

# Historical Financial Analysis of Sample Industries, Inc.

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## Purpose of this Report

This report contains an analysis of the historical financial statements of Sample Industries, Inc. (the Company). The Company is a C-Corporation organized under the laws of New York and is located at 6000 Industrial Park Way, New York, NY.

The analysis is based upon 5 years of financial statements with the most recent statement ending in 2005, and is intended to provide insight into the Company's financial structure and position for a variety of purposes such as:

1. Assessing the risk of extending credit to the Company.
2. Enhancing one's understanding of the Company's overall financial position.
3. Determining whether the Company is holding, gaining or losing financial ground.
4. Identifying areas of strengths and weaknesses within the Company's financial position.
5. Evaluating the Company's financial performance and position relative to competitors in its industry.

## Overview of Analysis Methodology

This analysis was prepared using MoneySoft's Benchmark Pro 2006™. The analysis was prepared based upon the Company's historic financial statements. This report includes a summary of the historic financial data, a summary of earnings and cash flows, traditional financial ratios, and specialized metrics.

The specialized metrics include Z-Score bankruptcy prediction, Sustainable Growth Rate, DuPont Analysis and MoneySoft's proprietary Five-Minute Diagnostic™. Each of these specialized metrics will be discussed along with the results later in this report.

This report also compares the Company's performance other companies in its industry. The source of the industry benchmarking data is:

The Risk Management Association's (formerly Robert Morris and Associates) Annual Statement Studies, which contains metrics on 700 industries. RMA is a membership organization of commercial lenders and compiles its data from over 190,000 financial statements submitted by its members.

Integra Information's 5-Year Industry Data which is compiled benchmarking data from over 4.5 million privately held US businesses. The data includes 60 ratios presented for 900 industries with 13 sales ranges from which to select for each industry.

## Summary of Historical Financial Statement Data

The Company's historical financial statements provide the raw material for this analysis. This analysis includes 5 years of financial statements. A summary of the Company's financial statements is provided below and the detailed statements are available as an attachment to this report. In addition, and in order to present the proportional relationships of the accounts, each Income Statement line item is presented as a percentage of Net Sales and each Balance Sheet line item is presented as a percentage of Total Assets.

### Income Statements Summary

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Net Sales Revenue</b>	<b>25,302,860</b>	<b>26,494,580</b>	<b>28,043,400</b>	<b>29,219,270</b>	<b>31,541,420</b>
%	<b>98.34%</b>	<b>98.06%</b>	<b>98.61%</b>	<b>98.41%</b>	<b>97.56%</b>
Total Cost of Goods Sold	20,165,679	21,681,757	22,263,336	22,943,789	23,870,297
%	78.37%	80.24%	78.28%	77.28%	73.83%
<b>Gross Profit</b>	<b>5,137,181</b>	<b>4,812,823</b>	<b>5,780,064</b>	<b>6,275,481</b>	<b>7,671,123</b>
%	<b>19.97%</b>	<b>17.81%</b>	<b>20.32%</b>	<b>21.14%</b>	<b>23.73%</b>
Total Selling Expenses	749,750	813,180	917,500	997,500	1,316,990
%	2.91%	3.01%	3.23%	3.36%	4.07%
Total General & Administrative Expenses	3,037,730	2,486,432	3,319,075	3,616,368	4,129,399
%	11.81%	9.20%	11.67%	12.18%	12.77%
<b>Income From Operations</b>	<b>1,349,701</b>	<b>1,513,211</b>	<b>1,543,489</b>	<b>1,661,613</b>	<b>2,224,734</b>
%	<b>5.25%</b>	<b>5.60%</b>	<b>5.43%</b>	<b>5.60%</b>	<b>6.88%</b>
Total Other Revenues and Expenses	(623,774)	(613,150)	(563,153)	(533,769)	(486,062)
%	-2.42%	-2.27%	-1.98%	-1.80%	-1.50%
<b>Income Before Taxes</b>	<b>725,927</b>	<b>900,061</b>	<b>980,336</b>	<b>1,127,844</b>	<b>1,738,672</b>
%	<b>2.82%</b>	<b>3.33%</b>	<b>3.45%</b>	<b>3.80%</b>	<b>5.38%</b>
Total Income Taxes	283,111	351,024	382,331	439,859	678,082
%	1.10%	1.30%	1.34%	1.48%	2.10%
<b>Net Income</b>	<b>442,816</b>	<b>549,037</b>	<b>598,005</b>	<b>687,985</b>	<b>1,060,590</b>
%	<b>1.72%</b>	<b>2.03%</b>	<b>2.10%</b>	<b>2.32%</b>	<b>3.28%</b>

## Balance Sheets Summary

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>ASSETS</b>					
Total Current Assets	4,956,423	5,427,189	6,388,104	7,147,785	7,509,604
%	33.49%	36.38%	40.71%	45.00%	48.38%
Net Fixed Assets	5,142,852	4,962,042	4,634,661	5,534,900	5,363,423
%	34.75%	33.26%	29.53%	34.84%	34.55%
Total Long-Term Investments	3,904,180	3,583,210	3,672,670	2,204,390	1,651,210
%	26.38%	24.02%	23.40%	13.88%	10.64%
Net Intangible Assets	245,670	236,340	227,010	217,680	208,350
%	1.66%	1.58%	1.45%	1.37%	1.34%
Total Other Noncurrent Assets	550,000	710,000	770,000	780,000	790,000
%	3.72%	4.76%	4.91%	4.91%	5.09%
<b>Total Assets</b>	<b>14,799,125</b>	<b>14,918,781</b>	<b>15,692,445</b>	<b>15,884,755</b>	<b>15,522,587</b>
%	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>					
Total Current Liabilities	2,475,964	2,643,420	2,804,881	3,236,123	3,101,758
%	16.73%	17.72%	17.87%	20.37%	19.98%
Total Long-Term Debt	6,177,995	5,908,225	5,976,625	5,458,061	4,710,722
%	41.75%	39.60%	38.09%	34.36%	30.35%
Total Other Long-Term Liabilities	27,000	27,000	27,000	27,000	27,000
%	0.18%	0.18%	0.17%	0.17%	0.17%
<b>Total Liabilities</b>	<b>8,680,959</b>	<b>8,578,645</b>	<b>8,808,506</b>	<b>8,721,184</b>	<b>7,839,480</b>
%	<b>58.66%</b>	<b>57.50%</b>	<b>56.13%</b>	<b>54.90%</b>	<b>50.50%</b>
<b>Stockholders' Equity:</b>					
Preferred stock	800,000	800,000	850,000	850,000	850,000
%	5.41%	5.36%	5.42%	5.35%	5.48%
Common stock	2,780,000	2,780,000	3,000,000	3,000,000	3,000,000
%	18.78%	18.63%	19.12%	18.89%	19.33%
Retained earnings	2,538,166	2,760,136	3,033,939	3,313,571	3,833,107
%	17.15%	18.50%	19.33%	20.86%	24.69%
<b>Total Stockholders' Equity</b>	<b>6,118,166</b>	<b>6,340,136</b>	<b>6,883,939</b>	<b>7,163,571</b>	<b>7,683,107</b>
%	<b>41.34%</b>	<b>42.50%</b>	<b>43.87%</b>	<b>45.10%</b>	<b>49.50%</b>
<b>Total Liabilities &amp; Stockholders' Equity</b>	<b>14,799,125</b>	<b>14,918,781</b>	<b>15,692,445</b>	<b>15,884,755</b>	<b>15,522,587</b>
%	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

## Statements of Cash Flows Summary

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Net Cash Flow From Operations	981,516	862,646	1,430,146	1,600,486
Net Cash Flow From Investments	(633,999)	(1,046,000)	(740,000)	(406,999)
Net Cash Flow From Financing	(438,081)	189,579	(686,075)	(1,184,348)
<b>Net Cash Flow</b>	<b>(90,564)</b>	<b>6,225</b>	<b>4,071</b>	<b>9,139</b>
Cash at Beginning of Year	313,943	223,379	229,604	233,675
<b>Cash at End of Year</b>	<b>223,379</b>	<b>229,604</b>	<b>233,675</b>	<b>242,814</b>

