

## Verso Technologies Inc (VRSO)

On April 25, 2008, maker of networking products for telecommunications companies **Verso Technologies Inc** filed for Chapter 11 of U.S. Bankruptcy Protection in Atlanta, Georgia.

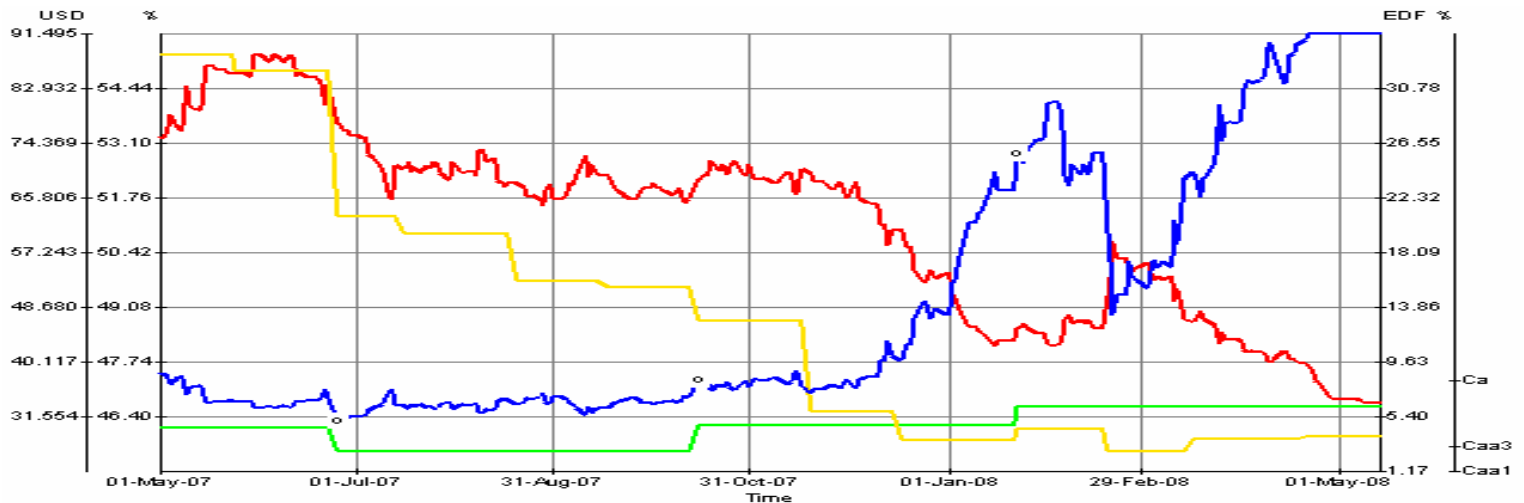
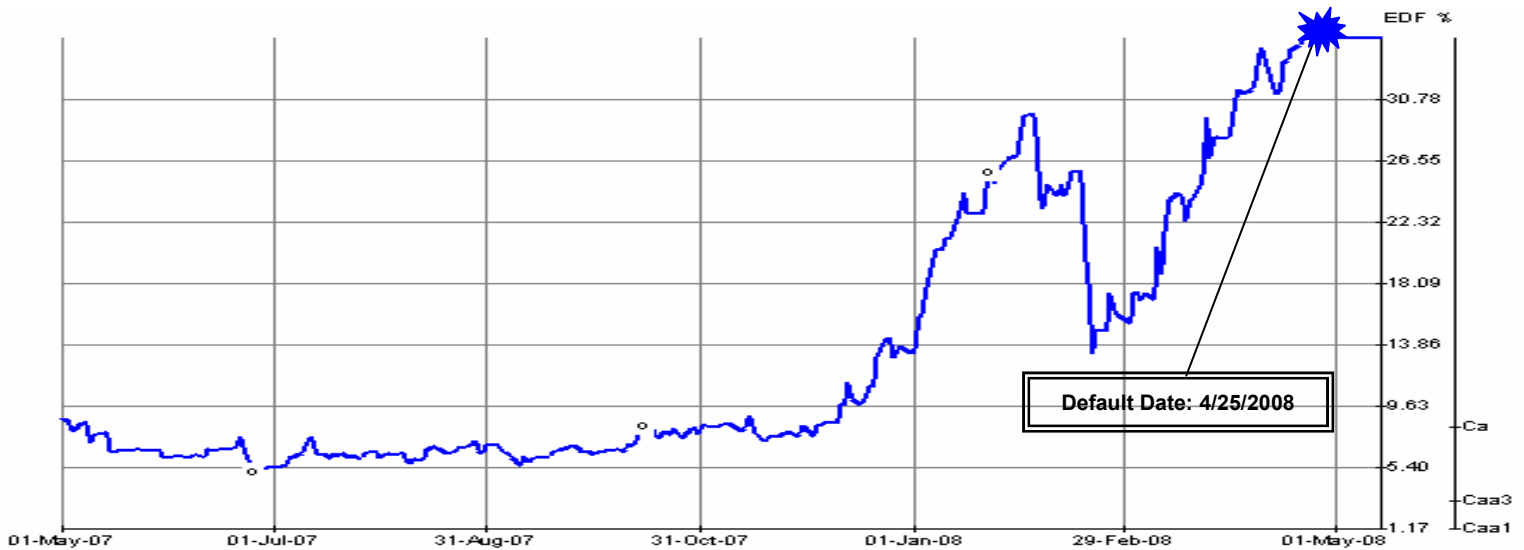
**EDF™ as of April 25, 2008: 35%**

