many problems.

Let's get back to the example now. Let's start talking about this company. If you wanted to take over this company, what we're saying is we have two pieces of information – the accounts receivable $200,000, and the accounts payable $200,000. Now, what we're saying is that if these are not assumed by the buyer, the seller will have a difficult time collecting the receivables to pay off the payables which is one of the problems that we talked about.

So, why don't we go to step two? As we look at step two, let's look at the total picture because what we're saying here is we have receivables and payables, but what I didn't mention yet is what is the price of the business? Well, the owner wants $100,000. The owner wants $100,000. Now, is the owner going to finance? No, the owner wants all cash. Well, if you're putting off all cash, do you really think the seller cares if you have any background? And, do you think seller really cares that you've gone bankrupt because when you pay the seller that $100,000, the seller's going to be gone. For those of you that are worrying about all these hang-ups on why you can't do it, your weak background, what you have to realize is when you put up all cash, nobody really cares.

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They don't care if you have a job. They don't care about anything, and if you think about it you'll understand why.

Now, as we look at this we find the price is $100,000. If we then buy it for $100,000, we're going to pay the cash at the close of escrow or the closing. What we're looking at is, "Hey, why don't we take over the receivables and payables?" And, if you're looking at step two, you're going to find the price is $100,000. If we then take over the accounts receivable and accounts payable, first of all you're going to find the accounts receivable happen to be a plus. That means they're an asset. It is something that is owed to the company. When you take it over you have a plus factor of $200,000.

Now, offsetting this, the company also owes out $200,000 to suppliers, creditors, vendors things like that which means they owe $200,000. If you take over receivables and payables, what do they basically do? They cancel each other out. The $200,000 of asset that you have is cancelled out by the $200,000 that you're going to owe. So, you take them over. There's no increase in price. Why? It's $100,000 plus $200,000 minus the $200,000 which means the price still comes out to $100,000. Still the bad news is they still want all cash.

Let's look at this now and see how tough it really is. Solution – have the buyer assume the accounts receivable and the accounts payable. The buyer will only assume the good collectable receivables, and the seller will guarantee, again we talked about that, the collectability of all of them.

Now, step one as far as financing it. We have a thing called accounts receivable, and on accounts receivable, does anybody have any idea how much you can borrow on receivables. Well, if you look at the national, again, there are some receivables you can

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only borrow about 50 percent, but you're going to find on the average in the United States today – we cover it in another chapter – you're going to find on the average you can borrow about 80 percent of the value of the good accounts receivable, and if we assume that $200,000 receivables are very collectable and are very good receivables, there are factoring companies out there and banks that will actually lend you money against your accounts receivable, 80 percent of them.

Well, if they will lend you 80 percent of the accounts receivable, what are we talking about? We're talking about $160,000, and you'll say, "Well, gosh, how can we do that? How can we get the money?" Well, first of all, if you're borrowing money against receivables, all you have to do is have access to them which you can get in writing the contract. You take them to these people just before you take over the business. They will then look at which ones they want to finance, and at the close at that exact moment it closes, they will take the security of the receivables and pull them out of that little pot – the escrow or closing pot – and replace it with $160,000. You putting up the $200,000 as security on $160,000 loan.

Now, keep in mind, you can borrow on accounts receivable even if you're companies going bankrupt. It could be a start-up or IRS could be nailing the door shut. Why? Because the ability to borrow on receivables has nothing to do with the company you own. It has to do with how collectable are they. And if they are very collectable, you're going to find it's very easy to borrow against them, or later on in the program you're going to find you can sell them.

Now, if you have $160,000 now, which will be available to you on or before you take over, how much money do you need to buy the company? You need $100,000. Big

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deal. You're always telling me about how tough it is to finance. This gives you an opportunity to buy a business for $100,000 price. You can finance the receivables which is in most companies today, and you can usually borrow more than you need to buy the whole company if you wanted to go that way.

Now, incidentally that gives you $100,000. What do you do with the other $60,000? I like to say in our seminars that you send it to the Hamel Foundation. There's no such thing. Again, you can use it for additional working capital or whatever else you need it for in the business. We, most of the times in our company, we don't pull the money out especially in the beginning because you could never tell what's going to go wrong. Extra money always comes in handy.

So, what we talked about is financing the accounts receivable. Now, suppose in financing the accounts receivable the people financing it will not do it before the close. Well, why don't you set a deal up? We're going to pay the seller a dollar going in, and we then owe the seller $30-$40,000 or $100,000. Why not pay it within ten days or 15 days after you take over? You're going to say, "Well, you can't do that." I hate to tell you this, I work on hundreds of transactions every week, and I see it happening a number of times every week. All you have to do is ask, and if you're providing everything else, and you just want a little time a few days, I find very few sellers that I run into that really care. What you're going to do then is you're going to use the receivables to finance the down payment or finance some other thing you're doing. It's not really a big step as long as you the buyer get over the fear of doing this.

Now, let's take the next area, and again, we talked about financing receivables. That's an asset. So, you finance assets. Now, we're going to take you in the area of

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financing debt. You'll say, "That can't be done. How can you finance something you owe?" Well, as I take you through this, what you're going to say to yourself is, "Nothing can be better than financing receivables." Let me tell you something here and now, payables give you even more money than receivables.

Now, let me take you through this, and again, we're only taking it from one side. As you start to get out in the real world of business and just start to consider what we have in this section on receivables and payables, you're going to find that you can add things to it and change the technique a little, and use these two areas to do all sorts of things in business from start to buying, selling, expanding. What you have to do is just open your mind a little. Not be creative, just look at it, see what your problem is, and see how you can use these two items to solve your problem, and it does solve a lot of problems you're going to find out.

In fact, let me tell you something, this area of financing works so well, that I see a lot of business owners get in trouble because the money comes very easy in this area. The paying it back or the interruption of the cash flow is the thing that ends up goofing you up. So, the problem here isn't difficulty. The problem is what you end up causing problems in your company because it is so easy.

Let's look at the accounts payable now. In our seminars, what we always do at this time is always ask the group, "How many people here work for large companies or small companies?" They raise their hand. I say, "Okay, and the companies you work for, have you ever worked for a company or been with a company or owned a company that paid or had people paid them other than cash? Maybe pay in seven days, 20, 30." A lot of people say, "Yeah, 30." They raise their hands. Then, I say, "Have you ever worked with

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a company or been involved with a company where they pay in 60?" I'll still get a large number of hands. "90?" I have a large number of hands. So, there's a lot of companies out there that are normally paying with approval in 90 days.

You're also going to find a lot of them pay in 120 days, 180 days. When I'm in certain parts of the United States, three-quarters of the hands are still up at six months. If you get involved in a sporting goods business where you're dealing with the government, you're going to need nine months credit because the government doesn't pay much faster than that. In the toy business, it's usually a payment once a year. You're billed the first of December; you pay the first of January or something like that.

So, you're going to find everybody in this country has a feeling that there's only two systems involved. In fact, if you don't believe this, go out and talk to business owners later. Half the business owners will tell you – well, not exactly half – "I always pay all cash. The only reason I pay all cash is if I have 30 day credit, it destroys my credit. So, I always pay all cash." The other group of business owners are going to tell, "Hey, I pay it in 30 days. Anybody that pays in cash is stupid."

What you're going to find is both groups of people are really stupid because what you should be doing is working other people's money, and when you start to have this feeling that you have to pay it all in cash, and I understand that, what you're finding is you have to put more money in the business because you are not using the standard facilities available, and avenues open in business to get financing. You're going to find this financing doesn't cost you any money, and since there isn't any interest in a lot of cases there is no repayment as long as you do business with them, we all think you're crazy enough to do that.

