



Raising Debt and Equity Capital

Tailored To Businesses With Sales Less Than \$100 Million Annually



Alpha Omega

CAPITAL PARTNERS

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Company Financing

One of the many challenges that a business owner faces is financing the business. Many companies are able to fund operations out of cash flow and bank loans but sometimes they need additional permanent or temporary funds for:

- Rapid Sales Growth,
- Acquisition of a Business or Product Line,
- Owner or Partner Buy Out,
- Development of a New Product Line or Service,
- Bank or Lender Pay Off, *or*
- Restructure of the Balance Sheet.

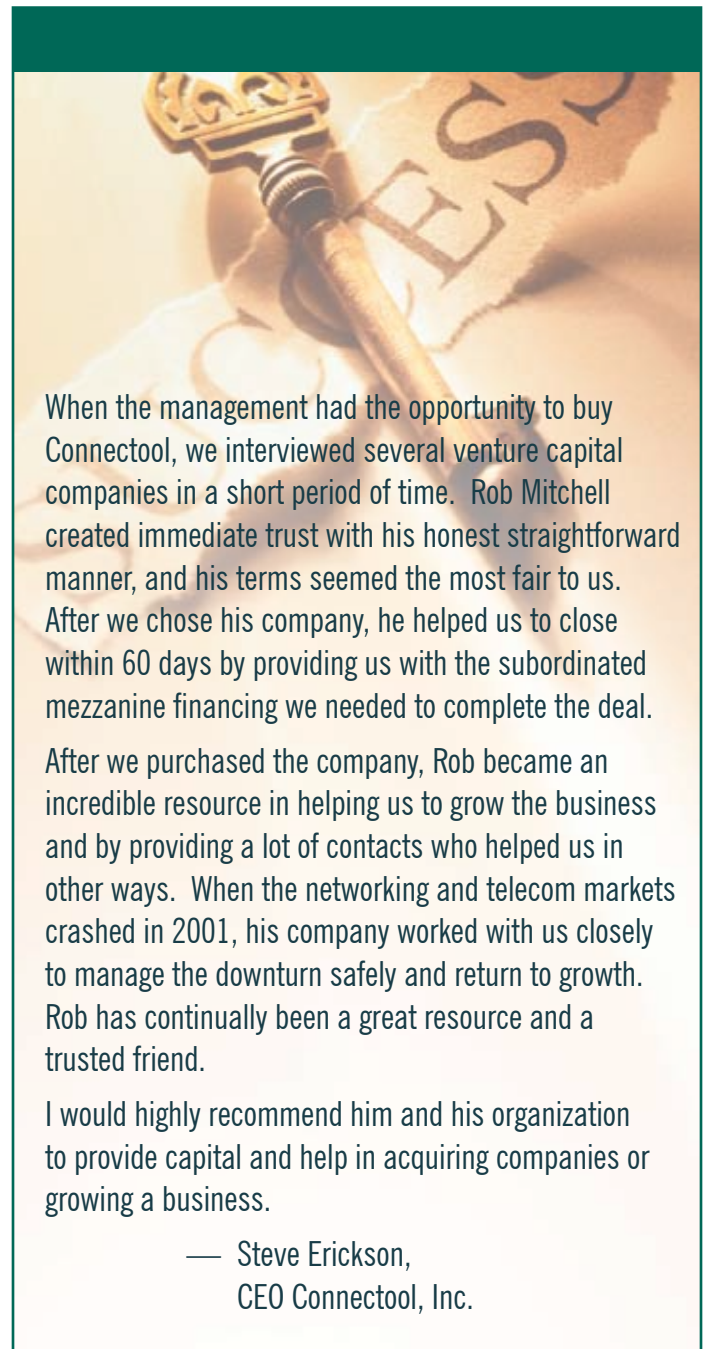
Having loaned, invested, owned or operated numerous businesses, we know how to finance companies, manage cash flow, and determine what capital makes the most sense for almost any situation; and we know where to obtain that capital.

