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Investment Analysis for Intelligent Investors

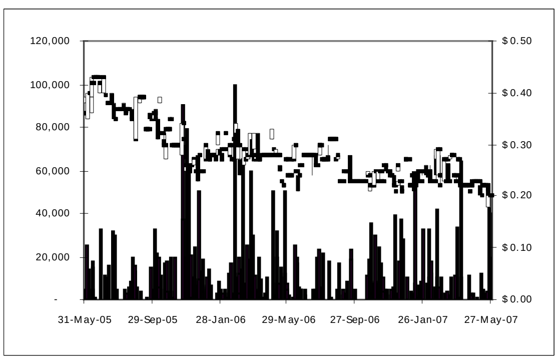
Bevo Agro Inc. (TSX-V: BVO) – Significant Drop in U.S. Sales Affects Bottom Line

Sector/Industry: Agriculture **www.bevoagro.com**

Market Data (as of May 30, 2007)

Current Price	C$0.20
Fair Value	C$0.29 (↓)
Rating*	HOLD
Risk*	4 (Speculative)
52 Week Range	C$0.18 - C$0.31
Shares O/S	25,535,933
Market Cap	C$5.11 million
Current Yield	N/A
P/E	N/A
P/B	0.52x
YoY Return	-44.4%
YoY TSX-V	12.6%

*see back of report for rating and risk definitions



Q3-FY2007 Highlights

- Revenues in Q3-2007 dropped by 10.6%, from $5.16 million in Q3-2006, to $4.61 million in Q3-2007. Sales in Canada increased by 27.7% YOY. The drop in revenues in Q3-2007 was primarily due to lower US sales, as sales dropped by 86.2% YOY. Gross margin increased YOY in Q3-2007, however all other margins decreased due to higher operating and administrative cost.
- The company recorded a net income of $0.27 million in Q3-2007, versus $0.46 million in the comparable period last year. For the 9-month period in FY2007, BVO had a net loss of $0.17 million, compared to a net profit of $0.31 million in the comparable period last year.
- The company drew an additional $1.30 million from its credit facility. We believe this was largely due to seasonally higher inventories. Debt to capital increased from 71.3% at the end of Q2-2007, to 71.6% in Q3-2007. BVO generally has higher inventory levels at the end of Q3 to support higher sales in Q4.
- We have slightly lowered our revenue and eps forecasts for FY2007 and FY2008.
- According to Statistics Canada, the Canadian greenhouse industry reported record sales in 2006. However, we believe lower U.S. sales and high labor costs will put downward pressure on the industry in 2007.

Key Financial Data and Statistics (FYE June 30)

	2004A	2005A	2006A	2007E	2008E
Revenues	19,495,807	21,756,304	22,036,071	19,391,742	24,239,678
EBITDA Margin	21.1%	20.2%	20.0%	16.0%	19.6%
Net Income	561,614	985,782	805,129	(322,808)	858,455
EPS	0.02	0.04	0.03	-0.01	0.03
Assets	37,717,586	38,828,520	36,262,048	38,015,834	38,790,119
Debt to Capital	78.6%	73.9%	69.8%	72.0%	68.9%
Free Cash Flow	(8,636,099)	659,778	2,886,414	3,241,721	2,930,292
EBITDA Interest Coverage	3.43	2.44	2.57	1.82	3.10
ROE	7.7%	11.0%	8.1%	-3.4%	8.2%

Bevo Agro Inc. (BVO) is North America's largest supplier of propagated plants to greenhouses, nurseries, and other farming operations. The company currently operates 34 acres of propagation greenhouse facilities. Sales have grown at a CAGR of 13.8% from 2000-2006.

Revenues dropped by 10.6% YOY in Q3-2007

Revenues in Q3-2007 dropped by 10.6%, from $5.16 million in Q3-2006, to $4.61 million in Q3-2007. For the 9-month period in FY2007, revenues were $11.60 million versus $13.48 million in the comparable period last year, a decrease of 13.9% (We had forecasted FY2007 revenues to drop by 10% YOY). The table below shows BVO's revenue distribution for Q3-2007, and the first 9 months of FY2007, versus their comparables periods.

