

THE FULL SPECTRUM

A PUBLICATION OF SPECTRUM COMMERCIAL SERVICES
MINNEAPOLIS, MN · DENVER, CO · DETROIT, MI
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A Fast Start For Our New Office In Detroit

Since opening our Detroit office in late 2002 with John Donnelly, we have had a tremendous response for both our Asset Based Lines of Credit and Accounts Receivable Financing. In just over 9 months, we have closed \$4,000,000 of financing lines and are in the due diligence process for \$8,000,000 more.

About SPECTRUM

SPECTRUM specializes in financing companies with sales in the \$1 to \$40 Million range. Since companies of this size have fewer options for alternative financing than larger companies, we have become a good resource for banks and others that come across situations that just don't fit for traditional financing. SPECTRUM does both asset based lending on A/R; inventory; equipment and real estate for Lines from \$1MM-\$4MM and receivable financing from \$50,000 to \$4MM.

Recent SPECTRUM Solutions

Brian J. Van Nevel, Principal

The spring and summer have been a very busy time for SPECTRUM. Our Denver, Detroit and Minneapolis offices have seen a flurry of activity from you, our referral sources. Some of our recent accommodations include:

When SPECTRUM offered to participate in the loan, a local bank initially opted to finance a *safety supply company* on their own. 12 months later, when the turnaround was slower than anticipated, the bank asked SPECTRUM to participate on the \$3,000,000 facility and manage the loan. We were happy to provide the additional disciplines of an asset based loan to the company as they continue their turnaround.

A *metal manufacturer* called when they were being asked out of their banking relationship due to recent losses.

SPECTRUM arranged a Line of Credit on A/R and Inventory as well as an Equipment Term Loan totaling \$1,300,000. **The owner was very pleased to avoid taking on additional equity and diluting his ownership further.**

A local *nursing & hospital staff temporary* company was just starting up. SPECTRUM reviewed the management's experience and the business plan and provided a \$400,000 receivable financing arrangement. The company has grown exponentially in just 6 months.

To Contact SPECTRUM

Please See

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FRAUD

Enron, WorldCom, Adelphia are all well known examples of corporate fraud. Interestingly, these frauds occurred in the boom years of the late 1990's and early 2000's. It's even more common to find fraud in more recent times when sales and profits are falling and the outlook uncertain.

Increasingly we are finding issues of fraud in our pre-funding due diligence. Some examples include:

Embezzlement – In one situation, we helped a prospect discover that an employee had embezzled money due to inadequate internal controls. This resulted in significant losses and damaged the company's relationship with their lender, requiring an alternative financing source. In another instance, a company's owner

was unable to explain the poor performance and our due diligence work found that the CFO had been siphoning money for months.

Inaccurate Financial Reports – We have also found instances of this being done to keep within compliance for the bank or, in the case of an asset-based lender, to increase the borrowing base.

Here are some of the red flags that we look for that may indicate fraud:

Increasing Sales in a Down Market – sales are steady or increasing while the rest of the industry is struggling.

Credit and Rebills – especially when an invoice is approaching 90 days and is about to become ineligible.

Inventory Increases – particularly without an increase in sales.

Sudden Drop in Collections through the Lockbox – this may indicate direct collections by the borrower.

No Separation of Cash Collections – one person does cash collections and issues credit memos.

A/R Aging is Stretching – the company may be selling to anyone and everyone and/or raising credit limits on existing customers.

Personality Changes – are the people unusually cold or suspicious of every question you ask?

As an asset-based lender, we receive reporting daily and conduct quarterly collateral exams. By monitoring financials more closely, we hope to find questionable activity earlier. We also hope that our more frequent reporting requirements provide less opportunity for these situations to arise.

We are happy to be a resource to you if you have any questions about your troubled loan situations.

Brian J. Van Nevel