

The B. Candoo Construction Company



Financial Analysis Report *2004*

Presented By: CPA Firm

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CPA Firm Name

Board of Directors and Stockholder
The B. Candoo Construction Company, Inc.
Boston, Massachusetts

The financial statement analysis report is for "Internal Management Use Only". The report was prepared based upon information from your financial statements. The providing of this information is considered a consulting on accounting matters engagement, as such, we do not have a reporting responsibility.

CPA Firm Name

CPA Firm Name

January 14, 2004

Street Address
City, State Zip

Phone: 123-123-4567
Fax: 123-456-7890

Industry & Economic Overview

SIC 1711 General Contractors - Plumbing, Heating & Air Conditioning

Subcontractors primarily engaged in installing and servicing plumbing, heating and air-conditioning equipment. Contractors in this industry may provide both parts and labor when performing work. The work performed may include new work, additions, alterations, maintenance and repairs.

Comparative historical data with 98 participants having revenue between \$10 - \$50 million.

Comparative historical data with 15 participants having revenue over \$50 million.

Key Industry Facts

- 🌐 The HVAC industry is dependent on new construction which can drop rapidly during an economic slowdown
- 🌐 The HVAC industry is vulnerable to quality air issues, such as mold, therefore obtaining mold liability insurance is difficult and costly
- 🌐 As more and more builders consolidate, HVAC contractors are with fewer companies with subcontractors
- 🌐 The HVAC industry is joining a nationwide campaign to raise interest in education programs and company training for new recruits

Key Industry Trends and Developments

- 🌐 Consolidation is up due to broader professional expertise and product selection, higher quality service and brand name recognition
- 🌐 As older systems age and technology changes, technicians are needed with the appropriate technical expertise
- 🌐 More contractors are developing closer relationships with suppliers to maximize their success
- 🌐 HVAC are finding more opportunities in the maintenance, replacement market due to aging equipment, energy savings & regs

Key Industry Challenges and Opportunities

- 🌐 A technically proficient workforce and adequately trained service technicians
- 🌐 Profiting from slower technicians as they are usually less experienced and more billable

THE B. CANDOO CONSTRUCTION COMPANY, INC.
ASSETS

	11/30/00	% of Total	11/30/01	% of Total	11/30/02	% of Total	11/30/03	% of Total	(SIC 1711) % per Industry Average 10-50MM	(SIC 1711) % per Industry Average Over-50MM
<u>CURRENT ASSETS</u>										
Cash	5,368,678	25.40%	6,169,197	39.98%	4,768,342	30.52%	5,222,477	25.64%	11.80%	11.40%
Accounts receivable, contracts net	10,553,824	49.93%	4,734,383	30.68%	7,393,375	47.32%	9,938,785	48.79%	48.00%	41.00%
Retainage receivable, contracts net	4,155,758	19.66%	4,134,534	26.79%	2,935,361	18.79%	3,693,717	18.13%	3.80%	2.70%
Costs in excess of billings	580,487	2.75%	21,029	0.14%	116,059	0.74%	584,913	2.87%	5.70%	6.00%
Due from affiliates	239,226	1.13%	---	0.00%	---	0.00%	97,480	0.48%	0.00%	0.00%
Prepaid and other current assets	---	0.00%	---	0.00%	---	0.00%	423,561	2.08%	11.60%	10.90%
TOTAL CURRENT ASSETS	20,897,973	98.86%	15,059,143	97.59%	15,213,137	97.36%	19,960,933	97.98%	80.90%	72.00%
Fixed assets, net	111,920	0.53%	225,274	1.46%	249,637	1.60%	335,314	1.65%	12.40%	21.20%
Other assets	128,455	0.61%	146,888	0.95%	162,996	1.04%	75,306	0.37%	6.70%	6.80%
TOTAL ASSETS	21,138,348	100.00%	15,431,305	100.00%	15,625,770	100.00%	20,371,553	100.00%	100.00%	100.00%

THE B. CANDOO CONSTRUCTION COMPANY, INC.
LIABILITIES AND NET WORTH

	11/30/00	% of Total	11/30/01	% of Total	11/30/02	% of Total	11/30/03	% of Total	(SIC 1711) % per Industry Average 10-50MM	(SIC 1711) % per Industry Average Over-50MM
<u>CURRENT LIABILITIES</u>										
Current portion of long-term debt	2,771	0.01%	---	0.00%	14,418	0.09%	---	0.00%	1.70%	1.40%
Accounts payable, trade	12,520,372	59.23%	4,304,862	27.90%	8,485,348	54.30%	8,225,036	40.38%	25.90%	21.20%
Accounts payable, retainage	1,803,820	8.53%	1,982,034	12.84%	1,204,966	7.71%	1,319,929	6.48%	0.60%	0.40%
Billings in excess of costs	3,277,484	15.50%	3,815,139	24.72%	1,830,579	11.72%	6,702,175	32.90%	10.30%	11.40%
Accrued and other liabilities	349,841	1.66%	434,531	2.82%	484,442	3.10%	456,972	2.24%	19.30%	15.40%
TOTAL CURRENT LIABILITIES	17,954,288	84.94%	10,536,566	68.28%	12,019,753	76.92%	16,704,112	82.00%	57.80%	49.80%
Long-term debt, net of current portion	---	0.00%	---	0.00%	15,619	0.10%	---	0.00%	7.70%	17.70%
Net worth	3,184,060	15.06%	4,894,739	31.72%	3,590,398	22.98%	3,667,441	18.00%	34.50%	32.50%
TOTAL LIABILITIES AND NET WORTH	21,138,348	100.00%	15,431,305	100.00%	15,625,770	100.00%	20,371,553	100.00%	100.00%	100.00%

THE B. CANDOO CONSTRUCTION COMPANY, INC.
INCOME STATEMENTS

	11/30/00	% of Revenues	11/30/01	% of Revenues	11/30/02	% of Revenues	11/30/03	% of Revenues	% per Industry Average 10-50MM	% per Industry Average Over-50MM
Contract revenues	46,574,003	100.00%	50,364,861	100.00%	36,297,747	100.00%	50,397,794	100.00%	100.00%	100.00%
Cost of contract revenues	41,502,719	89.11%	43,201,919	85.78%	31,260,578	86.12%	45,306,574	89.90%	81.50%	80.00%
Gross profit	5,071,284	10.89%	7,162,942	14.22%	5,037,169	13.88%	5,091,220	10.10%	18.50%	20.00%
Selling, general and administrative	1,632,953	3.51%	2,700,878	5.36%	2,908,764	8.01%	1,902,012	3.77%	15.90%	16.90%
Income from operations	3,438,331	7.38%	4,462,064	8.86%	2,128,405	5.86%	3,189,208	6.33%	2.60%	3.10%
Other income (expense), net	312,176	0.67%	316,383	0.63%	234,272	0.65%	(41,697)	-0.08%	0.30%	0.00%
Income before taxes	3,750,507	8.05%	4,778,447	9.49%	2,362,677	6.51%	3,147,511	6.25%	2.30%	3.10%
Income taxes	261,200	0.56%	299,200	0.59%	152,000	0.42%	289,900	0.58%		
Net income	3,489,307	7.49%	4,479,247	8.89%	2,210,677	6.09%	2,857,611	5.67%		

