

WHITE PAPER: EUREKA! A BETTER WAY TO RAISE CAPITAL AND EXPLORE FINANCING ALTERNATIVES

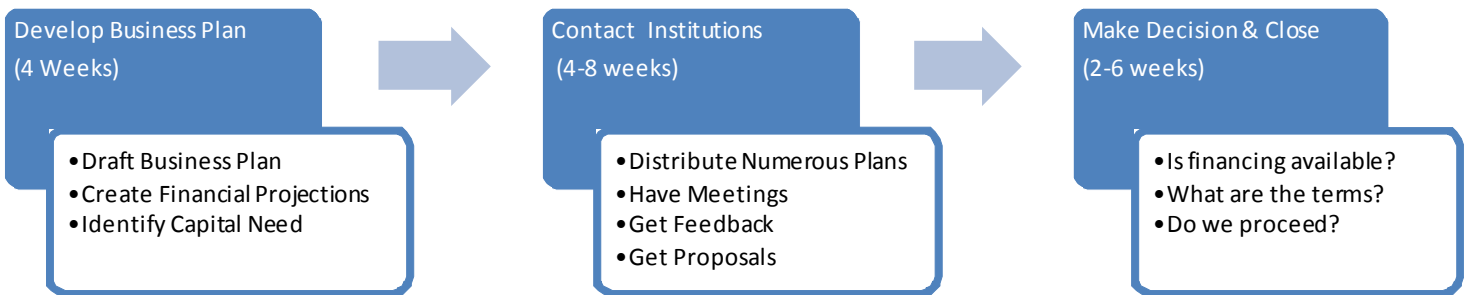
Abstract: What's the old saying, "Adversity brings innovation"? As the financial markets began to unravel last year, many financial institutions stopped making new investments, and those that were lending and investing were constantly changing their investment parameters. In order to give clients (and ourselves) peace of mind, we reengineered our approach to capital raising and found not only a solution for a challenging market, but a process that likely works best in *any* market.

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THE TRADITIONAL WAY—"JUMP RIGHT IN!"

When it comes to financial planning and capital raising, most companies simply 'jump right in.' Meaning, the CEO, CFO, or financial advisor starts the financial planning process by writing a business plan. Once the plan is complete, they contact prospective investors or lenders, and provide the business plan as written support for their request. But regardless of whether done internally or with a financial advisor, the process is basically the same.

OVERVIEW OF TYPICAL PROCESS



The major shortcoming with this process is that companies must devote significant resources, time and effort *before* getting any initial feedback on their two most basic questions: *Is financing available to us? If so, what would be the general terms?* As a result, the process can be very inefficient and companies can make poor decisions because they run out of time or get fatigued. Some financial advisors and investments banks play on this shortcoming by giving clients optimistic expectations on the front end only to deliver far less favorable financing alternatives later. Unfortunately, it's not that easy for companies to walk away, because they have already committed significant time and resources and the advisor likely has a two year exclusivity period, which allows the advisor to collect their fee should the company raise *any* capital during that period even if done on their own or with another advisor.

A NEW CHALLENGE EMERGES

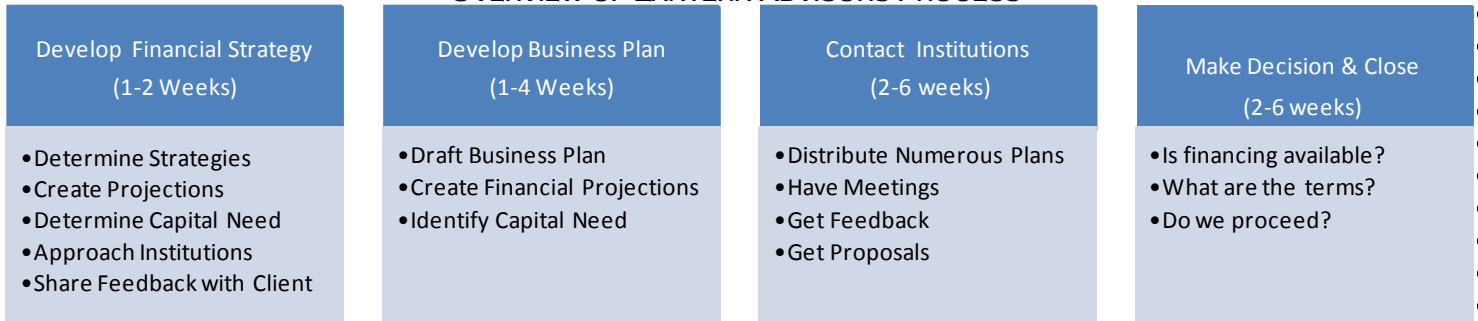
As the financial markets began to unravel late in the summer of 2008, many financial institutions stopped funding