Bevo Agro - Geographic Sales - Q3

	Q3-2006	% of Total	Q3-2007	% of Total	Growth
Canada	3,250,486	63.0%	4,149,738	90.0%	27.7%
U.S.	1,909,708	37.0%	262,966	5.7%	-86.2%
Mexico	-	0.0%	198,495	4.3%	n.a
Total	5,160,194	100.0%	4,611,199	100.0%	-10.6%

Bevo Agro - Geographic Sales - 9 mo

	9 mo - 2006	% of Total	9 mo - 2007	% of Total	Growth
Canada	9,058,571	67.2%	7,456,622	64.3%	-17.7%
U.S.	4,102,846	30.4%	3,482,866	30.0%	-15.1%
Mexico	317,264	2.4%	659,496	5.7%	107.9%
Total	13,478,681	100.0%	11,598,984	100.0%	-13.9%

The drop in revenues in Q3-2007 was primarily due to lower U.S. sales. U.S. sales dropped by 86.2% YOY, from $1.91 million in Q3-2006, to $0.26 million in Q3-2007. Sales in the U.S. had increased by 2.9% YOY, and 155.5% YOY in Q1-2007, and Q2-2007, respectively. Although we had expected U.S. sales growth to soften due to increased competition from Mexico, the unexpected size of the drop in revenues concerns us. Canadian sales had dropped by 50.5% YOY in Q2-2007. However, sales picked up in Q3-2007, and revenues increased from $3.25 million in Q3-2006, to $4.15 million in Q3-2007, an increase of 27.7%. We had expected sales in Canada to pick up as several growers had postponed replanting of their greenhouse crops to Q3-2007 due to weather conditions in Q2-2007. The company generated $0.20 million from sales in Mexico in Q3-2007 versus nil in the comparable period.

Sales in the fourth quarter are normally stronger than the other 3 quarters as the company shifts production from the propagation of vegetable crops to the propagation and growing of bedding plants and flowers, which are priced higher.

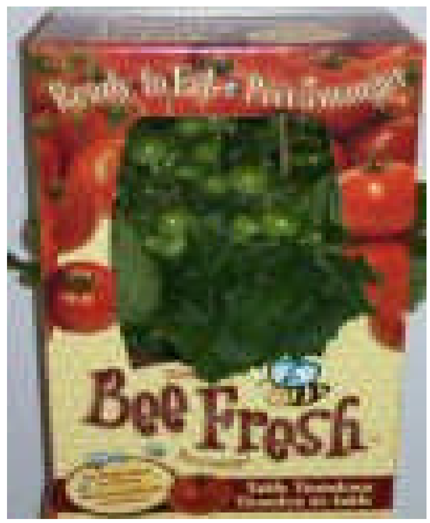
The B.C. Greenhouse industry is experiencing increasing competition from Mexican growers. **In order to counter the expected drop in sales in Canada, BVO is now planning to increase shipments of their pants for transplant into Mexican fields.**

Increased interest in gardening: According to the Public Health Agency of Canada, gardening is Canada's 2nd most popular physical activity after walking. The number of Canadians who like gardening has increased by 13% since 2004, to 9.3 million in 2006. The retail gardening sector is currently worth $3.8 billion. (Canadian Gardening)

To capitalize on the increased interest in gardening, Wal-Mart recently announced it will be doubling the size of its garden centers, from 7,000 sq.feet to 12,000 sq. feet or larger. Although Wal-Mart is not a customer of BVO, we believe that BVO will benefit from the favorable market conditions for flowers in Canada.

BVO is developing new strategies for growth. The following were two new initiatives by BVO.

- In Q3-2007, BVO introduced its first packaged product – the "Bee Fresh Tomatoes". The concept is to package small plants that produce about 40-50 cherry tomatoes, and sell them through retail channels. The product gives consumers access to fresh tomatoes by allowing them to grow plants in their homes. It normally takes about 7-10 days for the tomatoes on the plant to ripen.



