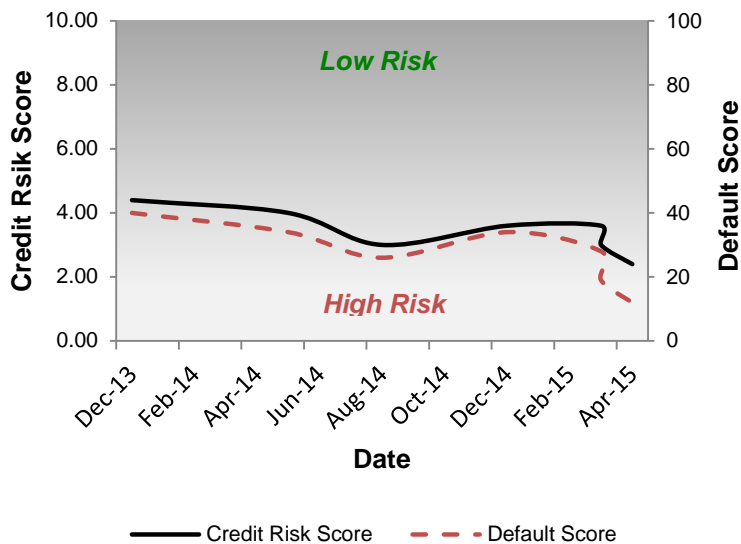


Report Date: April 16, 2015

## Sample Public Company Bingham Farms, MI

### Trend Analysis



### Scoring History

Date	Credit Risk Score	Default Score
Dec. 9, 2013	4.4	40
May 15, 2014	4.0	34
Aug. 14, 2014	3.0	26
Dec. 3, 2014	3.6	34
Mar. 24, 2015	3.6	28
Mar. 27, 2015	3.0	19
April 16, 2015	2.4	12

### Recent Developments:

We have completed a credit review on Sample Public Company and at this time, feel the company's credit scores warrant a downgrade based on this evaluation.

We believe Sample Public Company represents poor credit risk characteristics based on the uncertainty regarding the company's ability to continue as a going concern. The company will not meet its maximum leverage ratio covenant for the first quarter (ending March 31, 2015) due to the significant decline in metal commodity prices during the period. Sample Public Company is currently negotiating with its lenders to resolve the anticipated covenant breach, which would give the lender the option to make the company repay the debt immediately.

Sample Public Company reported weaker net sales and operating results in the fourth quarter of 2014 due to lower scrap volumes and selling prices. Furthermore, the company's margins have been pressured by intense price competition for procuring scrap and reduced consumer demand.

In addition, Sample Public Company's total liquidity decreased by \$7.2 million to \$11.8 million during the fourth quarter. However, the company reduced its borrowings under the revolver to \$15.2 million at April 14, 2014 compared to \$31.4 million at September 30, 2014; this change was due to lower costs of purchased metal and reductions in accounts receivable balances.

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The company had a thin covenant cushion for its maximum leverage ratio at December 31, 2014, of 5.03 to 1.00 (ratio cannot exceed 6.00). It is important to note that the company will not meet its maximum leverage ratio covenant in the first quarter of 2015.

A level of uncertainty exists regarding Sample Public Company's future as it continues to actively consider all available options to restore profitability and enhance shareholder value with the help of its advisors.

At this time, we do not feel open credit terms are warranted based on the available credit information. ProfitGuard will reevaluate the company's credit profile upon the results of its negotiation efforts with its senior secured lenders.

We will continue to monitor the company's credit risk profile on the alert service and will notify you of any changes in credit risk.

- The company has been in business since **1997** under current management / control.
- The company's ProfitGuard Credit Risk Score is **2.4** (scale of 1 to 10, with 10 being lowest risk).
- The company's ProfitGuard Default Score is **12** (scale of 1 to 100, with 100 being lowest likelihood of default).
- The company's payment experience has ranged from 6 to 14 days beyond payment terms over the past year, currently paying its vendors approx. 12 days beyond terms.
  - Based on 109 total payment experiences of which 17 have been reported as slow.
  - We find no indication of any negative payment items (Collection, Dispute, or NSF).
  - Highest Credit \$50,000.
- We find no presence of open suits, liens, or judgments.

