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Fundamental Research Corp.
Investment Analysis for Intelligent Investors

November 15 2016

IEG Holdings Corporation (OTCQX: IEGHD) – Strategic Changes to Achieve Profitability

Sector/Industry: Consumer Finance **www.investmentevolution.com**

Market Data (as of November 14 2016)

Current Price	**US$2.18**
Fair Value	**US$3.79**
Rating*	**BUY**
Risk*	**4**
52 Week Range	N/A
Shares O/S	9.66 M
Market Cap	US$21.06 M
Current Yield	N/A
P/E (forward)	N/A
P/B	N/A
YoY Return	N/A
YoY OTCQX	0.2%

*see back of report for rating and risk definitions
*All the figures are in US$ unless otherwise specified.

Highlights

- On November 3, 2016, IEG Holdings Corporation ("company", "IEG") announced a few critical corporate updates. In order to quickly move to profitability, management has taken a decision to drastically cut costs. Independent directors resigned and the CEO's salary for 2017 has been reduced from $1 million to just $1. Founder and CEO, Paul Mathieson, owns 6.9 million shares, or 71.4% of the total outstanding shares.
- Management has disclosed that they intend to explore a range of strategic and financial alternatives. We believe this may be related to potential M&A or strategic financing opportunities.
- IEG originated $0.37 million in Q3-2016 versus $0.74 million in Q3-2015, and $1.79 million in Q2-2016. Loan originations continue to be soft this year due to a lack of new capital for growth.
- On November 1, 2016, the company announced that they have been approved in Maryland, making it the company's 18th state of operations. The company has a significant first mover advantage as they are one of the very few online lenders with licenses to operate in multiple states in the U.S covering more than half the U.S. population.
- IEG reported $0.56 million in revenues in Q3-2016, up 5.1% YOY, and the highest since inception. Net loss in Q3 was $0.98 million (EPS: -$0.10).
- Based on the delay in potential financings, we are lowering our 2016 year-end portfolio estimate from $15 million to $7.25 million, and our 2017 estimate from $50 million to $35 million.

Key Financial Data (in US$); YE - Dec 31	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**
Revenues	37,779	62,949	529,225	1,835,165	2,217,854	6,288,382
Net Income	(2,507,521)	(4,480,465)	(5,401,754)	(5,698,198)	(4,005,143)	(1,076,572)
EPS (basic)	(0.01)	(0.01)	(0.40)	(0.24)	(0.41)	(0.07)
Cash	178,601	281,879	433,712	485,559	-	-
Loans Receivable	130,486	426,113	4,316,316	7,124,702	7,250,691	35,000,000
Total Debt / Capital	-30.6%	-33.3%	48.2%	0.0%	12.4%	60.8%
Total Assets	791,196	922,140	4,929,120	7,758,149	7,526,631	35,675,524

Corporate Updates

On November 3, 2016, the company announced a corporate strategy update. The key take ways from the press release are the following:

- Management intends to explore a range of strategic and financial alternatives. Although no details were provided, we believe this may be related to potential M&A or strategic financing opportunities.

- The company will continue to evaluate potential equity and/or debt financings to ramp up loan originations.

- Management also announced that they will not be pursuing a listing on the NYSE MKT or NASDAQ in the near-term. This came as a disappointment to us considering that such a listing would have significantly added further credibility and suitability for a wide range of investors. However, as per the press release, IEGH has left open the possibility of future attempts for such listing upon the company achieving a cash flow positive position.

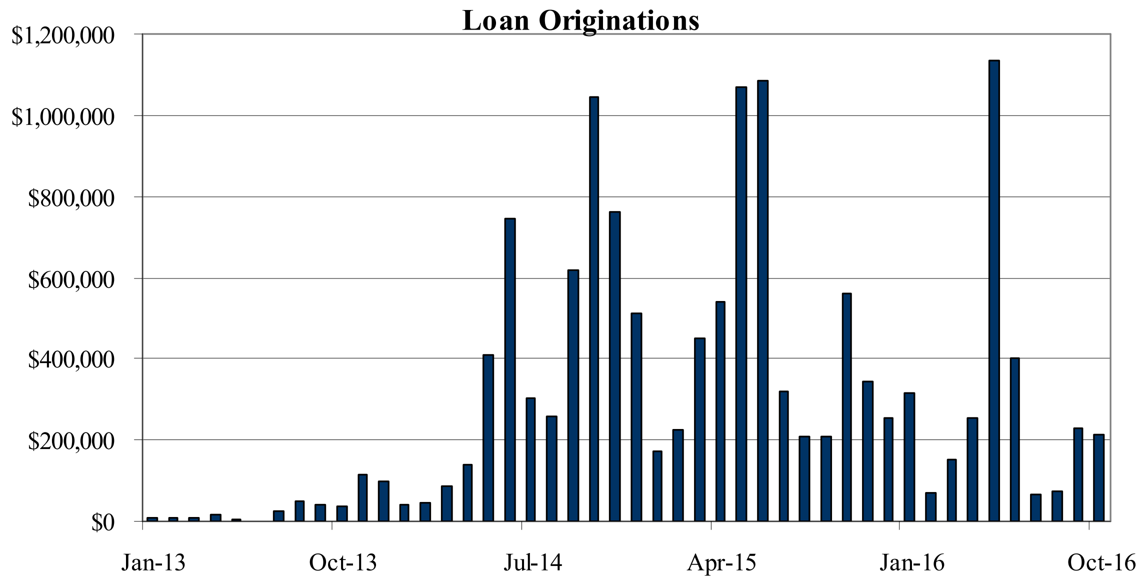
- IEG is planning to undergo significant cost cuts in the coming months, with a mandate to achieve profitability by Q1-2017. This prompted the resignation of the two independent directors, Harold Hansen and Matthew Banks. Directors' costs totaled $18k in the past quarter, implying an annual cost savings of $72k. As a result, IEG's board is now comprised of only the CEO, Paul Mathieson. Although this is of slight concern, note that Mr. Mathieson is the largest shareholder and holds 71.4% of the shares. He has also agreed to lower his 2017 annual base salary from $1 million to $1, and forgo any 2016 bonus due in December 2016.

