Client:
Cameron Tools

Prepared For:
RiskOutcomes
User: Dan O'Connell
Date: *05/13/2014 7:24 PM*

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Account Information - Cameron Tools

Address 1:	2030 4th Avenue	Industry:	Manufacturing - Fabricated Metal
Address 2:	Cleveland, OH	Sub Industry:	Cutlery & Hand Tools
Entity Type:	C Corp.	Proposed Loan Amount:	$200,000
Public/Private:	Private	Loan Type	Term
Years in Business:	7	Loan Disbursements:	Working Capital

Dashboard

Company to Industry (Ind. is 1.0)		Liquidity		Cash Summary	
Profit Before Tax	0.30	Current Ratio	2.13	DSCR (EBITDA)	1.26
Current Ratio	0.79	Quick Ratio	0.74	Operating Cash	$140
Liabilities to Equity	2.26	Working Capital	$992	Surplus (need)	($117)

Executive Summary of Analytics

♦ Sales $5,721 ♦ Operating Income $121 ♦ Operating Cash $140 ♦ CADA ($35) ♦ Debt/Net Worth 1.77:1

RiskOutcomes™ emphasizes sustainable earnings power, cash generation and liquidity to pay long-term obligations and remain viable. The company had significant cash needs last year and it appears there is a capital requirement in the next years to finance operations. There has been a lack of margin control which has impacted profits a fair amount. Operating Earnings after Interest and Net Capital Expenditures (Owner's Earnings A27) was on the low side at $83 and is a good measure of performance. While positive, cash runs the business. In this case, Cash after Debt Amortization (CADA) was ($35). Last year's overall **results were substandard**.

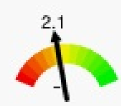
Continued *strong* sales growth (S9) of 13.43% projects *tight* Owner's Earnings (S33) of $94 next year. From a collateral perspective, a borrowing capacity of 45.62% is available (S30) with a **Substandard** DSCR (S31) of 0.55 on existing debt. There is substantially more debt leverage than that of the industry which places the company at a disadvantage. The Company is dependent on a cash infusion of ($53) next year (S23). Future DSCR (S31) can't support existing debt service and **collateral quality becomes critical**. There is an **Average Risk of Default** (interest coverage of 4.56 appears adequate).

- Last year's Gross Profit Margin declined, reducing profits ($134). The latest GPM was 27.22% vs. a high of 35.96%.
- Net Fixed Assets seem to be inadequate to maintain the fixed asset base (15.85% of assets). Cross check with Fixed Asset Turnover.

RiskOutcomes Rating

Objective Risk Metrics	Trend & Current	Score
Profit Before Tax	Above Average, $128	★★
Cash After Operations	Above Average, $140	★★
Liquidity (Current Ratio)	Above Average, 2.13	★★★
DCR (EBITDA)	Above Average, 1.26	★★★
Owner's Earnings	Above Average, $83	★
Management Consistency	Above Average, (80.61%)	★
Years in Business	In business for 7 years.	★★★
RiskOutcomes VRating	**Substandard**	★★

Risk Scale	
Strong	★★★★★
Good	★★★★
Satisfactory	★★★
Substandard	★★
High Risk	★



RiskOutcomes
BUSINESS VIABILITY ANALYSIS

(continued)

Breakeven Analysis & Management Consistency	2009	2010	2011	2012
S01. Revenues to Breakeven (< is better)	$3,933	$4,120	$4,577	$5,372
S02. Historical Days to Breakeven (< is better)	365.52	354.11	340.58	342.73
S03. Attainable Days to Breakeven (< is better)	263.81	235.69	239.10	224.78
S04. BEP Variance from Historical (< is better)	27.82%	33.44%	29.80%	34.42%
S05. Historical Operating Profit (> is better)	$35	$50	$132	$121
S06. Attainable Operating Profit (> is better)	$428	$463	$535	$624
S07. Excessive Cost (zero is optimal)	($393)	($413)	($403)	($503)
S08. Management Consistency % (zero is optimal)	(91.83%)	(89.21%)	(75.33%)	(80.61%)

Summary Breakeven Comments: Last year, the company's breakeven point (BEP) was $5,372 in sales or 342.73 days, a 17.37% increase. At this volume, direct costs and fixed overhead have been recovered and profit is zero. With improved controls the BEP can be reduced to average $3,079 in revenues or 240.85 days. Based on historic margins, the company's attainable operating profit was $624 last year with ($503) left in the cost structure of the business. Sales would have to decline 6.10% before a loss is incurred.

Summary Defensive Cash Outcomes and Collateral Coverage: Projected (P1) cash after financing cost and cap ex (S23) may be manageable as the variance is less than 1% of sales. Current debt is 45.62% of expected total collateral capacity (S30). Management needs to improve margins and reduce operating expenses. Revolving Credit (S26) and Term Loan Capacity (S28) is projected at $1,128 and $271. Projected DSC (operating cash) of 0.55 and DSC (EBITDA) of 0.93.