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Now, keep in mind, as I take you through different techniques like this, we call it, "The Going to the Well" principle. There's a thing in business which we discuss in another chapter of these tapes that's called Inner Business Financing. One business lending money to another. It could be receivables, payables, actual cash, which I'll talk about in another chapter, but the key thing you have to keep in mind when you start to go out in this area the number one financing that we run into all over this planet – planet Earth – is interbusiness financing. Again, you can say banks, the SBA, they're very nice people, but they don't provide much money for us in business. It's a very small, small percentage.

So, what we do is we go to these other sources. These other sources is the way that most of us that are very successful in business do it everyday. We have been doing it for years.

Let's look at the accounts payable now. Now if you look at the next page here, what I've done is laid out the accounts payable. It's laid out for a six month period, and what it says basically people are supplying you with goods. In month one it said, "$200,000 in goods are delivered to you" Again, they're going to be called accounts payable that are delivered to you during the month you are billed. You pay 30 days later.

In month two, you're going to find that $200,000 worth of goods are delivered to you. You order them. They're delivered to you. You're billed in a certain period of time – 15 or 30 days. You then pay in this certain period of time.

Normally all of these are 30 day pay periods, and we run into a lot of companies that normally pay in 30 days. Now, suppose you want to pick up some money. Let me show you what we normally do. You're going to find out later in the program we actually

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go out to these people to try to borrow money, and we'll talk about that in another section, but right now let's just talk about this.

Suppose when you take over a company, they're normally paying in 30 days. Just think about this mathematically – not complex math – and look at it. At the end of the 30 day period, we owe $200,000. Since we've sold those goods, maybe for $3 or $400,000, we take $200,000 of what we took in selling those goods, and we pay the people the $200,000.

Now, supposing instead of paying on the average of 30 days, and again when I say the average of 30 days, I mean some people are going to require you pay all cash. Other people are going to be paying in seven days, 14 days, 30. What does the average mean? It means you also have a couple with 60 and 90 days, and if you take the average of everybody that pays, it comes up to what? To about 30.

What you have to realize is and what you're going to find out later in the program, is how do you move these out a few days? How do you move the 30 day average pay out to 40 days or 50 or 60? And, also what are the results if you move this out? Once you understand this concept, you're going to find it solves a lot of problems in business as far as financing, and if you don't start to follow it, remember, whoever's at the end of the line doesn't follow these techniques in their business financing, goes to the well. What does that mean? It means eight of us do this with other company. The other person at the end of line that doesn't know these techniques or won't try them, has to do what to get their money? If somebody has to pump money into the system, they end up going to the bank. So, eight of us are getting the benefit and not paying interest on money. The one at the end of the line aside because they don't know what they're done,

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they have to go to the bank or go to a lending institution. When they do this, again, they usually don't survive. Why? Because what's happening is we're milking out their profit, and what you have to do is number one learn these systems, number two use them immediately and when you're talking about receivables and payables at least get to the point where they balance each other out. The reason they balance each themselves out in a lot of companies across the United States is survival. It just ends up happening because the owner of the business realizes as they give out more credit, they don't have the money to pay. So, the accounts payable, the money have to rise the same time they're giving out financing. It's just the only way they'll go. They don't have the other money.

Now, as you think about this, supposing we could show this up to 60 days. Instead of paying at the average at the end of 30 days you can pay at the average of 60. Well, if you can do that I want to ask you a question, how much do you have to pay on the average after 30? Now, remember we're not just getting a one-shot deal. We're not just going to pay at the end of 60 one shot, and then we're going to go back to 30. This is going to be on an ongoing basis. Suppose we can pay at the end of 60. How much supplier money do we pick up? You're going to find in month one, if you're always paying at the end of 60 days when you first take over – this doesn't happen all the time. It just happens on time. How much supplier money will you pick up? $200,000.

Supposing on the other hand, you're able to take the accounts payable and move them out to 90 days, and if you're moving them out to 90 days how much supplier goods have you received and how much do you owe? You owe $400,000 for the first two months. But, since you're paying 90 days late have you not already taken most of those goods and already sold them? Yes. Don't you have the supplier money sitting there that

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you should pay them? Yes. If you're paying in 90 days if you just look at your sheet, those first two numbers there the $200,000 and the $200,000 are sitting in your bank account. Does that mean you don't owe it to anybody? No, you do. If you look at your balance sheet, you're going to find that the balance sheet, if you haven't paid and you pay at the end of 90 days, you're going to find there's going to be $400,000 extra cash sitting there. You're going to say, "Well, don't I have to pay it someday?" Well, let's look it this way. It's going to be offset on the balance sheet by having additional accounts payable.

You also then can take this $400,000 or whatever the amount happens to be, and do what? Use it for working capital. Does this working capital cost you interest? No, it doesn't because this happens to be an accounts payable account, and as long as you're paying on time, what do people do? People do not charge you interest on it. It's only when you pay it late.

For those of you worrying, "Well, gosh, it could go out to 60 or 90 days, aren't we going to have to pay interest. Aren't we going to lose credit?" No, you're not. If you are entitled – these are large companies now – if you are entitled to a discount by paying on time in 30 days, once the payment period moves out to 90, if you pay on time, do you realize you're entitled to the same discount? You better watch that because sometimes you're going to be on the other side.

Now, suppose an example, let's go out a little further. Suppose we could move you out four months, and if you want to talk to your friends in business in the next couple of days, talk to them, and you're going to find a lot of them are beyond 30 days today. I'm not talking about they're doing arbitrarily because they can't the bill. They have permission to pay in 60, 90, or 120 days.

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In 120 days, the amount is $600,000, but let's really be gross right now. Let's move all the way out to six months. You can move it out to six months. We have a large percentage of people that do that. I don't mean 50 percent, probably 10-20 percent that moves it out to six months eventually. It takes a while. But, once you do that, and you're paying all these in six months, you're going to have five months of suppliers' money sitting there. Five times the $200,000, it comes to what? A million. Do you realize you have a million dollars sitting in the company now?

Do you want to do something really gross? We did this on a company in this example, which is a standard that we run into all the time that only has a price of what? A hundred thousand. It probably only makes $20-$25,000 a year. It's not even a Mom and Pop. It's a crummy business, but on this business that you're looking at in this example which is very small, the next $20-$25,000 you could set it up, extend your payables, and end up with a million dollars of supplier money in your bank account. You still owe it, but could you put that in certificates of deposit and other money market accounts, and receive a return if it's ten percent right now. Ten percent of a million dollars is $100,000 a year. I mean, realize on this one technique you could make $100,000 a year, $90,000 a year on a business that the rest of the year only makes $25,000.

For those of you of little faith that like to read Forbes Magazine and the Wall Street Journal – I don't know exactly how often they run articles on things like this, but I'm sure if you've read those magazines or periodicals, you're going to find that if you go every week or two and read all the articles, within a week or two there's at least one article in there that has to do with this. You just never understood it.

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It is a program. It is a method used continually all over the world by a lot of different companies, and if you don't understand the technique and you don't go out and use, I hate to tell you this, you're cutting down the profit margin and the cash flow tremendously which makes it more difficult to run your company, which means the thing really doesn't make sense, and what you should consider doing as we take you through these things is go out and try them. If you now sit there listening to this tape and get a feeling that this doesn't work, and you are not going to try it, you would be absolutely right. If you then go out and try it, keep in mind one thing – there is nothing that we teach that works everytime, but within our financing area – this chapter and the other chapter we cover financing – I don't care what you're doing. If it makes even medium sense, you're going to find there's more than enough financing techniques to put together your start-up, your sale, your expansion, or the purchase of the business.