Whenever a company hires us to raise capital, the first thing we do is to gather historical financial information about that company and assess its current financial situation. Oftentimes we will determine that the current lender structured the loans incorrectly or the company used the wrong type of lender in the first place. For example, Commercial Banks often structure loans with payments that are too high or they fail to consolidate loans and/or leases that have been entered into over time resulting in unnecessarily high debt service. By restructuring those loans with that bank or finding a new lender, we are able to reduce those payments and reduce their impact on cash flow.

Other times, a non-bank lender will be a better fit for the company. Asset Based and Specialized Lenders who secure loans with your company (and personal) assets, can be especially helpful in funding acquisitions and partner buyouts. Cash Flow Lenders will lend against your cash flow but at higher, more restricted rates.

Occasionally loans will not be enough and a company will need to obtain an additional injection of Equity by selling a minority position in their company. Equity is defined as the

market or book value of the business. This type of funding is much more difficult to find, but it is often the best capital for a given situation. For example, rapidly growing companies often generate large amounts of accounts receivable. Although the company looks very successful on paper, all those accounts receivable consume large amounts of cash and reduce the working capital available to fund operations. Equity Capital is ideal for these situations and can be available when you have the right contacts. Further, Equity Capital can be an option for new start-up companies and other high risk situations.



When the management had the opportunity to buy Connectool, we interviewed several venture capital companies in a short period of time. Rob Mitchell created immediate trust with his honest straightforward manner, and his terms seemed the most fair to us. After we chose his company, he helped us to close within 60 days by providing us with the subordinated mezzanine financing we needed to complete the deal.

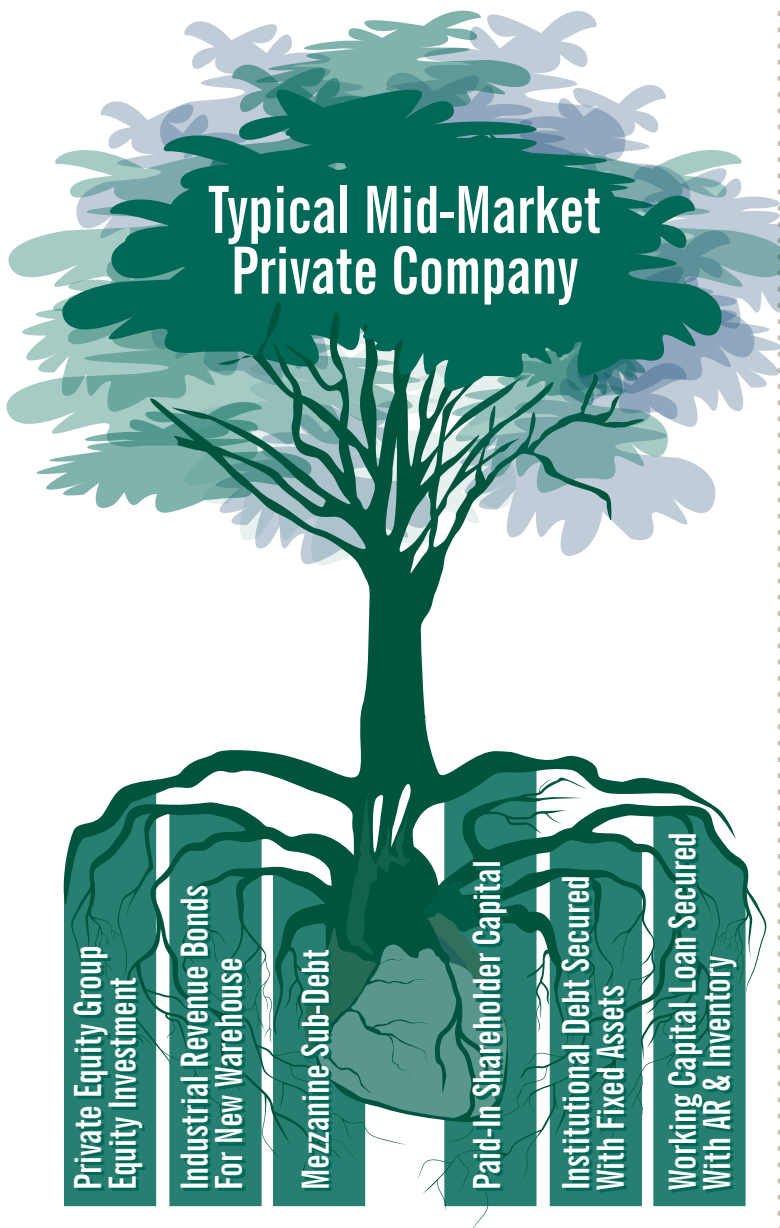
After we purchased the company, Rob became an incredible resource in helping us to grow the business and by providing a lot of contacts who helped us in other ways. When the networking and telecom markets crashed in 2001, his company worked with us closely to manage the downturn safely and return to growth. Rob has continually been a great resource and a trusted friend.

