

2010 NH SMALL BUSINESS DEVELOPMENT CENTER'S GUIDE TO:

THE **ART** OF FINANCE



Welcome from the NH SBDC

BY MARY E. COLLINS

The Art of Finance is a catchy title, but just what does that mean for our readers and NH entrepreneurs? This year the NH SBDC staff stepped back and took a hard look at the funding landscape, including trends, availability of credit and the numerous questions that our clients present to us daily.

We realized that our business advisors are addressing the most fundamental questions related to "Where do I look for money, what are my options and how do I package my request?" It has become clear to us that commercial financing is both an art and a science, and that 2010 deals are typically funded from multiple sources not one sole lender.

The NH Small Business Development Center's 2010 Finance Guide addresses this trend toward packaged deals with multiple funding sources with examples, resources and a wealth of information to assist you in the pursuit of raising capital for your business.

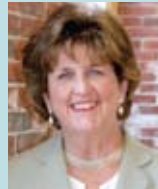
We thank our sponsors—the University of NH's Whittemore School of Business and Economics and Public Service of NH—for

being longtime partners who support our goal to provide NH entrepreneurs with timely and effective tools and resources critical to sustaining their businesses.

The NH SBDC offers confidential one-on-one, long-term management consulting for companies that intend to grow and contribute to the NH economy. All SBDC business advisors are certified, have MBAs and/or CPAs and many are former small business owners.

Entrepreneurs seeking additional financing information should visit www.nhsbdc.org where we offer 23 online business courses 24/7 including our latest course, "Financing a Business in New Hampshire."

Mary Collins is state director of the Small Business Development Center, a partnership program with the U.S. SBA, the state of NH Department of Resources and Economic Development, the University of New Hampshire and the private sector.



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The Art of Financing a Business

BY STEWART GATES



Commercial financing is both an art and a science. Yes, it's a matter of numbers and statistics, as lenders and applicants use ratios and projections to determine the capacity for the loan to be repaid. But there is an art to lending, as the lender must make a judgment call about the character of the borrower. The true artistry comes from the creative exercise of putting a deal together that meets everyone's objectives. To make sure a finance deal is more masterpiece than sketch, borrowers need to know their options:

First Impressions are Lasting

Don't approach a lender asking how much he or she will lend. It may be premature to construct an entire business plan. If so, prepare a one-page prospectus that outlines the deal. The time spent will not be wasted as it can be modified later to serve as the executive summary in the business plan.

Short on Ideas for Funding?

Talk to friends who are real estate agents, attorneys, experienced business people, or consult with a Small Business Development Center advisor.

There are No Clean Deals

Every financing package is a bundle of strengths and weaknesses, so don't keep either a secret. Sound financing packages balance one against the other. The business plan should address them directly. Loan packages often have a collateral shortfall. One option is to have a relative pledge collateral. The person pledging is not a co-signer, but the property he or she pledges is on the hook.

Don't Overlook the Seller

The seller is presumably motivated to assist with the sale of the business and may enjoy possible tax savings on an installment contract if he or she has owned the business for a long time. The security position of the seller will be subordinate to the bank and help sweeten the deal. Seller financing is typically subject to a standby agreement that halts payments if the business falters.

Get Local Help!

Many towns have revolving loan programs created by Community Development Block Grants or loans. Most regions of the state are served by one or more Community Development Corporations. These lenders customarily take collateral positions further down the food chain, also enhancing the bank's position.

Need Modest Funding?

MicroCredit-NH, a program of the NH Community Loan Fund, offers small business loans and networking opportunities for people starting or operating a micro business.

Final Words

Avoid falling victim to scams promising grants for small businesses. There are several companies that offer to help businesses get grants. Investigate them thoroughly and remember there are few grants available to small businesses.

Stewart Gates, PhD, is the NH Small Business Development Center's North Country business advisor.

Finance Package Secures 8 North Country Jobs

Putting together the right finance package with the right partners can help a business prosper and add jobs to a community. Take NorthWoods Manufacturing in Lancaster, which makes cabinets and does custom design work. The NH Small Business Development Center was able to craft a finance package that not only allowed the company's former manager Bill Rutherford to buy the company, but the deal also allowed the company to grow and yield eight jobs.