THE B. CANDOO CONSTRUCTION COMPANY, INC.
OTHER FINANCIAL INFORMATION

	11/30/00	% of Revenues	11/30/01	% of Revenues	11/30/02	% of Revenues	11/30/03	% of Revenues	% per Industry Average 10-50MM
Net income	3,489,307	7.49%	4,479,247	8.89%	2,210,677	6.09%	2,857,611	5.67%	
Depreciation and amortization	18,076	0.04%	53,650	0.11%	69,094	0.19%	86,877	0.17%	0.30%
Interest expense	503	0.00%	1,896	0.00%	---	0.00%	---	0.00%	
EBITDA	3,769,086		4,833,993		2,431,771		3,234,388		
Contract billings	48,356,580	103.83%	51,461,974	102.18%	34,218,157	94.27%	54,800,536	108.74%	
Officers', directors & owners' comp.	416,882	0.90%	1,285,866	2.55%	1,602,154	4.41%	488,501	0.97%	1.20%
Stockholders' distributions	1,859,708		2,768,568		3,515,018		2,780,568		
Retained earnings	2,884,060		4,594,739		3,290,398		3,367,441		
Cash demand period days	(67)		(47)		(51)		(55)		

CASH FLOWS SUMMARY

Net cash provided (used) by:

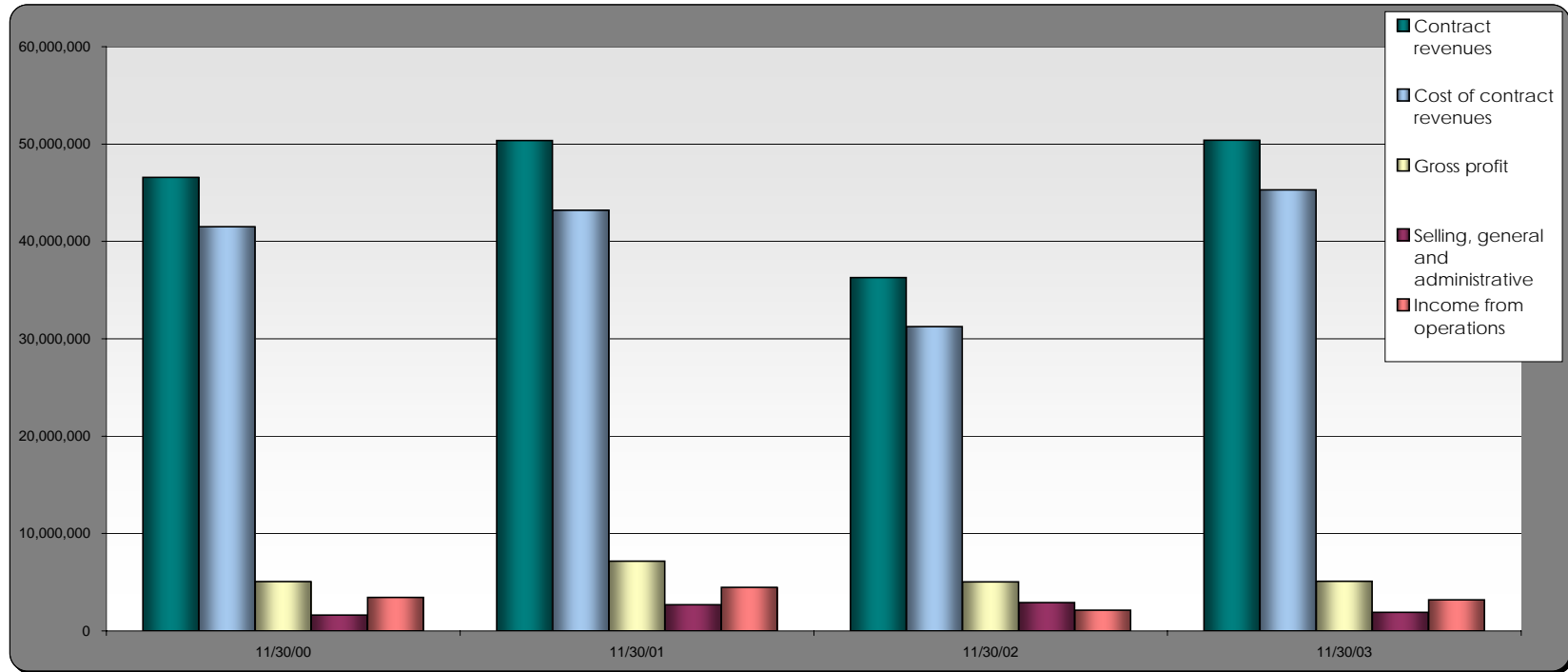
Operating activities	4,485,242	3,757,295	2,193,691	3,765,798
Investing activities	(103,012)	(185,437)	(66,313)	(501,058)
Financing activities	(1,864,911)	(2,771,339)	(3,528,223)	(2,810,605)
Net increase (decrease) in cash	2,517,319	800,519	(1,400,845)	454,135

Definition of cash demand period:

Cash demand period reflects the number of days it takes to generate net cash from construction operations which is computed as follows:
Accounts receivable days plus cost in excess days less accounts payable days less billing in excess days.
The average for a general contractor is -5 to -10 days while a subcontractor would be +5 to +10 days.