Defensive Cash Outcomes (Projections) & Collateral Quick Check	P1	P2	P3
S09. Sales (average growth rate)	**$6,489**	**$7,360**	**$8,349**
S10. Cost Of Goods Sold (average %)	($4,498)	($5,102)	($5,787)
S11. Gross Profit	**$1,991**	**$2,258**	**$2,562**
S12. Operating Expenses (average %, no depreciation or amortization)	($1,773)	($2,011)	($2,281)
S13. Cash After Expenses (EBITDA)	**$218**	**$248**	**$281**
S14. Change In Receivables (last year's %)	($74)	($84)	($95)
S15. Change In Inventory (last year's %)	($163)	($185)	($210)
S16. Change In Payables (last year's %)	$73	$83	$94
S17. Change in Other Current Assets (historical average)	$0	$0	$0
S18. Change in Other Current Liabilities (historical average)	$18	$18	$18
S19. Total Changes in Working Capital	($147)	($169)	($194)
S20. Cash After Operations (S13 -S19)	**$72**	**$79**	**$87**
S21. Capital Expenditures (last year's capex maintenance %)	($88)	($100)	($114)
S22. Financing Cost (average dividends & last year's interest)	($36)	($36)	($36)
S23. Cash Surplus (Needs) After Cap Ex & Financing Cost (S20 - S21- S22)	**($53)**	**($57)**	**($63)**
S24. Collateral - Receivables (87.5% current, 80% advance rate)	$438	$497	$564
S25. Collateral - Inventory (50% advance rate)	$690	$782	$887
S26. Revolving Credit Capacity (S24 + S25)	**$1,128**	**$1,279**	**$1,451**
S27. Collateral - Net Fixed Assets	$452	$553	$666
S28. Term Loan Capacity (60% advance rate - S27)	**$271**	**$332**	**$400**
S29. Current Term Debt & Current Maturities of Long Term Debt	$761	$761	$761
S30. Current Debt % of Available Revolving & Term Debt Capacity	**45.62%**	**52.76%**	**58.88%**
S31. DSCR (EBIT + net capex) using last year's debt service	0.55	0.63	0.71
S32. DSCR EBITDA (last year's debt service)	0.93	1.05	1.19
S33. Future Owner's Earnings (S13 + S21 + S22)	**$94**	**$112**	**$131**

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Financial Analysis
Supporting Documentation

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Income Statement & Changes

A. Income Statement	2009	2010	2011	2012
Sales				
A01. Revenues	$3,927	$4,247	$4,905	$5,721
A02. Growth Rate		8.15%	15.49%	16.64%
A03. Total Cost Of Goods Sold	$2,515	$2,973	$3,455	$4,164
A04. Gross Profit	$1,412	$1,274	$1,450	$1,557
A05. Gross Margin	35.96%	30.00%	29.56%	27.22%
Expenses				
A06. Depreciation	$80	$78	$68	$76
A07. Amortization - Depletion	$0	$0	$0	$0
A08. Owners Compensation	$149	$154	$161	$180
A09. Lease Expense	$76	$78	$80	$82
A10. Other Expenses	$1,072	$914	$1,009	$1,098
A11. Total Operating Expenses	$1,377	$1,224	$1,318	$1,436
A12. Operating Income (Op. Inc.)	$35	$50	$132	$121
A13. Operating Income %	0.89%	1.18%	2.69%	2.12%
Non Operating Expenses				
A14. Interest	$43	$43	$40	$36
A15. Other Expenses (Income)	($14)	($38)	($40)	($43)
A16. Total Non Oper. Expense	$29	$5	$0	($7)
A17. Net Profit Before Tax	$6	$45	$132	$128
A18. Income Tax Expense	$8	$7	$35	$33
A19. Net Profit After Tax	($2)	$38	$97	$95
A20. Dividends Paid (returned)	$0	$0	$0	$0
A21. Change In Retained Earnings	($2)	$38	$97	$95
A22. Adjustment To Equity	$0	$0	$64	$0
A23. Change To Net Worth	($2)	$38	$161	$95
A24. EBIT	$49	$88	$172	$164
A25. EBITDA	$129	$166	$240	$240
A26. EBITDAR (+ rent)	$205	$244	$320	$322
A27 Owner's Earnings (using avg. cap ex)		$27	$93	$83

B. Change in Income Statement	2010	2011	2012
B01. Sales	8.15%	15.49%	16.64%
B02. Cost of Goods Sold	18.21%	16.21%	20.52%
B03. Gross Profit	(9.77%)	13.81%	7.38%
B04. Operating Expenses	(11.11%)	7.68%	8.95%
B05. Operating Income	42.86%	164.00%	(8.33%)
B06. Interest	0.00%	(6.98%)	(10.00%)
B07. Total Non Operating Expense	(82.76%)	(100.00%)	0.00%
B08. Net Profit Before Tax	650.00%	193.33%	(3.03%)
B09. EBIT	79.59%	95.45%	(4.65%)
B10. EBITDA	28.68%	44.58%	0.00%
B11. EBITDAR (+ rent)	19.02%	31.15%	0.63%

Note: Verify that real estate lease (rent) is a 'third party' transaction. If not, determine if lease is at fair market value.

