Sample Performance Review

For the period ended 12/31/2011

Provided by:

MIDDLETON RAINES ZAPATA

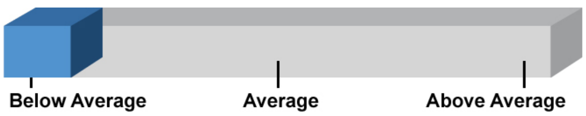
CERTIFIED PUBLIC ACCOUNTANTS

FINANCIAL REPORT

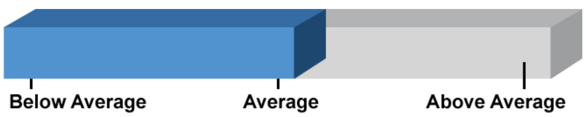
This report is designed to assist you in your business' development. Below you will find your overall ranking, business snapshot and narrative write-up.

Snapshot of: **SAMPLE - FLORIST**
Industry: 453110 - Florists
Revenue: Less than $1M
Periods: 12 months against the same 12 months from the previous year

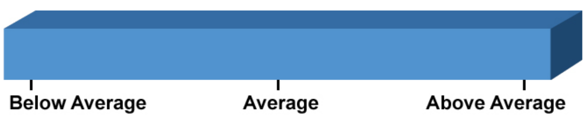
Financial Score for SAMPLE - FLORIST



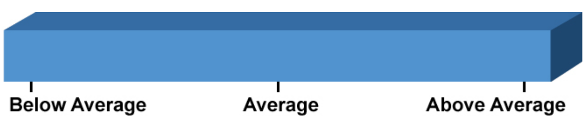
LIQUIDITY -
A measure of the company's ability to meet obligations as they come due.



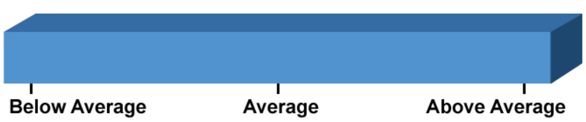
PROFITS & PROFIT MARGIN -
A measure of whether the trends in profit are favorable for the company.



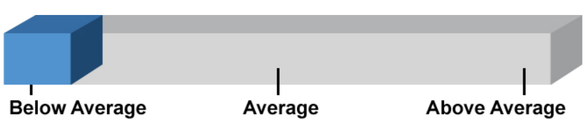
SALES -
A measure of how sales are growing and whether the sales are satisfactory for the company.



BORROWING -
A measure of how responsibly the company is borrowing and how effectively it is managing debt.



ASSETS -
A measure of how effectively the company is utilizing its gross fixed assets.

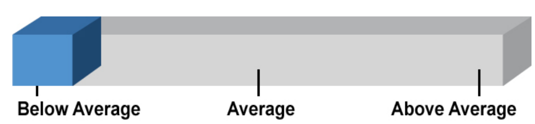


EMPLOYEES -
A measure of how effectively the company is hiring and managing its employees.

Financial Analysis for SAMPLE - FLORIST

LIQUIDITY

A measure of the company's ability to meet obligations as they come due.



Operating Cash Flow Results
Cash flow from operations is marginal for the period, as are profits. Since overall liquidity conditions are less than great (as will be discussed below), it is good to know how cash is coming into and going out of the company, since it seems like the company may need to keep liquid assets on its Balance Sheet in the future. Look for ways to unleash cash through better working capital management.

General Liquidity Conditions
Despite the significant increase in both sales and profits, there are some concerning trends in this key area. Keep in mind that trends are very important to the liquidity area -- that is why the company should be concerned that its **liquidity position has declined** this period. The firm also has a relatively "poor" liquidity

position. Remember that "poor" in this area is determined by comparing the firm's data to the data of other companies in the industry.

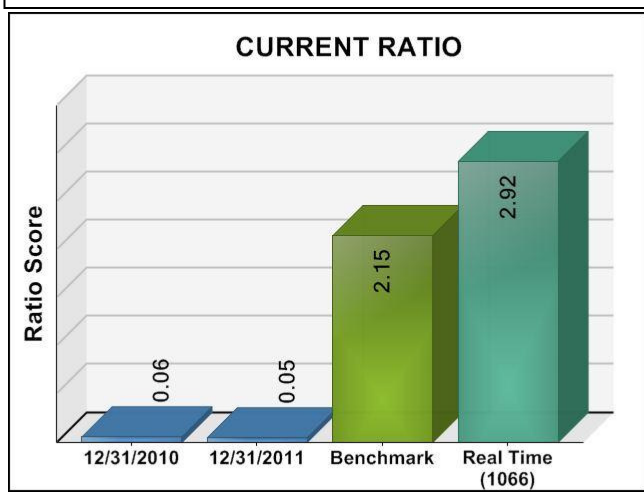
Notice that (at the risk of being negative at this juncture) the company's liquidity position is weak in two major areas. **First**, there are not enough cash and/or near-cash assets on hand for the amount of bills outstanding. The company needs some strength in its cash accounts when its overall liquidity position is poor. More importantly, this specific component of the firm's liquidity position has fallen from last period, which is not positive. **Second**, there are not enough total current assets on hand. This means that the company's overall liquidity position appears weak and there may be some problems paying bills if the firm's position is not elevated over time.

Even though the overall liquidity position of the company shows some weakness, the company seems to be doing well in regards to liquidity turnover ratios. Both accounts receivable and inventory days are currently better than the industry standards, indicating that the company is collecting receivables and turning inventory relatively quickly. Keeping these metrics low can greatly help the cash account, which is especially important when overall liquidity has some softness.