THE B. CANDOO CONSTRUCTION COMPANY, INC.
INCOME STATEMENT ANALYSIS

	11/30/00	% of Revenues	11/30/01	% of Revenues	11/30/02	% of Revenues	11/30/03	% of Revenues
Contract revenues	46,574,003	100.00%	50,364,861	100.00%	36,297,747	100.00%	50,397,794	100.00%
Cost of contract revenues	41,502,719	89.11%	43,201,919	85.78%	31,260,578	86.12%	45,306,574	89.90%
Gross profit	5,071,284	10.89%	7,162,942	14.22%	5,037,169	13.88%	5,091,220	10.10%
Selling, general and administrative	1,632,953	3.51%	2,700,878	5.36%	2,908,764	8.01%	1,902,012	3.77%
Income from operations	3,438,331	7.38%	4,462,064	8.86%	2,128,405	5.86%	3,189,208	6.33%



THE B. CANDOO CONSTRUCTION COMPANY, INC.
COST OF CONTRACT REVENUES

	11/30/00	% of Revenues	11/30/01	% of Revenues	11/30/02	% of Revenues	11/30/03	% of Revenues
Subcontractors	20,203,813	43.38%	24,664,463	48.97%	16,184,998	44.59%	22,982,961	45.60%
Materials and equipment	17,307,876	37.16%	10,991,726	21.82%	10,240,365	28.21%	14,058,345	27.89%
Direct labor	2,458,074	5.28%	5,173,483	10.27%	2,973,815	8.19%	5,183,136	10.28%
Union pension and benefits	825,640	1.77%	1,265,008	2.51%	998,464	2.75%	1,838,887	3.65%
Other direct costs	262,426	0.56%	470,690	0.93%	382,134	1.05%	453,479	0.90%
Payroll taxes	207,391	0.45%	293,215	0.58%	236,353	0.65%	415,661	0.82%
Insurance	211,422	0.45%	326,079	0.65%	230,409	0.63%	351,471	0.70%
Travel	22,662	0.05%	10,313	0.02%	9,191	0.03%	18,654	0.04%
Other indirect costs	3,415	0.01%	6,942	0.01%	4,849	0.01%	3,980	0.01%
Total	41,502,719	89.11%	43,201,919	85.78%	31,260,578	86.12%	45,306,574	89.90%

THE B. CANDOO CONSTRUCTION COMPANY, INC.
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	11/30/00	% of Revenues	11/30/01	% of Revenues	11/30/02	% of Revenues	11/30/03	% of Revenues
Officers' salaries	416,882	0.90%	1,285,866	2.55%	1,602,154	4.41%	488,501	0.97%
Office salaries and wages	158,634	0.34%	211,810	0.42%	235,399	0.65%	297,307	0.59%
Travel and promotion	209,700	0.45%	207,608	0.41%	125,785	0.35%	177,826	0.35%
Employee benefits	109,632	0.24%	119,374	0.24%	132,421	0.36%	168,644	0.33%
Office	82,100	0.18%	74,904	0.15%	86,188	0.24%	90,776	0.18%
Depreciation and amortization	18,076	0.04%	53,650	0.11%	69,094	0.19%	86,877	0.17%
Profit sharing	77,850	0.17%	176,021	0.35%	153,820	0.42%	73,439	0.15%
Payroll taxes	49,313	0.11%	106,477	0.21%	74,108	0.20%	70,385	0.14%
Professional fees	61,692	0.13%	86,566	0.17%	104,877	0.29%	66,117	0.13%
Rent	44,000	0.09%	48,000	0.10%	41,500	0.11%	65,163	0.13%
Mobile telephone	65,858	0.14%	74,159	0.15%	69,796	0.19%	59,575	0.12%
Motor vehicle insurance	28,321	0.06%	41,966	0.08%	43,370	0.12%	54,895	0.11%
Motor vehicles	30,968	0.07%	53,561	0.11%	49,082	0.14%	51,242	0.10%
Pension	19,200	0.04%	31,629	0.06%	36,855	0.10%	33,480	0.07%
Taxes, other	8,201	0.02%	13,971	0.03%	13,864	0.04%	25,505	0.05%
Dues and subscriptions	8,229	0.02%	12,283	0.02%	11,428	0.03%	23,018	0.05%
Utilities	10,930	0.02%	15,098	0.03%	13,507	0.04%	21,711	0.04%
Advertising	12,710	0.03%	9,992	0.02%	6,183	0.02%	11,170	0.02%
Telephone	11,835	0.03%	9,337	0.02%	12,187	0.03%	9,898	0.02%
Miscellaneous	15,603	0.03%	27,994	0.06%	7,198	0.02%	9,299	0.02%
Donations	7,650	0.02%	7,875	0.02%	4,650	0.01%	8,220	0.02%
Equipment leases	8,357	0.02%	7,126	0.01%	6,532	0.02%	6,532	0.01%
Repairs and maintenance	1,908	0.00%	2,044	0.00%	2,028	0.01%	2,432	0.00%
Motor vehicle leases	50,304	0.11%	23,567	0.05%	6,738	0.02%	---	0.00%
Bad debts	125,000	0.27%	---	0.00%	---	0.00%	---	0.00%
Total	1,632,953	3.51%	2,700,878	5.36%	2,908,764	8.01%	1,902,012	3.77%
Less discretionary costs	206,682	0.44%	1,162,890	2.31%	1,475,250	4.06%	275,563	0.55%
Net overhead	1,426,271	2.83%	1,537,988	3.05%	1,433,514	2.84%	1,626,449	3.23%