**Credit Category (not an agency rating): C**

Expected Default Frequency (EDF) is the probability that a firm will default within a given time horizon. Default is defined as failure to make a scheduled payment or the initiation of bankruptcy proceedings. The main drivers of EDF credit measures are the market value of the firm (asset value), the level of its debt obligations (default point), and the volatility of firm value (asset volatility). The EDF credit measures displayed below are 1-year risk measures, although a 10-year term structure of risk is available within CreditEdge.

## Company Profile

Verso Technologies is a firm believer in the power of versatility. The company provides networking hardware, software, and services to telecom service providers and enterprises. Its products -- which includes network gateways, softswitches, and provisioning and billing systems -- provide bandwidth optimization, call accounting, content filtering, integrated access routing, prepaid service delivery, satellite-based communications, voice-over-IP (VoIP) deployment, GSM cellular systems, and Web reporting. The company's Outsourcing Group offers outsourced technical application services and installation.



- VERSO TECHNOLOGIES INC [VRSO] Default Point
- VERSO TECHNOLOGIES INC [VRSO] EDF
- VERSO TECHNOLOGIES INC [VRSO] Market Value of Assets
- VERSO TECHNOLOGIES INC [VRSO] Asset Volatility

This chart shows that Verso Technologies Inc's EDF Credit Measure reached 35% prior to its filing for Bankruptcy on April 25, 2008. In June 2007, the company had market value of assets \$88 Millions. It has sharply decreased to \$33 million in April 2008, which was equal to the default point. Its asset volatility has remained high around 46% since December 2007. The decline of business value plus high financial risk, led the company to default.



Generated on May 7, 2008

EDF Information as of: May 14, 2008  
 Financial Statement Date: September 28, 2007  
 No Reference Issue

mm/dd/yy

Define Current: 5/14/08

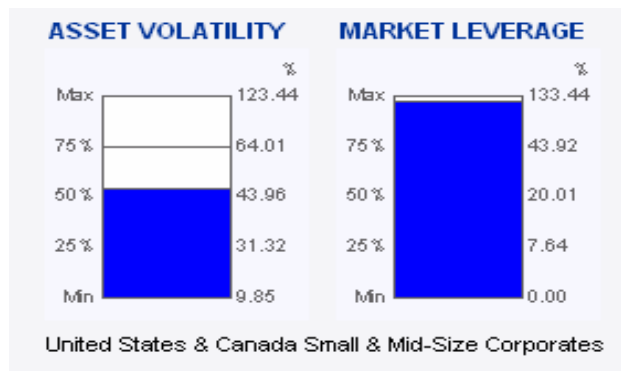
Define Previous: One Day

Amounts in: USD Millions (except Share Price)	Current	Previous	Amt Change	% Change
EDF	35.00%	35.00%		
Credit Category <b>A</b>	C	C		
Asset Volatility <b>B</b>	45.93%	45.93%		
Instantaneous Equity Volatility	2,832.37%	2,636.93%	+195.44%	+7.41%
Market Leverage <b>C</b>	98.38%	98.26%	+0.12%	+0.12%
Market Value of Assets <b>D</b>	33.628	33.669	-0.041	-0.12%
Market Capitalization	0.530	0.570	-0.040	-7.02%
Share Price	0.008	0.009	-0.001	-11.11%
Shares Outstanding	67.089	67.059	+0.030	+0.04%
Default Point <b>E</b>	33.083	33.083		
Short-Term Liabilities	30.466	30.466		
Long-Term Liabilities	5.233	5.233		
Total Adjusted Liabilities	35.699	35.699		
Other				
Common Dividends	0.000	0.000		
Preferred Dividends	0.000	0.000		
Dilution	1.000	1.000		

### Credit Category **A**

Traditional ratings such as the ones used by the major rating agencies are currently more commonplace than default probabilities. Therefore, to help facilitate users' understanding, we translated the EDF credit measure into an equivalent credit category.

