



Financing options

	Debt	Sub debt	Royalty participating debt	Equity
Terms	Pay set principal and interest	Pay set principal and interest	No set cost Percentage of future revenue	No set cost Percentage of ownership
Typical cost	Interest paid on debt at prime plus 0-3%	Interest paid on debt at prime plus 4-10%	¼% to 3% of sales	5% to 40% of company
Requirements	Collateral and cash flow to cover repayment Profitable for past three years	Established business Healthy cash flows	Good growth prospects Strong management GPM 25% or better	High growth prospect Compelling market GPM 45% or better
Advantages	Lowest cost capital Lowest growth threshold Maintain ownership	More patient Goes beyond collateral Maintain ownership	Cost adapts to performance No ownership dilution Growth and business continuation	No fixed payments No credit claim Maximizes growth
Tradeoffs	Fixed cost obligation Low asset leverage Credit claim on assets	Fixed cost obligation Pricier than debt Credit claim on assets	Must pay as grow	Dilution of ownership Highest growth threshold and capital cost
Investor role	Arms-length transaction Focus on repayment	Close monitoring Focus on repayment and growth	Value-added partner Focus on growth and continuation of business	Central player Focus on high growth and exit/sale
Sources	Traditional lenders and Regional Development Groups (RDCs)	Mezzanine financiers RDCs Private investors	Royalty financiers Some mezzanine Some angel	Angels Venture capital