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Business Credit & Funding Glossary of Terms

Accounts Payable

represents your small business's obligations to pay debts owed to lenders, suppliers, and creditors. Sometimes referred to as A/P or AP for short, accounts payable can be short or long term depending upon the type of credit provided to the business by the lender.

Accounts Receivable

Also known as A/R or AR, accounts receivables is a term that means the money owed to your small business by clients for goods sold or services performed. These accounts are labeled as assets because they represent a legal obligation from the client to pay you cash.

Accrual Basis Accounting

recognizes revenues when earned and expenses are matched with the related revenues and/or are reported when the expense occurs, not when the cash is paid deducts expenses when incurred.

Accumulated Earnings

The accumulation of taxable earnings within a corporation. A corporation which has excess accumulated earnings can be assessed a separate tax by the IRS unless there is a justification for the buildup, such as to cover the company's repurchase liability. The purpose of this tax is to penalize those corporations which the IRS believes are limiting their dividend declaration in order to reduce the stockholders' declared income.



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Acquisition

Obtaining control of another corporation by purchasing all or a majority of its outstanding shares, or by purchasing its assets.

Adjusted Net Worth

Fair market value of tangible assets, less liabilities, within certain restrictions.

Administrative Dissolution

An involuntary dissolution of a corporation by an act of the Secretary of State or similar state authority, caused by the corporation's failure to comply with certain statutory requirements; especially the failure to file an annual report, to pay franchise taxes or maintain a valid Registered Agent.

Advisory Board of Directors

An advisory board of directors are individuals appointed to advise an elected board of directors. This board is not bound by the duties imposed upon elected board members, and the corporation is not required to follow their recommendations.

Affiliate

Business concerns are affiliates if one concern controls or has the power to control another, or if a third party controls or has the power to control both. Generally, an affiliate may be any concern of which the applicant, or its principals, owns greater than 50 percent or more.

Affiliated Group

When two or more distinct legal entities are affiliated.



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Agent for Service of Process (aka "resident agent" or "registered agent")

An agent, required to be appointed by a corporation, whose authority is limited to the receiving process issued against the corporation. Also known as a Registered Agent or a Resident Agent

Agent

Anyone who is authorized to act on the behalf of another. A corporation acts only through its agents; therefore, it is important to define what actions an agent is authorized to perform.

Alter Ego

A doctrine of law which disregards the principle of limited liability enjoyed by a corporate entity when it is proven that, in fact, no separate identity of the individual and corporation exists.

Amended Certificate of Authority

A document issued by a state to a foreign corporation evidencing that the corporation has amended its original certificate of authority.

Amendment

An addition to, deletion from, or a change of existing provisions of the articles of incorporation of a domestic corporation or articles of organization for a limited-liability company. An amendment is necessary to formally change the name of an entity or to change the capital stock structure.



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Amortization

A non-cash operating expense that reduces the value of intangible assets (such as patents, trademarks or goodwill) in a systematic manner. Amortization is recorded in the financial statements of an entity as a reduction in the carrying value of the intangible asset in the balance sheet and as an expense in the income statement.

Annual Meeting

A yearly meeting of shareholders at which directors are elected and other general business of the corporation is conducted.

Annual Report

A required annual filing in a state, usually listing directors, officers and financial information. Also, an annual statement of business and affairs furnished by a corporation to its shareholders.

Apostille

An apostille is an official government authentication of a document, usually by the State Department, Justice Ministry or Foreign Ministry, which legalizes it for use in another country.

Applicant Entity

The LLC, Partnership, Trust or Corporation requesting a loan.

Applicant Individual

Individual requesting the loan.

Applicant/Co-Applicant

The individual(s) or legal entity requesting the loan.

Application for Certificate of Authority

The form is filed in many states to qualify a corporation to transact business as a foreign corporation.

Arm's Length Relationship

An arm's length relationship is a term used to describe a type of business relationship a corporation should have with a close associate to avoid a conflict of interest. For example, when you negotiate with your banker or your supplier, any agreement which results will likely reflect market value and commercially reasonable terms and conditions. When you loan money to your son or daughter, you may be inclined to provide much more favorable terms and conditions. The first example would be considered to be an arm's length relationship, while the second example would not. When your corporation does business with or makes loans to corporate officers and directors, the relationship must be at arm's length to avoid conflicts of interest.

Articles of Incorporation

This is legal documentation of the business's creation, including name, type of business, and type of business structure or incorporation. This paperwork is one of the first tasks you will complete when you officially start your business. Once submitted, your articles of incorporation are kept on file with the appropriate governmental agencies.

Articles of Organization



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The title of the document filed in many states to register a limited liability company (LLC) with the state. Also known as articles of formation.

Assets

Any item of economic value owned by an individual or corporation, especially that which could be converted to cash. *Examples are cash, securities, accounts receivable, inventory, office equipment, a house, a car, and other property.*

Assumed Name ("DBA")

A name other than the true name, under which a corporation or other business organization conducts business. Also referred to as a fictitious name, a trade name or "doing business as" ("DBA").

Attorney's Opinion

A lawyer's written statement that a certain matter or particular action complies with applicable legal requirements and/or is duly authorized or binding.

Authorized Shares

The maximum number of shares that a corporation may issue pursuant to its articles of incorporation.

Available Asset Test

Part of the CET that determines if an applicant(s) has sufficient assets to borrow private sector funds to repair/replace uncompensated disaster damages without incurring undue hardship. (Certain exclusions apply.)



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B/E (Business EIDL) Loan

A business loan that incorporates physical losses and economic injury for the same legal entity or individual.

Balance Sheet or Statement of Financial Position

Reports an entity's Assets, Liabilities and Equity (net worth) at a specific time. **Assets = Liabilities + Equity.**

Basis

Basis, a tax and accounting term, is the measuring rod against which gain or loss is measured. With stock, basis is what you pay for stock or the fair market value of property you contribute in exchange for the stock.

