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SMART PROC '09

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Bank Financing

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The Good News:

Your hard work in the Bid & Proposal process has paid off, and you have been awarded a contract that is going to really help grow your company.

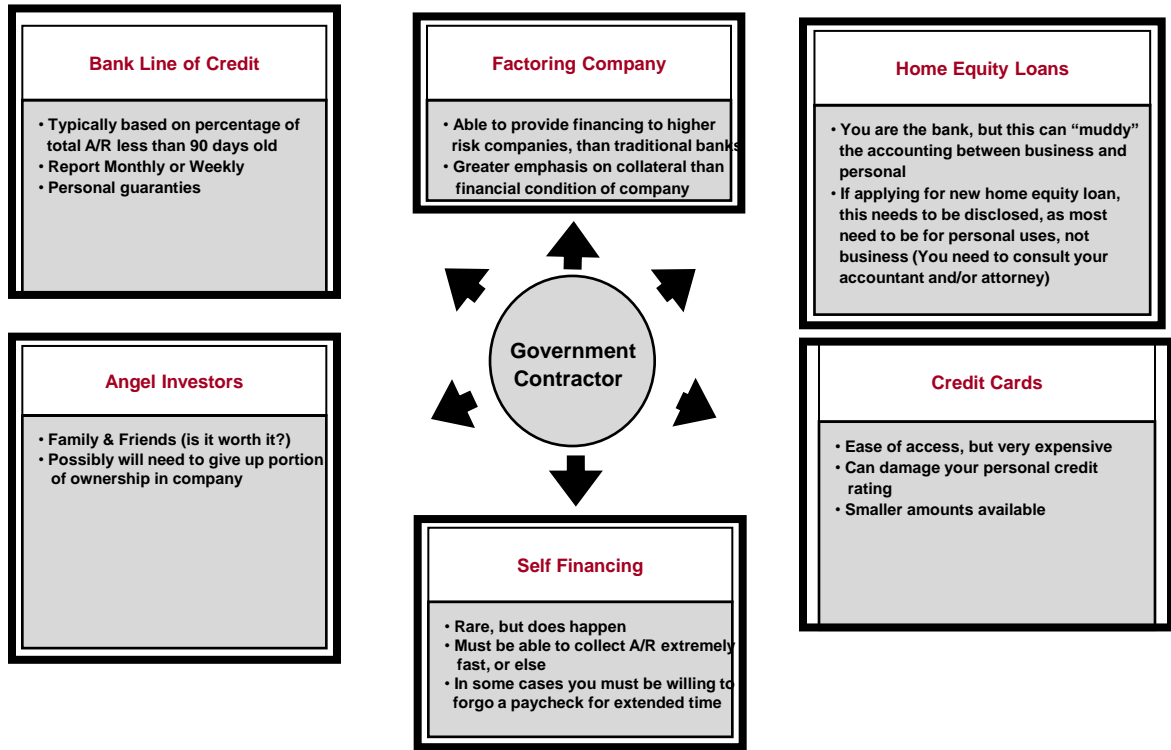
The Bad News:

You will need to pay your employees every two weeks for at least 2-3 pay cycles before you will collect the funds from the Government.

Solution:

You need working capital financing to bridge the collection gap.

Typical Financing Options





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What are Banks looking for when financing a Government Contractor?

- Balance sheet - Typically as a government contractor, your largest asset will be Accounts Receivable. Heavy emphasis will be on Tangible Net worth and Debt To Worth ratio.
- Income Statement - As opposed to typical term loans, lines of credit will rely on profitability ratios and trend analysis, rather than traditional cash flow (EBITDA/Debt Service).
- Collateral- Is the company collecting billed A/R in reasonable timeframe. What is the percentage of A/R over 90 days from invoice date? What is the concentration or dependence of the company on one contract?
- Experience - Not only the company's years in business, but the management years in the industry.
- Controls- The ability of the company to accurately report financial condition and A/R aging in a timely manner



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What is the typical structure of a line?

- Bank will take a first position lien on all of the company assets
- Owners of the company will typically need to sign a personal guaranty
- Direct assignment of major long term contracts may be requested (can be a difficult process)
- Line limits are generally set slightly higher than total A/R to allow for growth. Typical “rule of thumb” is 3 or 4 times the tangible net worth of the company.
- Company to submit monthly (sometimes weekly) reports updating levels of A/R and line eligibility
- Collateral audits (either bank staff or outside accounting firms) performed at least annually
- Lines typically are renewable on an annual basis.



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How does the line work?

A/R as of 10/31/2007 (aged by invoice date)

	Total	0-30	31-60	61-90	91+
	\$750,000	400,000	200,000	100,000	50,000
Total A/R		\$ 750,000			
Less: Receivables over 90 days		<u>\$ 50,000</u>			
Eligible A/R		\$ 700,000			
Advance rate		<u>80%</u>			
Eligible Collateral		\$ 560,000			

- In this example the company would be able to borrow up to \$560,000 (subject to line limit)
- Advance rates on government receivables (Prime) can be increased to 90% and will generally require assignment of the contracts
- The line is generally tied to the operating account so the company has access to the funds by simply writing checks
- As collections come in they automatically pay down the line balance



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What if I've only been in business for a short period of time or maybe we are bidding on a contract that will triple the size of my company overnight?

- More difficult for a bank to finance company without a track record, however sometimes still possible.
- Additional collateral may be required in the form of liens on personal residence or marketable securities.
- The SBA offers banks support in under various programs, which can reduce the banks risk of loss.
- Increased reporting (daily or by purchase order) is possible, but typically banks are not set up for this and would not try to do this long term. A better direction would be with a factoring company.



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What information will a Bank need?

- Background on Company and Individuals
- Scope of services the company offers
- Financial Statements (Accrual Based) -Min 2 years
- Current A/R and A/P Agings
- Personal Financial Statement
- Business and Personal Tax Return - Min 2 years
- Backlog report Prime vs. Sub; Contact type, duration, 8a vs. full and open, Funded vs. Unfunded