

**Perspectives from Main Street on Small Business Lending
Senate Hearing
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Testimony of:

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Company History

I started Coed Sportswear, Inc. shortly after graduating from college in 1990. Coed has been a successful manufacturer and distributor of imprinted apparel from its infancy. Over the last 19 years Coed has sold its imprinted apparel into thousands of independent retail stores throughout the country as well as most major department stores and big box sporting goods stores. The company's greatest year was in 1994 when the company's revenues topped \$23 million and a net profit of over \$5 million. The success the company had in 1994 was recognized by the Clinton administration in May 1995 when my partner and I were awarded the Small Business Administration's National Young Entrepreneur of the Year Award. Ironically, that was the last time I visited Washington DC.

Since 1994, the company has experienced its share of profitable years as well as some lean ones, but overall the company has been consistently successful and has gained a reputation as one of the leading producers of "lifestyle statement wear" in the country.

Over our 19 year history Coed has sold approximately \$140 million worth of t-shirts and related apparel.

In 1995, my partner and I purchased a second business, Printed Matter, Inc, which essentially a sister company to Coed. Coed, creates, sells and distributes its artwork on t-shirts. Printed Matter prints our t-shirts.

Printed Matter, like Coed has been very successful. The company has had total sales of over \$21 million since we purchased it. Its best year was in 2004 when the company earned over \$450,000 in profit on \$2.6 million in sales.

As owners of two small businesses, my partner and I have been committed to our employees, offering a pay scale that is higher than the industry average in our area and benefits that far surpass our competitors. Our benefits in the past have included:

- Top pay rates
- Health Insurance (paid 100% by the company)

- Dental Insurance (paid 100% by the company)
- Short and Long Term Disability (paid 100% by the company)
- Life Insurance up to two times Salary (paid 100% by the company)
- 401k plan with a company match of \$.50 on the dollar up to 6% deferred.
- Flexible hours especially for mothers with children in school
- Excellent Vacation benefits
- Annual Holiday bonuses

Over the last two years, however, both companies have lost significant money primarily due to a consolidation and contraction of the retail market which is directly related to the downturn in the economy and the lack of people spending money at retail. From 2002 through 2006, Coed averaged revenues of about \$8.1 million per year. In 2007 revenues fell to \$6.8 million and in 2008 they fell to \$5 million. This represents a 38% drop in revenues in two years.

Also, because our business is inherently seasonal, we have always maintained healthy banking relationships. Possibly because our banking relationships were strong, neither Coed nor Printed Matter reacted to the economic downturn as quickly as we should have, however we did start making significant cost cuts in April of 2008, in an effort to address weakening sales and what was obviously going to be a difficult year:

- Since the first quarter of 2008 Coed and Printed Matter have reduced the total workforce from 80 employees to 45 employees.
- In the summer of 2008 Coed suspended the company's 401k match.
- In February 2009, Coed and Printed Matter was forced to switch health insurance plans after we received our renewal, which included a 45% increase in our premiums. In 2008, health insurance premiums were \$179,000 per year insuring approximately 47 employees and in some cases their families. The renewal would have cost approximately \$260,000. Both companies were forced to require major contributions from their employees for significantly weaker plan coverage.

These cuts and the many other difficult decisions that were made had a dramatic affect on the Coed's performance, lowering our breakeven number from approximately \$650,000 in monthly revenue to less then \$400,000 in monthly revenue. Because of the cuts that we made, Coed was profitable over the last six months of 2008, but not enough to overcome the significant losses we took in the first six months of the year. Printed Matter's breakeven fell from approximately \$185,000 in revenue per month to \$100,000 in revenue per month. Despite all of these extremely difficult decisions and a strong effort to further shore up what we thought was a strong, healthy banking relationship, our bank of seven years called our notes in August of 2008.

2009 Projections:

Both Coed Sportswear and Printed Matter expect to be profitable in 2009 although neither company expects sales to rebound to either 2007 or 2006 levels. The shrinking of our overhead should allow us to be profitable even at revenues less than 2008.

Coed, however, expects to grow its business in 2009 primarily due to an increase emphasis on its independent retail market, new and better product, and the addition of key major accounts including Target, Disney and Wrangler Jeans. In March of 2009, Coed delivered its first test of product to both Disney and Target. A successful test at either retailer could possibly add more than \$1 million in new revenue to the company this fiscal year. This May Coed expects to make its first shipment to Wrangler, which has the opportunity of adding over \$100,000 in new revenue to the company. Coed also expects to grow its business with other key retailers such as Academy, Kohl's, Olympia Sports, and Macy's.