## Key Earnings Measures and Cash Flow Summary

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Historic Net Income</b>	<b>442,816</b>	<b>549,037</b>	<b>598,005</b>	<b>687,985</b>	<b>1,060,590</b>
Plus: Income taxes	283,111	351,024	382,331	439,859	678,082
<b>Earnings Before Taxes (EBT)</b>	<b>725,927</b>	<b>900,061</b>	<b>980,336</b>	<b>1,127,844</b>	<b>1,738,672</b>
Plus: Interest Expense	678,434	674,560	656,923	648,429	603,982
<b>Earnings Before Interest &amp; Taxes (EBIT)</b>	<b>1,404,361</b>	<b>1,574,621</b>	<b>1,637,259</b>	<b>1,776,273</b>	<b>2,342,654</b>
Plus: Depreciation & Amortization	973,569	1,120,139	1,266,711	1,289,091	1,110,806
<b>Earnings Before Interest, Depr. &amp; Amort. (EBITDA)</b>	<b>2,377,930</b>	<b>2,694,760</b>	<b>2,903,970</b>	<b>3,065,364</b>	<b>3,453,460</b>
<b>Historic Net cash flow</b>	<b>(90,564)</b>	<b>6,225</b>	<b>4,071</b>	<b>9,139</b>	
Historic income from operations	1,513,211	1,543,489	1,661,613	2,224,734	
Less: Tax based on selected tax rate	514,492	524,786	564,948	756,410	
Plus: Depr. & amort. from oper. (net of tax)	739,292	836,029	850,800	733,132	
Less: Fixed asset purchases	929,999	930,000	2,180,000	929,999	
Less: Changes in net working capital	378,300	278,050	99,570	338,500	
<b>Free Cash Flow available to Total Invested Capital (FCF-TIC)</b>	<b>429,712</b>	<b>646,682</b>	<b>(332,105)</b>	<b>932,957</b>	
Historic Net Income	549,037	598,005	687,985	1,060,590	
Plus: Depreciation & amortization	1,120,139	1,266,711	1,289,091	1,110,806	
Less: Fixed asset purchases	929,999	930,000	2,180,000	929,999	
Less: Changes in net working capital	378,300	278,050	99,570	338,500	
Plus: Changes in short-term notes payable	0	0	0	0	
Plus: Changes in current long-term notes payable	145,206	160,411	224,292	85,785	
Plus: Changes in long-term notes payable	(269,770)	68,400	(518,564)	(747,339)	
Less: Preferred Dividends	80,000	85,000	85,000	85,000	
<b>Free Cash Flow available to Equity (FCF-E)</b>	<b>156,313</b>	<b>800,477</b>	<b>(681,766)</b>	<b>156,343</b>	

## Traditional Analysis: Common-Size Statements & Ratios

This section provides an analysis of the Company's common-size financial statements and an analysis of traditional financial ratios. The common-size financial statements are presented as percentages of Total Sales or Total Assets in order to compare the relative composition of line items from year to year. The calculated financial ratios measure areas such as liquidity, leverage, profitability, etc. for each historic year. In addition, the Company's common-size financial statements and financial ratios have been compared to aggregate industry data in order to provide a benchmark against other peer companies in the selected industry. The industry data used in this analysis is described below.

Source:	RMA Annual Statement Studies
Industry Description:	All Other Miscellaneous Manufacturing
Industry NAICS code:	339999
Sample categorized by:	Sales
Category size:	\$10MM to \$25MM
Industry Quartile (for ratios):	Median Quartile
Number of companies in sample:	106
Date of industry information:	2005

Source:	Integra - Financial Statement Analysis
Industry Description:	Manufacturing industries, nec
Industry SIC code:	3999
Sales Range:	\$10,000,000 - \$24,999,999
Number of companies in sample:	96
Detailed industry description:	Establishments primarily engaged in manufacturing miscellaneous fabricated products, including beauty shop and barber shop equipment, hair work, tobacco pipes and cigarette holders, coin-operated amusement machines, matches, candles, lamp shades, feathers, artificial trees and flowers made from all materials, except glass, dressed and dyed furs, umbrellas, parasols, and canes, and other articles, not elsewhere classified.

The Company has been categorized as follows:

Primary business activity:	Sporting goods manufacturing
Secondary business activity:	Athletic goods distribution
Company SIC code:	3949

## Common-Size Financial Statements

Common-size statements are calculated on a percentage basis to demonstrate the relative proportions of each component of the financial statements and how these components change from year to year. Income statement items are presented as a percentage of Net Sales. Balance sheet items are presented as a percentage of Total Assets. A summary of the historic common-size income statements and balance sheets is presented below. The detailed common-size statements are available as an attachment to this report.

### Business Common-Size Financial Statements

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Income Data:</b>					
Net sales	100.00%	100.00%	100.00%	100.00%	100.00%
Gross profit	20.30%	18.17%	20.61%	21.48%	24.32%
Operating expenses	14.97%	12.45%	15.11%	15.79%	17.27%
Operating profit	5.33%	5.71%	5.50%	5.69%	7.05%
All other expenses (net)	2.47%	2.31%	2.01%	1.83%	1.54%
Profit Before Tax	<u>2.87%</u>	<u>3.40%</u>	<u>3.50%</u>	<u>3.86%</u>	<u>5.51%</u>
<b>Assets:</b>					
Cash & equivalents	5.53%	5.95%	10.01%	12.74%	14.60%
Trade receivables (net)	13.54%	13.59%	12.66%	13.98%	14.72%
Inventory	13.51%	15.89%	17.11%	17.41%	18.13%
All other current assets	0.91%	0.95%	0.93%	0.87%	0.92%
Total Current Assets	33.49%	36.38%	40.71%	45.00%	48.38%
Fixed assets (net)	34.75%	33.26%	29.53%	34.84%	34.55%
Intangibles (net)	1.66%	1.58%	1.45%	1.37%	1.34%
All other noncurrent assets	30.10%	28.78%	28.31%	18.79%	15.73%
Total Noncurrent Assets	66.51%	63.62%	59.29%	55.00%	51.62%
Total Assets	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
<b>Liabilities &amp; Net Worth:</b>					
Notes payable short-term	0.00%	0.00%	0.00%	0.00%	0.00%
Current maturity of long-term Debt	3.58%	4.53%	5.33%	6.67%	7.38%
Trade payables	8.33%	8.32%	7.83%	8.37%	8.34%
Income taxes payable	2.19%	2.25%	2.13%	2.45%	1.73%
All other current liabilities	2.62%	2.62%	2.59%	2.88%	2.53%
Total Current Liabilities	16.73%	17.72%	17.87%	20.37%	19.98%
Long-term debt	41.75%	39.60%	38.09%	34.36%	30.35%
Deferred taxes	0.00%	0.00%	0.00%	0.00%	0.00%
All other noncurrent liabilities	0.18%	0.18%	0.17%	0.17%	0.17%
Net worth	41.34%	42.50%	43.87%	45.10%	49.50%
Total Liabilities & Net Worth	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>



## Current Year Business Common-Size Statements vs. Integra Industry Data

The Company's common-size financial statements for the most recent year are compared here to the selected Integra industry data. For each line item, the business vs. industry difference, variance and average variance are calculated and presented in the table below. A multi-year comparison is available as an attachment to this report.