Bearer Instrument

An instrument is payable to its bearer when by its terms it is payable to 1) a bearer or the order of a bearer; 2) a specified person or bearer; or 3) "cash" or the order "cash," or any other indication that does not purport to designate a specific payee. Bearer shares are a common example of a bearer instrument.

Bearer Shares

Shares of capital stock that are issued payable to "bearer". This type of stock is specifically allowed in the State of Wyoming and is also allowed under Nevada statutes for privately held corporations. Public corporations are prohibited from issuing bearer stock.

Blue Sky Laws

A term used to describe state laws and regulations governing the issuance and sale of securities to residents of a state and the licensing and



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regulation of securities brokers and dealers as well as anti-fraud provisions. These laws protect the public from deceptive securities transactions and vary from state to state.

Board of Directors

The governing body of a corporation who is elected by shareholders. The directors are responsible for selecting the officers and the supervision and general control of the corporation.

Bond

A long-term debt secured by a mortgage on real property or a lien on other fixed assets. A certificate evidencing indebtedness. It is a legal contract sold by an issuer promising to pay the holder its face value plus amounts of interest at future dates.

Bootstrapping

Using your own money to finance the start-up and growth of your small business. Think of it as being your own investor. Once the business is up and running successfully, the business finance term and definition bootstrapping refers to the use of profits earned to reinvest in the business.

Break-even Analysis

A calculation of the approximate sales volume required to just cover costs, below which production would be unprofitable and above which it would be profitable. Break-even analysis focuses on the relationship between fixed cost, variable cost and profit.

Business Activity

The business (or loss) activity of the applicant business prior to any consideration of affiliation.

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Business Corporation Act

A business corporation act is the collection of laws in each state that governs corporations.

Business Credit Report

Just like you have a personal credit report that lenders look at to determine risk factors for making personal loans, businesses also generate credit reports. These are maintained by credit bureaus that record information about a business's financial history.

Items like how large the company is, how long it has been in business, amount and type of credit issued to the business, how credit has been managed, and any legal filings (i.e., bankruptcy) are all questions addressed by the business credit report. Lenders, investors, and insurance companies use these reports to evaluate risk exposure and financial health of a business.

Business Credit Score

A [business credit score](#) is calculated based on the information found in the business credit report. Using a specialized algorithm, business credit scoring companies take into account all the information found on your credit report and give your small business a credit score. Also called a commercial credit score, this number is used by various lenders and suppliers to evaluate your creditworthiness. [Improve your business credit score.](#)

Business Judgment Rule

A judicial doctrine which shields corporate officers and directors from personal liability for actions taken in good faith and with reasonable care.



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Business Plan

Here is your tool for demonstrating how you want to establish your small business and how you plan to grow it into good financial health. When writing a business plan, it should include financial, operational, and marketing goals as well as how you plan to get there. The more specific you are with your business plan, the better prepared you will be in the long run.

Buy-Sell Agreement

An agreement between shareholders of a privately held corporation and the corporation itself, made to govern the operations of the corporation and to define how shares of stock will be transferred. In small corporations, such an agreement can be used to set estate tax value of stock, define what happens if a shareholder is disabled, restrict the transfer of stock to outsiders and other conditions. It can also protect the corporation against a disqualifying act and provide other mechanisms for maintaining and ending S corporation status.

Bylaws

The regulations of a corporation that, subject to statutory law and the articles of incorporation, provide the basic rules for the conduct of the corporation's business and affairs.

C Corporation

The most common corporate structure, also known as a general corporation. A C corporation may have an unlimited number of stockholders. Consequently, it is usually chosen by those companies planning to have more than 30 stockholders or large public stock offerings. A C corporation pays tax on its own income under the general rules of Subchapter C of the Internal

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Revenue Code.

Calendar Year

An accounting period that ends each December 31, which is the period most S corporations must adopt as a permitted year.

Capital Gains Tax

The tax imposed on the capital gains of a taxpayer. The tax treatment of capital gains and losses depends on whether the gains and losses are long-term or short-term, and on whether the taxpayer is a corporation or not. The long-term and short-term capital gains of corporations are taxable at the same rates as their ordinary income. For non-corporations, the maximum tax rate on net long-term capital gains is lower than the top rate on ordinary income.

Capital Leases

are for the purchase of fixed assets (machinery/equipment) and these assets are shown on the company's balance sheet and represent a fixed debt. If the lease is a capital lease, the debt should be shown as a Note Payable.

Capital Stock

The outstanding shares of a joint-stock company are considered as an aggregate.

Capital

Refers to the overall wealth of a business as demonstrated by its cash accounts, assets, and investments. Often called "fixed capital," it refers to the long-term worth of the business. Capital can be tangible, like durable goods, buildings, and equipment, or intangible such as intellectual property.

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Carry Forward

To offset for tax purposes one period's loss against a subsequent period's net income. Losses which are unused may generally carry over to another year. Such tax benefits may enhance the value of a target to a buyer burdened with high taxes.

Carryback

For federal income tax purposes, the portion of a net operating loss deductible from net income of the prior three years. This amount is absorbed and the remainder carried forward to offset future years net income.

Cash Available to Service Additional Debt (CASAD)

The cash flow determined that it should be available to service a disaster loan. The target payment is generally 1/3 of CASAD.

Cash Flow Projections

Future business decisions will depend on your educated cash flow projections. To plan ahead for upcoming expenditures and working capital, you need to depend on previous cash flow patterns. These patterns will give you a comprehensive look at how and when you receive and spend your cash. This info is the key to unlock informed, accurate cash flow projections.

