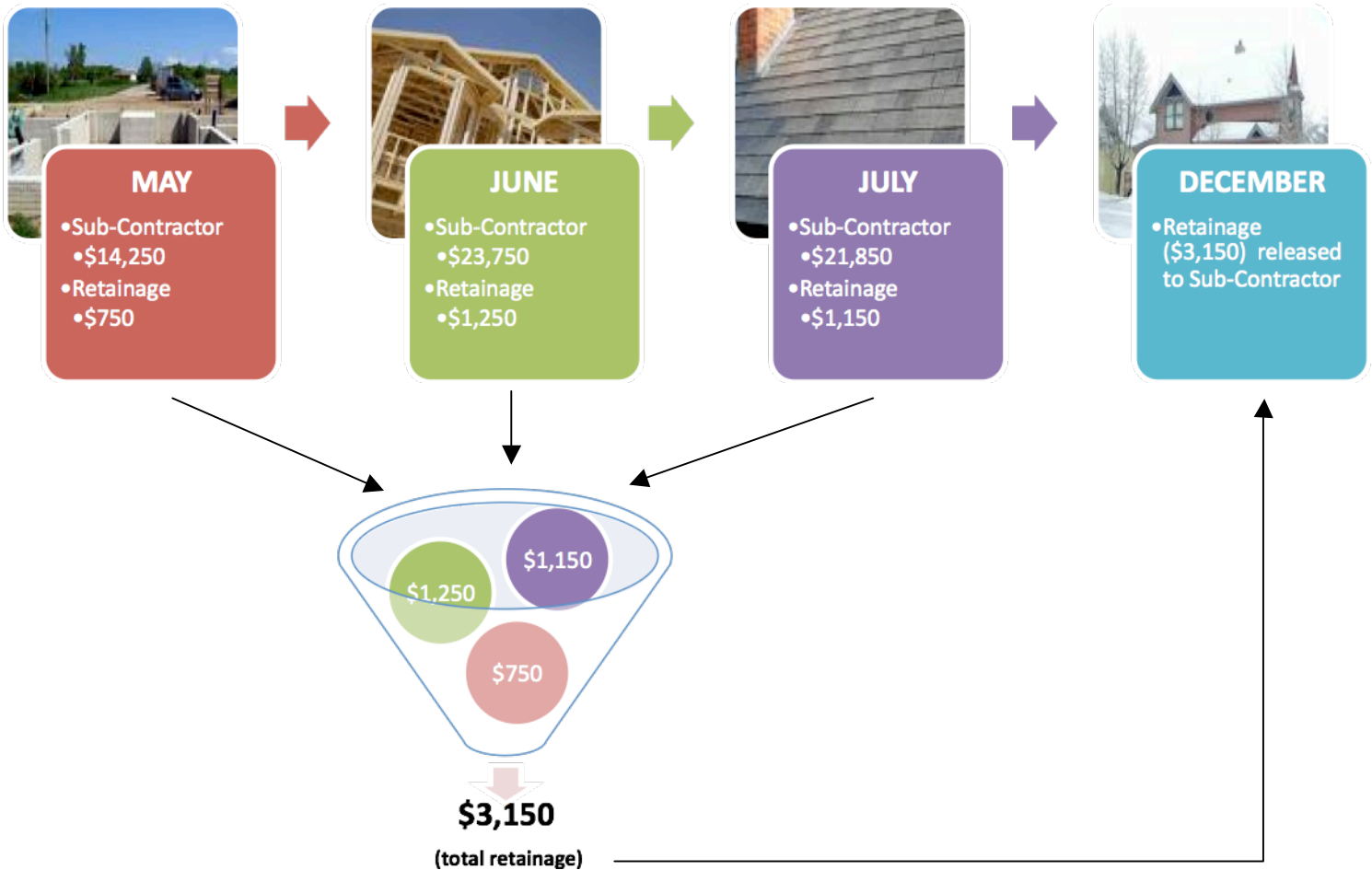


RETAINAGE

Imagine how your auto-mechanic would react if you told him, prior to a brake pad replacement, that you were not planning on paying the full amount of the bill until you were convinced the work was defect-free. Now, imagine what his reaction would be when you told him it could take you 12-18 months to decide whether you are convinced the new brakes are satisfactory. *This unusual practice is widespread in the construction industry and is known as retainage.*



For example, Sub-Contractor earns \$15,000 for work completed in May. In June, Sub-Contractor earns an additional \$25,000 for other work completed. In July, Sub-Contractor earns \$23,000 for additional work completed. By December, the 8th month, the project is substantially complete. At each monthly payment, 5% is held back (“retained”) by the Owner and released upon substantial completion of the entire projects.

A sub-contractor with 100 employees may be working on up to 50 projects at any given time. If these 50 projects are similar to the example above, this particular sub-contractor could have just under **\$160,000** of earned money (**retained**) held until December for work completed during the months of May, June, and July.