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As you may have heard, on May 25th I had an accident in which I shattered the T12 vertebrae in my back. Along with that, I broke 7 ribs and punctured my lung. The doctors that viewed my x-ray and CT-Scans indicated that it was by far the worst image they had seen from anyone that was still alive (nice to hear from your Doctor).

My neurosurgeon was excellent and placed titanium rods, wires and screws in my back from vertebrae T8 to L3. I was told the ribs would have to heal on their own. I spent 2 ½ weeks in Sierra Vista hospital and was then transferred to the Santa Clara Valley Rehab facility where I spent another three weeks learning how to survive and thrive life in a wheelchair.

Currently I am a T12 incomplete, which means that although my legs are paralyzed, I have some sensation and limited movement down to my knees. I have a bit more feeling and movement on my right leg. I have no movement or feeling below my knees.

I would like to thank each and every one for your thoughts, prayers, cards, emails and gifts. Just to show how generous the Factoring Industry is, you set a record for the most number of baskets and gifts sent to a single patient in the rehab facility. I can’t thank you all enough for the kindness and generosity that you have shown to me and my family.

I never would have survived the rehab without my wife, Cheryl, and my family who have gone way above and beyond what I would expect from anyone. I wouldn’t be here without her help.

I would also like to thank our Managing Director, Heather Villa, for not only keeping the IFA surviving, but thriving during my absence. She has done an excellent job in keeping the association running during my absence.

Between my rehab, exercise and the fact that everything takes longer than it used to, you will see me back at work, but it will be a while before I’m back to my 50 hours per week. I’ve got to spend a fair amount of time working on repairing my body and doing what I can to get my legs working. I can guarantee you that the IFA will not only survive, but we will be growing during the upcoming year. You will also see that we are moving soon as our current office is only accessible by stairs.

As I indicated the IFA has been flourishing over the last few months. Our training courses have been setting attendance records and we have some new training courses as well as some old favorites coming up in the next few months.

Again, I would like to thank everyone for their thoughts and prayers. They have helped. Although my accident occurred recreationally, I would also remind everyone to drive carefully. Over 50% of the people in rehab are due to auto accidents.

Thank you and I look forward to seeing you at the annual IFA conference, April 24-27 at the Fontainebleau in Miami Beach.

Bert Goldberg
INDUSTRY NEWS

Bayside Business Solutions Makes 2012 List of Best Places to Work in Birmingham

Bayside Business Solutions was recognized as one of the Best Places to Work by the Birmingham Business Journal. The high-energy awards ceremony at the downtown Sheraton celebrated the top 28 employers in the Birmingham metro area. Bayside ranked among the top ten employers in the Small Companies (less than 50 employees) category.

LSQ Funding Group Featured on Forbes Blog Post—Complexity Kills: Keeping Customer Service Simple

In their book Uncommon Service: How to Win by Putting Customers at the Core of Your Business, Harvard Business School Professor Frances Frei and Concise Leadership Institute Founder Anne Morriiss report that complexity is killing customer service. Jobs are too difficult, and outstanding employees are too scarce. Frei and Morriiss laud LSQ Funding Group for its accounts receivable financing service model that delivers unprecedented speed, transparency and humanity. The secret? Graceful technology systems that automate risk analysis, freeing front-line employees to deliver exceptional client support. LSQ is able to hire for great attitude first, with world-class technology assisting with the back office operations—a win-win for the company and its clients.

Crestmark Purchases Working Capital Loan Portfolio of First Citizens Bank, Announces Strategic Partnership

Crestmark announced the purchase of the working capital portfolio of North Carolina-headquartered First Citizens Bank and the institution of a strategic partnership that will strengthen the support and diversity of lending products offered to First Citizens clients. Through this partnership, Crestmark Bank will provide asset-based lending, recourse and non-recourse factoring, and other working capital services to First Citizens customers.

Crestmark Recognized with Financial Literacy Award

Crestmark was awarded the Michigan Bankers Association 2012 Financial Literacy Award – Southeast Michigan, for their involvement in the 2011 Teach Children to Save program. In the 2012 Teach Children to Save program, eleven Crestmark employees partnered again with The American Bankers Association for the sixth year. The volunteers presented lessons on saving to over 550 students ranging from kindergarten to 8th grade, in 19 classrooms throughout Oakland County, Michigan from May through June.

INDUSTRY TRANSACTIONS

Paragon Financial Group Helps Rug Importer Cover New Territory

Paragon Financial Group announced that it has provided a $500,000 factoring line of credit to an area rug importer headquartered in Wilmington, DE. The facility will enable the company to take on larger retail clients and grow their business.

Porter Announces May Deals

Porter Billing Services, a division of the Porter Capital Group specializing in transportation funding, closed the following deals in May:

- $30,000 factoring facility to a transportation company located in McCalla, AL
- $50,000 factoring facility to a transportation company located in St. Louis, MO
- $75,000 factoring facility to a second transportation company located in Atlanta, GA

TAB Bank Provides J.J. Collins with a $3 Million Credit Facility

TAB Bank is pleased to announce that it has provided a $3 million credit facility to J.J. Collins of Woodridge, IL. The new facility is based on accounts receivable and is extended through a renewable term. Fordham Capital Partners of Chicago worked with TAB Bank on the transaction. Founded in 1878, J.J. Collins is a family-owned and operated business that manufactures custom printed materials and products. They sell directly to end users as well as to major distributors.

Onset Financial Completes $3.2MM Ethanol Plant Project

Onset Financial has completed funding on an Ethanol Extrication Facility for one of the nation’s top biofuel providers. Totaling $3.2 million, the project adds substantial increase in production capability for Onset’s client.

King Trade Provides $7.5 Million Export Finance Commitment

King Trade Capital (KTC) is pleased to announce the recent funding of a $7.5 million export finance commitment for a Canadian based exporter of equipment and vehicles. King Trade Capital was introduced by an asset based lender that felt KTC would have the financial capacity and expertise to create an export finance solution for the client. The exporter was seeking a finance solution to support its growing demand to export equipment and vehicles to its Asian customers.

RMP Trade Credit Announces Recent Deals

- A $900,000 purchase order facility for high-end boots in California.
- A $200,000 purchase order facility for cashmere scarfs and sweaters for client out of Brooklyn, NY.
- A $700,000 purchase order facility for label pouches for retailer in Tennessee.

Fordham Capital Partners Provides $2,000,000 Factoring Facility to Chicago-Based Manufacturer

Fordham Capital Partners today announced that it has provided a $2,000,000 factoring facility to a Chicago-based manufacturer of steel cabinets and telecommunications enclosures. The company needed a new credit facility to meet its growing working capital requirements.

Crossroads Financial Provides $400,000 Inventory Financing Facility

Crossroads Financial is pleased to announce that it has provided a $400,000 Inventory Financing Facility for the benefit of a stone and marble distributor. The Inventory Financing facility will enable the company to grow their inventory and ultimately increase sales, all while helping to improve cash flows and day-to-day operations. Bridgeport Capital Funding is providing the client with a $750,000 Factoring facility in conjunction with the Inventory financing provided by Crossroads.

Gibraltar Business Capital Completes Three Transactions Totaling $2.3 Million

- Cabinet Manufacturer
Gibraltar Business Capital has closed a $1MM revolver for a TX-based company engaged in the design, manufacture and
marketing of cabinets for the volume apartment and custom homebuilder industry. The new facility provided much desired liquidity to the company during a transitional growth period.

• Printing Company
Gibraltar Business Capital has closed a $800M factoring line of credit for an IL-based company making advertising inserts for nationally distributed publications, and promotional packaging printing services. The new facility was provided in concert with a restructuring of the company’s overall capital structure and provided additional liquidity.

• Long-Haul Trucker
Gibraltar Business Capital has closed a $500M factoring line of credit for a TX-based company in the long-haul trucking industry. The new facility was provided as part of a recapitalization and change of ownership.

PERSONNEL UPDATES
FSW Funding Announces the Addition of Karla Gates, Portfolio Manager
A Phoenix native, Gates has spent almost two decades working in factor financing, beginning her career in 1993 in business development with Riviera Financing, where she was named Rookie of the Year. After six years with Riviera, Gates joined Wells Fargo as an Assistant VP in the business credit division. She then went out on her own working as an independent broker, providing accounts receivable/payable consulting. Just prior to joining FSW Funding, Gates spent three years as an Account Executive with Bibby Financial.

David Shapiro Joins Capstone Advisory Group, LLC
Capstone Advisory Group, LLC announced that David C. Shapiro has joined the firm’s Chicago office as Executive Director and Head of Restructuring for the Midwest Region. Mr. Shapiro has an extensive background in loan workout and restructuring, having previously worked as an investment banker focused exclusively on restructuring matters and as a commercial banker in loan workout, portfolio management, and risk. His experience includes work with both public and private companies in the areas of refinancing, workout, restructuring and turnaround, and bankruptcy.

Bibby Financial Services Adds Staff to New York Region
Bibby Financial Services is pleased to announce Eric Gunther has joined its sales team as Business Development Officer. In this role, Gunther will focus on New York City and the surrounding region. He will report directly to Nick Hart, Managing Director. Gunther comes to BFS from Equinox where he held management positions and opened new markets.
Whether an established company or a start up, commercial factors can choose to target a niche market, be a generalist, or a combination of both. Ten years ago Marquette Transportation Finance was a startup company. Its investors chose to target a niche market. They approved a business plan targeting the truckload segment of the transportation industry. This segment is typified by a significant number of small to mid-market companies that are private and family owned. Key to that decision was the advantages in the areas of niche market size, industry dynamics, marketing efficiencies, client services, and risk management. In regards to trucking, the answer to “What’s in a Niche?” is “It’s an Opportunity!”

Transportation factoring can trace its roots back to the early 1940’s. Prior to the deregulation of the industry, nonprofit cooperatives were established by trucking companies as clearinghouses for freight bills. This was a period when a trucking company was granted authority to transport goods over a designated and restrictive lane. A carrier was not generally authorized to haul coast to coast. As a result, frequently one shipment would be hauled by multiple carriers to move from point A to point B. A clearinghouse would split the shipper’s payment between the carriers involved in the haul. Overtime these clearinghouses evolved into for-profit factoring companies. In the 1990’s I had the opportunity to work for one of these evolved companies, Transport Clearings located in St. Paul, Minnesota. Transport Clearings was established in 1942 and billed itself as the grandfather of transportation factoring.

