BUSINESS LOAN AGREEMENT

First draft for The lender (Larkmoor Bank & Trust) · changes from the template

Lender-side draft of the Larkmoor–Cobalt Ridge $5,000,000 revolving line agreement, conformed to the term sheet and 2023 precedent, with three open items.

Blue = added ~~Red~~ = deleted [n] = comment

BUSINESS LOAN AGREEMENT

This Business Loan Agreement (this "Agreement") is dated as of [DATE] between ~~[LENDER]~~Larkmoor Bank & Trust ("Lender")[2] and ~~[BORROWER]~~Cobalt Ridge Manufacturing, LLC, a [STATE] ~~[ENTITY~~limited ~~TYPE]~~liability company ("Borrower")[3] [1][4].

[2] From term sheet (Term sheet ¶1): Lender named per the term sheet.

[3] From term sheet (Term sheet ¶2): Borrower named per the term sheet. Entity type follows from "LLC."

[1] Open item: The term sheet doesn't give an agreement or closing date. I left [DATE]; please confirm it, since maturity runs from this date.

[4] Open item: The term sheet doesn't give Borrower's state of organization. The 2023 precedent describes it as an Ohio LLC. Please confirm it is unchanged before filling [STATE].

1. Line of Credit. Lender agrees to make advances to Borrower from time to time in an aggregate principal amount outstanding not to exceed $~~[AMOUNT]~~5,000,000[5] (the "Line of Credit") for Borrower's ~~business~~working capital purposes[6]. Borrower may borrow, repay and reborrow until the Maturity Date.

[5] From term sheet (Term sheet ¶3): Facility amount per the term sheet.

[6] From term sheet (Term sheet ¶3): Use of proceeds is limited to working capital per the term sheet.

2. Interest. Advances bear interest at a rate per year equal to one-month ~~LIBOR~~Term SOFR plus ~~[MARGIN]~~2.75%; provided that Term SOFR shall not be less than 0.50%.[7] If ~~LIBOR~~Term SOFR is unavailable[8], Lender may select a comparable index in its sole discretion.

[7] From term sheet (Term sheet ¶5): Index, margin and the 0.50% floor follow the term sheet. This also replaces LIBOR, which is no longer published.

[8] Business term (Term sheet ¶5): Fallback language conformed to the new Term SOFR index. Lender's discretion to pick a replacement is retained.

After an Event of Default, at Lender's option, the rate increases by [3.00]% per year.[9]

[9] From precedent (Precedent ¶2): The term sheet is silent on default interest. The precedent's lender-favorable default-rate clause is added; please confirm the bracketed increase for this facility.

3. Fees. Borrower shall pay Lender ~~a~~an ~~commitment~~unused line fee of ~~[ ]~~0.25% per year on the unused portion of the Line of Credit, ~~at~~payable ~~closing~~quarterly in arrears[10].

[10] From term sheet (Term sheet ¶6): The deal has a quarterly unused line fee rather than the template's upfront commitment fee.

4. Maturity. All outstanding advances, interest and fees are due on ~~[MATURITY~~the ~~DATE]~~second anniversary of the date of this Agreement[11] (the "Maturity Date").

[11] From term sheet (Term sheet ¶4): Two-year maturity per the term sheet. This assumes closing occurs on the Agreement date; adjust if they differ.

5. Collateral. To secure the Obligations, Borrower grants Lender a first-priority security interest in all of Borrower's ~~personal~~accounts ~~property~~receivable and inventory[12], now owned or later acquired, and all proceeds.

[12] Business term (Term sheet ¶7): The template assumes an all-asset lien. The deal is a first-priority lien on receivables and inventory only.

6. Guaranty. The Obligations shall be guaranteed by ~~[GUARANTOR]~~Cobalt Ridge Holdings, Inc.[13] under Lender's form of ~~personal~~unlimited guaranty[14].

[13] From term sheet (Term sheet ¶8): Guarantor named per the term sheet.

[14] Business term (Term sheet ¶8): The template assumes a personal guaranty. The deal is an unlimited corporate guaranty, with no personal guaranties.

7. Financial Covenants. Borrower shall maintain a Debt Service Coverage Ratio of not less than 1.~~25~~20 to 1.00, tested ~~annually~~quarterly ~~as~~on ~~of~~a ~~each~~trailing ~~fiscal~~twelve-month ~~year-end~~basis[15] [16].

[15] From term sheet (Term sheet ¶9): DSCR level and testing period per the term sheet.

[16] From precedent (Precedent ¶4): The precedent included a once-per-year equity cure. It favors Borrower and the term sheet doesn't require it, so I left it out.

Borrower shall maintain a ratio of Total Funded Debt to EBITDA of not more than 3.00 to 1.00, [tested quarterly on a trailing twelve-month basis].[17]

[17] Open item: The leverage level comes from the term sheet, which is silent on testing frequency. Please confirm the bracketed test, and consider adding definitions of Total Funded Debt and EBITDA.

8. Reporting. Borrower shall deliver annual ~~audited~~CPA-reviewed financial statements within ~~90~~120 days[18] after each fiscal year-end and copies of its federal tax returns within 30 days after filing.

[18] From term sheet (Term sheet ¶10): Annual statements are CPA-reviewed and due within 120 days per the term sheet. The tax return delivery requirement is retained in Lender's favor.

Borrower shall also deliver quarterly internally prepared financial statements and a compliance certificate within 45 days after each fiscal quarter-end.[19]

[19] From term sheet (Term sheet ¶10): Quarterly reporting and compliance certificate per the term sheet.

Borrower shall maintain its primary operating and depository accounts with Lender while any Obligations are outstanding.[20]

[20] From precedent (Precedent ¶3): This lender-favorable deposit relationship covenant is carried over from the precedent, since the term sheet is silent. Consider moving it to its own section.

9. Events of Default. Each of the following is an Event of Default: (a) Borrower fails to pay any amount when due; (b) Borrower fails to perform any other covenant in this Agreement; (c) any representation proves untrue in any material respect; or (d) Borrower becomes insolvent or files for bankruptcy.[21]

[21] From precedent (Precedent ¶5): The precedent gave 10-day payment and 30-day covenant cure periods. These favor Borrower, so I kept the template's no-grace defaults. Expect Borrower to request them.

10. Remedies. Upon an Event of Default, Lender may declare all Obligations immediately due and payable and exercise all rights of a secured party under the Uniform Commercial Code.

11. Governing Law. This Agreement is governed by the laws of the State of ~~[STATE]~~Ohio.[22]

[22] From precedent (Precedent ¶6): Ohio governing law follows the parties' prior signed agreement. The term sheet is silent on this point.

12. Jury Waiver. EACH PARTY WAIVES ITS RIGHT TO A JURY TRIAL IN ANY ACTION ARISING OUT OF THIS AGREEMENT.

[Signature blocks]