



LSQ Funding Group, L.C.
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It's Time for a New Chapter in Action Sports:
Building a Contingency Plan in the Aftermath of CIT

“If your company is experiencing a cash flow gap – when your cash inflows don’t keep pace with your cash outflows - your business is left short of cash.”

Many companies in the action sports industry are worried about the stability of their financing partner in the aftermath of the CIT bankruptcy filing on Sunday. As the largest factoring organization in the country and an important provider of liquidity to the action sports, equipment and garment industries, CIT’s bankruptcy has left many companies, who have already been hurt by weak holiday orders, fearing for their own solvency.

One of the Biggest Chapter 11 Filings in U.S. Corporate History: Measuring the Impact

CIT is estimated to be five times the size of its next largest competitor. Its current challenges are primarily the result of its managements’ decision to enter myriad new industries without sustainable funding mechanisms for their support. CIT finances hundreds of thousands of businesses, and while its bankruptcy does not necessarily mean these companies will lose their access to capital, it is a logical conclusion that the flexibility and inexpensive financing they have come to expect are likely at an end. In a worst case (but unlikely) scenario, CIT is liquidated, with its assets sold to the highest bidder. If this path is taken, expect wholesale revisions to CIT’s client relationships and contracts. In a best case scenario, CIT will be able to restructure its balance sheet, access inexpensive financing through its bank subsidiary and begin a return to normalcy. Unfortunately, for the action sports, equipment and garment industries, normalcy will not be the pricing and structure it has come to expect from CIT over the last decade.

The Next Chapter in Financing: Factoring

While CIT’s bankruptcy was not altogether unexpected, banks and other firms will not be able to completely fill the gap. In fact, small business lending amongst major banks has been on a steep decline in 2009 (FDIC Data).

For many in the action sports industry, 2008 and YTD 2009 have been difficult, and financial results have not been strong. As a result, traditional bank financing seems further and further away from materializing.

Accounts receivable financing (factoring) remains a terrific option for companies in the action sports industry. In addition to providing working capital financing, factors offer a host of back office solutions that streamline, protect and support trade activities. The most sophisticated firms will offer timely credit

assessments, interactive software, 24/7 visibility to invoice verification and collections, working capital availability and real time dynamic reporting. These factoring services deliver real value and should enable a reduction in FTE.

Read the Fine Print: 12 Tips to Know Before You Buy

Every company is promised adequate working capital and exceptional service quality by potential factoring partners. Unfortunately, when it comes to your liquidity and access to your customers, unfulfilled promises can be devastating. It is important to investigate factoring firms and analyze their ability to meet your company's immediate and future needs. Here are some key factors to consider when evaluating factoring firms:

“Factoring services deliver real value and should enable a reduction in FTE.”

1. Investment in infrastructure and delivery of these services is expensive and varies widely amongst the remaining factoring firms in the industry, so check references and demand demonstrations of the services before you buy.
2. Be sure to investigate the capital structure of each financing organization before signing a contract. Most derive their capital from banks, and many are actually funded by CIT. Make sure your prospective funding partner has the financial wherewithal to support your needs. The last thing you want is to step out of the frying pan into the fire.
3. Watch out for protracted evaluation time-lines. Often if the duration between proposal and closing is extended, your financing source may be having challenges meeting your funding needs.
4. Be wary of the fine print or of proposals that do not include sufficient information to make you comfortable with the structure and your ability to assess its impact on your business. Small changes in rate and services at the finish line can get expensive.
5. If you are using a financial broker to locate financing, be careful and require client references. Brokers are paid by the financing source and will often refer you to the firm that pays the highest fee. Rest assured, the finance source will find a way to recoup the fee.
6. Contracts can be long and confusing, so take time to review and fully understand the terms. If it is not written in the contract, it does not exist, and if it is written in the contract, it is there for a reason.

“Take the time to make sure you are picking a partner that represents the same service standards you expect of your firm.”

7. Watch for early termination penalties that require that you remain with your financing partner no matter the quality of their service, or monthly minimums which require that you achieve a minimum volume or pay a fee, whether or not you are experiencing balance sheet difficulties.

8. Be careful to understand the annual renewal cycle of your agreements. Often there is a short window within which you must notify the financing partner of your desire to terminate. The consequence of missing that window may be another year in an unhappy relationship.

9. Hidden fees are common amongst the less scrupulous firms in the industry. Avoid these fees by thoroughly analyzing your contract and preparing an apples to apples comparison of available options.

10. Make sure you understand audit expenses as the frequency and cost of audits vary widely amongst firms.

11. If you are in a commodity position competing on price alone, tailor your search to the least expensive provider, as service isn't a priority (and it is expensive).

12. If you are a solution seller, or you pride yourself on service excellence or premium positioning, consider the history of your partner, check references, view their web capability, meet the provider. Remember, you are going to be picking a partner that in addition to providing you with financing will be interacting with your most valuable asset, your customers. Take the time to make sure you are picking a partner that represents the same service standards you expect of your firm.

The Last Word: Your Financial Future

It's time to write a new chapter in financing. CIT's bankruptcy has been a long time coming. Don't panic. Be decisive. There are other financing options available. Just remember to consider the needs and priorities of your business when you search for a financing or factoring partner. Don't forget that while you seek immediate benefits, the financing decisions you make now will have long-term effects.



LSQ Funding Group, L.C.

www.LSQ.com

Nationwide LSQ Sales Team

Alexa Ragsdale
New York, NY
917-545-1333

Larry Stephenson
Duluth, GA
678-488-9445

TJ Gill
Orlando, FL
321-279-2255

Tony Dobek
Minneapolis, MN
612-802-1232

Lorraine Julius
Carlsbad, CA
760-429-4890

Mary Koncir
Glen Mills, PA
610-247-8030

Julie Gaines
Jacksonville Beach, FL
904-304-9092

Steve Hansen
Winnetka, IL
847-848-5657

Travis Pocock
Denver, CO
303-717-3641

Simon Dibos
LS, CA
310-435-4847

Tanya Plotnikoff
Orlando, FL
407-563-7484

Gay Denny
St. Louis, MO
314-971-6971

Cynthia Basolo
Portland, OR
503-467-6185

:: About LSQ ::

LSQ Funding Group was founded in 1996 to provide specialized financing to growing companies, and it is exclusively focused on small to mid-sized companies with whom it can build solid partnerships. LSQ offers competitive rates, rapid funding, offices nationwide, partnerships with major banks and credit agencies, as well as state of the art software and online account access anytime anywhere. LSQ does not require long-term contracts, monthly minimums or early termination fees. LSQ offers companies from a variety of industries – from staffing to seafood to trucking – premium personal service, customized account management, innovative technology, and flexibility.