K-911 Services

Fiscal Year Ending 12/31/2008

Detailed Financial Analysis

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Overview of Contents

Introduction and Report Overview

The balance sheet and income statement for the fiscal year ending Monday, December 31, 2008 for *K-911 Services* (referred to as "K-911 Services" throughout this report) were provided. Various ratios were developed from these financials and then compared to data for the "NAICS Code 454210: Vending Machine Operators" industry for firms in the "$0-$1 M Sales" range. This industry benchmark information was the most recently available from the Risk Management Association (formerly Robert Morris Associates) Annual Statement Studies Financial Ratio Benchmarks 2007-2008, a widely used reference source. In this report the Risk Management Association will be referred to simply as RMA.

This comparison process provides an indication of where the company is strong and where improvements may need to be made. It is recognized that all firms are unique and have different operating and financial characteristics. Nonetheless, comparing against industry norms can be useful in identifying possible problem areas before they get out of hand. Also, investors and lending institutions are very interested in how a given firm compares to others of similar size in the same industry.

This report contains an analysis of the ratios for K-911 Services and results that management can consider in their efforts to improve performance. This report can be used as a tool for looking ahead, developing benchmark goals, and for ideas in helping to reach those goals.

In some cases, comparable industry data will be either unavailable or insufficient for a meaningful value. For these situations, the industry data will appear as "n/a" or "ins. data", respectively. Furthermore, "ins. data" may appear for company figures when insufficient company data was available or supplied. Finally, all ratios are rounded to one decimal place.

LIMITATIONS AND DISCLAIMER

Please note that the industry data used was compiled from a sample not necessarily statistically representative or reliable, and that reliance therefore should be limited accordingly. The data has been obtained from, or is based on, sources believed by RMA to be reliable. However, the data is provided without warranty on the understanding that any person or entity that acts upon it or otherwise changes position in reliance thereon does so entirely at such person's or entity's risk. There were 12 firms comprising the "industry" figures for your size group in this study. In rare cases where statistics are not available on a particular size group for a NAICS classification, the industry-wide statistics will be used.

Therefore, neither the Risk Management Association, Gerke & Associates, Inc., the developers of the BizBench® 2008 Financial Analysis Software, nor any other individuals or parties assumes any responsibility for decisions or results arising out of the use of the presented data, calculations, interpretations, or discussion ideas included in this report. Users must employ their own business knowledge and experience in deciding what is best for their enterprise.

Executive Summary

Financial statements for the fiscal year ending 12/31/2008 for *K-911 Services* (referred to as "K-911 Services" throughout this report) were provided. This included the balance sheet and income statement for that period. This information has been analyzed, and the results are presented in this report.

Based upon analysis of the financial information provided by K-911 Services, the following key results were developed:

Selected Areas of Strength

- The company has a higher than average level of net worth relative to assets.
- The debt level of the company relative to assets is low compared to similar-sized firms.

Selected Areas for Improvement

- Gross profit percentage is below average for similar-sized firms in the industry.
- Operating expense percentage is above the average.
- Operating profit percentage is lower than the average.
- Profit before taxes (as a percentage of sales) is less than the average.
- The company needs to improve its number of inventory turns.
- A relatively low level of sales is being created with the existing asset base.
- Sales to fixed assets is at a low level.
- The company's return on assets is below the industry median.

The tables on the following pages provide a summary and analysis of the balance sheet, income statement, and financial ratios for K-911 Services . The relationships to similar sized firms in the same industry are also shown. The source of the industry data is the Risk Management Association, a respected authority on such information.

The reported net sales for K-911 Services for the fiscal year ending Monday, December 31, 2008 was $1,331. In this report, it is compared to firms in the "$0-$1 M Sales" range.

Balance sheet line items are shown as a percentage of total assets. Income statement items are shown as a percentage of sales. This standard approach shows the relative magnitude of these line items and allows for more direct comparison to different firms. Balance sheet and income statement items are compared to the "industry average", based upon companies submitting data to RMA with the same North American Industry Classification System (NAICS) Code and in your sales range.

For financial ratios, your company's percentiles relative to similar-sized firms for NAICS 454210 are shown. The higher the *percentile value*, the more favorably your company compares to the set of comparison firms in the industry for that ratio (note that for some ratios, having a lower numerical *ratio value* for that particular ratio may be better). The "Introduction" section contains information on the limitations and application of results that should be reviewed by the reader. Note that financial ratios involving profitability are "before tax" to make benchmarking results more meaningful.

Balance Sheet Comparison Summary
For K-911 Services

	Fiscal Year Ending 12/31/2008	% Assets	Industry Average: $0-$1 M Sales Range	% Point Difference
Assets				
Cash & equivalents	906	2.9%	9.1%	-6.2%
Trade receivables	0	0.0%	1.8%	-1.8%
Inventory	162	0.5%	5.1%	-4.6%
All other current	0	0.0%	1.5%	-1.5%
Total current	1,068	3.5%	17.4%	-13.9%
Fixed assets (net)	29,886	96.5%	56.9%	39.6%
Intangibles (net)	0	0.0%	17.1%	-17.1%
All other non-current (net)	0	0.0%	8.6%	-8.6%
Total assets	30,954	100.0%	100.0%	
Liabilities				
Notes payable (short-term)	0	0.0%	2.5%	-2.5%
Current maturity LTD	0	0.0%	22.8%	-22.8%
Trade payables	0	0.0%	10.1%	-10.1%
Income taxes payable	0	0.0%	0.0%	0.0%
All other current	0	0.0%	5.7%	-5.7%
Total current	0	0.0%	41.1%	-41.1%
Long-term debt	0	0.0%	77.8%	-77.8%
Deferred taxes	0	0.0%	0.0%	0.0%
All other non-current	0	0.0%	6.1%	-6.1%
Total liabilities	0	0.0%	124.9%	-124.9%
Total equity	30,954	100.0%	-24.9%	124.9%
Liabilities and equity	30,954	100.0%	100.0%	

Source of Industry Data: RMA Annual Statement Studies Financial Ratio Benchmarks 2007-2008. NAICS Code is 454210.

Income Statement Comparison Summary
For K-911 Services

	Fiscal Year Ending 12/31/2008	% Sales	Industry Average: $0-$1 M Sales Range	% Point Difference
Income Statement				
Net sales	1,331	100.0%	100.0%	
Gross profit	289	21.7%	48.4%	-26.7%
Operating expenses	3,717	279.3%	40.4%	238.9%
Operating profit	-3,428	-257.6%	8.0%	-265.6%
Other expense (net)	0	0.0%	2.0%	-2.0%
Profit before taxes	-3,428	-257.6%	6.1%	-263.7%

	Fiscal Year Ending 12/31/2008	% Sales	Industry Median: $0-$1 M Sales Range	% Point Difference
Additional Data Provided				
Depr. & amort. expense	4,598	345.5%	5.1%	340.4%
Interest paid	0	0.0%	n/a	
Owners' compensation	0	0.0%	ins. data	ins. data

Source of Industry Data: RMA Annual Statement Studies Financial Ratio Benchmarks 2007-2008. NAICS Code is 454210.

Financial Ratio Comparison Summary
For K-911 Services

	Fiscal Year Ending 12/31/2008	Estimated Percentile in Industry $0-$1 M Sales Range
Liquidity Ratios		
Current ratio	ins. data	ins. data
Quick ratio	ins. data	ins. data
Working capital to sales (%)	80.2	99
Efficiency Ratios		
Days in accounts receivable	ins. data	ins. data
Days in accounts payable	ins. data	ins. data
Annual inventory turnover	6.4	18
Days in inventory	57	18
Operating cycle	ins. data	n/a
Operating Ratios		
Asset turnover	0.0	1
Sales to fixed assets	0.0	14
Sales to working capital	1.2	99
Financing Ratios		
Debt to equity	0.0	ins. data
Cash flow to current LT debt	ins. data	ins. data
Times interest earned	ins. data	ins. data
Net fixed assets to equity	1.0	76
Financial leverage	1.0	n/a
Trade AP to inventory	0.0	n/a
Profitability Ratios		
Return on sales (%)	-257.6	n/a
Return on equity (%)	-11.1	ins. data
Return on assets (%)	-11.1	1

Percentiles are on a 1 to 99 basis, with higher values being better. A percentile value of 50 is (by definition) the median value, with half of the companies below that ratio and half above. The percentiles are color-coded (with color printers) as follows: green represents the upper quartile (good), blue represents the middle half, and red represents the lower quartile.

The DuPont Model: Putting It All Together For K-911 Services

After viewing the five basic groups of performance ratios on the Financial Ratio Comparison Summary page, the next step is to assemble these ratios into a clear picture of overall financial performance.

The two most revealing financial performance ratios for companies are Return on Assets (ROA) and Return on Equity (ROE). To graphically portray the relationship of these two ratios, and the financial elements used to calculate them, a customized DuPont model has been created for K-911 Services on the following page.

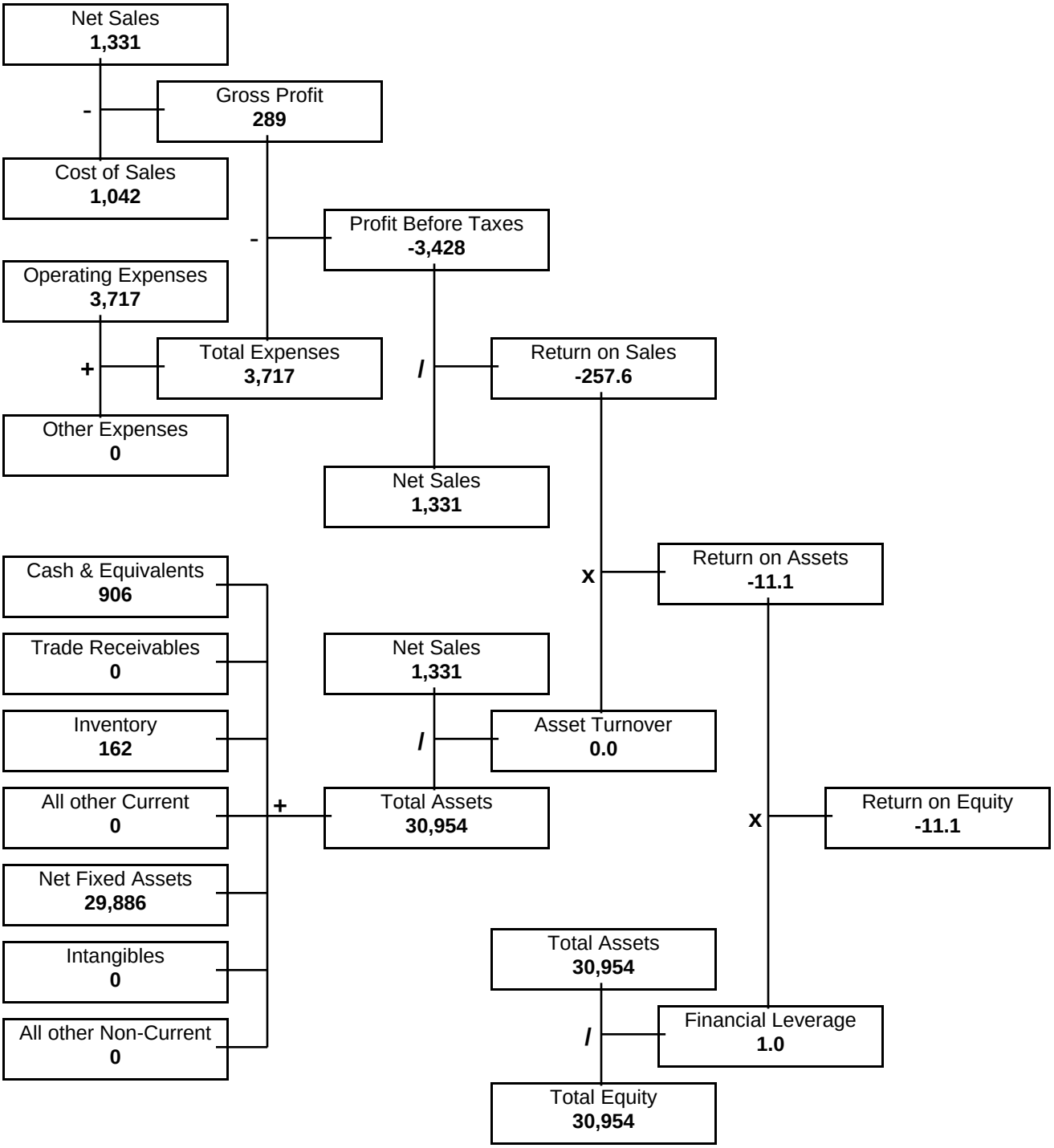
The DuPont model is an ideal platform for setting financial goals and identifying the most achievable ways to accomplishing them. This provides a strategic structure for proactive Profit Improvement planning that builds the overall strength of a business.