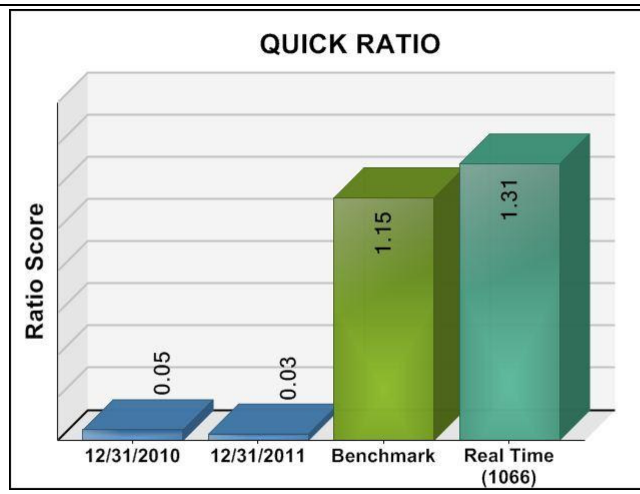
Tips For Improvement
In order to more effectively manage liquidity conditions, here are some actions/"tips" that managers might consider:

- Watch the sales patterns of goods to make sure they are not sitting for too long or not moving at all. If certain items are not selling, discounts may be necessary to get them out and replaced with something that will move.
- If cash is a constraint, try to establish a sufficient line of credit from the bank. The business should obtain, but not necessarily use, as much financing as possible from the bank. If you decide to obtain external financing, structure as long-term rather than short-term in order to decrease monthly payments.
- Monitor the amount of money that is being used for activities unrelated to the business. An example could be money taken out of the business on draws to principals.
- Prepare yearly forecasts that show cash flow levels at various points in time. Consider updating these forecasts on a monthly or even bi-weekly basis. This can help predict/prepare for potential cash shortfalls that may occur in the future.

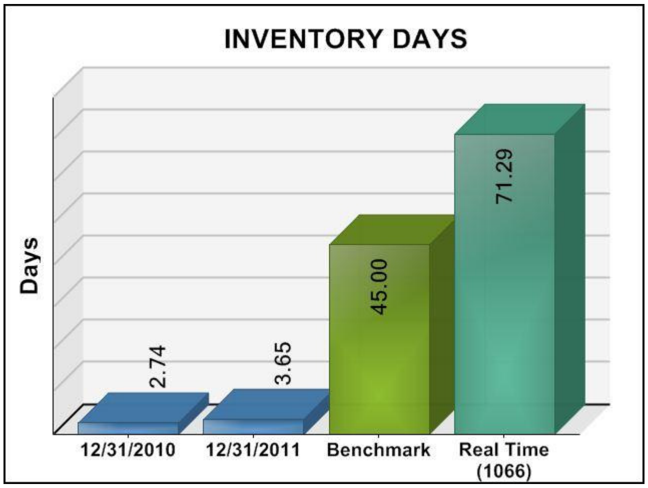
LIMITS TO LIQUIDITY ANALYSIS: Keep in mind that liquidity conditions are volatile, and this is a general analysis looking at a snapshot in time. Review this section, but do not overly rely on it.



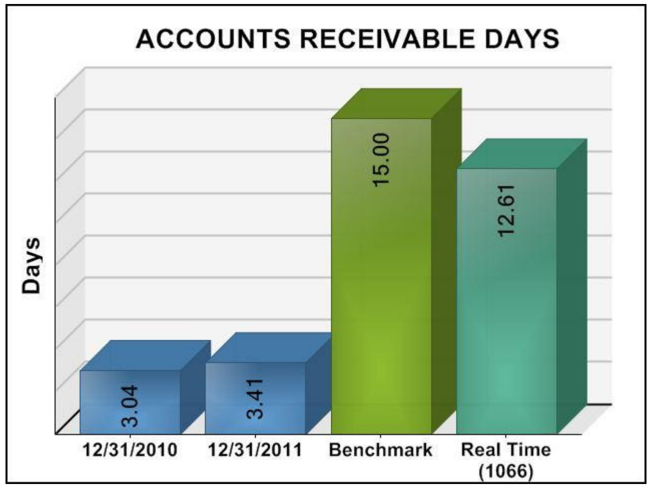
Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company is.



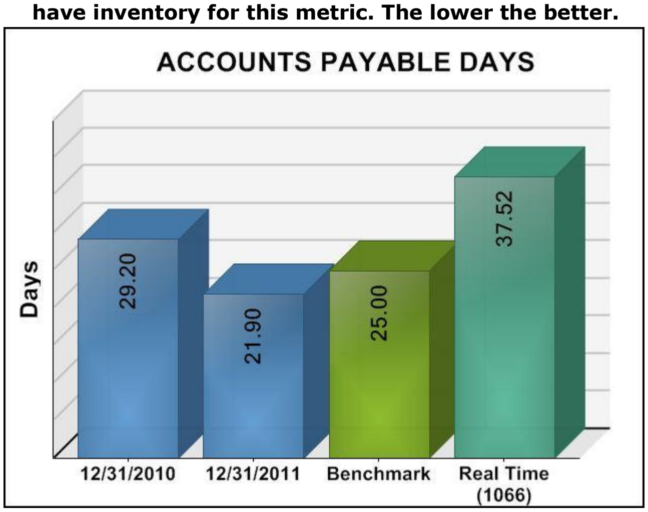
This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the company has to pay the amount listed in the denominator (current liabilities). The higher the number, the stronger the company.



This metric shows how much inventory (in days) is on hand. It indicates how quickly a company can respond to market and/or product changes. Not all companies have inventory for this metric. The lower the better.



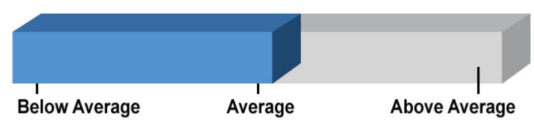
This number reflects the average length of time between credit sales and payment receipts. It is crucial to maintaining positive liquidity. The lower the better.



This ratio shows the average number of days that lapse between the purchase of material and labor, and payment for them. It is a rough measure of how timely a company is in meeting payment obligations. Lower is normally better.

PROFITS & PROFIT MARGIN

A measure of whether the trends in profit are favorable for the company.



The company's profitability results this period demonstrate the importance of margin management -- while the results are fairly good, there are a few trends that the company may want to watch out for in the future. To begin, net profits in dollars rose significantly by 25.00%, which is excellent. The net profit margin is also about average for the industry in which the company operates. While this is not negative in and of itself, it would have been ideal if the company's net margin had also risen, since the company drove in so many more dollars of sales and net profit. The reason for this is because some costs are fixed -- they do not change much as sales rise. Generally, margins should rise as sales rise because any fixed costs should decrease relative to sales.