- As the company has only one director now, the company's shares will have to be moved from the OTCQX to the OTCQB in January 2017.

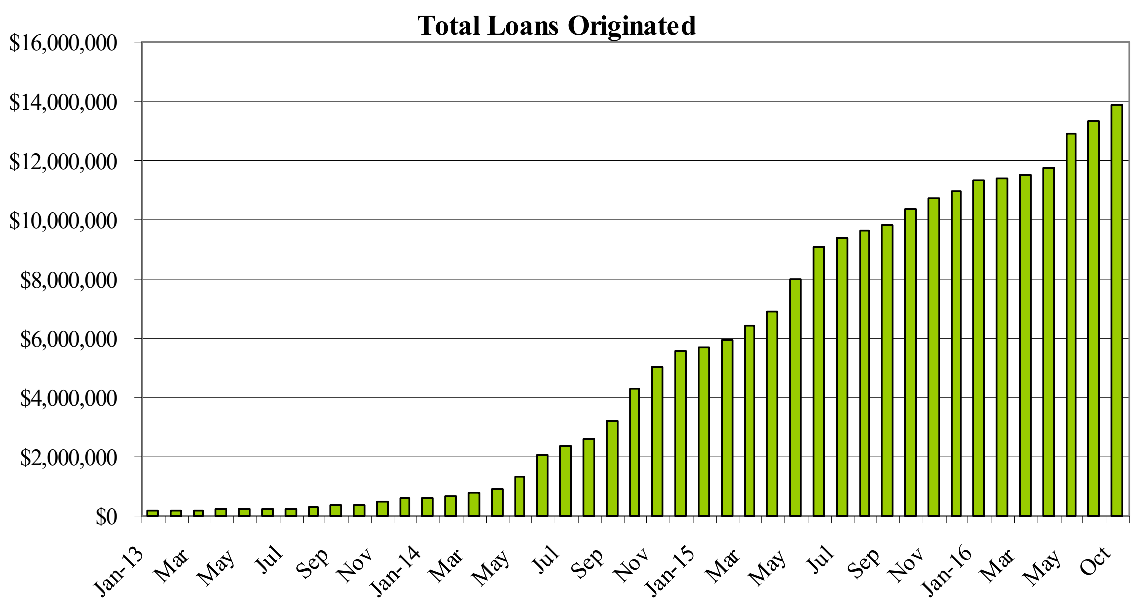
Although IEG's risk profile has increased (due to the change in stock listing and resignation of directors), we believe the company has made a prudent decision to cut costs and focus on achieving profitability. Profitable operations should allow the company to attract capital (equity and debt) for growth.