Market Size
In regards to factoring, the attractiveness of the transportation industry is its size. When I say the transportation industry, I’m really focused on the truckload segment of the trucking industry as are most transportation factors. While the industry is called a niche market it is a very significant one. In fact, it is an industry the International Factoring Association highlights on its annual convention agenda and during the year with separate meetings.

A major reason Marquette Transportation Finance targets the truckload segment is the market size and the average receivable size in dollars.

A major reason Marquette Transportation Finance targets the truckload segment is the market size and the average receivable size in dollars.

According to “Transport Topics,” the industry’s leading weekly publication, 2011 annual revenue for the truckload segment exceeded $300 billion. At this level, truckload carriers represent one of the largest markets available to commercial factors. Besides being a large market, the truckload segment is attractive because of its geographic diversity. It is a market that can be targeted on a national basis or regionally. Per Fleetseek, a national marketing database, the national market is broken down as follows:

- Northeast—22.9%
- Southeast—22.2%
- Central—31.9%
- West—23.0%

What’s in a Niche?
A major reason Marquette Transportation Finance targets the truckload segment is the market size and the average receivable size in dollars. In regards to trucking, the answer to “What’s in a Niche?” is “It’s an Opportunity!” BY RICHARD VOREIS
An additional positive for targeting this market is the wide range in annual revenue between companies. This affords factors the flexibility of targeting truckload carriers funding lines ranging from $10,000 to $15,000,000 and above.

In recent years the average receivable size for truckload carriers has been in the $1,000 to $1,200 range. While not large, at this level a factor can staff its backroom cost effectively to generate an acceptable return. In contrast, the average receivable size for less-than-truckload carriers is generally under $100. The staffing requirement at this receivable size is undesirable even though the less-than-truckload segment is a large market.

Industry Dynamics
The economics of the truckload industry result in a high percentage of companies routinely not qualifying for conventional bank financing. These economics are low operating margins coupled with high capital requirements. In addition, truckload carriers face a challenging cash cycle. Two of their major expenses, payroll and fuel, are weekly expenses that have to be covered by receivables that generally turn in 36 days. As a result of these dynamics, many truckload carriers rely on factoring as a financing alternative.

Marketing
The marketing staffs of factors that target diversified industries generally rely on a traditional referral network of banks, attorneys, accountants, turn around specialists, brokers, etc. To a lesser extent they will directly prospect individual companies. A transportation factor marketing staff will also utilize these same referral sources, but rely more on industry contacts and direct company prospecting. These contacts will range from vendors to trade and state associations. On a national level the American Trucking Association and the Truckload Carriers Association are the primary trade groups Marquette participates in. Additionally, we are involved with a number of state trucking associations who are affiliated with the American Trucking Association.

A factor can realize a number of marketing efficiencies when targeting truckload carriers. Due to its highly regulated nature, a number of quality marketing database services exist for this segment. These databases allow a factor to market nationally or to selected geographic regions. Additionally, they contain sufficient detail to target various annual revenue levels. Marquette utilizes a database for direct mail, email marketing, cold calling, and managing marketing trips to visit a prospect. Routinely our marketing staff will use the database to schedule additional calls in the region when traveling to a prospect.

Marketing to the truckload segment is highly influenced by relationships. As previously mentioned, truckload carriers are generally privately and family owned. Frequently we encounter third generation ownership. Typically these owners seek to conduct business with a familiar face. As a result, while not critical, it is very advantages for a factor to have an industry-seasoned marketing staff.
debtor pool. When underwriting a new prospect we routinely have experience factoring 60% to 70% of the prospect’s debtor base.

Challenges
While concentrating on marketing to a niche market has many advantages, there are also market challenges. In large part because of its vast size there are a significant number of factors that compete both nationally and regionally in the trucking market. Routinely multiple factors will compete for the same transaction. The fallout from this large amount of competition is generally lower pricing and more liberal contract structure in trucking transaction than found in general factoring.

To conclude, significant opportunities exist for factoring companies who specialize in marketing to the trucking industry. The significant size of the market allows for many factors to thrive in this arena.

Client Services
A major advantage of lending to a niche market is learning that market’s business inside and out. Understanding invoicing requirements, cash cycles, reasons for periodic over-advance requests, and current news and trends of the industry are extremely beneficial in providing quality client service. Knowing your client’s business provides an empathy that will foster a strong relationship. Factoring is not without everyday challenges that can stress a relationship. A client knowing you empathize with them will generally minimize that stress.

Risk Management
As with client services, risk management greatly benefits from lending to a niche market. It’s common to learn that a general factor is not comfortable factoring the trucking industry due to negative past experiences. This is understandable as there are many risk challenges in factoring trucking freight bills.

By concentrating on truckload carriers a factor will develop an expertise in managing risk. Understanding invoicing requirements, issues with third party payer services and freight brokers, pre-billing problems, fraud detection, etc., help minimizing losses. Additionally, by lending to trucking as a niche market a factor will establish a history of collections from a common

Rich Voreis is the president and Chief Executive Officer of Marquette Transportation Finance (MTF). MTF is a niche lender that provides factoring services to the trucking industry. In addition to MTF, Rich manages its subsidiary, Marquette Commercial Finance, a general factor that markets to diversified industries. Rich has over 40 years of successful finance, marketing, and sales experience. Besides MTF, he was Director of Finance for Transport Clearings, a company that was the grandfather of transportation factoring. A graduate of the University of Illinois, Rich is an active member of the International Factoring Association, Commercial Finance Association, American Trucking Association, and the Truckload Carriers Association. Rich can be reached at rich.voreis@marquette.com.
The Wild World of Merchant Cash Advance

The companies that are offering Merchant Cash Advance as their main line of business have made significant advances in placing parameters on the product that protect both the merchant and the finance company, but the product continues to evolve and is not perfected yet. **BY JASON BISHOP**

Merchant Cash Advance has continued to thrive and has become a dependable source of capital for small and medium-sized business growth and expansion. The companies that are offering Merchant Cash Advance as their main line of business have made significant advances in placing parameters on the product that protect both the merchant and the finance company, but the product continues to evolve and is not perfected yet. Finance companies still struggle with proper funding to revenue ratios, and there still is no boiler plate underwriting, processing software or fool-proof default collection models that are universal across the many business sectors that involve merchant cash advance.

Human capital with experience are paramount to the success of any company and underwriters who are capable of understanding the individual circumstances of any merchant are forever critical in crafting financing relationships that are beneficial to all involved. Frauds appear to be lower than in years past as more employees with prior experience are capable of helping fledgling companies control their urge to fund every deal that comes in the door. They are making relationships with merchants who can provide the necessary due diligence to make the underwriters more comfortable. There has been some downward pressure on pricing as there remains more money available for
quality transactions than there are merchants who qualify.

Brokers remain the main source of deal flow to Merchant Cash Advance companies. Quality brokers who utilize ethical business practices to sell to merchants are able to demand a premium for their services. Commissions across the board have steadily risen over the last couple of years, eating into the profits of the finance companies. Broker commissions early on in the industry were typically in the 23% of fee income range on new deals with 15.5% paid on the front end of the deal and the remainder paid on a residual basis. Renewal commissions were paid out only residually at around 11.5% of the fee income. It was on the renewals where finance companies could really begin to earn a decent rate of return after commissions, interest, and loss reserve. The problem with this model is that as more companies were competing for the same broker relationships, brokers often found that the best way to maximize their profitability was to move deals from one company to another to take advantage of the upfront commission component. This movement causes problems for the finance companies that rely on a strong renewal base to keep funds employed, and renewals are much less likely to have frauds due to the merchant demonstrating the ability to perform on the contract. What has happened now is commissions have risen along with deal demand. Some companies pass this on to the merchant through a larger discount on receivables purchased. Many companies have also started paying the same amount on renewals with the same upfront and residual commission as they did when the deal was first funded. This philosophy discourages brokers from moving deals from one funding company to the next, but the net results on profits for the finance company are significant. While the above would leave you with the impression that there is no loyalty among brokers, each broker group seems to have their favorite funding companies where they send business. Brokers place value on not only how much commission can be generated by the deal but also with their impression of what is the percentage of deals that will be funded versus submissions. We have found that having quality company representatives working with the brokers to help them close business is critical. Adversarial or abrasive individuals can drive off potentially valuable broker relationships. Many merchant cash advance companies have found value in internal call centers selling new deals as well as handling renewals, as well as utilizing an outside direct sales force. At this point though, brokers are far and away the largest source of deal flow to merchant cash advance companies.

In the last few years, some finance companies have developed different approaches to engage underserviced

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Platinum Partners Credit Opportunities Fund ("PPCO") is an asset-based investment fund providing loans to markets that are underserved by traditional sources of financing. PPCO is active in the trade finance marketplace, providing warehouse lines to established factoring and purchase order finance companies while also working directly with a variety of businesses to provide the capital necessary to finance the purchase or manufacture of their products.

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The Commercial Factor | July/August 2012

sectors of the merchant cash advance industry. Starter programs have emerged as a method for merchants whose credit card volume is too low, or their credit profile makes it challenging for them to obtain a traditional merchant cash advance. The idea is that the finance company will offer a very small advance at a higher rate and shorter anticipated recovery period. As each contract is paid down, the merchant qualifies for larger advances under more favorable terms. This gives the merchant the opportunity to establish a history with the finance company and eventually qualify for a traditional merchant cash advance product.

When this methodology first emerged several companies added this product to their offerings, but over time a handful have thrived while others have either removed the product offering or stopped advertising its availability. This would lead us to the conclusion that as with traditional merchant cash advance, finance companies should remain very careful with their offerings and program parameters. Even with increased rates and lower dilution, starter program defaults can be high and difficult to manage.