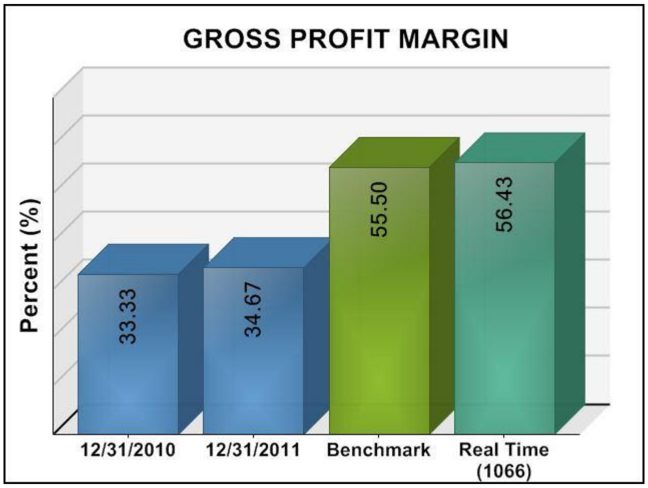
If both sales and net profits rose, how is it that the net margin did not improve? It appears that the company spent significantly more on operating costs. Spending more on operating costs is not necessarily negative, but these costs are like any other investment. Net profits and net margins should rise over time as the company invests in operating costs. A good goal right now may be to elevate net margins in the future as the company increases sales. Keep in mind that the net margins are only about average right now; they are not excellent.

There is one more point to add to this analysis as well. It should be determined whether management is deliberately trying to keep profits and margins at only "average" levels. Perhaps the company is investing in future growth -- spending money on items that will push higher long-term profits and sales? If this is the case, it is not **necessarily** true that profits and margins in the firm should be pushed higher at this time.

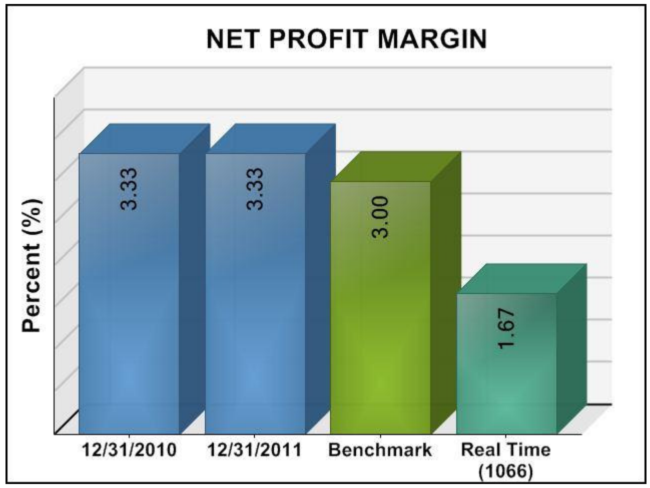
Investing in future growth has an additional benefit in that it can lower present tax burdens by lowering income.

Tips For Improvement
It is a challenge to generate strong profitability in any business over the long run. Here are some ideas managers might find useful to leverage even greater results in the future (these are "tips" or ideas to think about):

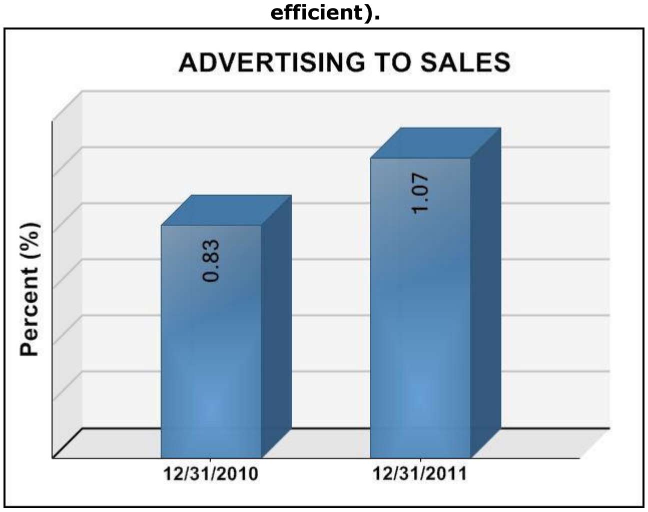
- Establish a niche that the business is known for such as creating arrangements for weddings and/or other special events.
- Maintain honesty with customers on the quality of a product in relation to its cost. Provide alternative options (when possible) to greater serve the needs of the customer.
- Be sure to track how much return (additional sales) the business gets from increases in advertising. Advertising methods should be dictated by effectiveness.
- Compare the business to others in the industry and work to meet and exceed industry standards. This can help improve the business's competitive position and retain customers who might be seeking an alternative provider.



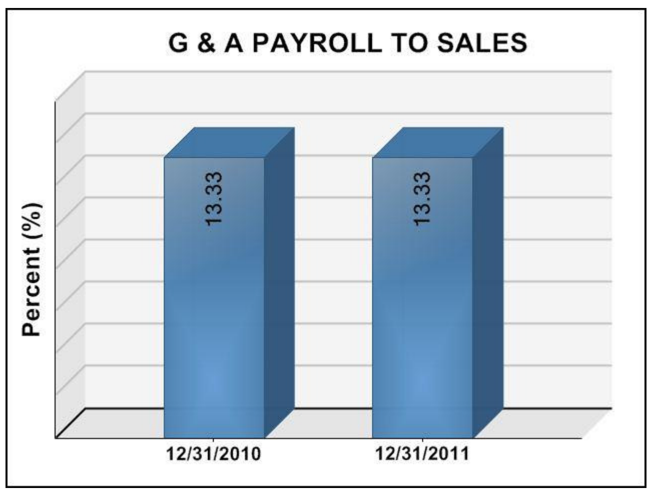
This number indicates the percentage of sales revenue that is not paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it indicates how many cents of gross profit can be generated by each dollar of future sales. Higher is normally better (the company is more efficient).



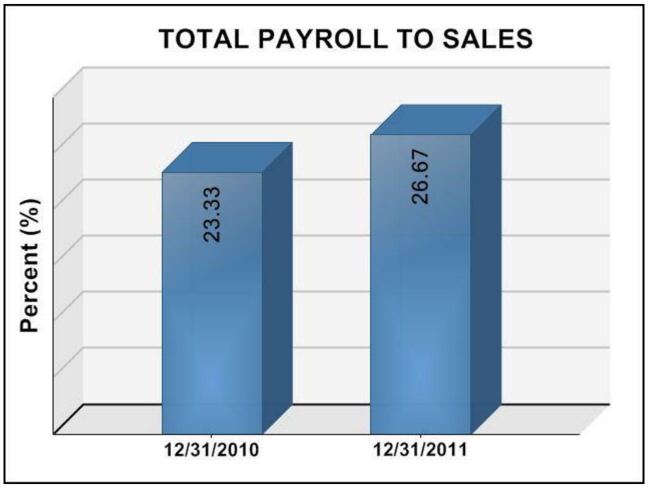
This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts. The higher the better.



