

# INVESTMENT CRITERIA

Operating businesses must have a commercially proven product or service plus substantial revenue and profits (no start-ups will be considered). Depending on the type of Company, Prudent Capital evaluates many criteria as part of its disciplined and opportunistic approach to investing. The emphasis placed on each criterion is dictated by the particular situation. Some of these criteria include:

- a strong, experienced, committed management team that is financially motivated and whose incentives are aligned with Prudent's investment and whose business philosophies are consistent with Prudent's
- sound financial and business information reporting capabilities that allow Prudent to evaluate and monitor the business's key risks and success drivers
- a well thought-out, credible operating plan and financial forecast
- a demonstrated track record, strong market position and potential for future growth
- strong customer and vendor relationships
- demonstrated ability to achieve a lower cost of operations and large margins sufficient to generate reasonably predictable free cash flow
- minimal cyclical/strong downturn resiliency
- low risk of technological obsolescence
- favorable gross margins and net income as compared to competitors
- a use for the funds that will quickly and dramatically improve profitability
- valuable unpledged assets that could help repay Prudent's investment in the event operating earnings suffer an unexpected decline
- a sound capital structure that supports anticipated growth
- an ability to service all obligations (including Prudent's investment)
- multiple, credible exit options
- significant barriers for competitors to enter the business

In addition, all investments will:

- involve businesses that Prudent Capital believes it has the expertise to evaluate
- have sufficient credit quality and debt service coverage
- meet Prudent's return criteria

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