Source: BVO

  The product is currently being distributed to local nurseries and grocery stores. A company that sells similar products in the market is Aerogrow International Inc. (OTCBB: AGWI). The company has developed a technology to facilitate interior gardening. BVO differentiates it products by selling fully developed products, as a result, tomatoes ripen in a much shorter time compared to Aerogrow's products. Also, we believe that BVO's packaged product is cheaper.

  Although we do not expect this new product to make a significant impact on revenues going forward, we believe that such initiatives are positive for the company, as they contribute to growth in the long-run.

- BVO also has plans to start grafting grapes for vineyards. B.C., Canada, is known for its vineyards. According to Statistics Canada, B.C. residents consume an average of 16.2 litres of wine per person per year – the second highest in the country after Quebec at 18.2 litres per person per year. Grape production for wineries has grown by 15% since 2001, and we believe that entry into this space could give BVO significant upside potential.

Revenue forecasts: Although the company has developed new strategies to expand its business, we have slightly reduced our revenue forecasts for FY2007, and FY2008, based on the lower than expected sales in the U.S. Our revised revenue forecasts are $19.39 million in FY2007, and $24.24 million in FY2008, versus our previous estimates of $19.83 million and $24.79 million, respectively.

Gross margins increased, however all other margins decreased due to higher operating and administrative costs: The table below shows the company's margins in Q3-2007, and the 9 month period in FY2007, versus margins in the comparable periods.

Margins	Q3 2005	Q3 2006	Q3 2007	9MO 2005	9MO 2006	9 MO 2007	2007E	2008E
Gross	40.5%	39.6%	41.5%	38.7%	36.9%	39.5%	33.0%	32.0%
EBITDA	25.5%	26.1%	22.2%	23.5%	21.9%	17.8%	16.0%	19.6%
Operating	14.7%	17.0%	12.7%	12.0%	11.3%	6.3%	6.2%	11.8%
Pre-tax	5.2%	8.9%	3.8%	1.9%	1.8%	-4.4%	-2.6%	5.4%
Net	3.3%	8.9%	5.9%	2.7%	2.3%	-1.5%	-1.7%	3.5%

Gross margins in Q3-2007 increased to 41.5% from 39.6% in the same period in the previous year. **Gross margins increased as the decline in purchase costs, and packaging and freight costs as a percentage of sales more than offset the increase in labor and utility costs**. Purchase costs, and packaging and freight costs in Q3-2007, were $0.86 million (18.63% of sales) and $0.34 million (7.37% of sales), respectively, versus $1 million (19.56% of sales) and $0.61 million (11.85% of sales) in the comparable periods. Labor and utility costs in Q3-2007 were $1.07 million (23.14% of sales) and $0.43 million (9.35% of sales) versus $1.10 million (21.36% of sales) and $0.40 million (7.66% of sales) in the comparable periods.

Gross margins for the 9 month period in FY2007, were 39.5%, up from 36.9% in the comparable period. We have slightly increased our annual gross margin forecast for FY2007 from 32% to 33%. However, we have maintained our 2007+ forecasts at 32%.

In Q3-2007, **general operating expenses** as a percentage of sales were 9.4% versus 7.1% in the comparable period. Management attributes the increase in costs to increased costs for repairs and maintenance to buildings, boilers and equipment. Costs related to repairs and maintenance works have kept the company's general operating expenses high in the first 9 months of FY2007, and we expect the trend to continue in Q4-2007 as well.

Administrative expenses as a percentage of sales increased from 5.5% in Q3-2006, to 6.7% in Q3-2007. BVO attributes the increase in costs to an increase in staffing for more effective management and operational control.

We have raised our estimates on both general operating and administrative costs for FY2007, while maintaining our 2007+ forecasts.

Net Income: The company recorded net income of $0.27 million in Q3-2007, compared to $0.46 million in the comparable period. The increase in gross margins was not able to offset the drop in revenues and increase in other expenses. The company also recorded a bad debt expense of $0.15 million in Q3-2007, versus $0.05 million in the comparable period. The bad debt expense in Q3-2007 was recorded to offset the potential write-off of a mortgage receivable of $0.72 million. We expect the company to record similar reserves in Q4-2007 as well.