### Integra - Business vs. Industry Common-Size Statements, Current Year

	<b>Business 2005</b>	<b>Industry 2005</b>	<b>Difference</b>	<b>Variance</b>	<b>5 Yr Average Variance</b>
<b>Income Statement</b>					
Revenue	100.0%	100.0%	0.0%	0.0%	0.0%
Cost of Sales	73.1%	70.6%	2.5%	3.5%	7.6%
Gross Margin	26.9%	29.4%	-2.5%	-8.4%	-28.7%
Selling, General & Administrative	12.0%	11.3%	0.7%	6.2%	-16.6%
Officer Compensation	1.7%	3.1%	-1.4%	-43.8%	-48.7%
Pension & Benefits	0.0%	2.1%	-2.1%	-100.0%	-100.0%
Advertising & Sales	0.0%	1.4%	-1.4%	-100.0%	-100.0%
Bad Debts	0.0%	0.5%	-0.5%	-100.0%	-100.0%
Rents Paid	0.0%	1.9%	-1.9%	-100.0%	-100.0%
Depreciation & Amortization	3.5%	3.4%	0.1%	3.6%	20.7%
Operating expenses	17.3%	23.9%	-6.6%	-27.8%	-36.7%
Operating Income	7.1%	5.6%	1.5%	26.0%	4.6%
Interest Income	0.3%	0.2%	0.1%	71.1%	37.0%
Interest Expense	-1.9%	-1.4%	-0.5%	36.8%	67.2%
Total Other Income (Expense)	0.0%	-0.4%	0.4%	-107.9%	-108.9%
Pre-Tax Income	5.5%	4.0%	1.5%	37.8%	-4.3%
Income Taxes	2.1%	-1.5%	3.6%	-243.3%	-199.5%
Net Income	<u>3.4%</u>	<u>2.5%</u>	0.9%	34.5%	-6.6%

**Balance Sheet****Assets:**

Cash	1.6%	9.5%	-7.9%	-83.5%	-82.9%
Marketable Securities	13.0%	0.4%	12.6%	3159.8%	1935.7%
Accounts Receivable	15.9%	23.5%	-7.6%	-32.2%	-37.1%
(Allowance for doubtful accounts)	-1.2%	-1.1%	-0.1%	9.7%	-1.1%
Accounts Receivable, net	14.7%	22.4%	-7.7%	-34.3%	-38.8%
Raw Material	3.9%	12.2%	-8.3%	-68.3%	-70.1%
Work in Process	3.2%	4.8%	-1.6%	-32.9%	-38.0%
Finished Good	9.3%	6.6%	2.7%	41.5%	24.9%
Other Inventory	1.7%				
Total Inventory	18.1%	23.5%	-5.4%	-22.8%	-30.2%
Other Current Assets	0.9%	4.3%	-3.4%	-78.7%	-78.7%
Total Current Assets	48.4%	60.1%	-11.7%	-19.5%	-32.1%
Property, Plant & Equipment	87.8%	47.7%	40.1%	84.0%	49.9%
(Accumulated Depreciation)	-53.2%	-21.4%	-31.8%	148.8%	78.1%
Property, Plant & Equipment, net	34.6%	26.4%	8.2%	30.9%	26.5%
Intangible Assets, net	1.3%	3.9%	-2.6%	-65.6%	-62.0%
Depletable Assets, net		0.0%			
Investments	10.6%	7.4%	3.2%	43.7%	165.7%
Other Noncurrent Assets	5.1%	2.2%	2.9%	131.3%	112.6%
Total Noncurrent Assets	51.6%	39.9%	11.7%	29.4%	48.4%
Total Assets	<u>100.0%</u>	<u>100.0%</u>			

**Liabilities & Net Worth:**

Short-Term Debt	7.4%	9.0%	-1.6%	-18.0%	-38.9%
Accounts Payable	8.3%	13.6%	-5.3%	-38.7%	-39.4%
Other Current Liabilities	4.3%	7.9%	-3.6%	-46.1%	-39.2%
Total Current Liabilities	20.0%	30.6%	-10.6%	-34.7%	-39.4%
Long-Term Debt	30.3%	15.5%	14.8%	95.8%	137.6%
Loans from Shareholders	0.0%	6.7%	-6.7%	-100.0%	-100.0%
Other Liabilities	0.2%	2.8%	-2.6%	-93.8%	-93.7%
Total Long-Term Liabilities	50.5%	25.1%	25.4%	101.2%	107.9%
Total Liabilities	50.5%	55.6%	-5.1%	-9.2%	-0.1%
Total Net Worth	49.5%	44.4%	5.1%	11.5%	0.1%
Total Liabilities & Net Worth	<u>100.0%</u>	<u>100.0%</u>			

## Current Year Business Common-Size Statements vs. RMA Industry Data

The Company's common-size financial statements for the most recent year are compared here to the selected RMA industry data. For each line item, the business vs. industry difference, variance and average variance are calculated and presented in the table below. A multi-year comparison is available as an attachment to this report.

### RMA - Business vs. Industry

#### Common-Size Statements, Current Year

	<b>Business 2005</b>	<b>Industry 2005</b>	<b>Difference</b>	<b>Variance</b>	<b>5 Yr Average Variance</b>
<b>Income Data:</b>					
Net sales	100.0%	100.0%	0.0%	0.0%	0.0%
Gross profit	24.3%	29.7%	-5.4%	-18.2%	-29.4%
Operating expenses	17.3%	24.6%	-7.3%	-29.7%	-38.5%
Operating profit	7.1%	5.1%	2.0%	39.2%	14.9%
All other expenses (net)	1.5%	0.6%	0.9%	150.0%	238.5%
Profit Before Tax	<u>5.6%</u>	<u>4.5%</u>	1.1%	24.4%	8404.1%
<b>Assets:</b>					
Cash & equivalents	14.6%	6.3%	8.3%	131.7%	55.0%
Trade receivables (net)	14.7%	28.3%	-13.6%	-48.1%	-51.6%
Inventory	18.1%	31.2%	-13.1%	-42.0%	-47.4%
All other current	0.9%	2.8%	-1.9%	-67.9%	-67.3%
Total Current Assets	48.3%	68.6%	-20.3%	-29.6%	5846.2%
Fixed assets (net)	34.6%	19.8%	14.8%	74.7%	68.6%
Intangibles (net)	1.3%	4.7%	-3.4%	-72.3%	-68.5%
All other noncurrent	15.7%	6.8%	8.9%	130.9%	257.9%
Total Noncurrent Assets	51.6%	31.3%	20.3%	64.9%	18816.7%
Total Assets	<u>99.9%</u>	<u>99.9%</u>			
<b>Liabilities &amp; Net Worth:</b>					
Notes payable short-term	0.0%	12.0%	-12.0%	-100.0%	-100.0%
Current maturity of long-term Debt	7.4%	2.9%	4.5%	155.2%	89.6%
Trade payables	8.3%	16.1%	-7.8%	-48.4%	-48.8%
Income taxes payable	1.7%	0.1%	1.6%	1600.0%	2050.7%
All other current liabilities	2.5%	8.6%	-6.1%	-70.9%	-69.2%
Total Current Liabilities	19.9%	39.7%	-19.8%	-49.9%	4568.9%
Long-term debt	30.3%	11.3%	19.0%	168.1%	225.9%
Deferred taxes	0.0%	0.5%	-0.5%	-100.0%	-100.0%
All other noncurrent liabilities	0.2%	5.8%	-5.6%	-96.6%	-97.0%
Net worth	49.5%	42.7%	6.8%	15.9%	4.1%
Total Liabilities & Net Worth	<u>99.9%</u>	<u>100.0%</u>			

## Financial Ratio Analysis

There is a management axiom that effectively says that if you can't measure something, you can't manage it. Traditional ratios provide a way to evaluate management's effectiveness (strategy and action) and the financial well being of a business (results) by correlating different line items with each other. There are ratios that are based upon margins and the generation of cash flow. There are also ratios that measure how effectively the company is using its assets and capital (debt and equity). Ratios measure how well management is performing in the following areas:

1. Liquidity ratios measure the short-term ability of a company to meet its maturing obligations.
2. Coverage ratios measure the degree of protection for long-term creditors and investors and the margin by which certain obligations of a company can be met.
3. Leverage/capitalization ratios measure the amount of a company's operations that are financed from debt versus financed from equity.
4. Operating ratios measure the efficiency and productivity of a company using the resources that are available and the returns on sales and investments.
5. Equity ratios measure the performance of assets and earnings in relation to common and preferred equity.