IT IS VERY OPTIMISTIC TO HAVE INSTITUTIONAL INVESTORS GETTING ACTIVE IN THE MCA SPACE, BUT IT’S ALSO IMPORTANT TO REMEMBER THAT CLOSING A DEAL WITH A BANK OR LARGE INVESTOR CAN TAKE MONTHS AND COST HUNDREDS OF THOUSANDS OF DOLLARS WITH NO GUARANTEE AS TO THE OUTCOME.

Some companies are now offering Merchant Cash Advances using an ACH collection model rather than processor split as the method of recovering outstanding rights to receive. This model has opened the door to the product being applied to revenue models outside of traditional credit card processing. AdvanceMe’s New Logic program has transitioned even further to becoming a traditional loan product and giving merchants two distinct choices in the type of products available to them. Other companies are moving toward offering the same type of loan program and the general consensus is that the New Logic style program will expand the number of merchants who can benefit from a merchant cash advance exponentially.

The down side of the traditional loan program is that there is significant registration and licensing requirement to be able to offer the product successfully and the cost can be prohibitive to small merchant cash advance companies.

In 2011 and early 2012 we saw continued growth in start-up merchant cash advance companies. Many are still trying to figure out their place in the market and continue to compete for a limited amount of brokers and continuing to apply upward pressure on commissions. It appears that most of these companies start with family money or a small group of investors. Companies who have an established track record have been able to take their financing to the next level. Some banks

4 REASONS TO CONSIDER USING TAB BANK:

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and financial institutions are showing increased interest in lending to MCA companies. Wells Fargo has demonstrated a continued interest in larger MCA companies. TAB Bank reported closing a financing with First Merchant Advance for $5MM. Strategic Funding closed a large line with Capital One. Lastly, AdvanceMe closed a $30MM deal with Accel. It is very optimistic to have institutional investors getting active in the MCA space, but it’s also important to remember that closing a deal with a bank or large investor can take months and cost hundreds of thousands of dollars with no guaranty as to the outcome. Some issues can develop after closing because of the covenants and security clauses in the loan documents. While all parties entering the transaction are hoping for a favorable outcome it is imperative to have free flowing borrowing base submission and transparent collection and borrowing base payback procedures to keep from placing the MCA in a cash flow crunch.

Merchant Cash Advance as a product has no doubt gained significant traction in market acceptance, legal opinions and collection viability. It will be exciting to see what the next year will bring as the product and players continue to mature.

Jason Bishop is currently the CEO and Managing Member of MotherFund based in Rockwall, TX. Jason started MotherFund in 2007. He holds ownership positions in several businesses and was chosen by the Dallas Business Journal to be included in the 2012 class of 40 under 40. He began providing capital to merchants with Rewards Network in 1998, working his way from sales person to regional manager. At Rewards he developed and managed one of the top performing sales teams in the company, with revenues of $23MM in 2003. After leaving Rewards in 2004, he spent a short period as a regional manager for AdvanceMe, before becoming one of the founding members of Strategic Funding Source in 2005. From 2005 to 2007 Jason oversaw SFS operations and underwriting, as well playing the role of interim CFO. Jason can be reached at jbishop@motherfund.com
Are You Your Own Worst Enemy?

It’s time for a reality check on your management IQ. BY KEN WALSLEBEN

Chances are, if you’re reading this article, you’re either a founding entrepreneur of your factoring firm, or you work for the founding entrepreneur. If you work for one of us, you have my sympathies. If, like me, you are the entrepreneur, it’s time we woke up and recognized reality!

I’m talking about the reality that entrepreneurs typically make lousy managers. Generally, we stink. I’m serious! Don’t take my word for it, there has been a great deal of academic study about this specific phenomenon.

For 4 years now, I’ve enjoyed the opportunity to be an Adjunct Professor in a collegiate setting teaching a course on entrepreneurship amongst an internationally ranked faculty. Along the way, I’ve learned as much or more knowledge than I’ve imparted. Allow me a moment to share a little.

Lesson #1 is we make lousy managers. Make no mistake, when I say entrepreneurs make lousy managers, I’m looking straight in my mirror as well. I’m guilty as charged. But I’m betting that many of you will also recognize yourselves a bit when pondering this topic too.

We know that the factoring industry is a largely fragmented lot. One look at the IFA registry illustrates this assertion. Most factoring firms begin as small ‘mom-n-pop’ operations with ample expectation of portfolio (and revenue) growth. As much as any industry, factoring boasts large numbers of visionary entrepreneurs.

But many of these visionaries and their firms, will never grow far beyond initial early-stage efforts. Few of us will scale the proverbial mountain to its summit. Why is that? Is the factoring business that unforgiving?

Certainly, as a group we don’t lack for intelligence. In fact, I’ve always been impressed by the brilliance and career experiences of most IFA operators. Nor do we lack for ambition, nor risk taking. So what is it? Why don’t we all experience the explosive, profitable growth that initially lured us to this industry?

I suggest to you that many of the qualities that define us as successful entrepreneurs, are precisely the traits that retard our continued progress into the future. Our ‘can-do,’ head-strong
'my way or the highway,' mover-shaker attitudes are fabulous when launching an enterprise, but are not so handy afterwards. Those skills and traits that defined our early-stage success conspire to damn us to mediocre management careers. For example, we entrepreneurs tend to micromanage all of our surroundings. Be honest, your spouse has certainly mentioned this a time or two! We also tend to be terrible delegators. After all, why delegate when you can do it yourself (and better)? Right? Wrong.

Our poor management IQ often translates into an office staff that doesn’t really understand our long-term vision, and as a result, can’t execute upon it. Our overbearing control mechanisms are reflected in limited staff development (both admin and sales). As a result, we often suffer significant staff turnover, we wonder why they just don’t ‘get it,’ and in time, we realize that we have become the operational bottleneck of our firm. Whether reviewing every expense, arranging business card design, marketing campaigns, negotiating rent, structuring funding support, underwriting, and transactional approval, how can we properly grow and develop staff talent along the way?

Often, we compound this problem by hiring folks that think, look, and act like us. No, I’m not banging the drum for racial diversity hiring (although in many cases that would be nice). Too often, when we should be hiring complementary talent skills for our team, we end up surrounding ourselves with folks possessing complimentary skills (i.e. just like ours). Unless we hire strong management skill sets to complement our inherent strengths, we may never break out of this rut.

As previously admitted, I’m guilty as charged. Our firm has been around for 18 years. By now, my business partner and I should be retired on a beach somewhere! But only recently have I fully appreciated this irony of being an entrepreneur. What would you likely learn if you asked others to assess your management skills? Would that be a frightening exercise? I’m betting that very few of us would willingly submit to such scrutiny.

So what’s the next best step? Accept the possibility that you may not be the world’s best manager! Concede that

Continued on page 16
Q&A with Charles Knipp
Techforce Telecom, Inc.

FACTOR: PF FUNDING, LLC

Techforce is a nationally focused contracting company committed to delivering installation, test and turn-up services to the telecommunications industry, based out of eastern Kentucky. Techforce recognizes and has implemented a basic philosophy of superior quality and productivity into its entire customer supplied services. Techforce chose Prime Capital Group out of Red Bank, NJ for their factoring needs. Read on to learn why the relationship has been so productive.

IFA: Why did you choose factoring vs. other types of financing?
Knipp: As a new company in 2005, it was extremely difficult to obtain operating capital from the normal method of funding (i.e. bank loans or bank line of credit). With factoring we could obtain the contracts, employ installers, and pay them each with the invoices we factored.

IFA: How did you choose PF Funding?
Knipp: We chose PF Funding after researching online and speaking with various factoring companies.

IFA: What’s important to you when selecting a factoring company?
Knipp: When selecting a factoring company, the important thing for us was, of course, the rates and availability.

IFA: What’s important in a relationship?
Knipp: We immediately felt a connection with Prime Capital Group, Inc. as we felt they understood our needs in the beginning. As our trust in each other grew, the relationship grew. As we continued to grow and expand, Prime Capital Group, Inc. assisted in potential customer review and expansion growth loans. But more importantly in the relationship that if we needed something, Prime Capital Group, Inc was always there for us.

IFA: How did the factor assist you?
Knipp: With Prime Capital Group, Inc, we would not have survived the first few years, let alone grow and expand our business.

IFA: Was the relationship a good one?
Knipp: Our relationship continues to be an excellent one.

IFA: By increasing your cash flow, did you accomplish your goals (growth, survive, etc.)
Knipp: Yes we have; below is an introduction to our company which may provide some insight to Techforce Telecom. Below is a picture of our office with warehouse which we purchased last year. Also below are pictures of Techforce owners, Charlie and Steve.

IFA: Would you recommend factoring to other companies in your situation?
Knipp: Yes, we would recommend Prime Capital Group, Inc. Since we began factoring a few years ago, we found Vinnie Galano (Prime Capital Group, Inc) has not only been a great asset to our company, but also has become a good friend of ours. He has been a great financial consultant and we consider him a financial partner of Techforce.

To contact Prime Capital Group visit www.primecapitalgroup.com

Worst Enemy
Continued from page 15

your inherent desire to micromanage your company's activities is not optimal and is endearing to only yourself. Then impose a paradigm shift in your thinking.

Perhaps, you’ll outsource some of your present roles. Maybe marketing? Human Resources? IT? There’s an outsource alternative for virtually any endeavor. Perhaps you’ll want to employ a virtual employee (check out www.elance.com). Virtual outsourcing has been called the next great HR frontier, and has a lot to commend it. Such an option gives you the ability to engage national caliber staff, with very focused capabilities, to get a pressing job done (well), without the hassle, cost and regulation of hiring regular staff. Or perhaps you’ll just want to promote yourself to Chairperson, and hire a new CEO with professional management skills. Admittedly, history is replete with well-known exceptions to this rule. They write books about these guys. Henry Ford, Bill Gates, and Steve Jobs managed to both found and lead big companies. But those exceptions are statistically few.

More likely, you and I will not have books written about us. But as successful entrepreneurs, we owe it to ourselves and our organizations to think differently to enable continued aggressive growth. Being a good and professional manager requires a specific set of skills that is not often gained by successful entrepreneurship. Recognizing this truth is half the battle. Doing something about it is the other half.