As part of that package, Passumpsic Savings Bank financed the purchase of real estate with an SBA guaranteed loan as well as an SBA guaranteed line of credit secured by inventory and receivables. Northern Community Investment Corporation, a private non-profit serving Northern NH and Vermont, financed the purchase of equipment. The seller—the former owner—agreed to hold a substantial portion of the debt through a junior mortgage.



Choosing the Right Fuel for High Growth

BY MICHAEL GURAU

While the economic recovery may be slow, startups are revving their engines in hope of taking off. But just as race cars need high-octane fuel, startups need capital to get up to speed. Most high growth ventures tend to concentrate on venture capital or

friends and family for support. Motivated more out of love than common sense, funding from friends and family can provide relatively inexpensive capital. Friends and family can provide funding that ranges from tens to hundreds of thousands of dol-

federal government's Small Business Investment Research program addresses many different sectors (life sciences, defense, IT, energy), but demands rigorous technical capabilities. Federal grants typically allow business owners unlimited commercial rights, leaving the government with rights for its own use. While state and local grants address a variety of needs, such as workforce training, there is limited availability.

Debt

While debt appears to be a low-cost source of capital, it is relatively inaccessible for early stage (loss-making) ventures. Banks simply are not equipped or designed for meeting the needs of new ventures. The best a new business can hope for from a traditional bank is a line of credit tied to working capital (accounts receivables and inventory.)

There are, however, some specialized small business loan programs linked to energy efficiency, or economic development.

Near Equity

Near equity combines debt-like instruments (carrying a current-paying interest rate) with aspects of equity—typically a royalty on sales. Unlike equity, near-equity does not require that owners give up ownership or control and does not require that the company sell to realize value for equity. Vested for Growth in Concord is one such provider.

Equity

Finally, equity is available for a select few ventures that meet the growth, team, and market opportunity requirements demanded by this source of capital. Equity providers trade capital for ownership (typically 20 to 40 percent) and see themselves as business partners.

In order to get in the race for success, high-growth businesses must leverage the spectrum of capital to ensure survival and growth.

Michael Gurau manages Clear Venture Partners, a venture capital fund-in-formation. Since 2001, he has led CEI Community Ventures, a venture capital fund that backed NH companies Nanocomp Technologies and Rustic Crust. He can be contacted at mg@clearvc.com.

Fueling High Growth: Nanocomp Technologies



Nanotechnology is a hot emerging market—one that requires a significant fuel injection of capital to bring products to market. Among the companies leading the pack is Nanocomp Technologies Inc. in Concord.

The company fabricates long, carbon nano tubes into strong, lightweight, electro-thermally conductive yarns that are used by the military and others to make protective vests.

More than \$5 million in equity funding from a variety of sources is fuel-

ing Nanocomp Technologies' success, including CEI Community Ventures, other capital venture funds, and angel and individual investors. The government has financed Nanocomp through Small Business Innovation and Research (SBIR) grants and federal contracts.

And that investment is paying off. The U.S. Office of Science and Technology recently presented Nanocomp to President Barack Obama as one of the most compelling, strategic nanotechnology players in the country.

bank debt as their fuel. But just as there are different grades of gas to choose from, so are there many sources of funding. But every funding source has its trade-off, whether economically, emotionally or in terms of autonomy. So what else is available?

Tapping into Friends and Family

Most business owners start with personal resources (savings, credit cards) before turning to

lars. While there is not a high economic cost, there can be a big emotional price tag that comes with it. Consider how uncomfortable holiday meals will be if the venture is not going well.

Government Grants and Loans

So where should you make the next pit stop for low cost capital? Federal and state grants and specialized loans can be good source of fuel. The

Packaging a Successful Loan Application

BY DONNA UPSON

Your business plan should include:

An Overview of the Business

- ☐ Description of products/services
- ☐ Number of years in business
- ☐ Number of employees
- ☐ Obstacles/challenges that have been overcome
- ☐ Your view of the future of the business

Financial Statements

- ☐ Last three years business tax returns/financial statements
- ☐ Last three years personal tax returns
- ☐ Personal financial statement
- ☐ Interim financial statements (profit and loss and balance sheet) through the most recent month
- ☐ Projections of where you see the business growing between now and the end of the year.

