

Accounts Receivable Financing Provides Working Capital

BACKGROUND

An angel-backed software company was seeking a line of credit based upon its Accounts Receivables. However, the company had very little collateral with which to secure debt financing. This case study illustrates the benefit of Working Capital as a form of debt financing for firms with positive revenues and A/R that also have limited tangible collateral.

CLIENT PROFILE

Industry	Software
Stage	Late
Investors	Strategic partnership with a larger software firm
Burn	2005: \$8.5MM, 2006: \$13MM

EVALUATION

Debt Advisors Group (DAG) was engaged by the client at the beginning of the debt acquisition process. On behalf of the client, DAG began looking for a venture loan in the form of growth capital financing, however, low cash balances prevented the client from receiving a line amount that would provide significant runway extension. The company had a contract in place with a larger software firm that guaranteed payments for at least three years. DAG asked lenders to propose an Accounts Receivable line with financing for their domestic and foreign accounts.

DEBT NEEDS

The company sought minimum debt financing of \$1.5MM:

- A/R line of at least \$1.5MM to support current contract accounts

FINANCING GOALS

Explicit goals for the new round of financing were:

- Maximize future financial flexibility: Secure an A/R line that would enable the company to finance current domestic and foreign accounts. Foreign receivables can

be difficult to finance through traditional lenders.

- Maintain cash balances for the company. The company can remain cash flow positive with a suitable A/R line.
- Maximize line amount and reduce overall cost.

LENDER RESPONSE

DAG identified several lenders that would provide A/R financing based upon their current contracted accounts. After careful comparison it was determined that one lender could maximize the client's line amount and financial flexibility. This lender emerged as superior due to its ability to finance the largest portion of Accounts Receivables for domestic and foreign accounts..

NET RESULTS

The final terms negotiated included:

General Terms

- Total Commitment: \$2.5MM
- Financial Flexibility: Ability to finance foreign and domestic accounts
- Revolving Line of Credit with low early termination fee
- Low Warrant Coverage

Accounts Receivable

- Commitment: \$2.5MM with an All Asset Lien and a Negative Pledge on IP.
- 2% warrants
- Fee: 0.75% monthly on the average daily gross financed receivable amount outstanding.



ABOUT DEBT ADVISORS GROUP

Debt Advisors Group's team of professionals brings years of lending expertise to help growing companies evaluate debt and lease terms. Debt Advisors actively monitors lenders, independently assessing their structures, terms, and rates. After rigorous review, DAG's professionals recommend a short list of lenders who will compete for your business. Using a Proprietary Lease Tools™ financial model, Debt Advisors compares financial covenants, warrants, net present value and other terms to achieve an apples-to-apples comparison. Part of the comparative analysis is a succinct but thorough executive summary that helps save time, particularly at board meetings.

For more information, contact:

Richard Bowman, President

rbowman@debtadvisorsgroup.com

617.630.8110