After 18 years, I’ve finally seen the light. How about you? •
Choose the right WSA Factoring Software for your business!

WSA Factoring software, NovaCS and Pegasus, are time tested solutions for the international and domestic lender. WSA has employed state-of-the-art Microsoft and web technologies to deliver real time information to both internal and external users. Both systems support the core functions of the factor and are scalable across multiple users, offices, and countries; easily meeting the demands of today’s lenders and their sophisticated borrowers.

**NOVA CS: Commercial Services / Factoring System**

NovaCS is designed to provide the lender with maximum flexibility in financial products and pricing. NovaCS is a full commercial services system including modules to support bulk A/R, inventory, documentary and standby letters of credit, purchase guarantees, and term/mortgage loans.

**PEGASUS**

PEGASUS is the end-to-end processing software for the start up or established factor purchasing less than $1 billion in invoices per year.

For information on WSA Factoring software please contact Rosanne Doyle at (570) 941-9037 or via email at roanne.doyle@stuckynet.com.
THE WORLD'S LARGEST ASSOCIATION FOR THE FACTORING INDUSTRY

ANNUAL CONFERENCE
AMICUS BRIEF PROGRAM
DISCUSSION GROUPS
JOB BOARD
www.factoringjobs.org
LEAD GENERATION
www.factorsearch.org
DISCOUNTED PRODUCTS
FACTURING SURVEY & LEGAL FORMS
TRAINING COURSES
MENTOR PROGRAM
SOCIAL MEDIA COMMUNITY
MEETINGS, FORUMS & MORE

UPCOMING EVENTS

2012

9/6-7
Transportation Factoring Meeting
Hyatt Escala Lodge,
Park City, UT

9/18-19
Creating & Managing a Factoring Portfolio
Offices of Buchalter, Nemer,
San Francisco, CA

10/18-19
Advanced Factoring Symposium with Mike Ullman, Esq.
Caesar's Palace,
Las Vegas, NV

10/22-23
AE/LO Training for the Transportation Industry
Caesar’s Palace,
Las Vegas, NV

10/25-26
Small Factors Meeting
Caesar’s Palace,
Las Vegas, NV

2013

1/23-25
Presidents & Senior Executives Meeting
Ritz-Carlton, San Juan, Puerto Rico

3/5
Luncheon Meeting with NYIC
New York, NY

4/24-27
2013 Annual Factoring Conference
Fontainebleau, Miami Beach, FL

800-563-1895 or 805-773-0011
www.factoring.org
info@factoring.org

The International Factoring Association is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be submitted to the National Registry of CPE Sponsors through its website, www.learningmarket.org.

The IFA offers CLE credits for upcoming programs. Information on approved programs and states is available at info@factoring.org or contact the IFA at 805-773-0011.
To Rebrand or Not to Rebrand... That Was the Question

In 2011, Federal National Payables, Inc. made the tough decision to rebrand. They wisely determined the risks and benefits and have been happy with their choice ever since. It was not an easy move, but one that can pay off if the timing is right for your business. **BY KWESI O. ROGERS**

Late in 2011, Federal National made the decision to roll out a new website and use it to launch a new name and look. It was a decision over which the company had agonized for nearly a decade. Out of that abundance of caution and perennial debate, what we gained was an understanding of the issues and risks. Some of the potential benefits were the following:

• The competitive landscape is tough enough out there without having a name that confuses and “Payables” was confusing.

• The “Payables” logo, though dignified when embossed on fine letterhead, was obsolete and did not hold up well in small formats or on the web.

• We plan to expand our geographic reach into places where our prior name and look are not well known and wish to have our name and materials perform optimally.

• And lastly, the purchase of the company from our three former fellow shareholders, arranged by my partner Joe Sillay and I late in 2010, was important news and we wanted a look that appropriately reflected our confidence in the business and the bold, progressive initiatives we were undertaking within the company.

The risks were:

• We could somehow disconnect ourselves from our good reputation and brand recognition in our home marketplace.

• Others might mistakenly interpret a change in the look to mean that Joe and I were not leading the company anymore and remaining true to the principles of service that built the company they have come to trust.

• We had hundreds of legal documents and UCC and federal assignments in place under the old name.

Four months in, things have gone without a hitch. The comments are overwhelmingly favorable, and we are enjoying the energy, professional image and versatility of the new brand.

In summary, I would say rebranding can be a powerful and exciting initiative. But it is not for the faint-or half-hearted. Managed properly, I recommend planning on significant use of management and expense resources.

Kwesi Rogers has been with Bethesda, Maryland based Federal National Commercial Credit since its inception in 1992. He became its President in 2005 and earned the CEO title in 2010. Over the years, Rogers has become a very well-known and respected figure among small and large businesses in the government contracting industry. Committed to giving back to the business community, Rogers serves as Chairman of the Small and Emerging Contractors Advisory Forum (SECAF). He can be reached at krogers@federalnational.com.
A Niche, a Niche, My Kingdom for a Niche...

The Factoring Industry is maturing. And as happens with all industries, the result is change. The underlying product goes through a sort of metamorphosis as industry players do whatever they can to differentiate their offering in order to stand out from the crowd. Some firms will decide to focus their business towards a certain customer base in order to allow their sales and marketing dollars to reach a higher percentage of the specific group. These Factors can further tailor their service to fill the target market’s unique needs. In doing so, a premium can be charged (or at least they won’t have to drop rates). The greater sales and marketing efficiencies combined with better pricing is expected to reward the Niche Factor for targeting a smaller segment of the overall market. Of course, this works when you’re one of the first. Over time, more and more Factors will follow. So it becomes vital to not just enter a niche, but to also reinvest and hone your focus in order to “own” the niche.

Construction Factoring

This is without a doubt the trickiest of all the Commercial Industries to factor. It has it all: progress billing, contingencies, hidden liens and ultimate payers that are LLCs set up for the single purpose of shielding the owners from loss should the project run into financial difficulties. Then, to complicate things even further, the only person who can truly verify the invoices is out at the job site and most times unreachable. Even with all of these obstacles, there are more and more Factors targeting this space. Why? Well, precisely for what was stated earlier. First, it is easy to market. Stand outside on any corner of just about any intersection in America, shout “We’ll Factor Construction Receivables”, and then protect yourself from the ensuing stampede. And second, if you’re willing to take the aforementioned risks, there will be plenty of rewards (should you succeed, of course).

While the “marketing” of Construction Factoring is easy, the “selling” brings about a set of challenges. It’s not selling the prospect that’s hard. Heck, they’re begging to take your money. It’s getting the account approved in the face of all of the potential issues that’s the real trick. With this in mind, it is vital for the sales-person to keep two things in mind. One is the pricing & structure. Remember, this is going to be a difficult deal to get approved and funded. So the last thing you should be doing is negotiating the Proposal. If the prospect believes they can get a better deal elsewhere, let them go and get it. There are plenty of eager prospects that will be happy to accept what you offer. Two, the application must be absolutely complete. No waiting for last year’s tax return or for the Articles of Incorporation. Again, this is going to be a complicated approval process. If the prospect is disorganized or uncooperative, get out while you can. If they can’t help themselves by getting everything you need in a timely fashion, how can they help your firm later when issues arise with invoicing. And issues always arise with construction invoicing.

Federal Government Factoring

This is a specialty niche, which brings with it one major advantage: if you’re factoring federal government invoices, there is no worry about approving the credit. Still, there are plenty of other concerns. The easiest of these to overcome is the Assignment of Claims Act. Regular Notification does not apply to the Federal Government. The only way to get payments redirected to the Factor is to properly execute the Assignment of Claims for a specific Government Purchase Order. While the process is straightforward, it only applies to POs and not to the contractor (client). So an Assignment of Claims form must be filled out and submitted to the proper government official for each individual Purchase Order.

It is great when the client is working on a major project representing a lot of dollars over a long period of time. This keeps the Claim work down to a minimum. But, the result is usually some form of progress billing, which is prevalent with government contractors. Then there are plenty of smaller contractors that work through larger ones, so they are not directly working for the Federal Government. This presents not only debtor credit issues, but also your client won’t get paid until after the larger contractor receives their money from the government. Finally, the government does many things via appropriations. This means that projects can be ongoing while funding may not. The good news is that ultimately, all the work will be paid for. The bad news is that it could take months, and projects have been killed midstream because further appropriations could not get approved.

With all this in mind, it should be obvious that this niche also requires more thorough upfront documentation. While many Factors do not push for copies of Purchase Orders regarding their standard commercial business, you cannot (or certainly should not) fund into a Federal Government receivable without the PO. Further, while Federal Income Tax obligations do not...
prime a Factor’s lien, they can be offset against payments owed on a Federal supplier’s invoices. Getting a thorough understanding of the prospect’s federal tax situation is a must. Unfortunately, this niche is developed to the point where premium pricing cannot be obtained. The reward here is mainly the elimination of debtor insolvency risk. Therefore, be unwavering in your demands for the complete application paperwork but be prepared to negotiate the proposal.

**Medical Factoring**

Similar to the Federal Government niche, Medical Factoring is more developed than Construction Factoring and therefore has some larger participants who drive down yields on the larger pools of receivables. When this niche was first being developed, the Factors insisted on having one of their own people onsite at the client’s office to handle the Factored billing. This was for two reasons. The first is because during the days of 100% manual billing and record keeping, it was difficult to keep a handle on eligible patients, eligible charges, deductibles, etc. This of course is now handled immediately and effortlessly via computers. The second reason is because the medical field is by far and away the leader when it comes to fraudulent billing. Consequently, even though a person is covered by a healthcare plan and eligible to receive a certain dollar amount regarding a particular procedure, one question remains: did this doctor actually perform this procedure on this particular patient? The medical insurance company can’t verify, they weren’t there. Calling the doctor is like asking your client to verify their own receivables. So the only other person present at the time of service delivery was the patient. As a Factor, are you going to call the patient to verify? The answer to that is clearly “no”.

