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D&B U.S. Business Trends Report

October 2010

1. Executive Summary

This report, *U.S. Business Trends Report*, summarizes Dun and Bradstreet's analysis of and insight from recent failure and delinquency trends on approximately 27 million active United States-based businesses in D&B's global database. The report's ultimate purpose is to enable business owners to make better-informed and confident decisions in the face of the myriad risks and uncertainty in today's challenging economic environment—decisions that will have an impact now and into the foreseeable future.

Highlights of this report include:

- **Insight 1:** Business bankruptcies are still growing but at a slower pace compared to a year ago. Business failures have actually registered a decline in the 12 months ending in June 2010 compared to 12 months ending in June 2009.
- **Insight 2:** Overall U.S. business failure rates have improved in the past 12 months, however; the Transportation, Construction and Manufacturing industries failure rates remain 40%–80% higher than the U.S. average.
- **Insight 3:** Percentage of delinquent dollars is showing a decline indicating businesses are finding it easier to pay their lenders and suppliers. This is a very important leading indicator. However, the percentages are still much higher than the pre-recession level indicating continuing difficulty.

We encourage you to explore the full report below for more detailed information, context and insights, including by industry sector and state. This type of information is designed to provide you with a more personalized and actionable view of current risk trends based on the unique characteristics of your business.

Editor's Note: *Independent of the samples used in this report, any failure rate comparison is likely to underestimate the actual extent of economic hardship. It is relatively simple for many businesses to cease operating without leaving debt or filing for bankruptcy. Numerous business owners have simply stopped operating their businesses or reduced their hours—or found other sources of income such as consulting, contracting or professional services—yet they have not officially or legally closed their doors. Such data would be examples of the additional "hidden failures" that may not captured in this report.*

ECONOMIC SNAPSHOT:
Business owners face continued uncertainty

The economy continues to recovery from the deep recession of 2008/2009. This has led to improved business confidence and trading conditions. However, by September, most indicators suggested that the recovery was losing steam and that it will slow progressively into 2011, as the government stimulus spending begins to taper off. High levels of unemployment and slow job growth remain core stumbling blocks to the recovery gathering pace. Weak job growth, alongside the ongoing slump in the housing market, will continue to undermine consumer spending, the driver of the U.S. economy.

For practical purposes, businesses will continue to face high levels of uncertainty and risk. Overall economic activity will remain well below pre-crisis levels well into 2011, making it difficult for firms to identify new opportunities and essential to identify potential risks.

This report focused primarily on three different information sources—bankruptcies, failures, and delinquency. The result is mixed to optimistic. Bankruptcies are still growing, but growing at a slower pace than a year ago. Business failures have actually declined. Delinquencies are high but showing signs of improvement.

2. Characteristics and Trends of Business Failures

Current US Business Failure Trends

Insight 1: *Business bankruptcies are still growing but growing at a slower pace compared to a year ago. Business failures have actually registered a decline in the 12 months ending in June 2010 compared to 12 months ending in June 2009.*

D&B believes that there are significant numbers of "hidden" business failures not captured by official bankruptcy statistics (e.g. filings for Chapters 7, 11 and 13 of the bankruptcy code). D&B bases its estimates of overall business failures on a more detailed analysis including recent payment trends and behaviors such as delinquencies and charge-offs as well as other business failure metrics recorded in D&B's global trade database. In the 12 months ending in June 2010 there were 80,126 business failures—36% more than the official bankruptcies reported by the U.S. Government.

Figure 1: Reported Bankruptcies and Estimates of U.S. Business Failures

Metric	A. Number of Bankruptcies Reported by U.S. Government	B. Total D&B Estimate of Business Failures
Estimate Jun-09	53,592	96,427
Estimate Jun-10	59,024	80,126
% YOY Change	10%	-17%
Source/Definition	Administrative Office of the U.S. Courts (www.uscourts.gov)	Includes D&B investigation of businesses' lack of response or an inability to verify after multiple attempts that it is a going concern; confirmation of business failure with outstanding debt; and severe delinquency in prior periods.