Note that this may bear no relationship to the actual agency rating. This is because Moody's KMV employs a different approach to measuring credit risk than the rating agencies. For a more detailed discussion of Moody's KMV's approach to measuring credit risk, please visit the Quick Tour on our Web site.



### Asset Volatility & Market Leverage **B & C**

The two main drivers of EDF credit measures are: asset volatility, a measure of business risk, and market leverage, a measure of financial risk.

Technically, asset volatility is the standard deviation of the annual change in the market value of the assets. This volatility is expressed in percentage terms.

The higher the asset volatility, the less certain investors are about the market value of the firm, and the more likely the firm's value will fall below its default point.

Market leverage is a ratio indicating how much of the market value of the firm's assets is financed by debt. The measure is calculated as follows: default point divided by the market value of assets.

If all else is equal, the higher the asset volatility or market leverage, the higher the EDF credit measure. The asset volatility and market leverage charts in the top right of the "EDF Detail" screen help the user to understand the firm's EDF credit measure and aid in determining the relative risk, both from a business risk and financial risk perspective.

The chart depicts a meter that shows the level of risk on each of the two measures. The levels are relative values computed on a selected group of firms.

### Market Value of Assets **D**

The market's view of the enterprise value of the firm as determined by the firm's equity value, equity volatility, and liability structure.

Because the market value of assets is not directly observable, Moody's KMV employs a proprietary option-theoretic model to compute this value, which treats the firm's equity value as a call option on the firm's underlying assets.

The option theoretic approach enables Moody's KMV to determine the market value of a firm's assets from knowing only the market characteristics of its equity value and the book value of its liabilities.

### Default Point **E**

The liabilities that matter in case of default. If the market value of assets falls below this value, it is assumed that the firm will be unable to sell assets or raise additional capital to pay its debts. In general, a firm's default point is a value close to its short-term liabilities plus half of long-term liabilities.



