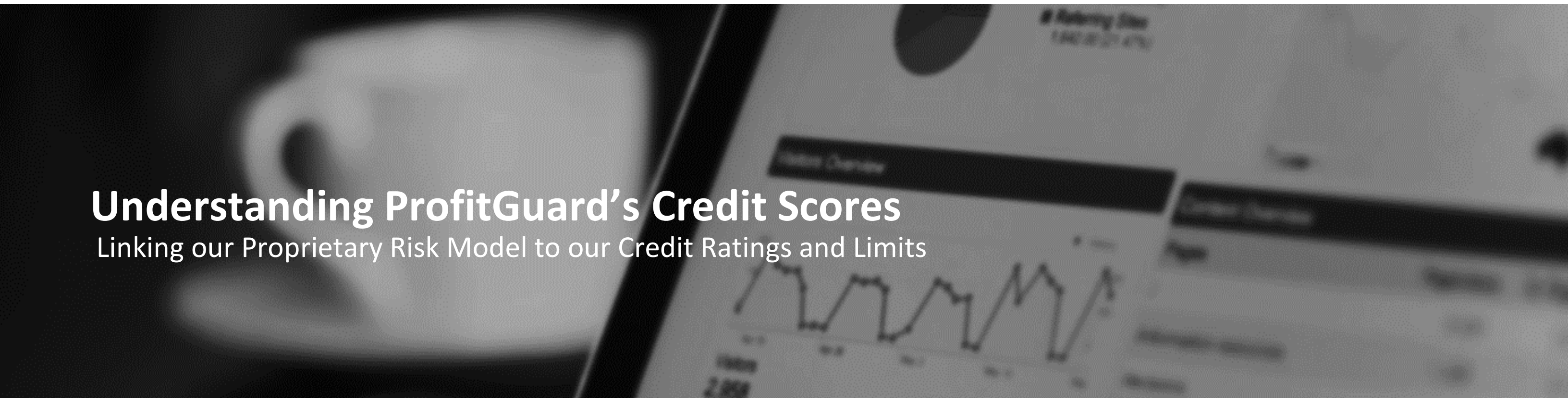


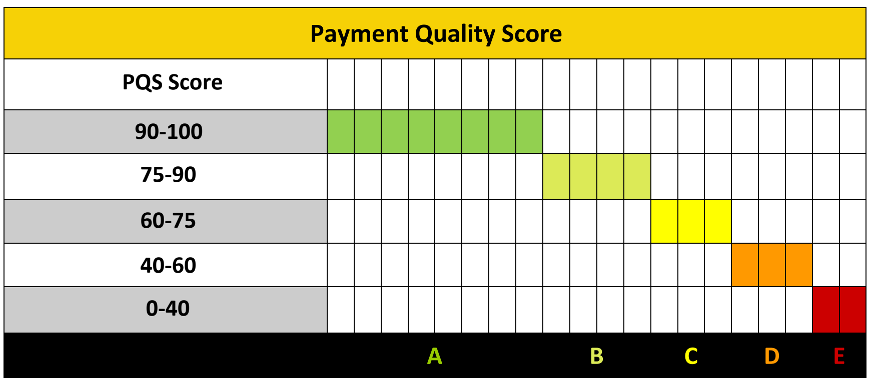
Understanding ProfitGuard’s Credit Scores

Linking our Proprietary Risk Model to our Credit Ratings and Limits

Overview

What is the Payment Quality Score (PQS) and the PG Score?

The **PQS Score** predicts the likelihood of being paid within terms based on historical trade data. It is based on a number of factors including past dues, past due aging, and payments over a period of time. PQS is measured on a scale of 0-100, where the better paying companies trend in the low 80s or higher. It can be used as one factor in evaluating the risk of non-payment, prioritizing collections efforts, or benchmarking trends.



Use this key to help identify expected payment habits and guidance on terms	
A	Highly Likely – Very good payment experience; creative terms to win business
B	Good – Overall payment experience is good; expect timely payments
C	Moderate – Payment experience satisfactory, some slowness; normal credit terms
D	Low – Risk is present, material slowness in payments; short credit terms
E	Very Low – Very high probability of lateness ; cash terms advised

The **PG Score** is a predictive score that indicates the likelihood of the customer defaulting within the next 12 months. The score ranges from 1 to 100, with 100 being the strongest (or least likely to default, file bankruptcy, etc.). Each assigned risk level correlates with a description of the company’s risk characteristics in easy to understand terms, which can be found on our Credit Scoring Table. It is important to note that a company’s credit rating and or approved credit limit will be lower in cases where ProfitGuard has limited or insufficient supporting data.

