FMI

MANAGEMENT CONSULTING • INVESTMENT BANKING
for the CONSTRUCTION INDUSTRY

FMIScore©
Certification

The FMIScore© is an empirical tool derived from the contractor's documented and verified information. It is based solely on objective calculations without any subjectivity or bias. The main goal of FMIScore© is to provide a concise, gauge whereby customers may evaluate the short-term liquidity and management capacity of the contractor relative to it's own needs. It is not a bond nor guarantee of performance. The emphasis is on liquidity, working capital and profitability of the most recent fiscal year and fiscal quarter as it relates to the existing backlog. Available funds contributing to the liquidity may be internal or external as of the effective date. The management capacity is a weighted factor relative to the backlog as of the effective date.

Rex Electric & Technologies, LLC
Has an FMIScore© of

1285

Effective
December 31, 2009

0 – 350 Weak ♦ 350 – 650 Mediocre ♦ 650 – 1000 Good ♦ Over 1000 Excellent

FMIScore© GENERAL DISCLAIMER

This financial information has been prepared by FMI for the purpose of providing interested parties with general information about the Company. The data included was derived from the books and records of the Company. Although such information is believed to present fairly the history and business of the Company, FMI does not make any representation as to the completeness or accuracy of the contents of these financial metrics. FMI, specifically, is only calculating data provided to FMI by the Company. FMI has, in no manner, attempted to verify the information provided to them.

Parties wishing to pursue business with the Company shall be responsible for the verification of any information upon which they may make any decisions.

The underlying financial information to FMIScore© is treated as confidential. The recipient shall use such information only for the purpose of evaluating conduction of business with the Company and not in any manner or for any purpose adverse to the interests of the Company. FMIScore© is in no way a guarantee of the company's future performance.

Components of FMIScore©

The FMIScore© consists of many measurable factors submitted mostly from verifiable third-party documentation. There are five primary inputs driving the FMIScore©:

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

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

3. It's outside lines of credit as stated by all it's banks' statements

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

5. It's management and wage headcount as identified by it's quarterly IRS Form 941.

General Insights to FMIScore©

Most of these inputs are independently verified by outside CPA firms, banks or the IRS. FMIScore© uses a weighting based on the fact that they are either internal versus external documents. FMI 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 FMIScore© is a single number that is made public.

The FMIScore© does not take into consideration such items as long-range strategic plans, safety records, technical project experience, pending litigation or general market conditions. The FMIScore© 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 FMIScore© is to provide an independent assessment of these symptoms.

Scoring Ranges

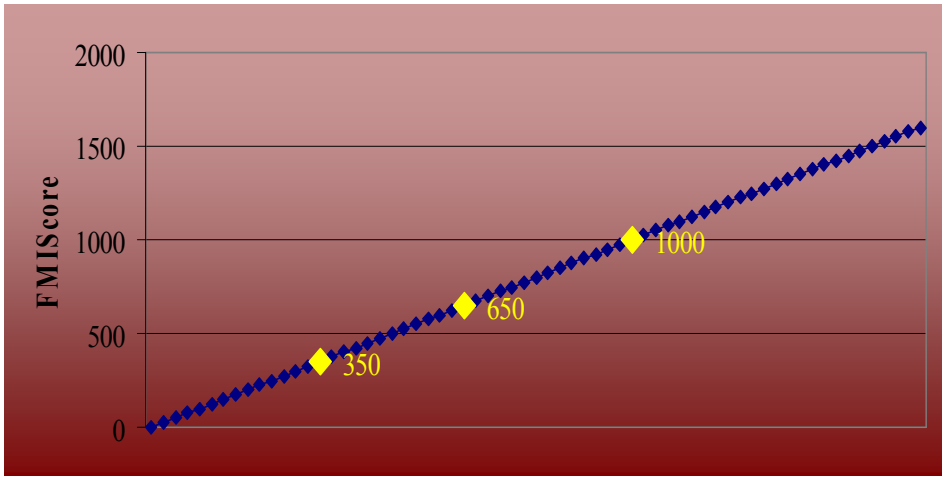
The scoring range runs from zero up. The higher the FMIScore©, the less the probability of default or significant failures on the current work. These short-term factors can evolve quickly, and the FMIScore© is no guarantee even a high score will not have problems.

- **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 Mediocre. 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.



Opportunities to Improve FMIScores

If the contractor is not satisfied with what it's FMIScore© 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 FMIScore©.

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 FMIScore© measures.

FMI Corporation, management consultants to the construction industry, is in a position to help with any and all these points

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