I would highly recommend him and his organization to provide capital and help in acquiring companies or growing a business.

— Steve Erickson,
CEO Connectool, Inc.

Capital Sourcing: Tailored to Need and Source

Many sources of capital are available but they are often hard to find, complicated and expensive. At Alpha Omega, we help business owners identify and find the right capital to support their needs and strategy. With extensive experience in commercial banking, venture capital, and owning and operating businesses, we are very familiar with financing companies. We know how to manage cash flow, what capital makes the most sense for almost any situation and where to obtain that capital. We will always shop the market to find the lowest cost capital available that will satisfy your needs.



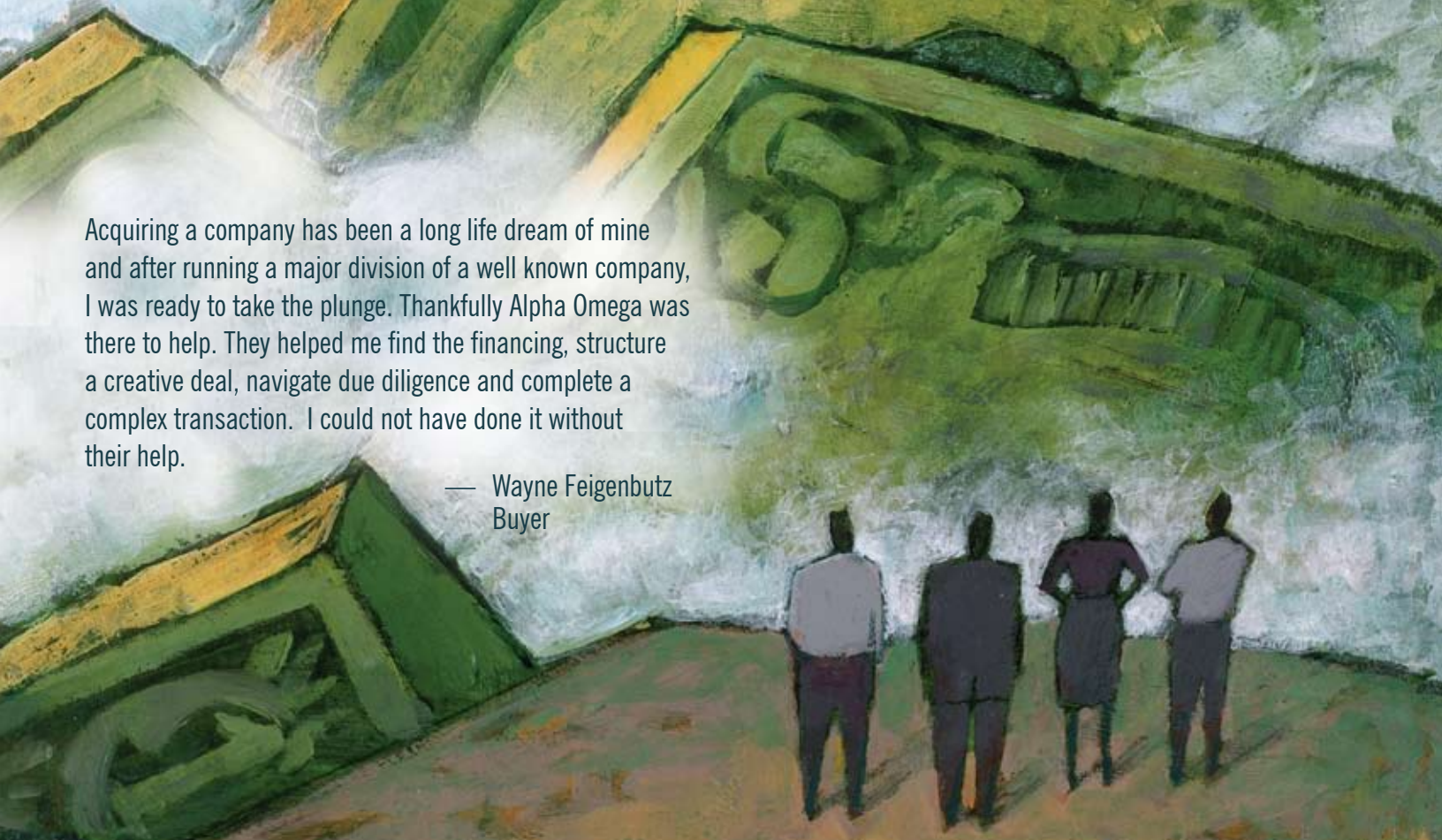
Capital Structure is a mix of various debt and equity sources that anchor or support a company and finance its overall operations and growth as in the root system of the tree shown above.

