ISSUE NO 5

THE WATSON GROUP

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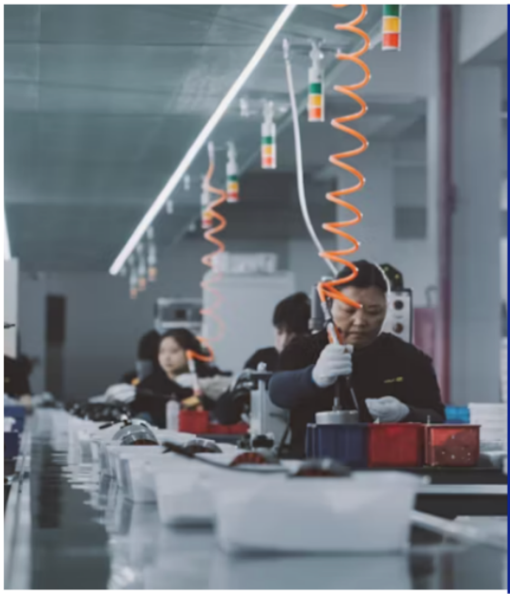
CONTRACT CAPITAL
DIGEST

Your Partner in Contract Financing and Working Capital for Over 35 Years



At THE WATSON GROUP, we've partnered with countless growing companies to secure financing for their contracts and purchase orders. Whether their customer or prospect is government or large commercial, we specialize in developing FUNDING SOLUTIONS to support their performance.

Our diverse range of innovative, "out-of-the-box" funding options include, Contract Mobilization Funding, Contract Payroll Funding, Vendor Trade Credit Financing, Supply Chain Financing, Purchase Order Financing, Construction Subcontractor Financing, Factoring and Express Pay Financing, Contract Manufacturing Financing, or Financial Commitment Letters, just to name a few.

CONTRACT CAPITAL DIGEST is designed to share with you the HOW TO's for some of the practical and proven techniques and methods we teach and use in our practice on a DAILY BASIS, regardless of business credit standing.

Please feel free to reach out if you have any questions or would like our input on any Contract Financing opportunities or challenges you may be having.

Gerald C. Watson
President & Publisher

10 QUESTIONS YOU MUST ASK BEFORE SIGNING UP WITH ANY FACTORING COMPANY

One of the biggest mistakes many companies make, both small and large, is that they approach a financial institution for a loan, including commercial banks, without, what I call, Pre-Qualifying the Lender.

Taking time to undertake this effort can have a big payoff, potentially saving time and money, because of a relationship that wasn't designed or structured to work in the first place.
In the case of Contract Financing, Pre-Qualifying the Lender involves asking a series of key questions , before going through the exercise of completing forms, submitting documents, undergoing Due Diligence and underwriting, only to find out days, or even weeks later that, it wasn't a good fit in the first place.

In this section, I've included 10 questions to ask, along with some insights as to why I think they're important. These questions are based, in part, on some of the horror stories I've heard from clients,

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over the years, making some of them skeptical about Contract Financing. They're also based on some of the horror storiesI've heard from lenders as well.
Pre-Qualifying the Lender, by asking questions, will not only identify you as a serious, methodical candidate for financing, but will give you a better understanding of the lender you are considering, their ability to meet your needs, and if you'd even qualify, BEFORE making the decision to move forward and potentially, "tie the knot". Having a "good fit" is everything when you're looking to establish a long term relationship.

Finally, remember this, "Just because you picked the wrong spouse, doesn't mean getting married is a bad idea."

QUESTION 1: Are the Factoring Rates Based on the Invoice Face Value or the Advance?

When the Financing Rates are based on the invoice face value, versus the actual advance, the cost is always higher.That's because the rates are tied to the invoicetotal, while the advance is only for a portion, typically 70-80%. As a result, the effectiverate is actually higher as well. When the factoring fees are based on the actual advance, it is often referred to as Funds Deployed.

Here's an illustration:

FEES BASED ON

	Invoice Face Value	Advance
Invoice Amount	$100,000	$100,000
Advance Rate	70%	70%
Advance Amount	$70,000	$70,000
Factoring Fee	2%	2%
Financing Cost	$2,000	$1,400

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Question 2: HOW ARE THE FINANCING FEES PRO-RATED?