Balance Sheet & Changes

C. Balance Sheet	2009	2010	2011	2012
Current Assets				
C01. Cash & Equivalents	$35	$16	$49	$102
C02. Accounts Receivable	$445	$531	$520	$552
C03. Inventory	$840	$884	$1,097	$1,216
C04. Other Current Assets	$0	$0	$0	$0
C05. Total Current Assets	$1,320	$1,431	$1,666	$1,870
Long-Term Assets				
C06. Total Property, Plant & Equipment	$690	$720	$768	$831
C07. Accumulated Depreciation	$280	$351	$401	$467
C08. Net Property, Plant & Equipment	$410	$369	$367	$364
C09. Other Long Term Assets	$32	$76	$53	$62
C10. Total Long Term Assets	$442	$445	$420	$426
C11. Total Assets	$1,762	$1,876	$2,086	$2,296
Current Liabilities				
C12. Cur. Maturities of LT Debt	$130	$180	$155	$200
C13. Accounts Payable	$449	$436	$486	$542
C14. Notes Payable	$100	$60	$120	$70
C15. Other Current Liabilities	$18	$27	$28	$66
C16. Total Current Liabilities	$697	$703	$789	$878
Long-Term Liabilities & Equity				
C17. Term Debt	$529	$599	$541	$561
C18. Other Long-Term Liabilities	$0	$0	$21	$27
C19. Total Long-Term Liabilities	$529	$599	$562	$588
C20. Total Liabilities	$1,226	$1,302	$1,351	$1,466
C21. Capital Stock	$5	$5	$5	$5
C22. Retained Earnings	$531	$569	$730	$825
C23. Other Shareholders' Equity	$0	$0	$0	$0
C24. Total Stockholders Equity	$536	$574	$735	$830
C25. Total Liabilities & Equity	$1,762	$1,876	$2,086	$2,296

D. Change in Balance Sheet	2010	2011	2012
D01. Cash & Equivalents	(54.29%)	206.25%	108.16%
D02. Accounts Receivable	19.33%	(2.07%)	6.15%
D03. Inventory	5.24%	24.10%	10.85%
D04. Other Current Assets	0.00%	0.00%	0.00%
D05. Total Current Assets	8.41%	16.42%	12.24%
D06. Net Fixed Assets	(10.00%)	(0.54%)	(0.82%)
D07. Other Long Term Assets	137.50%	(30.26%)	16.98%
D08. Total Assets	6.47%	11.19%	10.07%
D09. Accounts Payable	(2.90%)	11.47%	11.52%
D10. Other Current Liabilities	50.00%	3.70%	135.71%
D11. Total Current Liabilities	0.86%	12.23%	11.28%
D12. Other Long Term Liabilities	0.00%	0.00%	28.57%
D13. Total Liabilities	6.20%	3.76%	8.51%
D14. Net Worth	7.09%	28.05%	12.93%
D15. Total Net Worth & Liabilities	6.47%	11.19%	10.07%

Cash Drivers, Income Statement & Balance Sheet Commentary

E. Cash Contribution	2010	2011	2012
E01. Sales	$4,247	$4,905	$5,721
E02. Prior Year Gross Profit	$1,412	$1,274	$1,450
E03. Cash from Gross Profit Margin GROWTH	$115	$197	$241
E04. Cash from Change in Gr. Marg. RATIO	($253)	($21)	($134)
E05. Current Year Gross Profit	$1,274	$1,450	$1,557
E06. Prior Yr. Oper. Expenses (no deprec, amort)	($1,297)	($1,146)	($1,250)
E07. Cash from Op. Expense GROWTH	($106)	($178)	($208)
E08. Cash from Change in Op. Exp. RATIO	$257	$74	$98
E09. Current Year of Op. Expenses	($1,146)	($1,250)	($1,360)
E10. Current Year Operating Cash (E5-E9)	**$128**	**$200**	**$197**
E11. Cash Receivables GROWTH	($36)	($82)	($87)
E12. Cash from Change in AR Days RATIO	($50)	$93	$55
E13. Total Change in Receivables	($86)	$11	($32)
E14. Cash from Inventory GROWTH	($68)	($137)	($182)
E15. Cash from Change in Inventory Days RATIO	$24	($76)	$63
E16. Total Change in Inventory	($44)	($213)	($119)
E17. Cash from Payables GROWTH	$37	$68	$81
E18. Cash from Change in Payable Days RATIO	($50)	($18)	($25)
E19. Total Change in Payables	($13)	$50	$56
E20. Total Change in WC Cash (E13+E16+E19)	**($143)**	**($152)**	**($95)**
E21. Total Cash from Operations (E10 - E20)	**($15)**	**$48**	**$102**
E22. Capital Expenditures (Cap Ex)	($37)	($66)	($73)
E23. Cash from All Drivers	($52)	($18)	$29
E24. % Cash from All Drivers to Sales	**(1.22%)**	**(0.37%)**	**0.51%**