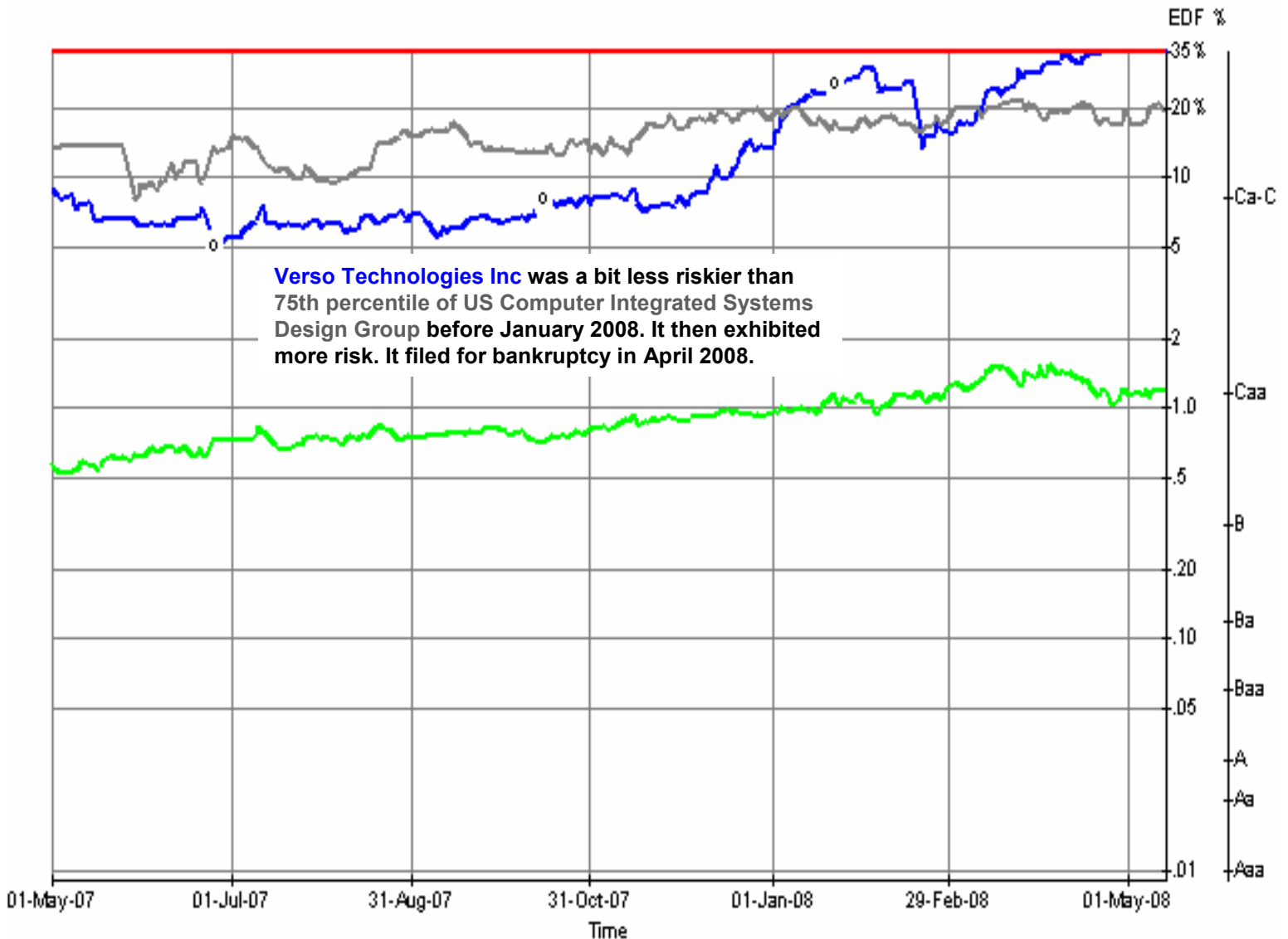
Generated on May 7, 2008

**Relative Analysis**

The relative analysis feature allows users to chart EDF, fundamental data, and bond values for a selected company or group relative to other companies and/or groups. Users may manually select their own list of peer companies or groups for comparison, or view a Moody's KMV predefined peer list which is based on an automated algorithm. To determine peers for each company:

- MKMV finds all the companies that share the company's Bloomberg Subgroup.

Users can also customize and save their own peer company and peer group choices for future use.



- US COMPUTER INTEGRATED SYSTEMS DESIGN GROUP [USA7373] EDF - Median
- VERSO TECHNOLOGIES INC [VRSO] EDF
- US COMPUTER INTEGRATED SYSTEMS DESIGN GROUP [USA7373] EDF - 75th Percentile
- US COMPUTER INTEGRATED SYSTEMS DESIGN GROUP [USA7373] EDF - 90th Percentile

Continue to RiskCalc EDF Analysis



Generated on May 7, 2008

## Linens 'N Things Inc

On April 15, 2008, the home-furnishings retailer **Linens 'N Things Inc**, failed to pay a \$16.1 million interest payment and filed for Chapter 11 Bankruptcy on May 2, 2008. The company was taken private by Apollo Management LP in February 2006 for \$1.3 billion.