## Business Ratios

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Liquidity Ratios:</b>					
Current	2.00	2.05	2.28	2.21	2.42
Quick	1.14	1.10	1.27	1.31	1.47
Accounts receivable turnover	12.62	13.07	14.11	13.16	13.80
Days' receivable		27.23	25.76	25.87	25.44
Inventory turnover	10.08	9.15	8.29	8.30	8.48
Days' inventory		36.78	41.44	43.35	42.66
Accounts payable turnover	16.35	17.47	18.12	17.26	18.44
Days' payable		20.82	20.24	20.35	20.06
Working capital turnover	10.20	9.52	7.83	7.47	7.16
Inventory as a % of Total current assets	40.35%	43.67%	42.03%	38.68%	37.49%
Total current assets as a % of Total assets	33.49%	36.38%	40.71%	45.00%	48.38%
<b>Coverage Ratios:</b>					
Times interest earned	2.07	2.33	2.49	2.74	3.88
Current portion of long-term debt coverage	2.67	2.47	2.23	1.87	1.89
Principal & Interest coverage	2.07	1.79	5.81	1.57	1.39
Preferred dividend coverage	5.54	6.86	7.04	8.09	12.48
<b>Leverage/Capitalization Ratios:</b>					
Fixed assets to Tangible net worth	0.88	0.81	0.70	0.80	0.72
Total debt to Tangible net worth	1.48	1.41	1.32	1.26	1.05
Short-term debt to Total debt	28.52%	30.81%	31.84%	37.11%	39.57%
Short-term debt to Net worth	40.47%	41.69%	40.75%	45.17%	40.37%
Total debt to Total assets	58.66%	57.50%	56.13%	54.90%	50.50%
<b>Operating Ratios:</b>					
Percent return on Tangible net worth	12.36%	14.75%	14.73%	16.24%	23.26%
Percent return on Total assets	4.91%	6.03%	6.25%	7.10%	11.20%
Net sales to Net fixed assets	4.92	5.34	6.05	5.28	5.88
Net sales to Total assets	1.71	1.78	1.79	1.84	2.03
Percent Depr., Amort. to Net sales	3.85%	4.23%	4.52%	4.41%	3.52%
Percent Officer salaries to Net sales	1.38%	1.51%	1.60%	1.71%	1.74%
Total sales to Net worth	4.21	4.26	4.13	4.14	4.21
Revenue growth percentage		5.01%	5.26%	4.40%	8.89%
<b>Equity Ratios:</b>					
Percent dividend payout	62.69%	52.68%	46.63%	53.63%	46.75%
Percent earnings retention	37.31%	47.32%	53.37%	46.37%	53.25%

## Current Year Business Ratios vs. Integra Industry Data

The Company's ratios for the most recent year are compared here to the selected Integra industry data. For each ratio, the business vs. industry difference, variance and average variance are calculated and presented in the table below. A multi-year comparison is available as an attachment to this report.

### Integra - Business vs. Industry Ratios, Current Year

	<b>Business 2005</b>	<b>Industry 2005</b>	<b>Difference</b>	<b>Variance</b>	<b>5 Yr Average Variance</b>
<b>Liquidity/Solvency Ratios:</b>					
Quick ratio	1.47	1.06	0.41	38.68%	18.69%
Current ratio	2.42	1.97	0.45	22.84%	11.29%
Days receivable outstanding	25	47	-22	-45.88%	-44.52%
Days payable	20	40	-20	-49.84%	-49.08%
Days working capital	47	63	-16	-25.46%	-32.76%
Days inventory	43	70	-27	-39.05%	-41.35%
Accounts receivable to sales	7.54%	13.60%	-6.06%	-44.56%	-43.31%
Accounts payable to sales	4.00%	7.80%	-3.80%	-48.72%	-43.11%
Current liabilities to net worth	40.37%	68.90%	-28.53%	-41.41%	-39.49%
Current liabilities to inventory	1.10	1.30	-0.20	-15.38%	-12.77%
Cost of sales to payables	18.44	0.08	18.36	23541.03%	22373.36%
<b>Turnover Ratios:</b>					
Accounts receivable turnover	14.35	7.72	6.63	85.88%	81.45%
Cash turnover	135.70	18.26	117.44	643.15%	570.89%
Inventory turnover	8.56	5.19	3.37	64.93%	72.00%
Current asset turnover	4.41	2.88	1.53	53.13%	63.34%
Working capital turnover	7.77	5.84	1.93	33.05%	49.37%
Fixed asset turnover	-14.28	6.62	-20.90	-315.71%	-364.02%
Total asset turnover	2.06	1.74	0.32	18.39%	9.42%
<b>Risk Ratios:</b>					
Z-Score Manufacturing	2.95	2.90	0.05	1.72%	-11.64%
Z-Score Non-manufacturing	5.47	2.90	2.57	88.62%	54.46%
Fixed assets to Net worth	-0.38	0.59	-0.97	-164.41%	-115.81%
<b>Profitability Ratios:</b>					
Gross Margin %	26.17%	29.40%	-3.23%	-10.99%	-23.82%
EBITDA to Sales	10.68%	9.00%	1.68%	18.67%	12.07%
Operating Margin	6.88%	5.60%	1.28%	22.86%	2.68%
Operating Cash Flow to Sales	4.95%	5.20%	-0.25%	-4.81%	-20.99%
Pre-Tax Return on Assets	11.20%	6.80%	4.40%	64.71%	4.37%
After-Tax Return on Assets	6.83%	4.20%	2.63%	62.62%	3.08%
Pre-Tax Return on Net Worth	22.63%	15.30%	7.33%	47.91%	2.84%
After-Tax Return on Net Worth	13.80%	9.50%	4.30%	45.26%	1.04%
Pre-Tax Return on Sales	5.51%	4.00%	1.51%	37.75%	-4.33%
After-Tax Return on Sales	3.36%	2.50%	0.86%	34.40%	-6.63%
<b>Working Capital Ratios:</b>					
Working Capital	4,407,846	2,574	4405272	171144.99%	133287.40%
Working Capital to Sales	13.63%	17.50%	-3.87%	-22.11%	-32.17%
Net Income to Working Capital	24.06%	14.20%	9.86%	69.44%	35.09%
Inventory to Working Capital	63.86%	79.60%	-15.74%	-19.77%	-5.72%
Short Term Debt to Working Capital	26.00%	30.50%	-4.50%	-14.75%	-19.96%
Long Term Debt to Working Capital	107.48%	52.50%	54.98%	104.72%	234.71%

**Integra - Business vs. Industry  
Ratios, Current Year (continued)**

	<b>Business <u>2005</u></b>	<b>Industry <u>2005</u></b>	<b>Difference</b>	<b>Variance</b>	<b>5 Yr Average Variance</b>
<b>Operating Efficiency Ratios:</b>					
Operating Expenses to Gross Margin	346.55%	81.00%	265.55%	327.84%	414.20%
Operating Expenses to Sales	90.68%	23.90%	66.78%	279.41%	286.80%
Depreciation & Amortization to Sales	3.44%	3.40%	0.04%	1.18%	18.59%
Total Assets to Sales	48.01%	59.30%	-11.29%	-19.04%	-9.13%
Sales to Net Worth	4.21	3.80	0.41	10.79%	10.27%
Sales to Fixed Assets	-1114.77%	640.10%	-1754.87%	-274.16%	36.75%
Inventory to Cost of Sales	11.79%	19.80%	-8.01%	-40.45%	-42.67%
Intangible Assets to Sales	0.79%	2.30%	-1.51%	-65.65%	-61.05%
Capital Expenditures to Sales	16.59%	4.60%	11.99%	260.65%	-105.50%

## Current Year Business Ratios vs. RMA Industry Data

The Company's ratios for the most recent year are compared here to the selected RMA industry data. For each ratio, the business vs. industry difference, variance and average variance are calculated and presented in the table below. A multi-year comparison is available as an attachment to this report.