So, again, let me restate. You have to go out and try them. If you're at the point right now that you don't believe this, what I suggest you do is start the tape all over again and keep listening to it. The purpose of this tape is to motivate you, is to educate you, is to reassure you, and I hate to say this – if you listen to each tape enough times – to brainwash you. How do I know that? The tapes were set up that way. The program was set up that way, and based on our follow-up it does work that way. So, if you don't believe it the first time through, keep listening to it, and by the third or fourth time, you may not be able to stand my voice, but you'll be able to go out and try it and you'll actually believe it, and guess what? It will work.

The next section which is section two, is really the introduction for the last two parts of this chapter, and we're going to be talking about the financial statement and the

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real estate joint venture. In other words, people putting up their financial statement as a guarantee or real estate as a guarantee, or joint venturing with you.

Before we get into the meat of each section, what I'd like to do is spell out the general rules of the real world, and if you really listen and watch and understand the next few pages, you're going to find that you're not going to have trouble in this area. What happens is those of you that have the most trouble in this area are the ones that don't listen. If you still don't get it, just listen to it a number of times.

First of all, example one, you're starting a business, you only have an idea. You have no business plan. You're buying a business. You haven't found it yet. You haven't negotiated it. You don't have a contract. You really haven't done anything. Well, let me tell you what the rule of thumb is and again, I don't like rules of thumb, but you should understand these so you can understand whether you're working with us or whether you're doing it one, what you have to realize is how the world really operates, and there is no free lunch.

First of all, the rule of thumb – a financial statement or real estate joint venture partner would keep 90-100 percent of the project, but why? Because you haven't done anything. You end up buying a job. You have a chance to buy back maybe ten percent with cash and effort, or maybe you'll be given ten percent of the project. This happens quite often on these projects with venture capitalists because basically on here we're going to be talking about venture capitalists that don't end up wanting all this time 90-100 percent of the company.

So, again, if you're starting a business and you haven't really done anything or if you're buying on and you haven't done anything. You're not bringing anything to the

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table. The thing you have to realize if we were to put you together with somebody, or you do meet somebody say in this area that has the real estate or the financial statement, I might as well flat out tell you, you're not going to be satisfied. But, again, I want you to look in the mirror and say – if you had the statement or you had the real estate, why would you give up more than this? Because you're asking for a free lunch.

You're asking for somebody to come out and do everything for you, to provide everything, and you want all the benefit. Why? Why would anybody ever do that? Will they? No. I'm sure if you went to your mommy and daddy, they wouldn't do it that way. So, what you have to do is welcome yourself to the real world.

The next thing I want to cover in this area because it's only two basic approaches. Again, have you done anything or haven't you?

Example two, next page – you're starting a business. You have a detailed business plan. Again, you've done something. You've put together the business plan. You're expanding your business and you have a detailed plan, on repaying the loan and the safety factor. You're buying a business which is another approach. You successfully negotiated the purchase. The offer's been accepted. You've done a lot of work on it. You're bringing something to the table.

What's the rule of thumb? There's a fairness doctrine that everybody uses out there. We don't talk about. This is the way the thing really comes down. This is the way people negotiate. This is how the transaction turns out. The less the risk, the more you keep. The more you bring to the table, the larger your percentage.

If you want to go out and put together a transaction and have somebody come in and give them a very small percentage of it, and then have a chance later of buying them

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back out, you could do it. As long as you've done what? As long as you've done everything up to a point. You have to follow the system.

Some of you go out, and you can't make certain things work, and you start to whine. Let's just end up this thing by saying one thing. The question – at the bottom of the page – which would you rather have? And, think about this. Would you rather own a business netting $50,000 and own every piece of it? Or would you rather own a business netting a million dollars and own 80 percent with an option to buy back the other 20 percent? Because the people that put up the statements and real estate, don't want to stay with you. They want you to buy them back in three to five years.

When I get to the section later that has to do with limited partnerships, you're going to find you can set up a limited partnership so that they are sold, and buy law they can't say anything which means that you own most of it. You don't have anybody interfering, and you have a chance to buy back it, and it enables you not to start at the top, but you're going to start off a lot higher than you normally would and it works out very well.

When we start to get into the area of financial statement rental, a lot of people think of it as a Mickey Mouse thing. You have to realize one thing. We just don't arbitrarily going into people, and say, "Okay, we have somebody with a million dollar statement, five million dollar and ten million dollar." Although you can allude to it. We tell them the fact that as soon as we have certain information, we then will put you or you sit down with somebody else that basically is going to put up their financial statement. You then sign an Intent to Joint Venture or Joint Venture Agreement at that time.

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But, before we get into this, let's talk about the basics of this thing, go back to the program. Although we've been telling people that we've been doing this for the last two and a half, three years, when we started two and a half years ago, basically this thing goes back a lot further. We've been doing it on sort of a formal basis for the last two and a half, three years. Before that probably for about ten or 15 years, 20 years before that. We've used the two different approaches we're about to go through, a number of times. I have a lot of people in business and friends of mine in the real estate business also that use this technique in various forms. In fact, I'm sure it goes back thousands of years. There's nothing magic to it. The comment I have to make is I wish we had come up with this program about 20 or 30 years ago. It would've made it a heck of a lot easier for a lot of us.

This program we're about to go through now in this section and the next section works so well, that what you're going to find is it's giving us a second and third level type problem today. The problem really is these two programs work so well, that now we have a situation where people that are basically really not qualified are buying companies that are a little too large for them, and because of this situation, we're having to work with people around the country now on providing more consulting help and more management help, and in some areas just having a company go in to run the business for these people because they're not far enough along to run something that large. Again, it's just a new situation. The basic program does work just like a lot of other programs, sometimes it works a little too well.

About two and a half years ago when we first started getting involved in this program, we realized one thing. Everybody wants to have a million dollar net worth. I

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want to reassure you, when you don't have the million dollar net worth and you're reaching for it, that's great. Many of you listening in the next few years will have a million dollar net worth if you don't have one already.

The thing that's fascinating, right now you're probably fantasizing what it's like to have a million dollar net worth. Well, if you go out and follow what we say, you're going to have that million dollar net worth, but on the other side you're going to find that by the time you get to the point where you have that million dollar net worth, it's not going to be that rosy. Why? Your goals and your sights will be a lot higher, and by that time, you'll probably need a five to ten million dollar net worth, which means you always really need somebody because as long as you're progressing and growing, you're going to find as you grow and become wealthier and have more substance, you're working on a project where it requires even a little more than you have.

Although you are wealthy, you are substantial, you need a little more. Again, if you do much reading, you know that this happens to everybody. There's nobody out there that can just stand on there own. I mean very few people on each project. So, what they need to do is bring in other people as solemn as possible because they don't want to have a lot of interference.

So, keep in mind, you're always going to need something like this, and also don't be afraid to use it.

Now, the warning on the other side is as you go through this, these things cost money. They cost ownership. Maybe you don't want to give up ownership. That's fine, but the key thing to keep in mind is these things also cost money. Now, if you're doing it with mom and dad and things like that, you know they're not going to charge you. But,

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whether they're charging a fee, a piece of the company, whatever, there's a cost in this area. So, keep in mind, you don't have to use it all the time.

In November of 1984, we finally announced this program on a national basis. We had played around with it for a couple of years. We had started working on financial statements about $200-$250,000 and above, and also real estate with equities of a million dollars and above, and at that time, although it seemed like a good place to start, it wasn't because what happened was although we worked with a lot of nice people in these different areas for a couple of years, we find the small ones had a hard time making them work because we then would have a person with not that much in the way of assets or equity working with another person in business, and what would happen is each one of them would want 90 percent of what we were doing, and what would happen is it didn't make any sense. We didn't have 180 percent available.

So, what happened is we started gravitating. I don't want to kid you. We probably quit the program every hour for the first couple of years. I mean I was never so discouraged. It looked so good. It look so simple. Couldn't make it work.