Institutional Lenders consist of

- Commercial Banks,
- Asset Based Lenders,
- Real Estate Lenders,
- Cash Flow Lenders, and
- Specialized Lending Sources.

Commercial Banks like Wachovia, Sun Trust, Wells Fargo, Bank of America, PNC and many others offer the lowest interest rates and fees but have the most conservative lending standards. Other Lenders offer more aggressive lending standards but charge higher interest rates and fees. Interest rates are typically floating and based on **Prime Rate**¹ or **LIBOR**². Less expensive than other sources of capital, these loans are preferred when available. Unfortunately, they are usually limited by the availability of borrower **collateral**³, cash flow (**coverage ratios**⁴), **leverage ratios**⁵, and **advance rates**⁶.

Government Lenders include Institutional Lenders participating in Small Business Administration (SBA) lender programs, other federal agencies such as HUD and FEMA, and State Agencies such as Departments of Economic Development. Lenders of this type generally do not lend money to businesses directly. They **guaranty**⁷ a large percentage of the loan granted by an Institutional Lender to motivate the lenders to make the loans. If the borrower defaults, the lender recovers as much as possible from the pledged collateral and then collects up to 75% under the guaranty from the government agency. Because of these guarantees, Institutional Lenders offer SBA and similar loans with longer amortization schedules (up to 10 years with no real estate involved) and in amounts greater than the collateral value as long as the borrower can prove that their cash flow meets or exceeds the cash flow **coverage ratio**⁴ requirements of the lender. Interest rates and closing costs on government guaranteed loans are generally somewhat higher. Other Government Agency managed loan programs include Small Business Innovation Research (SBIR) grants and loans, Industrial Revenue Bonds, Economic Development loans and grants, and many others depending on the geographic location of the borrower.



Acquiring a company has been a long life dream of mine and after running a major division of a well known company, I was ready to take the plunge. Thankfully Alpha Omega was there to help. They helped me find the financing, structure a creative deal, navigate due diligence and complete a complex transaction. I could not have done it without their help.

— Wayne Feigenbutz
Buyer

Mezzanine or Sub-Debt Lenders make loans that rely on the cash flow and market value of companies. These lenders leverage the cash flow beyond Institutional Lender limits and charge a high interest rate that is fixed. As a condition of granting the loan, they generally take a ‘junior or unsecured lien position’⁸ on the assets and frequently demand a small equity position as well. Their loans cost far more than Institutional Loans, but they’re less expensive than selling equity (shares in your company) to raise the money needed. ‘All-in costs’⁹ typically range from 20% - 35%, depending on loan size.

