



CONTRACTOR FAILURE TRENDS

REVIEW OF TRAVELERS CONSTRUCTION SURETY CLAIMS

FAILURE HAS MANY DIFFERENT CAUSES



50% DUE TO A CATASTROPHIC PROJECT:*

PROBLEM ON A LARGE JOB
POOR ESTIMATE/LARGE BID SPREAD
NEW JOB TYPE/LOCATION



48% DUE TO INTERNAL COST SYSTEM FAILURES:*

INABILITY TO IDENTIFY ISSUES
LACK OF COMMUNICATION/COHESION
BETWEEN FIELD AND MAIN OFFICE



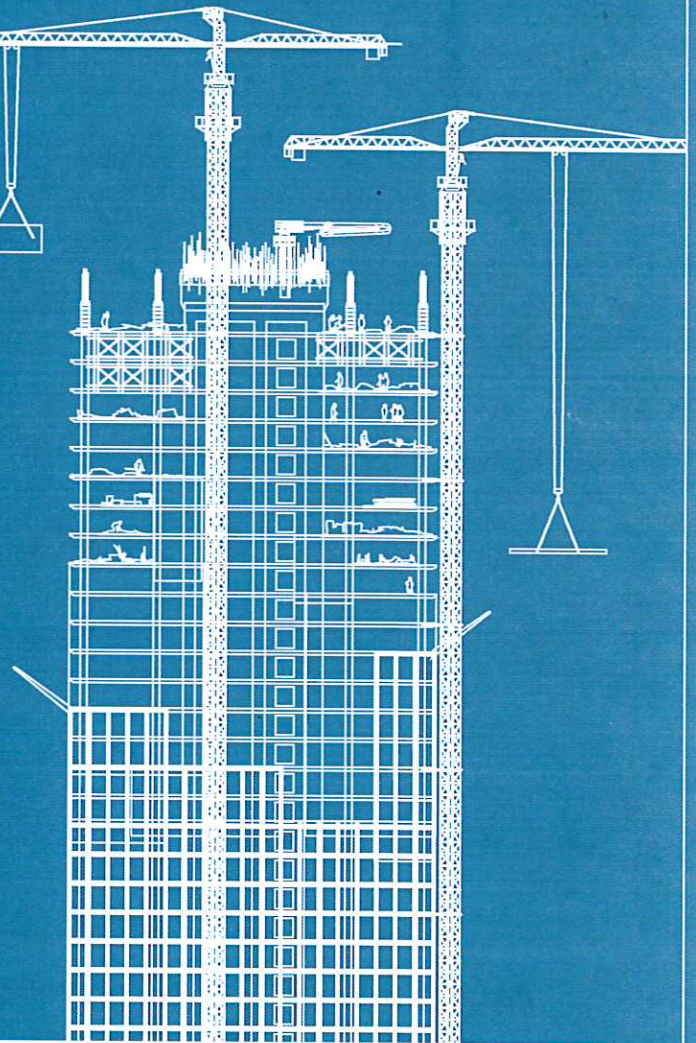
35% DUE TO OVEREXTENSION:*

MULTIPLE LARGE JOBS/LARGER BACKLOG
STRAIN ON WORKFORCE/FINANCIAL RESOURCES



22% DUE TO EXCESSIVE DEBT:*

FIXED AND LONG-TERM DEBT NEGATIVELY
IMPACT CASH FLOW



DIFFICULT PROJECT + WEAK INTERNAL CONTROLS = CATASTROPHIC SITUATION*

We understand the complexities involved in the construction industry and have solutions to help you build a better business.

AT TRAVELERS, WE'RE IN THE BUSINESS OF HELPING CONTRACTORS SUCCEED.

For more information,
contact your agent.

* Information based on an internal review of Travelers largest construction surety claims over the past 8 years. In many cases, multiple factors were identified as contributing to the failure of the construction company.

THE BLUEPRINT TO BETTER SUCCESS ON THE JOBSITE

PROJECT RISK ASSESSMENT

Complications such as poor estimates, large bid spreads or ventures into a new job or location can greatly impact construction companies.

- ✦ How well does the company know the people or entities involved in the project?
- ✦ Have contract terms and conditions been fully reviewed?
- ✦ What are the company's risk mitigation strategies?
- ✦ Are the personnel experienced enough to support the project?
- ✦ Is a cash flow projection prepared?
- ✦ Is the company getting an adequate return for the risk?
- ✦ Does the company have an efficient Go/No Go Management review process?

BACKLOG & RESOURCE MANAGEMENT

Overextension occurs when backlog is at its peak and oversight is at its lowest. Multiple large projects going on at the same time mean they don't always get the proper oversight that's required.

- ✦ Does the company have experienced staff and resources to take on the desired backlog levels?
- ✦ Has the company performed a cash flow analysis for the projected backlog levels?
- ✦ Can the company financially support larger projects and backlogs?
- ✦ Does the company have the support of the bank and other creditors for a larger backlog?

INTERNAL SYSTEMS REVIEW

Strong internal cost systems can help detect any potential issues and are critical to the success of a construction company.

- ✦ Do the project management and accounting systems provide accurate and timely information for all company personnel? (Estimators, Project Superintendent, Project Manager, CFO, President.)
- ✦ Are all company personnel fully utilizing the systems that are available to them?
- ✦ What systems or system upgrades will be necessary to support the current and long-term needs of the company?

CASH FLOW STRATEGY

Lines of credit and fixed debt can place additional stress on a company's cash situation, potentially making a difficult time even more challenging.

- ✦ Does the company prepare a project specific cash flow projection when considering large opportunities?
- ✦ Are monthly or quarterly cash flow projections prepared?
- ✦ Are cost benefits and cash flow analyses conducted when considering fixed asset purchases and leases?



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