DEBT MANAGEMENT

Be careful not to abuse your borrowing power. With credit so readily available to most authentic businesses, it is easy to tap into cash reserves for unnecessary expenditures.

Stay away from most lease agreements. Coming from the corporate world, I can tell you about this faulty thinking firsthand. During the boom and subsequent bust of the nineties, a common practice was to make large purchases via leasing contracts. Virtually everything was leased. Fleets of trucks, manufacturing equipment, buildings, and so on were all leased instead of purchased outright.

This produced a couple of scenarios. First, it encouraged buying even when no cash was available. Second, it kept the "corporate debt" off the Statement of Financial Condition, commonly called the balance sheet. Third, many assets owned outright by the company were sold for cash and then leased back from the new owner. This supposedly freed up corporate cash for other things. I saw great companies with substantial real estate and other corporate assets proceed to sell off the assets, receive the cash, and then watch the cash simply disappear over a short time period. The company was left with long-term leasing debt and a huge burden to bear for many years to come. The leasing debt was never a part of the corporate balance sheet and because of loopholes in the law, the company auditors never disclosed the debt in the financial reports.

The bottom line of the leasing scandals I witnessed was that greedy corporate executives boosted the value of their corporate parachutes—and the value of their personal stock options. They received unprecedented amounts of company bonuses because of their wonderful achievement of improving the corporate financial condition. After many great personal bonuses and benefits, the executives would move on to other companies and new opportunities to do the same all over again.

One of the sorrows of great corporate debt is that investors often are the last to know what is happening with the companies in which they have invested their life savings.

If corporate debt is good, than why is one of the most successful companies ever to grace planet earth completely debt free? If debt is so good and provides so much so-called tax relief, why is the company that produced the richest man in the world debt free? Of course, I am talking about Microsoft, which has no debt and more than $50 billion in cash! That's a cool fifty thousand million dollars.

Many other successful companies are also debt free. Thousands have chosen to have absolutely no corporate debt. These companies include Walgreen, Cisco Systems, and William Wrigley. Cisco Systems has never borrowed money and does not plan to. They fund their own expansion instead of borrowing money.

Not having debt helped companies survive during the dot com bust. As I write, Cisco earned $772 million during its most recent quarter, while Lucent (a company in great debt) lost $7.9 billion. Lucent pays interest each quarter on $3.2 billion. Walgreen expands its drugstores by the monthly cash it generates. Its corporate philosophy, according to a company representative, is "We're a pay-as-you-go type." A competitor of Walgreen is Rite Aid, which struggles with paying interest on a heavy debt load of $3.7 billion.

Wrigley, the chewing gum maker, has never had any long-term debt since it was founded some 110 years ago. That is why it is still in business today! Ross Stores doesn't borrow money to expand. Each new store costs $1.3 million to open, but generates an average of $6 million in revenue the first year of business. In the Pacific Northwest, where I live, thirty-four major companies alone have no debt.

Use the information I have just provided to think about paying cash. If you don't have the cash, don't make the purchase! Use the "cash paying" model of these companies to improve your financial balance sheet. Perhaps you have made some mistakes in the past. Your past is important, but not nearly as important to your present as the way you see your future.

So is there really any good debt? Not in my opinion. At best, some debt is necessary during certain times in the life of your business. But as a rule, make it a point to self-fund your business needs.