Cash Flow Test

Part of the CET that determines if an applicant(s) has sufficient cash flow to borrow private sector funds to repair/replace uncompensated disaster damages without incurring undue hardship.



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Cash Flow

Every business needs cash to operate. The business finance term and definition cash flow refers to the amount of operating cash that “flows” through the business and affects the business’s liquidity. Cash flow reports reflect activity for a specified period of time, usually one accounting period or one month. Maintaining tight control of cash flow is especially important if your small business is new, since ready cash can be limited until the business begins to grow and produce more working capital.

Cash-basis Accounting

records revenue when cash is received, and expenses when they are paid in cash

Certificate of Authority

Formal evidence of qualification issued by a state to a foreign corporation.

[Certificate of Existence](#)

See "Certificate of Good Standing".

[Certificate of Good Standing](#)

A certificate issued by a state official as conclusive evidence that a corporation is in existence or authorized to transact business in the state. The certificate generally sets forth the corporation's name; that it is duly incorporated or authorized to transact business; that all fees, taxes and penalties owed the state have been paid; that its most recent annual report



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has been filed; and, that articles of dissolution have not been filed. Also known as a certificate of existence or certificate of authorization.

Certificate of Incorporation

The title of the document filed in many states to create a corporation. Also known as the articles of incorporation or corporate charter.

Close Corporation

A corporation that elects in its articles of incorporation to be registered under the close corporation statutes of their state of incorporation and whose stock is not publicly traded and held by only a few persons (such as those in management). The organizational structure of this type of corporation must comply with strict statutory requirements and limitations. Some state close corporation statutes provide for a maximum number of shareholders. In addition, close corporation statutes may eliminate or limit the powers of the board of directors, prescribe preemptive rights to the shareholders or relax the corporate formalities. Exact specifications vary by jurisdiction. Not all state statutes provide for a close corporation provision.

Closely Held Corporation

A closely held corporation is any corporation in which the stock is held by a relatively small group of people, entities, investors, management, founders and/or their families. Stock of a closely held corporation is not publicly traded on any stock exchange.

Coastal Barrier Resource Area (COBRA)

A flood prone area in which the government prohibits financial disaster assistance.

Collateral

Assets pledged by a borrower to secure a loan or other credit, and subject to seizure in the event of default. The preferred collateral for an SBA disaster loan is real estate

Commingle

Commingling is the sharing and pooling of personal and corporate assets. For example, rather than maintain separate corporate and personal bank accounts, you choose to use one account for personal and corporate purposes. This is considered commingling and an easy way to become personally liable for corporate acts.

Common Shares

A class of shares that has no special features and possesses no greater rights than any other shares except for Preferred Shares. All capital stock except for preferred stock is considered Common Shares.

Companion File

When an applicant, affiliate, and/or principal has another application filed for the same disaster for separate damages.

Comparative Analysis

Is designed to point out significant trends that occur from year to year by using more than one set of financial statements of comparable dates and time periods. A comparative analysis allows you to arrive at a more complete evaluation of the applicant's financial position.

Compliant

As used throughout the Compliance WatchSM suite of services, this term refers to a level of completion of a legal entity's responsibilities to maintain the formalities of corporate existence under the laws of the jurisdiction in which it is formed. The term is not intended to mean or imply conformity with all of the federal and state regulatory or tax requirements which may exist for operating your business.

Consent Resolution

A consent resolution is any resolution signed by all of the directors or shareholders, which authorizes a particular action. This act eliminates the need for face-to-face meetings of directors and shareholders.

Consideration

Relating to forming an incorporation in the state of Illinois. (1) Something of value, such as money or personal services, given by one party to another in exchange for an act or promise. For example, the amount paid for stock in a corporation. (2) Something promised, given, or done that has the effect of making an agreement a legally enforceable contract.

Consolidation

The statutory combination of two or more corporations to create a new corporation.

Constituent

A party to a transaction; a corporation involved in a merger, consolidation or share exchange.

Contract Creditors

Contract creditors are people or businesses which you owe money or property to because of a written or verbal contractual agreement. If you buy 30 widgets from Widget World, Widget World becomes a contract creditor.

Contribution to Capital

A contribution of cash or other property that a shareholder makes to a corporation that increases the corporation's paid-in capital but for which the shareholder does not receive stock. The contribution increases that shareholder's basis in stock.

Controlled Group

A group of corporations which are grouped together for one tax purpose or another. Control may be through parent-subsidiary relationships or common control such as a brother-sister controlled group. Control means ownership of a certain percentage (generally, either at least 80%, or less frequently, at least 50% of the total combined voting power of all classes of voting stock or of the total value of shares.

Convertible Security

A security that may be exchanged by the holder for another type of security.

Corporate Charter

See "Articles of Incorporation".

Corporate Indicator

A word or an abbreviation of a word that must be included in a corporation's name to indicate that the named entity is a corporation. Valid



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corporate indicators include: incorporated, corporation, limited, company, inc., corp., ltd. and co. The list of acceptable corporate indicators will vary depending upon the jurisdiction in which the corporation is registered.

Corporate Kit

A Corporate Kit is a binder usually containing essential items for the routine maintenance and administration of a corporation or limited liability company. Corporate kits commonly include sample minutes and bylaws, stock certificates, a corporate seal and stock ledger.

Corporate Seal

A Corporate Seal is a device made to either emboss or imprint certain company information onto documents. This information usually includes the company's name and date and state of formation. Corporate seals are often required when opening corporate or LLC bank accounts, distributing stock or membership certificates or conducting other corporate business. Custom-made corporate seals are commonly included as part of a Corporate Kit.

Corporation (C-corp.)

The most common form of business organization, and one, which is chartered by a state and given many legal rights as an entity separate from its owners. Characterized by the limited liability of its owners, the issuance of shares of easily transferable stock, and existence as a going concern.