As column A shows, the number of formal bankruptcy filings in the 12 months ending June 2010, as reported by the U.S. government, increased by 10% to 59,024 from 53,592 in June 2009. For the 12 months ending in June 2008, the official bankruptcy numbers were 35,668, and the year over year increase between 08 and 09 was 50%. The current 10% increase in bankruptcies is still a cause of concern but is a huge improvement over previous year.

These formal bankruptcy filings tend to understate overall failure rates by not capturing the hidden failures, i.e. businesses simply ceasing to operate without leaving debt or officially or legally closing their doors. To account for these "hidden failures," D&B uses a proprietary, expanded methodology to gauge a broader definition of business failure. This methodology includes:

- Investigating a business's lack of response or an inability to verify after multiple attempts that it is a going concern
- Confirmation of business failure with outstanding debt
- Severe delinquency in prior periods

We are seeing an improvement in this failure statistics. There have a 17% decline in business failures in the 12 months ending in June 2010 compared to the 12 months ending in June 2009.

Editor's Note: *The data in this section reflects the universe of credit active businesses in the D&B database.*

Failure Trends by Industry and State

Insight 2: *Overall U.S. business failure rates have improved in the past 12 months; however, the Transportation, Construction and Manufacturing industries failure rates remain 40%–80% higher than the U.S. average.*

Industries with Highest Failure Rates

- The top two industries impacted by the economic slowdown remain the same from June 2009 to 2010; Manufacturing has now replaced Telecommunications in position three.
- More importantly, we are seeing a decrease in failure rates across the board. Insurance industry is an exception where failure rates still went up by 22%. Insurance, however, is increasing from a very low base. In 2009, Insurance industry has 70% the failures as a national average—the industry has not caught up with the rest of the nation.

**Failure Index is calculated as failure rate for industry divided by average failure rate for U.S. overall in the same year.*

Figure 2: Industries with Highest Failure Rates

June 2009 Failure Index		June 2010 Failure Index		Largest Change in Failure Rate* June 2010 vs. June 2009	
Transportation	1.76	Transportation	1.84	Insurance	22%
Construction	1.59	Construction	1.70	Utilities	4%
Telecommunications	1.55	Manufacturing	1.44		
All Industries	**1.00**	**All Industries**	**1.00**		**-15%**

*Only 2 industries—Insurance and Utilities experienced increase in failure rate June 2010 vs. June 2009

Industries with Lowest Failure Rates

Business Other, Natural Resources and Business Services have the lowest failure rates. Real Estate showed up a year before as one of the sectors with low failure rates—contrary to common knowledge. Our belief is that the failure rate for the Real Estate sector is often understated due to its high level of "hidden failures." Many firms and single proprietor agencies simply cease operations or do not renew their licenses without ever formally filing for bankruptcy. In the 2010 statistics, the failure numbers for real estate have caught up with the national average and in fact are slightly above the national average (*see Appendix A for full industry comparisons*).

Figure 3: Industries with Lowest Failure Rates

June 2009 Failure Index		June 2010 Failure Index		Largest Change in Failure Rate* June 2010 vs. June 2009	
Insurance	0.68	Business Other	0.74	Telecommunications	-33%
Natural Resources	0.77	Natural Resources	0.85	Business Services	-30%
Business Other	0.86	Business Services	0.88	Business Other	-27%
All Industries	**1.00**	**All Industries**	**1.00**		**-15%**

Editor's Note: *Detailed data on failure rates by industry can be found in Appendix A.*

States with Highest Failure Rates

- Due to the continued residential housing instability and the steep drop-off in the tourism, travel and hospitality sectors, Nevada and California failure rates still rank among the highest, up approximately 16% over 2009.
- Noticeably absent this year is Michigan, signaling the improvement in the auto industry.