Cash Driver Discussion: Last year cash consumed from sales growth of $816 was **($155)** (E3+E7+E11+E14+E17) and cash generated from ratio management was **$57** (E4+E8+E12+E15+E18) for a total change in cash of **($98)**. Sales growth of $816 generated an additional $107 of gross profit, little or no contribution to cash after operating expenses and improved the working capital drivers (E20) by $57. Last year's sales gain of $816 increased cash from all cash drivers (E23) by $47. Cash from all drivers contributed 0.51% of sales.

Income Statement Discussion: Last year's sales grew 16.64% while pre-tax profit decreased (3.03%) to $128 or 2.24% of sales. The *gross profit margin* (A5) retreated (7.94%), generating ($134) less to cover the expense burden and net profit. The *operating expense ratio* decreased (6.59%) and improved profits by $98. "Other Income" of $43 (A15) may be material enough to investigate how significant it is to future earnings. **Owner's Earnings** were $83 last year. Owner's Earnings are ordinary pre-tax profit plus non cash items (deprec, amort.) less maintenance capital expenditures to maintain the asset base (no growth). Working capital changes are not considered as they are a short-term liquidity function.

Balance Sheet Discussion; It has taken about the same amount of time to recover cash invested in operations as the previous year. *Working Capital to Sales* declined (3.02%) and was 17.34%. *Receivable Days* contracted (8.99%) to 35.22 days suggesting improved collection procedures. *Inventory Days* contracted (8.03%) to 106.59 days reducing the chance of obsolete inventory and added cost associated with excess or aged inventory. Inventory turns were less than that of the industry. *Accounts Payable Days* declined (7.47%) to 47.51 days decreasing liabilities and cash flow. *Capital Expenditures* seem to be marginal to maintain the fixed asset base as net assets remained relatively unchanged from the past year. Last year **$78** was needed to maintain the fixed assets and **($5)** was needed for growth. The fixed asset utilization improved last year as fixed assets remained unchanged and sales grew 16.64%. Assets seem to be depreciating within an acceptable range as the prior year, which indicates a continuation in procedures. Additional Notes: Current Ratio was 2.13 and Liabilities to Net Worth was 1.77.

Ratio Review And Liquidity Comments

F. Ratio Review	2009	2010	2011	2012
Profitability Ratios				
F01. Gross Profit Ratio (> is better)	35.96%	30.00%	29.56%	27.22%
F02. Profit Margin Before Tax (> is better)	0.15%	1.06%	2.69%	2.24%
F03. EBITDA Margin (> is better)	3.28%	3.91%	4.89%	4.20%
F04. Return on Equity (> is better)	(0.37%)	6.62%	13.20%	11.45%
F05. Return on Invested Capital (> is better)	(0.17%)	2.81%	6.78%	5.97%
Liquidity Ratios				
F06. Current Ratio (> is better)	1.89	2.04	2.11	2.13
F07. Quick Ratio (> is better)	0.69	0.78	0.72	0.74
F08. Working Capital (> is better)	$623	$728	$877	$992
Activity Ratios				
F09. Accounts Receivable Days (< is better)	41.36	45.64	38.70	35.22
F10. Inventory Days (< is better)	121.91	108.53	115.89	106.59
F11. Accounts Payable Days	65.16	53.53	51.34	47.51
F12. Cash Conversion Cycle (< is better)	98.11	100.64	103.24	94.30
F13. Total Asset Turnover (> is better)	2.23	2.26	2.35	2.49
F14. Fixed Asset Turnover (> is better)	9.58	11.51	13.37	15.72
F15. Assets To Sales (< is better)	0.45	0.44	0.43	0.40
F16. Sustainable Growth Rate (> is better)	(0.37%)	6.62%	13.20%	11.45%
Financial Ratios				
F17. Term Debt To Net Worth (< is better)	1.23	1.36	0.95	0.92
F18. Debt to Net Worth (< 4:1 is better)	2.29	2.27	1.84	1.77
F19. Debt to Total Assets (< is better)	69.58%	69.40%	64.77%	63.85%
F20. Interest Coverage, EBIT + Net Capex (> is better)	3	3.06	4.57	4.93
F21. Debt Service Cover, EBIT (> is better)		0.51	0.78	0.86
F22. Debt Service Cover, EBITDA (> is better)		0.96	1.09	1.26
F23. Capitalization Ratio (< 30% is better)	55.15%	57.58%	48.64%	47.83%
F24. Z Score (< 2.7 problem, < 3.0 alert, > 3.0 safe)	3.43	3.57	3.94	4.09
F25. V Rating (1 - worst to 5 - best)		1.78	2.05	2.11
F26. RO Management Rating (<40 Poor, >70 Good)		32.00%	29.11%	29.65%
F27. Default Index (1 - high risk to 10 - no risk)		4.34	4.80	5.69