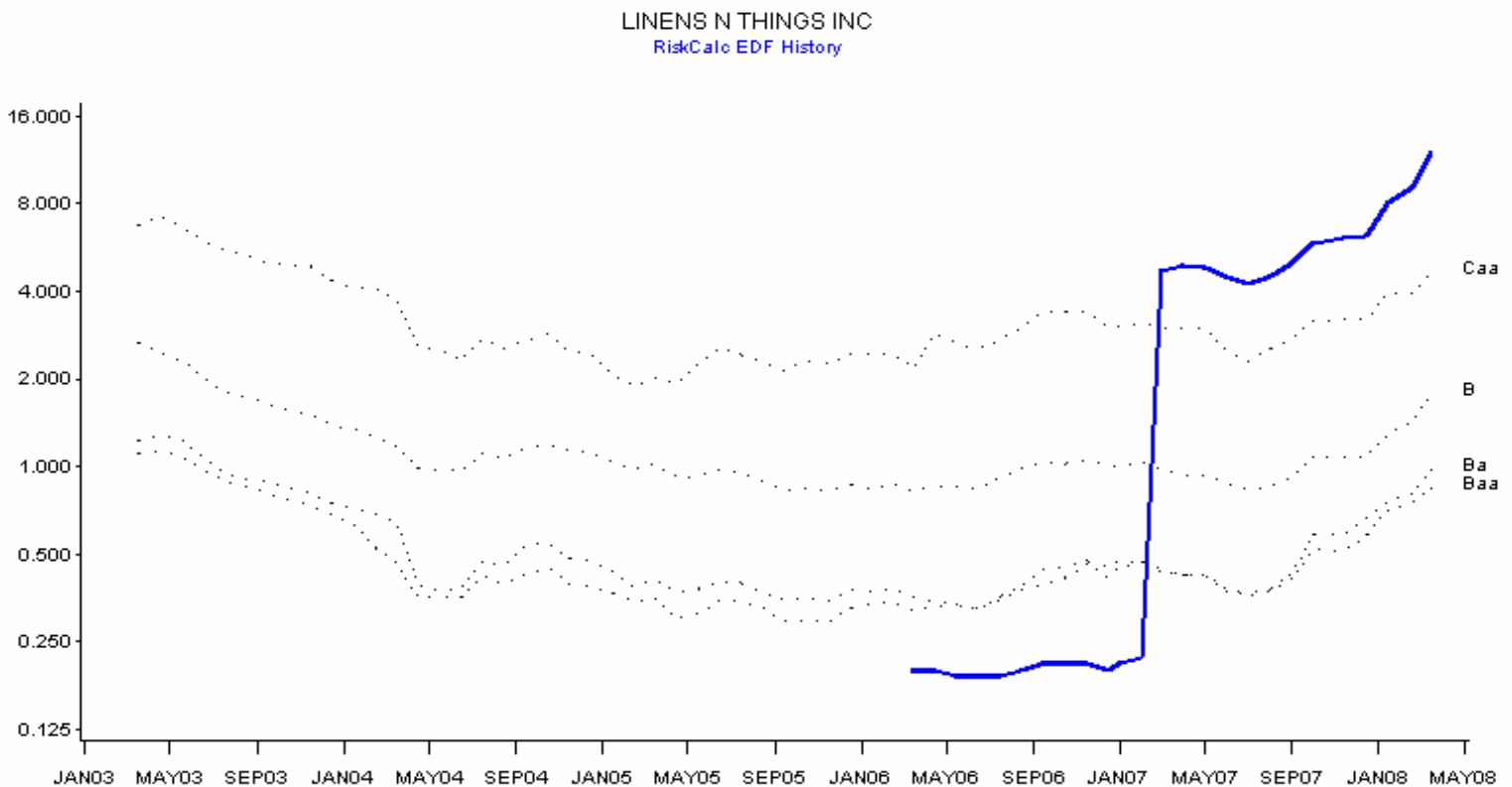
**1-Year RiskCalc EDF: 11.95%**  
**Moody's Senior Unsecured Rating: Caa1**

As Linens 'N Things Inc does not have common stock outstanding, its default risk can be assessed using RiskCalc™. RiskCalc™ is a web-based tool that utilizes statistical default probability models for private firms. Models are country-specific, with local validation and calibration using data from sponsor banks. For Linens 'N Things Inc, we used RiskCalc United States v3.1 to do the analysis. The source of the financial statement information was Moody's Financial Metrics™.

## Company Profile

Linens 'N Things Inc., a Delaware corporation, is the second largest specialty retailer of home textiles, housewares and home accessories in North America operating 589 stores in 47 U.S. states and seven Canadian provinces as of December 2007. The company's primary target guest is female between the ages of 25 and 55 who is fashion and brand conscious, has good-to-better income and focuses on the home as a reflection of her individuality. In November 2005, Affiliates of Apollo Management LP, National Realty & Development Corp. and Silver Point Capital Fund Investments LLC formed the company to serve as a holding company. On February 14, 2006, the company was acquired through LBO eventually.

