

Contract Financing

a unique source of capital

How to make it work for
your portfolio companies
and potential clients

Provided by Industrial & Commercial Leasing Company

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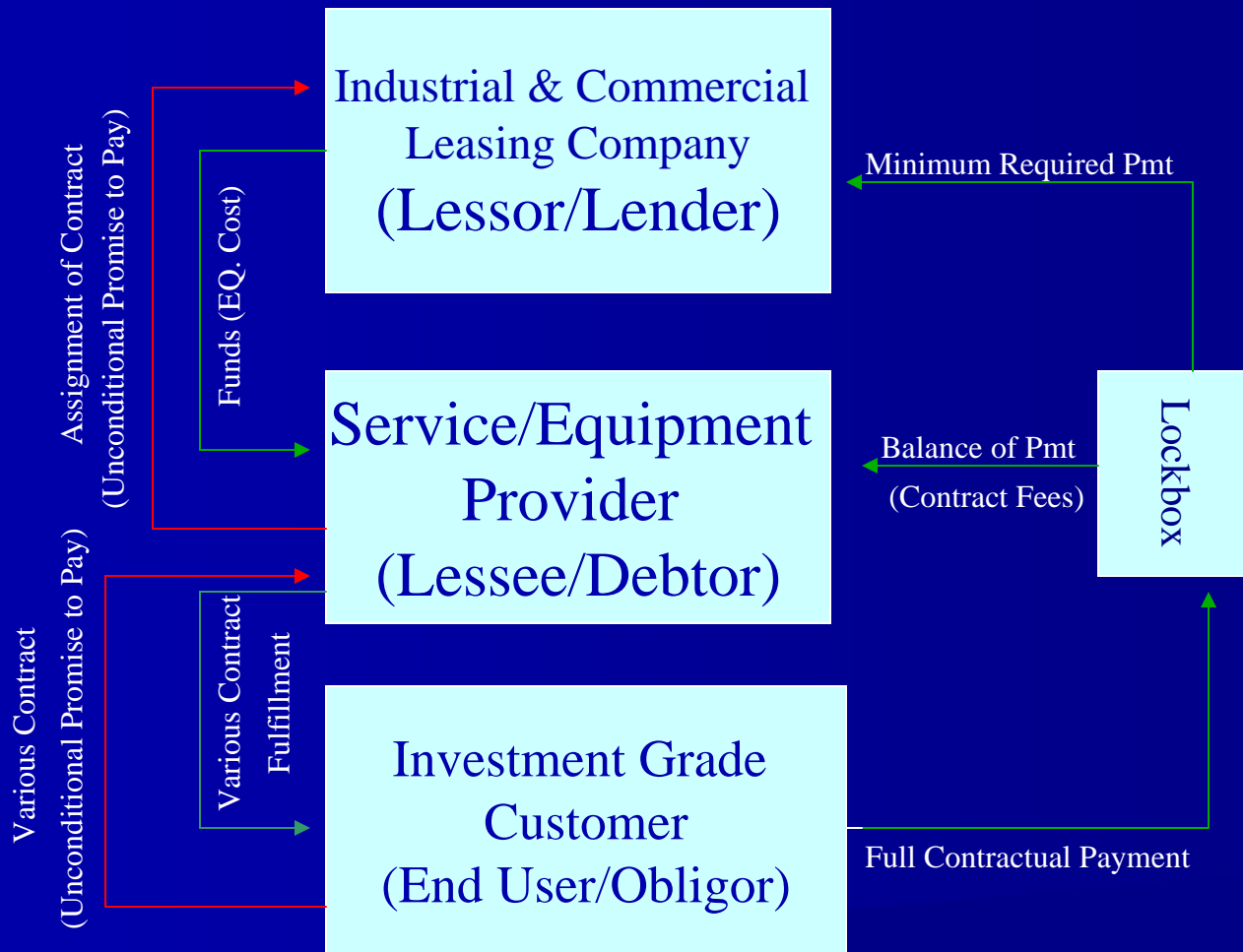
What is Contract Financing and how does it benefit you?

