

# Appendix C - Small Businesses:

## Summary of Finance Options

Maximum Control-----Minimum Control

	<b>Internal Financing</b>	<b>Commercial Bank/SBA Loan</b>	<b>Strategic Alliance</b>	<b>Private Equity Placement - Non-VC</b>	<b>Joint Venture/ Partnership</b>	<b>Venture Capital</b>
<b>Structural Pros</b>	Maximum simplicity  No equity dilution	No loss in control to lender as long as payments are timely made	Leverages complementary resources without change in structure	Strengthens balance sheet  Gives start-up adequate time to succeed	Receive equity infusion from partner  Retain some control or veto power	Often the only source for serious equity capital  Helpful in setting the stage for an IPO
<b>Structural Cons</b>	Increased risk of failure when under-capitalized	Requires established credit  SBA paperwork can be excruciating	May develop marketing dependence without control	Very difficult to sell to investors  Increased time and costs dealing with outsiders  Dilution	Requires extensive negotiations over control and ownership  Must concede some control	VC will require control or veto power  Very expensive capital, may require an IPO exit strategy

<b>Tax Pros</b>	Free choice of tax entity	Free choice of tax entity	Free choice of tax entity	Pass-through tax treatment still possible with LLC or S corp. with single class of stock	"Check the box" reg. ensures partnership tax treatment for LLCs, LLPs	50% capital gain exclusion if a C corp. is used (§1202)  C corp can also accommodate tax exempt investors
<b>Tax Cons</b>	None	None	None	May create second class of stock - no S corp. option	Thorny tax issues where services are contributed in lieu of capital	C corp structure may be required - double tax issues

© 1999 Scott C. Withrow. All rights reserved.

***NOTE: This site includes a summary of certain legal issues facing small businesses today. This site does not, and is not intended to, give legal advice. Reference should be made to full text of the statutes and regulations for complete analysis. Consultation with competent counsel is strongly recommended.***