Corporation Law

The statutory provisions of a state relating to domestic and foreign corporations.



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Corporation

An entity formed and authorized by, created under and governed by the laws of the state of incorporation to act as a single person even though it is constituted by one or more persons and legally endowed with various rights and duties including the capacity of succession.

Credit Elsewhere Test (CET)

The test to determine the application's disaster loan interest rate. This test analyzes the applicant's available cash flow and net worth that may be used to overcome the disaster damage. The Business loan CET consists of two tests; 1) Cash Flow Test and 2) Available Assets Test. And, the Home loan CET consists of three tests; 1) Credit Score Test, 2) Cash Flow Test and 3) Available Assets Test.

Credit Score Test

Part of the home loan CET shows a credit score of 700 or higher may enable applicants to borrow money at reasonable rates and terms. As such, an application may qualify for the higher disaster loan interest rate if the primary wage earner's credit score is equal to or greater than 700.

Cumulative Voting

A procedure used for electing directors in which shareholders are entitled to multiply the number of votes they are entitled to cast by the number of directors for whom they are entitled to vote and cast the product for a single candidate or distribute the product among two or more candidates.



Current Assets

A balance sheet item which equals the sum of cash and cash equivalents, accounts receivable, inventory, marketable securities, prepaid expenses, and other assets that could be converted to cash in less than one year.

Current Liabilities

A balance sheet item, which equals the sum of all money owed by a company and due within one year.

Days Payable

A measure of the average time a company takes to pay vendors, equal to accounts payable divided by annual credit purchases times 365.

Days Receivable

A measure of the average time a company's customers take to pay for purchases, equal to accounts receivable divided by annual sales on credit times 365.

DBA or d/b/a

Doing Business As - generally a trade name such as "Bob's Burgers" is used, instead of the legal name of Blocker & Sons LLC.

Debenture

A long-term debt issued mainly to evidence an unsecured corporate debt.

Debt Consolidation

If your small business has several loans with various payments, you might want to consider a business debt consolidation loan. It is a process that lets you combine multiple loans into a single loan. The advantages are



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possibly reducing the interest rates on the borrowed funds as well as lowering the total amount you repay each month. Businesses use this tool to help improve cash flow. [See Debt Consolidation loans for business](#)

Debt Financing

A method of raising capital in which a corporation borrows money.

When you borrow money from a lender and agree to repay the principal with interest in regular payments for a specified period of time, you're using debt financing. Traditionally, it has been the most common form of funding for small businesses.

Debt financing can include borrowing from banks, business credit cards, lines of credit, personal loans, merchant cash advances, and invoice financing. This method creates a debt that must be repaid but lets you maintain sole control of your business.

Debt Service Coverage Ratio

The business finance term and definition debt service coverage ratio (DSCR) is the ratio of cash your small business has available for paying or servicing its debt. Debt payments include making principal and interest payments on the loan you are requesting. Generally speaking, if your DSCR is above 1, your business has enough income to meet its debt requirements.

Depreciation

A non-cash operating expense that reduces the value of a tangible asset as a result of wear and tear, age, or obsolescence. Depreciation is recorded in the financial statements of an entity as a reduction in the



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carrying value of the asset in the balance sheet and as an expense in the income statement.

Derivative Suit

A lawsuit brought by a shareholder on behalf of a corporation to protect the corporation from wrongs committed against it.

Directors

The individuals who, acting as a group known as the board of directors, manage the business and affairs of a corporation.

Disqualifying Act

An act by the corporation or shareholder that causes the corporation to cease to be an eligible corporation and that generally results in termination of S corporation status.

Dissenters Right

A right granted to shareholders that entitles them to have their shares appraised and purchased by the corporation if the corporation enters into certain transactions that the shareholders do not approve of.

Dissolution

The statutory procedure that terminates the existence of a domestic corporation.

Distribution

A transfer of money or other property made by a corporation to a shareholder in respect of the corporation's shares.

Dividend

A distribution of a corporation's earnings to its shareholders.

Double Taxation

Taxation by the federal government of corporate earnings once at the corporate level and again at the shareholder level upon distribution of dividends. When a corporation must pay taxes on its earnings and individual shareholders must also pay taxes on any dividends that are distributed.

Duplicated Interest

The amount of interest expensed that is added back to cash flow to prevent understating CASAD.

Duration

How long a business will be recognized as a corporate entity. A company with a perpetual duration will last forever unless the state dissolves the company. A 30-year duration means that the company will automatically dissolve on its 30th anniversary of existence.

Economic Injury Disaster Loan (EIDL)

a working capital loan that provides necessary operating funds to enable eligible businesses to overcome the financial impact of a declared disaster. This loan may not be used to purchase long-term assets.

Employer Identification Number (EIN) Certificate

In order to be more easily identified by the Internal Revenue Service, every business entity is assigned a unique number called an EIN. When you start your small business, an EIN will be assigned and mailed to the business



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address. This number never changes, and you will be asked to furnish it for many reasons.

Employment Agreement

An employment agreement is a contract between your corporation and an employee. These agreements can be written or verbal; although all employment agreements should be in writing. Employers are more likely to have employment agreements with key employees. The terms and conditions of an employment agreement should be consistent with statutes, articles, bylaws, and any existing shareholder agreements.

Equity Financing

A method of raising capital in which a corporation sells shares of stock.

The act of using investor funds in exchange for a piece or "share" of your business is another way to raise capital. These funds can come from friends, family, angel investors, or venture capitalists.

Before deciding to use equity financing to raise the cash necessary for your business, decide how much control you are willing to share when it comes to decision-making and philosophy. Some investors will also want voting rights.

Equity Interest

An ownership interest; the interest of a shareholder as distinguished from that of a creditor.