Contract Financing (or monetizing) is a very flexible financial tool providing a number of capital options - much less expensive and onerous than equity or sub-debt. So long as there is an equipment component, contract financing can be used to:

- Acquire equipment necessary for the fulfillment of a service or supply contract
- May provide much needed working capital to run your client's business and/or develop infrastructure to facilitate the contract services
- Refinance existing equipment and improve cashflow
- Accelerate contract revenues
- Entre' to repeat business

Each transaction is a custom product designed to meet the needs of your client's end-user/customer.

Contract Financing Flow Chart



Minimum required payment must be non-cancelable

Where Can Contract Monetization Work?

Small and Medium Sized Companies: that have fixed term contracts with investment grade entities. Contract Monetization gets the supplier funds upfront to acquire equipment and working capital to fulfill the contract.

- Municipal and Commercial Investment Grade Entities: which need to acquire goods or services but are not able to purchase or lease at this time. A rental or service agreement can be written between the supplier and investment grade entity. Monetization gets the supplier the funds upfront. Investment grade entity can achieve their off balance sheet objective.

- Software Transactions: A service or rental contract can be written between the software supplier and the investment grade entity. Contract monetization gets the software supplier the funds upfront. Investment grade entity can achieve their off balance sheet objective.

Components of a successful Contract Financing

- End user must be an investment grade entity
- There must be a necessary equipment component
- End user must provide a fixed, determinate, non-cancelable payment stream
- Early involvement of Industrial & Commercial Leasing Company (although can be successfully done by an amendment to an existing contract)
- Strong motivation on the end user's part to have service and/or equipment provided
- Proprietary contract language makes it easier for your client to say yes
- Term of contract should be 2 years or more, (preferably 3 years)

Motivation for agreement by end user

- May save a significant amount of money
- May generate a significant amount of revenue
- Access to a unique product or service
- Off balance sheet treatment; contract is a contract for services and payment for those services is an expense. As they are **not** financing equipment, nor do they have ownership in the equipment, there is no traditional “financing costs” to the end user

Let's get started

- Your company uses the Industrial & Commercial Leasing Company checklist to identify a potential contract finance transaction
- Industrial & Commercial Leasing Company develops a term sheet and creates a proposal for your portfolio company or your potential client
- Client carefully reviews the proposal, signs and returns
- Client provides a copy of their standard contract for legal review (proprietary language to be inserted by Industrial & Commercial Leasing Company)
- Client confers with their end user to review contract language (with Industrial & Commercial Leasing Company's assistance)
- Gain agreement in purchasing (with Industrial & Commercial Leasing Company's assistance)
- Move to legal (Industrial & Commercial Leasing Company negotiates the language with the end user's legal department)
- Upon agreement and execution, the transaction is funded

Overcoming typical roadblocks to success

- **ASK** the end user to agree to the contract language (*ask* is the most powerful word in the universe)
- Remind the end user of initial motivation for entering into contract
- Gain general agreement in customer's purchasing department; specifics worked out in legal
- Let us help you negotiate with the end user

Compare Contract Financing to traditional funding

	Contract Financing	Bank	Venture/Investors
Funding Applications	No Industry Limitations	Traditional	Start-Up Expansion/Growth Mezzanine
Recourse	Limited to equipment	Yes: Funding is recourse to borrower and often personal	Yes: Funding is recourse to borrower
Funding Scope	\$1 million and up	Limited by department and credit review committees	Highly variable and dependent on fund size
Monetized Amount	Up to 100% net present value of fixed payment stream	Typically 10% - 50%	Typically 10% - 70%
Interest Rate	Fixed: Competitive	Not Fixed: May be competitive	Not Fixed: Not Competitive
Fees or Equity Grants	Documentation & Legal Only	Closing & renewable fees	Typically Fees AND Equity
Time to Close	2-4 Weeks average	90+ days	6 mos – 18 mos
Repayment Structure	Customized to suit specific cash flow needs of project including option to defer start of repayment	Restrictive/Rigid	5-7 yr 10x Investment return expectation
Security/Collateral	Assignment of unconditional promise to pay from investment grade entity	1 st Lien position on tangible assets	Control
Oversight	None	Audits, frequent reviews – life of loan	Board representation
Documentation	Efficient – prepared in-house	Litigious and Extensive	Litigious and Extensive