For the 9-month period in FY2007, the company recorded a net loss of $0.17 million, compared to a net profit of $0.31 million in the comparable period.

Based on all the changes made in our forecasts (mentioned earlier in the report), we have lowered our EPS forecasts for FY2007, and FY2008. Our revised forecasts for FY2007, and FY2008, are a net loss of $0.32 million (eps: -$0.01) and net profit of $0.86 million (eps: $0.03), respectively. Our previous forecasts were a net loss of $0.28 million (eps: -$0.01) and net profit of $0.98 million (eps: $0.04), for 2007, and 2008, respectively.

Cash Flows: Although BVO reported lower net income, investment in working capital was lower in Q3-2007 YOY. Hence, the company had lower cash outflows from operations of $0.86 million in Q3-2007, compared to $2.07 million in the comparable period. The company spent $0.22 million for equipment in Q3-2007, compared to $0.02 million in the same period in the previous year. BVO funded its cash for operating and investing activities by drawing an additional $1.30 million from its credit facility. We have increased our capital expenditures forecasts for FY2007 from $0.4 million to $0.5 million.

Cash Position and Liquidity: The table below shows the company's cash and liquidity position.

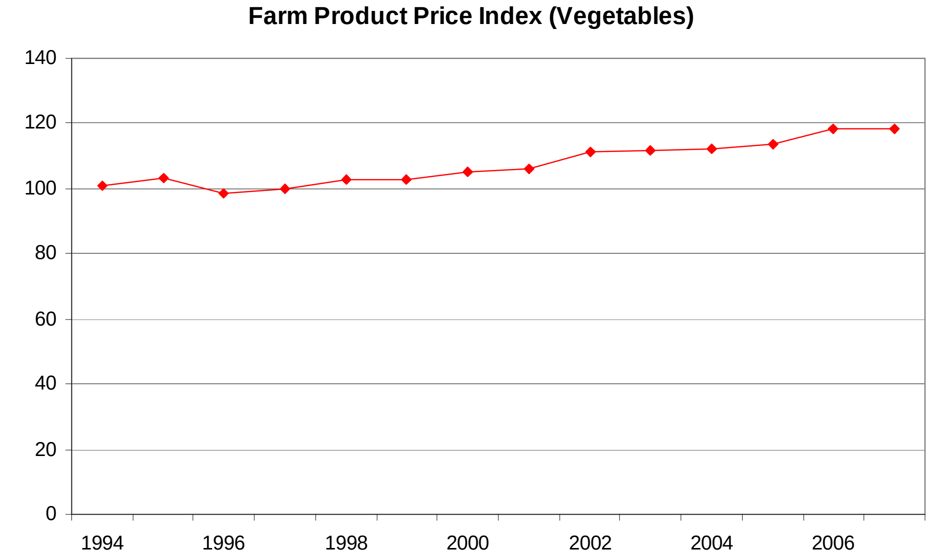
Liquidity Analysis	**2004A**	**2005A**	**2006A**	**Q3 2007**	**2007E**	**2008E**
Working Capital	296,344	620,994	(19,331,588)	(2,810,413)	(2,470,582)	3,138,080
Current Ratio	1.06	1.09	0.21	0.76	0.77	1.43
Debt/Capital	78.6%	73.9%	69.8%	71.6%	72.0%	68.9%
Interest Coverage Ratio	1.9	1.3	1.5	1.42	0.7	1.9

At the end of Q3-2007, the company had cash and working capital of $0.06 million and ($2.81) million, respectively, compared to $0.06 million and ($19.33) million at the end of FY2006. The company has a negative working capital as it has a convertible debenture of $5 million, due in September 2007, to Banyan Capital Partners Limited Partnership. BVO has already arranged a $5 million loan with the Bank of Montreal to payout the amount due to Banyan Capital.