Finally, about August – July or August 1984, we decided to move up to a million. We had been working on larger business and real estate, so I decided that we pay the million, and son of a gun, as soon as we pay the million on the guarantees and the financial statements, it started to work. The numbers started to make sense. We had more security.

As you go through this, you're going to find this is a win-win situation. Everybody wins. Now, the difficult thing is that in the last few months to a year, I've been out presenting this all over the country to different groups on television, radio and in

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person – is it is so simple that everybody has a hard time comprehending it, and the reason for it is even the simple things in your life are a little complicated, and because of that, you have a tendency to take the things that are really simple and try to build something into them.

I can still remember the first real estate group I talked – top real estate marketers, exchangers, commercial industrial people in the country, a few hundred of them – and when I talked to them, they sort of sat there and looked at me over with glassy eyes. I went for questions, and we never got down to any questions on it.

True story – two weeks later, I finally got a call from one of them, and they said, "I finally figured out what you're saying." Now, as a person that's been educating people and thinks most of the time he speaks fairly clearly, it was really frustrating. Why? Because I couldn't figure out how could I put across something this simple? I'm going to attempt now also, but keep in mind, do not try to build problems in because you're going to say, "This sounds like a stupid question." There is no stupid question. There is no stupid thought, but keep in mind, this is the original KISS formula, Keep It Simple Stupid. This is simple.

Now, let's start talking about the area. It's not uncommon for business brokers, merger and acquisition firms and sellers to want to see a buyer's financial statement. This is perhaps one of the stickiest problems many of our graduates face when they go out to buy a business. A person can have all the attributes and motivation it takes to run a successful business or start one, but may lack an impressive financial statement.

If you're been a working person for most of your adult life, working for someone else, it's doubtful that your financial statement or your net worth and borrowing ability

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would impress anybody or very many people. You know that you intend to creatively finance a purchase of the business, but you often don't wish to disclose the information early in the transaction. The answer is to involve another person in your buying team- a person who has a strong financial statement, and later on a person who has a lot of real estate equity. It opens up a lot of doors, but the key thing is with a real estate financial statement it opens up the door. It opens up a lot of doors, and the reason we start with a million dollars is it doesn't cost much more to rent or bring in someone with a million dollar statement. They are easier to work with, and as soon as you say a million dollars to somebody that's selling or whatever, it opens up the door. I mean they really feel good.

They want to know that between you – and again, look at yourself. You may have gone bankrupt 15 times this year. You may be a convicted felon. You have to realize between yourself and the other party, you look triple A.

Incidentally, even if you get into the business, and you don't have good statement, keep in mind that when you get into that good business, what do you have? You have yourself with all the problems and background and crummy financial rating that you have. And, what do you tie in with them as you get the business? You have a good business that is triple A.

Whether you're going in with somebody with a statement or later on you get in by yourself, that business is going to make you a triple A person, and it's going to basically drag you along with it.

The other thing I keep telling you – every one of you love to come to me and say, "Gosh, I don't have any money. I can't get into business." I keep saying to you, "I have that place on my wall in my office in San Jose reserved for the picture of the first

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business owner that used money going into business." I don't know anybody. I'm sure there are people out there, but I don't know anybody that started with money. That's why we go into business. I think if I wanted to buy something and had a lot of money, I'd go out and buy real estate, tax shelter, things like that.

In business, we do it for one reason – cash flow. What you're going to find, as we talk many times, if the business has enough money to make the payments safely and have money left over, financing it 100 percent is not difficult. It's not magic, and as you know if you've gone through much of this, you have a lot of money left over. There's nothing magic to it.

What does a financial statement do? It opens up the door.

When you're going out to start a business from scratch, or you're buying a Mom and Pop, the people are looking for a financial statement that has cash flow because when you're starting a business or buying a Mom and Pop, there's a lot of times not enough money to pay the debt. So, the people are looking for the statement for what? For cash flow so you can pay debt.

When you start to get over $50-$100,000 profit businesses, you're going to find most people are asking for a financial statement because they want to find out where the down payment's coming from. Do you have the money for working capital? That's what they're looking for.

The business already makes a ton of money. They're not worried about the repayment of the debt. What they're worried about is what? In most cases, the down payment. So, they're looking for a basic thing.

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I also want you to realize right now, and I want you to listen to this over and over again. When you work on businesses that make over $50 and $100,000, very few of them need financial statements, very few of them need real estate guarantees.

October 1984 when we first started to announce this program, during that period we had many people calling us continually that needed help that didn't have a financial statement, didn't have a real estate guarantee. Do you know what happened to all the calls we had as follow-up in our seminars after we told people it was available and reassured them and showed them definite proof? They quit calling. Why? Because once you know it's there, I hate to tell you this, you're not going to need.

So, what I want you to do before you go out and do anything, I want you to listen to this over and over and over again until you find out how ridiculously simple it is and how easy it is to get this, and what the benefits are. When you go out and you get into a situation where you need either a financial statement or real estate, you're not going to bat an eye. You've got it or you can get it. You don't have to worry about it as long as what you're doing makes sense and you're willing to give up whatever's required.

One of our students called the office recently, and again we get a lot of things like this, "Art said in the seminar getting a financial statement is easy." Well, those aren't my words. Here's what I really tell you in seminars. I'm going to tell you right now. If you don't have a good enough financial statement, go through a business broker, a merger and acquisition firm. Before you get involved in a business, I suggest you find somebody go in with you.

Now, of all the other types outside these three areas, you basically don't need that, but if you do have that problem instead of fighting it, why don't you find somebody with

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a financial statement? Why keep fighting the problem? Are they out there? Yes. If you have something that makes sense are they difficult? No, they're not.

Incidentally, once you do that and have a financial statement, the doors open, and it's easy, and again I say easy here. I don't like to say easy. That's a basic mistake. It's easier.

Over the years in business, the reason we have so many people that succeed is we have simplified the area of business. Many people then think that we're saying it's easy, easy. There are areas that are easy, but the overall business transaction is a difficult one.

Now, is it easier than it used to be? Yes. Is it simple today? Yes. And, with that, can you do it? Yes. The only bad thing is you have to maybe leave television for a while.

Now, again, putting together a financial statement's not easy. It's simple. Again, that's what I just said. After you get the statement, the rest of the effort is relatively easy. Why? Because a lot of you have mental hang-ups in this area. Once this is provided, once you have it, or once you know it's there, what happens is your whole attitude changes, and what happens Is you go out and put together transactions and do things in business you wouldn't normally do. Why? It lifts you up a little. Is it available? Yes. Is it real? Oh, is it ever.

Ever since we started doing it, I hate to tell you t his, we've always had more people come to us with financial statements then we've had those of you come back to us that needed them. So, we actually have more supply than we have demand.

The next page now, and let's look at the financial statement, joint venture, possible uses. Why would people want this? Number one, borrowing power – you're starting a business, and when you start a business, it gives you more borrowing power.

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You get a better rate. You get loans you couldn't normally get. You're going to find your borrowing power expanding in business. You can get a better loan, a better interest rate. In a lot of areas, you can get loans you couldn't normally get. Why? Well, let's face it, if you put enough security or enough strength for a bank or a lending institution, even if your project didn't make sense, they'd lend you the money. That isn't good news. I'd rather only have you borrow on things that make sense.

Borrowing power – how about buying the business. It opens the door when you have this financial statement. You get better terms. The people love you more. Why? Because between you and the joint venture partner, you're on a cloud. You're a group that has a million dollar net worth, and that opens up the doors.

Borrowing power – again, we're just talking about borrowing money now. I don't care what you're trying to do. Once you have that financial statement whatever the number happens to be, one million, five million, ten million – again, we can talk about numbers all the way up. We worked in the last year up to numbers about 30 million. At one time we had three people under contract with over 30 million dollars in net worth. They'll let you go on anything. That was not too risky because they still are not looking for great risk.