Figure 4: States with Highest Failure Rates

June 2009 Failure Index		June 2010 Failure Index		Largest Change June 2009 vs. June 2010	
Tennessee	1.51	Nevada	1.73	Hawaii	64%
Nevada	1.46	California	1.73	Montana	25%
California	1.43	New Hampshire	1.64	New Hampshire	24%
All States	**1.00**		**1.00**		**-15%**

States with Lowest Failure Rates

- Lower failure rates in Mississippi, Iowa and Louisiana reflect the predominantly stable presence of agriculture in those more rural states.

Figure 5: States with Lowest Failure Rates

June 2009 Failure Index		June 2010 Failure Index		Largest Change June 2009 vs. June 2010	
Kansas	0.53	Mississippi	0.59	Florida	-38%
Alaska	0.53	Iowa	0.51	Utah	-38%
Iowa	0.51	Louisiana	0.56	Georgia	-33%
All States	**1.00**		**1.00**		**-15%**

Editor's Note: *Detailed data on failure rates by state can be found in Appendix B.*

3. Payment Trends as Leading Indicators of Business Failure Rates

Proactive assessments and decisions require more than bankruptcy and failure data

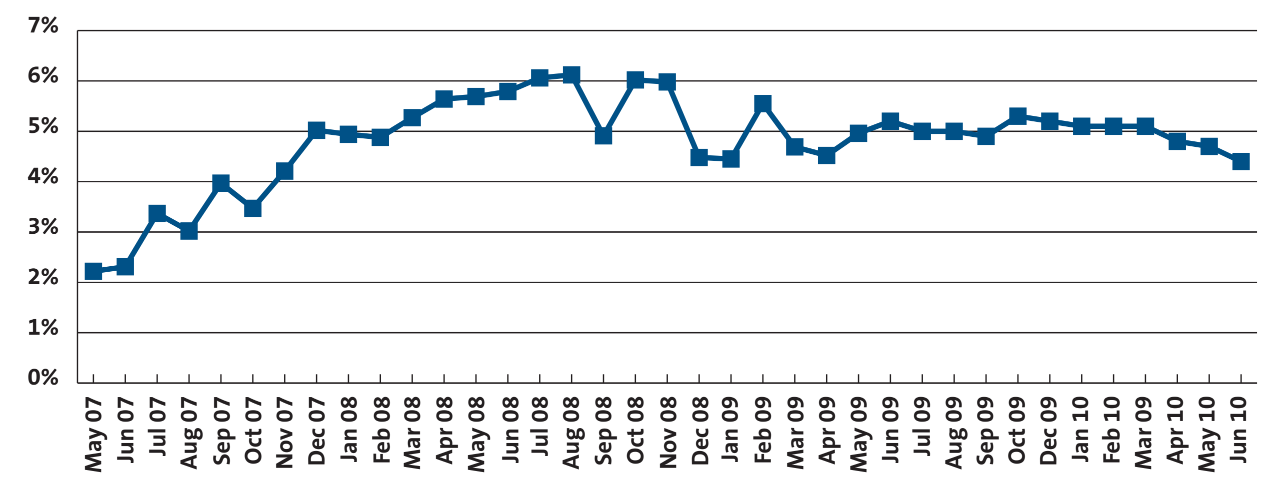
For every business that files for bankruptcy, or goes under without filing, there is an entire network of suppliers and customers that have already felt a tangible impact due to missed deadlines, late payments and other events and indicators that pre-date a legal filing.

D&B's proprietary global trade database tracks the historical payment information that can be used to predict financial instability of customers and suppliers and their likelihood of business failure—before it impacts your business. D&B archives years of a business's monthly payment history, capturing every reported severe delinquency and charge-off.

> ***Insight 3:*** *Percentage of delinquent dollars is showing a decline in past three months, and seems to have stabilized over the past year indicating businesses are finding it easier to pay their lenders and suppliers. This is a very important leading indicator. However, the percentages are still much higher than the pre-recession level indicating continuing difficulty.*

An increase in the percentage 90+ days past due amount in the total amount owed is a leading indicator for the deteriorating health of a company—and its likelihood to fail.