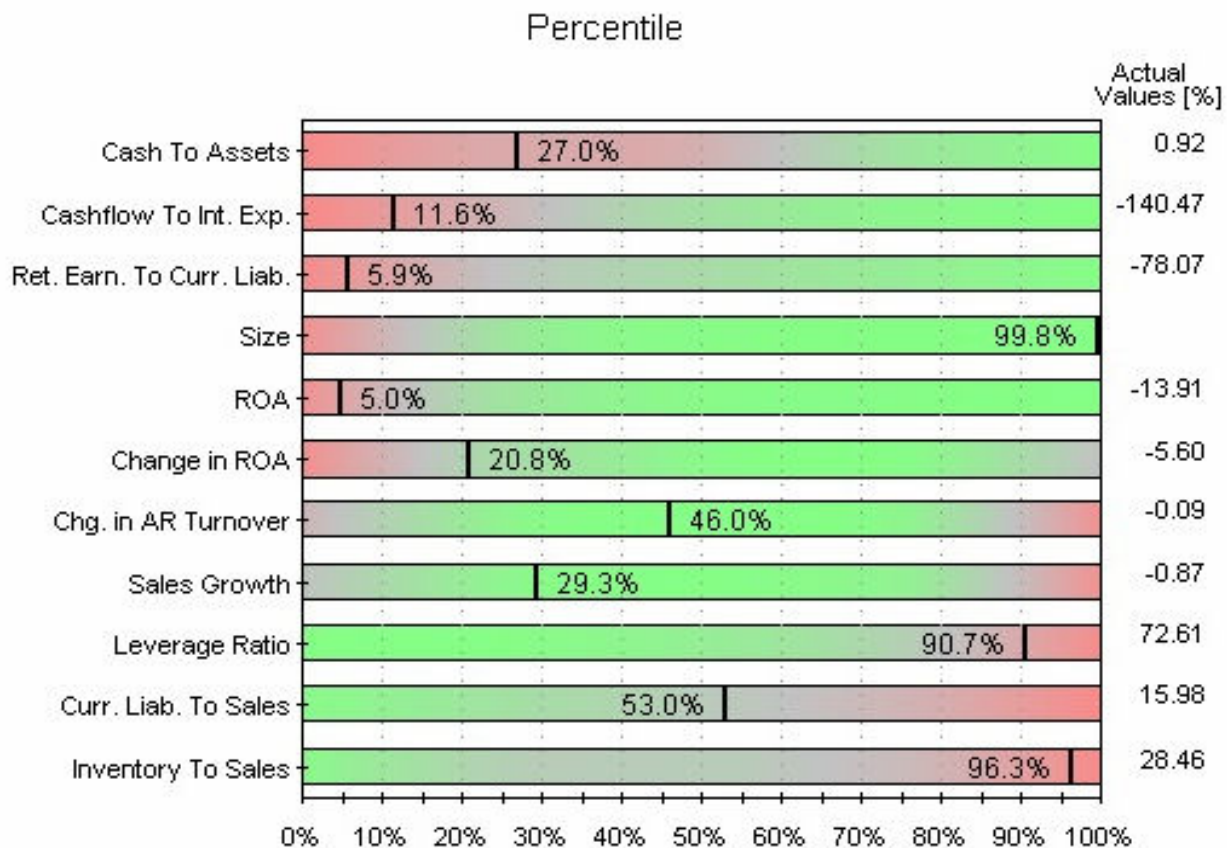
Blue line shows movement in the **RiskCalc EDF values** and the dotted lines are time series of the median EDF levels of firms with the given rating run through RiskCalc: the Caa dotted line represents the median EDF of North American Corporates with a Caa rating run through RiskCalc.



Generated on May 7, 2008

Percentile Graph, Relative Contribution and Relative Sensitivity Graphs in RiskCalc help us to understand what is driving the firm's EDF.

The **PERCENTILE** Graph provides a visual representation of how each of the firm's ratio compares to those of private firms used to build this RiskCalc model.



