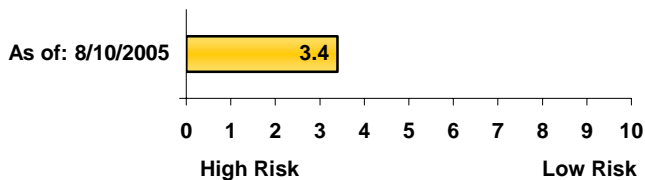


Credit Limit Advisory

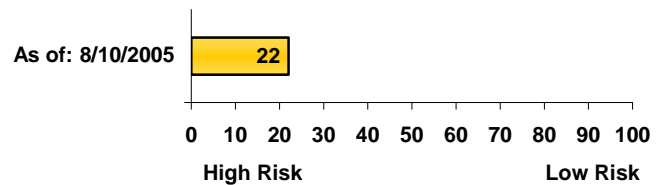
PG Iron & Metal, Inc. Detroit City, MI

Credit Limit Requested: \$250,000
Advised Credit Limit: \$250,000
Credit Alert Recommendation: YES

Credit Risk Score



Probability of Default Score



Credit Evaluation:

PG Iron & Metal, Inc. is primarily involved in ferrous and non-ferrous scrap recycling and processing. It obtains scrap for recycling from numerous sources, including auto manufacturers, steel plants, junkyards, demolition firms, and railroads. It then sells the recycled metal to steel minimills, integrated steelmakers, foundries, copper refineries, and metals brokers. The company also runs a dealing and trading operation.

Based on the information reviewed, we believe the company to represent below average credit risk characteristics and would recommend any exposure be managed closely.

- The company has been in business since **1975** under current management / control.
- The company submitted is a wholly owned subsidiary of **PG Metal Consolidator Group, Pittsburgh, PA.**
- The company's ProfitGuard Credit Risk Score is **3.4** (scale of 1 to 10, with 10 being lowest risk).
- The company's ProfitGuard Probability of Default Score is **22** (scale of 1 to 100, with 100 being lowest probability).
- The company's payment experience has ranged from 12 to 25 days beyond terms over the past year, currently paying its vendors 25 days beyond terms.
 - Based on 225 total payment experiences of which 100 were reported slow.
 - We find no presence of negative items (collection or NSF).
 - Highest Credit \$550,000.

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- We find the presence of (1) open suit, liens (9), or judgments (0). May have been paid, terminated, or released
- **The following financial highlights are based on the company's 6/30/05 three-month period ended results:**
- Net Sales \$410.5 million, down 27.5% over prior year period.
- Net Loss of \$3.4 million, compared to net income of \$12.6 million in the prior year period.
 - The company stated that the steel business segment yielded an operating loss of \$13.9 million. Operating income for last year's quarter of \$32.7 million included \$38.5 million of pretax settlement income.
 - Scrap product shipments were even with those of a year ago while realized structural prices declined 8%. Scrap costs increased 13%.
- Current ratio 1.91:1 with working capital of \$172.9 million.
- Total Liabilities \$948.9 million with tangible net worth of \$413 million.
- The Company has available a \$250 million revolving credit facility that expires in March 2004.
 - At June 30, 2005, \$30.0 million was outstanding under the credit facility and an additional \$114.4 million had been utilized to support letters of credit.
 - The credit facility agreement limits the Company's total debt based on the ratio of debt to earnings before interest, taxes, depreciation and amortization.
 - At June 30, 2005, \$62.8 million of additional debt could have been incurred.
- The Company has an agreement to sell, on a revolving basis, an interest in a defined pool of trade accounts receivable of up to \$125 million.
 - The maximum amount outstanding varies based upon the level of eligible receivables.
 - At June 30, 2005, the maximum amount of eligible receivables, \$119.3 million, had been sold.
- The Company's contractual obligations for long-term debt, operating leases and preferred securities of subsidiary are essentially unchanged from March 30, 2003 except for the \$40 million reduction in the outstanding balance on the revolving credit facility.
- On July 10, 2005, Standard & Poor's Ratings Services revised its outlook on the company to negative from stable. Standard & Poor's also affirmed its 'BB+' corporate credit rating on the company. The Pittsburgh, PA based company has \$570 million in total debt.
 - The outlook revision reflects Standard & Poor's concern that currently difficult conditions in PGIM's automotive related markets may be prolonged and further strain the company's credit measures. Weak demand and excess supply have put significant pressure on scrap prices and prevented the company from increasing its operating rate beyond 50% at its new Chicago- based plant.
 - As a result, the plant has yet to turn a profit and will be further challenged by new capacity being brought on-line by new market entrant—PG Steel, Inc.
- S&P states that PGIM has typically maintained a moderate financial profile, targeting total debt to total capitalization of 25%-30%.
 - The company had breached these targets in the past couple of years, spending heavily on expansion programs and meaningfully increasing debt.

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- Since completing its growth spending last year, the company has focused on reducing costs and generating excess cash flows to reduce debt.
- From March 31, 2004 to June 30, 2005, the company paid down debt by \$380 million and restored its debt to capital to 20%.
- However, despite these actions, the company's EBITDA interest coverage declined to 2.2x for the quarter ended June 30, 2005, from 2.3x in the previous quarter ended March 31, 2005, due to its weakened profitability levels.
- The company is expected to restrict its spending while its markets remain weak and continue to generate excess cash flow to reduce debt levels. However, additional debt reduction will be at more moderate levels as most working capital reduction plans have been completed and profitability challenged by weakened market conditions.

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