investments. This impacted all companies including those that would have easily received funding (and lots of it) only a short time earlier. The pressing challenge then became how to help companies quickly answer those key questions (*Is financing available and at what terms?*) with any level of specificity or certainty.

CREATING A NEW APPROACH

In order to bring added peace of mind to our clients (and our own people!), we decided to reengineer the typical capital raising process. In short, we wanted to answer those key questions *before* beginning the detailed planning process of creating the business plan and contacting numerous funding institutions. To accomplish that, we summarized the financial strategy in a brief document which we then used to communicate both to our client and a handful of prospective funding sources. After talking with those institutions, we shared the feedback with our client.

OVERVIEW OF LANTERN ADVISORS PROCESS



Answer the Big Questions First

RESULTS

As we hoped, this redefined process enabled us to reduce the risk of coming up short of our client's expectations (either by not finding any financing alternatives, or finding alternatives that were materially different than their expectations). In fact, since implementing this new approach, we have **delivered financing proposals 100% of the time after getting positive feedback during the strategy development phase**. Equally important, this process was done quickly (usually within two weeks) and *before* starting to draft the business plan and contacting funding sources.

OTHER ADVANTAGES

While this process provided the peace of mind we hoped for, it also provided other significant value, which has led us to incorporate it into all of our financing projects. Some of those advantages and examples of each are summarized below:

- ◆ **INCREASED CONFIDENCE** - Getting early feedback that financial institutions have a legitimate interest to fund a company's plans provides everyone added confidence throughout the engagement. This is particularly true for companies considering acquisitions. This summer we used our new approach with a client that had identified two acquisition targets. One of the institutions we contacted met directly with the company and provided two preliminary financing proposals (term sheets) to finance one or both acquisitions. This happened *before* completing the business plan, gave management increased confidence to pursue the acquisition, and demonstrated to the acquisition target that they had the capital necessary to complete the acquisition.
- ◆ **SHORTENS TIME** - Another advantage is that the upfront planning can shorten the time of the overall process. This can happen because companies tend to finish the detailed planning work faster because they are motivated to get through the business plan process and entertain other offers while starting to talk with those institutions that expressed interest during the strategy development phase.

- ◆ **OPEN TO BEST POSSIBLE FINANCING** - The intent of the reengineered process was to help companies address those key questions as early as possible. This new approach doesn't diminish the value of completing the rest of the detailed planning process. In fact, quite the opposite. The new process enhances the value of the rest of the process by helping clients develop plans that attract multiple potential funding sources. The value of obtaining multiple proposals is tremendous because there can be a wide range in fees, structures and costs. As an example, on a recent \$25 million financing project we received 10 proposals. The cost differential between the highest and lowest offers was \$9.7M (given fees, interest rates, equity participation etc.), while the difference between the first and second best proposals was \$1.2 million.
- ◆ **GAIN INPUT ON COMPLICATED FINANCINGS** - Most of our clients want financing solutions that provide added capital without significantly diluting shareholder equity or taking on substantially greater risk. That often requires finding and coordinating financing from more than one source. By working at a summarized level of detail, we can get valuable feedback to develop financing structures that appeal to all parties. As an example, we recently worked on a buyout opportunity, where the seller was willing to provide part of the financing assuming it met certain provisions. Through the strategy process we were able to identify and develop a financing structure that appealed to financing institutions and management while satisfying the requirements of the seller.
- ◆ **IDENTIFY AND ADDRESS UNFORESEEN CHALLENGES** - From time to time, financial institutions may identify challenges or weaknesses in a company's financial plan. Because it's identified early, it can be addressed before distributing the plan to a broader audience. This situation came up during a management buyout transaction, where a financial institution thought one of the owner's buyout provision was bad for investors and the new management. When we explained it to the owner and management, the owner reevaluated the provision and removed it. The business plan was completed shortly thereafter and we ended up receiving numerous proposals from a variety of institutions.