UCA Cash Flow Discussion: Last year's $140 Cash After Core Operations (G13) was available to pay all on-going obligations. After non-core business, Cash After All Operations (G18) or *Operating Cash* of $156 was available to pay debt service and business investment. The *Operating Cash Debt Service Coverage* was 0.82 which means the company needs external funding to pay long-term debt obligations. *Cash After Debt Amortization* (CADA) was adequate to fund Fixtures and Investments as the Capital Expenditures Coverage was (0.43). The past year saw an overall cash need (G30) of ($117) which appears to call for additional cash sources to fund operations. The Short-Term Debt Coverage last year was 0.78 and the Capital Expenditure Coverage was 2.14.

Breakeven Analysis Discussion: The *Sustainable Sales Growth Rate* of 11.45% can not support the company's 16.64% sales growth rate over the long term. Sales growth drives margins; therefore, it is important to identify the sales volume where direct costs have been recovered and fixed overhead expenses have been absorbed, allowing for profit to begin (breakeven point). Last year the Breakeven Point was 342.73 days. Management impacted results by an average of ($428) per year and with improvement, Cash After Operations could have increased by 305.91% last year.

Rating and Index Discussion: The **V Rating™** is above the trendline and averaged 1.98. The **RO Management Rating™** is on the trendline and averaged 30.25%. The **Default Index™** (measures the probability of default on term loans and long term leases) is above the trendline and averaged 4.94. (9 to 10 = Grade A, 7 to 8 = Grade B, 5 to 6 = Grade C, 3 to 4 = Grade D, 1 to 2 = Grade E)

UCA Cash Flow Statement

G. Cash Flow Statement (Uniform Credit Analysis)	2010	2011	2012
G01. Sales (Revenues)	$4,247	$4,905	$5,721
G02. Change in Accounts Receivable	($86)	$11	($32)
G03. Cash From Sales	**$4,161**	**$4,916**	**$5,689**
G04. Cost of Goods Sold	($2,973)	($3,455)	($4,164)
G05. Change in Inventory	($44)	($213)	($119)
G06. Change in Accounts Payable	($13)	$50	$56
G07. Production Costs	($3,030)	($3,618)	($4,227)
G08. Cash From Production	**$1,131**	**$1,298**	**$1,462**
G09. Operating Expenses (non-cash)	($1,146)	($1,250)	($1,360)
G10. Change in Other Current Assets	$0	$0	$0
G11. Change in Other Current Liabilities	$9	$1	$38
G12. Total Operating Cost	($1,137)	($1,249)	($1,322)
G13. Cash After Operations	**($6)**	**$49**	**$140**
G14. Change in Other LT Liabilities	$0	$21	$6
G15. Income Tax Paid	($7)	($35)	($33)
G16. Other Income (Expenses)	$38	$40	$43
G17. Other Operating Expenses	$31	$26	$16
G18. Cash After All Operations	**$25**	**$75**	**$156**
G19. Dividends Paid	$0	$0	$0
G20. Interest Paid on Debt	($43)	($40)	($36)
G21. Financing Cost	($43)	($40)	($36)
G22. Cash After Financing Cost	**($18)**	**$35**	**$120**
G23. Current Portion of LT Debt	($130)	($180)	($155)
G24. Cash After Debt Amortization (CADA)	**($148)**	**($145)**	**($35)**
G25. Capital Expenditures (Cap Ex)	($37)	($66)	($73)
G26. Intangibles	$0	$0	$0
G27. Change in Other Long Term Assets	($44)	$23	($9)
G28. Change in Equity	$0	$64	$0
G29. Fixture & Investments	($81)	$21	($82)
G30. Cash After Investments - SURPLUS (NEEDS)	**($229)**	**($124)**	**($117)**
G31. Change in Short Term Notes	($40)	$60	($50)
G32. Change in Long Term Debt	$250	$97	$220
G33. Financing Activity Cash	$210	$157	$170
G34. CHANGE IN CASH	**($19)**	**$33**	**$53**
G35. Beginning Cash Balance	$35	$16	$49
G36. Ending Cash Balance	$16	$49	$102
G37. Un-reconciled Change In Cash	$0	$0	$0
G28. Un-reconciled %	0.00%	0.00%	0.00%
G29. CMLTD Cash Coverage	0.14	0.48	0.78
G30. Interest Cash Coverage	0.58	1.88	4.33
G31. Cash Return on Equity	(9.58%)	(4.22%)	5.66%
G32. Capital Expenditure Cash Coverage	0.68	1.14	2.14