This metric shows advertising expense for the company as a percentage of sales.



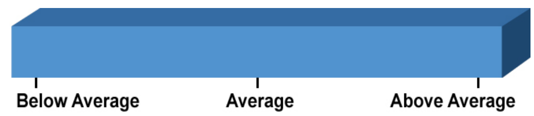
This metric shows G & A payroll expense for the company as a percentage of sales.



This metric shows total payroll expense for the company as a percentage of sales.

SALES

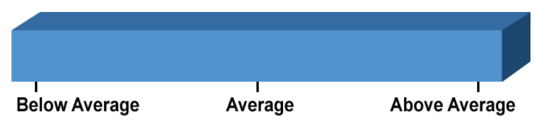
A measure of how sales are growing and whether the sales are satisfactory for the company.



It is interesting that sales have significantly risen at the same time that the employee base has also significantly risen. It is good to see large increases in sales **accompany** the relatively large increases in the employee base, even if the new employees have not directly helped elevate sales. A side observation is that fixed asset levels have stayed approximately the same as they were last period. This means that a larger amount of sales revenue is being generated by each dollar of assets. Finance professionals refer to this as increasing the business's "asset turns," which is a key performance measure in this specific industry. The company is now driving more sales through about the same level of assets, which can help improve profitability over the long run if expenses can be managed.

BORROWING

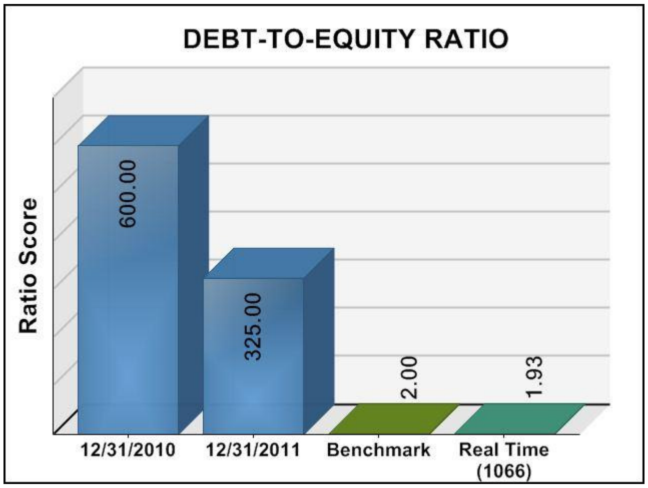
A measure of how responsibly the company is borrowing and how effectively it is managing debt.



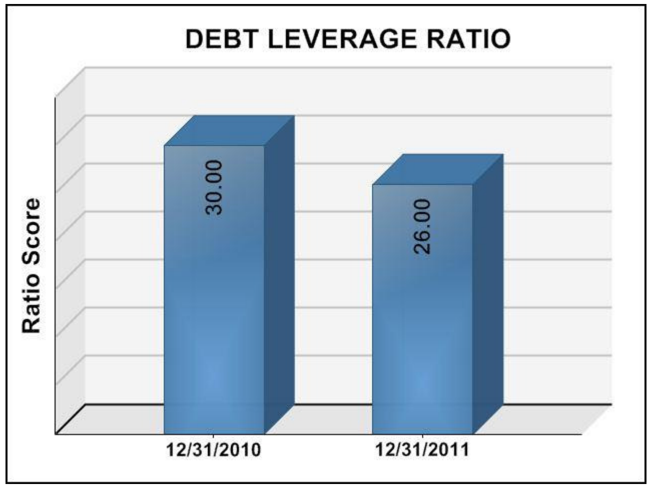
Borrowing allows a company to take advantage of a valuable resource: leverage. Leverage is using borrowing to improve profitability. For this company, while increasing borrowing from last period, profitability also improved by 25.00%. This is a favorable combination and generally leads to better returns for owners over time. Even though the current use of debt is strong, it is important to remember that past performance is not necessarily predictive of the future. It is good to see better profitability as borrowing increases, but it is important not to make the conclusion that this trend will absolutely continue.

Even though this company received a good score in this area, it is still quite important to evaluate real returns. For example, the trend here is good but the company will still want to determine the rates of return on assets and borrowed money. This report only indicates trends, not acceptable rates of return on borrowed funds.

Interestingly, the company seems to have a relatively high amount of debt on hand, yet it is not reporting net interest charges. This would be somewhat unusual for most companies. It would be important to know the type of debt that is on the books, which either does not carry high interest charges or which may have been recently added, in which case interest expense charges can be expected to rise significantly in the near future.



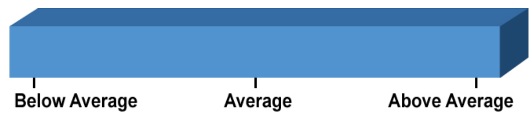
This Balance Sheet leverage ratio indicates the composition of a company's total capitalization -- the balance between money or assets owed versus the money or assets owned. Generally, creditors prefer a lower ratio to decrease financial risk while investors prefer a higher ratio to realize the return benefits of financial leverage.



This ratio measures a company's ability to repay debt obligations from annualized operating cash flow (EBITDA).

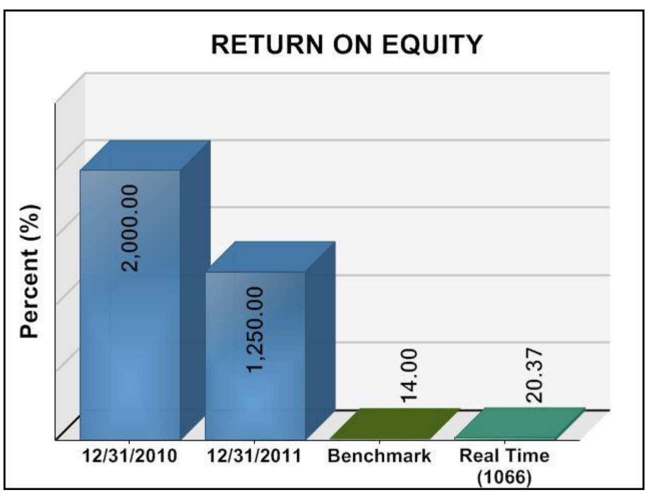
ASSETS

A measure of how effectively the company is utilizing its gross fixed assets.