IMPLEMENTING THIS PROCESS

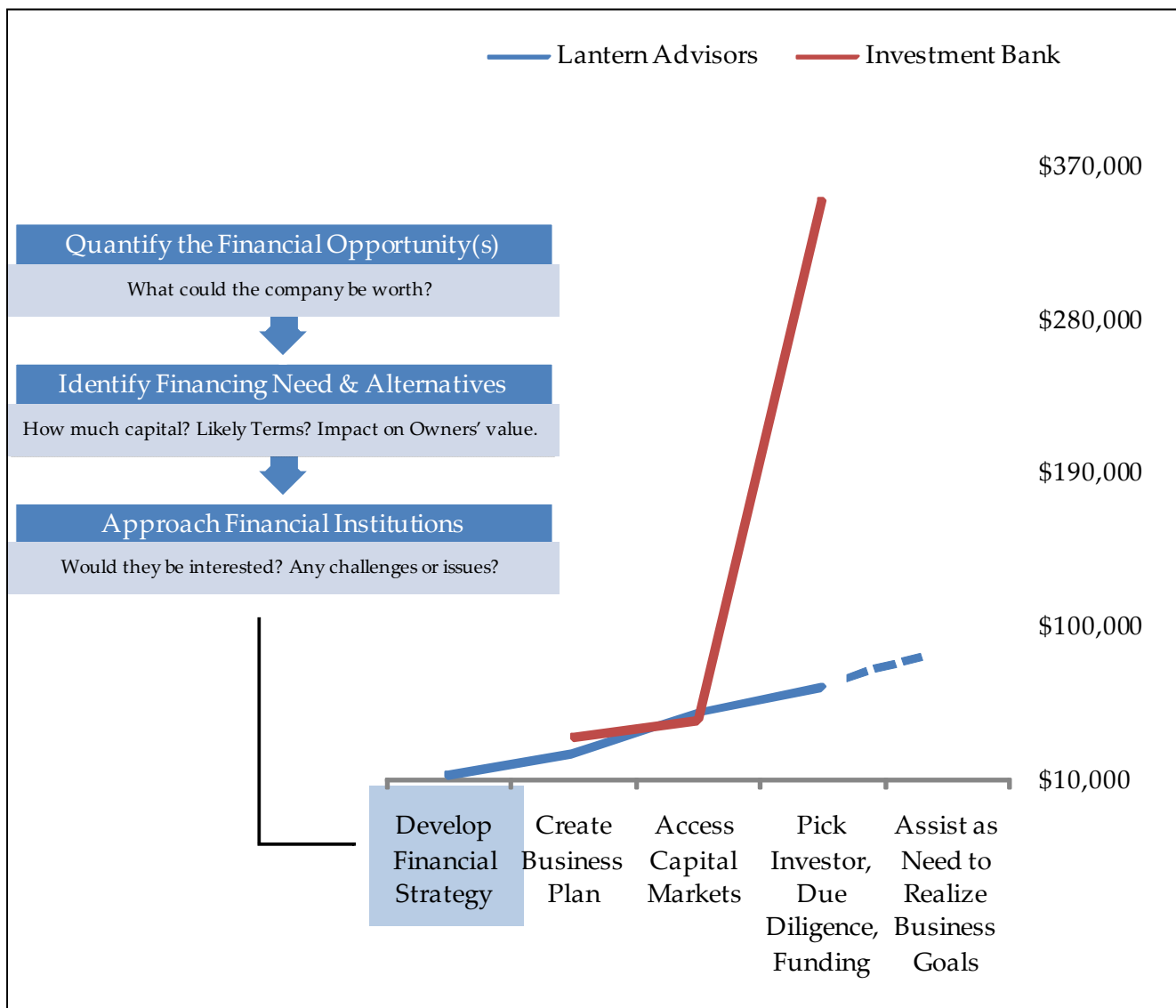
For the many reasons outlined in this article, we believe our reengineered approach has tremendous potential because it quickly addresses a company's most important questions first. From there, companies can make better decisions about their alternatives and how to allocate their time and resources to achieve the most value.