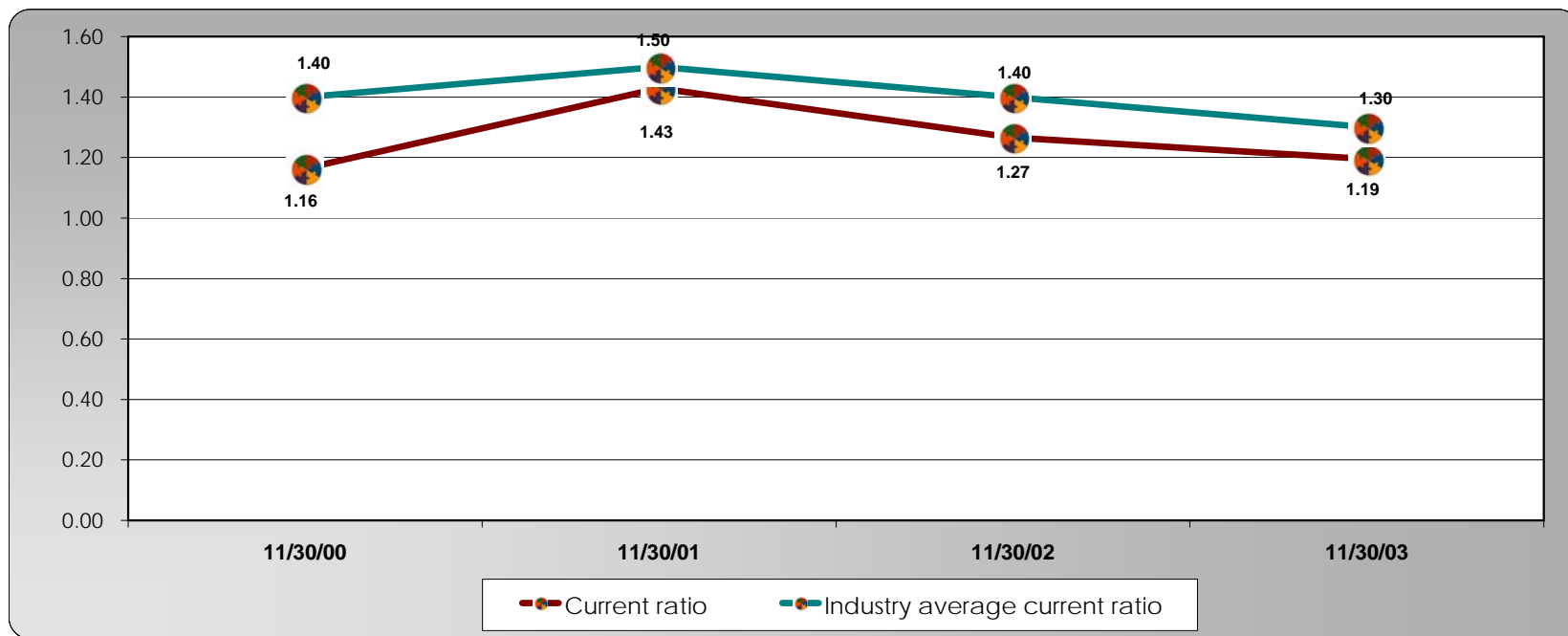
THE B. CANDOO CONSTRUCTION COMPANY, INC
DISCRETIONARY COSTS

	11/30/00	% of Revenues	11/30/01	% of Revenues	11/30/02	% of Revenues	11/30/03	% of Revenues
Shareholders' tax bonus	---	0.00%	835,866	1.66%	1,152,154	3.17%	---	0.00%
Employee benefits	109,632	0.24%	119,374	0.24%	132,421	0.36%	168,644	0.33%
Profit sharing	77,850	0.17%	176,021	0.35%	153,820	0.42%	73,439	0.15%
Pension	19,200	0.04%	31,629	0.06%	36,855	0.10%	33,480	0.07%
Total	206,682	0.44%	1,162,890	2.31%	1,475,250	4.06%	275,563	0.55%

THE B. CANDOO CONSTRUCTION COMPANY, INC.

LIQUIDITY

	11/30/00	11/30/01	11/30/02	11/30/03
Current ratio	1.16	1.43	1.27	1.19
Industry average current ratio	1.40	1.50	1.40	1.30
Quick (acid-test) ratio	1.12	1.43	1.26	1.13
Number of days in cash	42	19	48	38



Current Ratio

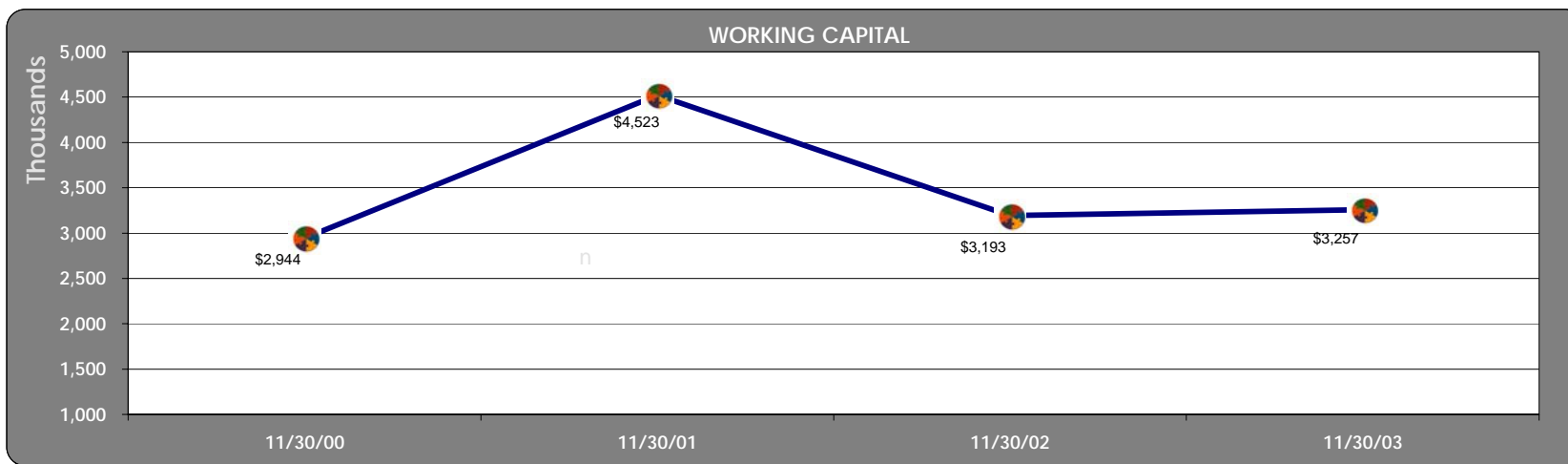
This ratio is a rough indication of a firm's ability to service its current obligations. Generally, the higher the current ratio, the greater the cushion between the current obligations and a firm's ability to pay for them. The stronger ratio reflects a numerical superiority of current assets over current liabilities. However, the composition and quality of current assets is a critical factor in the analysis of an individual firm's liquidity.