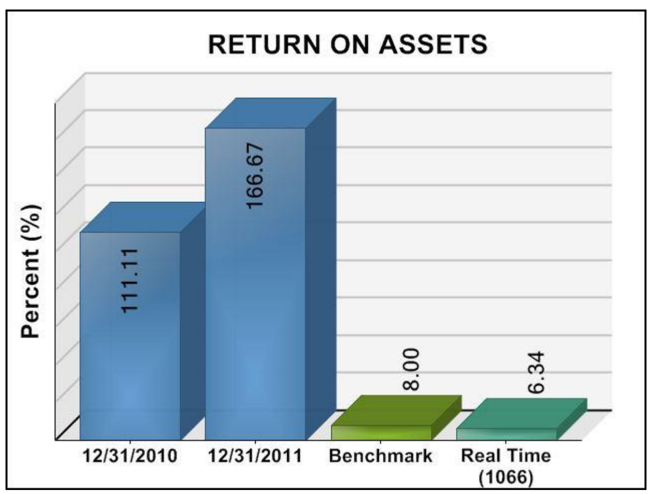


There is an interesting result here -- fixed assets stayed approximately the same, but profitability improved significantly. In other words, the company did not make any significant asset additions, but still improved profitability. This means the company is using its assets more efficiently.

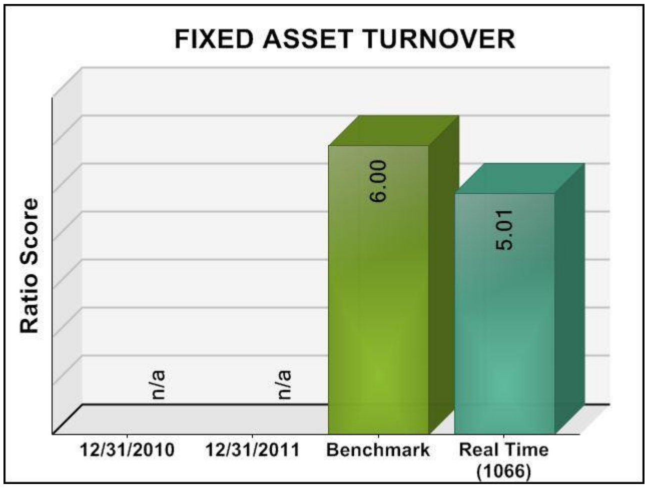
It is also positive to see above average returns on assets and equity, since these metrics are of critical importance to external and internal investors. The fixed asset ratio of the company is high as well, which means that the company is driving an adequate amount of revenue through each dollar invested in fixed assets.



This measure shows how much profit is being returned on the shareholders' equity each year. It is a vital statistic from the perspective of equity holders in a company. The higher the better.



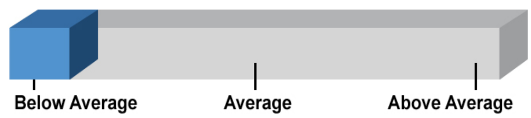
This calculation measures the company's ability to use its assets to create profits. Basically, ROA indicates how many cents of profit each dollar of asset is producing per year. It is quite important since managers can only be evaluated by looking at how they use the assets available to them. The higher the better.



This asset management ratio shows the multiple of annualized sales that each dollar of gross fixed assets is producing. This indicator measures how well fixed assets are "throwing off" sales and is very important to businesses that require significant investments in such assets. Readers should not emphasize this metric when looking at companies that do not possess or require significant gross fixed assets. The higher the more effective the company's investments in Net Property, Plant, and Equipment are.

EMPLOYEES

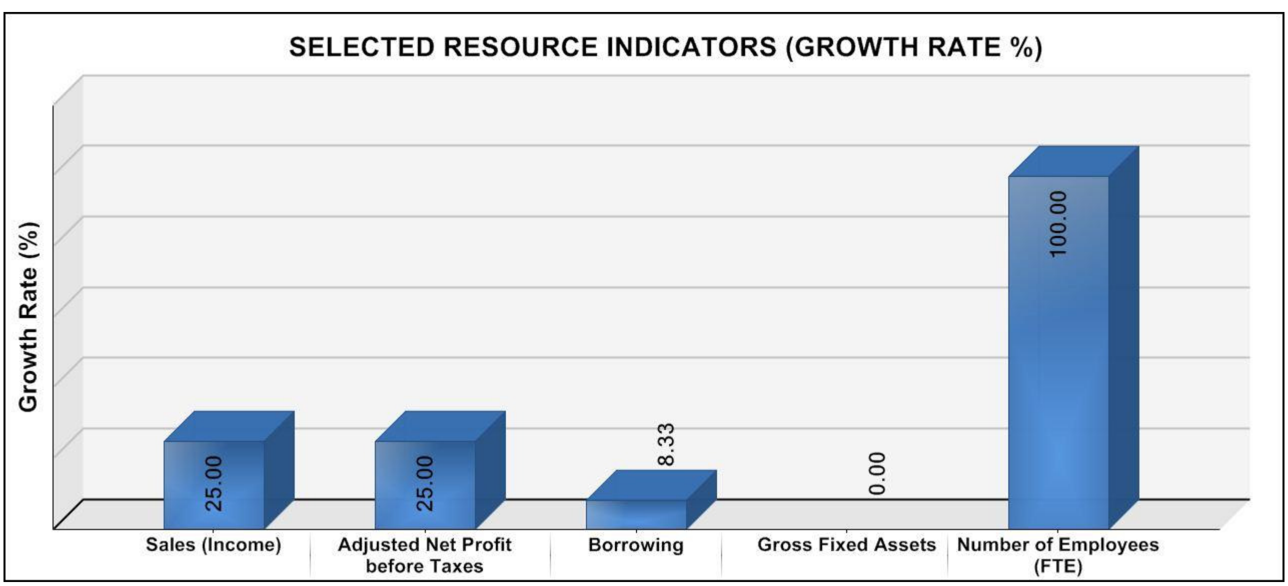
A measure of how effectively the company is hiring and managing its employees.