The idea is to begin at the end of the model with the desired ROE and then work backward to determine the ratio performance necessary to achieve that ROE. Keep in mind that this may be long-term work - don't get impatient for immediate results.

- Determine ROE goal for your business
- Choose realistic combination of ROA and Financial Leverage to achieve the goal
- Present asset level will determine revenue needed for new Asset Turnover ratio
- From Asset Turnover ratio, calculate net profit % needed to reach ROA goal
- Determine components of Profit Before Taxes, Assets and Debt to reach goals
- Adjust over time as conditions change

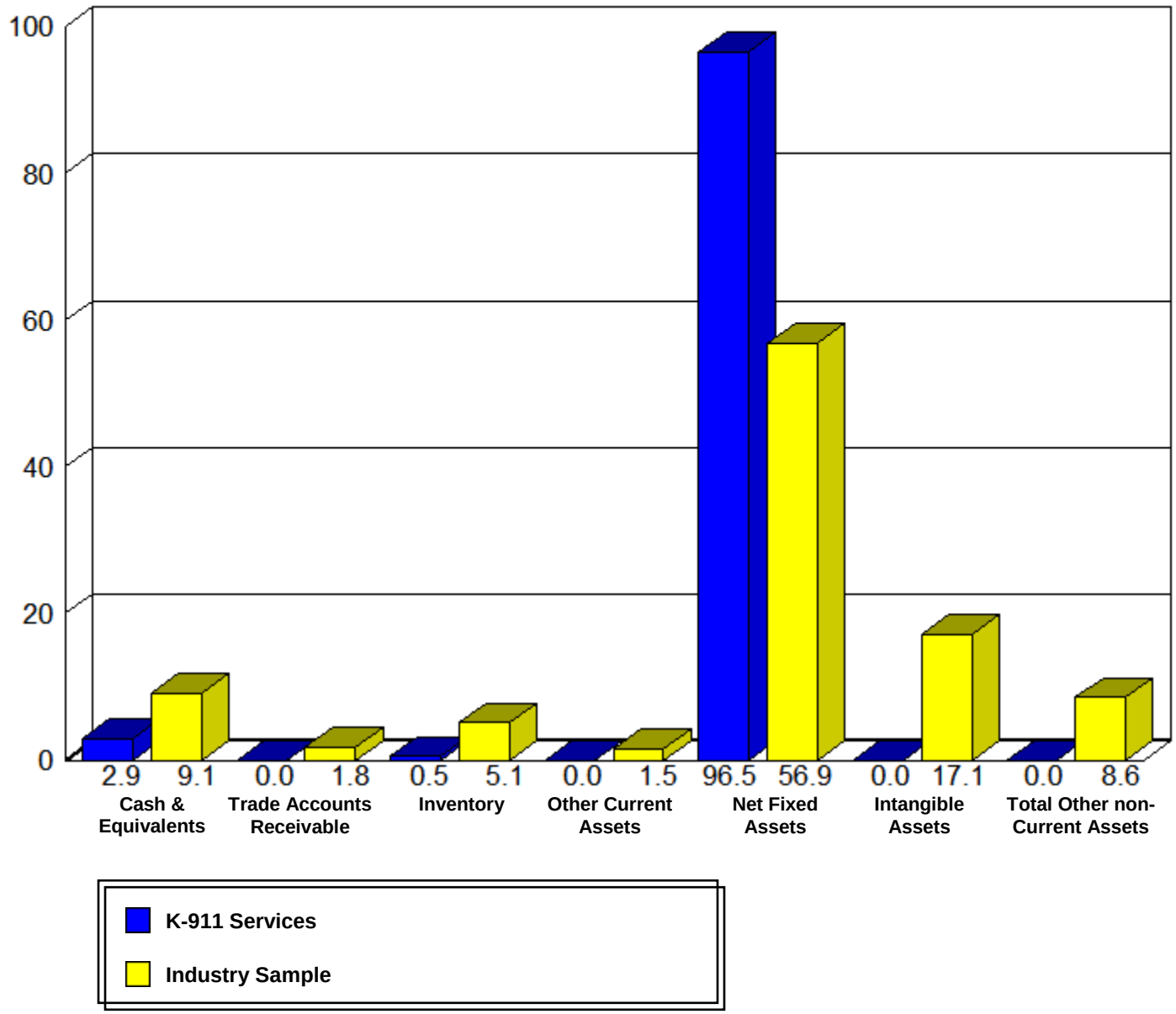
More information about the financial ratios, and ways that performance can influence them, can be found on the pages immediately following the comparison graphs.

Modified DuPont Model Diagram
For K-911 Services



Comparison of Asset Components for K-911 Services

(% of Total Assets)



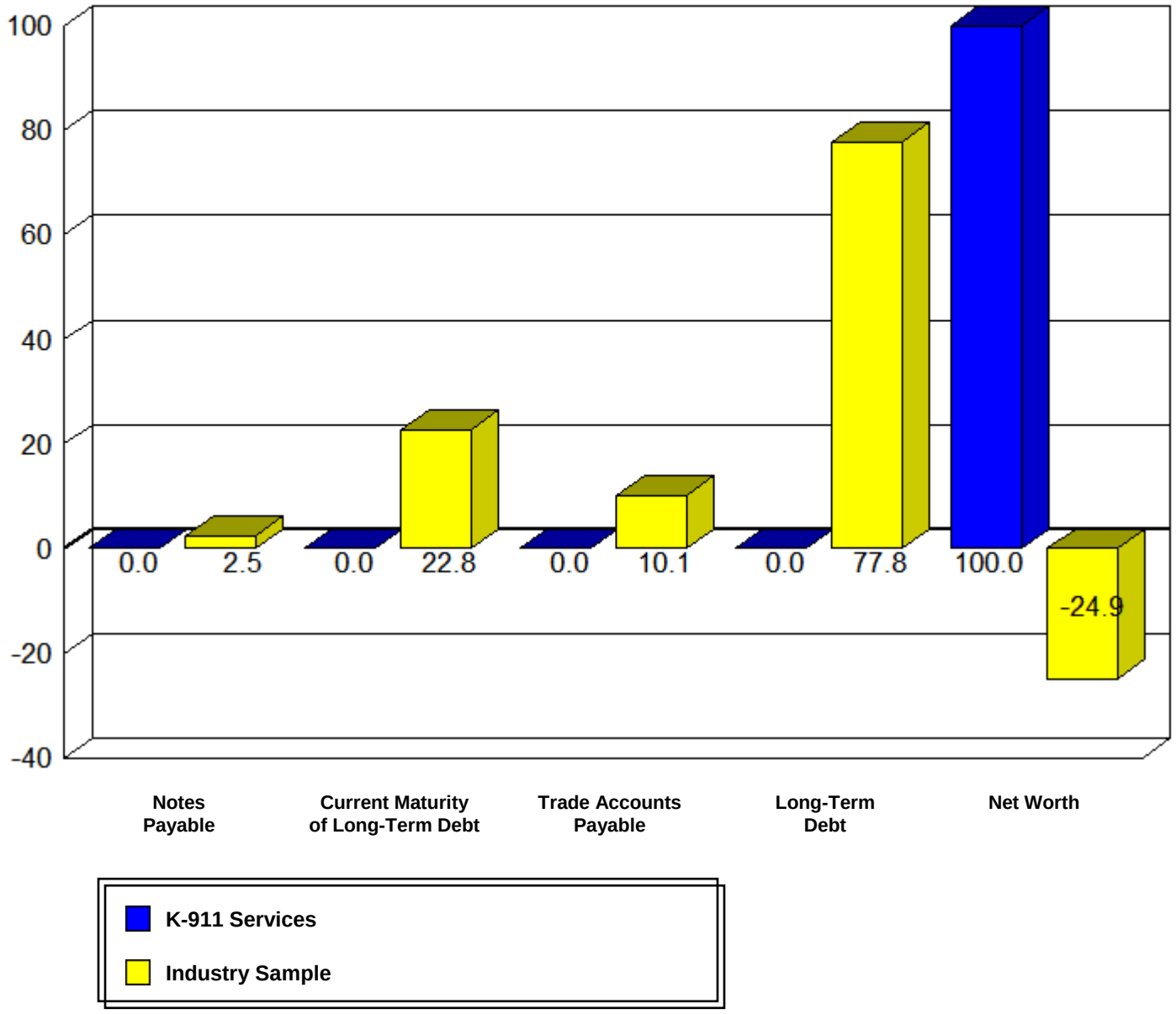
Y Axis = % of Total Assets

Note: Above industry figures are averages for similar-sized firms.

If no bar appears, there is insufficient data available for representation in the graph.