Industry Comparables

H. Industry Comparables	2009	2010	2011	2012	Industry
Income Statement Comparables					
H01. Sales	100.00%	100.00%	100.00%	100.00%	100.00%
H02. Gross Profit	35.96%	30.00%	29.56%	27.22%	35.34%
H03. Expenses	35.80%	28.94%	26.87%	24.98%	27.76%
H04. Net Profit (pretax)	0.15%	1.06%	2.69%	2.24%	7.58%
H05. EBITDA	3.28%	3.91%	4.89%	4.20%	10.02%
Balance Sheet Comparables					
H06. Cash	1.99%	0.85%	2.35%	4.44%	12.09%
H07. Accounts Receivable	25.26%	28.30%	24.93%	24.04%	19.35%
H08. Inventory	47.67%	47.12%	52.59%	52.96%	20.00%
H09. Other Current Assets	(0.00%)	0.00%	0.00%	0.00%	3.44%
H10. Total Current Assets	74.91%	76.28%	79.87%	81.45%	54.88%
H11. Net Fixed Assets	23.27%	19.67%	17.59%	15.85%	25.53%
H12. Other Long Term Assets	1.82%	4.05%	2.54%	2.70%	19.59%
H13. Total Assets	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
H14. Accounts Payable	25.48%	23.24%	23.30%	23.61%	9.21%
H15. Other Current Liabilities	14.07%	14.23%	14.53%	14.63%	5.54%
H16. Total Current Liabilities	39.56%	37.47%	37.82%	38.24%	20.46%
H17. Total Long Term Liabilities	30.02%	31.93%	26.94%	25.61%	23.48%
H18. Total Liabilities	69.58%	69.40%	64.77%	63.85%	43.94%
H19. Net Worth	30.42%	30.60%	35.23%	36.15%	56.06%
H20. Total Liabilities and Net Worth	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Ratio Comparables					
H21. Return On Assets	(0.11%)	2.03%	4.65%	4.14%	11.57%
H22. Return On Net Worth	(0.37%)	6.62%	13.20%	11.45%	20.64%
H23. Quick Ratio	0.69	0.78	0.72	0.74	1.54
H24. Current Ratio	1.89	2.04	2.11	2.13	2.68
H25. Inventory Turns	2.99	3.36	3.15	3.42	7.64
H26. Total Asset Turnover	2.23	2.26	2.35	2.49	1.53
H27. Working Capital Turnover	6.30	5.83	5.59	5.77	4.44
H28. Assets To Sales	0.45	0.44	0.43	0.40	0.65
H29. Total Liabilities To Net Worth	2.29	2.27	1.84	1.77	0.78

About RiskOutcomes™: RiskOutcomes™ concentrates on cash generation, profitability, leverage and key business fundamentals with their inter-working dynamics. More than five million variations and thousands of algorithms make each report completely customized. As part of the analysis, commentary will highlight financial statistics and performance for further review. The RiskOutcomes™ **V Rating™** (Viability Rating) applies key business viability metrics summarizing profit, cash flow, liquidity, leverage, owner's earnings, management consistency and years in business. Each metric reviews the latest results as well as the long term trend for a complete analysis. Long-term obligations needs to be reviewed in the context of a business' viable and sustainable long term cash generation and not by one year of profits, ratios or payment history. *RiskOutcomes™ recognizes that liquidity, earning power, operating efficiency and cash pays long-term obligations.*

The **RO Management Rating™** reviews annual margin performance and consistency, cash after operations and profit and revenue growth. **Management consistency** reviews earnings fluctuations and determines the cash left in the cost structure of the business. **Attainable profits and breakeven analysis** are used to define management's impact on operations and the opportunity for improvement. Consistency is rewarded in the V Rating™. Even consistent and poor results are valuable and can be analyzed accordingly. The V Rating™ summarizes RiskOutcomes™ primary risk metrics in a star rating system that quickly highlights under-performing areas that warrant closer review. RiskOutcomes™ utilizes average historical margins and ratios to project **Defensive Cash Outcomes & Collateral Quick Check** with a focus on cash after financing cost and capital expenditures. This quantitative cash analysis can serve as a useful tool along with the reviewers' subjective analysis in determining how the credit risk might be impacted from changing industry conditions or company execution. RiskOutcomes™ complies with GAAP (Generally Accepted Accounting Principles). *Traditional financial formulas and accounting principles have been cross-referenced with Barron's Accounting Handbook, Fourth Edition (Barron's Educational Series).*