The company has a revolving line of credit of $3 million from the Bank of Montreal. In Q3-2007, the company withdrew an additional $1.30 million from the credit facility to fund its operating and investing activities. At the end of Q3-2007, the company had withdrawn $2.5 million from the facility. Debt to capital increased from 71.3% at the end of Q2-2007, to 71.6% in Q3-2007. However, investors should note that inventory levels also rose by $1.45 million QOQ. BVO generally has higher inventory levels at the end the third quarter to support higher sales in the forth quarter.

Industry

Farm Product Price Index (FPPI) increases: According to Statistics Canada, prices farmers received for their commodities rose 5.9% YOY in February 2007. The increase in commodity prices was primarily driven by an increase in crop prices. In February 2007, prices for crops were up 14.9% YOY, and were at their highs since fall 2004. February 2007 was the 6th consecutive month of YOY increases, and the 4th consecutive double-digit increase. The Farm Product Price Index for vegetables increased by 2.1% YOY in February 2007, from 116.0 in February 2006, to 118.4 in February 2007. The table below shows the FPPI since 1994.



Source: Statistics Canada

BVO normally prices its products under annual sales contracts, so the company has not been able to capitalize on short-term price increases. However, BVO has benefited from the increase in average annual crop prices.

Greenhouse operators reported record sales in 2006: According to Statistics Canada, greenhouse operators reported record sales of $2.34 billion in 2006, of which $1.52 billion came from sales of flowers and plants, and $0.83 billion came from sales of vegetables. Revenues from sales of tomatoes accounted for almost half of all vegetable revenues. Peppers and cucumbers each generated about one quarter of the total revenues. The total area dedicated to growing greenhouse products also expanded to just short of 230 million sq. feet in 2006.

Results from a recent census by Statistics Canada: The number of farms in Canada decreased by 7.1% during 2001 through 2006, from 246,923 to 229,373. However, the total farm area changed little at 67.6 million hectares. The area used for vegetable production declined nearly 7%. In terms of production, there has been a significant increase in organic agriculture. About 16.3% of farms in B.C. sell organic fruit, vegetables or, meat, versus the national average of 6.8%. The increase in organic agriculture is a good sign for BVO.

Continuing pressure on the labor force: Along with the decline in farmlands used for vegetable production, there has been significant decline in farmers in the country, which we believe is one the major concerns in the industry at this time. The number of farmers in Canada declined 5.5% in the last 5 years, from 346,195 in 2001, to 327,060 in 2006.

Also, an aging population will affect the industry going forward. Slightly more than 40% of all operators are above 55 years of age. The average age of farmers in Canada increased, from 48.4 years in 1996, to 52 years in 2006. The number of farmers in the 15-34 year age group represented only 9.1% of all operators. We believe the tight labor market in the industry, which has resulted in a significant increase in labor costs, will continue to put pressure on the industry.

Consolidation in the industry: Hot House Growers Income Fund (TSX: VEG.UN), one of BVO's customers, combined with Village Farms to form Village Farms Income Fund (TSX: VFF.UN) in late 2006. Village Farms is the largest producer, marketer and distributor of premium-quality, greenhouse grown tomatoes, bell peppers and cucumbers in North America, with greenhouse facilities in B.C, Texas and Pennsylvania. Since Hot House is a customer of BVO, we believe the merger gives BVO the potential to increase their client base.

Conclusions: Although the Canadian greenhouse industry reported record sales in 2006, we believe increasing competition from Mexican growers and high labor costs will put downward pressure on the industry in 2007. However, we believe BVO's will benefit from the industry's overall growth through increased sales from propagation and growing of bedding plants and flowers, increased shipments of plants to fields in Mexico, and by implementing their new strategies to expand the business.

Valuation

Our revised valuation (shown below) on BVO changed slightly, dropping from $0.31 per share to $0.29 per share.