Extraordinary Items

Additional expenses that are outside "normal" operations and caused directly by the disaster.

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Fictitious Name

A name other than the true name, under which a corporation or other business organization conducts business. Also referred to as an assumed name, a trade name or "doing business as" ("DBA").

Fiduciary Relationship

A relationship in which one party (the fiduciary) must act in good faith and with due regard to the best interests of the other party or parties.

Fiscal Year

An accounting year that ends on a date other than December 31. C corporations may elect to use a fiscal year. S corporations may generally use a fiscal year if it is a natural business year.

Fixed Asset

A tangible, long-term asset used for the business and not expected to be sold or otherwise converted into cash during the current or upcoming fiscal year is called a fixed asset. Fixed assets are items like furniture, computer equipment, equipment, and real estate.

Foreign Corporation

A term applied to a corporation doing business in a state other than its state of incorporation.

Foreign Filing

See "Foreign Corporation".

Fractional Share

Ownership in a corporation in an amount less than a full share.

Franchise Agreement

For a small business entrepreneur, entering into a franchise agreement with a larger company can be a way to enter the marketplace. The agreement made between you and the larger company gives you the right to operate as a satellite of the larger company in a certain territory for a given period of time. This lets you, the business owner, take advantage of a brand name that's already familiar in the marketplace and a process or operation that has already been tested.

Franchise Tax

A tax or fee usually levied annually upon a corporation, limited liability company or similar business entity for the right to exist or do business in a particular state. Failure to pay the franchise tax or similar fees may result in the administration dissolution of the company and forfeiture of the charter.

Fraudulent Conveyance

A contractual misrepresentation of the nature, quantity, or existence of transferred assets. Also, a term denoting potential risk for sellers and lenders.

Fringe Benefits

Employee benefits and perquisites, other than qualified retirement plans.

Going Public

The process by which a corporation first sells its shares to the public.

Good Standing

A corporation is said to be in good standing when it has remained current with the necessary reports and fees required by the regulatory jurisdictions under which it operates.

Gross Profit or GPND or GPM%

Gross Profit (GP) Net Sales (NS). The measure of every sales dollar left after paying for the product; what percent of the sales dollar is left to cover operating costs and to create a profit.

Guarantor

The legal entity and/or person who guarantees an obligation and has a legal duty to fulfill it.

Hague Convention

Since October 5, 1961, abolished the requirement of legalization for foreign public documents, and established a basic certification, of public documents, outside their country of origination. Member countries have adopted a standard of the authenticity of public documents, called an apostille.

Hardship Waiver

Method used to approve a lower interest rate, when one of the CET test conclusions results in a high rate determination.

Hostile Takeover

A takeover that occurs without the approval of the target corporation's board of directors.

Income Statement

Shows the entity's income and expenses. (similar to a Profit & Loss Statement)

Incorporation

The act of creating or organizing a corporation under the laws of a specific jurisdiction.

Incorporator

The person(s) who perform the act of incorporation and who sign the articles of incorporation and deliver them for filing.

Indemnification

Financial protection provided by a corporation to its directors, officers, and employees against expenses and liabilities incurred by them in lawsuits alleging that they breached some duty in their service to or on behalf of the corporation.

Injury Analysis

Measures the effects of the disaster on the overall financial condition of the business.

Injury Period

The time period during which the business feels the adverse effects of the disaster.

Invoice Factoring or Financing



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If your business has a significant amount of open invoices outstanding, you may contact a factoring company and have them purchase the invoices at a discount. By raising capital this way, there is no debt, and the factoring company assumes the financial responsibility for collecting the invoice debts. [See alternative financing options](#)

Involuntary Dissolution

The termination of a corporation's legal existence pursuant to an administrative or judicial proceeding; dissolution forced upon a corporation rather than decided upon by the corporation.

Legal Opinion

See "Attorney's Opinion".

Legalization of Certified Documents

Needed for companies (overseas) that are not part of the Hague Convention. Companies in a country that is not part of the Hague will not benefit from an Apostille. (1) To make legal or lawful; authorize or sanction by law.

Liabilities

A financial obligation, debt, or claim, i.e. notes payable and accounts payable.

Lien

A legal claim against an asset which is used to secure a loan and which must be paid when the property is sold.



Limited Liability Company (LLC)

An artificial entity created under and governed by the laws of the jurisdiction in which it was formed. Limited liability companies are generally able to provide the limited personal liability of corporations and the pass-through taxation of partnerships or S corporations.

Limited Liability Entities (company/partnership)

An LLE (also commonly called LLC and LLP) provides business owners with the favorable liability protection of corporations with the informality and tax advantages available to partnerships. It is a pass-through entity, like a partnership where the taxable income or loss is reported on the tax returns of the owners. [See Entity Formation](#)

Limited Liability

Liability (as a stockholder or shipowner) limited by statute or treaty.

Limited Partnership

A business organization with one or more general partners, who manage the business and assume legal debts and obligations, and one or more limited partners, who do not participate in day-to-day operations and are liable only to the extent of their investments.

A statutory form of partnership consisting of one or more general partners who manage the business and are liable for its debts, and one or more limited partners who invest in the business and have limited personal liability.

Limited Personal Liability

The protection generally afforded a corporate shareholder, limited partner or a member of a limited liability company from the debts of and claims against the company.

Line of Credit

A lender may offer you an unsecured amount of funds available for your business to draw on when capital is needed. This line of credit is considered a short-term funding option, with a maximum amount available. This pre-approved pool of money is appealing because it gives you quick access to the cash. [See Business Funding](#)

Loan Authorization and Agreement (LA&A)

A contract between SBA and the borrower that spells out the terms and conditions of the loan.

Loan-to-Value

The LTV comparison is a ratio of the fair-market value of an asset compared to the amount of the loan that will fund it. This is another important number for lenders who need to know if the value of the asset will cover the loan repayment if your business defaults and fails to pay.