Let's continue on now, and the next page we have a thing called categories and let's go through this. I'm going to take you step-by-step. Why do you use it – now, let's talk about when the person's putting up the financial statement, if you're this person with this statement or you're the person putting up the statement, what kind of risk is involved, what kind of payment? We're going to take you through that now.

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First of all, a joint venture partner provides the financial statement. In other words, you're buying the business, expanding or whatever, and there are no guarantees. You'll say, "What do you mean no guarantees?" Well, the thing you have to realize on most larger business, over 50 percent of them, I don't know what the exact number is, you're going to find that the business stands on it's own two feet.

The financial statement basically opens the door. Once it opens the door, you're going to find many business owners do not ask for additional security other than the business. They don't ask for personal guarantees of the financial statement. They just want to make sure they're working with somebody that can succeed so they don't have to take that business back. They want to feel good about that person or that group that they have before them.

Now, if you think that the provider of the document need only put up his statement to open the doors, you're missing a point. Done that way, and again, you're committing fraud. What I'm saying here is just don't say you have somebody. Don't have somebody and have them committed to writing. Okay? Because unless you have something like this you're committing fraud because you can say, "Okay, I have somebody with ten million." "I have somebody with 50 million." And, over the years, where we've talked about programs where somebody rents a financial statement, or sets up a joint venture, they don't do it writing. You do not have to do anything Mickey Mouse in any business transaction. I try to tell you that over and over again.

You can make more money honestly than you can dishonestly. If you're getting to the point where you think you're going to have to become dishonest, I suggest you get back with us, and we'll show you an easier way to do it. You can make more honestly. If

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you want to do something creative, go skydiving, buy a racing car, and don't commit fraud.

You should go with a declared intent to set up a joint venture with a statement provided. In other words, a person's going to provide a statement, set up a letter of intent in writing or set up the complete joint venture agreement. Again, a lot of times we set up a letter of intent because we're not exactly sure what the final form is going to take.

When you get down to the end and are approaching the purchase neither of you are still tied down except as to term if you do find something. When you get down to that final point, and you have found the exact business, you can then sit down with an attorney and draw up that long form document that spells out the details of your joint formal agreement.

Your letter of intent just spells out if you find something what is the ownership going to be, what kind of guarantees does each provide, what does A do, what does B do in the transaction. You can then notify the agent, broker in the transaction, the seller of the event that we're now about to go. Again, the thing to do is full disclose. You don't have to lie to people. What you're going to find is you can tell them truth, and in this you're not hiding anything. Just tell them what the progress is. Let them meet the other party, and you're going to find the transactions then will just slide right through.

Incidentally, the last thing here is proceeding together is certainly a favorable action because you can accomplish or expand faster and agree to later buyout, and also, if you then go in at the beginning with a person with a larger financial statement than possibly you need, you don't have to go back to another person. You can go back to that same person or group and have them go through a number of transactions with you

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because once you show them how they can win in the first transaction and not take a great risk and get a fantastic return on their investment which a lot of times is just time, it could be a guarantee, you're going to find they're going to come back and see over and over again, and they're also going to send a lot of other people to you because success breeds success.

Now, the second category on the next page is the joint venture partner now is going to provide a financial statement. Now, in category one, we had on the other page, the person wasn't guaranteeing anything, basically just opening the door. You're now going to find that the joint venture partner here is going to guarantee something.

Now, one thing I forgot to mention in section one that we might go back to is in section one, we mentioned no guarantee. Supposing the person comes to you and says, "Hey, I'll put my statement up. I want a certain amount, but I don't really want to guarantee. I'll go in with you, but guarantees scare me." Well, what you can do is a two-step transaction. Have a person go in with you under contract with a financial statement say you're joint venturists, and when you get in there and the guarantee comes up, you can go to the next section which is the real estate guarantee. In other words, the statement opens up the door, the real estate provides the guarantee. There's nothing wrong with that except for one thing. these things are costly. So, keep that in mind as you do this. In other words, make sure you still have enough cash flow left in doing all these things.

Now, the next category – the joint venture partner is actually putting up and guaranteeing a minimum area, he or she is guaranteeing equipment. They're guaranteeing inventory or receivables. The thing in this area is there's not as much as risk as a complete guarantee because you have an asset as a guarantee. You can pull back and sell

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that asset if you had. You can place a lien on it in the state. So, there's less risk in this inventory than a complete guarantee area.

Now, the joint venture partner then will provide the financial statement, again, the next category a total guarantee. So, we started with no guarantee, and they're going to get paid a certain amount as you're going to find out in the next few minutes. The next category is there's a minimum guarantee, and then the third category where we have fewer people basically is a joint venture partner provides the financial statement and they're going to total guarantee.

Now, keep in mind, sometimes people will start in category one or two, and then after you show them they're not going to get hurt, they'll move to category three. Or, maybe they'll do it on the next transaction you work on. Be patient. There are more people out there that will do than you actually need. So, make sure you do it with quality type business ventures.

Now, in this one here, there's 100 percent guarantee, and the thing we don't really talk about that much is that if you have a person that has a strong enough financial statement, and although we continually tell you that you're going to next "X" percent down – 10, 20, 30 percent – as a down payment when you buy the business or start it or expand it, you still need money, the thing you have to realize is once you have enough strength in either real estate guarantee or a financial statement, and I hate to bring this up at this time, we end up a lot of times end up financing them 100 percent because the down payment was basically tokenism. If you're willing to put up something as a guarantee, many sellers are going to tell you that the down payment isn't required which

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means you do end up getting it with nothing down to the seller. It doesn't happen often, when you do work with these it happens more often than any other way of doing it.

Now, when we look at the next page it says, "Obviously both parties, the one needing the financial statement and the one providing it will want detailed information about the other. The financial statement and guarantee will have to be verified." We verify these. You verify them, and the person wanting them will have to meet particular standards of capability. "The degree of involvement of the provider and his compensation whether it's a fee or a piece of the business will be negotiable." The things we're about to talk about now which have to do with fees are negotiable. They can go up. They can go down. All we did is set this up as a standard a number of years ago so we had a place to start, and we move down. We move up.

What we do then, what you should consider doing is don't fight the problem. Since there are so many people out there that will provide these or need these, find somebody that's pretty close to what your demand is whether you're putting up the statement or needing it, and that way you don't have to go through negotiation. You have a pretty close fit, and again then it gets down to the point between the two parties of the joint venture is more or less, "Do we like each other?" "Do we want to work together?" "Do we trust each other?" And, that makes it easier. You shouldn't have to sell these things. They should just fit.

Now, if the person needing the financial statement does not have a strong enough management skills to satisfy the provider, you can arrange interim financing in that area until the person's skills reach the level. It may never reach the level. They may have to have support forever, but again, we can have consulting firms. There's all sorts of

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consulting firms all over the country that provide help. In other words, they will go in and crutch that person on a continuing basis or a part time basis.

There are management firms that will manage it completely. In other words, you can go to part-time help, full-time help, or not even help where they do the complete thing, and basically it's like a management company in real estate. They mail you the check, and there's a number of good companies around.

We hope it's apparent at this point that we're striving for a situation with everybody – the buyer, the statement provider, and the seller – wins. To paraphrase, we want a win-win-win situation. If you're working with a lender, we want them to win also. If the financing is dangerous, don't burn the people. Anybody, what we want you to do is use another type financing. What we like to do is keep this clean. We like to keep this to the point where people can go into it and they know if the business is good and makes sense, they are not going to lose anything. We have to keep the risks down. In fact, what we're shooting for is no failures. We haven't had any yet, and all I'll tell you something, if we even sense a little problem, personally, we won't even touch it. We don't want anybody to get burned.

