July 17, 2006

Now that Debt Advisors Group, Inc. (DAG) has consulted with more than 354 companies*, we recognize that the relationships we've forged with a variety of lenders has been a key to our success. DAG understands not only our clients' diverse financing needs but also how to match those objectives with the appropriate lenders based on specific lenders' risk and loan structure preferences.

This month's case study illustrates how our knowledge of the lending landscape allowed us to craft a solution for a specialized debt financing need.

Profile

WebTechCo is an angel-backed software company that specializes in client resource management. The company was in the enviable position of having a major Fortune 500 client under contract. However, due to the provisions of the agreement, it could not bill for its services for another six months. Therefore, the company needed to obtain a bridge loan or monetize the "un-billed" portion of the contract in order to eliminate its short-term cash flow problem. WebTechCo's Chief Financial Officer (CFO) recruited DAG to aid the company in the debt placement process.

DAG's Evaluation

After careful review of WebTechCo's financial objectives, DAG advised the company that pursuing an "un-billed" accounts receivable line was more feasible than a bridge loan and would meet the company's objectives of short-term liquidity enhancement.

WebTechCo's Debt Needs

WebTechCo sought a $2MM accounts receivable (billed and un-billed) line of credit to facilitate the company's growth and to allow the company to raise its Series A from a position of balance sheet strength.

WebTechCo's Financing Goals

WebTechCo's goals for debt financing, in order of importance to the company, were:

- Turn "un-billed" receivables into cash.
- Minimize Warrant Coverage: Negotiate warrant coverage to limit equity kickers due to the expressed wishes of the client's board of directors.
- Minimize Overall Costs: Find lowest IRR alternative.

DAG's Recommendation

WebTechCo was already reviewing a term sheet prior to utilizing DAG's services, but the DAG team found that it barely met WebTechCo's needs, provided no cushion for slippage and did not maximize the full value of the contract. With national market knowledge gained from a library of over 470 direct lender proposals*, DAG compiled a list of lenders appropriate for WebTechCo's profile. DAG then solicited proposals from three independent lenders on WebTechCo's behalf and was able to create a competitive bidding process. After analyzing each proposal, DAG helped WebTechCo negotiate the proposals to current market rates and terms and then recommended the proposal that best matched WebTechCo's goals. The winning lender doubled the line size of the original proposal and also offered lower pricing.

Net Results

The company accepted DAG's recommendation and presented the proposal to WebTechCo's Board of Directors using DAG's comparative analysis framework. The final terms of the financing included:

- $2MM accounts receivable line of credit (with a sub-limit for "unbilled" receivables)
- Interest payable monthly, principal due at maturity
- 11% all-in-rate, including run-rate, balloon payment, and fees
- 2% warrant coverage

With DAG's assistance, WebTechCo was able to raise funds sufficient to meet the company's ongoing cash needs thus giving it the ability to raise equity on its own timeframe.

*Data as of June 30, 2006.

The facts contained in this case study are fictional but realistic. Results achieved are based on a variety of factors, including each client's specific debt needs, financial objectives, and risk tolerance. Past performance is not a guarantee or assurance of future performance.