Bevo Agro DCF Model
($000's, except shares o/s)

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	Terminal
FFO	1,524	2,856	3,734	4,009	4,294	4,588	4,890	5,210	5,542	5,888
Investment in W/C	2,218	474	(128)	(49)	(52)	(54)	(57)	(60)	(63)	(66)
CFO	3,742	3,330	3,606	3,960	4,242	4,534	4,834	5,150	5,480	5,822
Capex	(500)	(400)	(500)	(500)	(600)	(600)	(700)	(700)	(800)	(800)
Free Cash Flow	3,242	2,930	3,106	3,460	3,642	3,934	4,134	4,450	4,680	5,022
PV	3,130	2,461	2,268	2,197	2,011	1,889	1,726	1,616	1,477	13,212

WACC	15%
Terminal Growth	3%
Firm Value	31,985
Debt	24,525
Equity Value	7,461
Shares O/S	25,535,933
DCF Value	**$ 0.29**

Valuation dropped primarily due to the lower revenue and eps forecasts for 2007 and 2008.

Rating

Based on our valuation model and review of the industry, we reiterate our HOLD rating on BVO and slightly reduce our fair value estimate from $0.31 to $0.29. Even though our fair value estimate reflects a 45% increase from current price levels, we would like to see improved performance from the company in the next couple of quarters before we revise our HOLD recommendation.

We are expecting improved performance from BVO as they increase sales of plants and flowers in Q4, increase shipments of plants to fields in Mexico, and implement their new strategies to expand the business.

Risks

The following factors, though not exhaustive, will cause our estimates to differ from actual results:

- The company is in growth mode and incurring debt for expansion; debt to capital levels are relatively high.
- Key person risk - The company is dependent on two individuals, Jack and Leo Benne, for their expertise in greenhouse technology.
- The stock is thinly traded and investors may face liquidity issues trying to enter and exit positions.
- There is evidence to suggest that the business is becoming increasingly competitive.
- Greenhouse operations are capital intensive and thus, operating leverage is quite high.
- The company exports a material percentage of sales to the U.S.; A strong C$ will affect revenues.

We maintain our risk rating of 4 (Speculative).

Appendix

Bevo Agro - Income Statement
(YE June 30)

	2004A	2005A	2006A	2007E	2008E
Sales	19,495,807	21,756,304	22,036,071	19,391,742	24,239,678
Cogs	13,281,520	14,990,018	15,004,813	12,992,467	16,482,981
Gross Margin	**6,214,287**	**6,766,286**	**7,031,258**	**6,399,275**	**7,756,697**
Expenses					
General Operating Expense	1,245,631	1,358,292	1,498,921	2,054,381	1,551,339
Administrative Expenses	857,648	1,016,545	1,120,337	1,260,463	1,454,381
Gain (loss) asset disposal	6,402	(6,497)	-	(11,470)	-
Insurance Settlement	-		-	-	-
Acquisition Costs	-		-	-	-
EBITDA	**4,117,410**	**4,397,946**	**4,412,000**	**3,095,901**	**4,750,977**
Depreciation	1,814,850	2,072,028	1,898,709	1,896,132	1,896,132
EBIT	2,302,560	2,325,918	2,513,291	1,199,769	2,854,845
Interest	1,198,748	1,804,785	1,715,589	1,696,396	1,534,145
EBT	1,103,812	521,133	797,702	(496,627)	1,320,700
Taxes					
Current	203,104	(292,749)	(139,638)	(135,579)	360,551
Future	339,094	(171,900)	132,211	(38,240)	101,694
Income Tax Expense	542,198	(464,649)	(7,427)	(173,819)	462,245
Net Income	**561,614**	**985,782**	**805,129**	**(322,808)**	**858,455**
EPS	0.02	0.04	0.03	-0.01	0.03

Bevo Agro - Balance Sheet
(YE June 30)