### RMA - Business vs. Industry Ratios, Current Year

	<b>Business <u>2005</u></b>	<b>Industry <u>2005</u></b>	<b>Difference</b>	<b>Variance</b>	<b>5 Yr Average Variance</b>
<b>Liquidity Ratios:</b>					
Current ratio	2.4	1.7	0.7	42.4%	29.0%
Quick ratio	1.5	0.8	0.7	83.5%	57.3%
Accounts receivable turnover	13.8	8.1	5.7	70.4%	64.8%
Inventory turnover	8.5	5.3	3.2	60.0%	67.2%
Accounts payable turnover	18.4	11.5	6.9	60.3%	52.4%
Working capital turnover	7.2	8.2	-1.0	-12.7%	2.9%
<b>Coverage Ratios:</b>					
Times interest earned	3.9	7.0	-3.1	-44.6%	-61.4%
Current portion of long-term debt coverage ratio	1.9	2.7	-0.8	-29.8%	-17.5%
<b>Leverage/Capitalization Ratios:</b>					
Fixed assets to Tangible net worth	0.7	0.5	0.2	43.6%	56.0%
Total debt to Tangible net worth	1.0	1.4	-0.4	-25.1%	-7.0%
<b>Operating Ratios:</b>					
Percent return on Tangible net worth	0.2	20.9%	0.0	11.5%	-22.2%
Percent return on Total assets	0.1	8.3%	0.0	34.9%	-14.5%
Net sales to Net fixed assets	5.9	14.9	-9.0	-60.5%	-63.1%
Net sales to Total assets	2.0	2.3	-0.3	-11.7%	-20.5%
Percent Depr., Amort. to Net sales	0.0	1.6%	0.0	118.7%	156.6%
Percent Officer salaries to Net sales	0.0	3.3%	0.0	-48.5%	-51.8%



## Business Growth vs. Integra Industry Data

Key year-to-year growth and compound annual growth metrics are calculated here and compared to the selected Integra industry data. For each key financial statement item in the following table, the calculated business growth and the Integra industry growth data are presented along with the business versus industry difference.

### Integra - Business vs. Industry Growth, Multi Year

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Annual Growth</b>				
Revenue - Business	4.71%	5.85%	4.19%	7.95%
Industry	7.00%	-0.30%	4.40%	6.00%
Difference from industry	-2.29%	6.15%	-0.21%	1.95%
 EBITDA - Business	 13.35%	 6.72%	 5.00%	 13.04%
Industry	7.80%	0.40%	5.10%	6.80%
Difference from industry	5.55%	6.32%	-0.10%	6.24%
 Pre-Tax Income - Business	 23.99%	 8.92%	 15.05%	 54.16%
Industry	5.50%	-2.00%	2.70%	4.70%
Difference from industry	18.49%	10.92%	12.35%	49.46%

	<b>Business</b> <u>2005</u>	<b>Industry</b> <u>2005</u>	<b>Difference</b>	<b>Variance</b>
<b>Five Year Compound Annual Growth</b>				
Revenue	5.66%	4.20%	1.46%	34.76%
Operating Income	13.31%	4.80%	8.51%	177.29%
Pre-Tax Income	24.40%	2.70%	21.70%	803.70%
Net Income	24.40%	2.70%	21.70%	803.70%
EBITDA	13.04%	5.00%	8.04%	160.80%
Assets	1.20%	4.80%	-3.60%	-75.00%
Liabilities	-2.52%	4.00%	-6.52%	-163.00%
Net Worth	5.86%	5.80%	0.06%	1.03%

# Specialized Analysis: MoneySoft's Five-Minute Diagnostic

## Overview of Analysis

MoneySoft's Five-Minute Diagnostic is a specialized analysis tool that evaluates a company based upon three baseline indicators and four key driver groups. The Five-Minute Diagnostic tool provides a quick snapshot of a company's footing and highlights the factors that are driving and dragging its performance based upon financial statement data.

Baseline Indicators: The baseline indicators are: Z-Score, DuPont Analysis, and Sustainable Growth. The baseline indicators help to answer three fundamental questions:

1. What is the risk that the company is approaching bankruptcy?
2. What is the quality of the company's Return on Equity?
3. Can the company sustain revenue growth based upon its current degree of financial leverage?

Conceptually, a company is considered to be on sound financial footing when: (a) it is not at a statistical risk for bankruptcy or approaching a distress situation; (b) it is increasing ROE due to operations as opposed to increasing leverage; and (c) its capital structure can support its rate of growth in revenue.

Drivers and Draggers: The Five-Minute Diagnostic examines financial performance based upon four financial statement components: Sales Revenues, Velocity and Asset Turnover, Margins and Cash Flow, and Return on Investment. When the performance metrics within a given component are improving, they are drivers. If the metric is deteriorating, then it's a dragger.

## Data Used in the Diagnostic Analysis:

The Five-Minute Diagnostic is based upon the following data that was derived from the Company's Historic Financial Statements:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Source Data for Revenue &amp; Ratio Calculations:</b>					
Net Sales revenue	25,302,860	26,494,580	28,043,400	29,219,270	31,541,420
Cost of Sales	20,165,679	21,681,757	22,263,336	22,943,789	23,870,297
Gross Margin	5,137,181	4,812,823	5,780,064	6,275,481	7,671,123
Officer Salary	350,000	400,000	450,000	500,000	550,000
Non-Officer Wages	10,640,000	10,685,000	11,564,000	11,809,500	12,618,400
Total Wages	10,990,000	11,085,000	12,014,000	12,309,500	13,168,400
Research & Development	0	0	0	0	0
Total General & Administrative Expense	3,037,730	2,486,432	3,319,075	3,616,368	4,129,399
Total Operating Exp. (COGS+Selling+G&A)	23,953,159	24,981,369	26,499,911	27,557,657	29,316,686
Net Operating Income	1,349,701	1,513,211	1,543,489	1,661,613	2,224,734
EBITDA	2,377,930	2,694,760	2,903,970	3,065,364	3,453,460
EBIT	1,404,361	1,574,621	1,637,259	1,776,273	2,342,654
EBT	725,927	900,061	980,336	1,127,844	1,738,672
Net Income After Tax	442,816	549,037	598,005	687,985	1,060,590
Net Cash Flow		(90,564)	6,225	4,071	9,139
Cash from Operations		981,516	862,646	1,430,146	1,600,486
Free Cash Flow available to Equity (FCF-E)		156,313	800,477	(681,766)	156,343
Free Cash Flow available to TIC (FCF-TIC)		429,712	646,682	(332,105)	932,957

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Source Data for Revenue &amp; Ratio Calculations (continued):</b>					
Cash & Equivalents	818,163	888,379	1,570,194	2,023,355	2,266,824
Accounts Receivable	2,004,300	2,027,370	1,987,130	2,220,890	2,285,390
Inventory	2,000,000	2,370,000	2,685,000	2,765,000	2,815,000
Working Capital	2,480,459	2,783,769	3,583,223	3,911,662	4,407,846
Net Fixed Assets	5,142,852	4,962,042	4,634,661	5,534,900	5,363,423
Net Intangible Assets	245,670	236,340	227,010	217,680	208,350
Total Assets	14,799,125	14,918,781	15,692,445	15,884,755	15,522,587
Total Interest-Bearing Debt	6,708,159	6,583,595	6,812,406	6,518,134	5,856,580
Total Equity	6,118,166	6,340,136	6,883,939	7,163,571	7,683,107
Total Invested Capital (TIC)	14,799,125	14,918,781	15,692,445	15,884,755	15,522,587

## Baseline Indicator I: Z-Score Risk Assessment

The Z-Score is a predictive model developed by Edward I Altman, Ph.D., that indicates the likelihood that a company will become insolvent within the next twelve months. Altman's book, *Corporate Financial Distress and Bankruptcy*, Second Edition, states that the Z-Score predicted the bankruptcy filings of sample companies within 12 months with 95% accuracy, and that in later studies based on more extensive samples, over different time periods and under different economic conditions, the Z-Score still sustained 82%-85% accuracy.