The cost of the financial statement – the financial statement now, we're talking about a million dollar net worth. Above this, the figures climb accordingly. If you're going out on your own, you want to find a smaller financial statement. I say fine. We aren't working anything below that because we find below a million, we don't do a very good job.

Let's take the three categories. Category one – we normally offer somewhere between $10-$30,000. It's a rule of thumb. Again, you may have to pay less or more, but

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let's face it. If you have a million dollar net worth, and you want somebody to put a statement and even answer the phone, if you don't offer them $10,000, they're not even going to be interested. Now, do you have to pay them in front? No, we usually pay them at the close of the transaction. Will they finance it? Of course they will because basically if they're not putting up a guarantee, you're paying them a heck of a lot of money for a little use of their time. In fact, we have people now coming to us that would like to specialize no guarantee, because they can put their statement up continually. We're not interested in that for other type reasons.

Category two – we're offering $10-$30,000 cash. Again, this is financable. All of this is financable. It's also flexible. You can offer less or more. Again, you're going to find unless you start off with about ten, most people don't turn on. We also find with this smaller percentage, we're offering a piece of the company, five to ten percent. I've had some at two or three percent. I've had others that want 14 or 15. Again, the average range is somewhere between five and ten percent as a rule of thumb. Again, the key thing is to put the transaction together, and if you're off a percent or two what difference does it make if whatever side you're on you end up getting the benefits you get and it doesn't endanger the transaction. Quit nit-picking.

Category three – in category three when we're talking about guarantee of almost the total company or the total company or the transaction you're going into, the owner's going to want probably at least 25 percent of the company or you're not going to get their attention. That may vary as you get into larger areas, but the ones we're talking about, it's normally about 25 percent and up.

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It could be 51 percent and above if you don't do your job because if you haven't done anything and you haven't brought anything to the table, and you're asking them to guarantee the whole thing, why do they need you? In fact, I'm going to tell you something, I wouldn't give you a nickel for it. I may pay you a finder's fee and send you off somewhere. I might give you a management job. But, if you're intent is to own the business, then bring something to the table. Show them what your worth is. If you don't do that, you're going to come back to me crying and say, "It can't work." It does work. What you have to do is realize what the real world is and do it that way or you're going to find out that you have problems.

How do you find a financial statement? My gosh, I want a financial statement, but I can never find one. It seems impossible. Well, one of the easiest ways to find it is family, friends and relatives. If you turn the page, this is the easiest way. It's the cheapest way. It's the best way. Especially, if you have a member of your family that has a good statement and your goal is to open up doors. If you then go in with them, and they're not putting up a guarantee, what member of your family wouldn't do it? I mean, what are they losing? They're helping a member of the family. You can either compensate them or not compensate them, but it's the easiest way to go. Tell them what you need, what you'll give up, quit being so chincy, give up part of it. You'll end up with a lot more.

Also, get these other people to birddog for you, and you'll find that in addition to all the other sources we're giving you in this program, you're going to find they will go out and birddog. They'll be looking for businesses continually for you to put together for them, and all you end up doing eventually is just putting the things together.

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A couple of years ago, about a year ago now, I had a friend of mine in another part of the United States that I've been working with that needed a financial statement and I was trying to get him involved with us in the area also to work and provide a large bank or pool of financial statements available so that we'd have a lot of people to work with all over the country because the more we have the easier it becomes, and what happened is I showed him how to do it. I talked to him on the phone. He was able to go out and do it, and what he did was he called me back. He not only got a million and a half dollar net worth financial statement within about a day. The person he got it from referred someone else to him three days later, and true story – he's from the Midwest – and he had almost 90 million dollars in financial statement guarantees in less than ten days that he was able to use and is using today in his guarantee program in that part of the country and we work with him. So, it's not as difficult as you think as long as you're presenting benefit because everybody wins.

Attorneys, CPAs – present your case to them, tell them what you need, explain the risk and explain the return to them and their clients. The thing is a lot of you go to your attorneys and CPAs and friends like that, and you talk about all these benefits you're going to receive. Well, they'd like to receive those benefits too because most of the transactions you're working on bring in a lot more net than those attorneys and CPAs ever thought they'd make in a lifetime. What you have to do is realize you're going to share it with them. You're going to help them also. Don't be afraid to share the wealth because the more you share the wealth, the more you're going to have. Let me tell you something, it took me a long time to practice that because for many years I would say it. I'm going to have great pain trying it, but it does work.

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Advertise in the paper. Again, if you're looking for a business or a guarantee or a statement under a million dollar net worth, again try a small local newspaper, things like that, maybe your local business newspaper. If you're going to go over a million dollar net worth, I'd suggest putting an ad in the Wall Street Journal, and again if you have been following this publication, you'll find there are ads in there. I'm sure there are graduates of our program or people that have ordered this tape and you're going to find that what happens here is it does work. You will find people that will come forward. What you have to do then is have something to show them that makes sense, that they can win in, that they're not going to lose in the area.

The last thing is advertising in our business report, and we have different programs. If you want to contact our office, you can find out, but the thing is we have a lot of people every month that advertise in our national newsletter that we put out, and they advertise for financial statements, and when you're reading the newsletter you're going to find other people in there that are advertising the fact that they have a financial statement. What do I suggest you do – read the newsletter and call them, and put the thing together. It's not as difficult as you think.

I want to tell you something, when you sign that contract with a person that has a million dollar statement, you do realize that you basically almost have half of that thing yourself. You're going to feel like a millionaire. Why? Because you are part of a group that has fantastic net worth. Try it, you will like it. It is merely fantastic.

The next category we have here, category four, is the real estate guarantee. When you look at this category, the thing you have to realize is when a person's in business, a person selling a business, a person is starting a business whatever it is, people always like

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to put guarantees on things, and the thing is although a financial statement is a good thing, very few people in the country really want the guarantee of a financial statement. Some do, but most of them love real estate.

When a person's selling a business, talk to them, say, "Hey would you like to carry back the financing against your business?" If they start to balk, if you just mention it to them even if you have it available, would you rather the lien or the note that you're carrying back, the financing you're providing, would you like to have it secured by the business down the street? You'll find lo and behold, most business owners even though they have a fantastic business don't feel very secure by placing a lien against your business. They'd rather have a lien against the business down the street, even though they don't know it. If you really want to get to them, and again, we do this every hour of every day, ask them if they'd like to have real estate.

Now, keep in mind, do not start to offer financial statement guarantees. Do not start to offer real estate guarantees unless they're required. Why? In most cases, they are not required. Okay?

Now, let's take it from the other side for those of you selling. Number one if you go to the other section on financing, if you work it backwards, you can finance the business 100 percent when you sell it. If you decide, again I'm repeating what I said before, if you decide to sell that business and the buyer is not strong enough, why not have them go out or help them in finding somebody that does have a statement that will come in that will provide that security you want or the real estate especially, because the real estate is what everybody loves to have in their business because they feel it's safer.

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As we go through this, I want you to realize, everybody wins in this situation, and if you'll just be patient whether you're the owner of the real estate, the person selling, the person buying or starting, be patient as we go through this section and you'll find everybody wins. It's also very simple.

Now, last, we can create a marriage between real estate investor and the entrepreneur. Don't panic, I'm writing in a business sense, not a Biblical sense. Now, keep in mind one thing, we're talking about a marriage. Many years I've worked in the area of business ownership, business education, financing – what most people don't realize is I also work a lot in real estate. We own a lot of real estate. I don't work there as a broker-broker even though I have a license in that area. I basically work on real estate that I own.

Now, this real estate guarantee program has been used for some time on an unlimited basis. It was created to give the seller the financial and emotional security he wants, and that's basically what we've done a lot of over the last few years. When I purchase real estate, I come up with real estate. Everybody thinks that really I want to own it. Well, it was another benefit. I was using it as guarantees or other securities on the businesses we were buying or friends of ours were buying, and we're using that as part of our vehicle. So, it's always worked out very well.