Loan Origination

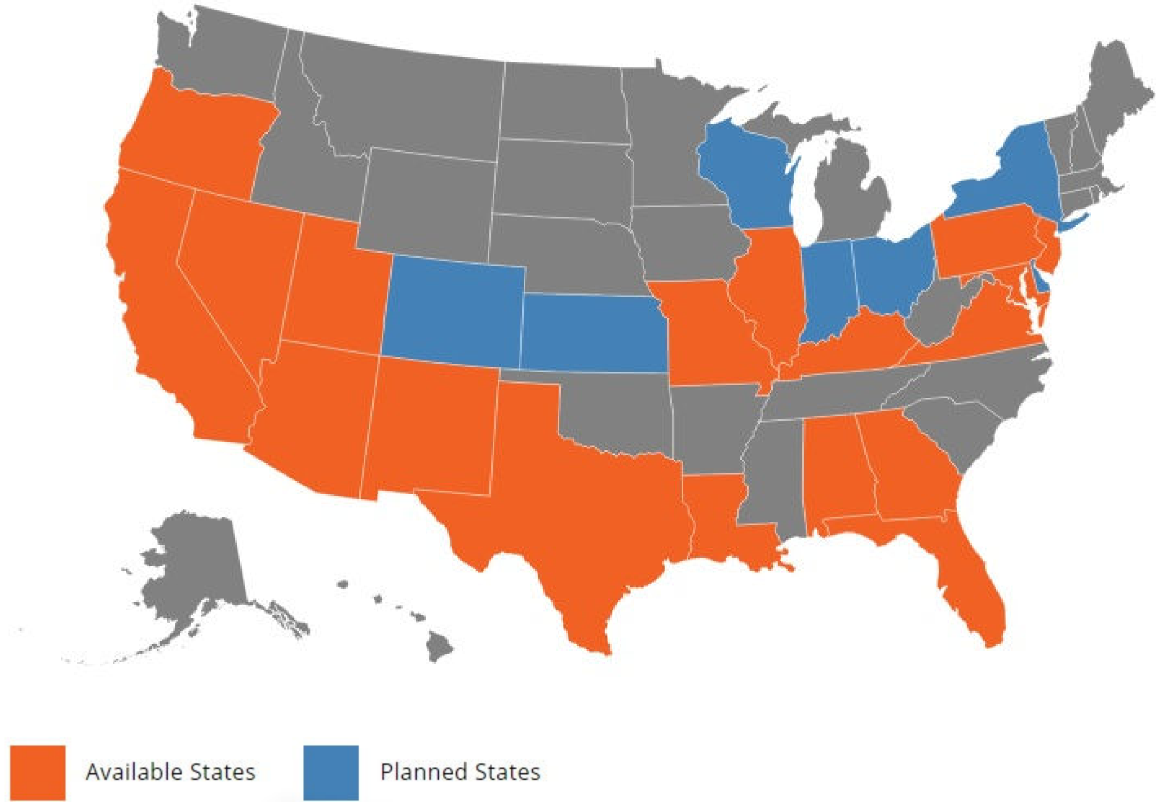
IEG originated $0.37 million in Q3-2016, versus $0.74 million in Q3-2015, and $1.79 million in Q2-2016. The following chart shows the originations since inception of the online lending platform through October 2016. The monthly average in 2016 has been $0.29 million, ranging from $65k in July 2016, to a maximum of $1.14 million in May 2016. As mentioned in our initiating report, originations dropped in 2016 primarily because of the lack of capital to deploy.



The total cumulative loan volume was $13.90 million at the end of October 2016; see chart below.



Nevada, Illinois, New Jersey, and Georgia have been the most active states for IEG. **On November 1, 2016, the company announced that they have been approved in Maryland, making it the company's 18th state of operations.** As mentioned in our initiating report, the company expects to have 25 U.S. states by mid 2017, covering approximately 240 million, or 75% of the U.S. population. The remaining 25 states in the U.S. still require lenders to have at least one physical office location in each state.