	2004A	2005A	2006A	2007E	2008E
Assets					
Current					
Cash	480,910	357,971	58,332	4,856,431	6,279,429
Accounts Receivable	2,345,191	4,316,715	3,219,325	1,939,174	2,423,968
Inventory	1,512,651	1,985,748	1,510,906	1,169,322	1,483,468
Prepaid Expenses & Tax Rec	637,777	518,096	376,342	193,917	242,397
Total	**4,976,529**	**7,178,530**	**5,164,905**	**8,158,845**	**10,429,262**
PPE	32,413,245	31,343,788	30,109,385	28,750,855	27,280,855
Deferred Costs	65,065	43,455	35,844	123,069	96,937
Goodwill	262,747	262,747	262,747	262,747	262,747
Mortgage Receivable			689,167	720,318	720,318
Total Assets	**37,717,586**	**38,828,520**	**36,262,048**	**38,015,834**	**38,790,119**
Liabilities					
Current					
Bank Debt	539,706	1,393,198	1,000,495	2,504,110	2,504,110
Accounts Payable	1,806,913	2,697,322	1,561,218	1,975,166	3,296,596
Tax Payable	-	-	-	-	-
Current LT Debt (inc sub debt)	1,883,145	2,175,686	21,720,499	6,133,333	1,490,476
Current Capital Leases	450,421	291,330	214,281	16,818	-
Total	**4,680,185**	**6,557,536**	**24,496,493**	**10,629,427**	**7,291,182**
LT Debt (incl sub debt)	23,219,977	21,360,111	-	15,998,718	19,151,099
Capital Leases	532,379	228,822	16,818	-	-
Future Taxes	1,621,942	1,450,042	1,582,253	1,544,013	1,645,707
Related Debt	397,160	247,160	247,160	247,160	247,160
Total Liabilities	**30,451,643**	**29,843,671**	**26,342,724**	**28,419,317**	**28,335,148**
Equity					
Capital	3,156,141	3,889,265	4,008,443	4,008,443	4,008,443
Contributed Surplus			10,168	10,168	10,168
Retained Earnings	4,109,802	5,095,584	5,900,713	5,577,905	6,436,361
Total Equity	7,265,943	8,984,849	9,919,324	9,596,516	10,454,972
Total Equity & Liabilities	**37,717,586**	**38,828,520**	**36,262,048**	**38,015,834**	**38,790,119**

Bevo Agro - Cash Flow
YE June 30

	2004A	2005A	2006A	2007E	2008E
Operations					
Net Income	561,614	985,782	805,129	(322,808)	858,455
Depreciation and Deferred Costs	1,814,850	2,072,028	1,898,709	1,896,132	1,896,132
Future Taxes	339,094	(171,900)	132,211	(38,240)	101,694
Loss (gain) on asset sales & other	117,915	492,816	119,178	(11,470)	-
Funds From Operations	2,833,473	3,378,726	2,955,227	1,523,614	2,856,281
Changes in Working Cap					
Accounts Receivable	187,486	(1,971,524)	1,097,390	1,280,151	(484,794)
Prepaid Expenses &Tax Receivables	87,845	138,628	141,754	182,425	(48,479)
Inventory	(140,616)	(473,097)	474,842	341,584	(314,146)
Accounts Payable	50,814	890,409	(1,136,104)	413,948	1,321,431
Taxes Payable & Other	(972,794)	(18,947)	-	-	-
Total	(787,265)	(1,434,531)	577,882	2,218,107	474,011
Cash From Operations	2,046,208	1,944,195	3,533,109	3,741,721	3,330,292
Investing					
Capital Expenditures	(10,682,307)	(1,284,417)	(646,695)	(500,000)	(400,000)
Disposals & Other	11,400	309,952	(699,167)	(144,508)	
Cash Used in Investing	(10,670,907)	(974,465)	(1,345,862)	(644,508)	(400,000)
Financing					
Bank Debt	(446,731)	853,492	(392,703)	1,503,615	
Advances under term debt	11,500,000	380,000.00	416,133	17,000,000	5,000,000
LT Debt Repayment	(1,537,784)	(1,947,325)	(2,231,431)	(16,588,448)	(6,490,476)
Capital Leases	(599,389)	(462,648)	(289,053)	(214,281)	(16,818)
Related Debt & Other	(41,590)	(150,000.00)	-	-	-
Contributed Surplus			10,168		
Equity	110,600	233,813	-		
Cash From Financing	8,909,556	(1,092,668)	(2,486,886)	1,700,886	(1,507,294)
Change in Cash	284,857	(122,939)	(299,639)	4,798,099	1,422,998
Cash BOP	196,053	480,910	357,971	58,332	4,856,431
Cash EOP	480,910	357,971	58,332	4,856,431	6,279,429

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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