Appendix C - Small Businesses:

Summary of Finance Options

Maximum Control---Minimum Control

	Internal Financing	**Commercial Bank/SBA Loan**	**Strategic Alliance**	**Private Equity Placement - Non-VC**	**Joint Venture/ Partnership**	**Venture Capital**
Structural Pros	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
Structural Cons	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

Tax **Pros**	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
Tax **Cons**	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

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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.