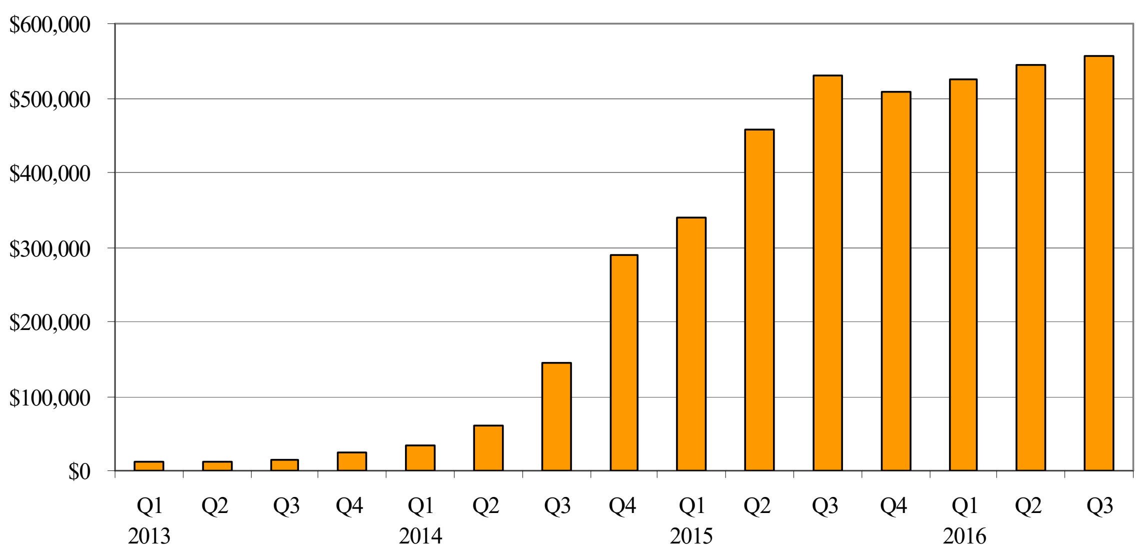


Source: Company

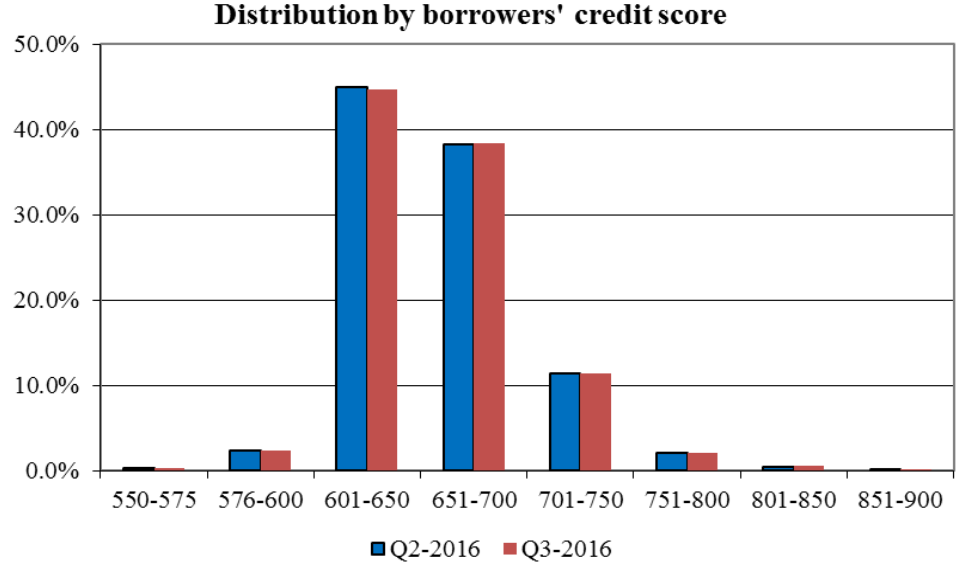
Q3 Financials

IEG reported $0.56 million in revenues in Q3-2016, up 5.1% YOY, **and the highest since inception.** The previous highest was $0.55 million in Q2-2016.

Quarterly Revenues



The chart bellows shows the distribution of loans by borrowers' credit score.



Q3 and nine month income statements of the company are shown below.

STATEMENTS OF OPERATIONS (in US$) - YE Dec 31st	Q3-2015	Q3-3016	YOY	2015 (9M)	2016 (9M)	YOY
Interest revenue	520,373	547,551		1,298,112	1,586,723	
Other revenue	9,894	10,000		29,217	41,156	
Total revenue	**530,267**	**557,551**	5%	**1,327,329**	**1,627,879**	23%
EXPENSES						
Salaries and wages	718,532	397,795	-45%	1,551,382	1,207,124	-22%
Professional fees	329,441	315,368	-4%	329,441	315,368	-4%
Consulting fees	282,189	414,443	47%	905,002	867,723	-4%
Advertising	211,828	92,593	-56%	527,452	313,902	-40%
G&A	83,090	60,458	-27%	865,883	1,113,559	29%
Provision for credit losses	213,611	257,907	21%	793,619	1,000,344	26%
Depreciation and amortization	4,192	3,212	-23%	12,207	7,045	-42%
Start up costs				0	0	
Interest expense	122,225		-100%	596,452	0	-100%
Total Operating Expenses	1,965,108	1,541,776	-22%	5,581,438	4,825,065	-14%
Loss from Operations	**(1,434,841)**	**(984,225)**	**-31%**	**(4,254,109)**	**(3,197,186)**	**-25%**
Misc income / Tax	(14,506)	324	-102%	-14,755	-11,426	-23%
Net Income	**(1,420,335)**	**(984,549)**	**-31%**	**(4,239,354)**	**(3,185,760)**	**-25%**
EPS	-0.58	-0.10		-1.88	-0.43	

Total operating expenses were $1.54 million in Q3, down by 22% YOY. In the nine month period, operating expenses were down by 14% YOY to $4.83 million.

IEG had a net loss of $0.98 million (EPS: -$0.10) in Q3-2016, versus $1.42 million (EPS: -$0.58) in the comparable period in the previous year. In the nine month period of 2016, the company had a net loss of $3.19 million (EPS: -$0.43) versus $4.24 million (EPS: -$1.88) in the comparable period in the previous year.

The following table shows the key line items in the income statements as a percentage of average loan receivables. Revenues as percentage of loan receivables were 29.8% p.a. in Q3-2016, and 30.2% p.a. in the first nine months of 2016, approximately 1.5% to 2.0% lower than the comparable periods in the previous year.