Companies or other financial advisors could use this approach. But many owners and CFOs do not have the knowledge or contacts in the financial markets to uncover the type of financing alternatives they really want or need. Conversely, financial advisors and investment banks use industry standard engagement practices which require clients to commitment significant time and fees *prior* to starting any work. Not only is this process inefficient, it can also lead to needlessly high fees¹ and conflicts of interests².

WE THINK WE HAVE A BETTER WAY!

A better approach is to prioritize the work (and fees) in a way that allows the advisor to complete the upfront work necessary to give clients clear direction and feedback from financial institutions in the current market. From there all parties can make informed decisions about how to proceed. We believe this approach is ideal for our firm, Lantern Capital Advisors, because unlike investments banks and other financial advisors to companies, we work on an hourly basis (similar to CPAs and law firms). This enables us to give truly objective advice and serve our clients needs in a variety of ways. When our hourly based approach is combined with our reengineered capital raising process, we are able to deliver valuable input, consistent results and do so at a fraction of the cost of our competition³.

ILLUSTRATION OF LANTERN'S PROCESS AND FEES COMPARED TO INVESTMENT BANKS



**ABOUT THE AUTHOR:
CHRIS RISEY**

Chris Risey is the founder and President of Lantern Capital Advisors, an Atlanta-based corporate financial consulting firm specializing in helping successful entrepreneurial companies plan for and achieve financing for growth, acquisitions, and buyouts from a variety of institutions, including banks, specialty and mezzanine lenders, venture capital firms, and underwriters. Since its formation, Lantern Capital Advisors has helped clients successfully develop strategies and access capital in order to fund their company in a way that best suits their unique needs and growth potential.

Prior to founding Lantern Capital Advisors, Mr. Risey served as a Managing Director for a niche consulting firm in Tampa, Florida, that provided corporate financial consulting and helped companies raise capital. After nine years, Mr. Risey left to launch Lantern Capital Advisors in order to provide cost effective services and high client satisfaction. Chris started his professional career as a CPA in the audit and advisory services group for Arthur Andersen in New Orleans, Louisiana.

Active within the business and civic community, Mr. Risey has served for many years in a variety of leadership roles within Rotary International, Financial Executives International, and The Association for Corporate Growth. Mr. Risey is also a frequent writer and speaker to financial executives and entrepreneurs throughout the country interested to learn more about today's financing and planning strategies that have created significant value for a variety of companies, and the current impact that the financial markets are having on today's successful companies, and the ability to access financing for their business.

Mr. Risey is a magna cum laude, full scholarship graduate of the University of South Florida, with a degree in Finance. He was twice named Academic All-American (Men's Basketball), and is a former Rotary International Ambassadorial Scholar, where he attended the Australian Graduate School of Management at the University of New South Wales in Sydney, Australia on a full scholarship.

FOOTNOTES

1. Investment banks typically charge an initial retainer and/or a monthly retainer and a "success fee" upon funding. Retainers charged by established investment banks typically range between \$25,000 and \$50,000. *Minimum* success fees are often \$250,000 to \$500,000. In addition to cash fees, many investment banks seek additional compensation in form of company equity, options, or warrants.
2. Common conflicts of interest include: 1) charging much higher fees to raise equity over debt, 2) accepting finder's fees from funding sources, and 3) setting equity compensation based on the valuation of the investment. These practices create conflicts because they create an economic incentive for the advisor to withhold more attractive strategies in order to maximize their transaction fee.
3. Fee assumptions are based on an assumed capital raise of \$10 million comprised of bank and specialty debt and completed over a 120 day period. The investment bank's total fee is \$350,000, including an initial retainer of \$25,000 and monthly retainer of \$10,000. Lantern's total fee is \$65,000 encompassing \$10,000 to develop financial strategy and \$55,000 to secure funding. All other (optional) work is not quantified.