Altman's Z-Score is calculated differently for private manufacturing and non-manufacturing companies. In this case, the Company is a private non-manufacturing type of company. Altman's statistics indicate that a private non-manufacturing with a Z-Score of 2.6 and up is unlikely to go bankrupt within the next 12 months. A Z-Score between the range of 1.11 and 2.59 is in what's called the "grey zone" and while not an immediate risk for bankruptcy, monitoring and corrective action is appropriate. On the other hand, a Z-Score of 1.1 or less suggests that bankruptcy is likely.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Z-Score Ratio Components</b>					
Net Sales Revenue	25,302,860	26,494,580	28,043,400	29,219,270	31,541,420
EBIT	1,404,361	1,574,621	1,637,259	1,776,273	2,342,654
Working Capital	2,480,459	2,783,769	3,583,223	3,911,662	4,407,846
Total Assets	14,799,125	14,918,781	15,692,445	15,884,755	15,522,587
Total Liabilities	8,680,959	8,578,645	8,808,506	8,721,184	7,839,480
Retained Earnings	2,538,166	2,760,136	3,033,939	3,313,571	3,833,107
Net Worth	6,118,166	6,340,136	6,883,939	7,163,571	7,683,107
<b>Private Manufacturing Ratios &amp; Weighting</b>					
Working Capital / Total Assets x (.717)	0.12	0.13	0.16	0.18	0.20
Retained Earnings / Total Assets x (.847)	0.15	0.16	0.16	0.18	0.21
EBIT / Total Assets x (3.1)	0.29	0.33	0.32	0.35	0.47
Net Worth / Total Liabilities x (.42)	0.30	0.31	0.33	0.34	0.41
Sales / Total Assets x (.998)	1.71	1.77	1.78	1.84	2.03
<b>Total Z-Score</b>	<b>2.56</b>	<b>2.70</b>	<b>2.76</b>	<b>2.88</b>	<b>3.32</b>

For the most recent year ending 2005, the Company has a Z-Score of 4.71 which places the Company in the "bankruptcy unlikely zone." The Z-Score for the prior year was 3.91, which indicates improvement.

## Baseline Indicator II: Sustainable Growth Analysis

The Sustainable Growth model is a combination of four ratios and measures the maximum rate of growth in revenue that can be sustained without obtaining additional outside funding. The maximum sustainable growth in total revenue is calculated for each year and then is compared to the actual calculated growth rate in total revenue from the prior year to the current year.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Sustainable Growth Components</b>					
Net Sales Revenue	25,302,860	26,494,580	28,043,400	29,219,270	31,541,420
Net Income	442,816	549,037	598,005	687,985	1,060,590
Total Assets	14,799,125	14,918,781	15,692,445	15,884,755	15,522,587
Total Equity	6,118,166	6,340,136	6,883,939	7,163,571	7,683,107
Preferred Dividends	80,000	80,000	85,000	85,000	85,000
Common Dividends	227,450	247,067	239,202	323,353	456,054
<b>Sustainable Growth Ratios</b>					
Profit Margin (Net Income / Total Revenue) a	1.75%	2.07%	2.13%	2.35%	3.36%
Earnings Retention ( 1-[Total Dividends] / NI) b	30.57%	40.43%	45.79%	40.65%	48.99%
Asset Turnover (Total Revenue / Total Assets) c	170.98%	177.59%	178.71%	183.95%	203.20%
Financial Leverage (Total Assets / Total Equity) d	241.89%	235.31%	227.96%	221.74%	202.04%
<b>Maximum Sustainable Growth in Revenue (a*b*c*d)</b>	<b>2.21%</b>	<b>3.50%</b>	<b>3.98%</b>	<b>3.90%</b>	<b>6.76%</b>
Historic Growth in Total Revenue		4.71%	5.85%	4.19%	7.95%
Difference from Maximum		-1.21%	-1.87%	-0.29%	-1.19%
Historic Growth in Total Revenue (Rolling Average)		4.71%	5.28%	4.92%	5.67%

Based upon the Historic Financial Statement data for the year ending 2005, the Company's revenues grew by 7.95% compared to the prior year. For the 5 years of data included in this analysis, revenues have increased by an average of 5.67%.

The actual growth in revenue for years 2002, 2003, 2004 and 2005 is greater than the Sustainable growth, which suggests that the Company may need to obtain additional financing.

## Baseline Indicator III: DuPont Formula Analysis

The DuPont Formula for Return on Assets and Return on Equity ratios are calculated for each full year of the historic financial statements. The ratios are presented here as alternate way to evaluate the quality of the Company's Return on Equity and to help identify potential weaknesses.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Net Sales Revenue	25,302,860	26,494,580	28,043,400	29,219,270	31,541,420
Divided by: Total Assets	14,799,125	14,918,781	15,692,445	15,884,755	15,522,587
Asset Turnover Ratio a	1.71	1.78	1.79	1.84	2.03
Net Income	442,816	549,037	598,005	687,985	1,060,590
Divided by: Net Sales	25,302,860	26,494,580	28,043,400	29,219,270	31,541,420
Return on Sales Ratio b	1.75%	2.07%	2.13%	2.35%	3.36%
DuPont Return on Assets (a x b)	2.99%	3.68%	3.81%	4.33%	6.83%
Total Assets	14,799,125	14,918,781	15,692,445	15,884,755	15,522,587
Divided by: Total Equity	6,118,166	6,340,136	6,883,939	7,163,571	7,683,107
Financial Leverage Ratio c	2.42	2.35	2.28	2.22	2.02
DuPont Return on Equity (a x b x c)	7.24%	8.66%	8.69%	9.60%	13.80%
DuPont Return on Equity (Rolling Average)		7.95%	8.19%	8.55%	9.60%

The above DuPont Analysis indicates that ROE for the most recent financial statement is 13.80%, which is an increase of 4.20% from the previous year. In addition, ROE for the current year is above the rolling average for the years included in this analysis.

### DuPont Asset Turnover

The first component of the DuPont formula is the Asset Turnover ratio, which measures the number of dollars of Sales Revenue generated for each dollar of Assets. The Asset Turnover ratio increased compared to the prior year. The change in Asset Turnover was driven by an increase in Sales Revenues of \$2,322,150 and a decrease in Total Assets of \$362,168.

An increase in Sales Revenues and a decrease in Total Assets suggests that sales growth is accompanied by the reduction of assets. The key issue is whether this change has resulted in greater turnover (i.e., higher sales for each dollar of assets). The increase in the Asset Turnover ratio indicates that overall utilization has improved. This can be a temporary condition as changes in sales and asset policies take effect. The next question is: have sales and asset management resulted in higher or lower margins? This is reviewed in the next DuPont component, Return on Assets.

### **DuPont Return on Assets**

The second component of the DuPont formula is the Return on Assets (ROA) ratio, which measures the amount of Net Income that is generated for each dollar of Assets. The ROA ratio increased compared to the prior year. The change in ROA was driven by an increase in Net Income of \$372,605 and a decrease in Total Assets of \$362,168.

An increase in Net Income and a decrease in Total Assets indicate improving profitability accompanied by a reduction in asset levels. The combined effect is an increase in the Return on Asset ratio compared to the previous year.