% of Loans Receivable	Q3-2015	Q3-3016	2015 (9M)	2016 (9M)
Interest revenue	30.97%	29.30%	31.25%	29.43%
Other revenue	0.59%	0.54%	0.70%	0.76%
Total revenue	31.56%	29.83%	31.96%	30.20%
Salaries and wages	42.76%	21.28%	37.35%	22.39%
Professional fees	19.61%	16.87%	7.93%	5.85%
Consulting fees	16.79%	22.17%	21.79%	16.10%
Advertising	12.61%	4.95%	12.70%	5.82%
G&A	4.95%	3.23%	20.85%	20.66%
Interest expense	7.27%	0.00%	14.36%	0.00%
Provision for credit losses	12.71%	13.80%	19.11%	18.56%
Total Operating Expenses	116.70%	82.32%	134.08%	89.38%
Income from Operations	**-85.14%**	**-52.49%**	**-102.12%**	**-59.18%**
Misc income	-0.86%	0.02%	-0.36%	-0.21%
Net Income	-86.01%	-52.47%	-102.48%	-59.39%

*Note that the above calculations may not be precise as they are based on the average of the loans outstanding at the beginning and end of a period.
* figures are annualized.

As of September 30, 2016, the company had $7.25 million in loans receivables, net of provision for losses. The company had $1.00 million in allowance for credit losses, or 12.1% of the loans receivable. As shown in the table below, the company has maintained the allowance at a similar rate since inception.

	2012	2013	2014	2015	Q1-2016	Q2-2016	Q3-2016
Loans Receivable	148,263	487,432	4,913,279	8,110,077	7,662,039	8,766,508	8,253,490
Allowance for credit losses	(17,777)	(61,319)	(596,963)	(985,375)	(930,938)	(1,065,131)	(1,002,799)
% of Total	*12.0%*	*12.6%*	*12.1%*	*12.2%*	*12.2%*	*12.2%*	*12.1%*
Loans receivables net	130,486	426,113	4,316,316	7,124,702	6,731,101	7,701,377	7,250,691
Beginning balance	6,840	17,777	61,319	596,963	985,375	985,375	985,375
Provision for credit losses	20,340	63,492	614,684	1,134,518	387,519	742,437	1,000,344
Loans charged off	(9,403)	(19,950)	(79,040)	(746,106)	(441,956)	(662,681)	(982,920)
% of average loans outstanding	*6.3%*	*6.3%*	*2.9%*	*11.5%*	*22.4%*	*16.2%*	*15.9%*
					(annualized)	(annualized)	(annualized)
Ending balance	17,777	61,319	596,963	985,375	930,938	1,065,131	1,002,799

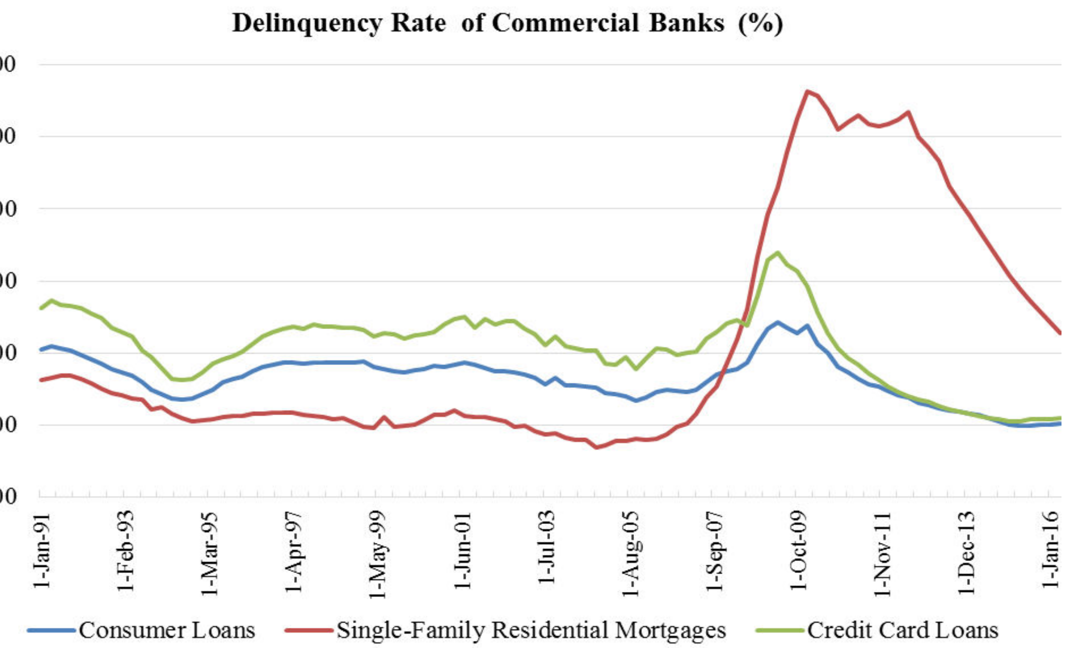
Realized loan losses (loans charged-off) were $0.98 million in the first nine months of 2016 (annualized rate of 15.9% of the loans outstanding). Management estimates normalized annual loss rates to average approximately 5% of the loan receivables.