Majority

More than 50 percent; commonly used as the percentage of votes required to approve certain corporate actions.

Management

The board of directors and executive officers of a corporation, limited liability company or similar business entity.

Managers

The individuals who are responsible for the maintenance, administration and management of the affairs of a limited liability company (LLC). In most states, the managers serve a particular term and report to and serve at the discretion of the members. Specific duties of the managers may be detailed in the articles of organization or the operating agreement of the LLC. In some states, the members of an LLC may also serve as the managers.

Members

The owner(s) of a limited liability company (LLC). Unless the articles of organization or operating agreement provide otherwise, management of an LLC is vested in the members in proportion to their ownership interest in the company.

Membership Certificates

Evidence of ownership of and membership in a limited liability company.

Merchant Cash Advance (MCA)

A merchant may offer a funding method through a loan based on the business's monthly sales volume. Repayment is made with a percentage of the daily or weekly sales. These tend to be short-term loans and are one of the costliest ways to fund your small business.

Merger

The statutory combination of two or more corporations in which one of the corporations survives and the other corporations cease to exist.



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Minutes

The corporate minutes are the written record of transactions taken or authorized by the board of directors or shareholders. These are usually kept in the corporate minute book in diary fashion.

NAICS

North American Industrial Classification System.

Name Registration

The filing of a document in a foreign state to protect the corporate name, often in anticipation of qualification in the state.

Name Reservation

A procedure that allows a corporation to obtain exclusive use of a corporate name for a specified period of time.

Natural Business Year

A fiscal year is permitted for an S corporation because the corporation can show that 25 percent of gross receipts have been realized in the last two months of such a year for the last three years.

No Par Value Shares

Shares for which the articles of incorporation do not fix a par value and that may be issued for any consideration determined by the board of directors.

Normal Annual Sales

Those sales that would have been attained had the disaster not occurred. To determine this figure, you must first review historical sales figures and identify the trends.

Normal Gross Margin

The margin that would have been attained had the disaster not occurred. To determine this figure, you must first review historical sales figures and identify the trends.

Not-For-Profit Corporation

A not-for-profit corporation is generally organized for some socially beneficial purpose, rather than for the direct monetary benefit of the directors or members. Not all not-for-profit corporations are tax exempt and some make a profit. However, the profit is not distributed to the members or directors. Also known as a non-profit corporation.

Notice of Litigation

See "Notice of Service of Process".

Notice of Service of Process

Official notification of an action or proceeding by the delivery of a legal or court document, with a request to answer in a specific period of time.

Officers

Individuals appointed by the board of directors who are responsible for carrying out the board's policies and for making day-to-day decisions.

Operating Agreement

A contract among the members of a limited liability company governing the membership, management, operation and distribution of income of the company. Commonly abbreviated "Op-Ag".



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Operating Leases

are deducted on the company's operating expenses. If the lease is an operating lease, then the amount is already accounted for in total expenses and should not be shown as a scheduled debt.

Organizational Meetings

Meetings of incorporators or initial directors that are held after the filing of the articles of incorporation to complete the organization of the corporation.

Organizer

The person(s) who perform the act of forming a limited liability company.

P&L (Profit and Loss Statement)

also considered as Income Statement or Statement of Earnings. Measures Net Income or Loss over a defined period of time. In addition, having the simple formula of Revenues – Expenses = Net Income/Loss.

Par Value

A minimum price of a share below which the share cannot be issued, as designated in the articles of incorporation.

Parent Corporation

A corporation that owns a controlling interest in another corporation.

Partnership

A business organization in which two or more persons agree to do business together.



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A type of unincorporated business organization in which multiple individuals, called general partners, manage the business and are equally liable for its debts; other individuals called limited partners may invest but not be directly involved in management and are liable only to the extent of their investments.

Pass-Through Taxation

Rather than tax the income of the entity, taxation is “passed through” to the individual shareholders in S corporations (and LLCs). Income or losses are declared on their individual tax returns.

Passive Income

Income to certain taxpayers (including S corporation shareholders) that is subject to the passive activity loss (PAL) rules because the taxpayer does not materially participate in the business activity producing the income. Generally includes receipts from royalties, rents, dividends, interest, annuities, and the sale and exchange of stock and securities.

Perpetual Existence

Unlimited term of existence; characteristics of most business corporations.

Personal Guarantee

If you’re seeking financing for a very new business and don’t have a high value asset to offer as collateral, you may be asked by the lender to sign a statement of personal guarantee. In effect, this statement affirms that you as an individual will act as guarantor for the business’s debt, making you personally liable for the balance of the loan even in the event that your business fails. [See funding without a personal guarantee](#)



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Phase I

Process used to determine the amount of economic injury for a business in operation for at least a year prior to the disaster that had physical damage.

Phase II

Process to be used to determine economic injury for a business either in operation less than one year or not satisfied with the result of Phase I analysis or submitted a Stand Alone EIDL request.

Physical Loans

Funds to repair/replace disaster damaged or destroyed business assets such as real estate, inventory, machinery and equipment, etc.

Piercing the Corporate Veil

Piercing the corporate veil is a legal theory sometimes used to impose personal liability on shareholders, officers, and directors for corporate acts. This theory permits a court to disregard the separate identity of the corporation.

Preemptive Rights

Giving a stockholder first option to purchase (subscribe to) new stock in an amount proportionate to his or her existing holdings.

Preferred Shares

A class of shares that entitles the holders to preferences over the holders of common shares, usually with regard to dividends and distributions of assets upon dissolution or liquidation.

Preferred Stock

See "Preferred Shares".