This company's results require careful consideration. The company has clearly improved net profitability this period, which is always good. However, the company's employee base grew at a faster rate than net profitability, which is not as positive. Because employees are a form of cost, this company's costs are growing faster than its profitability, which is a dynamic that could cause lower long-run profitability if it continued in the future. Companies generally want to see profitability improve faster than employee growth **over time.**

Managers **may** want to be careful about hiring people in the short run, unless the new hires will directly add to profitability. The employee base is an important component of profitability, but some companies simply tend to "over-hire" when net profitability is improving. It can be helpful to be aware of this factor and work against it.

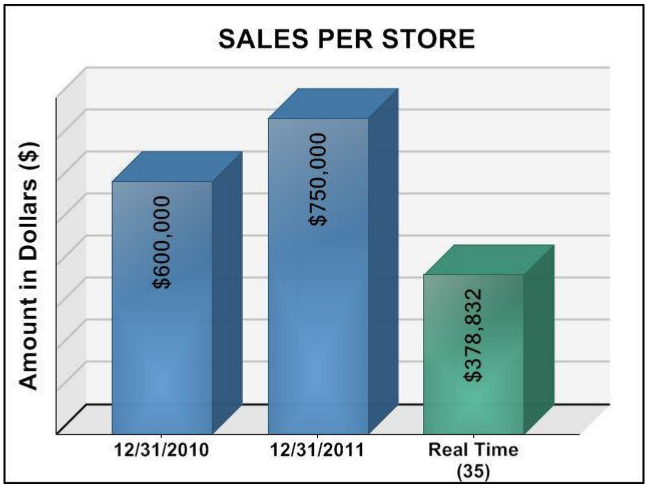
"Make everything as simple as possible, but not simpler." -- Albert Einstein



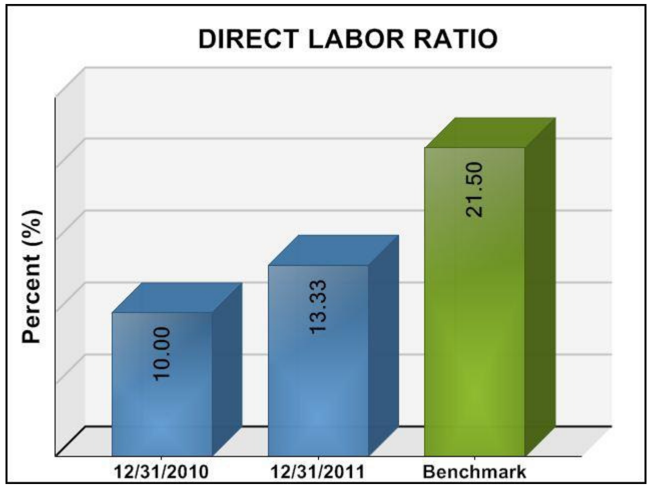
INDUSTRY-SPECIFIC PERFORMANCE RATIOS

What are the Key Performance Indicators for the business?

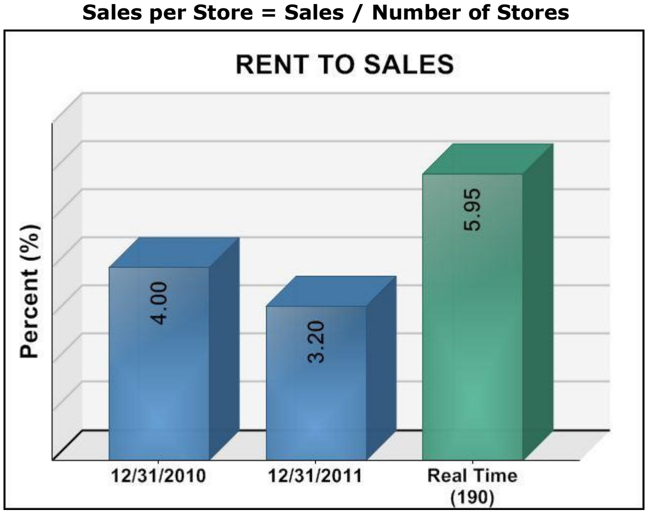
This section of the report provides **Key Performance Indicators** (or KPIs) for the business being analyzed, and they are specific to the business's industry and revenue. Track these KPIs over time and compare them to the industry averages to identify areas where the business might be able to improve operations.



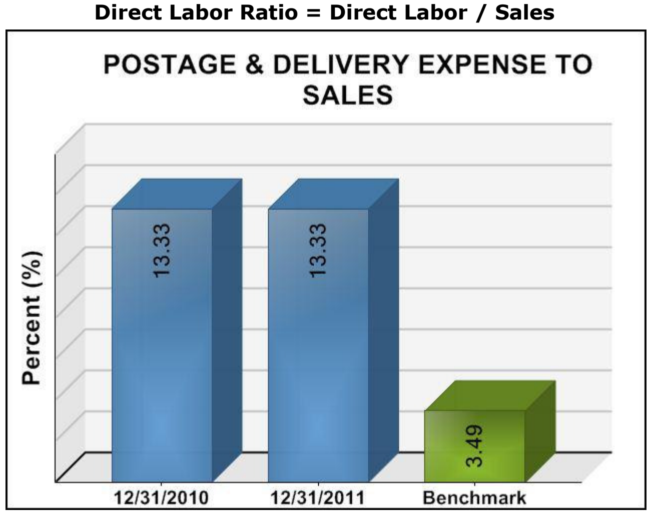
Sales per Store = Sales / Number of Stores



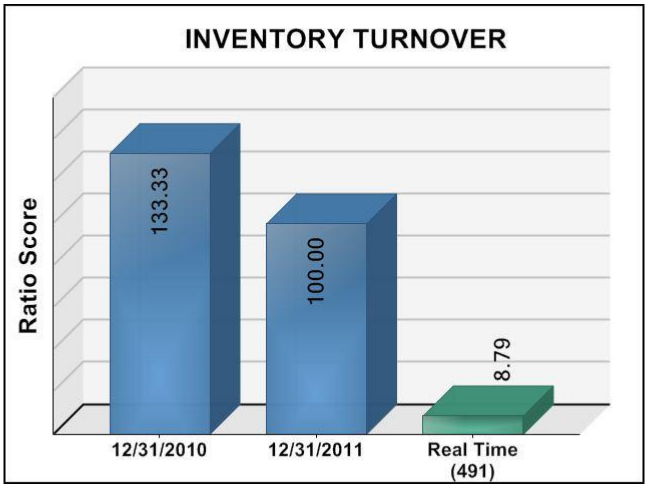
Direct Labor Ratio = Direct Labor / Sales