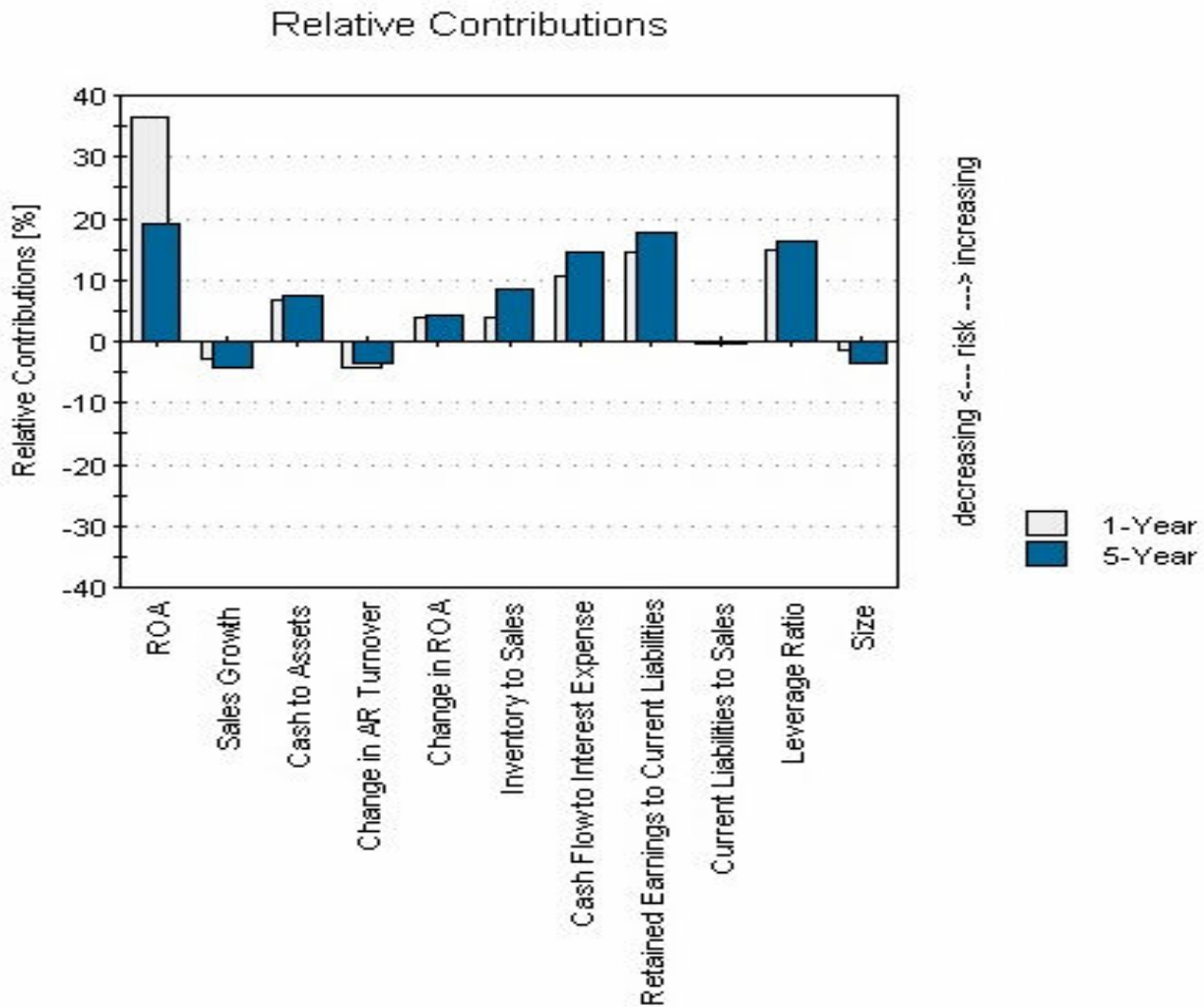
The **PERCENTILE** Graph plots the percentile of each ratio and provides the actual value in the right-hand column. The colors **RED**, **GRAY** and **GREEN** correspond to the level of risk, **HIGH**, **MEDIUM** and **LOW** associated with the specific value of the ratio.

For example, we can observe from the right-hand column that the *Inventory to Sales* is 28.46% which places it in the 96th percentile, and *Leverage Ratio* is 72.61% which placed it in the 91<sup>th</sup> percentile. Both are solidly in the red in terms of risk. The *Cashflow to Interest Expense*, *Retained Earnings to Current Liabilities* and *ROA* are negative, -140.47%, -78.07% and -13.91% respectively. All of these five ratios are in the red in terms of risk for this firm.

The Percentile graph does not consider the weight the model places on each ratio in determining the EDF level.



The **RELATIVE CONTRIBUTION** graph is helpful in identifying a company's financial strengths and weaknesses with respect to default risk.