### **DuPont Financial Leverage**

The third component is the Financial Leverage ratio, which measures the number of dollars of Assets that the Company is carrying for every dollar of Equity. The Financial Leverage ratio decreased compared to the prior year. The change in Leverage was driven by a decrease in Total Assets of \$362,168 and an increase in Total Equity of \$519,536.

## Drivers and Draggers

This section of MoneySoft's Five-Minute Diagnostic examines financial performance based upon four financial statement components: 1) Sales Revenues, 2) Velocity and Asset Turnover, 3) Margins and Cash Flow, and 4) Return on Investment. When the performance metrics within a given component are improving, they are drivers. If the metric is deteriorating, then it's a dragger.

### Sales Revenues: The Prime Driver

It can be reasonably argued that the primary driver for any business is Sales Revenues. There is an old adage that states, "nothing happens until a sale is made." Once the sale is made, the company can then turn its attention to profitably delivering the product or service purchased. This diagnostic tracks sales growth (or decline) rates for each year, a 2-year average, and a rolling average.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Sales	25,302,860	26,494,580	28,043,400	29,219,270	31,541,420
Annual Growth Rate		4.71%	5.85%	4.19%	7.95%
Rolling Average Growth Rate		4.71%	5.28%	4.92%	5.67%

Annual Sales Revenues for the most recent year have increased by 7.95% compared to the prior year. The change in Sales Revenue Growth is above the Rolling Average of 5.67%, which suggest an acceleration in the rate of growth.

Most of the factors that drive or drag Revenues are not included in a company's financial statements. Market factors, customers, competitors, product and market mix, pricing, and sales systems all play pivotal roles determining revenues. However, the following financial statement items can provide some insight into what is possibly driving or dragging sales:

### Sales-Related Metrics

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Sales returns and allowances	1.66%	1.94%	1.39%	1.59%	2.44%
Total Selling Expenses	2.91%	3.01%	3.23%	3.36%	4.07%
Gross Profit	19.97%	17.81%	20.32%	21.14%	23.73%
Days receivable outstanding		27.23	25.76	25.87	25.44
Days inventory		36.78	41.44	43.35	42.66

With Sales Revenues having increased by 7.95% from the previous year, the following metrics may point to strengths, weaknesses and opportunities that should be considered:

Returns and Allowances are driven by the Company's policy on issuing customer refunds on returned merchandise. Returns and Allowances as a percent of Sales have increased by 0.85%, which may suggest that the Company's current policy has a negative impact on Sales. This account should be monitored to make certain that it does not reflect quality control issues.

Selling Expenses include the Company's expenditures in obtaining sales. Selling Expenses have increased by 32.03%, which suggests that the Company's expenditures are contributing to sales growth.

Gross Margin as a percentage of sales indicates the profitability of sales before Selling, G&A and other expenses. The Gross Margin has increased by 22.24%, which is a favorable situation in light of the Company's increase in Sales.

Days' Receivable Outstanding represents the number of days (on the average) it takes to collect Accounts Receivable. The number of Days' Receivable that the Company is carrying has increased by 0.43 days, indicating that while Sales are increasing, it is taking longer for the Company to get paid. This could indicate that a more



aggressive credit granting (and terms) policy is helping to drive sales. It could also indicate that management needs to review its credit granting along with its collection procedures and make certain that A/R is not absorbing too much of the Company's funds.

Days' Inventory represents the number days (on the average) it takes to sell Inventory. The number of Days Inventory that the Company is carrying has increased by (0.69) days while Sales have also increased. An increase in Days Inventory can help drive sales by providing customers with more options and better service. On the other hand, having more Days Inventory can also be the result of higher carrying costs, overstocking, slow-moving inventory or obsolete inventory.

## Velocity and Turnover Ratios

Asset Turnover is used in the Five-Minute Diagnostic to measure the amount of Sales Revenue generated for each dollar invested in Total Assets as well as other important assets such as A/R and Inventory as well as Fixed and Intangible Assets. While Total Wages, Non-Officer Wages and R&D Expense are not usually listed as assets on a Balance Sheet, they are included here as part of the Turnover measurement. Wages can be regarded as an investment in human capital and R&D Expense can be considered an investment in intellectual capital.

As the Turnover Ratio for any asset changes, the obvious question is, "what is driving the change?" Turnover Ratios can be based upon an increase/decrease in sales or an increase/reduction in the carrying balance of an asset. So, to make the Asset Turnover Ratios more meaningful, the percent-of-total-assets are presented for each asset group included in the diagnostic. This keeps the analyst from having to constantly refer back and forth to the Common-Size statements. The diagnostic measures Wages and R&D Expense as percentages of Total Operating Expenses.

Each Turnover ratio is presented along with the rolling average and the current-year-to-rolling average percentage.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Accounts Receivable Turnover</b>					
Current Year	12.62	13.07	14.11	13.16	13.80
Rolling Average		12.85	13.27	13.24	13.35
Current Year to Rolling Average (%)		101.73%	106.36%	99.37%	103.36%
<b>Days receivable outstanding</b>		27.23	25.76	25.87	25.44
<b>Accounts Receivable to Total Assets</b>	13.54%	13.59%	12.66%	13.98%	14.72%
<b>Inventory Turnover</b>					
Current Year	10.08	9.15	8.29	8.30	8.48
Rolling Average		9.62	9.17	8.96	8.86
Current Year to Rolling Average (%)		95.14%	90.38%	92.66%	95.71%
<b>Days inventory</b>		36.78	41.44	43.35	42.66
<b>Inventory to Total Assets</b>	13.51%	15.89%	17.11%	17.41%	18.13%
<b>Fixed Asset Turnover</b>					
Current Year	4.92	5.34	6.05	5.28	5.88
Rolling Average		5.13	5.44	5.40	5.49
Current Year to Rolling Average (%)		104.09%	111.29%	97.81%	107.04%
<b>Fixed Assets to Total Assets</b>	34.75%	33.26%	29.53%	34.84%	34.55%

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Intangible Assets Turnover</b>					
Current Year	103.00	112.10	123.53	134.23	151.39
Rolling Average		107.55	112.88	118.22	124.85
Current Year to Rolling Average (%)		104.23%	109.44%	113.55%	121.25%
<b>Intangible Assets to Total Assets</b>	1.66%	1.58%	1.45%	1.37%	1.34%
<b>Total Asset Turnover</b>					
Current Year	1.71	1.78	1.79	1.84	2.03
Rolling Average		1.74	1.76	1.78	1.83
Current Year to Rolling Average (%)		101.90%	101.68%	103.45%	111.11%
<b>Sales to Total Wages</b>					
Current Year	2.30	2.39	2.33	2.37	2.40
Rolling Average		2.35	2.34	2.35	2.36
Current Year to Rolling Average (%)		101.87%	99.66%	101.00%	101.53%
<b>Total Wages to Total Operating Expenses</b>	45.88%	44.37%	45.34%	44.67%	44.92%
<b>Sales to Non-Officer Wages</b>					
Current Year	2.38	2.48	2.43	2.47	2.50
Rolling Average		2.43	2.43	2.44	2.45
Current Year to Rolling Average (%)		102.09%	99.90%	101.43%	101.97%
<b>Non-Officer Wages to Total Operating Expenses</b>	44.42%	42.77%	43.64%	42.85%	43.04%
<b>Sales to Research &amp; Development</b>					
Current Year	0.00	0.00	0.00	0.00	0.00
Rolling Average		0.00	0.00	0.00	0.00
Current Year to Rolling Average (%)		0.00%	0.00%	0.00%	0.00%
<b>Research &amp; Development to Total Operating Expenses</b>	0.00%	0.00%	0.00%	0.00%	0.00%

Please note that rolling average is not calculated for the first year because the required data is not available.

The Total Asset Turnover Ratio for the most recent financial statement is 2.03 based upon Sales of \$31,541,420 and Total Assets of \$15,522,587. When compared to the prior year, the Total Asset Turnover Ratio has increase by 10.47%.

