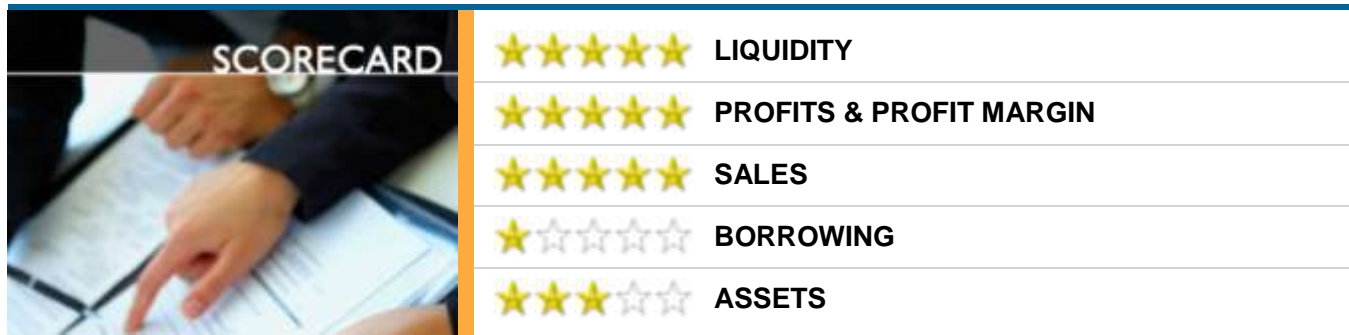

Performance Review

For the period ending 12/31/2009

Provided By

Katz Valuation Group, LLC

Report prepared for: Orangetree Plumbing, Inc.
Industry: 23822 - Plumbing, Heating, and Air-Conditioning Contractors
Revenue: \$1M - \$10M
Periods: 12 months against the same 12 months from the previous year



LIQUIDITY



Generally, what is the company's ability to meet obligations as they come due?

Operating Cash Flow Results

Cash flow from operations is negative and has decreased relative to sales from last period, despite the company generating solid profits. Perhaps a one-time or isolated change in working capital caused these results, as overall liquidity conditions seem fairly strong. This is something that should be investigated, as cash flow ultimately drives long-run liquidity.

General Liquidity Conditions

Generally, the company's overall liquidity position is **very good** and has improved from last period. Specifically, the firm has more total current assets as compared to total current liabilities than last period. The rating of "very good" is defined by comparing what is financially sound and by comparing results against other similar companies. The increase in net profits probably helped results in this area.

What is most noteworthy, however, is that the firm's quick ratio has remained very solid, as was the case last period. This is a key finding because companies rely on top liquid accounts to pay bills. Over time, it is typically more important to have a high quick ratio than a high current ratio according to many analysts.