Quick Ratio

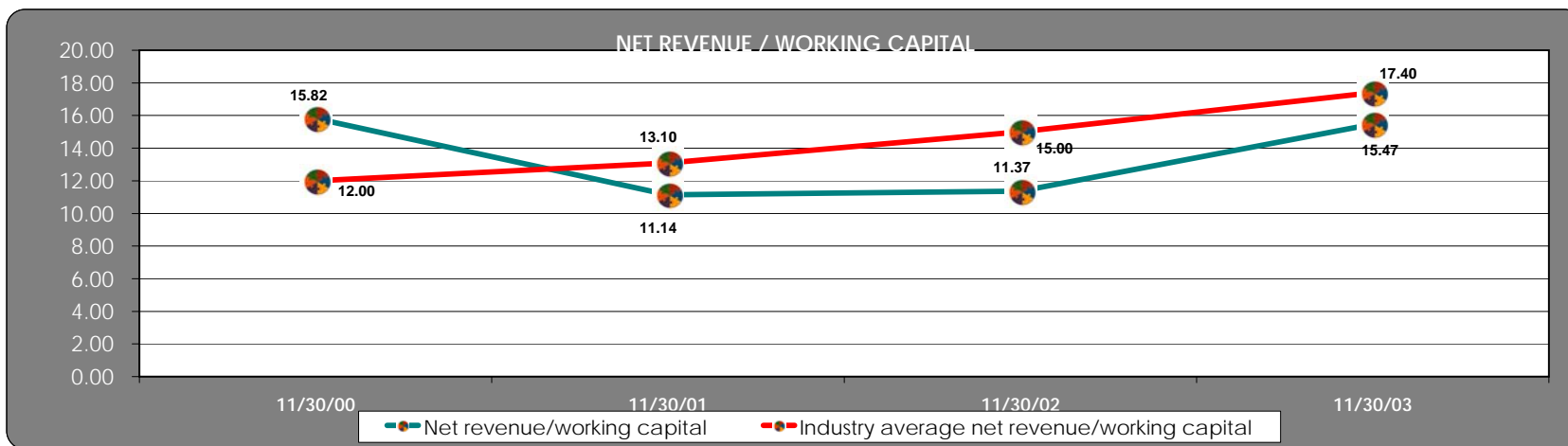
This ratio is also known as the acid-test ratio. It is a refinement of the current ratio and is a more conservative measure of liquidity. The ratio expresses the degree to which a firm's current liabilities are covered by the most liquid current assets (ie. cash and receivables). Generally, any value less than 1 to 1 implies a reciprocal dependency on other current assets to liquidate short term debt.

THE B. CANDOO CONSTRUCTION COMPANY, INC.
WORKING CAPITAL

	11/30/00	11/30/01	11/30/02	11/30/03
Working capital	2,943,685	4,522,577	3,193,384	3,256,821
Net revenue/working capital	15.82	11.14	11.37	15.47
Industry average net revenue/working capital	12.00	13.10	15.00	17.40



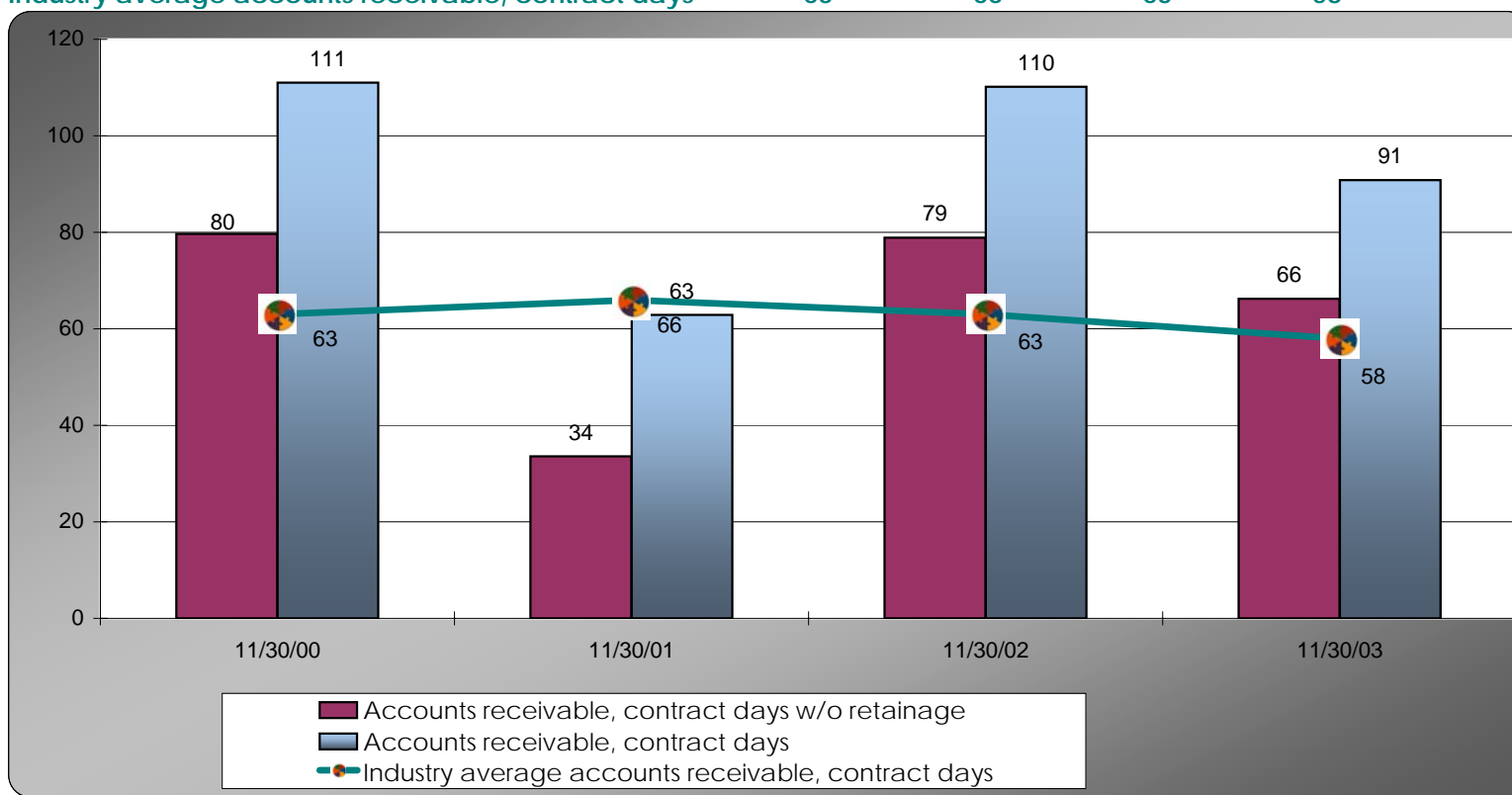
Working capital is defined as the excess of current assets over current liabilities. Working capital is a measure of the margin of protection for current creditors. It reflects the ability to finance current operations.



Net revenue/working capital relates the level of revenue arising from operations to the underlying working capital. This ratio measures how efficient working capital is employed. A low ratio may indicate an inefficient use of working capital while a very high ratio often signifies an over-extension of credit - a vulnerable position for creditors.