That is why the large institutions that finance medical receivables insist on clients that have multiple doctors. This way if one doctor is committing fraud, the reserve on the legitimate invoicing should cover any shortfall. Another issue affecting medical A/R is that Notification does not apply to Medicare or Medicaid, further complicating the collateral. The smaller factors that target medical billing will typically underwrite the transaction more thoroughly than standard factoring in order to compensate for these two matters. Salespeople will find many individual doctors and small practices ready and willing to factor at a premium since the larger, less expensive finance companies aren’t interested in them. So selling is relatively easy, but getting approved is more complicated.

**CONCLUSION**

Like all things in life, Niche Factoring has its good points and its bad points. As a salesperson, it is important to understand that the approach is altogether different than selling to the mainstream industries. On the bright side, the ability to attract prospects should be considerably easier. However, the conversion rate will be drastically reduced. They key is to be more diligent with the upfront paperwork and be prepared to cut bait sooner. With all that is necessary to successfully fund one of these niche deals, it is critical to recognize that you should only be pursuing those prospects that are able to provide all that you require. For if they are not willing to help themselves, then why should you be any different? •
IFA 2012 TRAINING SCHEDULE

TRANSPORTATION FACTORING MEETING
Hyatt Escala Lodge at Park City, UT
September 6 & 7
Use this description instead: Enjoy various speakers and plentiful networking. Welcome reception commences Wednesday Eve. Thursday & Friday will feature lectures & group discussions. Friday we will discuss debtor credit with a group discussion.
Moderators:
Diana Clover, President, D&S Factors
Tim Valdez, Chief Lending Officer, TAB Bank
Legal Counsel:
David Jencks, Esq., Attorney, Jencks & Jencks
Fee: $845 ($895 for Non-IFA Members)

ADVANCED FACTORING SYMPOSIUM
Caesar’s Palace Hotel and Casino, Las Vegas, NV • October 18 & 19
Designed to identify and consider how to address business and legal issues that arise in a factoring business.
Instructors:
Bob Zadek, Esq., Buchalter, Nemer
Vince Narez, Bay View Funding
Fee: $2,000 ($2,250 for non-members)

CREATING & MANAGING A FACTORING PORTFOLIO TRAINING SEMINAR
Buchalter, Nemer 55 Second St., 17th Floor, San Francisco, CA
September 18 & 19
This factoring course will deal with most aspects of starting, growing and managing/operating an independent or bank-owned factoring company with special focus on sales, underwriting, account management, deal structuring, client servicing, capitalization and back-office structure.
Instructors:
Bob Zadek, Esq., Buchalter, Nemer
Vince Narez, Bay View Funding
Fee: $2,000 ($2,250 for non-members)

ACCOUNT EXEC/LOAN OFFICER FOR THE TRANSPORTATION INDUSTRY
Caesar’s Palace Hotel and Casino, Las Vegas, NV • October 22 & 23
A comprehensive two-day course dedicated solely to transportation factoring professionals; offering advanced, detailed and specific transportation information and covering a multitude of issues related to transportation factoring.
Instructors:
Lori Gustaf, FirstLine Funding Group
Tim Valdez, TAB Bank
David Jencks, Esq., Attorney, Jencks & Jencks
Fee: $845 ($895 for Non-IFA Members)

SMALL FACTORS MEETING
Caesar’s Palace Hotel and Casino, Las Vegas, NV • October 25 & 26
This workshop is designed to give small factors a forum to discuss and learn. Emphasis will be on round table discussion, networking and education.
Moderators:
Jeff Callender, President, Dash Point Financial Services, Inc.
Ryan Jaskiewicz, President, 12five Capital
Legal Counsel:
David Jencks, Esq., Attorney, Jencks & Jencks
Fee: $645 ($695 for Non-IFA Members)

PRESIDENTS/SENIOR EXECUTIVES MEETING
Ritz-Carlton San Juan, Puerto Rico
January 24 & 25, 2013
Moderators:
Cole Harmonson, President, Far West Capital
Debra Wilson, President, Vertex Financial, Ltd.
Legal Counsel:
Mike Ullman, Esq., Principal, Ullman & Ullman, P.A.
Guest Speaker:
Gina Mollicone-Long, The Greatness Group
Fee: $1095 (IFA Members Only). Note: This meeting is sold out. Please call 1-800-563-1895 to be placed on the wait list.

2013 IFA FACTORING CONFERENCE
Fontainebleau, Miami Beach, FL
April 24-27
REGISTER ONLINE AT WWW.FACTORING.ORG OR EMAIL INFO@FACTORING.ORG OR CALL 1-800-563-1895 FOR MORE INFORMATION.
In April of this year, several members of the AFA raised a concern over section 32919 of S. 1813 in the Surface Transportation reauthorization bill. This provision called for an increase from $10,000 to $100,000 of the surety bond or trust fund of all transportation freight brokers. The bill had already passed the Senate at that point, and an identical section had been reported out of the House Transportation and Infrastructure Committee. Additionally, both bills called for the Secretary of Transportation to determine every five years thereafter whether the amount should be increased even more.

Transportation factors often purchase receivables from small, independent truckers and transportation freight brokers who these provisions would so negatively impact. In fact, one knowledgeable figure in the surety industry estimated that the provision would result in driving 15,000 of the approximately 20,000 freight brokers out of business and the loss of at least 25,000 jobs.

As a result, in late April a special committee was set up by the AFA consisting of transportation factors who wanted to see if these provisions could be amended. Jones Walker, AFA’s counsel, advised the AFA and this special committee that the late date and status of the provisions, being in both the Senate-passed bill and the House committee’s legislation, made elimination or any change very difficult. Still, given the strong policy arguments in terms of killing thousands of jobs and creating a monopolistic environment suggested that it was possible some change could be obtained.

So, over ten weeks, the special committee and the Jones Walker team worked tirelessly to meet with the key Congressional Members and staff. Countless meetings were held with everyone from House leadership to freshmen members of Congress. In the end, progress was made. When the final deal on the overall bill emerged at the end of June, the five-year review was totally eliminated. Thus, the threat of the sword of even larger increases down the road was removed from the final bill. Also, the bond increase was reduced by a third to $75,000 from $100,000.

The effective date for the increase in bond amounts is one year from enactment of the Moving Ahead for Progress in the 21st Century Act (MAP-21). Thus, the change won’t become effective until the middle of next summer. In the interim, it is possible Congress might be persuaded to revisit the issue. For example, were the Senate majority to shift, Senator DeMint would chair the Senate Commerce Committee, which has jurisdiction over this issue. Given his free market outlook, he might be prepared to hold a hearing on this subject that might give rise to some adjustment. But, in any event, thanks to the AFA’s involvement significant and positive change was made to this ill-argued legislation. In the future, it also reminds AFA members to alert the AFA Board to any developments that affect other industries that could impact factoring. As we have said from the outset, a large part of AFA’s mission is to protect factoring from inadvertent, collateral damage. And, this is a classic example of AFA’s being able to reduce the damage through its involvement.

Founded in 2009, to provide a unified voice for the factoring industry, the AFA is dedicated to promoting and protecting the interests of the factoring community. The AFA board is made up of volunteers who devote time and their own funds to travel to Washington, D.C. on behalf of the factoring industry.

### 2012 MEMBERS & DONATIONS

As of July 2012

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BUSINESS PROCESSING

GENPACT
Genpact, a global leader in business process and technology management, has mastered the science behind improved operational performance with Smart Enterprise Processes (SEP). Their industry-specific services encompass all of Genpact’s forward thinking and process expertise to help Factoring and Invoice Discounting companies’ world-wide streamline and manage every phase of the cycle, providing the support needed to increase deal conversions, improve fee income and lower costs. By managing the entire process from end to end, they break down silos that impede information flow, accuracy, and timely processing.

Phone: +91-9828165659 • Website: www.genpact.com

IFA members will receive 10% off services during the 1st year and 5% off on services starting in the 2nd year of engagement and onwards.

CERTIFIED EMAIL

RPost
RPost’s Registered Email services allow factors to end disputes attributed to missing, misplaced or denied receipt of notification emails for notices of assignment, notices of default, borrowing base certificates, and other important notifications. It also helps speed invoice collections with proof of invoice delivery irrefutably starting the accounts receivable aging clock.

Website: www.rpost.com/ifaf

IFA Member Benefit: One free hour of initial phone consultation

CONSULTING

12five Consulting
12five Consulting provides technology and social media consulting to the commercial finance industry. Born out of its sister company, 12five Capital, 12five Consulting understands the technological needs of the commercial finance industry, as it was their application of these tools that lead to their expertise. 12five specializes in software optimization, cloud computing implementation and social media representation.

Phone: (630) 633-7423 • Website: www.12five.com

IFA Member Benefit: One free hour of initial phone consultation

FactorHelp
FactorHelp has come to be regarded as the factoring industry’s premier resource provider. Their manuals, in use on every continent of the world, are setting the industry standard and their reputation as the one-call solution for factoring problems is growing. By consistently introducing innovative, viable products, vigilantly cultivating an extensive alliance of Strategic Partners and providing the professional expertise demanded of an industry leader, FactorHelp strives to maintain its goal of providing the unparalleled service the factoring industry expects from a solutions partner.

Phone: (972) 722-3700 • Website: www.factorhelp.com

IFA Members receive a discount of 10% on their consulting fees and 5% discount on all FactorHelp products in the IFA store.

CREDIT

Ansonia Credit Data
With over 150 factors and growing, Ansonia Credit Data is the leading provider of affordable business credit reports. They understand the unique needs of ABL/Factoring companies. With no set-up or annual fees, Ansonia’s reports feature real-time access to a global database on companies of every size, industry and market segment. Whether you’re looking at a company in the USA, Canada, Mexico or beyond, Ansonia credit reports are priced at a low $88 with a substantial discount offered for participation in our A/R data exchange.

Phone: 855-ANSONIA (855)267-6642 x.103 Website: www.ansoniacreditdata.com

IFA Member Benefits: 20% off the Alert System. The Alert System sells for $25 per month. In the event that the Alert System is discounted or offered in other promotions, an additional benefit to IFA members may be required.