The following table shows that, as of September 30, 2016, approximately $0.87 million, or 10.5% of the loans, were delinquent (past due). Approximately 50% of these loans were 90+ days past due. The company only had $0.62 million of loans past due, or 7% of the portfolio at the end of Q2. Loans become eligible for a lender to take legal action at 60 days past due.

	Q2-2016	Q3-2016
30-59 days past due	2.2%	3.2%
60-89 days past due	1.3%	3.2%
Greater than 90 days	3.6%	5.3%
Total Past Due	7.0%	10.5%
Current	93.0%	89.5%

The increase in delinquent loans is concerning for us. When asked about this, management indicated to us that it was due to lower new loan growth in the three month period relative to ageing delinquent loans being charged off.

The key for private lenders is to keep loan losses at reasonable levels. The current average delinquency rate on consumer loans is approximately 2.04%, and on credit cards is approximately 2.20%, lower than the 4.55% on single family residential mortgages.



Source: Federal Reserve

Revenues and EPS forecasts

Based on the delay in potential financings, we are lowering our 2016 year-end portfolio estimate from $15 million to $7.25 million, and our 2017 estimate from $50 million to $35 million. We are also lowering our 2016 revenue forecast from $2.43 million to $2.22 million and our 2017 forecast from $9.67 million to $6.29 million. We are also lowering our operating cost estimates, which more than offset the decline in our revenue forecast for 2016. Our revised EPS forecast for 2016 is a net loss of $4.00 million (EPS:-$0.41), versus our previous forecast of $4.01 million (EPS: $0.41). Our 2017 forecast is a net loss of $1.08 million (EPS: -$0.07) versus our previous estimate of net profit of $0.12 million (EPS: $0.00).

The following table shows a summary of the balance sheet.

Liquidity & Capital Structure (US$)	2014	2015	Q1-2016	Q2-2016	Q3-2016
Cash	433,712	485,559	1,143,886	174,080	924,552
Working Capital	4,468,754	7,585,836	7,881,820	7,799,927	8,250,795
Current Ratio	15.5	71.3	99.5	49.1	119.8
LT Debt	2,230,000	-	-	-	-
Total Debt	2,230,000	-	-	-	-
Total Debt / Capital	48.2%	0.0%	0.0%	0.0%	0.0%
EBIT Interest Coverage	(8.7)	(9.8)	n/a	n/a	n/a

At the end of Q3-2016, the company had $0.92 million in cash, and no debt.

Summary of Cash Flows						
(US$, mm)	2012	2013	2014	2015	2016 (9M)	Total
Operating	-$1.59	-$1.53	-$3.30	-$3.96	-$2.10	-$12.47
Investing	-$0.42	-$1.59	-$4.51	-$4.06	-$1.13	-$11.71
Financing	$1.94	$3.22	$7.97	$8.07	$3.66	$24.86
Net	**-$0.07**	**$0.10**	**$0.15**	**$0.05**	**$0.44**	**$0.68**

Cash from financings have totaled $24.86 million since 2012. Cash spent on operations and investing totaled $24.18 million. A significant proportion of previous operating expenses were paid in shares, so they were non cash items. Note that the CEO is the largest equity investor.

In October 2016, the company completed a 10:1 share consolidation. The company currently has 9.66 million common shares and 3.07 million preferred shares outstanding. The following are the key terms associated with the preferred shares:

- The preferred shares pay dividends at the rate of 8% p.a. every quarter.
- On December 31, 2016, preferred share holders have the right to convert each preferred share into two common shares.
- Any time after December 31, 2016, the company has the right to redeem the preferred shares at $10 per share.
- In the event of a liquidation, holders of the preferred stock shall receive $10 per preferred share.

Valuation

IEG's management believes they have significant first mover advantage as they are one of the very few online lenders who have licenses to operate in multiple states in the U.S., covering more than half the U.S. population. The long lead time to obtain a license in each state is one of the major barriers to entry.

Although **LendingClub Corporation (NYSE: LC) and Prosper** have experienced tremendous success in P2P (peer to peer) lending, one of the biggest criticisms against their model is that they do not have *'skin in the game'* as they are not balance sheet lenders. Instead of using their own capital to fund loans, P2P lenders only serve as an intermediary between the borrower and the lenders. As a result, this model has been receiving criticisms regarding the quality of loans originated through such platforms. LendingClub has been experiencing certain company specific issues recently, and their share price has dropped from a high of almost $15 in October 2015, to the current $5.89 per share.

The average of our revised Discounted Cash Flow ("DCF") valuation and comparables valuation is $3.79 per share versus our previous estimate of $2.40 per share. The following tables show a summary of our valuation models.