***The following financial highlights are based the company's 12/31/14 fourth quarter three month ended results:***

- Net Sales \$103.0 million, down 18.6% from the prior year period.
- Operating Loss \$4.5 million, compared to Operating Loss of \$1.0 million in the prior year period.
- Net Loss of \$33.9 million, compared to a Net Loss of \$3.3 million in the prior year period.
- Cash and Cash Equivalents \$3.8 million.
- Current Assets \$98.4 million.
- Current Liabilities \$20.9 million.
- Working Capital \$77.5 million.
- Total Assets \$218.3 million.
- Total Liabilities \$100.6 million.
- Accumulated Deficit \$82.4 million.
- Tangible Net Worth \$84.3 million.
- Debt to Tangible Net Worth 1.19x.
- Net Operating Cash Flow \$17.7 million for the twelve months ended 12/31/14.
- Free Cash Flow \$12.3 million for the twelve months ended 12/31/14.

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## Key Ratios

	December 31, 2014	December 31, 2013	December 31, 2012
<b>Short Term Liquidity</b>			
Current Ratio	4.7x	5.0x	3.8x
Quick Ratio	2.2x	2.1x	1.6x
Cash from Ops. to Curr. Liab.	0.8x	0.8x	0.6x
Avg. Days Sales Out.	36.7	38.7	35.1
Avg. Days Inventory Out.	47.6	54.1	56.1
Avg. Days Payable Out.	12.2	14.8	15.4
Avg. Cash Conversion Cycle	72.1	78.1	75.8
<b>Long Term Solvency</b>			
Total Debt/Equity	67.4%	86.0%	71.8%
Total Debt/Capital	40.3%	46.2%	41.8%
LT Debt/Equity	61.9%	81.7%	64.5%
LT Debt/Capital	37.0%	43.9%	37.6%
Total Liabilities/Total Assets	46.1%	50.8%	48.4%
EBIT / Interest Exp.	NM	NM	0.3x
EBITDA / Interest Exp.	1.4x	2.0x	2.3x
(EBITDA-CAPEX) / Interest Exp.	0.4x	0.8x	NM
Total Debt/EBITDA	5.9x	7.0x	6.1x
Net Debt/EBITDA	5.6x	6.6x	5.9x
Total Debt/(EBITDA-CAPEX)	20.3x	16.6x	NM
Net Debt/(EBITDA-CAPEX)	19.4x	15.7x	NM
Altman Z Score	2.4	2.33	2.5

## Liquidity

### Revolving Credit Facility

<b>Origination Date</b>	November 21, 2013 (Amended)
<b>Maturity Date</b>	November 21, 2019
<b>Bank(s)</b>	A syndicate of banks led by Lender A, as agent and lead arranger and Lender B as servicing agent.
<b>Maximum Borrowings</b>	\$65.0 million
<b>Borrowing Base</b>	Based on 85% of eligible accounts receivable and 60% inventory.

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<b>Letter of Credit Sub-Limit</b>	\$5.0 million
<b>Availability</b>	On December 31, 2014, availability under the revolving portion of the Financing Agreement was \$8.0 million; outstanding balance was \$31.4 million.
<b>Interest Rate</b>	As of October 21, 2014, the applicable margins for advances under the revolving facility have been modified to 2.75% for "Base Rate" loans and 5.01% for LIBOR-based loans.
<b>Security</b>	Secured by substantially all of the company's assets.
<b>Covenants</b>	The company must maintain a maximum leverage ratio, a maximum capital expenditure level, and minimum revolver availability. The maximum leverage ratio must not exceed 6.00 to 1.00 and the maximum consolidated capital expenditures must not exceed \$11.5 million. At December 31, 2014, the company reported a maximum leverage ratio of 5.03 to 1.00 and consolidated capital expenditures of \$11.5 million.
<b>Compliance</b>	At December 31, 2014, the company was in compliance with its covenants. However, the company will not be able to meet the maximum leverage ratio covenant at March 31, 2015.