Comparison of Liabilities & Net Worth Components for K-911 Services

(% of Total Assets)



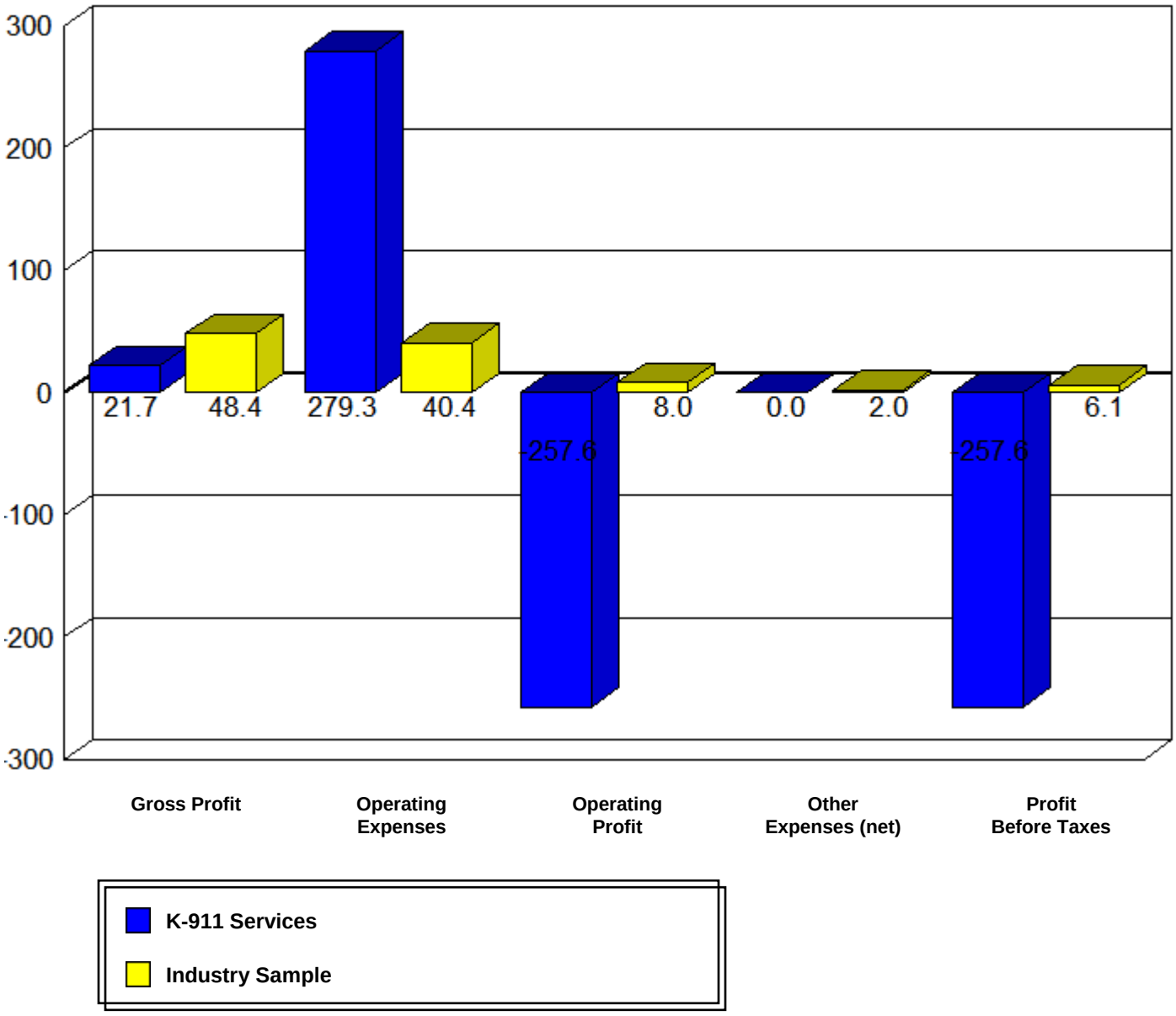
Y Axis = % of Total Assets

Note: Above industry figures are averages for similar-sized firms.

If no bar appears, there is insufficient data available for representation in the graph.

Comparison of Net Income Components for K-911 Services

(% of Net Sales)

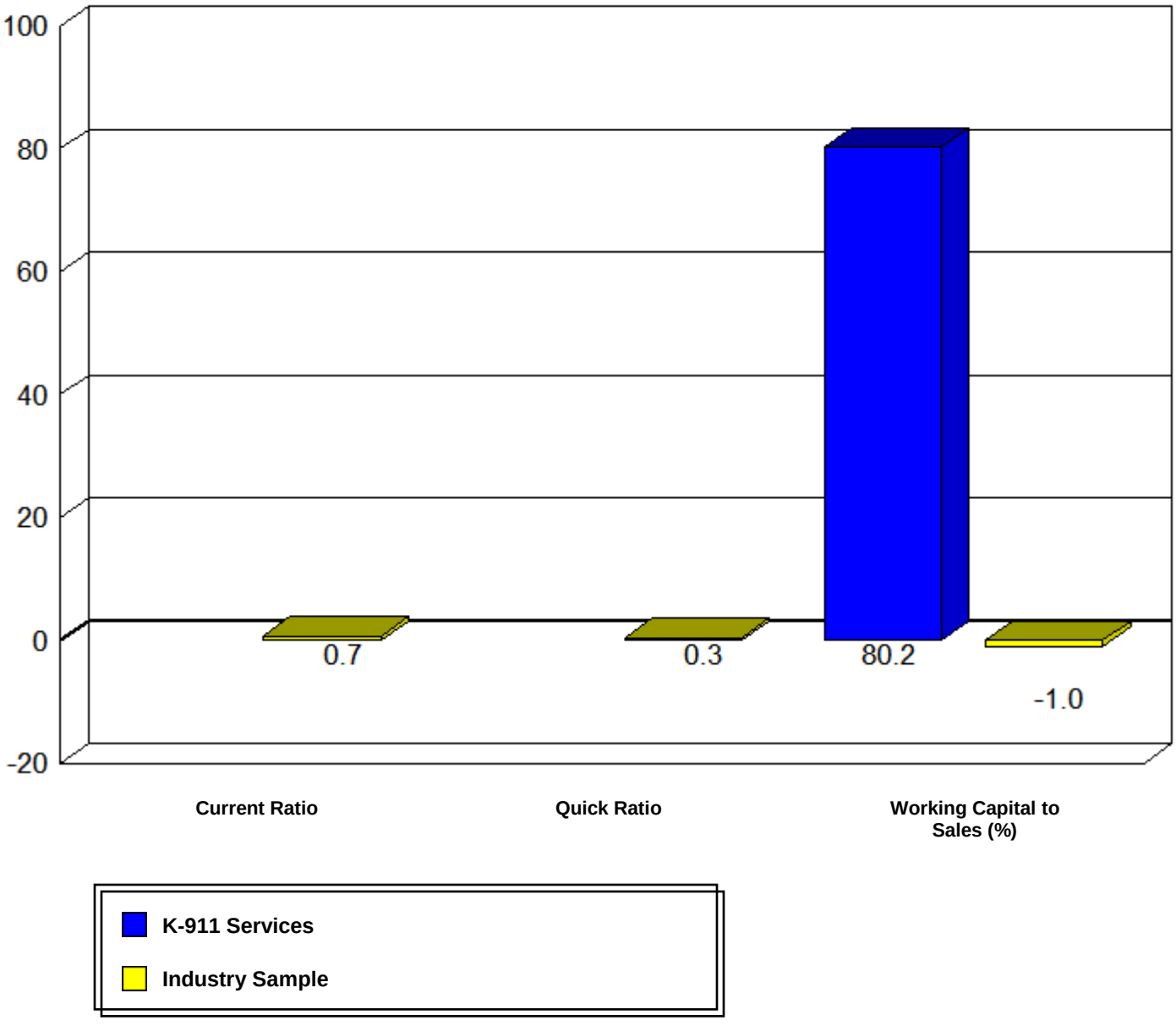


Y Axis = % of Net Sales

Note: Above industry figures are averages for similar-sized firms.

If no bar appears, there is insufficient data available for representation in the graph.

Comparison of Liquidity Ratios
for K-911 Services

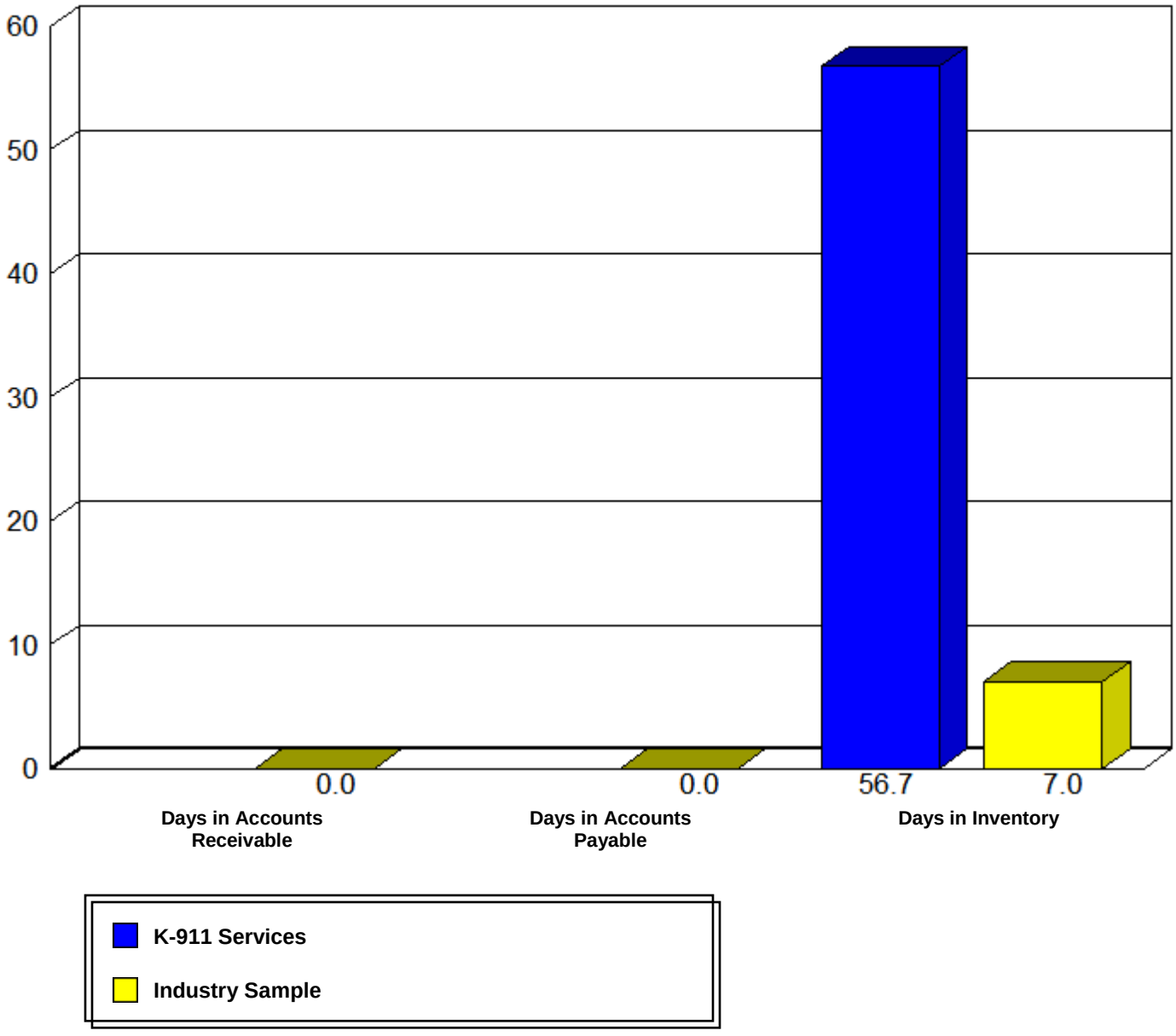


Y Axis = Ratio Values

Note: Above industry figures are medians for similar-sized firms.

If no bar appears, there is insufficient data available for representation in the graph.