DCF Valuation (US$)		2016E	2017E	2018E	2019E	2020E	2021E	Terminal (net of debt)
Funds Flow from Operations		-$3,995,165	-$999,432	$4,238,689	$14,350,579	$28,102,219	$31,008,595	
-increase in w/c		$378,446	-$296,129	-$519,132	-$1,002,680	-$1,363,643	-$1,313,045	
Free Cash Flows		-$3,616,719	-$1,295,560	$3,719,558	$13,347,900	$26,738,576	$29,695,550	$141,937,458
Present Value		**-$3,367,210**	**-$1,096,530**	**$2,861,946**	**$9,336,635**	**$17,002,901**	**$17,166,566**	**$82,051,983**
Discount Rate	10.0%							
Present Value	$123,956,291							
Cash - Debt	$8,175,243							
Fair Value	$132,131,534							
Shares O/S (incld. future equity financings)	39,533,758							
Value per share (US$)	**$3.34**							

2021 Estimates	
Revenues	$80,842,125
Net Income	$30,996,022
Book Value	$148,808,550

	Industry Average	Fair Value (2021E)	Current FV	Current FV / Share
P/S	2.80	$226,357,950	$130,854,244	$3.32
P/E	12.00	$371,952,263	$215,020,202	$5.46
P/B	1.80	$267,855,391	$154,843,312	$3.93
Average		**$288,721,868**	**$166,905,919**	**$4.24**

We reiterate our BUY rating and adjust our fair value estimate to $3.79 per share.

Risk

We believe the company is exposed to the following key risks:

- Consumer finance lending is a highly competitive market. Although we believe the U.S. consumer credit market is healthy, unfavorable macroeconomic changes may impact consumer finance lenders and their ability to grow.
- The company's ability to consistently originate good quality loans at attractive yields is critical.
- Loan loss rates have to be maintained at reasonable levels.
- The company's ability to grow depends heavily on management's ability to raise capital (equity and debt).
- IEG has been operating in losses and has yet to generate profits.
- As with most investments, there is no guarantee that the company will be able to return principal and meet interest payments on notes.
- The average trading volume of IEG's s shares has been low as the shares are tightly held; the CEO holds 71.4% of the outstanding shares.
- Due to lack of liquidity, the company's shares may have been mispriced in the past. For example, IEG's share price was $27.5 per share as of August 24, 2015, implying a market capitalization of $637 million, based on 23.16 million shares outstanding at that time. The company had only $6.68 million in loan receivables (net of the provision for

losses) as of June 30, 2015.

APPENDIX

STATEMENTS OF OPERATIONS (in US$) - YE Dec 31st	2012	2013	2014	2015	2016E	2017E
Interest revenue	28,950	56,585	521,018	1,789,701	2,161,652	6,105,225
Other revenue	8,829	6,364	8,207	45,464	56,203	183,157
Total revenue	**37,779**	**62,949**	**529,225**	**1,835,165**	**2,217,854**	**6,288,382**
EXPENSES						
Salaries and wages	1,680,264	1,345,243	1,889,136	2,126,243	1,586,919	1,983,649
Professional fees	21,687	100,924			630,736	
Consulting fees	64,923	462,771	871,228	1,013,690	1,282,166	1,602,708
Advertising			459,804	950,905	406,495	1,387,465
G&A	625,442	836,224	1,531,765	1,773,129	1,294,933	1,618,666
Provision for credit losses	20,340	63,492	614,684	1,134,518	1,000,344	725,069
Depreciation and amortization	81,664	36,885	15,054	14,124	9,979	4,633
Start up costs		1,500,000				
Interest expense	51,109	198,385	558,257	527,921	0	42,763
Total Operating Expenses	2,545,429	4,543,924	5,939,928	7,540,530	6,211,572	7,364,953
Loss from Operations	**(2,507,650)**	**(4,480,975)**	**(5,410,703)**	**(5,705,365)**	**(3,993,717)**	**(1,076,572)**
Misc income / Tax	129	510	8,949	7,167	-11,426	-
Net Income	**(2,507,521)**	**(4,480,465)**	**(5,401,754)**	**(5,698,198)**	**(4,005,143)**	**(1,076,572)**
EPS	-0.01	-0.01	-0.40	-0.24	-0.41	-0.07
Weighted average number of shares	272,441,137	618,849,992	13,345,142	23,812,576	9,661,547	15,483,572