### Term Loans

- On November 21, 2013, the company entered into a financing agreement for and two term loan facilities totaling \$60.0 million. The Second Amendment increased interest rate margins to 8.50% for base rate term loans and 10.50% for LIBOR-based term loans. The company is required to make quarterly principal payments starting in March 2014. On December 31, 2014, the outstanding balance on the company's term loans total \$20.0 million.

### Senior Unsecured Convertible Notes Payable

- On October 20, 2014, the Note holders converted \$10.0 million of the debt to Sample Public Company common stock and received rights to additional common shares in the event the trading price of the company's stock fell below certain values determined at the fortieth trading day after the date of the Exchange Agreements described below (the "Conversion"). As a result, a total of 24,362,743 shares were issuable under the Conversion of which the company issued 21,966,941 shares with the remaining 2,395,809 shares deferred by the Note holders to a then unspecified subsequent date in accordance with the applicable terms of the Exchange Agreements.
  - On January 26, 2015, the remaining 2,395,809 deferred shares were issued. The holders exchanged the remaining principal balance plus accrued unpaid interest, a total of \$14.7 million, for three sets of "New Series Convertible Notes" (described below). As a result of the Conversion, the company recorded a loss on extinguishment of \$6.4 million

### New Series Convertible Notes

- The remaining \$14.7 million 2008 Notes and interest balance not converted on October 20, 2014, was exchanged for New Series Convertible Notes. The aggregate principal amounts of each of the "Series A" New Series Convertible Notes and the "Series C" New Series Convertible Notes is \$4.5 million and the aggregate principal amount of the "Series B" New Series Convertible Notes is \$5.7 million. The New Series Convertible Notes mature on July 1, 2024 and bear interest, payable in kind, at a rate of 13.5% per annum. The interest rate was applicable retroactively to balances under the 2008 Notes as of July 1, 2014 and resulted in \$1.6 million of paid in kind interest expense for the year ended December 31, 2014.

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- As of December 31, 2014, the outstanding balance of the New Series Convertible Notes, including accrued and unpaid interest, was \$10.5 million. As of December 31, 2013, the outstanding balance on the 2008 Notes was \$23.2 million (net of \$297,000, in unamortized discount related to the original fair value of warrants issued with the Notes).

### Equipment Finance Agreement

- On December 12, 2011, the company entered into an Equipment Finance Agreement with the lender providing up to \$10.4 million in connection with the NY shredder project. The equipment loan is secured by the shredder and related equipment. A previous loan modification shortened the First Niagara maturity to coincide with the maturity of the Financing Agreement in November 2019 and accordingly increased the required monthly payments from \$110,000 to \$141,000. The interest rate under the loan remains unchanged at 4.77% per annum. As of December 31, 2014, the outstanding balance under the loan was \$7.4 million.