Comparison of Efficiency Ratios
for K-911 Services

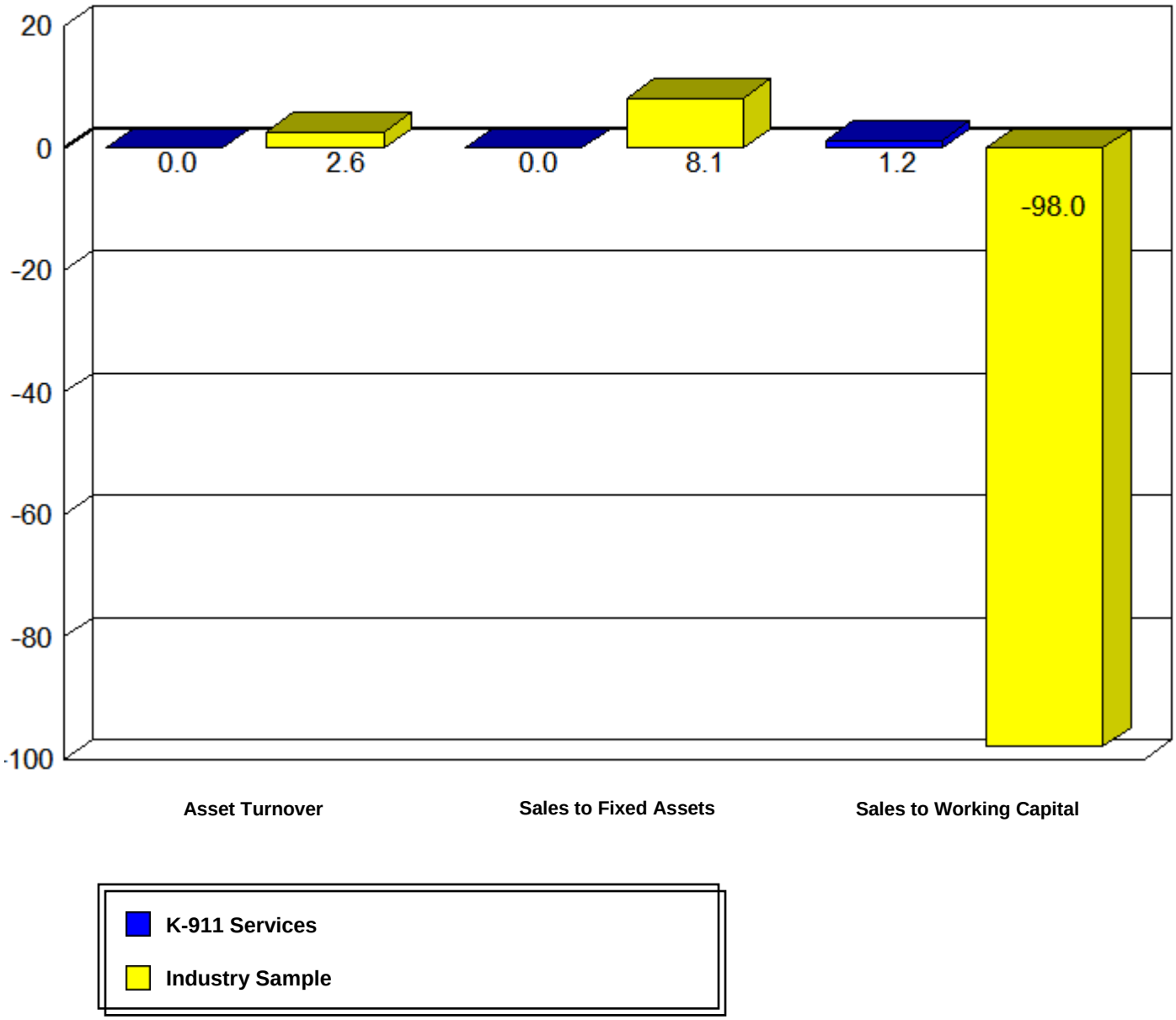


Y Axis = Ratio Values

Note: Above industry figures are medians for similar-sized firms.

If no bar appears, there is insufficient data available for representation in the graph.

Comparison of Operating Ratios for K-911 Services

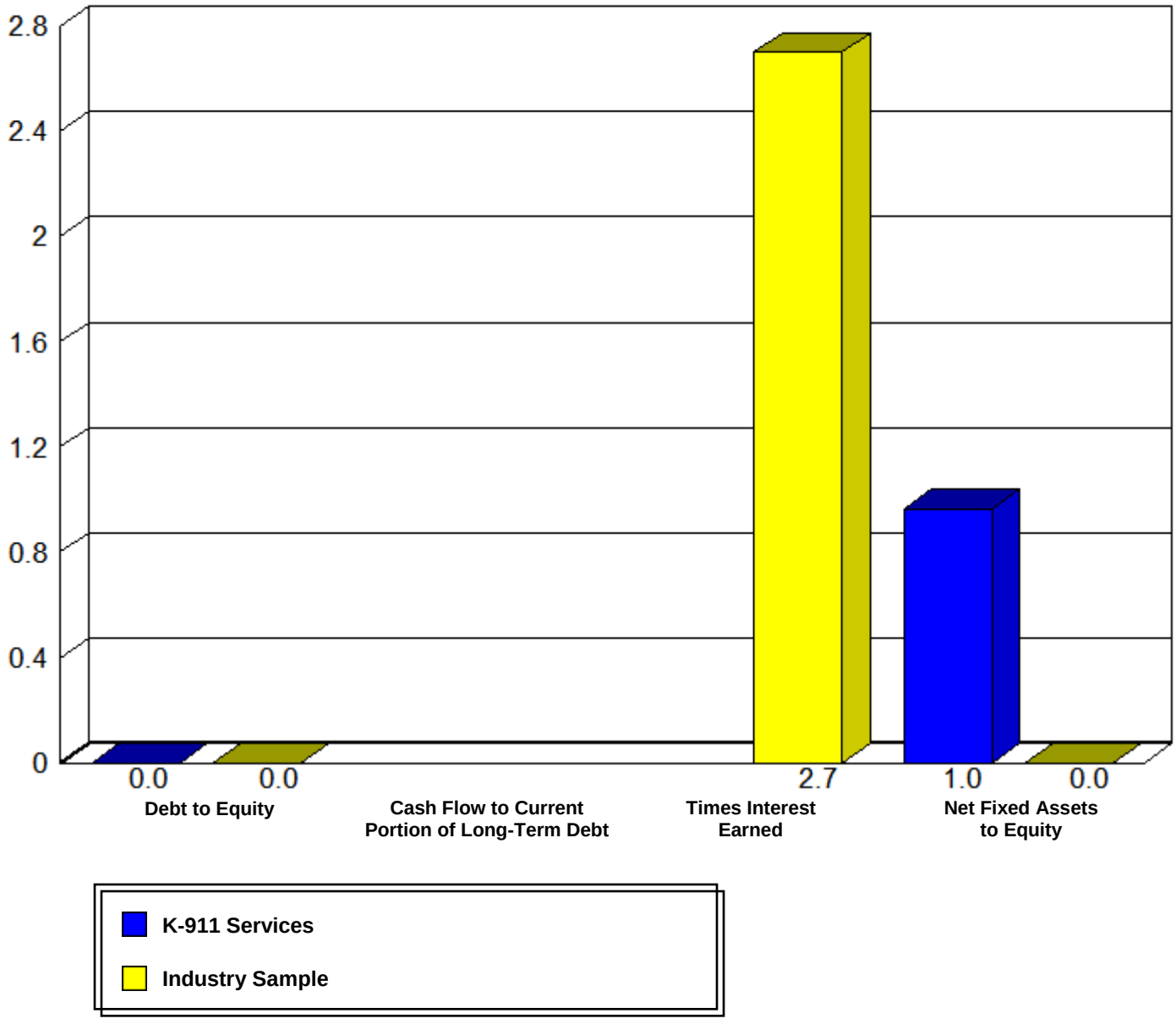


Y Axis = Ratio Values

Note: Above industry figures are medians for similar-sized firms.

If no bar appears, there is insufficient data available for representation in the graph.

Comparison of Financing Ratios for K-911 Services

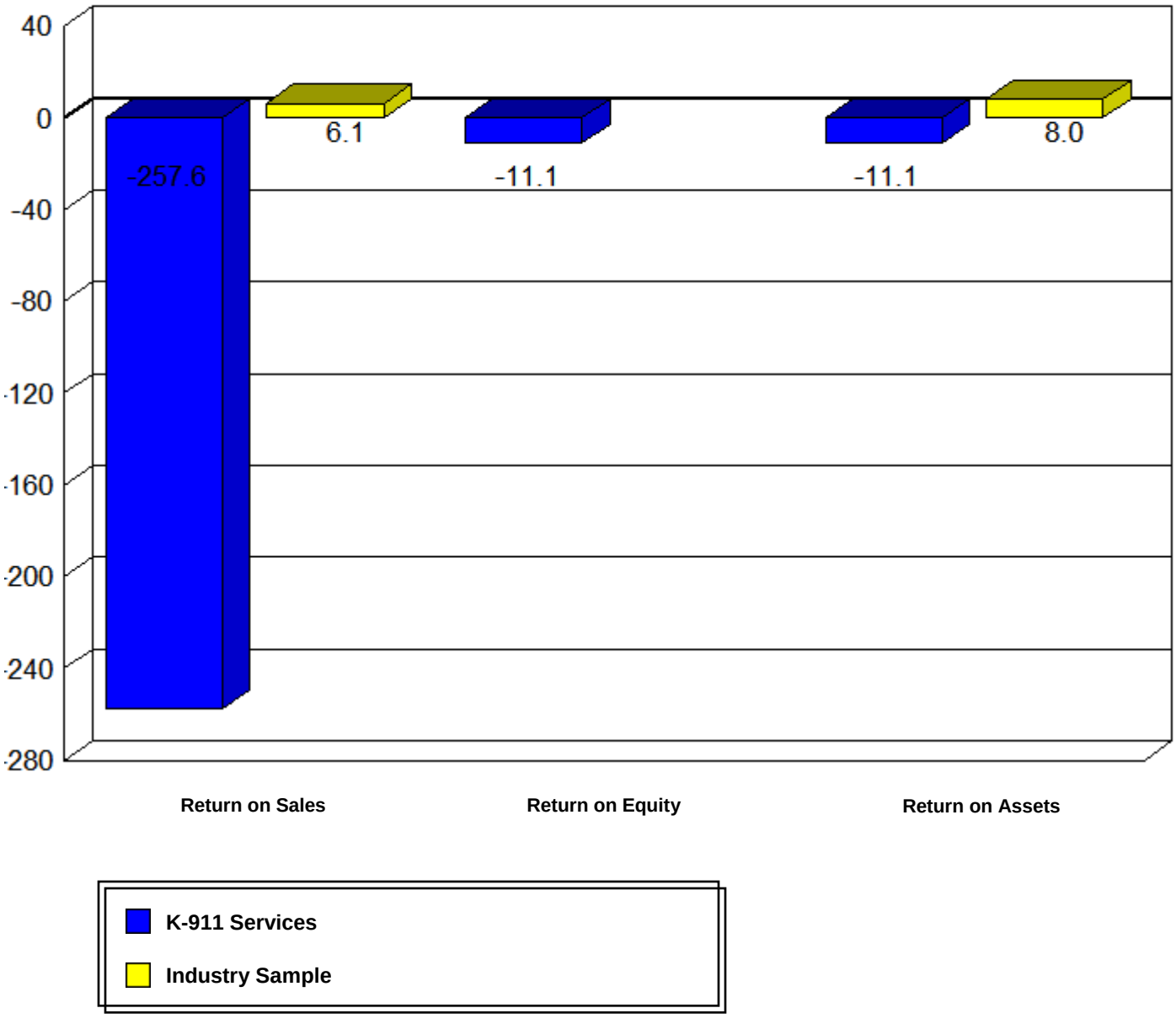


Y Axis = Ratio Values

Note: Above industry figures are medians for similar-sized firms.

If no bar appears, there is insufficient data available for representation in the graph.

Comparison of Profitability Ratios for K-911 Services



Y Axis = Ratio Values

Note: Above industry figures are medians for similar-sized firms, except "Return on Sales" which is an average.

If no bar appears, there is insufficient data available for representation in the graph.

Z-Score Analysis

The Z-Score formula for predicting bankruptcy was developed in 1968 by Dr. Edward Altman, Ph.D., a financial economist and professor at New York University's Stern School of Business. The formula is a measurement of the financial health of a company and is a powerful diagnostic tool that forecasts the probability of a company entering bankruptcy within a two year period. Studies measuring the effectiveness of the Z-Score have shown the model to be reasonably accurate (72%-80% reliability), though not infallible, in predicting bankruptcy.