Primary Activity

The major business activity of the single legal entity or affiliated group, which is their predominant field of operation. (Commonly known as the Main Activity)

Principal

the owner(s) of the Applicant Entity that have a controlling financial interest in the business. SBA defines controlling interest as an owner who owns 20% or more of the Applicant Entity or is a General Partner or Managing Member regardless of ownership percentage.

Professional Corporation

A corporation whose purposes are limited to professional services, such as those performed by doctors, dentists and attorneys. A professional corporation is formed under special state laws that stipulate exactly which professionals are required to incorporate under this status.

Projection

An estimate of future economic or financial performance. Generally presented in the form of a Profit and Loss Statement P&L or PnL.

Promoter

A written authorization given by a person to another party directing the party to vote on behalf of him/her.



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Qualification

The filing of required documents by a corporation to secure a certificate of authority to conduct its business in a state other than the one in which it was incorporated. Limited liability companies or similar business entities may also conduct this process.

Qualified Retirement Plan

A pension or profit sharing plan that qualifies under the Internal Revenue Code for deductible contributions by an employer that are not included in employee income until plan distributions are made.

Quorum

The percentage or proportion of voting shares required to be represented in person or by proxy to constitute a valid shareholders meeting, or the number of directors required to be present for a valid meeting of the board.

Record Date

The date for determining the shareholders entitled to vote at a meeting, receive dividends, or participate in any corporate action.

Redeemable Shares

Shares subject to purchase by the corporation on terms set forth in the articles of incorporation.

Registered Agent

An agent, required to be appointed by a corporation, whose authority is limited to the receiving of process issued against the corporation. Also known as a Registered Agent or a Resident Agent.



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A person or entity designated to receive important tax and legal documents on behalf of the corporation. The registered agent must be located and available at a legal address within the specified jurisdiction at all times. Failure to maintain a registered agent in the jurisdiction in which the corporation is registered, may result in the forfeiture of the corporate status. Also known as a resident agent.

Registered Office

The statutory address of a corporation. In states requiring the appointment of a registered agent, it is usually the address of the registered agent.

Regulations

Regulations are administrative rules which have the force and effect of laws. Government agencies promulgate rules. If you don't comply, you are subject to the possibility of fines or revocation of the corporate charter.

Reinstatement

Returning a corporation that has been administratively dissolved or had its certificate of authority revoked, to good standing on a state's records.

Resident Agent

See "Registered Agent".

Resolution

A formal statement of any item of business that has been voted upon.

Restated Articles

A document that combines all currently operative provisions of a corporation's articles of incorporation and amendments thereto.

Retained Earnings

Just like it sounds, this term represents any profits earned that are retained in the business. This can also be referred to as bootstrapping.

Revised Model Business Corporation Act

A model corporation statute compiled by the American Bar Association that has been adopted in whole or in part by, or has influenced the statutes of many states.

Revolving Line of Credit

This business finance term and definition is a funding option similar to a standard line of credit. However, the agreement is to lend a specific amount of money, and once that sum is repaid, it can be borrowed again.

SAE (Stand Alone Economic Injury Disaster Loan)

provide necessary working capital to enable eligible businesses to overcome the financial impact of a declared disaster without providing assistance for physical disaster loss.

Schedule of Liabilities

A business debt schedule that lists all of the debts the business currently owes, including creditor name; original amount due; original due date; current balance; repayment status; maturity date; payment amount and frequency; and how debt is secured.

S Corporation Termination

A cessation of S corporation status by operation of statute because the corporation either fails to continue to meet the requirements for S



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corporation status, or has C corporation earnings and profits plus excess passive investment income for three consecutive years.

S-Corporation

A form of corporation, allowed by the IRS for most companies with 35 or fewer shareholders, which enables the company to enjoy the benefits of incorporation but be taxed as if it were a partnership.

Scrip

A form used to represent ownership of fractional shares in lieu of issuing share certificates.

Secured Loan

Many lenders will require some form of security when loaning money. When this happens, this business finance term and definition is a secured loan. The asset being used as collateral for the loan is said to be “securing” the loan. In the event that your small business defaults on the loan, the lender can then claim the collateral and use its fair-market value to offset the unpaid balance.

Securities Laws

State and federal laws that govern the issuance, sale and transfer of stocks and bonds.

Security

A contract between a business and an investor whereby the investor supplies money and expects to profit from his or her investment.

Service of Process

See "Notice of Service of Process".

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Share Exchange

A statutory form of business combination in which some or all of the shares of one corporation are exchanged for some or all of the shares of another corporation and neither corporation ceases to exist.

Share

The unit into which the ownership interest in a corporation is divided.

Shareholder's Basis in Loans

The measure of loans made directly by a shareholder to an S corporation, which can be used to provide additional basis for the deduction of losses after the shareholder's basis in stock is exhausted. It is calculated using the initial amount of the loan, adjusted to reflect S corporation pass-through items.

Shareholder's Basis in Stock

The measure of a shareholder's equity investment in a corporation, which is used to measure the gain or loss when the stock is sold.

Shareholders

Shareholders are the owners of a corporation based on their holdings. They own an interest in the corporation rather than specific corporate property. Also known as stockholders.

Short-Form Merger

The statutory merger of a subsidiary into its parent corporation in which shareholder approval is not required.



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Sole Proprietorship

An unincorporated business with a sole owner in which the owner may be personally liable for business debts and claims against the business.

Special Meeting

A shareholder meeting called so that the shareholders may act on the specific matters stated in the notice of the meeting.

Statutes

Statutes are laws passed by the state legislature or U.S. Congress. Business corporation laws are statutes. Statutes often authorize an administrative agency to declare regulations which are used to supplement the statute. In the event of a conflict, statutes control over regulations.

Stock Certificate

An instrument providing evidence of ownership of one or more shares of the capital stock of a corporation. May also be referred to as a share certificate.