Equity Investors consist of **Private Equity Groups**¹⁰ (PEGs), **Venture Capital (VCs) Funds**¹¹, and privately held and publicly traded companies with strategic interests.

- PEGs usually purchase controlling interest in later stage or more mature companies with at least \$10 million in revenues. They most often work with existing management teams although they will occasionally use their own management teams.
- VCs usually invest in young, fast growing companies by purchasing a minority equity interest.

- Private and Public Corporations make equity investments for many strategic reasons.

Nearly all investors in this category tend to specialize in certain industries where they can realize very high investment returns of at least 40% in 3 to 7 years with the exception of corporations who make investment decisions that often times have very little to do with return rates.

PEGs and VCs are funded by pension funds, foundations, wealthy individuals, and cash rich corporations and generally seek to invest at least \$5 million into each company.

Angels are wealthy individuals seeking to invest \$50,000 to \$5,000,000 (and more) in companies that will generate returns of 40% or higher. Angels have very diverse backgrounds and can help companies tremendously through sage advice and access to important resources; but they can also harm a company through meddling and by distracting the management team from their true objectives. Angels are often successful entrepreneurs who want to help other entrepreneurs be successful. Most Angels invest locally.

Common Financing Situations as Handled by Alpha Omega

Rapid Sales Growth Consuming Working Capital

Cause	Growth in AR and inventory. Current bank used low advance rates on collateral. Limited vendor credit.
Solution	New asset based lender (with higher advance rates) brought in that also provided over-advances to fund peak periods. Alpha Omega helped company negotiate better vendor terms. Equity investor available but not needed.

Business Acquisition — Working Capital

Cause	Bank limited its loans to collateral value and some overage for owner's guaranty.
Solution	New asset based lender (with higher advance rates) brought in that used assets of both companies for collateral and provided a 15% "stretch" loan. Mezzanine lender that placed primary reliance on historical and projected cash flow used to leverage cash flow and fund balance.

Inactive Partner Buy-Out

Cause	Partner wants liquidity
Solution	Asset based and mezzanine lenders used to leverage company assets and cash flow with balance obtained from investor who took a small equity position.

Bank Pay Off / Find New Lender

Cause	Due to bank policy change, contractor's conservative bank would not supply cash needed for growth.
Solution	New lender found to provide financing that understands contractor needs.

Balance Sheet Restructure

Cause	Insufficient cash to fund operations because short loan and lease amortization schedules caused high payments.
Solution	SBA guaranty allowed lender to consolidate loans and leases by using long amortization schedule reducing payments by 45% (although loan amount increased).

Managing The Cap Raise Process

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1. Initial Consultation & Execute Agreement
 2. Complete Financial Analysis & Market Valuation (see below)
 3. Propose Capital Structure
 4. Prepare Descriptive Financing Memorandum (see page 6)
 5. Market Project to Appropriate Lenders
 6. Answer Lender Questions & Coordinate Offers
 7. Evaluate Options & Select Offer

We Use Sophisticated Financial Analysis To Accurately Determine The Market Value and Borrowing Capacity of Your Business

ANALYZE

Information Required:

1. Historical P&L and Balance Sheet (BS) Information for 3 years.
2. Historical Tax Returns for 3 years.
3. YTD P&L and BS

CALCULATE

1. Historic EBITDA¹²
2. Owner's Cash Flow¹³
3. Seller Discretionary Earnings (SDE)¹⁴
4. Revenue and Cost Projections
5. Non-Recurring Costs

ESTIMATE

1. Equity Value
2. Loan Value
3. Market Value

All Of The Following Methodologies Are Used In The Above Calculations:

