CONTRACTORSCORE

KNOW THE SCORE

The Contractor Score emphasizes short term liquidity and current financial position. All of the calculations are strictly objective. Quarterly updates are recommended. The input driving the score include:

1. The contractor's most recent audited or reviewed fiscal year financial statements

2. Its most recent fiscal quarter's financial statements which can be internally generated.

3. Its outside lines of credit as stated by all its banks' statements

4. Its corresponding backlog and work-in-process statement for both the fiscal year and quarter.

General Insights to Contractor Score

Most of these inputs are independently verified by outside CPA firms, banks or the IRS. Contractor Score uses a weighting based on the fact that they are either internal versus external documents. Contractor Score combines the raw data into relationships and calculations that have proven to generally correlate with success or failure of a construction company in the short run. The resulting Contractor Score is a single number that can be made public.

The Contractor Score does not take into consideration such items as long-range strategic plans, safety records, technical project experience, pending litigation or general market conditions. The Contractor Score is focused on the short-term probability of mitigating performance risk on a current project. Lack of liquidity or competent management and supervision have traditionally been the two largest reasons for failure on any one job. Any one of these long-range or external factors may contribute or cause the two short-term problems, but an important objective of Contractor Score is to provide an independent assessment of these symptoms.

Scoring Ranges

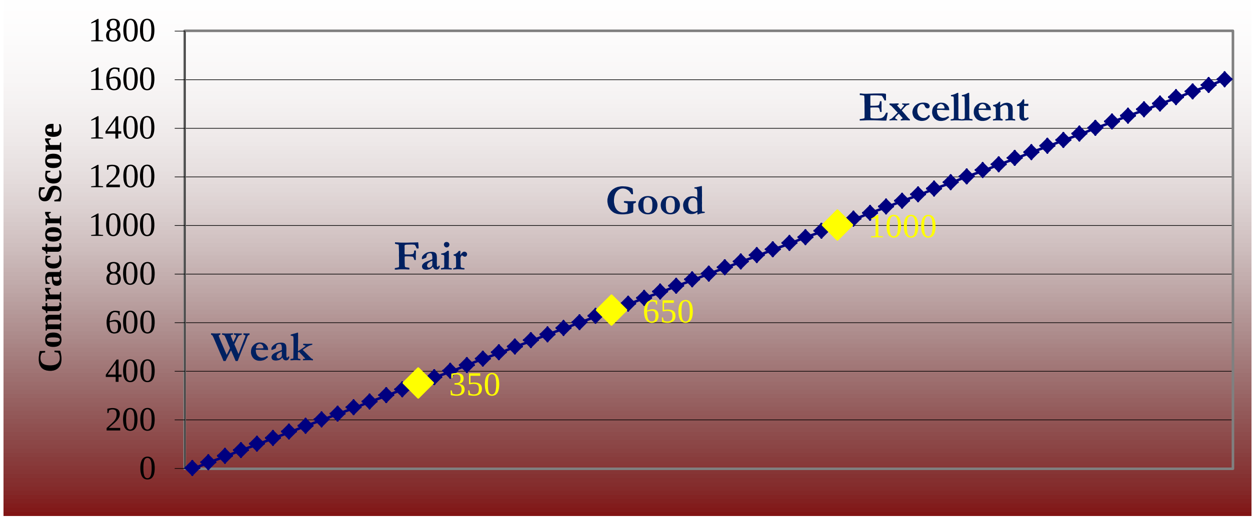
The scoring range runs from zero up to 2500. The higher the Contractor Score, the less the probability of default or significant failures on the current work. These short-term factors can evolve quickly, and the Contractor Score is no guarantee even a high score will not have problems.

- **0 – 350** is classified as Weak. There are probably a variety of factors driving down both liquidity and profitability. There is probably a small, if any, outside line of credit available. There is little room for error with a contractor operating in this range.

- **350 – 650** is considered Fair. These contractors have more resources available to them than do a Weak one, but a series of future problems could be bad for a contracting firm in this position.

- **650 – 1000** is identified as Good. These contractors should have the resources to mitigate the financial and manpower risk on their current backlog. The calculations driving a "Good" score have traditionally been acceptable with normal levels of project completion risk.

- **Over 1000** is considered Excellent. Contractors scoring in this range usually have significant outside credit line(s) available, top 25 percent operating ratios and typically conservative fiscal policies and/or proactive cash management practices. They often are in positions to earn greater returns on their invested equity in the firm but, for whatever reason, have settled on smaller, safer returns. Customers can only gain by them "sharing" more of the individual project risk.



<u>Opportunities to Improve Contractor Scores</u>

If the contractor is not satisfied with what its Contractor Score indicates, there are some possible remedies to apply. These are listed in the order of expediency, not necessarily importance.

1. Increase the available outside line(s) of credit. Many contractors have never felt the need to establish a line (or lines) because they have been historically successful funding the business through operations. This is commendable, but from a customer's perspective, knowing a contractor has adequate funds available through an outside commercial institution appears a less risky choice over one that does not. The customer's perception is the contractor's reality. As a business, the contractor must evaluate the cost of acquiring and maintaining these lines versus the marketability of those resources.

2. Improve the liquidity. Aggressive cash management starts with aggressive over billings. This can have a negative impact on liquidity ratios if cash collections do not coincide with the over-billings. It's one thing to be able to bill aggressively for work; it's another to collect. Getting too far out of balance is a common cause of liquidity erosion. Focus on delivering production, then your billing and finally your collection procedures and practices.

3. Obsess with productivity. All the billing and cash churn in the world will not help if with each cash cycle some profit is not retained. The labor-intensive trade contractor has the most to gain or lose with productivity changes. As productivity improves, cash positions do as well and liquidity goes up. More working capital is available for more projects or to establish a more conservative liquidity position.

4. Balance shareholder compensation. Be mindful as a shareholder how much to leave in the firm versus dividend out. Leverage is a component of the Contractor Score.

5. Reinforce all these aspects through a healthy corporate culture and sustainable organization. Long-term success demands these intangibles be addressed in order to accomplish the short-term tangibles that Contractor Score measures.

Contractor Score LLC is in a position to help with any and all these points

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