THE B. CANDOO CONSTRUCTION COMPANY, INC.
ACCOUNTS RECEIVABLE

	11/30/00	11/30/01	11/30/02	11/30/03
Accounts receivable, contracts net	10,553,824	4,734,383	7,393,375	9,938,785
Retainage receivable, contracts net	4,155,758	4,134,534	2,935,361	3,693,717
Accounts receivable turnover, contracts	4.58	10.87	4.63	5.51
Accounts receivable, contract days w/o retainage	80	34	79	66
Accounts receivable turnover, contracts	3.29	5.80	3.31	4.02
Accounts receivable, contract days	111	63	110	91
Industry average accounts receivable, contract days	63	66	63	58

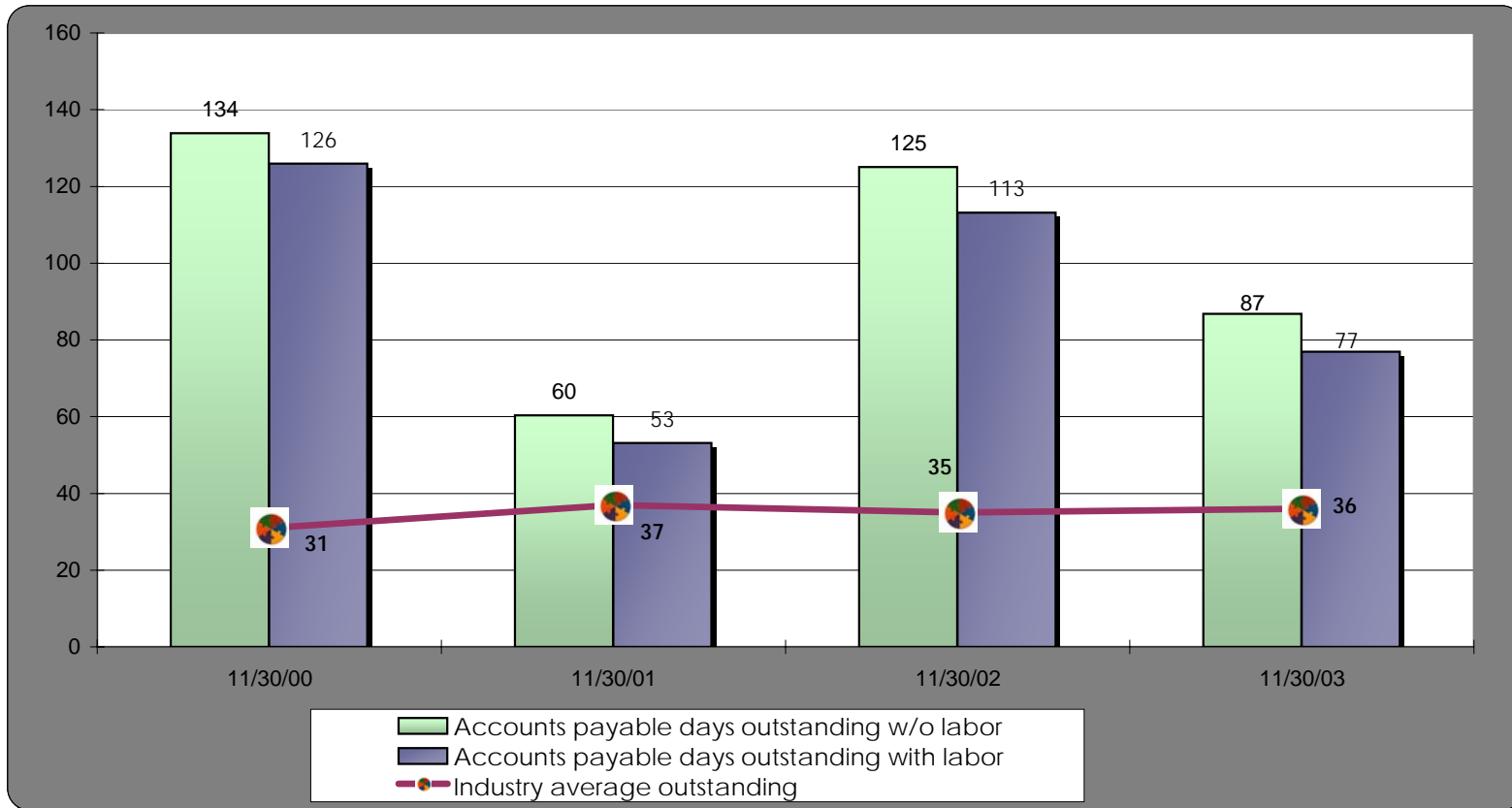


Accounts receivable days outstanding

This ratio reflects the average length of time from requisition/billing to cash collection. This ratio measures the effectiveness of collections.

THE B. CANDOO CONSTRUCTION COMPANY, INC.
ACCOUNTS PAYABLE

	11/30/00	11/30/01	11/30/02	11/30/03
Accounts payable, ending	14,324,192	6,286,896	9,690,314	9,544,965
Accounts payable turnover w/o labor	2.73	6.05	2.92	4.20
Accounts payable days outstanding w/o labor	134	60	125	87
Accounts payable turnover	2.90	6.87	3.23	4.75
Accounts payable days outstanding with labor	126	53	113	77
Industry average outstanding	31	37	35	36

