Alternative Financing
Frequently Asked Questions

What are the differences between traditional and alternative financing?
Traditional financing is typically provided by banks and credit unions using common loan products. Approvals are based on a company's historical performance and the owner's background and experience.

Alternative financing includes asset-based loans secured by a wide variety of assets. Businesses can borrow money, using collateral such as accounts receivables and inventory, or fixed assets such as plant, property and equipment. Asset-based loans also can include equipment loans and real estate mortgages.

What are the sources of alternative financing?
Alternative financing sources include: bank and non-bank lenders, angel investors and venture capitalists.

What are the benefits?
More liquidity: Comparable pricing, Ongoing access to capital, credit line expand as company grow, Mobilization funding, payroll funding, capture discounts, confidence to pursue multiple contracts, layered on top of Bank loan and personal credit not a major factor.

Built-in disciplines: Because the borrowing availability is based on advance rates against current accounts receivable, an asset based loan structure motivates borrowers to collect their receivables more promptly. Similarly, because work-in-process generally is ineligible collateral, borrowers are motivated to increase the efficiency of their production process to increase liquidity.

Fewer financial covenants: Typically, an asset-based loan requires fewer financial covenants because of its collateral orientation. The most common covenants are debt service coverage and net worth.

Flexibility: Rapidly growing companies with new contracts and start-up businesses usually do not qualify for traditional bank financing. These companies are ideal candidates for alternative financing.

Who Uses Alternative Financing and Why?
Companies in an array of industries and at varying stages of their lifecycles use asset-based loans for a multitude of reasons including mergers and acquisitions, debt refinancing, capital expenditures, working capital, leverage buyouts and even employee stock ownership programs.

Working Capital: The assets available to apply to a business' operations are considered working capital assets. At times, working capital loans are needed to bridge financial gaps during the lifecycle of a business. Working capital loans can be secured by a variety of asset types, including accounts receivable, inventory, equipment, and real estate.

Acquisition: To grow a business, a company may look to acquire a strategic partner or even a competitor. Asset-based financing is often an efficient means to obtain funding for business acquisitions.

Turnaround Financing: Turnaround financing is often used by under-performing businesses that are not achieving their full potential. In some cases, it is used for businesses that are either insolvent or on their way to becoming insolvent. Asset-based lenders are accustomed to the bankruptcy process and asset-based financing is ideal for turnarounds because of its flexibility.

Capital Expenditures: Capital expenditure is the money spent to acquire and/or upgrade physical assets such as buildings and machinery. Capital expenditure is also commonly referred to as capital spending or capital expense.

Debtor-in-Possession (DIP) Financing: Debtor-in-possession (DIP) refers to a company that has filed for protection under Chapter XI of the Federal Bankruptcy Code and has been permitted by the bankruptcy court to continue its operations to implement a formal reorganization. A DIP company can still obtain loans, but only with bankruptcy court approval. Asset-based lenders also provide exit financing or confirmation financing to companies coming out of bankruptcy.

Growth: Typically, as a company grows so does its need for financing. Also, as a company's collateral grows, its assets can strengthen its ability to borrow. An experienced and creative asset-based lender can assemble a credit facility that can scale to grow with a company.

Recapitalization: Recapitalization is the process of fundamentally revising a company's capital structure. A company typically might recapitalize due to bankruptcy or replacing debt securities with equity in order to reduce the company's ongoing interest obligation. A leveraged recapitalization typically achieves just the opposite—by taking on a material amount of debt; the company increases its ongoing interest obligation but is able to pay its shareholders a special dividend. Bank of America Business Capital has extensive experience guiding businesses through the stages of recapitalization.

Refinancing and Restructuring: When a company enters or exits a growth stage, refinancing or restructured financing may be key to creating a capital structure that better meets the needs of the company. This type of financing is often used for market expansion, completing an acquisition, restructuring operations, or following a successful corporate turnaround.

Buyout: A buyout is the purchase of a controlling percentage of a company's stock. In a leveraged buyout (LBO), the acquiring company uses the minimum amount of equity to purchase the target company. The target company's assets are used as collateral for debt, and its cash flow is used to retire debt accrued by the buyer to acquire the company. A management buyout (MBO) is an LBO led by the existing management of a company. Most LBOs are also MBOs.

Leveraged ESOP (Employee Stock Ownership Plan): A leveraged ESOP is one of many corporate finance alternatives that provide significant tax incentives to both business owners (potential deferral of capital gains) and ESOP Companies (potential exemption from federal income taxes). ESOPs can be used not only to finance stock purchases from existing shareholders, but also to facilitate corporate transactions such as management buyouts, acquisitions and divestitures.

How do the costs of alternative financing compare to traditional financing?
Alternative financing cost compares favorably to traditional financing when considering restrictions and credit limits traditional lenders impose. For existing customers, alternative financing credit line increases are progressive. Credit line

increases are usually approved with the submission of each new contract which eliminates the exhaustive process delays related to new application reviews by traditional lenders.

How long am I locked in when I use alternative lenders?
Accounts receivable lines of credit are open-ended funding streams, unless closed by the borrower or lender. Asset based financing programs are reviewed annually; credit lines can be extended simply by submitting the new contract.

How is Alternative Financing Structured?
Asset based loans: Usually structured as a revolving line of credit without a scheduled repayment and on an interest-only basis. The lender advances funds based on a percentage of the accounts receivable (normally 70-85 percent) and inventory (0-60 percent) and, when such assets convert to cash, the advances are repaid accordingly. Ineligible collateral is not included in the borrowing base. Ineligible accounts receivables include past due receivables, intercompany receivables, and other lower quality receivables. Ineligible inventory includes work-in-process, packaging materials, or inventory at a sub-contractor.

Revolver Loans: A revolver allows a borrower to borrow, repay and re-borrow as needed over the life of the loan facility.

Term Loans: Usually an asset-based loan that is based on a certain percentage of the orderly liquidation value of the machinery and equipment and the appraised fair market value of the land and buildings.

Asset Based Loans Against Equipment and Real Estate: Often made in the form of term loans that include regular periodic payments of both principal and interest in order to retire the debt at a fixed maturity date. Asset-based loans using real estate as collateral have longer maturities than equipment loans because of the generally shorter economic life expectancy of equipment.

What are the credit requirements for alternative financing?
Good credit makes lending decisions easier. However, alternative financing lenders primary considerations are the company's assets and the payment history of the company's clients.

How do I apply for alternative financing?
To apply, visit our website at www.k-wamfs.com . You may also contact us by phone at (904) 220-2567, or send an email with your questions to info@k-wamfs.com.