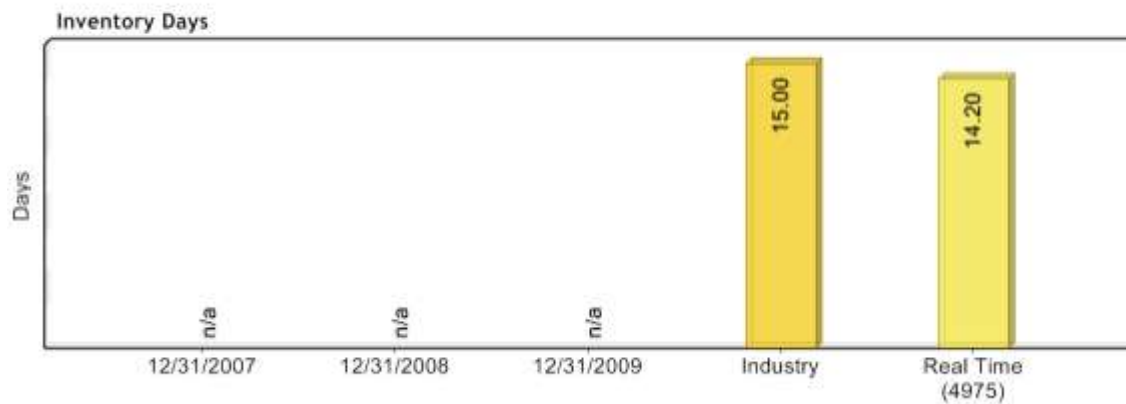
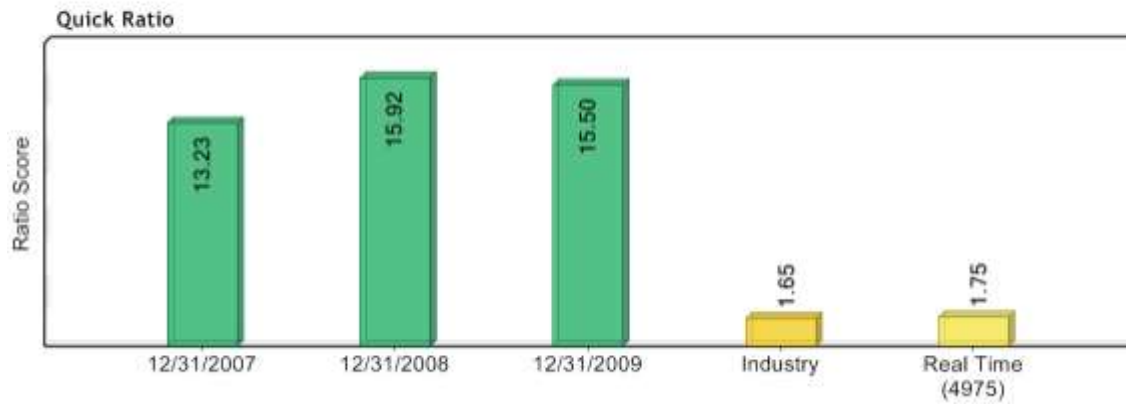
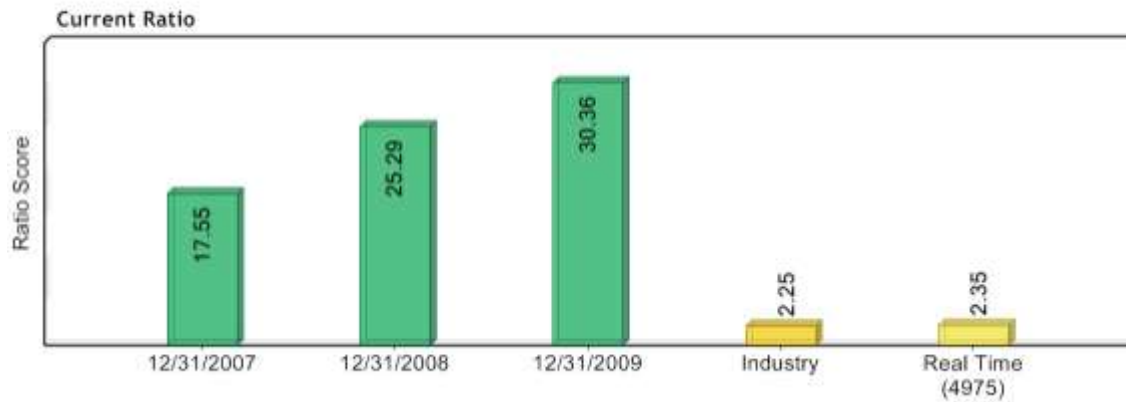
The company's accounts payable days ratio looks to be low, compared to others in the industry. This may indicate that vendors are being paid a little early. However, given that the company's overall liquidity position looks good, this should be okay as long as the business keeps enough cash on hand.