PRO-RATING refers to the minimum, incremental, number of days the financing rate is applied, based on the number of days the invoice is outstanding. If the increments are based on 10 days, then the financing rate is applied to all 10 days, whether the invoice is paid in 1 day or 10. If the increments are based on 30 days, which is common, then the financing rate is applied to all 30 days, whether the invoice is paid in 1 day or 30. As a result, the larger the increment, the higher the cost. The lower the increment the lower the cost. PRO-RATING DAILY always results in the lowest cost.

Question 3: DOES THE AGREEMENT WITH THE LENDER REQUIRE A MINIMUM TERM? IF SO, IS THERE A CANCELATION CLAUSE, AND HOW DOES IT WORK?

Some lenders require a minimum term, typically one year or more while others work on a month to month basis. Spot Factors require no term, and work on a transaction by transaction basis. Some lenders, particularly those whose rates are based on an annual factoring credit facility size, require a minimum monthly factoring amount, while others do not.

Some agreements have cancelation clauseswith a penalty, while othersdo not Agreements with penalties,typically, hold the client responsible for payment of monthly fees which would have been earned for the balanceof the term from the cancelation date.

Question 4: IS FACTORING OFFERED ON A RECOURSE OR NON-RECOURSEBASIS?

Recourse defines who is financially responsible for the advance, if the customer fails to pay the invoice. With Recourse Factoring, the borrower is financially responsible for repayment of any advances it receives against invoices their customer(s) fails to pay. With Non-Recourse Factoring they're not, and many of factors typically require credit insurance for the debtor. Most factoring is offered on a recourse basis.

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Question 5: IS FACTORING OFFERED ON A NOTIFICATIONOR NON-NOTIFICATION BASIS?

Notification Factoring requires a letter to be sent, typically on the client's letterhead that formally advises their customer of the financing arrangement they have entered into with the lender. It further states that all invoice payments should be sent directly to the lender, on their behalf, to the address specified in the notice.

In addition, some notices state that this arrangement can only be changed by the lender, and require a signature acknowledging receipt and acceptance of the terms and conditions specified in the document.

With Non-notification Factoring a notice is sent by the client, on their letterhead, simply instructing their customer to forward all future invoice payments to a lockbox, which belongs to the lender.

Notification on federal government contracts requires a more formal process, as described in the Assignment of Claims Act, under Part 32, Contract Financing, of the Federal Acquisition Regulations.

Question 6: WHAT IS THE LENDERS APPROVAL CRITERIA?

The approvals criteria will typical vary from one lender to another. Some lenders require a complete documentation package, including business financials and tax returns,while others do not. Some lenders have a minimum personal credit score, or payment pattern profile, for the business owners, while others do not pull personal creditat all. Lenders who specialize by industry i.e. construction, transportation, medical, etc, have additional information requirements and approval criteria.

In addition to the client, lenders also have approval criteria for their customers, who have to meet their requirements for credit-worthiness. Some lenders will only approve those commercial clients they get an approval on for credit insurance.
Lenders also have approval criteria for the contract or purchase order itself, particularly regarding payment terms and conditions. For example, many lenders will not fund "pay when pay" contracts. These are situations where the client is a subcontractor and the prime agrees to pay them only when they get paid. Other lenders will not approve 2nd tier subcontractors, while others will. Off-set Clauses in a contract can pose a problem as well.

Finally, some lenders will provide an approval in 2 days, while others may take up to weeks. Understanding the lenders approval process, criteria, and timing, upfront, will help in determining whether or not you have a good fit.

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Question 7: WHAT FEES DO THEY CHARGE, AND WHEN DO THEY CHARGE THEM?

Some lenders charge an application fee while others do not. Typical application fees range from $250-
$500. In most cases, the application fee, if any, is submitted with the application. Some lenders charge also may charge an Origination Fee typically of 1-2% of the Factoring Facility Size, and is deducted from the first advance.

Finally, most lenders have a schedule of miscellaneous charges for bank wires, check fees, etc. Its' always best to get a complete breakdown on all fees and charges, and not just the rates.