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BALANCE SHEETS						
(in US$) - YE Dec 31st	2012	2013	2014	2015	2016E	2017E
ASSETS						
CURRENT						
Cash and cash equiv.	178,601	281,879	433,712	485,559	0	0
Loans receivable - current, net	18,482	64,719	4,316,316	7,124,702	7,250,691	35,000,000
Advances to officer	203,119					
Other receivables			25,882	76,262	216,165	610,522
Prepaid expenses				7,276	5,404	15,263
Total Current Assets	**400,202**	**346,598**	**4,775,910**	**7,693,799**	**7,472,260**	**35,625,786**
PP&E	80,235	43,349	36,100	28,511	18,532	13,899
Loans Receivable - long term	112,004	361,394				
Security deposits	34,454	39,329	39,329	35,839	35,839	35,839
Loan costs, net	164,301	131,470	77,781			
Total Assets	**791,196**	**922,140**	**4,929,120**	**7,758,149**	**7,526,631**	**35,675,524**
LIABILITIES						
CURRENT						
A/P & accrued expenses	157,504	323,978	172,139	96,441	621,157	736,495
Deferred salary	1,401,763					
Deferred rent	48,844	48,844	28,429	11,522	3,283	3,283
Working capital loans		140,000				
Current portion of senior debt		114,562				
Preferred dividends payable						
CEO accrued consulting fees			106,588			
Total Current Liabilities	**1,608,111**	**627,384**	**307,156**	**107,963**	**624,440**	**739,778**
Senior debt	250,000	385,438	2,230,000		855,261	21,232,349
Deposit on common stock to be issued						
Deposits on preferred stock to be issued		1,910,774				
SHAREHOLDERS EQUITY						
Equity	3,736,608	7,280,042	17,075,216	28,031,636	30,433,524	39,166,562
Accumulated deficit	-4,803,523	-9,281,498	-14,683,252	-20,381,450	-24,386,593	-25,463,165
Total shareholders' equity (deficiency)	**(1,066,915)**	**(2,001,456)**	**2,391,964**	**7,650,186**	**6,046,931**	**13,703,397**
Total Liabilities and Shareholders Equity	**791,196**	**922,140**	**4,929,120**	**7,758,149**	**7,526,631**	**35,675,524**

FRC Fundamental Research Corp.

STATEMENTS OF CASH FLOWS (in US$) - YE Dec 31st	2012	2013	2014	2015	2016E	2017E
OPERATING ACTIVITIES						
Net loss	-2,507,521	-4,480,465	-5,401,754	-5,698,198	-4,005,143	-1,076,572
Adjusted for items not involving cash:						
Provision for credit losses	20,340	63,462	614,684	1,134,518		
Depreciation & amortization	81,664	36,885	15,054	14,124	9,979	4,633
Amortization of loan costs	25,734	48,281	53,689	77,781		
Loss on disposition of P&E				12,582		
Change in assets:						
Deposits	1,473	-4,875		3,490		
Loan costs	-20,000	-15,450				
Other receivables			-25,882	-50,380	-139,903	-394,357
Prepaid expenses				-7,276	1,872	-9,859
Change in liabilities						
AP & accrued expenses	-12,833	373,964	554,867	452,285	524,716	115,338
Deferred salary	803,847	952,903	907,598	118,412		
Deferred rent	15,984	0	-20,415	-16,906	-8,239	0
Charge for rights sales agreement		1,500,000				
NET CASH USED IN OPERATING ACTIVITIES	**-1,591,312**	**-1,525,295**	**-3,302,159**	**-3,959,568**	**-3,616,719**	**-1,360,817**
INVESTING ACTIVITIES						
Loans recivable originated	-126,000	-403,000	-4,781,022	-5,381,851		
Loans receivable repaid	25,384	43,911	276,077	1,438,946		
Net Loans	-100,616	-359,089	-4,504,945	-3,942,905	-125,989	-27,749,309
Purchases of PP&E	-12,982	0				
Advances to CEO			0	-95,003		
Advance to officer	-203,119	-267,832	-9,009	-19,117		
Advances to IEG Holdings Limited	0	-966,620				
NET CASH USED IN INVESTING ACTIVITIES	**-417,333**	**-1,593,541**	**-4,513,954**	**-4,057,025**	**-125,989**	**-27,749,309**
FINANCING ACTIVITIES						
Payments for buyback of common stock						
Proceeds from long term debt	199,965	250,000	1,730,000		855,261	20,377,088
Proceeds from short term loans		500,000	669,980	400,000		
payments on short term loans		-360,000	-419,980	-400,000		
Repayment of senior debt				-2,230,000		
Prepaid preferred share redemption				-160,000		
Deposit on common shares to be issued		936,763	1,834,112			
Deposit on preferred shares to be issued						
Preferred dividends paid			-114,115	-220,974	-59,834	
Proceeds from issuance of preferred stock				6,100,000	90,550	
Proceeds from issuance of common stock		1,892,861	4,267,949	4,579,414	2,371,172	8,733,038
Capital contributions	1,743,415					
NET CASH FROM FINANCING ACTIVITIES	**1,943,380**	**3,219,624**	**7,967,946**	**8,068,440**	**3,257,149**	**29,110,126**
INCREASE IN CASH FOR THE YEAR	35,350	103,278	151,833	51,847	-485,559	0
CASH, BEGINNING OF THE YEAR	143,251	178,601	281,879	433,712	485,559	0
CASH, END OF THE YEAR	**178,601**	**281,879**	**433,712**	**485,559**	**0**	**0**

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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