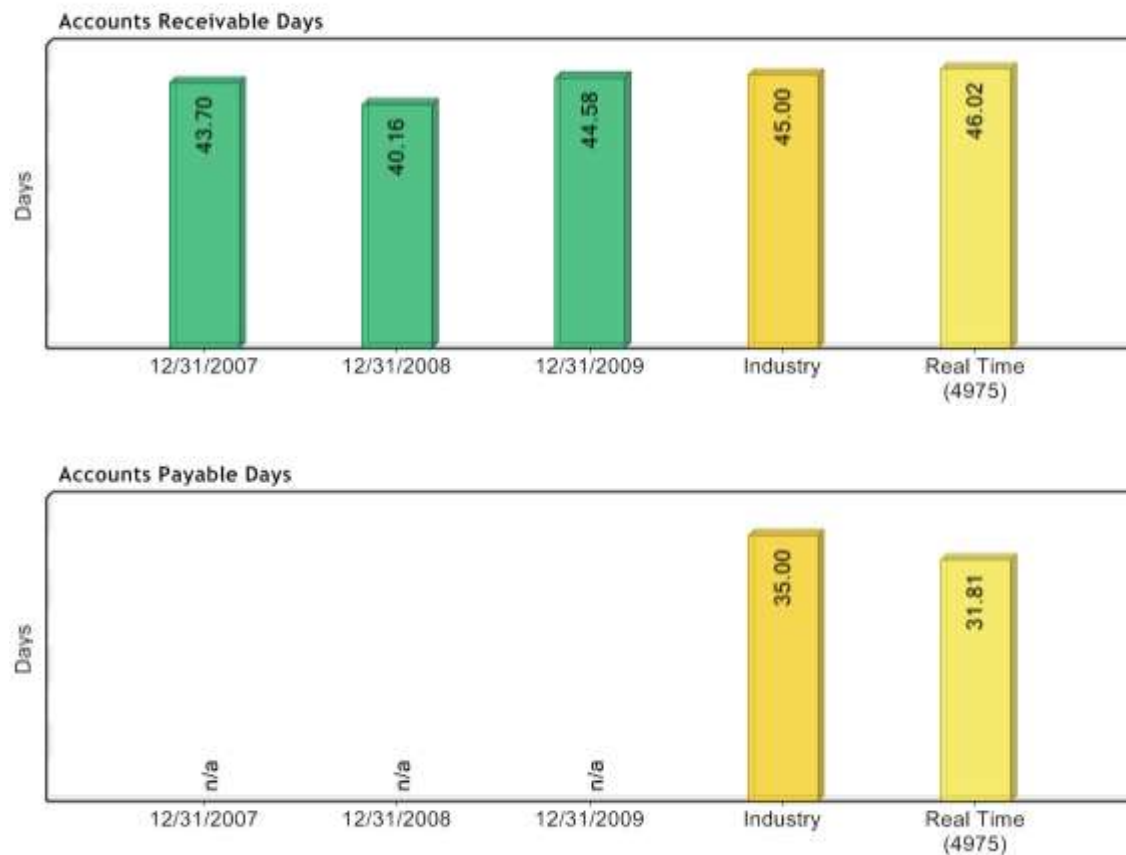
Tips For Improvement

It is imperative to keep working on liquidity, because the game to stay liquid never ends. Here are some actions managers might consider:

- Complete jobs on a timely basis because penalties and lost business elsewhere can start to drain income.
- Establish contractual agreements that allow as much collection up front as possible for large jobs. This will ensure that the job is being completed with funds provided by the customer instead of the business.
- Prepare yearly forecasts that show cash flow levels at various points in time. Consider updating these forecasts on a monthly or bi-weekly basis. This can help predict/prepare for potential cash shortfalls that may occur in the future.
- Eliminate or reduce unnecessary overhead or fixed costs to reduce monthly expenses.

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.





PROFITS & PROFIT MARGIN



Are profitability trends favorable in the company?

The company was able to increase its sales and its net profits in dollars this period, while maintaining the strength in its net profit margin from the previous period. These are positive results. The company's net margin is strong both overall and relative to the net margins that are being earned by other firms in the industry, which is highlighted in the graph area of the report. Keep in mind that the net profit margin measures the percentage of profit that the company earns from each dollar it gains in sales. No other Income Statement ratio is as important to a company's health as the net profit margin.

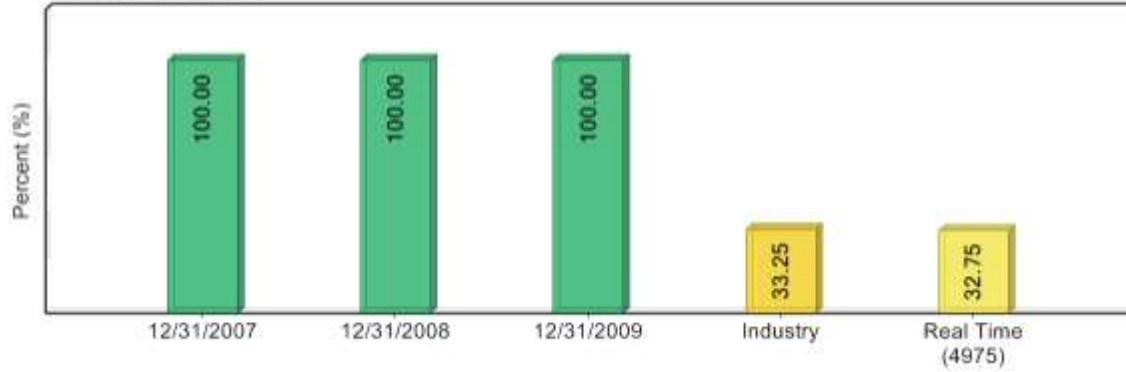
The company has also been able to increase net profits (in dollars) by 10.05% this period. It is generally pleasing to see a company generate more net profits as it increases sales. This suggests that the company is doing a good job of controlling its costs and is maintaining its efficiency as it grows and increases sales.