PG Score Defined	
PG Score	**Probability of default within the next 12 months**
90-100	Buyer represents exceptional credit risk characteristics – Extremely low probability or default
80-89	Buyer represents superior credit risk characteristics – Low probability of default
70-79	Buyer represents excellent credit risk characteristics – Low probability of default
50-69	Buyer represents good credit risk characteristics – Medium to low probability of default
41-49	Buyer represents fair credit risk characteristics; medium probability of default; overall position supports extension of credit. Risk monitoring advised.
31-40	Buyer represents marginal credit risk characteristics – Not an immediate risk but could accelerate quickly. Risk monitoring advised.
20-30	Buyer represents weak credit risk characteristics – Signs of distress present
10-19	Buyer represents poor credit risk characteristics – Default risk is high; going concern is strongly questioned
1-9	Buyer represents extremely poor credit risk characteristics – Default highly probable

What the PG Score Predicts

The **PG Score** is designed to help predict the likelihood that a company will become insolvent or fail over the next 12-month period. Our risk model considers the characteristics of thousands of business in the ProfitGuard database and the correlation these characteristics have to the probability of a company experiencing financial distress over a 12-month period.

A financially distressed company is defined as one that:

- Filed bankruptcy under the U.S. Bankruptcy Code
- Filed for Creditor Protection in Canada under the Companies' Creditors Arrangement Act ("CCAA")
- Filed a Plan of Arrangement under the Canada Business Corporations Act ("CBCA")
- Voluntarily withdrew from business operations leaving unpaid obligations
- Is in receivership, reorganization, or has made an arrangement for the benefit of creditors
- Had an Out of Court Restructuring or completed a Distressed Debt Exchange

Calculated Credit Lines

Our calculated credit lines are based on our proprietary credit risk model. These limits are rules-based; which allows them to be automated, seamless, and fast. We combine our proprietary data on hand, including available financials, third party information, trade and other available credit data. This information is then used to generate a prudent credit limit within a range based on our rules and the PG Score. If the calculated credit line is not sufficient to meet your sales requirements, you have the option to request an analyst assigned guideline.

Analyst Assigned Guideline

ProfitGuard's assigned guideline is a recommended credit limit approved by an experienced credit analyst. These limits are based on our overall credit assessment of the subject company as of the date of the report. The recommended credit limit is intended to be a starting point, representing the total amount of open credit exposure you should carry on that customer at that time, and should not be used as a long term credit limit without monitoring credit exposure or other credit risk factors. Our credit limit and assessment is from a pure credit perspective and doesn't take into consideration other external business factors that are specific to your firm such as credit policy, risk appetite, general business conditions, etc.

Credit Approval Guidelines

ProfitGuard tailors each credit approval to the subscriber's individual request for open credit. The dollar amount of credit dictates the requisite level of supporting data required to approve the credit limit submitted. PG has five levels of information requirements based on credit requests ranging from less than $50k to over $1 million. For example, PG typically will not approve a limit over $500k without current financial data. In addition to information requirements, PG has internal authority levels and credit committee requirements that must be met to approve credit limits and assign credit ratings.

A major pillar of our approval process is that we will not approve a requested dollar amount unless we have a full understanding of the risk.

What factors are considered when rating a company?

ProfitGuard's analysts utilize a consistent framework in our rating process (illustrated below). Within that framework, data elements corresponding to each risk category are entered into our model's individual scorecards where each factor is weighted based on its predictive value.

ProfitGuard's risk model consists of two statistical models; one model was designed to be used with financial statements and one without. Whether or not an entity is private or public is also considered. Together this scoring system enhances accuracy and predictive power.

Credit Risk Model

A Consistent Framework for our Risk Scoring Process

The graphic below illustrates how our proprietary risk model works and what factors are considered. We analyze risk in four primary categories and feed this data into our scoring model. The resulting calculated score provides our analysts with a starting point. Our credit committee then reviews the overall risk profile and the final ratings are assigned.