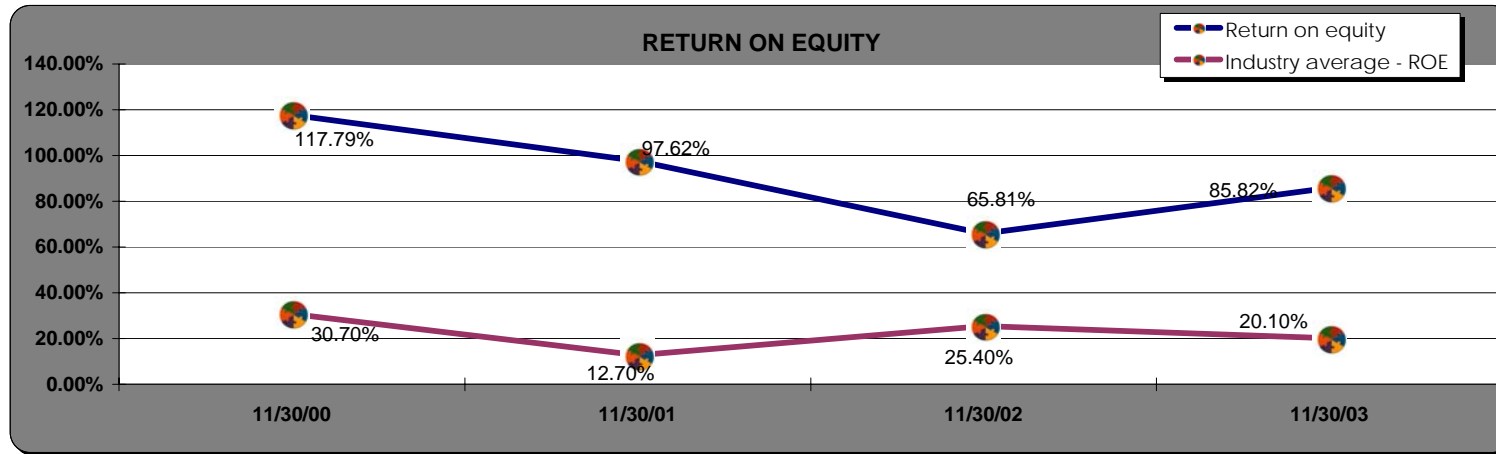


Accounts payable days outstanding

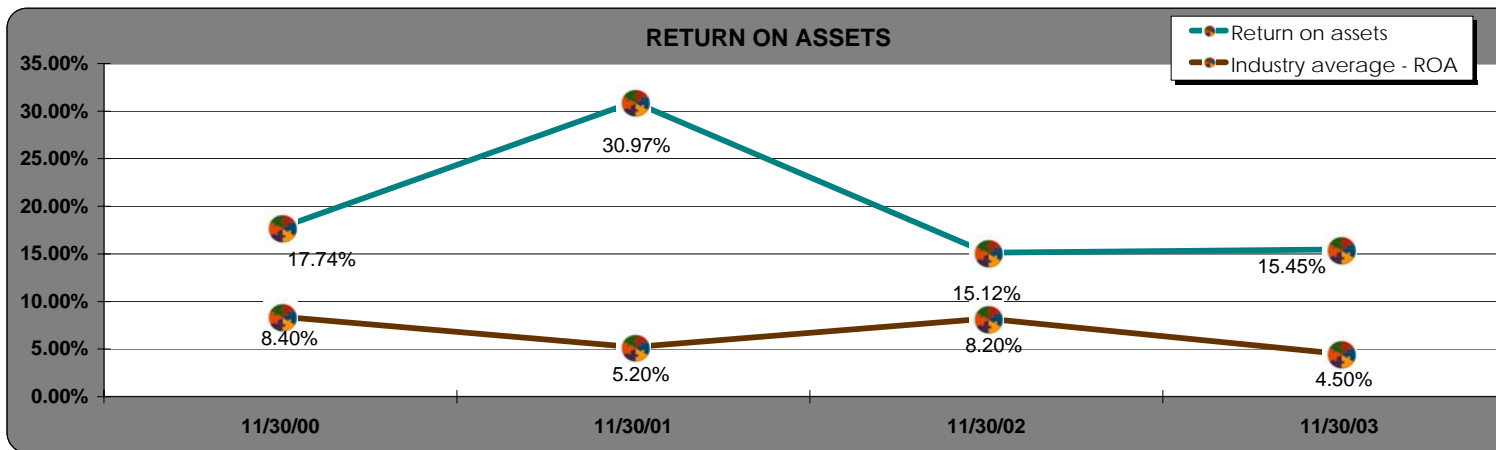
This ratio reflects the average length of time it takes an invoice to get paid. Again, this should be compared to the accounts receivable days outstanding to insure that the firm is taking advantage of credit terms.

THE B. CANDOO CONSTRUCTION COMPANY, INC
RATES OF RETURN

	11/30/00	11/30/01	11/30/02	11/30/03
Return on equity	117.79%	97.62%	65.81%	85.82%
Industry average - ROE	30.70%	12.70%	25.40%	20.10%
Return on assets	17.74%	30.97%	15.12%	15.45%
Industry average - ROA	8.40%	5.20%	8.20%	4.50%



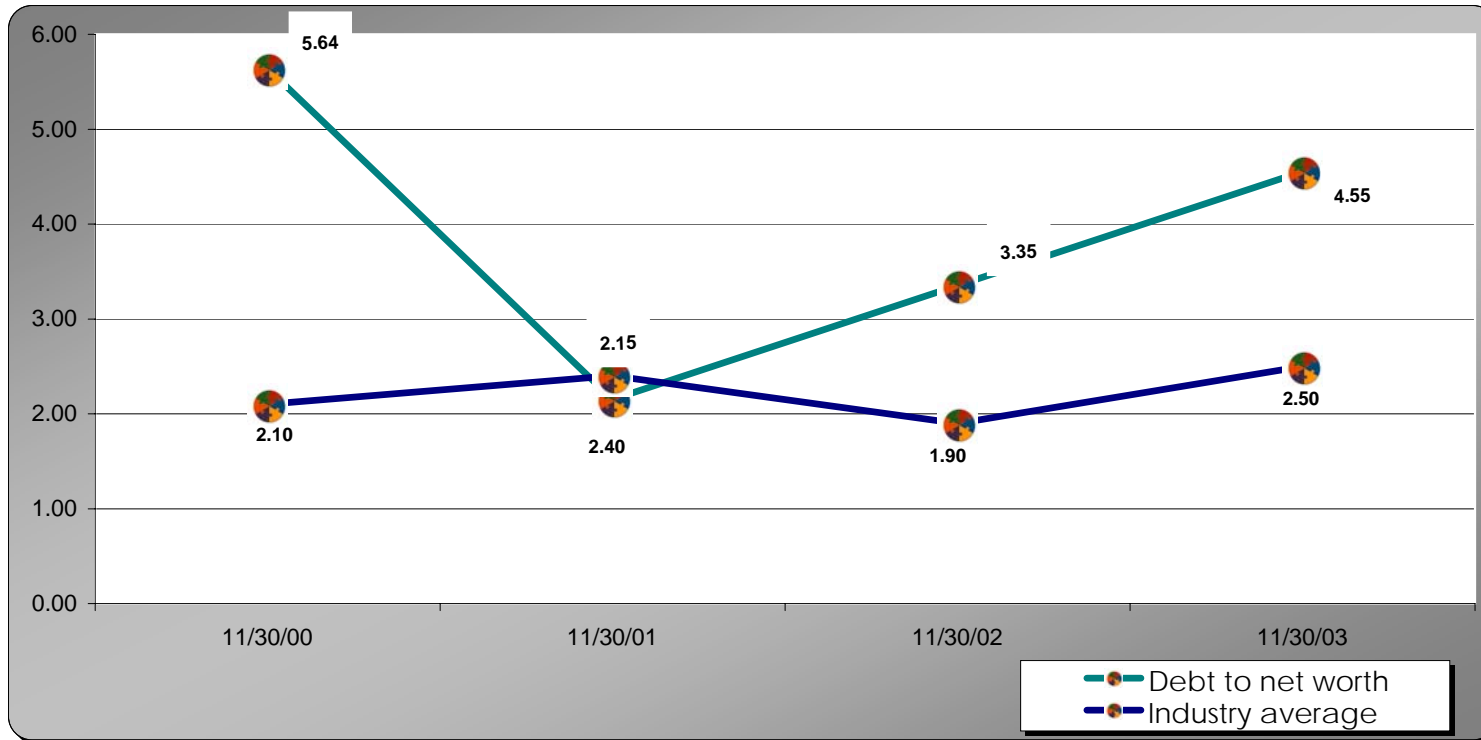
This ratio is calculated by dividing net income before taxes by net equity. This ratio indicates the ability of the owners of a business to realize an adequate return on the capital invested in the business. Generally, a return of at least 10% is regarded as a desirable objective for providing dividends and funds for future growth.