Tips For Improvement

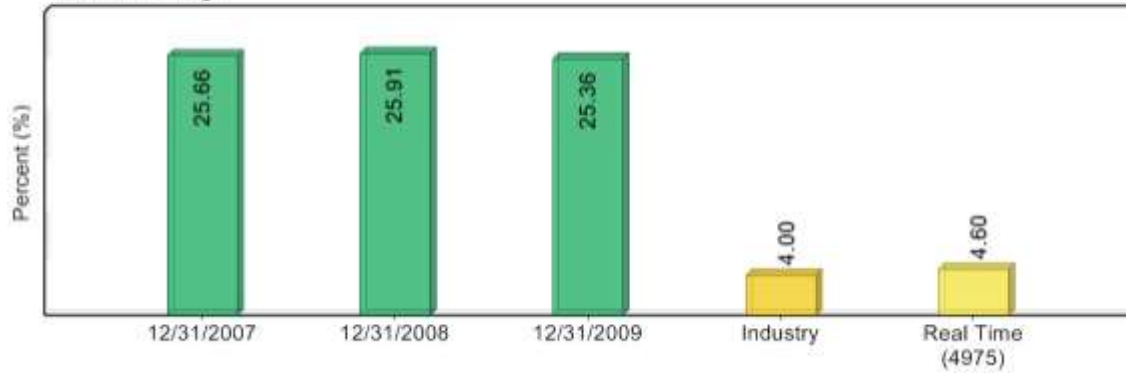
Good profit managers make continuous and small adjustments to improve their businesses. Managers might possibly consider the following to improve profits over time:

- Build a network by working closely with building contractors and developing relationships with the suppliers that provide electrical equipment. This is a good way to secure plumbing, heating, and/or air conditioning work in new construction projects as well as provide a source for receiving new business referrals.
- Follow up with customers and quickly fix any problems. This is a good way to create quality and differentiate the business from competitors who are not as prompt.
- Generate accurate financial reports on a timely basis -- within 40 days of the end of the financial period. This will help ensure the usefulness of the data for examination purposes.
- Monitor the costs going into all office supplies. With more important costs being monitored closely, the business may forget to look at this smaller cost, and often allow it to be higher than necessary.