Business Improvement Opportunity

Our Quantitative Viability Analysis has a focus on cash contributions or cash drivers of a business. General guidelines and discussion follow. The RiskOutcomes™ Quantitative Viability Analysis has triggered areas for special note, which may be reflective of the company's operating inefficiencies or deviations of business fundamentals. These areas of concern are marked with **REVIEW.**

Sales Growth: Sales grew 16.64% last year with a 11.45% sustainable growth rate. Sales are the most visible cash driver and the most important and, as such, sales growth impacts all other variables. While sales do eventually generate cash, there is an immediate need for cash expenditures to support sales growth. Liquidity problems are created when companies grow beyond their sustainable growth rate. Faster growth requires more cash from equity, loans or vendor credit. To grow sales just to achieve a benchmark is not always wise or sustainable. It is important to understand the cash needs and improve efficiencies before growing sales. Review which customers are profitable, allowing you to earn a reasonable return and increase cash flow. Be aware of customers with extended credit unless they are covering these added costs. There are good profitable customers and then there are customers that cost you money.

Gross Profit: **REVIEW** Last year the gross margin was 27.22% versus the industry average of 35.34%, which resulted in ($465) less in gross profit when compared to the industry average. Gross margin needs to be adequate to generate enough return to cover the operating expense burden and net profit. It is only by increasing prices or decreasing the cost of goods sold that will increase margins. Companies should set up procedures to ensure the cost structure does not grow proportionately with sales growth. Areas for cost controls include reducing overall supply chain and manufacturing lead times, reducing work-in-process and inventories and improving production methods.

Operating Expenses: Last year the operating expenses were 25.10% versus the industry average of 27.76%, resulting in ($152) less in operating expenses. Selling, general and administrative expenses are necessary, but should be monitored and measured continuously. Managing and controlling cost is critical; however, companies often focus on sales growth to compensate for a lack of expense controls. This can be problematic when sales growth is challenging. Improve internal processes to isolate areas where actual expenses are continually over budget, focusing on reducing the order-to-delivery lead time and reducing inventory. It is important for the company to be careful not to overdo cost cutting to the point where long-term viability of the business is damaged.

Accounts Receivable: **REVIEW** Last year accounts receivable comprised 24.04% of assets versus the industry average of 19.35%. The number of days receivables are outstanding can significantly impact a company's operations. It is important for management to review the aged receivables and compare them to industry norms. Consider enhancing procedures for collecting on aged debts such as separating those less than x amount of days versus those over x days. Different skill sets are needed for different collection procedures. Consider making salespeople responsible for collections, which is often effective. Managing receivables starts with communicating the terms at the time of the sale and delivering on the order. Install procedures to ensure the terms are properly communicated. A customer who receives the agreed upon product, at the right time and place, and in the right condition and quantity is more inclined to pay on time.

Accounts Payable: **REVIEW** Last year accounts payable comprised 23.61% of assets versus the industry average of 9.21%. It is important to manage accounts payables to take full advantage of improved payment terms and investigate additional discounts available when decreasing the payment period. By improving accounts receivable management, companies can have the cash to take full advantage of vendor terms and discounts. Consider ways to reduce supplier order-to-consumption lead time, work-in-process and inventories, and improve inbound logistics to optimize vendor credit terms.

Inventory: **REVIEW** Last year inventory comprised 52.96% of assets versus the industry average of 20.00%. Inventory is an asset; however, for many businesses it can become a liability because it restricts liquidity and operating efficiencies. Inventory consumes cash in multiple ways: through opportunity costs, storage expenses, handling costs of surplus inventory, added space requirements, added obsolescence risk, and liquidation costs. Inventory imbalances are difficult to detect by walking through the plant; however, by understanding the inventory "days on hand" and collecting data to evaluate the necessary inventory levels will likely reduce your inventory real cost.

Capital Expenditures: **REVIEW** Last year fixed assets comprised 15.85% of assets versus the industry average of 25.53%. Capital expenditures may be critical to company growth or sustainability; however, it may have a significant impact on operating cash. Detailed planning regarding capital expenditures are needed to support specific sales volume. Important considerations must be given to the impact debt or cash payments will have on future cash or borrowing needs. Excessive capital expenditures may limit future investment such growth capital, inventory, new product or other items. Also, capital expenditures can impact other operations such as adding new equipment, which might require new warehousing space, etc. Carefully review alternative plans such as taking advantage of existing infrastructure and possibly sub-contracting certain manufacturing functions. It is important to remember that capital expenditures tie up capital and don't always improve earnings or future cash flow.