Question 8: WHAT ADDITIONAL FINANCIAL SERVICES DO THEY PROVIDE?

Some lenders provide additional financing services while others don't. These could include, ABL Lines of Credit, PurchaseOrder Financing, Payment Guarantee and Assurance Letters, Financial Commitment Letters, Inventory Financing, Term Loans, etc.

In some instances, some of these services may be provided by another lender they have a referral relationship with. In these cases, it may involve a separate application, approval process, and fee structure. It's always best to find out upfront, before you get started, if you need them.

Question 9: WILL THE LENDER FACTOR YOUR EXISTING OR PAST DUE INVOICES, OR ONLY NEW ONES?

This is important, especially if you currently have outstanding invoices and are looking for an immediate cash injection. Some lenders only factor brand new or current invoices.Others will factor existing invoices up to 60 or 90 days old.
All lenders require an Accounts Receivable Aging Schedule, which breaks down your outstanding invoices by customer, and days outstanding. The aging schedule will help in determining how well they pay, which ones are approvable, and help in establishing a credit limit for those that are.

Question 10: CAN THE LENDER STILL PROVIDE FINANCING IF A TAX LIEN OR JUDGEMENT EXIST?

Tax liens and judgments are the "kiss of death" for most lenders, and can be difficult, or in some cases, impossible to work with. Some of the keys include the size of the tax lien or judgment, are their enough receivables, to pay them off, and if not, is it possible to structure a SubordinationAgreement with the lien holders This involves working out an arrangement for the lender to forward payments based on a mutually agreeable schedule, in exchange for securing a first lien position on existing and future receivables. Some lenders are more aggressive, creative, and flexible than others in working with these situations, based on the circumstances. In the case of a Federal Tax Lien, a Subordination Agreement will need to be secured from the IRS before most lenders will fund. If you have tax liens or judgments, you'll want to discuss this with them right up front.

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Don't Let a Lack of Cash Flow Hold You Back From Taking On New Contracts!

Struggling to secure financing for your contracts and purchase orders? You're not alone. The fact is almost 50% of small business owners who applied for bank credit were denied. That's where we step in. Using our highly specialized, *alternative financing techniques*, we have helped growing business owners all over the country secure millions of dollars in financing for their government, and commercial contracts and purchase orders.

Transaction Engineering ©

COMPREHENSIVE DIAGNOSTICS

We begin by conducting a Preliminary Underwriting Interview to better understand your Contract Financing needs and timing, existing business condition, and identify any potential business or financial issues that could impact funding approval. We then compile a Checklist of Documents including a copy of contracts to be funded, along with standard business documents for internal review and analysis.

CUSTOMIZED FUNDING STRATEGY

With the results of our diagnostic review and analysis, we "engineer" a Funding Strategy to include the "optimal" funding products for each phase of your contract, ie at the beginning for mobilization or start-up, if required, in the middle to cover payrolls, vendors or subcontractors, if any, and at the end to speed up cash flow while waiting to get paid. We also develop a game-plan for addressing any business or financial issues which could impact funding approval.

LENDER SELECTION AND UNDERWRITING

Based on your Funding Strategy and our history and working relationships with our funding partners, we determine the "best fit options "including structuring of your Financing Facility, and negotiating of funding amounts, rates and terms. Once you have elected to move forward, we will continue to work with you and your lender on a day-to-day basis, including preparation of your formal app package, underwriting, due diligence, addressing any business or financial issues as required, ie UCC filings, all the way through final approval.

CLOSING AND FUNDING

Upon final approval, we work with you and our funding partner to expedite and facilitate the closing process through your review and execution of Closing Docs Package and funding.

Contract Financing Product's We Offer

- Contract Mobilization Funding
- Contract Payroll Funding
- Supply Chain Financing
- Vendor Trade Credit Financing
- Purchase Order Financing
- Subcontractor Financing
- Material Supply Financing
- Factoring and Express Pay Financing
- Contract Manufacuring Financing
- Financial Commitment Letters
- Working Capital Term Loans
- Revolving Asset-Based Lines of Credit

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