You may have come across a typical situation. This again, let's repeat, the seller would rather have the financing of the purchase based on the business across the street rather than his own. Often a seller would appreciate real estate. They love real estate. If you're able to use real estate – yours or someone else's guarantee, it means you can shift

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the purchase loan from the purchase of the business and that business will be free and clear. Again, we're going to develop that and show you how we do that.

For those of you sitting there wondering, there's so many ways to take this. I can actually spend 20 or 30 hours putting together a program just showing the variations of using real estate as a guarantee, but once you get started and start to use it, you're going to find how well the thing does really work.

Keep in mind, also, in a lot of transactions in business, the buyer of the business or the person in the business does have a lot of real estate, but the problem is does the buyer of that business or the person in that business have the real estate that the other party wants.

Once you start to go out in the marketplace and realize there's a variety of real estate available for a guarantee that the people will put up in a win-win situation, what you're going to find is you can quite give them exactly what they want, but if it's an office building within a reasonable area or an apartment building within a reasonable area, or land, whatever it happens to be, and they give you a reasonable parameter or area to look in, what you're going to find is it works out very well.

Again, I've had many people over the years. Again, for those of you familiar with consulting that will tell me that they want something within 14 feet of where there business is as a security. What I always do is sit down and talk to them and ask them why, and suggest other things, and ask them how they feel. In almost every case, they expand their opening, and the other thing is, I then will come back with five or ten pieces of real estate in other areas, even other states. The thing that always fascinates me – if those pieces of real estate are good pieces of real estate with appraisals on them, you're

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going to find that the average person loves them no matter where they are. They love real estate which I think is great.

Again, if you're able to use real estate, you can finance 100 percent. Now, in this example here, I'm going to talk about it, and then, as we go to the next page we're going to show you the example.

Say you were going to buy a business for $500,000 that requires $100,000 down, and the owner says, "Hey, I'll finance the $400,000, but I want the $100,000 down." Now, the carry back loan because the owner said, "Hey, I would rather not have the business as security. Can you provide real estate? And, I then will take the $400,000 you owe me, and place the $400,000 as a lien against the real estate." Sounds fantastic.

Keep in mind, it benefits you as the buyer or the person in the business, but it costs money, so you have to make sure you can afford it.

Now, the carry back loan again is transferred to the real estate for a fee. You then have a $500,000 business on which to borrow because if we move the loanee loan which we are thinking of placing on the business and move it over to real estate, how much of a loan or a lien do you have on the business? None. How difficult is it to borrow the $100,000 on a $500,000 business asset value that's free and clear? Think about it. Even if you don't have good credit, many lending institutions will lend you the money anyway. Why? Because the security is so out of proportion of what you're trying to borrow.

Now, up to now, the real estate guarantee has had three main groupings, and as you noticed I like to group things and categorize things. It must go back to the days in engineering school.

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First of all, a person puts up real estate as a guarantee is paid a ten percent fee per year. Example - $40,000 a year on $400,000 of real estate equity. Now, supposing the person with the real estate owns a piece of land out there it could even be encumbered, an apartment building, whatever. They have $400,000 equity. Again, we don't want to use the last part of the equity as you'll find out, but on a debt equity that we are using - this is equity that they can't use anything else for – we will end up paying ten percent a year.

Now, if they only want to do it for a year or two years or five, we can structure anything, work the thing backwards, but the key thing is we're paying this much, and what they end up doing is getting a fantastic income on what? On something that they normally wouldn't get an income on.

We first did this a couple of years ago on a large piece of real estate in the Midwest. We had an apartment building that was 200-300 units, somewhere in that category – I don't recall know – but, I do recall the occupancy was 47-48 percent occupancy. We had a lot of empty apartment buildings. We then used the X number of million dollars of equity that this apartment building had, and we used it as a real estate guarantee, and do you realize that even though it was under 50 percent occupied, but putting it under a real estate guarantee on business, do you realize that real estate was them making what? Positive cash flow.

I mean, you can take land, junk land that you have it out there as long as we can get an appraisal on it, as long as nobody's going to get hurt, and you'll find that people will pay you ten percent return. Again, is it always ten? Ten percent is a starting point. Some people only want seven or eight, and end up at that level. We have others that end up at 15 or 20. Again, the key thing to keep in mind is it's negotiable, and as long as you

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are reasonable in what you're asking for, you're going to find that you can put it together, as long as everybody wins.

The second category – the person puts up the real estate as a guarantee and receive six percent a year and a piece of the tax benefits. That's also part of the ownership. What we're doing is we have different categories. One is ten percent. What you're going to find is when you're working on businesses that make a million dollars net before taxes and above, ten percent cash flow can be provided pretty easily and still leave enough benefit and dollars so that you don't have a dangerous situation.

As you start to get down in businesses that make only maybe $50 or $100 or $200,000, you're going to have to temper the thing because ten percent is going to pull out too much. So, at a million dollars and over, I find very few cases where the ten percent cash or above does not work.

You're also going to find that certain people want tax benefits or they want ownership and they don't want the other, or they want a combination. So, what we have is we have a combination program. First of all, you can get all cash. Secondly, you can get tax benefits and cash, or thirdly you can get a piece of the business which gives you tax benefits and cash or combination. In other words, we can give you part ownership, part cash, tax benefits – anyway you want to structure it by working the thing backwards, as long as each party in a transaction will be fair.

Now, even without a financial statement, the real estate guarantee plan allows you to finance almost any business purchase – start-up, expansion. Why? What you're doing is putting up something else as security. The person putting up the money wants the security. You're giving them what they want, or pretty close to it.

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Let's look at the next page now and look at an example. We have this $500,000 business we already stated. It's going to require about $100,000 down. The owner then is going to finance $400,000.

Now, let's take step one. The business is priced at $500,000. That's in the left column. As you move over to the right column under real estate, we're looking at a piece of real estate with a million dollar value. There's a first deed of trust or mortgage or a lien. They've already took out a loan or they owe money on that real estate. There's a lien against it which means if you take the value of the real estate, and we're taking about with MAI appraisals. We don't just take somebody's word for it. We get an MAI appraisal and then we verify it. You should do the same thing. A million dollar value – it has a $200,000 lien. So, what's the equity left in it? $800,000.

We don't want to place liens against real estate where we take all the equity. If we do that we then put the person that owns the business in a dangerous situation because what happens if the value of the real estate falls, which happens as you know occasionally – not occasionally. In the last few years, it's been happening quite a bit.

So, let's take step two now. Step two – there's $400,000 owed to the business owner. We aren't going to place a lien against the business for $400,000. The owner wants the lien against the real estate. So, we put a second deed of trust or mortgage against the real estate. Now, is the owner of the business that is now going to have a lien against real estate in a safe position? Yes, as long as there's enough equity remaining, and right now on this million dollar value even with two liens on it, how much do we have left? $400,000.

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You're going to say, "Well, does 40 percent always work?" No, I can show you farm land in the Midwest if we had used something like that. Those things have fallen even more, and you can hurt somebody. What we have to do is take it on a case by case basis, year by year, and always go super conservative.

Number one, we don't want to burn the buyer, the seller. We don't want to burn the owner. We don't want to burn the bank. We don't want to burn anybody. If you get in a situation like that, let me repeat, there are other types of ways of financing. Let's not goof up this program.

Now, step three – why would the real estate person do this? Well, you're going to find that the real estate owner will allow you to place a lien against them as long as two things happen. Number one, we tell real estate owners and we do perform in this area that we are only go to place a lien against their real estate and give them a return if one thing happens. Number one, we are only going to put them in a situation where the business that they're in the joint venture with or agreement with has the same risk factor or less. In other words, they are going into as safe or safer position. Do you understand what I'm saying?