Summary Comments: With improved controls, the company can add $313 in annual profits which can significantly improve the enterprise valuation. When compared to the industry average, the company is doing a fair job managing its receivables. Accounts Payable are $331 more than the industry average which might be reviewed for possible vendor fatigue. There is ($222) less in Net Property, Plant and Equipment which should be investigated to determine if the asset base is being maintained and is sufficient to generate adequate future cash flow.

Zen and the Art of Quantitative Analysis

RiskOutcomes™ Ten Financial Tools for Business Credit Viability Analysis

Robert M. Pirsig's classic novel Zen and the Art of Motorcycle Maintenance embraces a seventeen-day motorcycle journey that philosophizes about various approaches to life; a rational and quantitative analysis versus a creative, intuitive and subjective analysis (Zen). The book's main character decided that to get the best *quality* of life, one has to incorporate both approaches. RiskOutcomes™ shares this philosophy and as such, the Quantitative Viability Analysis - combined with the user's subjective analysis - creates the best *quality* business viability assessment possible. Let us explain our percepts so you can apply your expertise (*and Zen-like qualities*).

1. Cash Flow: Profits can be manipulated; however, "cash is what it is" and it is cash that pays obligations. The UCA Cash Flow Statement categorizes how cash is generated and used, including Cash From Sales (including receivables changes), Cash From Production (including payables and inventory changes), Cash After Operations (measures the net cash from operations), Cash after Financing Cost (need enough cash to at least pay interest on debt), Cash After Current Portion Of Long Term Debt (need enough cash to pay the annual principle), Cash After Investments (capital expenditures are necessary to maintain an adequate asset base and profits with any negative numbers being the cash needed), and lastly, the Change In Cash (after short and long-term borrowing). These allow you to see where cash shortages occur.

2. The Cash Drivers: Our Cash Contribution Exhibit details from year to year, the areas of a business where cash is generated (and used) and a breakdown on whether the change in cash was due to sales growth or management (efficiencies). This is an important roadmap for the business. Review where the company is performing and where problems need to be addressed. Line E20 reports the change in AR, AP and Inventory, E21 Cash after Operations and E23 the cash after Cap Ex. If a business can't consistently produce cash, it may be a serious cause for concern.

3. Management Consistency: A company's performance from year to year in its gross profit margins and operating expense ratios will almost certainly vary. This variance is studied to reveal what the company is capable of earning if their performance was consistent. Management consistency (impact) is the variance in this performance.

4. Optimal Operating Profit: The optimal operating profit is the profit the company can achieve if the management team was more consistent. The margins have already been achieved, just not all in the same year. While some outside and uncontrollable variables may be significant (i.e. rising delivery cost when gas prices are increasing), this is a good measurement of management execution.

5. Breakeven Analysis: The financial breakeven point (BEP) occurs when gross profits equal the fixed costs (assumes all operating expenses are fixed). After that, all gross profit drops to net profits, after variable costs. The BEP is necessary to understand how margins can impact profits. Identifying the BEP is the first step to understand margins and cost controls.

6. Defensive Cash Outcomes & Collateral Quick Check: Historical ratios are projected three years to determine how the cash drivers will generate enough cash to pay financing cost and capital expenditures. If a business can't produce this cash, one of three things will occur: (1) The business will go out of business, (2) the business will improve its margins or (3) a lender will finance selected assets with good security allowing the company time to improve cash flow. RiskOutcomes™ offers a quick review of asset collateral for further review.

7. New Sales and Its Impacts: New sales have to be supported by additional working capital as more inventory, receivables, capital expenditures and other costs may be required before those new sales convert to cash. Simply, some sales contribute cash and others reduce cash. Discuss the rationale behind the sales that don't produce as much cash. Sales growth just to attain more volume can lead to future hardship. Review the sales growth that can be supported by the balance sheet and margins (sustainable sales growth).

8. Liquidity: Companies need adequate liquidity to pay interest expenses, principle payments and operating expenses. Cash generation and liquidity go hand-in-hand. Determine the cash generation issues and the proper liquidity ratios that enable the applicant to continue growing the business on a profitable and positive cash basis. Small and consistent liquidity problems can present future liquidity events.

9. Business Improvement Opportunity: This presents a good tool to discuss complicated issues with applicants. Often business owners don't have the time or the expertise to fully understand the financial metrics of their business. They will appreciate your insight and guidance to improved profitability and enterprise valuation, which can improve the depositor or business relationship.

10. V Rating™: Quickly review the V Rating™ as a fast screening tool or use it for a targeted due diligence. Areas with three stars or more are performing well and tend to take care of themselves. Concentrate on the areas with one and two stars. RiskOutcomes™ mission is to supply the most relevant report from which you can apply your expertise to ask targeted questions and fully understand the applicant's business model and better assess the credit risk. Pirsig's book has little to do with Zen or motorcycle maintenance, but the concept of applying rational quantitative and subjective analysis for a *"Zen-like co-existence"* does apply, especially in the evaluation of business viability.