- | | | |
|--|---|--|
| <ol style="list-style-type: none"> 1. Asset Based <ol style="list-style-type: none"> a. Book Value (from Balance Sheet) b. Adjusted Going Concern Value (from Balance Sheet) | <ol style="list-style-type: none"> 2. Market Based Using Price/EBITDA & Price/Revenue: <ol style="list-style-type: none"> a. Comparable Middle Market Transactions b. Comparable Public Companies Based on Trades | <ol style="list-style-type: none"> 3. Cash Flow Based With: <ol style="list-style-type: none"> a. No Growth b. Constant Growth c. Pro-Forma |
|--|---|--|

We Manage The Capital Raising Process While You Run Your Business

We Determine the Value 3 Ways — Equity (fair market), Loan (what the bank will give you) and Market (what we could sell it for).

You Supply Us With Financial Information For the Analysis — We Do The Rest.

Why Hire Alpha Omega? For Access to Financing and Protection from Hidden Danger!

Creating Lender Confidence with a Financing Memorandum

Good Memos Promote Lender Confidence. This Lowers Perceived Risk & Translates to Value.

Just as a Public Company educates investors with a professionally prepared Annual Report, we educate the financial community with professionally prepared Financing Memorandums. These memorandums can be short and concise for Senior Lenders or detailed and long for Junior Lenders and Equity Investors.

Our Memos describe your company from the perspective of the financing source and address the issues that are relevant to that source:

FINANCIAL MEMORANDUM

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Section 1.Introduction
Section 2.Executive Summary
Section 3.Client History
Section 4.Products & Services
Section 5.Sales History
Section 6.	... Marketing Including Competitive Analysis
Section 7.Personnel & Management
Section 8.Operations Summary
Section 9.Financial Section
	Actual History
	Adjusted History
	Projections
Section 10.Photographs

Our Memorandums are Descriptive and Detail Oriented. Size and Length Varies Depending on the Capital Being Sought.

Senior Lenders are most interested in a description of the business and management team, historical financial performance, assets that can serve as collateral, other debts, a personal guaranty, and your company's ability to service debt. Because most senior debt is primarily asset based, Senior Lenders do not have to learn a great deal about your business to mitigate their risk.

Except for personal guarantees, Junior Lenders and Equity Investors are also interested in these items but in much greater detail because their loans or investments will not carry a high level of collateral security. Simply stated, they will be taking on far more risk. Therefore, they will be interested in your competition, industry, vendors, customers, projections and upside. They are especially interested in you and your management team so they can determine if you can deliver on everything they have been told.

Our memos help lenders or investors determine if they meet your needs. If a meeting is appropriate, the memos prepare them for the visit to your company. The memos also help them prepare writeups for their own approval process.

A detailed and accurate representation of your business is critical to obtaining maximum loan or investment value in a timely manner with a minimum of disruption to your daily activities. To obtain maximum leverage for your transaction, we MUST solicit and earn the trust and confidence of the financial community.

We plan each step of the process precisely and thoughtfully. The process will generally take 30 to 90 days for Institutional, Specialized, and Government Lenders and 60 to 180 days for Mezzanine Lenders and Equity Investors. This obviously depends on how fast the client responds to our initial request for information and upon interest in the business by the market.

It must be understood that financial arrangements take time: attorneys, accountants and financial institutions can delay the process. Transactions guaranteed by the SBA can take marginally longer to close than conventional financing.

Implementing A Cap Raise Plan

INFORMATION RESEARCH & SOURCING

Individual
Contacts &
Introductions

Financial
Industry
Trade Events

Internet & Other
Specialized
Research

AOCP & Industry
Data Bases
(D&B, Capital IQ, Etc)

Proprietary
Data Bases

LENDERS & INVESTORS

Institutional &
Mezzanine
Lenders

Private Equity Groups,
Venture Funds &
Strategic Corp.
Investors

High Net Worth
Angel Investors

VETTING THE ALTERNATIVES

Direct Mail
Marketing

Telephone

E-Mail
Marketing

Information
Exchange

Screening & Coordination
Of Alternatives

PROCESS & CLOSE

Due Diligence
& Closing

Rob Mitchell was instrumental in helping my Company, V3 Systems, raise the necessary Debt Capital to accelerate our Sales and Marketing initiatives and further develop our product offering. With his extensive background in financing companies, Rob was able to very quickly

understand V3's business model and market advantages in order to help us quickly put the required capital in place and he provided a great deal of value post investment as a member of our Board of Directors.