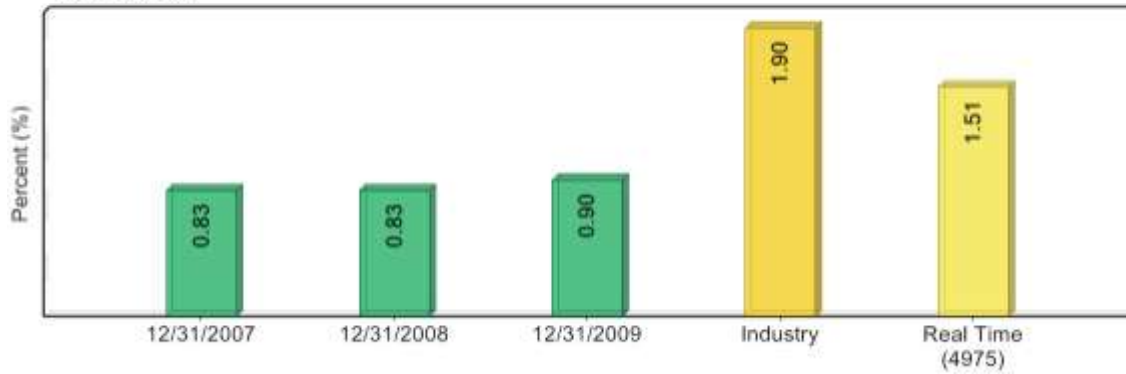
Gross Profit Margin



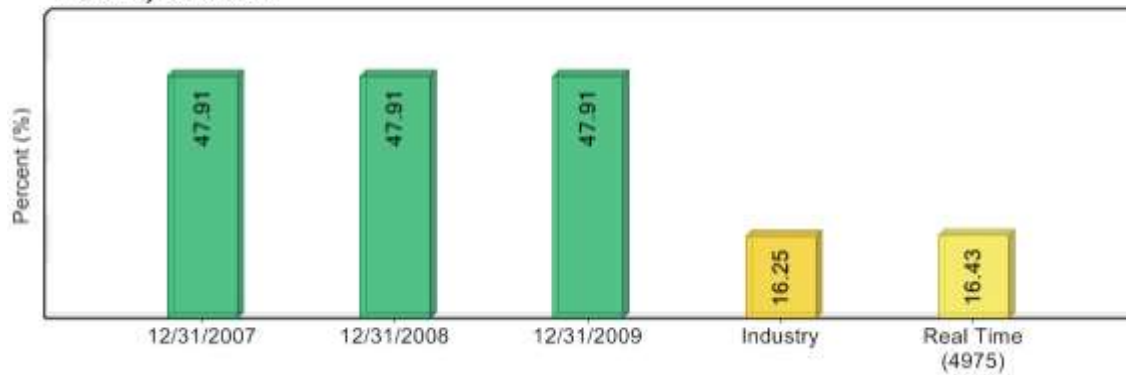
Net Profit Margin



Rent to Sales



G & A Payroll to Sales

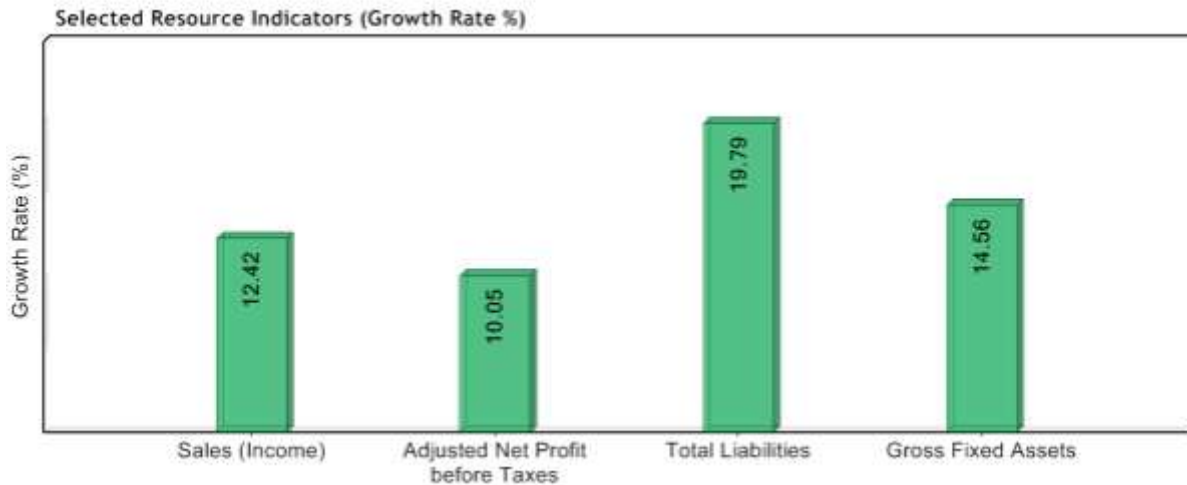


SALES



Are sales growing and satisfactory?

Most managers are fairly aware of sales trends -- they generally know whether sales are increasing or decreasing at a given point in time. This company's sales are higher this period, which is clearly a good result. The company increased its fixed asset base this period as well. Managers may want to investigate whether this fixed asset purchase drove the sales increase, or if other factors were at work here.



BORROWING



Is the company borrowing profitably?

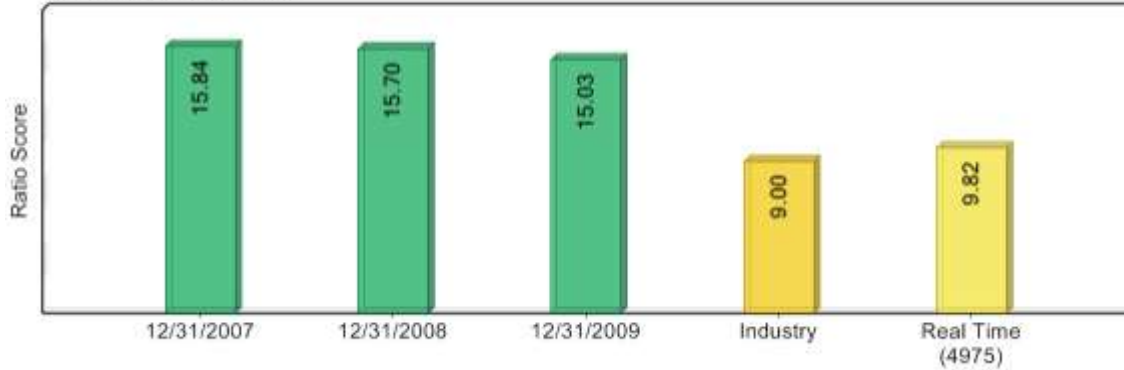
The concern here is with the company's performance in using leverage. Leverage is defined as the company's ability to borrow money and use the borrowed funds to improve profitability.

At first look, these results may seem good: net profitability improved by 10.05% as debt was added. Sometimes when improving profitability, the tendency is to think the company can borrow indefinitely. However, the rate of change in profitability relative to changes in debt is the true area to examine. Profitability should improve at a faster rate than the rate at which debt grows, and it has not.