The Z-Score bankruptcy predictor combines five common business ratios and uses a weighting system created by Altman to determine the likelihood of a company going into bankruptcy. Slightly different bankruptcy risk assessment boundaries are used for privately-held manufacturers and privately held non-manufacturers (retail, wholesale, distribution, etc.). *Calculating the Z-Score for publicly-held firms involves a different set of weighted multipliers and is not included in this report.*

The Z-Score for K-911 Services was calculated on the basis of annual financial data provided for FYE 12/31/2008. Thus, the score is not an absolute predictor of bankruptcy, and should be used primarily as a guide.

Business Ratio and Altman's Weighted Multiplier

Calculation		Score
(Working Capital ÷ Total Assets) × 0.717		
(1,068 ÷ 30,954) × 0.717		0.025
(Retained Earnings ÷ Total Assets) × 0.847		
(-3,428 ÷ 30,954) × 0.847		-0.094
(Net Profit Before Taxes ÷ Total Assets) × 3.107		
(-3,428 ÷ 30,954) × 3.107		-0.344
(Equity ÷ Total Liabilities) × 0.420		
(30,954 ÷ 0) × 0.420		ins
(Net Sales ÷ Total Assets) × 0.998		
(1,331 ÷ 30,954) × 0.998		0.043
	Total Z-Score	ins

Result: The Z-Score for K-911 Services could not be calculated due to a zero value for Total Assets and/or Total Liabilities. Only if both values are entered into the annual financials for FYE 12/31/2008 can the Z-Score be calculated. It is also recommended that all the other values referenced in the table above are provided and accurate.

Balance Sheet

The balance sheet, often called the statement of financial position, provides information that describes the financial standing of a company at a given point in time. The company's balance sheet for the latest fiscal year has been used in this analysis.

Just as a snapshot shows the cumulative effect of physical changes since birth, the balance sheet reflects the cumulative effect of the financial changes that have occurred in a business since it began. It is particularly useful in understanding how the business is financed, how successful it has been, and what decisions management has made to create company growth.

The balance sheet, of course, has two sides. On one side are the assets of the firm, and on the other are the company's liabilities and net worth (the sum of which equal the assets). There are several components of the balance sheet, and the Appendix contains detailed definitions. The components are often expressed as a percentage of assets to make more meaningful comparisons to other firms.

Asset components that are significantly different than the industry average for similar type firms (values shown are the company's percentage minus the industry average):

Total current	-13.9%
Fixed assets (net)	39.6%
Intangibles (net)	-17.1%

Liability components that are significantly different than the industry average for similar type firms (values shown are the company's percentage minus the industry average):

Current maturity LTD	-22.8%
Trade payables	-10.1%
Total current	-41.1%
Long-term debt	-77.8%
Total liabilities	-124.9%

Net worth for K-911 Services is 100.0% of Total Assets. This compares to an average of -24.9% for similar-sized firms in the same industry.

Note that there are typically wide variations between firms in terms of their balance sheet structure. It is not at all unusual to be much higher or lower than other firms on specific items. The key individual components making up the balance sheet are analyzed further in this report when financial ratios are discussed.

Balance Sheet Comparison Summary
For K-911 Services

	Fiscal Year Ending 12/31/2008	% Assets	Industry Average: $0-$1 M Sales Range	% Point Difference
Assets				
Cash & equivalents	906	2.9%	9.1%	-6.2%
Trade receivables	0	0.0%	1.8%	-1.8%
Inventory	162	0.5%	5.1%	-4.6%
All other current	0	0.0%	1.5%	-1.5%
Total current	1,068	3.5%	17.4%	-13.9%
Fixed assets (net)	29,886	96.5%	56.9%	39.6%
Intangibles (net)	0	0.0%	17.1%	-17.1%
All other non-current (net)	0	0.0%	8.6%	-8.6%
Total assets	30,954	100.0%	100.0%	
Liabilities				
Notes payable (short-term)	0	0.0%	2.5%	-2.5%
Current maturity LTD	0	0.0%	22.8%	-22.8%
Trade payables	0	0.0%	10.1%	-10.1%
Income taxes payable	0	0.0%	0.0%	0.0%
All other current	0	0.0%	5.7%	-5.7%
Total current	0	0.0%	41.1%	-41.1%
Long-term debt	0	0.0%	77.8%	-77.8%
Deferred taxes	0	0.0%	0.0%	0.0%
All other non-current	0	0.0%	6.1%	-6.1%
Total liabilities	0	0.0%	124.9%	-124.9%
Total equity	30,954	100.0%	-24.9%	124.9%
Liabilities and equity	30,954	100.0%	100.0%	

Source of Industry Data: RMA Annual Statement Studies Financial Ratio Benchmarks 2007-2008. NAICS Code is 454210.

Income Statement

Net Sales is total gross sales less any returns, allowances, and general customer incentives. Net sales is used in a wide variety of financial ratios. On the income statement, line items are often expressed as a percentage of net sales (defined as 100%) to make comparisons between companies more meaningful. The comparison data represents averages of income statements.

Gross Profit is computed by subtracting Cost of Sales (or Cost of Goods Sold) from Net Sales. Generating good net profits is nearly impossible to achieve without first producing a good gross profit. Gross profit dollars can be divided by net sales and expressed as a percentage of sales.

The gross profit percent for K-911 Services is 21.7%. This compares to the industry average of 48.4%. Improving this performance depends on reducing the cost of sales and achieving the optimum selling price the market will bear.

Operating Profit is the measurement of gross profit remaining after operating expenses are deducted and can be expressed as a percentage of sales. If gross profit is acceptable and operating profit is below average, the firm should analyze operating expenses for cost reductions.

The operating profit for K-911 Services is -257.6% of sales. This compares to the industry average of 8.0%. Gross profit margins and operating profitability are both below industry averages and should be examined for improvements.

Net Profit Before Taxes is computed by subtracting interest costs and other expenses (income) from operating profit, and can be expressed as a percentage of sales, before taxes (net profit % or return on sales). The net return on sales for K-911 Services is -257.6%. This compares to the industry average of 6.1%. Both operating profit and net profit are below industry averages, indicating many opportunities for improvement. Plans should be underway to move the company toward positive earnings.

Depreciation and Amortization % of Sales is computed by dividing annual depreciation and amortization by net sales. This ratio depends upon the amount of fixed assets that a company has and how quickly they are being depreciated or amortized, relative to the sales base. Any depletion, if it exists, should also be included.

The Depreciation and Amortization % of Sales for K-911 Services is 345.5%. This compares to the industry median of 5.1%. This may indicate a higher-than-normal amount of fixed assets being used to generate sales and/or a rapid depreciation schedule.

Owners' Compensation % of Sales is computed by dividing the total owners', officers', and directors' compensation (salary plus any bonuses) by annual net sales. This is obviously a measure of how much these individuals are taking out of the business relative to the sales level. It can vary widely among companies, depending upon the goals of the owner(s), tax ramifications, and so forth. It should be viewed in context with the return on sales discussed earlier in this section.

The Owner's Compensation % of Sales for K-911 Services is 0.0%. This compares to the industry median of ins. data.

Please refer to the 'Discussion Ideas' section for possible action steps for improving ratios.

Income Statement Comparison Summary
For K-911 Services

	Fiscal Year Ending 12/31/2008	% Sales	Industry Average: $0-$1 M Sales Range	% Point Difference
Income Statement				
Net sales	1,331	100.0%	100.0%	
Gross profit	289	21.7%	48.4%	-26.7%
Operating expenses	3,717	279.3%	40.4%	238.9%
Operating profit	-3,428	-257.6%	8.0%	-265.6%
Other expense (net)	0	0.0%	2.0%	-2.0%
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Additional Data Provided				
Depr. & amort. expense	4,598	345.5%	5.1%	340.4%
Interest paid	0	0.0%	n/a	
Owners' compensation	0	0.0%	ins. data	ins. data

Source of Industry Data: RMA Annual Statement Studies Financial Ratio Benchmarks 2007-2008. NAICS Code is 454210.

Liquidity Ratios

Liquidity is a company's ability to meet its maturing short-term obligations. Liquidity is essential to a business when confronted with unforeseen events, such as a strike, recession, supply interruption, natural disaster, and so forth. Favorable liquidity is also necessary for taking advantage of certain business opportunities that may develop. Determining the liquidity of a company is particularly important to creditors, since it may affect timely payment of principal and interest obligations, and payment of trade debt, as well as overall solvency.

From the firm's perspective, the liquidity ratios measure the management of working capital, which includes activities with current assets and current liabilities.

There are three major measures of liquidity in this report. These are the current ratio, quick (or acid test) ratio, and net working capital (often expressed relative to sales). The ratios are defined below, with a brief discussion of the firm's relative ranking with its industry. Possible steps for improving liquidity on any ratios below the industry median are presented under 'Discussion Ideas' later in this report.

The **Current Ratio** is defined as total current assets divided by total current liabilities. It provides an idea on how well the company can service its current obligations. Higher values, within limits, are better.

The current ratio for K-911 Services is ins. data. This compares to the industry median of 0.7. The cash strength relative to assets for the firm is below average, trade receivables is below average, and inventory is below average. Current assets are only part of the liquidity picture, however.

Maintaining the low level of current liabilities also affects the firm’s liquidity. For K-911 Services , short-term notes payable is below average, the current portion of long-term debt is below average and trade payables is below average.

The **Quick (Acid Test) Ratio** is similar to the current ratio, but it includes only cash, cash equivalents and accounts receivable as current assets, which are then divided by total current liabilities. It specifically excludes "inventory" in the numerator, and is therefore a more conservative measure of liquidity. The quick ratio indicates a firm's more immediate capability for paying current obligations, since it would take some time to convert inventory into cash. As in the case of the current ratio, higher values (within limits) are better.

The quick ratio for K-911 Services is ins. data. This compares to the industry median of 0.3. The firm's inventory position is below the industry average.

Working Capital to Sales Ratio is computed by subtracting current liabilities from current assets (equivalent to calculating working capital), and then dividing the result by net sales. This measures the working capital a company is carrying relative to its sales volume, and is an indicator into how much working capital is required for a certain sales level. It also provides insight into the degree of protection afforded current creditors.

Although there are differences of opinion, it is generally accepted that the higher this value the better, because it means that the company is doing a good job of creating working capital for day-to-day operations and to guard against any sudden downturns in business. Extremely high values, however, may indicate that the company could be generating higher sales with the available working capital.

For K-911 Services this ratio is 80.2%. This compares to the industry median of -1.0%.

Liquidity Ratios for K-911 Services

	Fiscal Year Ending 12/31/2008	Estimated Percentile in Industry $0-$1 M Sales Range
Current ratio	ins. data	ins. data
Quick ratio	ins. data	ins. data
Working capital to sales (%)	80.2	99

Efficiency Ratios

Efficiency ratios usually indicate how well a firm is managing its accounts receivable, accounts payable, inventory and operating cycle. Because these ratios are based upon a snapshot of certain balance sheet accounts (to total annual sales), they will not reflect seasonal fluctuations. The "Discussion Ideas" section contains potential action steps for further improvement in any ratios occurring below the industry median for that ratio.

Days in Accounts Receivable is defined as the average number of days required to collect an account receivable. The ratio is calculated by dividing (Trade) Accounts Receivable by average Daily Net Sales and is expressed in days. Firms should strive for a low number of days in accounts receivable, because it means receiving payments quicker and enhancing cash flow.

Accounts receivable turnover is sometimes used as another benchmark in this area, and is defined as Annual Net Sales divided by Accounts Receivable.