When approaching a bank for a commercial loan, there's no need to write a 50-page business plan with numerous financial scenarios. All you need to provide is an overview of the business and certain business and personal financial information.

Your business plan should address up-front both the positive and negative aspects of your company. For example, if your personal credit score has faltered, you should discuss the reasons for the decline prior to applying for the loan and then highlight them in the package you give to the bank.

Your personal credit score is viewed as a direct reflection of your business' creditworthiness. You should try to deflect any concerns up front. Similarly, you should highlight your business's achievements and promising developments.

Business owners and executives can meet with a Small Business Development Center counselor for help with preparing a business plan. Also meet with your accountant to make sure that all of your financial information is in order.

Once the business plan is assembled, schedule a meeting with a commercial loan officer to present the proposal, and be open to feedback. Your loan officer can be a great resource in helping you build a solid financing plan.

Donna Upson is managing member of Loan Packaging LLC and vice president of commercial lending at Hampshire First Bank in Manchester.

Whittemore School Helps Entrepreneurs Create Masterpieces

BY DANIEL INNIS

The world's great artists had someone to inspire their creativity. The same can be said of innovative entrepreneurs. The Whittemore School of Business and Economics at the University of NH provides students and entrepreneurs with the resources to bring their own masterpieces to life.

The Whittemore School offers courses on entrepreneurial management, private equity and venture capital, new product development, and market and opportunity analysis. Students interested in starting a high-growth venture can take the Entrepreneurial Venture Creation option. Students who have a plan for bringing an innovative product or service to market can participate in the Holloway Prize Innovation-to-Market Competition, which helps students gain experience in commercializing new products and services, provides access to faculty advisors and industry experts, and gives students the chance to win up to \$10,000 in seed money.

The Whittemore School offers a variety of other resources to assist NH entrepreneurs. These include:

- Student consulting projects that focus on real business problems;
- Faculty expertise in financing, growth modeling, and marketing;
- Business and technology expertise;
- Internationally renowned professional centers.

This year, the Whittemore School partnered with the State of NH to create the **Green Launching Pad**, which connects entrepreneurs and private industry with UNH faculty and students in technical, scientific and business disciplines. This new initiative will help accelerate the develop-

ment and deployment of new green technologies to the marketplace, and will support the creation of well-paying jobs in NH. In addition, the recently launched **NH Innovation Commercialization Center**—a partnership between UNH and a team of seasoned technology entrepreneurs—is dedicated to accelerating the development of early-stage high technology startups in the region. This incubator provides clients with business resources, seed capital and hands-on involvement. The business school is also home to research centers that focus on entrepreneurship:

- **The Center for Venture Research (CVR)** is recognized for its groundbreaking research on the characteristics of the angel investment market;
- **The Rosenberg International Center of Franchising** is dedicated to advancing the field of franchising through research and innovative teaching;
- **The Enterprise Integration Research Center** focuses its research activities on emerging technologies management, innovative IT applications and global enterprise management;
- **The NH Small Business Development Center**, the Whittemore School's key professional outreach center, provides individualized management consulting and educational programs to more than 3,000 NH entrepreneurs annually.

To learn more, please visit wsbe.unh.edu.

Daniel Innis is dean of the Whittemore School of Business and Economics at the University of NH.





Strategic Partnerships Paint Picture of Success

BY LAUREL BISTANY

Strategic partnerships are critical to seal financing deals. That includes reaching out to one of the many economic development corporations located around the state, which can provide financing, pre-loan packaging and planning.

Economic development corporations (EDCs) can review your business plan as well as financial projections. While entrepreneurs may be experts at manufacturing products or delivering services, they often lack the training to create financial statements, understand debt service coverage ratios, and other key factors that funders consider. That's where these strategic partners can help.

Consult an Advisor

An advisor from the Small Business Development Center (SBDC) can help businesses plan to launch or expand, develop a clear idea of how much money they will need, and how those funds will be used.