Figure 6: Percentage of Dollars at 90+ Days Past Due



Observations worth noting:

- **Delinquency rates are trending downward**—There were small declines in the dollar delinquency rates in April, May, and June of 2010. More notably, there has not been a significant increase since 2009 November.
- **Delinquency rate changes lead business failure changes**—There were sharp increases in delinquencies leading to the current recession starting from middle of 2007 to September of 2008. Since then percentage delinquent dollars have shown some volatility but not a sharp steady increase. This particular attribute gives us reasons to be optimistic about the health of small businesses. There are speculations from different sources about a likely second dip. The payment indicators are definitely not pointing in that direction.
- In our published report from September 2009 (included data up to June 2009), we reported improvement in this payment indicator and expressed an opinion that "U.S. failure rate will see a minor improvement before the end of the year." This prediction has indeed come true.

Delinquency Rates by Industry

Industries with Highest Delinquency Rates

- The Manufacturing and Telecommunications sectors continue to be impacted by declines in consumer spending; as a result, they remain as two of the sectors with the highest delinquency rates.
- Wholesalers' position as middlemen also makes them susceptible to cash flow issues caused by lagging receivables, often reflected in subsequent delays in outgoing payments.

Figure 7: Industries with Highest Delinquency Rates

June 2009 % of Businesses with 90+ Days Past Due		June 2010 % of Businesses with 90+ Days Past Due		Largest Change* June 2010 vs June 2009	
Transportation	19.4%	Manufacturing	19.1%	Manufacturing	0.3%
Manufacturing	18.8%	Wholesale	16.5%		
Telecommunications	18.6%	Telecommunications	16.5%		

*Only Manufacturing industry experienced increase in delinquency rate June 2010 vs. June 2009

Industries with Lowest Delinquency Rates

- The low delinquency rates in Natural Resources are a reflection of the Agriculture category, which is historically one of the more stable sectors.
- Because Real Estate has a large number of hidden failures, its delinquency rates tend to understate the actual numbers.

Figure 8: Industries with Lowest Delinquency Rates

June 2009 % of Businesses with 90+ Days Past Due		June 2010 % of Businesses with 90+ Days Past Due		Largest Change June 2010 vs June 2009	
Real Estate	10.3%	Real Estate	9.2%	Transportation	-3.3%
Insurance	10.9%	Natural Resources	9.8%	Retail	-2.2%
Natural Resources	11.5%	Insurance	10.4%	Telecommunications	-2.2%

Editor's Notes: *Detailed data on delinquency by industry can be found in Appendix C. For detailed data on delinquency by states refer to Appendix D.*

The information contained in this publication was correct at the time of going to press.

4. Economic Perspective

The U.S. economy exited recession in late 2009, following the implementation of coordinated government stimulus measures and Federal Reserve interest rate cuts. By Q2 2010, business confidence had improved significantly over the lows of early 2009, and strong corporate earnings were accompanied by an upturn in private sector investment. Improved conditions certainly made trading conditions easier, evident in easing bankruptcy rates, falling business failures and improving delinquency ratios. However, the recovery has been uneven, across industries and states, and conditions have remained difficult for many. Small and medium-sized firms, for example, have continued to face tight credit conditions, challenging their ability to roll-over debts and pay suppliers, while well-rated corporate borrowers have been able to borrow at record-low rates.

Indicators suggest that the recovery will slow progressively into 2011, as fiscal stimulus measures begin to wane and the uplift derived from inventory readjustments ends. Recovery following severe financial crises is often lengthy and slow as the economy undergoes a process of deleveraging. The pace of economic growth is likely to remain more moderate than in recent years, or indeed than after other recent recessions. The fragile job market remains the key impediment to the recovery gathering pace. Unemployment has remained stubbornly above 9.0% since early 2009. The worry is that job growth will remain so slow that it will several years to replace the 8m jobs lost since 2007. Weak job growth, alongside the ongoing slump in the housing market, continues to undermine consumer spending, the core driver of the U.S. economy. Consumer confidence remains about 50% of the level of the mid-2000s. With the average U.S. consumer still heavily indebted, spending will remain constrained given the deleveraging still to come. This will ensure that economic activity remains well below pre-crisis levels for much of 2011, making it difficult for firms to identify new opportunities and essential for them to identify potential risks.