The days in accounts receivable for K-911 Services is ins. data days. This compares to an industry median of 0 days. Prompt collection performance provides timely cash to the firm and reduces the need for expensive borrowing to finance receivables and payables. The firm's ratio could not be compared to industry data.

Days in Accounts Payable is defined as the average number of days required for the firm to pay an account payable. The ratio is calculated by dividing (Trade) Accounts Payable by average Daily Cost of Sales (cost of goods sold) and is expressed in days.

There are some philosophical differences on whether it is good to have a higher or lower value for this ratio. On one hand, it is advantageous to have a high days in accounts payable (within creditor limits of tolerance), because it means the firm is holding onto its cash longer, probably earning more interest, and generally improving the company's cash flow. However, it can also indicate that the company may be having difficulty in meeting its payment schedules, disputing amounts with vendors, or simply being overly slow in paying (going beyond agreed-to terms). In this report, the lower the days in accounts payable, the better (and the higher the percentile).

Accounts payable turnover is sometimes used as another benchmark in this area, and is defined as Annual Cost of Sales divided by (Trade) Accounts Payable.

The days in accounts payable for K-911 Services is ins. data days. This compares to the industry median of 0 days. Careful management of purchased inventory and accounts receivable are important in having a reasonable ratio. The ratio for the firm could not be compared to industry data.

Annual Inventory Turnover is defined as the average number of times a company's inventory (if applicable) has been sold during the year. The ratio is calculated by dividing cost of sales (cost of goods sold) by inventory valued at cost. Having a high number of inventory turns during the year is beneficial to a company, as long as customer requirements are being met (that is, few shortages, back-orders, and so forth). Unfortunately, seasonal fluctuations are not examined with this ratio, but it does provide some general indication on how well the firm is moving its product through the system.

The inventory turnover figure for K-911 Services is 6.4 times. This compares to the industry median of 55.9. Slow-moving inventory makes poor use of the firm's resources. A strategy to improve inventory turnover is important for profitable use of those resources.

An alternative expression of this annual inventory turnover is **Days in Inventory**, which expresses the average number of days required to sell the company's inventory. This ratio is calculated by dividing 365 days by the inventory turnover figure. Obviously, the lower this value, the better. The days in inventory for K-911 Services is 57 days. This compares to the industry median of 7.

Operating Cycle is defined as the average number of days between the purchase of raw or saleable inventory and the collection of cash from the sale of that inventory. The ratio is calculated by adding days in inventory to days in accounts receivable. The lower this value, the better.

The firm's operating cycle is ins. data days. The industry operating cycle is not available through survey ratios.

For companies with significant inventory: Efficient management of the operating cycle is an important element of resource utilization, since the firm's capital is employed for the entire cycle. Careful management attention should be given to the cycle time by closely monitoring the turnover of inventory and accounts receivable. Such companies should build a history of (annual) operating cycle measurements so the most recent ratio can be evaluated against historical performance.

Efficiency Ratios for K-911 Services

	Fiscal Year Ending 12/31/2008	**Estimated Percentile in Industry $0-$1 M Sales Range**
Days in accounts receivable	ins. data	ins. data
Days in accounts payable	ins. data	ins. data
Annual inventory turnover	6.4	18
Days in inventory	57	18
Operating cycle	ins. data	n/a

Operating Ratios

Operating ratios are designed to assist in the evaluation of management performance and its effectiveness in utilizing the resources available. Possibilities for improving any operating ratios that are below the industry median are contained in the Discussion Ideas section at the end of this report.

Asset Turnover is calculated from Net Sales divided by Total Assets. This ratio measures a firm's ability to generate sales from the total asset base. Higher ratios suggest a greater capacity to create sales with given assets. This ratio is particularly helpful in conjunction with other asset utilization measurements.

The Asset Turnover for K-911 Services is 0.0. This compares to the industry median of 2.6. The firm should look for ways to better use its asset base to produce sales.

Sales to Fixed Assets indicates management's relative productive use of its fixed assets to produce sales. The ratio is computed by dividing Net Sales by Net Fixed Assets. It is similar in concept to asset turnover, but it excludes current assets, intangibles, and miscellaneous other non-current assets in the denominator. Essentially, this ratio tests the efficiency of management in keeping production assets employed.

Note that operations that are very labor intensive or that are using significant plant and equipment that is mostly depreciated, will have less meaningful comparisons.

The Sales to Fixed Assets ratio for K-911 Services is 0.0. This compares to the industry median of 8.1. The utilization of fixed assets is in need of improvement. The use of fixed assets should be analyzed to determine if excess capacity exists.

Sales to Working Capital Ratio is computed by dividing net sales by working capital (working capital is current assets minus current liabilities). This measures a company's ability to generate sales with its working capital. Note that it is the inverse of the Working Capital/Sales ratio discussed in the Liquidity section.

Since having adequate working capital is important as an operating "cushion", lower values are generally advantageous for this ratio. However, extremely low values may indicate that insufficient sales are being generated relative to working capital.

The Sales to Working Capital for K-911 Services is 1.2. This compares to the industry median of -98.0.

Operating Ratios for K-911 Services

	Fiscal Year Ending 12/31/2008	Estimated Percentile in Industry $0-$1 M Sales Range
Asset turnover	0.0	1
Sales to fixed assets	0.0	14
Sales to working capital	1.2	99

Financing Ratios

Financing ratios analyze the relationship between a firm's debt load, its fixed asset base and net worth. Essentially, they explore the financial structure of a company.

A high level of debt can make a firm vulnerable to business downturns for reasons beyond the firm's control. Two ratios are commonly used for this analysis: Debt to equity and cash flow to current maturities of long-term debt. As usual, possible action steps are presented in the Discussion Ideas section for any ratios which fall below the industry median.

Debt to Equity Ratio is computed by dividing Total Liabilities by Net Worth. This ratio expresses the relationship of capital contributed by creditors and capital contributed by stockholders. The ratio reflects the way the business is financed. There are specific implications of this ratio. A high ratio is less favorable to existing/potential creditors (riskier for them), while a low ratio may be less favorable to stockholders.

Firms with a high debt to equity ratio are more restricted in the amount of money they can borrow. Most companies try to keep their ratio within industry norms.

The debt to equity ratio for K-911 Services is 0.0. This compares to the industry median of n/a.

Cash Flow to Current LT Debt Ratio is computed by dividing Cash Flow (as measured by net income before taxes plus depreciation, amortization, and depletion) by Current Maturities of Long-Term Debt. This ratio provides insight into how well the company is able to meet its current obligations on long-term debt through its cash flow. The higher the value, the better.

The Cash Flow to Current LT Debt Ratio for K-911 Services is ins. data. This compares to the industry median of ins. data.

Times Interest Earned is calculated by dividing Net Profit before Taxes plus Interest Paid (that is, the sum) by Interest Paid. This ratio measures the ability to meet interest payments, as well as take on additional debt. Higher values indicate a more favorable condition.

The ratio for K-911 Services is ins. data. This compares to the industry median of 2.7.

Net Fixed Assets to Equity Ratio is computed by dividing Net Fixed Assets by Equity (Net Worth). The ratio measures stockholder investment in fixed assets, and can reflect over-investment or under-investment by owners. A lower (positive) ratio value is more favorable for creditors in case of liquidation of the company (note that negative values indicate negative equity, usually the result of negative retained earnings). If most of the assets are leased or if the assets are essentially depreciated, this ratio becomes less meaningful. Note that for businesses that operate with no fixed assets, this ratio value will be zero.

The ratio for K-911 Services is 1.0. This compares to the industry median of n/a.

Financial Leverage is Total Assets divided by Equity (Net Worth). This is a measure of the extent to which assets are financed by Owner's Equity. Although information is not directly available from RMA on the industry value, the ratio is important as an indicator of exposure to debt. Firms should be careful to not become too leveraged (too much debt) for the sake of creating a higher ROE. A sudden downturn in sales could leave a highly-leveraged firm unable to pay the interest on its debt. The value for K-911 Services is 1.0.

Trade Accounts Payable to Inventory is defined as the trade accounts portion of payables divided by inventory. This is a measure of how much inventory is being financed by vendors. Like Financial Leverage, this information is not directly available from RMA on the industry value, it remains an important ratio to consider. The value for K-911 Services is 0.0.

Financing Ratios for K-911 Services

	Fiscal Year Ending 12/31/2008	Estimated Percentile in Industry $0-$1 M Sales Range
Debt to equity	0.0	ins. data
Cash flow to current LT debt	ins. data	ins. data
Times interest earned	ins. data	ins. data
Net fixed assets to equity	1.0	76
Financial leverage	1.0	n/a
Trade AP to inventory	0.0	n/a

Profitability Ratios

Profitability ratios are useful in expressing the company's earnings relative to what created them, whether it is sales, owners' equity, or total asset base. All ratios presented here are based on pre-tax net profit.

Return on Sales (Net Profit Before Taxes) measures a company's ability to generate profits relative to the sales volume. It is definitely one of the key indicators of the success of a business. Return on Sales is calculated by dividing Net Income before Taxes by Net Sales, and expressing the result as a percentage. Obviously, the higher the value, the more successful the company is at generating profits from its sales.

The Return on Sales for K-911 Services is -257.6%. This compares to the industry average of 6.1%. The firm's ratio indicates net profit relative to sales is below the industry average. A negative return on sales is obviously unfavorable, and efforts should be underway to return to profitability.

Other key figures to examine include Owners', Officers', and Directors' Compensation relative to Sales, as well as Return on Assets. For K-911 Services , the Owners', Officers', and Directors' Compensation relative to Sales is 0.0%. This compares to the industry median of ins. data. The Return on Assets results are covered below.

Return on Equity (ROE) or Return on Net Worth measures management's performance in producing a rate of return on the equity capital employed. It is calculated by taking Pre-tax Net Profit and dividing by Equity or Net Worth (with the ratio expressed as a percentage). Equity is equivalent to Net Worth. Higher values of this ratio are better. Note that start-up or young companies frequently have widely varying returns on equity because of how the business is financed and a short time span for accumulated retained earnings.

The Return on Equity for K-911 Services is -11.1%. This compares to the industry median of ins. data%. The firm's ratio could not be compared to industry data.

There are two other important ratios to consider in conjunction with Return on Equity: The Equity (Net Worth) % of Assets and the Debt to Equity ratio, both of which have been discussed. For K-911 Services , the Equity (Net Worth) % of Assets is 100.0%. This compares to the industry average of -24.9%. The Debt to Equity ratio for the firm is 0.0. This compares to an industry median of n/a.

Return on Assets (ROA) more specifically measures management's effective use of the entire asset base to generate profit. The ratio is computed by dividing Pre-tax Net Profit by Total Assets, and then expressing that number as a percentage.

This is an extremely important ratio where the higher the return, the more effectively all assets are being used to generate profits. This ratio is a good indicator of management's ability to conduct profitable operations. It is particularly critical for company's initial growth phase that they have a high return on assets.

The value of Return on Assets for K-911 Services is -11.1%. This compares to the industry median of 8.0%. The company is below the industry median for this ratio and needs to boost its current return on assets if it plans continued growth and competitiveness. Negative earnings is resulting in a negative return on assets and suggests the imminent need to improve profitability.

Please refer to the Discussion Ideas section for potential ways to further improve this ratio, or for any of the profitability ratios discussed above.