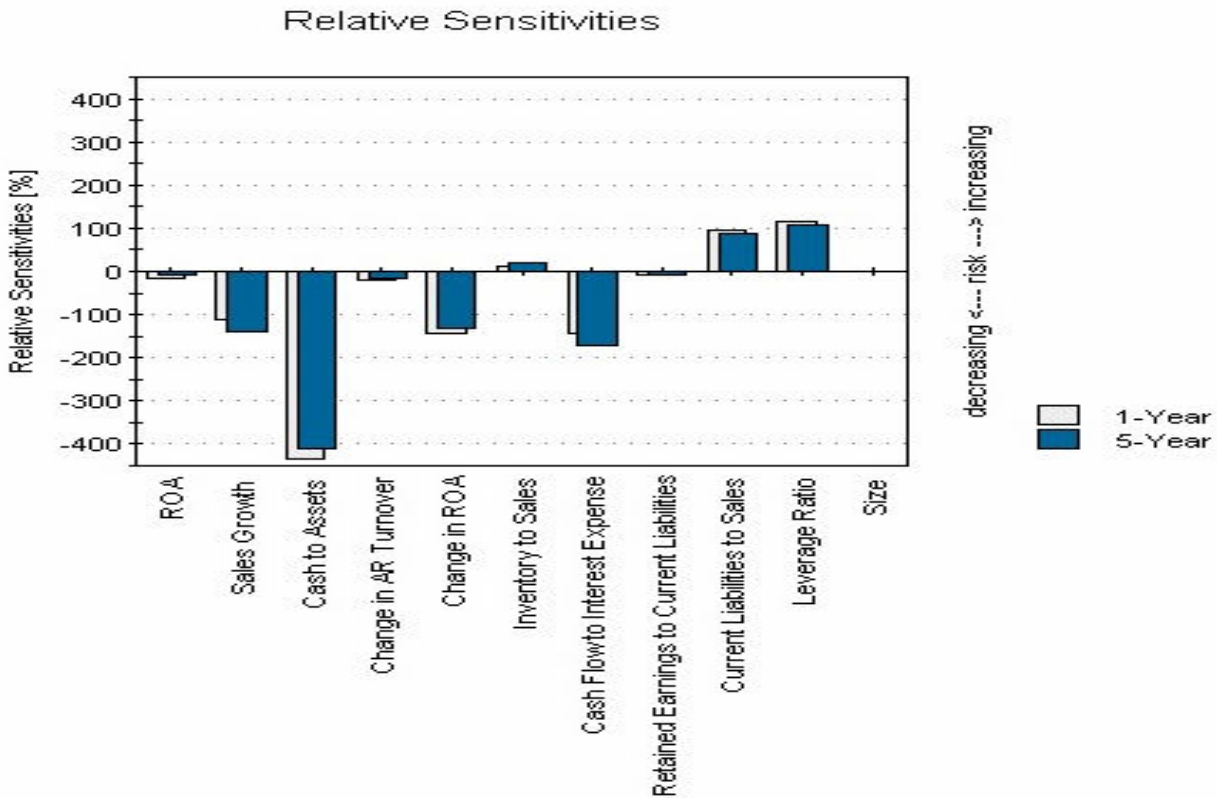
This graph explains how each ratio moves the firm's EDF level away from the average default rate of the firms that were used in the model development. In case of the US 3.1 Model, the average EDF level is 1.7%. Relative Contributions are expressed relative to each other.

All of the ratios except *Change in AR Turnover*, *Sales Growth*, *Size* and *Current Liabilities to Sales* are pulling up Kimball Hill's EDF level relative to the average EDF level, with *ROA* and *Leverage Ratio* being the strongest, 36.63% and 14.94% respectively. *Retained Earnings to Current Liabilities*, *Cashflow to Interest Expense*, *Cash to Assets*, *Change in ROA* and *Inventory to Sales* are pulling up the EDF as well.



Generated on May 7, 2008

The **RELATIVE SENSITIVITIES** graph indicates the relative impact that a small increase in a ratio would have on the EDF, all else being equal.



In the Relative Sensitivity analysis, we set the reference point to be the average absolute change in the firm's EDF level when each ratio is given a small shock. The magnitude of a ratio's Relative Sensitivity is expressed as a multiple of the average sensitivity across the ratios.

Linens' EDF level is most sensitive to changes in *Cash to Assets*, *Cashflow to Interest Expense*, *Change in ROA*, *Sales Growth*, *Change in AR Turnover*, *ROA* and *Retained Earnings to Current Liabilities*. They have a **negative** Relative Sensitivity, meaning that the decrease in any of these ratios would lead to an increase in the firm's EDF level. The *Leverage Ratio* has the most **positive** Relative Sensitivity. An increase in the *Current Liabilities to Sales* and *Inventory to Sales* would also increase the EDF level.

The magnitude of *Leverage Ratio* sensitivity is around 100% meaning that this ratio has an average sensitivity for this firm. The magnitude of Relative Sensitivity of *Cash to Assets* is -435.26%, which means that shocking the firm's *Cash to Assets* will lead to a change in the EDF level that is 4.35 times the size of the average EDF change from shocking any ratio.

Thank you for your interest in CreditEdge and RiskCalc, the revolutionary credit risk management solutions provided by MKMV. We look forward to the opportunity of providing you with more information. Please visit [www.mkmv.com](http://www.mkmv.com) to sign up for an online demonstration. A Support Team Member will respond to you shortly.