This ratio is calculated by dividing net income before taxes by total assets. This ratio is the key indicator of profitability for the business. It matches operating income with assets available to earn a return. Businesses that are efficiently using their assets will have a relatively high return; while businesses with problems will have a relatively low ratio.

THE B. CANDOO CONSTRUCTION COMPANY, INC.
LEVERAGE

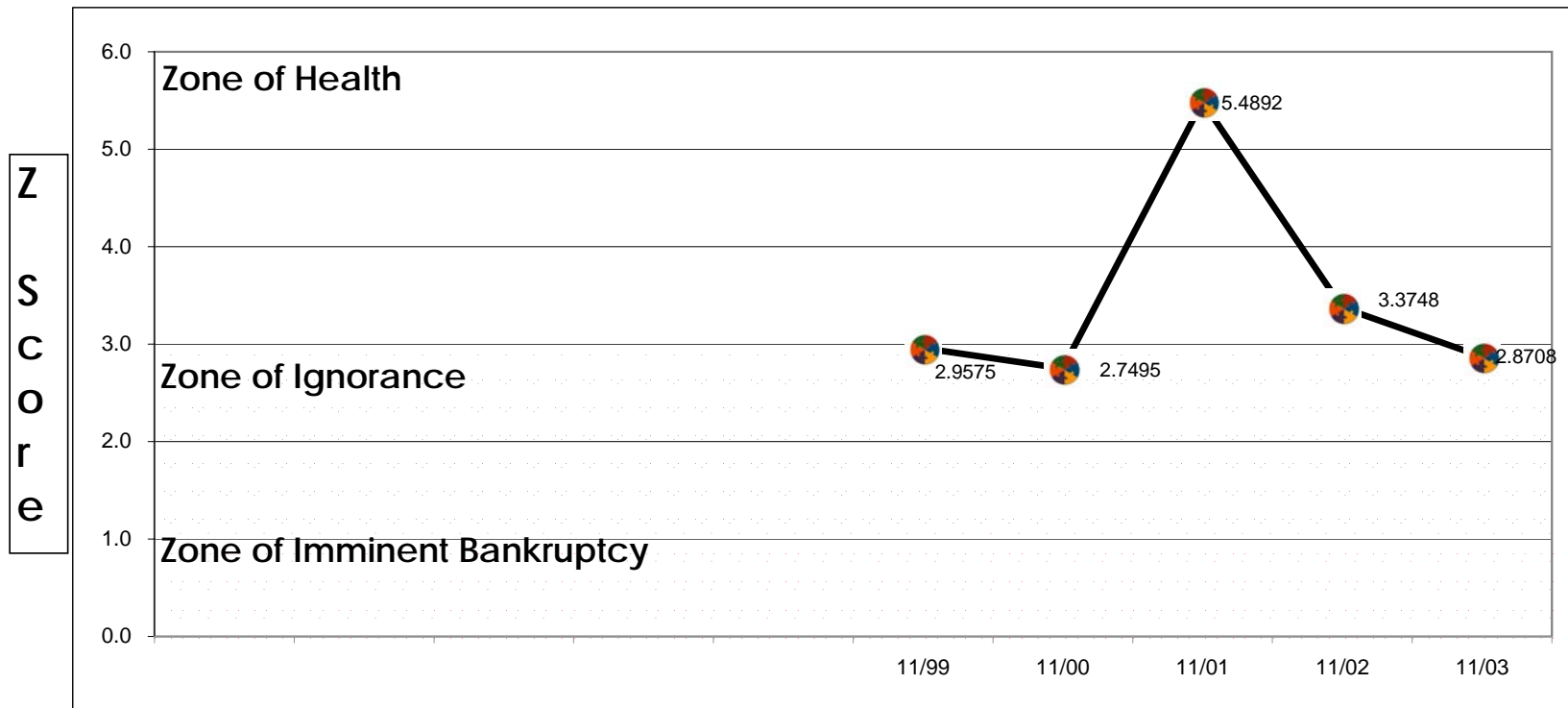
	11/30/00	11/30/01	11/30/02	11/30/03
Total debt	17,954,288	10,536,566	12,035,372	16,704,112
Total net worth	3,184,060	4,894,739	3,590,398	3,667,441
Debt to net worth	5.64	2.15	3.35	4.55
Industry average	2.10	2.40	1.90	2.50



Debt to net worth

This ratio is calculated by dividing total current and long-term liabilities by net worth. This expresses the relationship between capital contributed by creditors and that contributed by owners. The higher the ratio, the greater the risk being assumed by outside creditors. A low ratio indicates that the owners are using a larger amount of funds to finance the firm. A firm with a low ratio will have a higher degree of obtaining outside financing.

THE B. CANDOO CONSTRUCTION COMPANY, INC.
Z SCORE



The Z Score: First published in 1968 by Edward Altman, the Z score is a weighted average of several ratios that assesses balance sheet strength and financial performance. Altman's research showed that when Z scores dropped below a certain level, most companies went bankrupt within a year. Research by others as recent as 2002 had findings consistent with Altman's from 1968!

The Zone of Health: Research shows that companies that have Z scores in this range are strong and perform well. Chances of bankruptcy within a year are very low.

The Zone of Ignorance: Also known as the grey area, chances of failure are increasing for companies with Z scores falling within this zone. Greater caution should be used.

The Zone of Imminent Bankruptcy: A situation calling for great concern. Companies with Z scores falling in this zone, typically have an 80 - 90% likelihood of bankruptcy within one year!

CPA Firm Name

Follow up items:









Remember **CPA Firm Name** can also provide:

- Valuation Services
- Crisis Management / Workout
- HR Consulting
- Sarbanes-Oxley Consulting
- Strategic Business Formation
- Business Succession Planning
- Personal Investment and Estate Planning
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