Profitability Ratios for K-911 Services

	Fiscal Year Ending 12/31/2008	Estimated Percentile in Industry $0-$1 M Sales Range
Owner's comp. to sales (%)	0.0	ins. data
Trade AP to inventory	0.0	n/a
Return on sales (%)	-257.6	n/a
Return on equity (%)	-11.1	ins. data
Return on assets (%)	-11.1	1

Financial Area Percentiles

The individual financial ratios for K-911 Services have been discussed in this report. It is possible to develop some "sense" of a company's general financial strengths and weaknesses by viewing the firm's standing in each of the major grouping of ratios (liquidity, efficiency, operating, financing, and profitability).

Although it is possible to take the simple arithmetic averages of the percentiles for individual ratios within each major financial area, a more sophisticated approach is to take a weighted average of the percentiles. This takes into account the fact that some ratios may be more important than others.

Based upon the opinions of knowledgeable professionals, default "weighting factors" (in the software) were developed for each of the individual ratios. The analyst can modify these. In this section is a listing of the major financial ratio areas and the individual weighting factors on a 1-10 scale, with 10 indicating "extremely important".

The weighting factors are then applied to individual percentiles, and a combined weighted average is developed for that financial area. The purpose of this calculation is to consider both the percentiles of the company, as well as the relative importance of certain ratios. It can therefore provide a general guide to the overall performance in various financial areas. The Appendix provides the detailed methodology.

Not all individual ratios are used in these calculations. Inventory turnover is already represented by days in inventory, and industry percentile data is not available on return on sales, operating cycle, and trade accounts payable to inventory. **All other percentile values are required for a given area to generate the weighted average percentile.**

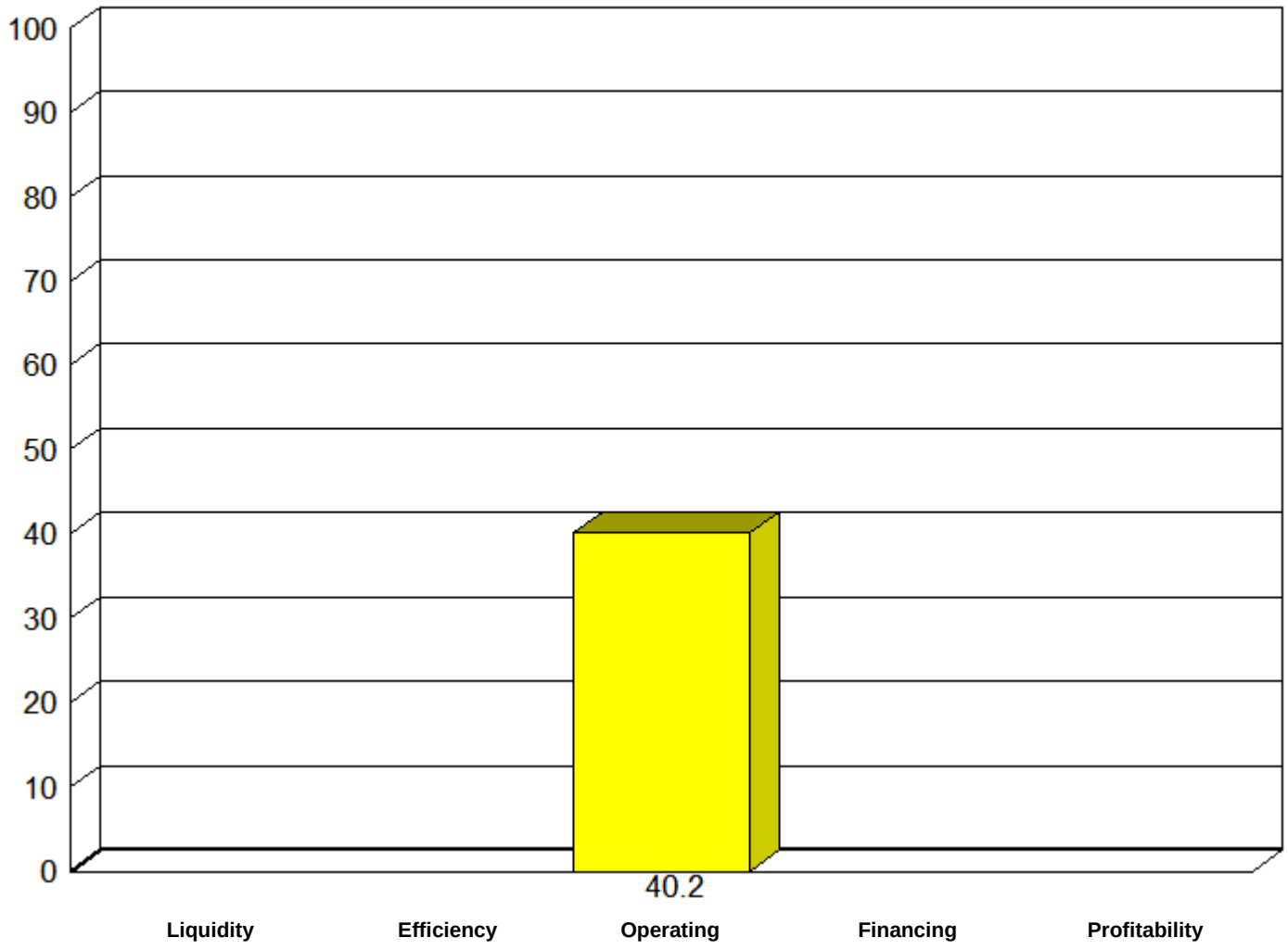
The results for each area appear on the graph following this section. The higher the percentile, the more effective your company is in that particular area. Any "missing bars" indicates that there were an insufficient number of ratio percentiles to generate a meaningful weighted average.

Summary of Financial Ratio Weighting Factors

	Weighting Factors for Percentiles	
	Default	**In Use**
Liquidity Ratios		
Current ratio	6.9	6.9
Quick ratio	6.5	6.5
Working capital to sales (%)	7.2	7.2
Efficiency Ratios		
Days in accounts receivable	7.1	7.1
Days in accounts payable	5.8	5.8
Annual inventory turnover	7.2	7.2
Days in inventory	n/a	
Operating cycle	n/a	
Operating Ratios		
Asset turnover	7.5	7.5
Sales to fixed assets	5.0	5.0
Sales to working capital	7.2	7.2
Financing Ratios		
Debt to equity	6.2	6.2
Cash flow to current LT debt	5.0	5.0
Times interest earned	6.6	6.6
Net fixed assets to equity	4.5	4.5
Financial leverage	n/a	
Trade AP to inventory	n/a	
Profitability Ratios		
Return on sales (%)	n/a	
Return on equity (%)	6.1	6.1
Return on assets (%)	8.7	8.7

Scale is from 1 to 10, where 10 indicates "extremely important".

Performance Analysis of Financial Ratio Areas for K-911 Services



Scale is from 1 to 99 with higher values representing better performance.

Y Axis = Weighted average percentiles of available ratios

If no bar appears (0 value), there is insufficient data available for representation in the graph.

Discussion Ideas

This section contains discussion ideas on possible ways to improve key areas. The purpose of these listings is to stimulate thought and discussion with your company and management team. Following this section of the report is a worksheet for you to record the best and most appropriate ideas for your company, along with responsibility and timeline information. Note that these ideas are just that, ideas for possible consideration. You will want to use your own business sense and knowledge to determine what is appropriate for your company.

Gross profit percentage is below average for similar-sized firms in the industry.

- For many companies, this ratio is strongly dependent on product and/or service mix. Some adjustments may be possible through emphasizing certain product/service lines.
- Excessive price-based promotions may be resulting in higher sales but also a lower gross profit percentage.
- Review your company's pricing policies for this market. The current price structure may be too low.
- Have a methodology for routinely monitoring competitor prices in the marketplace.
- Look at current total gross profit percentage in context with historical trends for your company as well as the trends of the industry.
- Track reasons for any returned product. Is it mostly damage (and if so, where is this occurring)? Establish responsibility and correct causes.
- Meet with key suppliers frequently to thoroughly understand/evaluate their pricing structures, promotions, and activities.
- Make sure a system exists for suppliers to communicate immediate notification of price changes and special promotions.
- Good forecasting can reduce the need for last-minute, possibly expensive, purchasing.
- If sufficient storage space exists, consider buying larger quantities of non-perishable items, or products that are not date-sensitive, to obtain volume discounts.
- Do a thorough cost and market analysis of products carried and customer mix and performance. Look at items such as volume, profit, and turnover.
- Have a system that tracks gross profit trends (% of sales) by product lines.
- Evaluate your profit contribution (sales less variable costs) for various product lines.
- Take advantage of any trade association type information related to typical gross profit profits and trends.
- Inventory shrink can be reflected in the gross profit % that a company realizes (in many accounting systems). Find causes and remedies to reduce shrink.
- Some ways to reduce shrink are by carefully screening new job applicants and having a clearly communicated policy on dishonesty and theft.
- Also, consider storing theft-prone merchandise where it cannot easily be stolen.
- Recognize that the most significant threats to security are most likely to come from within the organization.
- Reinforce your workers' respect for goods by reminding them that their wages are paid from the receipts for the products that the company sells.
- Analyze purchasing policies for efficient movement of goods and for optimum pricing levels.

- Study the flow of inventory and develop action steps for increasing productivity. Minimize any inefficient processes that do not add value.
- Recognize that only a small percentage change in gross profit percentage can create a significant change in profitability.
- Any decline in gross profit dollars must be more than offset by reduced operating expenses in order to boost return on sales.
- Know your competitors. Will they match any price (gross profit) reductions to maintain market share?
- Know price elasticity (demand vs. price) characteristics for your product lines.
- Be aware of the effect of large inventory write-offs.
- Determine the inventory valuation method that is most appropriate for the company's long-term objectives.
- Look for ways to add perceived value to your products so a higher price can be charged. This may be level of service, timeliness, guarantees, etc.
- Routinely price an additional supplier to make sure you are getting a proper agreement with your regular supplier in your marketplace. By having an additional supplier involved, both will likely be more competitive with their pricing.
- Develop ways to be alerted to good buying opportunities.

Operating expense percentage is above the average.

- Express and track cost categories as a percentage of sales.
- Examine individual operating cost categories to see if any are out of line.
- For detailed operating budgets, consider history and realistic growth, but periodic zero-based budgets may make sense.
- Strive for easily understood, actionable reporting systems. Avoid broad cost categories where possible, except for summary reports and subtotals.
- Ensure that operating cost information is reported in a timely fashion. Obviously, the quicker problems are solved, the better.
- Have "exception reporting" which highlights unusual expenses. Be able to track to the exact source.
- Follow-up on recurrent (chronic) problem areas in operating expenses (and have a system to identify them).
- Work on feedback from employees: suggestion box, meetings with management, and so forth. Are your current methods successful?
- Reward improvements in reducing operating expenses through incentives and recognition. Solicit ideas from managers in the functional areas.
- Track % of employee suggestions implemented and annual savings derived from them.
- Make sure the chart of accounts is capturing operating costs the way management needs to see them.
- Focus on those operating expenses which may yield the largest increase in savings (labor, utilities, etc.).
- Make individuals accountable for controlling certain operating costs. Every cost should have a person responsible for it.
- Consider implementing functional area or departmental accounting if not already doing so.
- Attend state and national association meetings to learn ways to reduce operating costs.

- All managers should have a "situational awareness." This awareness is based on knowing what work has been completed, what needs to be done, what should be done later, and what can't be done.
- Examine your criteria for "special orders" or "special service" -- are they becoming routine? Does the system need to be changed?
- Create a system for separating customers who always demand emergency service from those who deserve it.