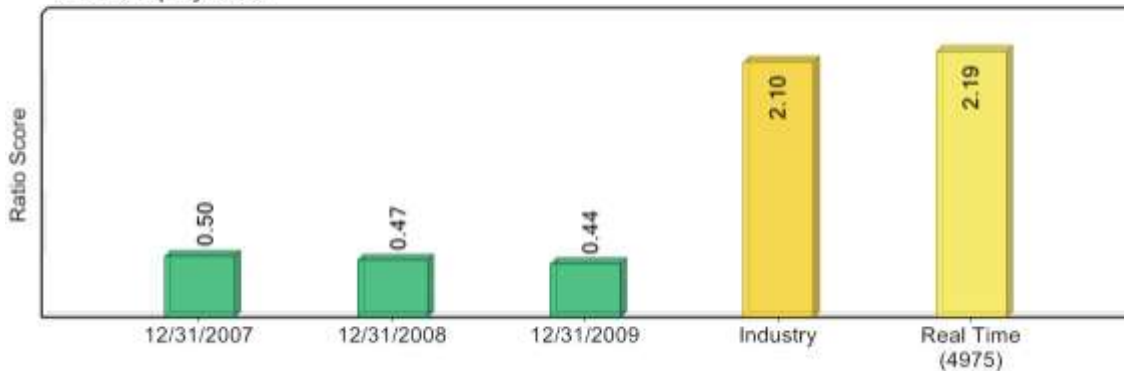
There are some conflicting analytical points here. For example, the company's trend in this area is poor. Yet, the firm seems to be generating ample earnings (before interest and non-cash expenses) to meet debt obligations. What conclusions can be reached? Perhaps the company is driving enough earnings relative to cost of debt expenses because its debt load is relatively low (notice that the debt-to-equity of the company is low, even as compared to the competition). It is difficult to go far in the analysis here, so one might lean on the fact that the overall trend is not favorable.

Even slightly increasing debt increases risk (this is even true of short-term debt). Good debt structuring is vital here -- it is important to meet with the company's lender to do some good analysis before borrowing.

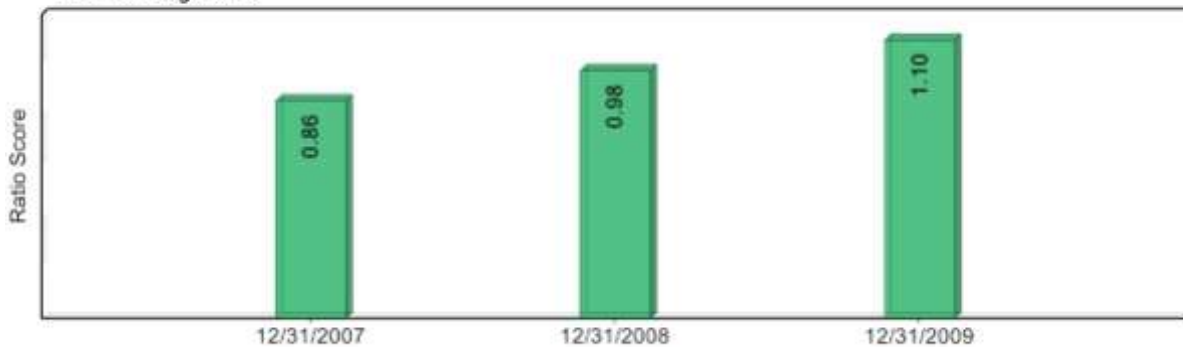
Interest Coverage Ratio



Debt-to-Equity Ratio



Debt Leverage Ratio



ASSETS

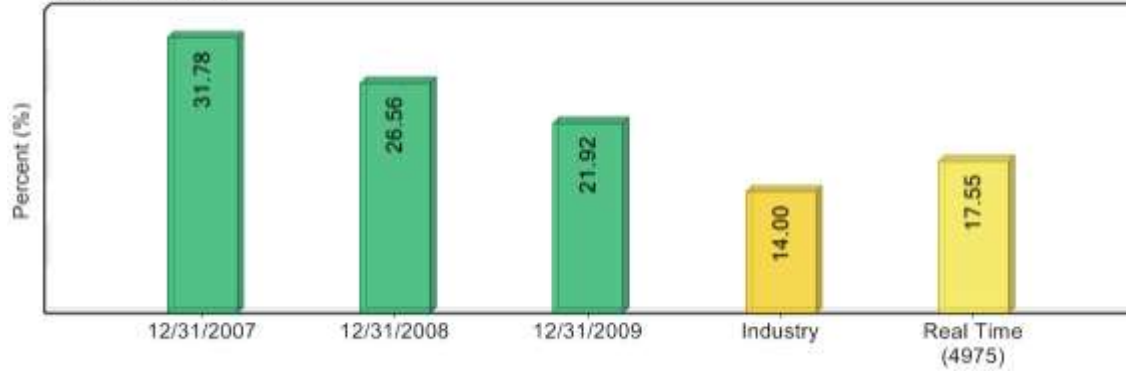


Is the company using gross fixed assets effectively?