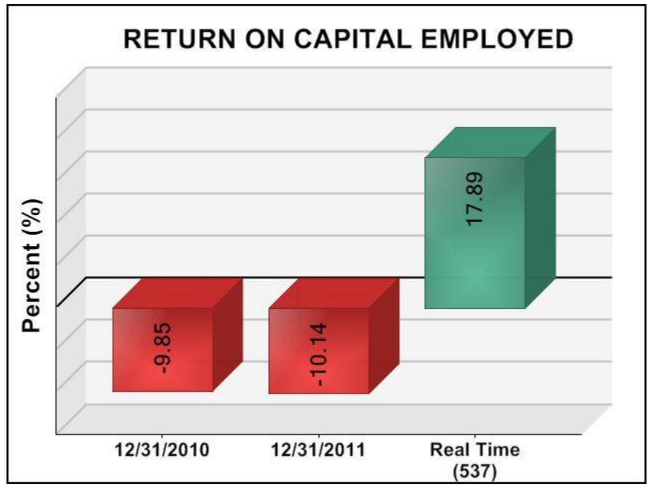
Rent to Sales = Rent / Sales



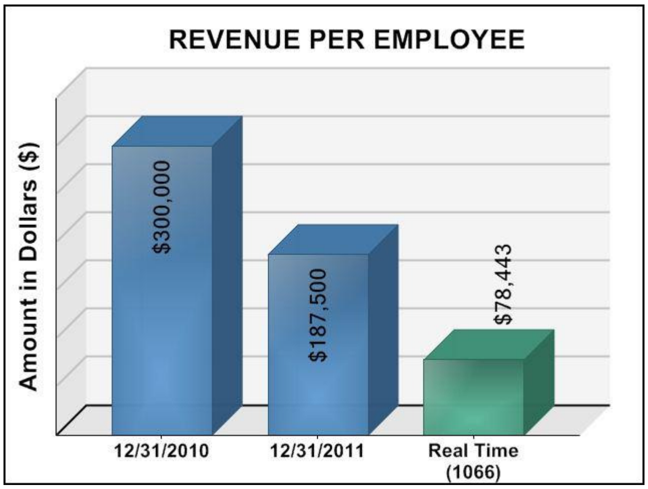
Postage & Delivery Expense to Sales = Postage & Delivery Expense / Sales



Inventory Turnover = Cost of Sales / Inventory



Return on Capital Employed = EBITDA / (Current Assets - Current Liabilities)



Revenue Per Employee = Sales / Employees

RAW DATA

Income Statement Data	12/31/2010	12/31/2011
Sales (Income)	$600,000	$750,000
Cost of Sales (COGS)	$400,000	$500,000
Depreciation (COGS-related)	$0	$0
Direct Materials	$190,000	$200,000
Direct Labor	$60,000	$100,000
Postage & Delivery Expense	$80,000	$100,000
Gross Profit	$200,000	$260,000
Gross Profit Margin	33.33%	34.67%
Depreciation	$0	$0
Amortization	$0	$0
Overhead or S,G,& A Expenses	$130,000	$180,000
G & A Payroll Expense	$80,000	$100,000
Rent	$24,000	$24,000
Advertising	$5,000	$8,000
Other Operating Income	$0	$0
Other Operating Expenses	$0	$0
Operating Profit	$70,000	$80,000
Interest Expense	$0	$0
Other Income	$0	$0
Other Expenses	$50,000	$55,000
Net Profit Before Taxes	$20,000	$25,000
Adjusted Net Profit before Taxes	$20,000	$25,000
Net Profit Margin	3.33%	3.33%
EBITDA	$20,000	$25,000
Taxes Paid	$0	$0
Extraordinary Gain	$0	$0
Extraordinary Loss	$0	$0
Net Income	$20,000	$25,000

Balance Sheet Data	12/31/2010	12/31/2011
Cash (Bank Funds)	$5,000	$2,000
Accounts Receivable	$5,000	$7,000
Inventory	$3,000	$5,000
Other Current Assets	$0	$0
Total Current Assets	$13,000	$14,000
Gross Fixed Assets	$0	$0
Accumulated Depreciation	$0	$0
Net Fixed Assets	$0	$0
Gross Intangible Assets	$0	$0
Accumulated Amortization	$0	$0
Net Intangible Assets	$0	$0
Other Assets	$5,000	$1,000
Total Assets	$18,000	$15,000
Accounts Payable	$32,000	$30,000
Short Term Debt	$94,000	$150,500
Notes Payable / Current Portion of Long Term Debt	$0	$0
Other Current Liabilities	$90,000	$80,000
Total Current Liabilities	$216,000	$260,500
Notes Payable / Senior Debt	$20,000	$30,000

Notes Payable / Subordinated Debt	$0	$0
Other Long Term Liabilities	$0	$0
Total Long Term Liabilities	$220,000	$300,000
Total Liabilities	$600,000	$650,000
Preferred Stock	$0	$0
Common Stock	$0	$0
Additional Paid-in Capital	$0	$0
Other Stock / Equity	$1,000	$2,000
Ending Retained Earnings	$0	$0
Total Equity	$1,000	$2,000
Total Liabilities + Equity	$601,000	$652,000
Number of Employees (FTE)	2.0	4.0
Other Non-Financial Accounts		
Number of Stores	1.00	1.00
Retail Square Feet	2,500.00	2,500.00

COMMON SIZE STATEMENTS

Income Statement Data	12/31/2010	12/31/2011	Industry* (1066)
Sales (Income)	100%	100%	100%
Cost of Sales (COGS)	67%	67%	44%
Depreciation (COGS-related)	0%	0%	N/A
Direct Materials	32%	27%	41%
Direct Labor	10%	13%	12%
Postage & Delivery Expense	13%	13%	6%
Gross Profit	33%	35%	56%
Depreciation	0%	0%	2%
Amortization	0%	0%	0%
Overhead or S,G,& A Expenses	22%	24%	43%
G & A Payroll Expense	13%	13%	25%
Rent	4%	3%	7%
Advertising	1%	1%	3%
Other Operating Income	0%	0%	0%
Other Operating Expenses	0%	0%	9%
Operating Profit	12%	11%	3%
Interest Expense	0%	0%	1%
Other Income	0%	0%	0%
Other Expenses	8%	7%	0%
Net Profit Before Taxes	3%	3%	2%
Adjusted Net Profit before Taxes	3%	3%	2%
EBITDA	3%	3%	4%
Taxes Paid	0%	0%	0%
Extraordinary Gain	0%	0%	0%
Extraordinary Loss	0%	0%	0%
Net Income	3%	3%	2%