5. Recommendation to Businesses

For some businesses, failure may be unavoidable; however, as this report shows, failure does not have to come as a surprise to suppliers, clients and business partners who have armed themselves with the necessary data and insights.

Using delinquency rates and balances past due, business owners can effectively and proactively anticipate customers' and partners' future financial health and propensity to fail. It is important for business owners to regularly and systematically review this data as part of their overall business planning process and day to day operations.

Armed with delinquency rates for customers and business partners as well as business failure data, among industries and states, business owners can take specific steps, including:

When a customer or business partner shows negative trends:

- Revise collection behavior to minimize outstanding AR and limit customer exposure
- Tighten pricing and terms by industry or region

When a customer or business partner shows stable or positive trends in delinquency:

- Expand their credit line and encourage revenue growth
- Look for new products and services that might expand their relationship with this customer

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Failure Rate Index by Industry

Major Industry	Failure Index 2009 Q2	Failure Index 2010 Q2	% Change in Failure Rate
Automotive	**1.38**	1.29	-21%
Construction	**1.59**	1.70	-9%
Financial Services	**1.20**	1.17	-17%
Insurance	**0.68**	0.99	22%
Manufacturing	**1.43**	1.44	-15%
Natural Resources	**0.77**	0.85	-6%
Real Estate	**1.12**	1.12	-15%
Retail	**1.26**	1.17	-21%
Business Services	**1.07**	0.88	-30%
Other Services	**0.86**	0.74	-27%
Telecommunications	**1.55**	1.23	-33%
Transportation	**1.76**	1.84	-11%
Utilities	**0.88**	1.08	4%
Wholesale	**1.20**	1.08	-24%
ALL	**1.00**	**1.00**	**-15%**

**Failure Index is calculated as failure rate for industry divided by average failure rate for U.S. overall in the same year.*

***NOTE:** D&B does not include the Government industry when calculating the rate of bankruptcies, failures and delinquencies.*

Failure Rate Index by State

State	Failure Index 2009 Q2	Failure Index 2010 Q2	% Change in Failure Rate
AK	0.53	0.71	13%
AL	1.19	1.05	-25%
AR	0.87	0.97	-5%
AZ	1.00	1.04	-12%
CA	1.43	1.73	3%
CO	1.09	1.41	10%
CT	0.63	0.64	-14%
DE	0.88	0.80	-23%
FL	1.01	0.73	-38%
GA	1.22	0.95	-33%
HI	0.55	1.06	64%
IA	0.51	0.49	-18%
ID	1.29	1.17	-23%
IL	1.18	0.99	-29%
IN	0.84	0.81	-18%
KS	0.53	0.58	-7%
KY	0.80	0.68	-28%
LA	0.56	0.46	-30%
MA	0.74	0.82	-7%
MD	0.69	0.64	-21%
ME	0.81	0.96	1%
MI	1.28	1.11	-27%
MN	0.74	0.66	-24%
MO	0.80	0.72	-24%
MS	0.59	0.54	-22%
MT	0.71	1.05	25%
NC	0.96	0.83	-26%
ND	0.31	0.32	-12%
NE	0.61	0.66	-7%
NH	1.13	1.64	24%
NJ	0.92	0.87	-20%
NM	0.86	1.09	9%
NV	1.46	1.73	1%
NY	0.83	0.77	-22%
OH	0.90	0.85	-20%
OK	0.68	0.67	-16%
OR	1.13	1.38	4%
PA	0.87	0.94	-8%
RI	0.82	0.83	-14%
SC	1.17	0.99	-28%
SD	0.61	0.76	5%
TN	1.51	1.39	-22%
TX	1.02	1.06	-12%
UT	0.84	0.61	-38%
VA	0.66	0.61	-21%
VT	0.57	0.58	-14%
WA	1.01	1.41	19%
WI	0.82	0.85	-11%
WV	0.77	0.73	-19%
WY	0.38	0.43	-5%
ALL	**1.00**	**1.00**	**-15%**