Financial Risk

- Leverage and Debt Service
- Liquidity and Cash Generation
- Banking Arrangements and Flexibility
- Profitability

Management Risk

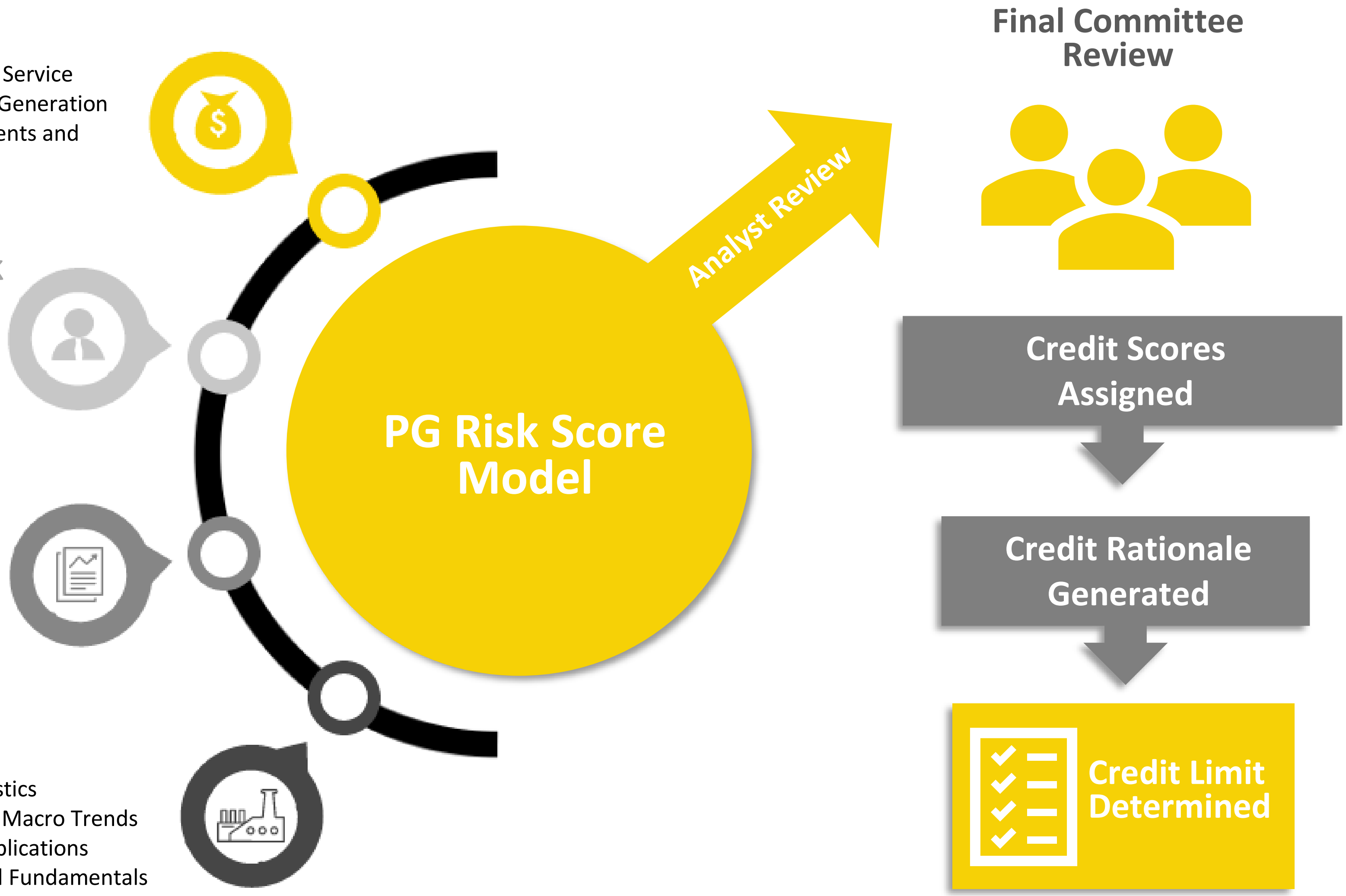
- Payment History
- Track Record
- Credibility
- Legal Items

Business Risk

- Market Strengths and Weaknesses
- End Market Diversity and Concentration
- Operating Efficiency
- Peer Comparisons

Industry Risk

- Industry Characteristics
- Economic Factors – Macro Trends
- Pricing and Cost Implications
- Supply and Demand Fundamentals



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