### Recent Events

- On April 14, 2015, alternative investment company planned to form a shareholder advisory committee to make recommendations to Sample Public Company in an effort to return the company to profitability. Sample Public Company has not sought out the company's assistance. The committee will be comprised of three to five shareholders to provide independent evaluations of Sample Public Company. *Press Release Source*
- On March 27, 2015, Sample Public Company announced plans to delay filing its Annual Report on Form 10-K for the year ended December 31, 2014 for up to fifteen days from the current target date of March 31.
  - The company has filed a Notification of Late Filing with the U.S. Securities and Exchange Commission for the Annual Report, allowing the company to file its 2014 10-K by April 15. Sample Public Company intends to release its results for 2014 and the fourth quarter and host an earnings call by that date. *Press Release Source*
- On March 11, 2015, Sample Public Company Inc. delayed its earnings conference call for the year and quarter ended December 31, 2014, originally scheduled for March 13, to a date to be determined.
  - The company's Board of Directors continues to work with its investment banker and counsel to evaluate strategies for Sample Public Company's future, including additional asset sales, capital raises, or a possible sale of the company. *Press Release Source*
- On February 23, 2015, Sample Public Company, Inc. announced that it has postponed setting a date for its annual shareholders meeting while it undertakes a strategic review of the company. The company retained a leading independent investment banking firm to assist the company with an overall review of its business strategies going forward.
  - The investment firm will conduct a thorough evaluation of the company and advise its Board of Directors as the Board considers alternatives for Sample Public Company's future, including continued independence as a public corporation, combinations or joint ventures with suitable partners or investors, sales of assets, and a sale of the company, including an analysis of an unsolicited nonbinding offer made by a stockholder Monday afternoon and other unsolicited bids previously delivered to Sample Public Company or to come in the future. *Press Release Source*

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- On February 23, 2015, ABC Company, LLC announced that he has submitted a written proposal to the Chairman, President and Chief Executive Officer of Sample Public Company, Inc. to acquire all of the outstanding shares of SPC for \$0.78 per share in cash.
  - ABC's proposal represents an approximately 32% premium to the average market price of SPC's shares over the past 30 days and an approximately 27% premium to the closing price of SPC's shares on February 20, 2015. ABC currently owns approximately 11.7% of the outstanding common stock. *Press Release Source*
- On February 4, 2015, Sample Public Company announced that it has adopted a Stockholder Rights Plan to enhance the interests of the Company's shareholders.
  - Sample Public Company's Board of Directors declared a dividend of one right on each outstanding share of Sample Public Company's common stock to implement the Rights Plan. The Plan is designed to assure that all of the company's stockholders receive fair and equal treatment in the event of any proposed takeover of the company and to guard against tactics to gain control of the company without paying all stockholders a premium for that control. *Press Release Source*
- On January 21, 2015, it was reported that ABC Company, LLC was actively acquiring a significant number of shares of its largest direct competitor, Sample Public Company, in what could be a bid to seize control of the recycling company.
  - ABC Company, LLC bought 5,562,637 shares of Sample Public Company, giving him a 9.54-percent stake in the company, according to a regulatory filing with the U.S. Securities and Exchange Commission.
  - ABC Company is Sample Public Company's single largest shareholder, owning more shares than the company's co-founder, president and chief executive officer, who holds 5,280,957 shares.
  - ABC Company confirmed that he has retained a global investment firm to help him secure stock and said that he has continued to purchase shares since the SEC filing. He declined to say how many shares he now has or how many he plans to acquire. *Press Release Source*
- On December 2, 2014, Sample Public Company, Inc. closed on the sale of its fabricating segment for an aggregate all-cash purchase price of \$31.3 million. The transaction includes all of Sample Public Company's operating fabrication businesses, together with the company's owned real estate and leasehold interests in those states used by its fabricating facilities. The company has also agreed to a five-year non-competition covenant in the fabricating business with the purchasers. *Press Release Source*
- On August 4, 2014, the Lender delivered a Payment Blockage Notice to the holders of the company's 7% Convertible Notes triggering a 210-day standstill period under the Subordination Agreement dated May 1, 2008 between the company's senior secured lenders and the holders of its 7% Convertible Notes and its respective successors and assigns. *Press Release Source*
- On June 30, 2014, Sample Public Company, Inc. announced an agreement to restructure the principal balance of its outstanding Convertible Notes that would defer the Note holders' put right to December 31, 2015. Sample Public Company's original Convertible Notes, issued in 2008, granted Note holders a right to require full payment of the outstanding principle balance of \$23.4 million and accrued interest on June 30, 2014. Under the proposed agreement with the Note holders, the company is scheduled to deliver a cash payment of \$7 million and a number of shares of Sample Public Company common stock having a value of \$5 million upon closing of the contemplated transaction. *Press Release Source*

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