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ABOUT LANTERN CAPITAL ADVISORS

LANTERN CAPITAL ADVISORS IS A CORPORATE FINANCIAL CONSULTING FIRM THAT SERVES AS A STRATEGIC CORPORATE FINANCIAL ADVISOR TO GROWING PRIVATE COMPANIES. OUR CONSULTING SERVICES DELIVER SUBSTANTIAL VALUE FOR OUR CLIENTS BY ASSISTING THEM WITH STRATEGY ASSESSMENT, BUSINESS PLANNING, AND THE EVALUATION AND SELECTION OF CAPITAL SOURCES AND LIQUIDITY ALTERNATIVES.

OUR CLIENTS ARE FAST GROWING BUSINESS THAT ARE BEING HELD BACK BECAUSE OF LIMITED CAPITAL. BY ENGAGING OUR SERVICES, LANTERN CAPITAL ADVISORS HELPS COMPANIES DETERMINE THEIR CAPITAL REQUIREMENTS BASED ON THE FUNDING REQUIREMENTS OF THEIR OWN GROWTH PLAN.

WE SECURE FINANCING FOR OUR CLIENTS FROM A BROAD RANGE OF PRIVATE AND PUBLIC FINANCIAL INSTITUTIONS. WE HELP COMPANIES FIND AND NEGOTIATE BUSINESS FINANCING THAT MINIMIZES DILUTION AND PERSONAL FINANCIAL LIABILITY TO THE COMPANY OWNERS. WE ALSO ASSIST OUR CLIENTS IN BUYING OUT COMPANY SHAREHOLDERS IN ORDER TO FURTHER INCREASE THE FUTURE VALUE OF THE BUSINESS.

AS INDEPENDENT CORPORATE FINANCIAL ADVISORS, LANTERN SPECIALIZES IN FINDING CREATIVE CORPORATE FINANCING SOLUTIONS THAT MAXIMIZES SHAREHOLDER VALUE BY MINIMIZING OWNERSHIP (EQUITY) DILUTION AND PERSONAL FINANCIAL RISK.

MANY CLIENTS HAVE LIMITED PRIOR EXPERIENCE IN THE CAPITAL MARKETS AND WANT TO GAIN THE BENEFIT OF AN EXPERIENCED ADVISOR TO SOURCE FUNDING ALTERNATIVES AND GIVE ADVICE THAT IS IN THEIR BEST INTEREST. LANTERN CAPITAL ADVISORS HOURLY BASED, CONSULTATIVE APPROACH UNIQUELY POSITIONS US TO DO JUST THAT. OUR PROFESSIONALS HAVE BEEN ENGAGED IN A BROAD ARRAY OF LARGE AND SMALL ASSIGNMENTS ACROSS VARIOUS INDUSTRIES ACROSS THE UNITED STATES. COMMON CLIENT ENGAGEMENTS AND ACTIVITIES INCLUDE ONE OR MORE OF THE FOLLOWING:

- ✦ EVALUATE GROWTH AND VALUATION ALTERNATIVES
- ✦ SECURE CAPITAL FOR GROWTH OR LIQUIDITY
- ✦ COORDINATE MERGERS/ACQUISITIONS
- ✦ COORDINATE MANAGEMENT BUYOUTS
- ✦ PREPARE QUALITY BUSINESS PLANS
- ✦ REPLACE CURRENT LENDERS OR INVESTORS
- ✦ REMOVE PERSONAL DEBT GUARANTEES
- ✦ SOLICIT UNDERWRITERS FOR SECURITIES OFFERINGS