The increase in Total Asset Turnover is the result of an increase of \$2,322,150 in Sales Revenues and a decrease of \$362,168 in Total Assets.

The Turnover Ratios for the following Assets have improved (i.e., become more efficient) in the last year:

The Accounts Receivable Turnover Ratio increased by 0.64 to 13.80. Net Trade Accounts Receivable for the most recent year were \$2,285,390, which is an increase over the previous year. Net Trade Accounts Receivable represent 14.72% of Total Assets.

The Inventory Turnover Ratio increased by 0.18 to 8.48. Inventory for the most recent year was \$2,815,000, which is an increase over the previous year. Inventory represents 18.13% of Total Assets.

The Fixed Asset Turnover Ratio increased by 0.60 to 5.88. Net Fixed Assets for the most recent year were \$5,363,423, which is a decrease over the previous year. Net Fixed Assets represent 34.55% of Total Assets.

The Intangible Assets Turnover Ratio increased by 17.16 to 151.39. Net Intangible Assets for the most recent year were \$208,350, which is a decrease over the previous year. Net Intangible Assets represent 1.34% of Total Assets.

Margins and Cash Flow Generation: The Asset Velocity indicates how well the company is utilizing its assets to generate Sales Revenues. Margin and Cash Flow measure the amount of earnings generated in relation to Sales Revenues, i.e., the amount that falls to the bottom line(s).

This diagnostic measures Net Income After-Tax, Net Operating Income, EBT, EBIT, and EBITDA for each year as a percentage of Sales Revenues.

A distinguishing feature of the Five-Minute Diagnostic is the inclusion of Free Cash Flows available to both Total Invested Capital (FCF-TIC) and to Total Equity (FCF-E) in the analysis. FCF is measured as a percentage of Net Income After-Tax, EBT, EBIT, and EBITDA. Measuring earnings in this way provides another indicator of the quality of the earnings.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Gross Profit to Sales	20.30%	18.17%	20.61%	21.48%	24.32%
Net Income After Tax to Sales	1.75%	2.07%	2.13%	2.35%	3.36%
Net Operating Income to Sales	5.33%	5.71%	5.50%	5.69%	7.05%
EBT to Sales	2.87%	3.40%	3.50%	3.86%	5.51%
EBIT to Sales	5.55%	5.94%	5.84%	6.08%	7.43%
EBITDA to Sales	9.40%	10.17%	10.36%	10.49%	10.95%
Net Income to FCF-E		351.24%	74.71%	-100.91%	678.37%
EBT to FCF-E		575.81%	122.47%	-165.43%	1112.09%
EBIT to FCF-TIC		366.44%	253.18%	-534.85%	251.10%
EBITDA to FCF-TIC		627.11%	449.06%	-923.01%	370.16%
Cash from Operations to Net Cash Flow		-1083.78%	13857.77%	35130.09%	17512.70%

The following return on sales measurements (margins) for the current year increased compared to the prior year:

Gross Profit to Sales increased by 2.84%.

Net Income After Tax to Sales increased by 1.01%.

Net Operating Income to Sales increased by 1.37%.

Earnings Before Taxes (EBT) to Sales increased by 1.65%.

Earnings Before Interest and Taxes (EBIT) to Sales increased by 1.35%.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) to Sales increased by 0.46%.

Net Income to Free Cash Flow available to Equity (FCF-E) increased by 779.29%.

Earnings Before Taxes (EBT) to Free Cash Flow available to Equity (FCF-E) increased by 1277.52%.

Earnings Before Interest and Taxes (EBIT) to Free Cash Flow available to Total Invested Capital (FCF-TIC) increased by 785.95%.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) to Free Cash Flow available to Total Invested Capital (FCF-TIC) increased by 1293.17%.

The following return on sales measurements (margins) for the current year decreased compared to the prior year:

Cash from Operations to Net Cash Flow available to Total Invested Capital (FCF-TIC) decreased by 17617.39%.

The Company generated \$1,060,590 of Net Income and \$156,343 of Free Cash Flow available to Equity, which means that 14.74% of Net Income was available for distribution to shareholders or for reinvestment in the Company. This amount is up from the prior period.

In the most recent year, Net Income and FCF-E have both increased. In addition, the percentage of Net Income to FCF-E has increased, which means that a larger percentage of earnings may be available for distribution to shareholders or for reinvestment.

**Return on Investment:** Returns are calculated for various measures of investment including Total Assets, Total Equity and Total Invested Capital (i.e., Total Interest-Bearing Debt plus Total Equity).

- The diagnostic measures Return on Total Assets using Net Income After-Tax, Net Operating Income, EBT, EBITDA, FCF-TIC and FCF-E.
- Return on Equity is measured using FCF-E.
- Return on Total Invested Capital is measured using FCF-TIC.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Return on Assets:</b>					
Net Income After Tax to Total Assets	2.99%	3.68%	3.81%	4.33%	6.83%
Net Operating Income to Total Assets	9.12%	10.14%	9.84%	10.46%	14.33%
EBITDA to Total Assets	16.07%	18.06%	18.51%	19.30%	22.25%
EBIT to Total Assets	9.49%	10.55%	10.43%	11.18%	15.09%
FCF-E to Total Assets		1.05%	5.10%	-4.29%	1.01%
FCF-TIC to Total Assets		2.88%	4.12%	-2.09%	6.01%
<b>Return on Equity:</b>					
Net Income After Tax to Total Equity		8.66%	8.69%	9.60%	13.80%
Net Operating Income to Total Equity		23.87%	22.42%	23.20%	28.96%
EBITDA to Total Equity		42.50%	42.18%	42.79%	44.95%
EBIT to Total Equity		24.84%	23.78%	24.80%	30.49%
EBT to Total Equity		14.20%	14.24%	15.74%	22.63%
FCF-E to Total Equity		2.47%	11.63%	-9.52%	2.03%
FCF-TIC to Total Equity		6.78%	9.39%	-4.64%	12.14%
<b>Return on Total Invested Capital (TIC):</b>					
EBIT to Total Invested Capital (TIC)		10.55%	10.43%	11.18%	15.09%
EBITDA to Total Invested Capital (TIC)		18.06%	18.51%	19.30%	22.25%
FCF-TIC to Total Invested Capital (TIC)		2.88%	4.12%	-2.09%	6.01%

The above table examines returns on Total Assets, Total Equity and Total Invested Capital (TIC) using seven different earnings bases.

The following measures of Return on Assets increased:

Net Income After Tax to Total Assets increased by 2.50%.

Net Operating Income to Total Assets increased by 3.87%.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) to Total Assets increased by 2.95%.

Earnings Before Interest and Taxes to Total Assets increased by 3.91%.

Earnings Before Taxes to Total Assets increased by 4.10%.

Free Cash Flow available to Equity (FCF-E) to Total Assets increased by 5.30%.

Free Cash Flow available to Total Invested Capital (FCF-TIC) to Total Assets increased by 8.10%.

The following measures of Return on Equity increased:

Net Income After Tax to Total Equity increased by 4.20%.

Net Operating Income to Total Equity increased by 5.76%.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) to Total Equity increased by 2.16%.

Earnings Before Interest and Taxes (EBIT) to Total Equity increased by 5.70%.

Earnings Before Taxes (EBT) to Total Equity increased by 6.89%.

Free Cash Flow available to Equity (FCF-E) to Total Equity increased by 11.55%.

Free Cash Flow available to Total Invested Capital (FCF-TIC) to Equity increased by 16.78%.

The following measures of Return on Total Invested Capital increased:

Earnings Before Interest and Taxes (EBIT) to Total Invested Capital increased by 3.91%.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) to Total Invested Capital increased by 2.95%.

Free Cash Flow available to Total Invested Capital (FCF-TIC) to Total Invested Capital increased by 8.10%.