Carrier411 Services, Inc.
Carrier411 Services, Inc. provides several web-based services used by factors: Carrier411.com enables factors to qualify and monitor clients and debtors for changes in their insurance, authority and safety. Factor411.com is a free web-based system used to manage relationships with potential clients, existing clients and account debtors more efficiently and effectively. Debtor411.com is a new online credit service used by transportation factors.

Phone: 888-411-9661 • Website: www.carrier411.com

IFA Member Benefits: Receive a 33% discount on Debtor411 credit reports.

Experian
Experian is the industry leader when it comes to credit information on small to medium sized companies.

Phone: 973-285-4856 • Website: www.experian.com

Email: Jacqueline.Faitoule@Experian.com

IFA Members receive Experian business credit information at a special reduced rate

Smyth Networks
Smyth provides world class credit and accounts receivable services that the world’s largest companies use to manage risk, and optimize cash flow and maximize profits. Their services include credit information, analytics and credit insurance, accounts receivable, collection, deduction management, and profit recovery. Their Smyth Networks™ platform offers businesses a new paradigm in industry trade credit data interchange in a virtual environment with reports that score tens of millions on industry-specific trade data on millions of companies based on a secure and scalable data cloud computing backbone.

Phone: 201-714-4514 • Website: www.smyth.com

IFA Members receive free trade reports in exchange for AR data. Also receive free bankruptcy notifications & preferred rates for collections - 15% contingency fee.

Transcredit
CREDIT SCORING is one of the most important financial tools that you can use to make sound yet prompt business decisions. At TransCredit we know just how crucial this data is to keep freight in motion across the USA. In 2011 more than 93 million loads were rated by our Credit Score & Days-To-Pay™.

Phone: 800-215-9448 • Website: www.transcredit.com

Email:winston@transcredit.com

IFA Member Benefit: Receive a discount of 50% or more. Score your portfolio through Bayside’s Credit Factoring Software or directly with Transcredit.

CREDIT CARD PROCESSING

ePaymentAmerica
ePaymentAmerica is the nation’s leading provider of merchant services for the factoring, A/R financing, and P/O financing industries. They offer IFA members exclusive VISA, MasterCard, American Express and Discover pricing, a discount on their virtual gateway, and a discount on PCI Compliance Certifications.

Phone: 901-385-5235

Website: www.epaymentamerica.com

Email: chunt@epaymentamerica.com

IFA Member Benefits: Exclusive credit and debit card rates, discounted gateway fee, discounted PCI compliance.

DISASTER RECOVERY SERVICES

Agility Recovery
For the past 22 years, Agility Recovery has been a premier provider of onsite recovery solutions across the United States and Canada. When disaster hits, Agility will be there on the scene, providing you with any, or all, of the critical elements you need to keep your business in business: power, space, technology, connectivity. Membership also includes access to a dedicated Continuity Planner and secure access to your Agility planning portal to assist in building and maintaining your business continuity plan.

Phone: 704-341-8700

Website: www.agilityrecovery.com

Email: sales@agilityrecovery.com

IFA Member Benefits: 5% discount to each respective client’s monthly ReadySuite membership fee.

FUNDING

RMP Capital Corp.
RMP Capital Corp. is a best-in-class provider of Rediscounting Lines of Credit to Independent Factoring Companies with portfolios from $250,000 to $100,000,000. Understanding the needs of the Independent Factoring Company is the driving force behind a funding program which has helped clients build their operations and grow their portfolio. With over 10-years of industry experience, RMP Capital Corp. prides itself on taking the time to understand its client’s needs, which helps its clients realize their potential and achieve their goals. From providing capital to providing support, RMP Capital Corp has the solution for you.

Phone: 631-738-0047 • Website: www.rmpcapital.com

IFA Member Benefits: RMP Capital Corp. will pay your IFA membership yearly dues.
**MARKETING**

**50 Words Marketing, LLC**

50 Words is a marketing outsource firm for companies that either do not have a marketing department or that need to add more manpower to their existing marketing team. They serve as your dedicated marketing department.

Phone: 610-631-5702
Website: www.50wordsmarketing.com

**IFA Member Benefits:** IFA Members will receive five free hours of marketing services with the purchase of any marketing service. *(Offer to new clients only)*

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**PURCHASE ORDER FINANCING**

**Gateway Trade Finance, LLC**

Gateway provides purchase order funding for importers, distributors, wholesalers and exporters nationwide. They will work with a client’s current or perspective factor, ABL lender, bank and private lender. Gateway can fund 100% of the cost of pre-sold finished goods in transactions from $25,000 to $400,000. They will do the small transactions and one off transactions that are not currently funded by their competitors. “Financing Growth for Entrepreneurs.”

Phone: 703-548-2888
Website: www.gatewaytradefinance.com

**IFA Member Benefit:** Gateway will pay a 12.5% referral fee on completed transactions on all deals brought to them by IFA members.

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**RECRUITMENT AGENCY**

**Commercial Finance Consultants**

Established in 2002, CFC is the premier provider of human talent to the factoring industry. CFC's goal is to provide their clients with the best available human capital and the most current industry information to assist in accomplishing their growth potential.

Phone: 469-402-4000 • Website: www.searchcf.com
Email: dar@searchcf.com

**IFA members will receive an additional 60 days added to the guarantee on all placements.**

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**SOFTWARE**

**Bayside Business Solutions, Inc.**

Bayside Business Solutions is a leading global provider of superior software applications for factoring, invoice discounting and asset based lending. A nimble company, Bayside is able to quickly leverage changes in technology and finance into better tools for their users. Bayside prides itself on providing the best customer service in the business.

Phone: 205-972-8900 • Website: www.baysidebiz.com

**IFA members will receive 10% off license fees and add-on modules. For IFA members who are currently Bayside customers: Free one day refresher course, per year, at Bayside’s training facility in Birmingham, AL.**

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**FactorFox**

FactorFox Cirrus is a cloud application for factors, their clients, brokers and others who enter or access data. Entries can be made and reports accessed from any internet-connected computer, tablet, or smart phone. As a web-native program, there is no extra cost to access its data on the web, nor are manual uploads of reports necessary. FactorFox’s versions include Start Up, Professional, Management, Enterprise and Franchise, making it suitable for nearly any size factor.

Phone: 866-432-2409 • Website: www.factorfox.com

Email: jeff@factorfox.com

*In addition to the one-month free trial for everyone, IFA Members receive an additional two free months for a total of three free months to try the complete program.*

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**TAX COMPLIANCE**

**Tax Guard**

Tax Guard is the only tax compliance company in the U.S. that works with lenders to expose credit risks in real-time before it becomes public information. Unlike a traditional UCC search for federal tax liens, Tax Guard utilizes a proprietary, patent-pending process, providing due diligence and tax monitoring reports to lenders across the United States.

Phone: 202-955-3282 • Website: www.tax-guard.com

**IFA Members will receive a 20% discount on the same day due diligence order.**

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**TELECOMMUNICATIONS**

**Vocalocity**

Vocalocity is a cloud-based voice solutions provider with services and support especially tuned to help businesses grow. Vocalocity ensures higher quality conversations through proprietary technology that differentiates its service from traditional Voice-over IP (VoIP) providers. With cloud-based connectivity, businesses can work from anywhere while enjoying features that deliver large enterprise visibility and functionality. Vocalocity’s cloud-based PBX enhances customer satisfaction, and delivers exceptional business intelligence and flexibility. Vocalocity PBX uses the customer’s current broadband connection to transport calls over the Internet to deliver superior voice quality and reliability.

Phone: 888-244-8939
Website: www.vocalocity.com/IFA

**IFA Members receive 25% discount off each Monthly Unlimited Extension, and either: 10% off On-Demand Call Recording or 10% off Company Call Recording. Or, buy Voicemail Transcription, Get On-Demand Call Recording free.**

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**TRANSPORTATION**

**ExecuCar**

This is a premier luxury sedan service that offers private transportation with experienced professional drivers. Whether you are heading to the airport, a business meeting or social event, ExecuCar will get you there safely in style and comfort.

**IFA Member Benefits:** Save 10% on your roundtrip transportation by booking online with ExecuCar at www.execucar.com. Use the following Discount Code: CLLMC

**SuperShuttle**

SuperShuttle is the nation’s leading shared-ride airport shuttle service, providing door-to-door ground transportation to more than 8 million passengers per year. Their friendly drivers, comfortable vans and reasonable rates take the hassle out of getting to and from 33 airports in over 50 US cities and surrounding communities.

**IFA Member Benefits:** Save 10% on your roundtrip transportation by booking online with SuperShuttle at www.supershuttle.com. **Use the following Discount Code:** CLLMC

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**UCC SEARCH**

**First Corporate Solutions**

First Corporate Solutions is a full service public records provider specializing in the research, retrieval and filing of public records nationwide and internationally. Their services include industry standards such as UCC, lien and litigation searching, UCC and corporate filing services, nationwide registered agent coverage and real property title searching, as well as unique solutions such as state and county account monitoring designed specifically for Factors.