— C. Ashley Campbell, CEO V3 Systems, Inc

Glossary of Terms

1. **Prime Rate:** The interest rate that commercial banks charge their most creditworthy borrowers, such as large corporations.
2. **LIBOR:** London Inter-Bank Offer Rate. The interest rate that banks charge each other for loans (usually in Eurodollars). This rate is applicable to the short-term international inter-bank market, and applies to very large loans borrowed for anywhere from one day to five years. Many public corporations and middle market companies now have the option to borrow money at the Prime Rate or LIBOR plus interest spread. The LIBOR is officially fixed once a day by a small group of large London banks, but the rate changes throughout the day.
3. **Borrower Collateral:** Assets pledged by a borrower to secure a loan or other credit, and subject to seizure in the event of default; also called security.
4. **Coverage Ratio:** $\text{EBITDA/Debt Service Amount} = \%$ Coverage Ratio
5. **Leverage Ratio:** The amount of debt used to finance a firm's assets; or the degree to which an investor or business is utilizing borrowed money. A firm with significantly more debt than equity is considered to be highly leveraged. Companies that are highly leveraged may be at risk of bankruptcy if they are unable to make payments on their debt; they may also be unable to find new lenders in the future. Leverage is not always bad, however; it can increase the shareholders' return on their investment and often there are tax advantages associated with borrowing.
6. **Advance Rates:** The maximum amount of advances that will be made to a company, as a percentage of the value of the collateral. For example, accounts receivable often have an Advance Rate of 75-85%, inventory 40-60%, and equipment 75%.
7. **Guaranty:** To accept responsibility for an obligation if the borrower with primary responsibility for the loan breaches their agreement to pay.
8. **Junior Lien:** A lien that is subordinate to other claims, rights or interests; such as a bank or **Unsecured Lien Position:** Not backed by any collateral but only by the integrity and cash flow of the borrower.
9. **All-in costs:** Shorthand for "all-included" costs, which include the spread, commission, interest payments, and any other fees resulting from the transaction. Some banks, for example, may quote an all-in cost of a loan, expressed as a percentage of the loan's face value.
10. **Private Equity Groups (financial buyers)** are well capitalized firms that have been formed to buy companies. They like to acquire "platform" companies which then buy other companies that are merged into them. Oftentimes key management stays on and runs the business while the financial buyers find additional companies to merge into the business. Platform companies typically have \$25 million or more in revenues while "add-on" or "tuck-in" companies have \$5 million or more in sales. Financial buyers are generally organized as limited partnerships and managed by a small team of professionals. They are funded by pension funds, banks, and wealthy individuals. Selling to a financial buyer can be very lucrative, because key management often receives salaries, bonuses, and equity and stock options in the new company. The new company generally grows very rapidly in size, and is then sold for a substantial profit, usually 3 to 7 years after the company was first sold.
11. **Venture Capital Funds:** Venture capital is capital typically provided by outside investors for financing of new, growing or struggling businesses. Venture capital investments generally are high risk investments but offer the potential for above average returns. A venture capitalist (VC) is a person who makes such investments. A venture capital fund is a pooled investment vehicle (often a partnership) that primarily invests the financial capital of third-party investors in enterprises that are too risky for the standard capital markets or bank loans.
12. **EBITDA** is earnings before interest payments, taxes, depreciation and amortization. It is a simple way to describe the cash flow generated by the business.
13. **Owner's Cash Flow** is equal to EBITDA plus owner's compensation and distribution. Owner's cash flow shows the amount of cash that is available for distribution to the owner or for investment in the company.
14. **Adjusted EBITDA** adds back nonrecurring income or expense items, excessive compensation to the owner, and other unusual items which might have affected (skewed) EBITDA.



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