

Silver Fox Advisors  
Lunch & Learn Program  
Thursday, January 22, 2009  
Financial Resources



[www.silverfox.org](http://www.silverfox.org)

# Financial Resources

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# Strategy for Business Owners for Dealing with Your Banking

- Why do I need a relationship with a Banker?
- Prerequisite – Business owner must have right attitude.



# Strategy for Business Owners for Dealing with Your Banking (continued)

- How do I develop a “Banking” relationship?
- Basic to all Businesses
  - Profit & Loss Statement
  - Balance Sheet



# Strategy for Business Owners for Dealing with Your Banking (continued)

- Commitment to learn about your business from a financial focus
- Action Items:
  - Monthly statements
  - Reconcile bank account
  - Review results with understanding



# Strategy for Business Owners for Dealing with Your Banking (continued)

- Develop a Financial Business Profile
- History of Sales and Income
- One-Year Projection of Sales and Income
- Cash Flow Forecast



# How to Deal With Your Banker in this Present Financial Environment

- Regulatory capital requirements
- Capital required even on unfunded commitments
- Lenders do not like surprises
- Transactional Lending OUT – Relationship Banking IN
- Planning, Planning, Planning



# How to Deal With Your Banker in this Present Financial Environment (continued)

- Bankers are not venture capitalists – want equity in deal...
- Provide a complete financing request package
- Make all loan payments on time – If you can't, contact your lender...upfront
- Submit current financial data annually
- Maintain ALL insurance coverage's





# How to Deal With Your Banker in this Present Financial Environment (continued)

- Don't overdraw your checking account – Red Flag
- Pay taxes
- Maintain regular contact with your lender – two way process



# Alternative Financing Options

## Given a Tightening in the Credit Market Place

Equity – Selling a share of ownership is either a business owners dream or nightmare.

### ■ Pros

- No debt service to worry about
- Someone to help carry the yolk
- Additional avenue for future working capital needs
- New ideas and business strategies

### ■ Cons

- Sharing or giving up control
- Selling wine before its time
- Partnership is like a marriage
- Extensive financial reporting
- Long wait time for due diligence or time to find suitable investors



# Alternative Financing Options

## Given a Tightening in the Credit Market Place

Subordinated Debt – Debt or subordinated debt gives the business owner a way to raise capital without giving up as much or any ownership.

### ■ Pros

- Adds junior capital to the balance sheet
- Time frame is spelled out in the note
- Offers acceptable return to investors
- Typically structured as interest only

### ■ Cons

- Ownership might be lost if certain parameters are not met
- Dollar amount is fixed unlike a revolving credit facility
- Raising funds beyond family and friends becomes a difficult task



# Alternative Financing Options

## Given a Tightening in the Credit Market Place

**Equipment Leasing** – Leases come in many forms. The primary distinction between types of leases is operating versus capital lease. The type of lease will determine whether the lessee or lessor takes the depreciation for tax purposes.

### ■ Pros

- Provides a longer amortization
- Not treated as debt on the balance sheet
- Matching of sources and uses
- Option of purchase or turning in the equipment

### ■ Cons

- Company may not be equipment dependent
- Duration of lease
- Financial requirements
- Equipment becomes obsolete or loses value
- Project gets cancelled



# Alternative Financing Options

## Given a Tightening in the Credit Market Place

**Asset Based Lending** – Asset based lenders rely on the value of the underlying collateral to minimize the loan's credit risk. Businesses can borrow on the value of current assets such as Accounts Receivables and Inventory or fixed assets such as property, plant and equipment.

### ■ Pros

- Matching of sources and uses
- Self liquidating facility
- Allows borrowing against inventory

### ■ Cons

- Financial requirements
- Financial reporting / daily or weekly
- Fees – unused commitment, facility, audit



# Alternative Financing Options

## Given a Tightening in the Credit Market Place

Accounts Receivable Funding/Factoring – Factoring allows companies to leverage their accounts receivables to provide instant and predictable cash flows.

### ■ Pros

- Quick turnaround
- Self liquidating facility
- Access to monies with marginal or no historical credit history
- Credit facility increases when sales expand

### ■ Cons

- Paperwork flow
- Added dimension to the accounting process
- More costly form of financing