Stock Option

A right granted by a corporation to officers or employees as a form of compensation that allows purchase of corporate stock at a fixed price at a specified time with reimbursement derived from the difference between purchase and market prices.

Stock Purchase Agreement

A stock purchase agreement is an agreement between the shareholders and the corporation. It provides a mechanism to regulate the transfer and sale of corporate stock. Often, a stock purchase agreement will provide a



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right of first refusal in favor of the corporation or remaining shareholders in the event of a proposed sale of stock by a shareholder. A stock purchase agreement can also provide for a purchase upon the death, disability, retirement, discharge, resignation, or bankruptcy of a shareholder.

Stock Split

A division of corporate stock by the issuance to existing shareholders of a specified number of new shares with a corresponding lowering of par value for each outstanding share.

Stock

Stock represents ownership in a corporation. It may be represented by a certificate and can be common or preferred, voting or non-voting, redeemable, convertible, etc.. The classifications and special designations, if any, of the stock are set forth in the articles of incorporation.

Stockholders

Stockholders are the owners of a corporation based on their holdings. They own an interest in the corporation rather than specific corporate property. Also known as shareholders.

Subscribers

Persons who agree under specific conditions to purchase shares in a corporation.

Subscription

The agreement executed by a subscriber.



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Subsidiary

A corporation that is either wholly owned or controlled through ownership of a majority of its voting shares, by another corporation or business entity.

Substantial Damage:

means uninsured or otherwise uncompensated disaster damages:

a) For homes is either:

- 40 percent or more of the home's pre-disaster fair market value (FMV) or replacement cost including the value of any land, whichever is less; or
- 50 percent or more of the structure's pre-disaster fair market value or replacement cost, (excluding the value of any land) whichever is less.

b) For businesses is either:

- 40 percent or more of the aggregate value (lesser of market value or replacement cost at the time of the disaster) of the damaged real property (including the value of any land) and damaged machinery and equipment; or
- 50 percent or more of the aggregate value (lesser of market value or replacement cost at the time of the disaster) of the damaged real property (excluding the value of any land) and damaged machinery and equipment.

Takeover

A merger, acquisition or other change in the controlling interest of a corporation.



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Target

A corporation that is the focus of a takeover attempt.

Tax Lien

If your business fails to pay taxes owed to the designated government entity, namely the IRS, you may find your assets seized by the claim of a tax lien. The government can not only seize your assets for liquidation to resolve the tax debt, but they can also charge you penalties on the amount you owe. [See Business Credit Report Repair](#)

Tax-Exempt Organization

Any organization that is determined by the Internal Revenue Service to be exempt from federal taxation of income. A tax-exempt may be required to operate exclusively for charitable, religious, literary, educational or similar types of purposes.

Term Loan

These are debt financing tools used to raise needed funds for your small business. Term loans provide the business with a lump sum of cash up front in exchange for a promise to repay the principal and interest at specified intervals over a set period of time. These are typically longer term, one-time loans for start-up expenses or costs for established business expansion.

Tort

A tort is any act or failure to act (if there was a duty to act) which causes harm or damage. Examples of torts include assault, battery, fraud, misrepresentation, defamation, libel, slander, invasion of privacy, and



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negligence. If there is a claim against your corporation, other than a claim by the government, it will likely be based in contract or tort.

Trademark

A word or mark that distinctly indicates the ownership of a product or service, and that is legally reserved for the exclusive use of that owner.

Treasury Shares

Shares of a corporation reacquired by a corporation.

Trend Analysis:

A comparative analysis of a company's financial ratios over time.

UCC Lien

A UCC-Uniform Commercial Code-1 statement is a legal notice filed by creditors to publicly declare their rights to potentially obtain the personal and business properties and proceeds of debtors who default on business loans they extend. Often abbreviated as UCC-1.

UCC-1s are required for all business loans under the Uniform Commercial Code (UCC) and establish a relative priority over which specific assets or monies that may be seized, and in what order.

Underwriter

A company that purchases shares of a corporation and arranges for their sale to the general public.

Unsecured Loans

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Loans that are not backed by collateral are called unsecured loans. These types of loans represent a higher risk for the lender, so you can expect to pay higher interest rates and have shorter repayment time frames. Credit cards are an excellent example of unsecured loans that are a good option for small business funding when combined with other financing options.

Voluntary Dissolution

Action by shareholders, incorporators or initial directors to dissolve a corporation.

Voting (or Pooling) Agreement

A voting or pooling agreement is an agreement, preferably in writing, of two or more shareholders to vote their shares in a certain manner. The most common use of this agreement would be to pool voting strength for the election of directors.

Voting Rights

Rights of shareholders to vote their shares pursuant to provisions of statutes, the articles of incorporation and the bylaws.

Voting Trust

A voting trust is a trust formed through an agreement among the shareholders of the corporation. Under a voting trust, shareholders transfer their shares of stock to a trustee in exchange for voting trust certificates. The trustee votes the shares in the manner directed in the voting trust agreement. Voting trusts are often used to preserve control of the corporation. Can be an eligible shareholder of an S corporation.



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Watered Shares

Shares that have been issued for a consideration less than the par or stated value of the shares.

Winding Up

The discharging of a corporation's liabilities and the distributing of its remaining assets to its shareholders in connection with its dissolution.

Withdrawal

The statutory procedure whereby a foreign corporation obtains the consent of a state to terminate its authority to transact business there.

Working Capital

Not to be confused with fixed capital, working capital is another business finance 101 term. It consists of the financial resources necessary for maintaining the day-to-day operation of the business. Working capital, by definition, is the business's cash on hand or instruments that you can convert to cash quickly.

Working Capital (WC):

The amount of current assets that is left after all current debts are paid.
[Need more working capital? See here.](#)