Delinquency Rates by Industry June 2009 vs. June 2010

	90+ DPD June 2009	90+ DPD June 2010	% Change in Delinquency Rate
Automotive	17.1%	15.8%	-1.3%
Construction	18.1%	16.0%	-2.1%
Financial Services	15.3%	13.4%	-1.9%
Insurance	10.9%	10.4%	-0.5%
Government*	14.3%	17.0%	2.7%
Manufacturing	18.8%	19.1%	0.3%
Natural Resources	11.5%	9.8%	-1.8%
Real Estate	10.3%	9.2%	-1.1%
Retail	16.4%	14.2%	-2.2%
Business Services	13.7%	12.1%	-1.6%
Other Services	12.3%	11.9%	-0.4%
Telecommunications	18.6%	16.5%	-2.2%
Transportation	19.4%	16.2%	-3.3%
Utilities	15.1%	14.1%	-1.0%
Wholesale	17.2%	16.5%	-0.7%
All	**14.9%**	**13.4%**	**-1.5%**

***NOTE:** D&B does not include the Government industry when calculating the rate of bankruptcies, failures and delinquencies.*

Delinquency Rates by State June 2009 vs. June 2010

State	June 2009	June 2010	% Change in Delinquency Rate
AK	10.9%	10.2%	-0.7%
AL	17.6%	17.5%	0.0%
AR	11.0%	11.8%	0.8%
AZ	22.7%	14.0%	-8.7%
CA	15.5%	16.3%	0.8%
CO	21.2%	11.3%	-9.9%
CT	14.8%	15.7%	0.9%
DC	15.8%	14.6%	-1.2%
DE	16.4%	11.5%	-4.9%
FL	15.0%	13.7%	-1.3%
GA	16.5%	15.4%	-1.1%
HI	12.7%	6.9%	-5.8%
IA	14.1%	11.4%	-2.6%
ID	19.6%	12.1%	-7.5%
IL	17.5%	15.9%	-1.6%
IN	12.8%	13.0%	0.2%
KS	13.2%	12.6%	-0.6%
KY	12.5%	11.6%	-0.9%
LA	9.6%	11.6%	2.0%
MA	12.5%	11.8%	-0.7%
MD	16.2%	16.2%	0.1%
ME	10.1%	8.9%	-1.2%
MI	17.6%	15.3%	-2.2%
MN	18.2%	10.3%	-7.9%
MO	16.5%	14.0%	-2.5%
MS	17.0%	17.6%	0.5%
MT	16.6%	7.7%	-9.0%
NC	13.3%	12.3%	-0.9%
ND	14.8%	7.9%	-6.9%
NE	15.4%	9.4%	-6.0%
NH	12.0%	9.0%	-2.9%
NJ	16.7%	16.2%	-0.5%
NM	21.5%	10.6%	-10.9%
NV	18.0%	18.7%	0.7%
NY	16.0%	15.5%	-0.5%
OH	12.6%	10.9%	-1.7%
OK	10.4%	11.2%	0.8%
OR	13.3%	8.6%	-4.7%
PA	12.7%	13.3%	0.6%
RI	13.1%	12.9%	-0.2%
SC	14.2%	12.6%	-1.6%
SD	16.5%	8.7%	-7.9%
TN	11.0%	16.9%	5.9%
TX	14.3%	12.2%	-2.1%
UT	23.4%	13.2%	-10.3%
VA	9.2%	13.1%	3.8%
VT	9.7%	9.4%	-0.3%
WA	17.6%	10.2%	-7.3%
WI	14.0%	12.8%	-1.2%
WV	7.8%	8.9%	1.1%
WY	16.3%	6.8%	-9.5%