Now, for those of you in real estate, it's like shifting a loan. If you have real estate A and real estate piece B, many lending institutions will allow you to shift first and second loans against those real estate properties to another piece of real estate, as long as what? The second piece of real estate is as safe or safer then what they had as security before.

So, the key thing is what? As much or more safety. If you have that, you're going to find that's one step that you've gotten by.

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Now, the real estate owner is now going to be in a situation where they have the same or less risk. Now, the real estate owner now is going to be paid $40,000 a year and this is on debt equity. This is cash they wouldn't normally have. This is cash that on a lot of pieces of real estate takes that piece of real estate that's losing money or breaking even and puts the thing in the black. I mean, think about owning a piece of real estate. You have a million dollar debt equity sitting there. We have people in business that will pay you $100,000 an above a year to use that, and let's face it, real estate doesn't have much cash flow.

We see this category as the wave of the future. I hope I'm around ten or 15 years from now to see what the real estate people, my good friends in real estate, have done with this type program because this has to be one of the best areas as maybe real estate loses benefit, where we in business in a joint venture can provide them with cash flow, with them then providing us a little more security.

Again, the $40,000 can be part cash, part equity, tax benefits. Again, it's negotiable and as long as you're fair on each side, you're going to find that the transaction works.

Now, once we have placed this $400,000 lien, the buyer's still going to need the $100,000 for the down payment, and what they normally do is borrow against the business of the corporation of $500,000. Now, that is not the only way to finance. In this transaction here, we're doing it simple as possible. As you go through the rest of this program, you're going to find there's many other ways that are simpler, easier, and will cost you less money than going this way.

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Now, so what we have is we have the person with the business getting a lien against the real estate. We have the person with the real estate receiving ten percent, $40,000 a year plus other benefits. Now, the owner of the real estate, not only has a lien against the real estate, they get cash and then what do we do. We then give them a second lien against the business. It's an offsetting lien. Although we now have placed a lien against the real estate for $400,000, we're giving them a second position in a business for how much? $400,000. So what is their overall equity differential? It really hasn't changed at all. All we've done is give them equity in the business for using up some of their equity, and if they're willing to do that, we're willing to pay them a certain amount of money or give them benefits, ownership, whatever they want. As long as you can set it up so everybody wins, you're going to find that people don't mind doing this.

The acceptance has been very good. We do this all over the country. In fact, ever since we started we've always had more real estate under contract as guarantees than we've had statements. And, in both categories, we've always had more people under contract willing to do it, then the people like yourselves that needed it.

Now, in the past, the real estate program had it's glitches, oh did it ever. It still has today, but not as much. The real estate owner would say, "I'll put my real estate up, but you have to guarantee the business." This forces us in the position of having to send our CPAs out to confirm the business appraisal. Then the business owners would respond, "Fine, now we want you to verify the value of the real estate." Very much of that, and the costs would pile up to a frightening amount. We had to put up so many guarantees that the transaction didn't make sense especially to us the people who were trying to facilitate it. So, we backed off from the working program until we could come

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up with a more pragmatic approach, and now we think we have the answer. We call it risk matching, and I'm going to give you an overview now.

In the next couple of years, we expect to come up with a mathematical approach to measuring risk in business the same as we came up with eight or nine years ago when we came up with pricing a business. Again, it's going to be a mathematical approach. We should have it out in the next two years, after we verify more of it.

What we do now is we place real estate into one of five categories – real estate with positive cash flow – apartments and shopping centers, category two will be real estate that's break even, three will be real estate with negative cash flow, four would be currency land – currency land if you don't understand is land that holds the earth together and doesn't serve any other purposed, and then encumbered currency land. Five basic categories – there's more than that, but these are five general categories.

As we proceed in the following months and years, these categories will be further refined. We then will be able to show the people in business what the risk factor also is on the real estate side. We already have that available to the real estate people to show them what the risk factor is in the business they're getting involved in.

Keep in mind, we try to keep them over $100,000 net before taxes and over ten years in business. We're trying to keep them going into businesses or guaranteeing businesses that have a failure rate of one percent or less. Why? Because what we like to do is have a very little failure. With the average failure rate, plus doing it right, the chance of these people failing should be a little remote and almost none, which is what we're shooting for. So far, so good.

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The program will match the real estate category with a business counterpart. For example, the highest class of business would be ten years old or more netting $100,000 with a very low industry rate. We would then match them up with comparable real estate. So, every knew exactly where they were. We still verify the numbers, double check them, but we have another to go on.

Again, our weighted value system that we have in pricing businesses works, and we hope to create the other. Again, give us another year or two, we'll have the program finished. Our goal is to have a computerized program in order to quick risk match a business to the appropriate real estate. Because of the public's general nature and natural feeling about the safety of the business, we probably will assign our lower risk business to a slightly higher real estate, as long as the condition exists because let's face it, even if real estate and business had the same risk, we'd never be able to put them together because everyone still would assume that real estate's a little better. So, there's going to be a little waiting in there. So, you understand.

We'll be able to enter a piece of real estate into the computer and get a print out of all the available business it could guarantee. Conversely, the entry of the description of the business will bring a print out of the real estate available to guarantee it.

We already have pieces available. Again, you're going to have be patient. The real estate guarantee program will probably take longer to bring to its final state we were to use simply because there are more variables. Again, it's absolutely essential to get everybody involved as protective the greatest way possible. It has to be another one of those win-win systems, or why bother? You're wasting your time.

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The last thing we want to cover on the next page is how do you find this real estate. I mean, we talked about, but how do you find this?

First of all, the number one source has to be real estate brokers, and this is what I do. I get a lot of talks at real estate meetings. I talk to real estate friends of mine, and no matter what they're working on, most of them are aware of larger pieces of real estate that they will pursue, look into for a fee, and what happens is by having them birddogging for us and try the same thing, you're going to find this work. Don't tell me you don't know a real estate broker. There's somewhere between a million and a half an two million of them in the country. In fact, my thing was that eventually everybody will have a real estate license. We're getting close to that now.

Again, especially talking commercial brokers, industrial brokers and present your case. Talk to real estate exchangers, again, a good source. Number two is actually better for me. And, also if you're wondering how to find these people, you can go to the board and they'll give you a list or you can just go to the yellow pages, and many of these people are in the yellow pages listed by specialty and you can call them and talk to them.

Again, if you're having trouble explaining it to them, why don't you just sit down and let them listen to this tape, and I think they'll understand. Have them listen to the tape the same time they're reading it and it will then dawn on them what we're doing if they're not already familiar. We haven't reached all the brokers yet, but we're trying.

Advertise in the newspaper. You're going to find smaller real estate, usually up to about a million dollar equity. Again, we're talking about using the local newspapers. Again, if you're looking for a larger real estate, and you need over a million, again, use the Wall Street Journal. Again, we use the Friday Real Estate section, which is the big

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section, and again for those of you that have very large businesses, well over a million, we might even consider advertising on Friday in all the editions that the Wall Street Journal has.

Are there other sources? Yes, but you're going to find these work very well. Also, I suggest you might also try advertising in our business report, and again I'm not trying to plug this. What I'm trying to show is the source that works very well for us. In addition to having a lot of people advertising that want financial statements or would put them up, we also have people advertising every month in there that have real estate that are willing to put them up. So, contact them, work with them, find out what they have, and put together the transaction, and what you'll find is you'll have the real estate to use.

But, keep in mind one warning I keep trying to put across, it works very easy – putting these transactions together is not difficult. The problem is before you sign the final papers make sure there's enough cash flow left to fund all these things you're doing, because it does cost you extra money. And, one last word, in most cases if you do it properly you will not need a real estate guarantee or a financial statement. You will not need to have costs. So, don't go out offering it in front. Just know and realize that behind you, you have this available and it does work.

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