Phone: 800-406-1577 • Website: www.ficoso.com
Email: daves@ficoso.com

**IFA members will receive a 10% discount off the retail rates of their signature state and county account monitoring product.**

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**IFA CALENDAR OF EVENTS**

**SEPTEMBER 6-7**

Transportation Meeting
Hyatt Escala Lodge
Park City, UT

**SEPTEMBER 18-19**

Creating and Managing a Factoring Portfolio
Buchalter, Nemer
San Francisco, CA

**OCTOBER 18-19**

Advanced Factoring Symposium
Caesar’s Palace
Las Vegas, NV

**OCTOBER 22-23**

AE-LO for the Transportation Industry
Caesar’s Palace
Las Vegas, NV

**OCTOBER 25-26**

Small Factors Meeting
Caesar’s Palace
Las Vegas, NV

**JANUARY 24-25, 2013**

Presidents & Senior Executives Meeting
Ritz-Carlton
San Juan, Puerto Rico

**MARCH 5**

Luncheon Meeting with NYIC
New York, NY

**APRIL 24-27, 2013**

2013 Factoring Conference
Fontainebleau
Miami Beach, FL

**FOR DETAILS ABOUT IFA EVENTS, PLEASE VISIT WWW.FACTORING.ORG**

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The Commercial Factor | July/August 2012 25
Almost a year and a half ago, this column attempted to explain all the chatter arising from the case titled *Official Committee of Unsecured Creditors of TOUSA, Inc. v. Citicorp N. Am., Inc.*, Adv. Pro. No. 08-1435 (JKO) (Bankr. S.D. Fla. Oct. 20, 2009). See, “The Hubbub Over TOUSA—Upstream, Cross-Stream, Fraudulent Transfers, and Savings Clauses: Lessons to be Learned in Simple Terms”, *The Commercial Factor*, Winter 2011, Vol. 13, No. 1. The case has drawn a lot of attention because the issues, actions of the bankruptcy court, and the amounts involved. The bankruptcy court opinion is 182 pages. The case involves fraudulent transfers, preferences and savings clauses, many parties and very big money - $500 million. The TOUSA case is in the news again because the first appellate court decision in the case has been issued.

Appeal of the case has fragmented as different parties have pursued separate appeals. There have been rulings from the United States District Court reviewing the Bankruptcy Court decision and now the 11th Circuit Court of Appeals has issued the first appellate level decision in the case (No. 11-11071, May 15, 2012).

As in the prior article, this article will attempt to explain the case and its impact on lenders in simple terms - a daunting task. Unfortunately, it is still difficult for lenders to draw guidance from the case.

**The Facts in TOUSA**

TOUSA and its subsidiaries (the “TOUSA Companies”) were home-builders in southern Florida. When the economic downturn threw home-builders into distress, the situation at TOUSA Companies was exacerbated by an outstanding $675 million loan owed by TOUSA and one of its subsidiaries (the “Transeastern Loan”). The Transeastern Loan was resolved by a settlement payment of $421 million. To raise the settlement funds and other capital, TOUSA Companies obtained two term loans totaling $500 million (the “Term Loans”). The Term Loans added guarantees and liens from additional subsidiaries of TOUSA who were not parties to the Transeastern Loan. The proceeds of the Term Loans were not paid directly to the lenders for the Transeastern Loan. Instead, the proceeds were paid first to a subsidiary of TOUSA (the “Payment Subsidiary”), but the terms of the settlement agreement required that the Payment Subsidiary immediately wire the proceeds to the Transeastern Loan lenders.

**THE BANKRUPTCY COURT OPINION IS 182 PAGES. THE CASE INVOLVES FRAUDULENT TRANSFERS, PREFERENCES AND SAVINGS CLAUSES, MANY PARTIES AND VERY BIG MONEY - $500 MILLION.**

The TOUSA Companies subsequently filed bankruptcy. An Unsecured Creditors Committee was formed and the Committee filed suit against the lenders of the Term Loans to void the guarantees and liens from the additional subsidiaries on the grounds that those transactions were fraudulent transfers and preferences. One of the defenses raised by the lenders was that they were protected by the “savings clause” in the loan documents. A savings clause basically says that if there is not reasonable equivalent value, then the amount guaranteed, or the amount of the collateral pledged, is automatically reduced to a level where there is reasonable equivalent value. By this device, the guarantee or pledge of collateral is not totally void but instead just reduced in value.

**The Lower Court Rulings**

The U.S. Bankruptcy Court for the Southern District of Florida (the “Bankruptcy Court”) ruled in favor of the Unsecured Creditors Committee. It ruled that the guarantees and pledges of collateral by the additional subsidiaries were fraudulent transfers and voided the savings clauses. The lenders argued that the additional subsidiaries received significant, albeit indirect, benefits by preventing TOUSA, their parent company, from going bankrupt and defaulting on its obligations, which would have created cross-defaults under other obligations that the additional subsidiaries owed elsewhere. The Bankruptcy Court ruled this did not amount to reasonably equivalent value. The Transeastern Loan lenders also argued that they should be shielded from liability for any fraudulent transfer because they were merely innocent subsequent transferees—the Payment Subsidiary had been the entity benefitted by any fraudulent transfer. The Bankruptcy Court also rejected the savings clause argument. Among the reasons given for voiding the savings clause were that the clause contradicts and nullifies the fraudulent transfer provisions of the Bankruptcy Code. The Court characterized the savings clause as a “frontal assault” on the protections provided to other creditors by the Bankruptcy Code.

The remedies imposed by the Bankruptcy Court were extreme: (i) the guarantees and liens from the additional subsidiaries securing the Term Loans were voided; (ii) the Term Loan lenders were ordered to disgorge all payments and recoveries tied to the additional subsidiaries; (iii) the lenders of the Transeastern Loan were ordered to disgorge the settlement payment of $421 million, plus prejudgment interest; (iv) the additional subsidiaries
were allowed to recover the diminution of the value of their assets caused by the liens placed in their assets by the Term Loan lenders; (v) the Unsecured Creditors Committee was awarded attorneys fees and costs (after a 13 day trial, these would be very substantial); and (vi) the attorneys fees paid by TOUSA Companies at loan closing to the attorneys for the Term Loan lenders were to be disregarded.

Because Bankruptcy Courts are courts of limited jurisdiction, decisions of the Bankruptcy Court are subject to review by the United States District Court. The Term Loan lenders and Transeastern Loan lenders appealed the Bankruptcy Court ruling to the United States District Court for the Southern District of Florida (the “District Court”), filing several appeals as different groups of lenders. As a result, the District Court has only heard arguments on some of the legal theories and there are still issues awaiting decisions at the District Court level.

The District Court reversed the Bankruptcy Court and found that the additional subsidiaries received “reasonably equivalent value” for their guarantees and liens securing the Term Loans. The District Court broadly construed what constitutes “value”, finding the indirect benefits to the additional subsidiaries, including avoiding a TOUSA bankruptcy and avoiding cross defaults under the additional subsidiaries obligations were sufficient to constitute reasonably equivalent value and thus there was no fraudulent transfer. The District Court also agreed with the Transeastern Loan lenders that they were subsequent transferees since they received payment from the Payment Subsidiary and not the Term Loan lenders, which protected the Transeastern Loan lenders from any liability from a fraudulent transfer.

It is important to note that the District Court did not rule on the savings clause and, as a result, the Bankruptcy Court’s ruling concerning the invalidity of the savings clause currently still stands but may be reviewed at a future date.

The 11th Circuit Ruling

The Unsecured Creditors Committee appealed the District Court decision to the 11th Circuit. The 11th Circuit ruled that the Bankruptcy Court did not clearly err in the Bankruptcy Court’s opinion concerning reasonably equivalent value and whether the Transeastern Loan lenders were liable as transferees of the fraudulent transfer, in effect reinstating the Bankruptcy Court decision on those points and reversing the District Court. Since the District Court concluded there was no fraudulent transfer, the District Court never reviewed the propriety of the remedies awarded by the Bankruptcy Court. The 11th Circuit remanded the case back to the District Court to review those remedies.

The District Court also held that the question of determining reasonably equivalent value was a matter of law. The 11th Circuit held that it was a question of fact. The standards of review in an appellate court are very different for questions of law than for questions of fact. For a question of law, the review is unlimited. For a question of fact, the finding of the trial court must be sustained unless there is clear error. Approaching the reasonably equivalent value theory as a question of fact restricted the 11th Circuit’s ability to rule on and define what constitutes “value”. It could only reverse the Bankruptcy Court’s opinion if the 11th Circuit found that there was clear error in the Bankruptcy Court’s finding that the additional subsidiaries did not receive reasonably equivalent value in exchange for the new liens and guarantees transferred to the Term Loan lenders.

The 11th Circuit also found that the Transeastern Loan lenders were not protected as subsequent assignees of the fraudulent transfer. The Payment Subsidiary had no ability to control the proceeds of the Term Loans because the loan documents for the Term Loan required the Payment Subsidiary to be a pass through entity, immediately wiring the proceeds of the Term Loans to the Transeastern Lenders. Moreover, the settlement agreement for the Transeastern Loan lenders required TOUSA to obtain the Term Loan to pay off the Transeastern Loan.

The Commercial Factor

How Does This Affect Me and What Can I Do About It?

While the 11th Circuit did rule that indirect benefits can constitute reasonably equivalent value, the decision provides little guidance to lenders going forward on what type of indirect benefit is sufficient and what is not. The notion of indirect benefit as reasonably equivalent value is nothing new. However, reading a bit between the lines, and some actual lines, it is clear that the 11th Circuit agreed with the Bankruptcy Court at least insofar as the Term Loans were only a delay in the inevitable bankruptcy of the companies and that the benefits of the Term Loans and settlement of the Transeastern Loan were therefore significantly overvalued.

TOUSA raises issues for lenders to address both at the beginning and ending of the life cycle of a deal. At the beginning of a deal, if the borrower has a complicated corporate structure, make sure to carefully consider how each pledging or guaranteeing entity will receive substantial benefits. It appears that it is now very risky to rely on the idea that it is sufficient if the pledging or guaranteeing entities are part of a common economic enterprise. Also, make sure that each of these pledgers and guarantors are solvent at the time of the loan, including after giving their new pledges and guarantees. Consider whether some of the loan provisions are too clever or “cute”. If there is anything that looks like the Payment Subsidiary used by TOUSA, question seriously whether a reasonable person would look at it and understand it for the “cute” fraudulent conveyance sidestep it is trying (and failing) to be.

When a deal goes bad, it has been widely accepted to take whatever you can get from a distressed borrower, understanding that if it goes into bankruptcy, your worst case scenario is giving back the payments or collateral the lender received. TOUSA sounds the alarm against that strategy. The lender may be liable for far more than just disgorgement of payments or collateral. The TOUSA saga is still far from over. Continue to stay tuned for more developments.

Information provided in this article is general information only and not legal advice. Readers are encouraged to consult an attorney for specific legal advice.