In 2008 Coed also launched a new branded concept called "Me Time". Me Time was created specifically for women who are juggling their careers, family responsibilities and life's daily challenges. Whether it is finding time to read, exercise or get together with friends, "me time" is necessary for a busy woman's peace of mind, health and overall wellness. Coed also launched www.metime.com in the fall of 2008. The website is the first time that Coed has ever marketed directly to the end consumer and it is also designed to help educate women on ways to gain "me time" in their lives. Coed expects, in time, that Me Time will be the single strongest line that it has ever launched, not only giving the company exposure directly to the consumer, but also reinvigorating the declining independent retail market.

Current Banking Status

Since 2003 Coed had a working line of credit of \$1,000,000 with Ocean National Bank. The line is secured by accounts receivable and inventory by formula. The line is necessary for Coed to maintain its business in the slower winter months and allow the company to purchase significant inventories in preparation for the busier in season months. Currently there is a \$770,000 outstanding balance on the LOC. Coed also has a term loan of \$30,000 for equipment purchase.

Printed Matter has a \$50,000 LOC with Ocean to be used if necessary during the off season months, and about \$95,000 in term loans for equipment purchases.

In 19 years of business, neither Coed nor Printed Matter has ever missed a payment on any of its term loans, mortgages or interest payments. In August 2008, Ocean Bank, shortly after being purchased by Peoples United Bank of Connecticut, froze both Coed's and Printed Matter's Line of Credits and asked us to find a new bank to take over the two LOCs and all the existing loans.

Ocean's rationale for their decision was that both Coed and Printed Matter lost significant money in 2007 and was likely to lose money in 2008 as well. Ocean further explained that since People's had taken over, their risk tolerance for companies that relied on retail in the current economic climate was low. Ocean was unwilling to let the cost cuts made by both companies have any affect and was unwilling to look at new opportunities such as Disney, Target, Wrangler and Me Time.

As a result, Coed and Printed Matter have been looking for new banking relationships since August 2008. This has been an incredibly frustrating and discouraging task in the current economic environment. I have utilized the services of a private consultant and the services of the New Hampshire Small Business Development Center, in an effort to identify the most aggressive local banks and develop the best possible package I could in order to sell my companies to the banks. I have made presentations to six banks since August all with the same result. No bank is interested in taking on Coed or Printed Matter in the current economic environment without out at least six months of sustained profitability. Coed did post a profit over the last six months of 2008, but due to seasonality, lost money in November and December of 2008 and in January 2009. The company expects to be close to breakeven in February 2009 and expects to be profitable in March, April, May, June, July and August of 2009. Printed Matter expects a similar pattern of profitability.

As a result of not being able to find a bank interested in taking on Coed and Printed Matter, I began focusing on simply replacing the \$50,000 line of credit of Printed Matter. The strategy was that if I could at least find a bank willing to take on Printed Matter's LOC, which would be secured with A/R and equipment both valued significantly higher then the \$50,000 line, then that would accomplish two goals:

- Taking the \$50,000 out of Ocean Bank would show a good faith effort on my part for making progress on moving all loans, thus giving Ocean reason to further extend the time for me to develop a completely new relationship with a new bank.
- By developing a relationship between Printed Matter and a new bank, I would be able to buy time, get Coed profitable and get the new bank interested in taking on Coed's credit requirements.

Unfortunately, I still have yet to find a bank to take on a low risk LOC of \$50,000 for Printed Matter, that would be secured by A/R, equipment and personally.

Coed is at the beginning of the t-shirt season. We are on the cusp of creating the company's greatest line ever, Me Time, but because of cash restraints have had to place most of our plans on hold. Due to the lack of credit, Coed and Printed Matter have been cash strapped, making it difficult to pay vendors in a timely manner, making it difficult to make investments in our growth opportunities and soon will impact our ability to fulfill future orders. Without investment in inventory, marketing materials, sales trips and more, the company will have a difficult time taking advantage of growth opportunities or perhaps not even be able to fulfill future orders.

I expect Coed and Printed Matter to be profitable in 2009, but not if the companies are unable to find capital in order to make the investments necessary to become profitable.

I have had this opportunity to meet with The Senate Committee on Small Business and Entrepreneurship in large part thanks to the effort of Warren Daniel of the New Hampshire Small Business Development Center. My goal in meeting with the Committee is to point out and ask for the following:

- To tell the story of our business and the struggle to stay in business despite doing everything necessary to put ourselves in a position to be successful In 2009.
- To ask Congress to help small businesses during this economic crisis, because it is small business that employs the vast majority of working Americans.
- To see if Congress would implement a plan that will insure bank loans or lines of credit to be used as working capital for small business.
- To ask that a greater focus be placed on stimulus so that the American consumer regains confidence and begins again to spend money at retail.

Helping small business will put Americans back to work and will pull the country out of our current economic malaise. We need to “Find a Way” America.

Thank you

Mark R. Lane