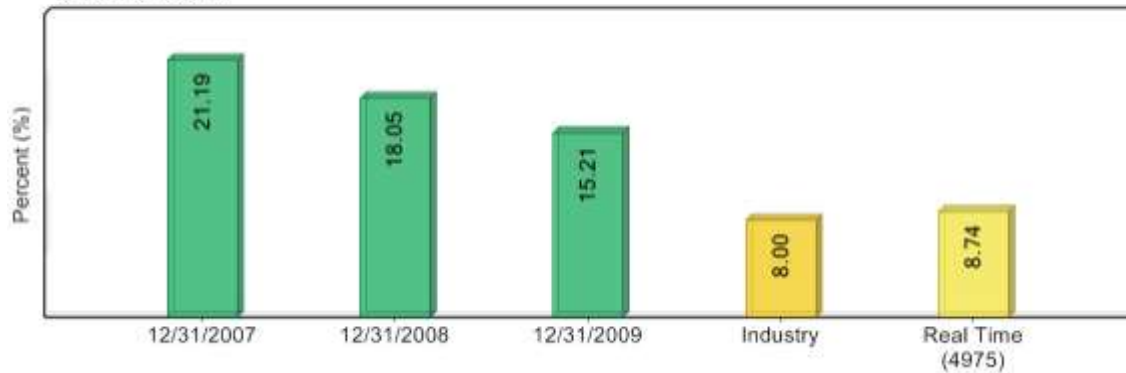
Although it is positive to see profitability improve by 10.05%, the results here in terms of asset management are actually not as favorable. Fixed assets are a kind of bundled cost. Ideally, increases in assets should leverage larger improvements in profitability. However, in this case, profitability improved, but fixed assets rose at a faster rate. Unless this circumstance is due to the assets needing some time to achieve optimal performance, it could mean that the company needs to be more careful in making asset investment decisions.

Notice that the company generated a relatively strong return on assets and equity this period. This is a positive result for both investors/owners and creditors of the company. Assets generally represent a cost to the company that is expected to reap future benefits, so it is good to see the company earning strong profitability relative to its assets.

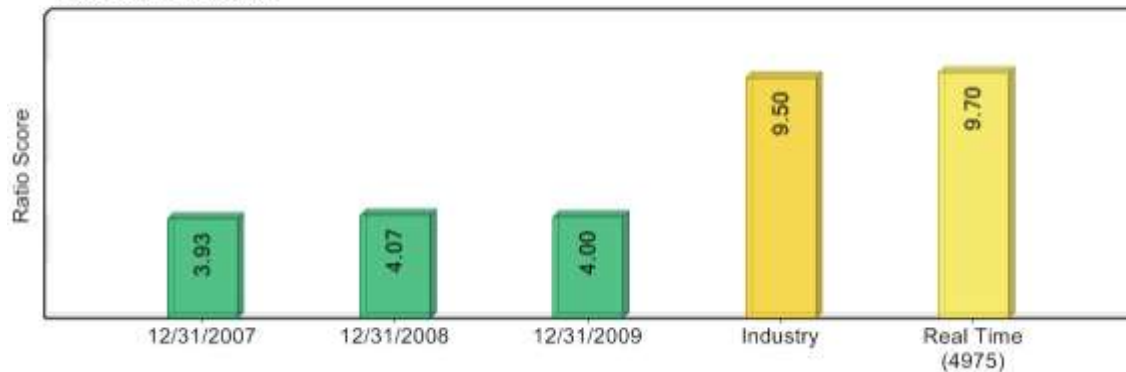
Return on Equity



Return on Assets



Fixed Asset Turnover



A NOTE ON SCORING: Each section of this report (Liquidity, Profits & Profit Margin, etc.) contains a star rating which measures the company's overall performance in the area at the time of the report's generation. One star indicates that the company is below average or may possibly need improvement in the area. Three stars indicate that the company is about average for the area. Five stars indicate that the company is above average or performing quite well in the area.

