

Financing Options

Factor	Debt Financing	Equity Financing
1. What is it?	A loan to your company for which you will have to repay principal and interest over a specific period of time. Congratulations you have a creditor.	An investment that provides an ownership interest in your company that does not need to be repaid. Congratulations you have a partner.
2. Who is it for?	Credit worthy companies that expect to be able to repay the loan from the business' cash flow during the term of the loan.	Companies that anticipate growth and therefore are able and willing to share upside of ownership and possible future distributions.
3. Potential sources of funds	Friends, family, business associates, institutional lenders (banks, credit unions).	Friends, family, business partners, high net worth individuals, institutional investors (venture capitalists).
4. Agreements Involved	Promissory note, loan agreement, security agreement, personal guarantee	Stock purchase agreement, warrant, amended and restated articles and bylaws, registration rights agreement, co-sale agreement, stock certificates, federal and state securities law filings.
5. Return Expected	Principal and interest over a period of time on a specified schedule	Appreciation in value of stock and future distributions of cash or property (i.e., more stock).
6. Obligations of the Company	Periodic financial reports & other obligations as required by the lender in the loan agreement.	Publication of annual report to shareholders and access to books and records of the company.
7. Effect on Ownership	Owners of the company retain full ownership with no dilution.	Owners of the company retain ownership interest in the company, but suffer dilution -- and possible reduction or loss of control -- as result of new investors purchasing an ownership stake in the business.
8. Role of Lender / Investor in the Company	No involvement in day-to-day management of the business	New owners may request a management role in the company by sitting on the board of directors or management committee of the partnership or LLC.