Balance Sheet Data	12/31/2010	12/31/2011	Industry* (1066)
Cash (Bank Funds)	28%	13%	7%
Accounts Receivable	28%	47%	12%
Inventory	17%	33%	29%
Other Current Assets	0%	0%	1%
Total Current Assets	72%	93%	54%
Gross Fixed Assets	0%	0%	92%
Accumulated Depreciation	0%	0%	49%
Net Fixed Assets	0%	0%	43%
Gross Intangible Assets	0%	0%	0%
Accumulated Amortization	0%	0%	0%
Net Intangible Assets	0%	0%	0%
Other Assets	28%	7%	3%
Total Assets	100%	100%	100%
Accounts Payable	178%	200%	18%
Short Term Debt	522%	1,003%	0%
Notes Payable / Current Portion of Long Term Debt	0%	0%	4%
Other Current Liabilities	500%	533%	18%
Total Current Liabilities	1,200%	1,737%	51%
Notes Payable / Senior Debt	111%	200%	26%

Notes Payable / Subordinated Debt	0%	0%	0%
Other Long Term Liabilities	0%	0%	2%
Total Long Term Liabilities	1,222%	2,000%	59%
Total Liabilities	3,333%	4,333%	110%
Preferred Stock	0%	0%	0%
Common Stock	0%	0%	2%
Additional Paid-in Capital	0%	0%	1%
Other Stock / Equity	6%	13%	3%
Ending Retained Earnings	0%	0%	-17%
Total Equity	6%	13%	-10%
Total Liabilities + Equity	3,339%	4,347%	100%

*The industry common size figures shown above were taken from all private company data for companies with industry code 453110 for all years in all areas with yearly sales under $1 million.

INDUSTRY SCORECARD

Financial Indicator	Current Period	Industry Range	Distance from Industry
Current Ratio = Total Current Assets / Total Current Liabilities	0.05	1.50 to 2.80	-96.67%

Explanation: Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company is.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Quick Ratio = (Cash + Accounts Receivable) / Total Current Liabilities	0.03	0.80 to 1.50	-96.25%

Explanation: This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the company has to pay the amount listed in the denominator (current liabilities). The higher the number, the stronger the company.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Inventory Days = (Inventory / COGS) * 365	3.65 Days	30.00 to 60.00 Days	+87.83%

Explanation: This metric shows how much inventory (in days) is on hand. It indicates how quickly a company can respond to market and/or product changes. Not all companies have inventory for this metric. The lower the better.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Accounts Receivable Days = (Accounts Receivable / Sales) * 365	3.41 Days	5.00 to 25.00 Days	+31.80%

Explanation: This number reflects the average length of time between credit sales and payment receipts. It is crucial to maintaining positive liquidity. The lower the better.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Accounts Payable Days = (Accounts Payable / COGS) * 365	21.90 Days	10.00 to 40.00 Days	0.00%

Explanation: This ratio shows the average number of days that lapse between the purchase of material and labor, and payment for them. It is a rough measure of how timely a company is in meeting payment obligations. Lower is normally better.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Gross Profit Margin = Gross Profit / Sales	34.67%	50.00% to 61.00%	-30.66%

Explanation: This number indicates the percentage of sales revenue that is not paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it indicates how many cents of gross profit can be generated by each dollar of future sales. Higher is normally better (the company is more efficient).

Financial Indicator	Current Period	Industry Range	Distance from Industry
Net Profit Margin = Adjusted Net Profit before Taxes / Sales	3.33%	1.00% to 5.00%	0.00%

Explanation: This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts. The higher the better.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Total Payroll to Sales = (Direct Labor + G & A Payroll Expense) / Sales	26.67%	N/A	N/A

Explanation: This metric shows total payroll expense for the company as a percentage of sales.

Financial Indicator	Current Period	Industry Range	Distance from Industry
Debt-to-Equity Ratio = Total Liabilities / Total Equity	325.00	1.00 to 3.00	-10,733.33%

Explanation: This Balance Sheet leverage ratio indicates the composition of a company’s total capitalization -- the balance between money or assets owed versus the money or assets owned. Generally, creditors prefer a lower ratio to decrease financial risk while investors prefer a higher ratio to realize the return benefits of financial leverage.

Debt Leverage Ratio = Total Liabilities / EBITDA	26.00	N/A	N/A

Explanation: This ratio measures a company's ability to repay debt obligations from annualized operating cash flow (EBITDA).

Return on Equity = Net Income / Total Equity	1,250.00%	8.00% to 20.00%	+6,150.00%

Explanation: This measure shows how much profit is being returned on the shareholders' equity each year. It is a vital statistic from the perspective of equity holders in a company. The higher the better.

Return on Assets = Net Income / Total Assets	166.67%	6.00% to 10.00%	+1,566.70%

Explanation: This calculation measures the company's ability to use its assets to create profits. Basically, ROA indicates how many cents of profit each dollar of asset is producing per year. It is quite important since managers can only be evaluated by looking at how they use the assets available to them. The higher the better.

Fixed Asset Turnover = Sales / Gross Fixed Assets	N/A	3.00 to 9.00	N/A

Explanation: This asset management ratio shows the multiple of annualized sales that each dollar of gross fixed assets is producing. This indicator measures how well fixed assets are "throwing off" sales and is very important to businesses that require significant investments in such assets. Readers should not emphasize this metric when looking at companies that do not possess or require significant gross fixed assets. The higher the more effective the company's investments in Net Property, Plant, and Equipment are.

NOTE: Exceptions are sometimes applied when calculating the Financial Indicators. Generally, this occurs when the inputs used to calculate the ratios are zero and/or negative.

READER: Financial analysis is not a science; it is about interpretation and evaluation of financial events. Therefore, some judgment will always be part of our reports and analyses. Before making any financial decision, always consult an experienced and knowledgeable professional (accountant, banker, financial planner, attorney, etc.).