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As a university student Rod actively volunteered with a number of non-profit organizations in his home town of Montreal. However, after joining the factoring industry at Accord Financial Inc. 13 years ago, he focused on his career and gave up his volunteer work. Last year Rod and his wife Vanessa, who love to travel, were looking for an opportunity to give something back. A good friend introduced them to Habitat for Humanity and they immediately made the decision to participate in a Habitat trip, destination Bolivia. Rod remembers that it was an easy decision to join this trip after hearing about their friend’s positive experiences with Habitat. “Living in a country like Canada we take so much for granted. Vanessa and I were very excited about the opportunity to travel to Bolivia and have a direct impact on a specific family. The Habitat model really appealed to us.”

Founded in 1976, over 1 million people worldwide now live in homes built by Habitat for Humanity. Habitat for Humanity’s motto “We give a ‘hand up’ not a ‘handout,” aptly describes the organization’s approach. The families that they work with must have sufficient income to afford monthly mortgage payments and provide ‘sweat equity’ by participating in the construction of the home. Habitat provides assistance by providing the financing at low or no interest, and expertise with regard to planning, construction and project management. The families that Habitat works with are not the poorest of the poor, but are lower income families that, without the assistance of Habitat, would not be able to own their own homes. In the case of Bolivia this means that a typical family may have a combined monthly income of approximately $400. Habitat’s mission is ‘to break the cycle of poverty and build strong communities by helping people gain access to affordable and sustainable housing.’ Habitat for Humanity runs a program called Global Villages, which provides an opportunity for individuals to travel with the organization and participate in the construction of homes for families throughout the world. It is important to understand that the vast majority of the homes that are built with the assistance of Habitat are done so outside of the Global Villages program and without the assistance of volunteer work crews. However, the Global Villages program provides a great opportunity for the participants to get involved with the organization in an extremely hands-on manner and see with their own eyes the impact that Habitat is having.

Last October Rod and Vanessa traveled to Bolivia with a group of 10 other Canadians to work on a one-week build through Habitat’s Global Villages program. Upon arrival in Santa Cruz, Bolivia, they met up with the rest of their team whose members represented Canada from coast to coast and whose ages ranged from 25 to 70. There they had their first opportunity to meet with the two families for whom they would be helping to build their homes. Each family shared their stories and explained why they were participating in the program. One family, a young couple who were caring for their seven year old nephew so he could attend grade school in the city, were currently living in a small shack adjacent to their family’s residence. They had saved up to purchase land for their own house but with mortgage rates as high as 35% they could not afford to build a house. The help from Habitat, a $6,000 loan, would allow them to establish a foundation in their life from
Rod Matheson started his career in the factoring industry over 13 years ago as a temp in the accounts payable department of Montcap Financial Corp., now named Accord Financial Inc. After completing his Bachelor of Commerce at the John Molson School of business Rod found himself working at Accord knowing nothing about the factoring business. Accord offered Rod a full time position as a junior in the account management department where he learned the ropes and eventually went on to head up the department. Most recently Rod has taken on a role in business development. Rod is an avid cyclist competing on the local racing circuit, enjoys photography and loves to travel the world with his wonderful wife Vanessa. Rod is also a member of the Board of Directors of Share the Warmth, a community based non-profit organization, and volunteers as a mentor with Youth Employment Montreal. He can be reached at rmatheson@accordfinancial.com.

Arriving in the outskirts of Santa Cruz, (think dirt roads with cows and chickens running around), the team was presented with two vacant plots of land. The goal for the week was to dig the troughs for the foundations; prepare the rebar; lay the foundations; start building exterior brick walls; and dig the hole where the septic tank would be built. For a group of people with no construction experience this sounded like a daunting task, but Habitat’s masons and architect kept the project on track. “It was very rewarding work. Every morning you arrived at the worksite and could see the progress you’d made from the previous day.” Working side by side with the local masons and family members, Rod and the team of Canadian volunteers not only helped two families achieve their dream of homeownership but had an opportunity to experience a country and get to know the people in a manner that you would never be able to experience as a traditional tourist. “We took away so much more from this experience than we gave.” Reflecting on his experience Rod said, “The experience in Bolivia vastly surpassed all our expectations. Not only did we meet and help two local families, but we shared our experience with 10 new friends. It was the quality of the other volunteers and the fun and laughter that we shared as a group that was our biggest surprise about the trip.” Rod and Vanessa so thoroughly enjoyed their experience that they have already started to plan their next trip with Habitat. “We’re hoping to be able to go to India with Habitat in 2013!” said Rod. For Rod the experience with Habitat has been a catalyst in getting re-involved with non-profit organizations. Since returning from Bolivia, Rod has joined the Board of Directors of Share the Warmth, a community organization working to reduce the high school dropout rate by supporting underprivileged youths in Montreal, and is volunteering as a mentor with Youth Employment Services Montreal, an organization that helps support and guide young entrepreneurs as they work to establish their new businesses.
Small Factors and Shark Tank

I am a fan of the TV show Shark Tank which ABC airs on Friday night. If you haven’t seen the hour-long show it’s worth a look. It teaches some good lessons since our role as factors parallels that of the sharks.

Here is the format. An entrepreneur seeking capital walks into a room with a panel of five people—the “shark tank”—and gives his/her pitch. The sharks are very wealthy, experienced, and highly-connected business people. At the end of the presentation, the owner makes a request for the investment amount in exchange for a specific percentage of the company.

Many products are quite clever and often simple ideas to solve common problems. The entrepreneurs need the sharks’ capital, marketing and distribution channels and connections, and business expertise. Usually they offer a minority stake (typically 10–49%) for about $10,000 to over $1,000,000.

Each shark has specialized areas of expertise and connections. The current panel includes:

- Mark Cuban, owner of the Dallas Mavericks, cable industry enterprises, and a large movie theater chain.
- Daymond John, a fashion and branding expert with many connections in the apparel industry.
- Barbara Corcoran, a real estate mogul, who sometimes alternates with Lori Greiner, an inventor of retail items whose many products are sold on QVC.
- Kevin O’Leary, a venture capitalist and previous software developer, with many high tech connections.
- Robert Herjavec, who heads a leading IT security and infrastructure integration firm.

When the entrepreneur completes the demonstration and funding request, the sharks pepper her with questions.

Usually at least one or two sharks have an interest in the product, while the others may find a reason to say, “I’m out.” The entrepreneur usually tries to negotiate with the interested shark/s to hammer out a deal.

Products are rejected by the sharks for various reasons. Some say the company is in a niche or market in which they have no knowledge or connections. Alternately, they may think the product won’t sell, is a bad idea, lacks a broad enough market, etc. Sometimes they think the entrepreneur doesn’t have what it takes—drive, attitude, personality, whatever—to make the product succeed.

Sharks are decisive, blunt, and mince few words with the entrepreneurs and each other. The fun parts of the show are hearing the sharks evaluate the product, watching them counter another shark’s offer, seeing how much anyone will negotiate, and guessing which (if any) offer will be accepted. I find myself hollering to the entrepreneurs, “Take it! Take it!” or “No, no, you’d be giving up too much!” as they contemplate offers. The sharks almost always put strong pressure to accept their offer immediately. Even a moment’s hesitation can doom an entrepreneur to lose an offer, especially if more than one shark is interested.

The sharks behave like…well, sharks, both with each other and the entrepreneurs. Insults fly between them as they jockey for deals they want. The entrepreneurs need to know their product, market, sales, costs, and projections without flinching; if they don’t, they get mauled.

The lessons for small factors lie in the parallels both the sharks and factors share when considering prospects. The show is an intriguing look at the four steps both follow: qualifying the deal, evaluating the product and the person, negotiating terms, and closing the deal.

Qualifying. Just as the sharks decide which deals they’ll fund, so do small factors. The first issue both face: is this an industry or niche with which I’m familiar? Do I know enough to fund safely and profitably? Could someone else do it better? Any time a shark feels uncomfortable with an industry, he or she is “out” quickly. We should learn from this.

Evaluating. After initial qualifying, the sharks ask more questions: How long have you been in business? How many sales have you made? How much of your own money have you invested? Frequently the sharks will do a quick calculation on the business valuation. That is, if an entrepreneur offers a 25% equity stake for a $500,000 investment, the business is valued at $2,000,000. The sharks then determine if this is close or way off.

If the number seems reasonable and the proposal attractive, more questions follow. What is your cost? What are your wholesale and retail prices? Where is your product manufactured? Can it be done more cheaply or efficiently elsewhere? Do you have new orders?

In addition to writing this regular column for The Commercial Factor, Jeff Callender is President of Dash Point Financial (DashPointFinancial.com) which buys receivables of very small businesses. He has written many books and ebooks about factoring which can be obtained from DashPointPublishing.com as well as the IFA website’s Store. All his books are being updated and will be re-released this summer. He also is the President of FactorFox Software, Inc., a cloud-based program used by factors of all sizes to track their receivables. You can reach him at 866 432 2408 or via email at Jeff@DashPointFinancial.com or Jeff@FactorFox.com.
Again, if the entrepreneurs don’t give specific, clear answers immedi-
ately, the sharks attack or lose interest and drop out.

While factors may not ask the same questions the sharks do, we have our own questions to qualify and evaluate prospects: What is your industry? To whom do you sell? How long does it take to pay? What is your monthly volume? How much bad debt have you had? What is your billing process? Like the sharks, we’re trying to figure out what to expect from this account, and if this is a deal we want.

The sharks also carefully evaluate the entrepreneur’s personality. Is the individual driven and hard working? Passionate about his product? Does she have good business sense? Where does he need help, and can a shark provide the help needed? The sharks drop out if they sense the personality is not right, there’s no fire in the person’s belly, or the business and/or entrepreneur are not a good match for them.

Factors do the same. When talking to a prospect, we ask ourselves similar questions: Is this a viable business? Will factoring help? Does the owner have what it takes to succeed? Does she want to factor for the right reasons? Do I want to work with him for the next two years? What can go wrong with this deal?

We also do our underwriting during the evaluation phase: credit checks on debtors, and background searches on the client – UCCs, judgments, liens, taxes owed, criminal history, etc. If the results aren’t what we’re looking for, like the sharks we say, “I’m out.”
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