Determine Good Funding Sources

If the owners do not have equity in their company, they should look for an equity partner, such

as family or friends. In some cases, the business may be a good fit for a traditional bank lender to serve as the lead funder while an EDC provides additional capital to make the deal viable.

Where a business is unable to secure financing from a bank, an EDC may consider providing in-house financing.

An EDC can also help a company identify a specific lead lender. The type of business being financed affects which lenders will approve different applications.

For example, some banks are reluctant to finance restaurants or day cares.

Identifying Gaps

An EDC can help identify gaps in the financing needs of a business. For example, a business that is approved for 85 percent financing would still need to come up with 15 percent to invest in the project.

On a \$1 million project that is \$150,000. Perhaps the owner has enough cash available to fill the gap, or they may only have \$75,000 available.

That's where an EDC can step in as an alternative lender, to provide a subordinate loan for the \$75,000 shortfall.

Sleep Institute: From Dream to Reality with Key Partners

Dream of successfully packaging a finance deal where multiple funding sources easily come together to open your new venture? Dr. Elizabeth Lynch made it happen. When she wanted to open her own sleep clinic on the seacoast, she met with Warren Daniel, her advisor at the NH Small Business Development Center.

Dr. Lynch already had a business plan and solid projections for her construction budget and expected sales. Daniel referred her to Regional Economic Development Center of Southern NH (REDC).

REDC determined that, as a startup business, Dr. Lynch could only expect bank financing for 80 percent of her project. REDC was the first agency to commit to funding the Sleep Institute of New England. Optima Bank provided the majority of the financing, with the rest secured through a SBA 504 loan, the REDC and the owner's equity.

Close the Deal

Once the pieces are in place, the only thing left to do is to close the loans and start or expand your business.

Laurel Bistany is executive director of Regional Economic Development Center of Southern NH. For more information, visit www.redc.com.

Economic Development Corporations in NH

Belknap County Economic Development Council
www.bcedc.org

Business Enterprise Development Corporation
www.bedco.org

Capital Regional Development Council
www.crdc-nh.com

Coastal Economic Development Corporation
www.coastaledc.org

Coos Economic Development Corporation
cedc@ncia.net (no Web address)

Grafton County Economic Development Council
www.graftoncountyledc.org

Monadnock Economic Development Corporation
www.monadnock-development.org

Mount Washington Valley Economic Council
www.mwvec.com

Regional Economic Development Center of Southern NH
www.redc.com

Southeast Economic Development Corporation
www.sedcnh.org

Wentworth Economic Development Corporation Inc.
www.wedco-nh.org

504 Loans: Art, Science, and Common Sense

BY MARILYN BOGUE



Capital Area Veterinary Emergency Services (CAVES) was able to secure financing with a 504 loan.

So you have the business plan, but now you need to fund the bricks and mortar. How do you do it? Just ask Design Standards Corporation in Charlestown or Capital Area Veterinary Emergency Services (CAVES) in Concord. When they needed to renovate or build facilities to expand in order to create jobs and meet the needs of their customers, they turned to the 504 Loan Program.

The weakened real estate market has created prime opportunities for small business owners to purchase or renovate commercial properties, as well as purchase equipment to expand their businesses. Before doing so, though, they should consider the Small Business Administration's Certified Development Compa-

ny/504 Loan Program. The 504-loan program provides a small business with access to the same type of long-term, fixed-rate financing enjoyed by larger firms, but with a low reasonable rate equivalent to the bond market, such as a 3.8 percent real estate loan with a term of 20 years. Fixed rates for 10-year notes for machinery and equipment have recently been around 2.5 percent. Add ongoing fees and closing costs and the effective rates can still be as low as 5.2 and 4.7 percent.

Q: Is there a minimum size for 504 projects?