RAW DATA

	12/31/2007	12/31/2008	12/31/2009
Income Statement Data			
Sales (Income)	\$5,755,000	\$6,489,000	\$7,295,000
Cost of Sales (COGS)	\$0	\$0	\$0
Gross Profit	\$5,755,000	\$6,489,000	\$7,295,000
Gross Profit Margin	100.00%	100.00%	100.00%
G & A Payroll Expense	\$2,757,000	\$3,109,000	\$3,495,000
Rent	\$48,000	\$54,000	\$66,000
Depreciation	\$86,000	\$84,000	\$73,000
Interest Expense	\$94,000	\$107,000	\$120,000
Net Profit before Taxes	\$1,309,000	\$1,489,000	\$1,610,000
Adjusted Net Profit before Taxes	\$1,477,000	\$1,681,000	\$1,850,000
Net Profit Margin	25.66%	25.91%	25.36%
EBITDA	\$1,489,000	\$1,680,000	\$1,803,000
Net Income	\$818,000	\$931,000	\$984,000

Balance Sheet Data

Cash (Bank Funds)	\$1,005,000	\$1,435,000	\$1,403,000
Accounts Receivable	\$689,000	\$714,000	\$891,000
Inventory	\$139,000	\$145,000	\$149,000
Total Current Assets	\$2,247,000	\$3,414,000	\$4,493,000
Gross Fixed Assets	\$1,463,000	\$1,593,000	\$1,825,000
Total Assets	\$3,860,000	\$5,157,000	\$6,468,000
Accounts Payable	\$115,000	\$112,000	\$110,000
Total Current Liabilities	\$128,000	\$135,000	\$148,000
Total Liabilities	\$1,286,000	\$1,652,000	\$1,979,000
Total Equity	\$2,574,000	\$3,505,000	\$4,489,000

COMMON SIZE STATEMENTS

	12/31/2007	12/31/2008	12/31/2009	Industry* (4975)
Income Statement Data				
Sales (Income)	100%	100%	100%	100%
Cost of Sales (COGS)	0%	0%	0%	67%
Gross Profit	100%	100%	100%	33%
G & A Payroll Expense	48%	48%	48%	16%
Rent	1%	1%	1%	2%
Depreciation	1%	1%	1%	1%
Interest Expense	2%	2%	2%	1%
Net Profit before Taxes	23%	23%	22%	4%
Adjusted Net Profit before Taxes	26%	26%	25%	5%
EBITDA	26%	26%	25%	6%
Net Income	14%	14%	13%	3%

Balance Sheet Data

Cash (Bank Funds)	26%	28%	22%	14%
Accounts Receivable	18%	14%	14%	40%
Inventory	4%	3%	2%	8%
Total Current Assets	58%	66%	69%	77%
Gross Fixed Assets	38%	31%	28%	62%
Total Assets	100%	100%	100%	100%
Accounts Payable	3%	2%	2%	22%
Total Current Liabilities	3%	3%	2%	47%
Total Liabilities	33%	32%	31%	66%

Total Equity	67%	68%	69%	34%
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*The industry common size figures shown above were taken from all private company data for companies with industry code 23822 for all years in all areas with yearly sales \$1 million to \$10 million.

INDUSTRY SCORECARD

Financial Indicator	Current Period	Industry Range	Distance from Industry
Current Ratio = Total Current Assets / Total Current Liabilities 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.	30.36	1.70 to 2.80	+984.29%
Quick Ratio = (Cash + Accounts Receivable) / Total Current Liabilities 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.	15.50	1.20 to 2.10	+638.10%
Inventory Days = (Inventory / COGS) * 365 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.	N/A	5.00 to 25.00 Days	N/A
Accounts Receivable Days = (Accounts Receivable / Sales) * 365 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.	44.58 Days	30.00 to 60.00 Days	0.00%
Accounts Payable Days = (Accounts Payable / COGS) * 365 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.	N/A	20.00 to 50.00 Days	N/A
Gross Profit Margin = Gross Profit / Sales Explanation: This number indicates the percentage of sales revenue that is 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).	100.00%	26.00% to 40.50%	+146.91%
Net Profit Margin = Adjusted Net Profit before Taxes / Sales 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.	25.36%	1.00% to 7.00%	+262.29%
Rent to Sales = Rent / Sales Explanation: This metric shows rent expense for the company as a percentage of sales.	0.90%	1.00% to 2.80%	+10.00%
G & A Payroll to Sales = G & A Payroll Expense / Sales Explanation: This metric shows G & A payroll expense for the company as a percentage of sales.	47.91%	10.50% to 22.00%	-117.77%

Interest Coverage Ratio = EBITDA / Interest Expense	15.03	5.00 to 13.00	+15.54%
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Explanation: This ratio measures a company's ability to service debt payments from operating cash flow (EBITDA). An increasing ratio is a good indicator of improving credit quality. The higher the better.

Debt-to-Equity Ratio = Total Liabilities / Total Equity	0.44	1.20 to 3.00	+63.33%
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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	1.10	N/A	N/A
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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	21.92%	8.00% to 20.00%	+9.60%
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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	15.21%	6.00% to 10.00%	+52.10%
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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	4.00	5.00 to 14.00	-20.00%
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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.).