A: No

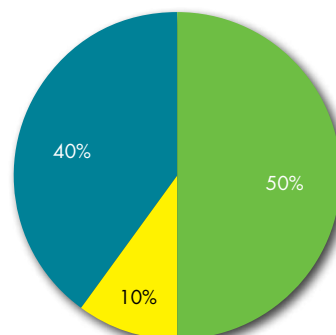
Design Standards Corporation Expands

When Design Standards Corporation needed a larger facility to house its growing medical manufacturing business, the company turned to a financing tool it had successfully used before—a 504 loan. The SBA provided a second mortgage to complete the financing. Design Standards Corporation purchased an adjacent property and undertook a major renovation to retrofit the building with clean rooms to meet medical manufacturing specifications. The expansion has allowed the company to add 15 new positions to its workforce of 100.

CAVES Explores the 504 Option

The proceeds from 504 loans must be used for fixed assets, such as purchasing land, infrastructure improvements, construction of new facilities, converting or renovating existing facilities, or purchasing long-term machinery and equipment with a useful life of at least 10 years. Soft costs like architectural and legal fees, environmental studies, apprais-

Typical 504 Project Financing



- Private sector lender or bank
- Fixed-rate loan secured with a junior lien from SBA Certified Development Company (CDC) and backed with a 100 percent SBA-guaranteed debenture.
- Equity from the small businesses being helped

Terms: Usually 20 years for real estate projects and 10 years for machinery and equipment.

als, and interest and fees on the construction and/or interim bank loan can also be rolled into the note. Existing mortgages can be refinanced up to 50 percent of the project cost.

For example, when nine Concord area veterinarians combined forces to create a 24-hour emergency facility called Capital Area Veterinary Emergency Services (CAVES), it used a 504 loan through Merrimack County Savings Bank and the Capital Regional Development Council to construct a new, green 13,600-square-foot building on Fort Eddy Road in Concord. CAVES now employs nine emergency veterinarians and a staff of about 20 technicians. The project hit all the requirements of a 504 loan—job creation, economic development,

meeting a need, and increasing the tax base.

A CDC can provide a comparison sheet that lays out the costs and benefits of a 504 loan versus conventional financing so businesses can make an informed choice.

Marilyn Bogue is lead lender relations specialist with the U.S. Small Business Administration NH District Office. For more information call 603-225-1400.

Certified Development Companies in NH

Capital Regional Development Council, Concord

603-228-1842
www.crdc-nh.com

Granite State Development Corporation, Portsmouth

603-436-0009
www.granitestatedev.com

Northern Community Investment Corp., St. Johnsbury, VT.

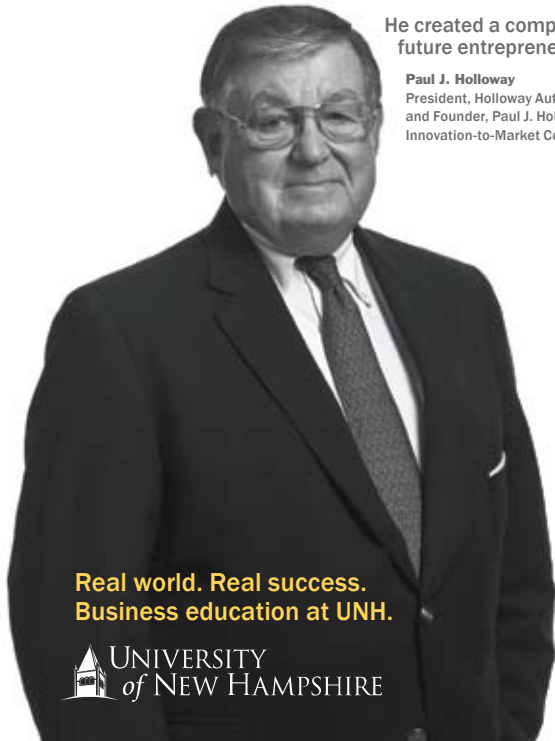
802-748-5101
www.ncic.org

Potential savings from 504 loan:

\$1 million project = approximately \$100,000 savings

Whittemore School of Business and Economics

wsbe.unh.edu



He created a competition for future entrepreneurs.

Paul J. Holloway
President, Holloway Automotive Group,
and Founder, Paul J. Holloway Prize
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Joseph Faro '91
Principal, Joseph's Gourmet
Pasta and Sauces



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