- Paperwork should be done when people are alert. Too often, it's done when people are tired and prone to make errors.
- Take into account any needs of new products or services. Does the benefit of the new product or service exceed the cost of meeting these requirements?
- Work on ways to reduce "firefighting" problems through developing good operations planning. Firefighting is very expensive.
- Use Activity Based Costing methods to determine the true cost of providing services or carrying certain products.
- Work towards having a truly integrated information system.
- Strive to have real time access to customer information.
- Never be satisfied with the status quo. There is always room to improve.
- Have flexibility in your strategic plan. Changes are bound to occur. Have contingency plans.
- Evaluate specific software tools, even small applications, that could be beneficial to your business.
- Involve upper management in selected employee meetings to demonstrate management's interest in, and understanding of, employee perspectives and to share input on management's perspectives.
- Consider buying used rather than new equipment, but do your homework (establish your required specs, consult specialist as needed, find out the equipment history, etc.).
- Realize the high price of unresolved problems of any type.
- Have a solid "infrastructure" that allows for rapid, accurate handling of routine business activities (for example, billing, accounts receivable, etc.).
- Where possible, use e-mail in the organization.
- Promptly resolve any conflicts and problems within the workforce, and have a formal system for grievances. Keep two-way communication going.
- Consider automation or improved technology, where appropriate. Know when to bring on new technology.
- Realize that upper management will need to be heavily involved in any new major automation project.
- Consider setting an action plan review at least once a month as part of a total face-to-face operations review.

- Set quarterly reviews of operating budgets and goals. Communicate success in meeting or exceeding goals.
- Establish performance standards for all company resources (human and plant & equipment). Update annually.

- Have periodic employee reviews. Discuss not only past performance but develop plans for continued improvement. Encourage constructive dialogue in these sessions.
- Consider termination of any non-productive employees unwilling or unable to change.

- Make available company training programs to increase efficiency and lower unit labor costs.
- Keep track of training needs. Develop ways to identify training requirements and the training that employees have actually received.
- Cross-train employees to the extent practicable to increase operational flexibility.
- Establish a climate of high expectations within the organization. Encourage and expect quality performance.
- Promote from within whenever possible. Have training programs which allow such promotions (along with experience). Employees should have input in their career plans.
- Managers should be encouraged to delegate to allow more time for considering and acting on key issues.
- Perform periodic employee attitude surveys. Remember that labor is likely the largest expense item.
- Remember that people improve what is measured and rewarded.
- Manage the human resources asset--don't just let things "happen".
- Track employee turnover rate trends.
- Review all wage rates. Also take a look at management compensation. Is there anything unusual or out-of-line?

- Reduce the number of meetings by combining them, eliminating unnecessary ones, and always having a written agenda and goal for each meeting.
- You may want to test how well your employees know procedures. It is often assumed that everything is OK when there is actually a need to improve training or procedures.
- In hiring the "right person" consider an initial screening interview, an interview with a supervisor, an interview with peer workers, and aptitude testing (at the minimum).
- Consider medical exams and drug screening before hiring applicants.
- Remember that diversity of opinions in developing new approaches is an asset.
- Continually reinforce in employees the old-fashioned (but appropriate) notion that "time is money". Keep a sense of urgency about getting things done.
- Keep in mind ergonomics and its impact on job performance. All equipment should fit the physical characteristics and needs of the employees.
- Workplace innovation that includes the involvement of employees can boost productivity significantly. For example, workplace teams have been successful in many firms.
- Make sure managers realize that part of their job is the on-going development of their employees.
- Check if your temporary employment agency offers a guarantee of employee reliability.
- Spot managerial talent by keeping an eye open for employees that consistently deliver more than expected.
- Interview employees who are leaving the firm. They can help pinpoint major problems.
- Recognize that employee attitude is critical to employee performance.
- Two general guidelines for outsourcing: The process/activity cannot be performed effectively in-house, or the process/activity is not core to your business.
- If using outsourcing, make sure objectives are well understood, but give providers room to perform their jobs.

- Use of a "blended workforce" made up of full-time, part-time, temporary workers, and outsourced workers may help control costs and boost productivity.
- To be competitive in hiring good employees, present your total package of salaries, benefits, incentive programs, transportation, child care, flextime, etc.
- Some companies use "job sharing", where two employees each work half-time to do one full job. This can attract part-time workers in tight labor market.
- Research has shown that key motivators include: recognition for outstanding work, adequate break times, good safety/security, and opportunity for challenging work.
- Recycle where possible and practicable.
- Emphasize safety to reduce lost time and insurance premiums.
- Evaluate current marketing strategies and costs. Determine ROI for various programs. Consider (and occasionally try) alternatives, such as outsourcing the sales effort vs. company direct sales force.
- Computer modeling can often be used to evaluate and improve processes and procedures.
- Use the dual test of necessity and reasonability in amount before making expenditures.
- Negotiate with outside firms on key services you receive.
- Set appropriate limits on what managers can approve without higher authority.
- Consider providing employees with a set of well-explained financial statements that can help them understand what is taking place within the business, and in turn motivate better performance.
- Employees can increase productivity and aid in the management and training of others by providing updates on the latest industry information they have read/studied or trade shows they have attended.
- Payroll expenses should be closely monitored, since it is usually the greatest single business expense.
- A "peak-time pay" system pays a premium wage for regular part-time employees who work during periods when the full-time staff is overburdened. This can allow for fewer full-time employees/benefits and thus reduce payroll expense.
- Consider accepting bids from current employees to complete tasks such as janitorial or maintenance services rather than contracting the work out. It can often be a big savings and the employees may appreciate the opportunity to earn the extra cash.
- Bonus programs that are linked to profitability and efficiency can help in the area of cost control. Employees feel as though the success of the company directly affects their success.
- Short-term incentives (daily, weekly, or monthly) rather than long-term ones can often be more effective at improving morale and productivity.
- Ask employees about operational bottlenecks. They usually know where they are.
- Consider using outside professional consultants for particularly difficult challenges.

Profit before taxes (as a percentage of sales) is less than the average.

- Look at company history for gross profit % trend (if applicable), operating cost (% sales), and return on sales trend. Can any conclusions be drawn? How do they compare to industry figures and trends?
- Boost sales with minimal change in cost structure through, say, increasing sales per transaction.
- Have "exception reporting" on a routine basis that identifies any expenses that are not typical.

- Monitor the timely reporting of all cost information so that problem areas do not go unnoticed.
- Evaluate all cost categories for significant recurring problem areas and then develop action plans to remedy.
- Look for ways to improve employee-management communication. Develop an atmosphere of trust.
- Provide adequate incentives for quality job performance. Establish performance standards.
- Review customer service policies. Can these be fine-tuned to increase profitability?
- Implement functional area or department accounting. Have individuals responsible for cost areas.
- Set quantifiable short-term operating goals and periodically review progress towards them.
- Management should have a list of available training programs (provided by the company or vendors), and encourage employees to take at least one per year.
- Examine non-operating factors which are affecting the "bottom line". Are any unusually high?
- Find ways to increase overall sales volume, even at a (reasonable) cost, to gain economies of scale. Studies have shown a relationship between volume and profitability.
- Have formal mechanisms for continually measuring customer satisfaction on an ongoing basis.
- Have ways of identifying changing customer needs and channeling that information upward in your company.

- Examine ways to make it continually easier for customers to do business with your company. Proactively look for ways to identify customer needs.
- The three measures in a business process to consider are the final quality, the time required, and the cost involved. Find ways to improve each area.
- Formally communicate actual performance vs. company goals on a continual basis.
- Have key quantitative measures of performance and success that are known throughout the company (and a reasonable number of them, such as five). Encourage people to reach those goals, and reward them when they do.
- When developing new products or services, involve the customer throughout the process rather than just at the beginning or end.
- Identify actual (vs. perceived) customer needs through surveys which cover subjects such as service requirements, any delivery needs, sales rep attention, pricing, variety, and so forth.
- The company's strategic plan should link with the capital and operating budgets.
- Determine the operating profit per customer, using methods such as Activity Based Costing.
- Also use Activity Based Costing for such applications as providing certain services for customers, carrying certain products, delivery costs per customer, and other activities.
- Make the planning process more than a theoretical exercise. Develop concrete action plans with deadlines and follow-up on them.
- Identify types of financial and operational analysis desired and evaluate applicable software tools.
- When considering new automation, know "why" and "what" you want to automate. Set priorities and get input from all possible sources (employees, vendors, consultants, etc.).
- Evaluate lease vs. purchase options.
- Develop a thorough understanding of the marketplace. Position your products and services to achieve maximum sales volume and profit. Recognize, though, that the market is ever-changing.

- Log and periodically review all customer complaints and problems. These can often be the source of major improvements in a company.
- Work towards increasing long-term company value. Avoid short-term quick fixes at the expense of long-term value.
- Consider breaking the strategic planning into two parts: A long-range plan (3 to 5 years) and a 1-year operational plan.
- Develop a human resources plan that is tied to your strategic plan.
- Increase efforts to try to sell related products and services to customers.
- Use the Internet to find information on new regulations, human resource issues, industry trends, and so forth.

- Consider using the Internet to provide information about your products, services, and promotions to potential customers. Some firms also use the Internet for recruiting.
- Realize that customer service is an investment and not a cost.
- Companies should be aware that customer expectations are always rising. What was good enough two years ago may not be today. The competition is never standing still.
- Create innovative customer incentives. Many companies provide volume discounts, for example, so try to figure out an approach that competitors don't offer.
- Create systems to move more of the day-to-day management and "fire-fighting" of problems lower in the organization to free up managers to focus on major issues.
- Be open-minded when you are looking at another company's operation. Some approaches may seem odd at first, but may have an excellent rationale.
- Managers should always be alert to talented and hard-working employees, regardless of age or gender. Find a way to keep them challenged and interested in a long-term career in the company. They can ultimately determine the success of the firm.
- Remember to conduct exit interviews with departing employees. They may speak more freely about real company problems.
- Understand how ever-evolving products and/or services will impact your company and its needs.
- Stress more frequent contact with customers and timely response to problems.
- Recognize the importance of economies of scale. If you can expand the sales, with or without acquisitions, you will lower the unit overhead on everything that is sold and boost profits.
- Educating customers on your products and/or services using any of a wide variety of methods can aid in their understanding of how you can help them and in turn increase your sales.
- Sales can often be increased by providing a reason for customers to perceive a higher value. This "value-added" pricing can often significantly increase profitability over commodity pricing.
- Develop a system for tracking orders from customers with past problems to take extra care of their next order. This can increase both efficiency and customer satisfaction and profits.
- Find ways to collect information from your customers on what they want and ways to improve what you offer.

- Employees feel as though the success of the company directly affects their success if the company's bonus programs are linked to their profitability and efficiency.

- Sales can be increased by encouraging non-sales employees to pass along names of prospective customers through a specific bonus program.
- Consider buying shares of a publicly traded competitor, and thereby receive copies of their shareholder reports to obtain information on their activities and a possible source of ideas.
- Rotating managers into a position where they deal with customers allows them the opportunity to gather valuable market insight that can increase profits.

The company needs to improve its number of inventory turns.

- A low ratio may indicate that inventory levels are too high and excessive inventory carrying/storage charges are being incurred.
- A high ratio usually indicates good space and manpower utilization, as well as being an indicator that the sales force is doing its job.
- Another factor to consider for high inventory turnover ratios is the fill rate.
- Increase the number of inventory turns through higher sales.
- Evaluate the turnover of individual items -- prune non-movers.
- Look at overall product mix and make necessary adjustments. There may be some entire product lines which are not feasible to carry any longer (but determine if some slow movers are necessary to round out the product mix).

- Run promotions to get rid of slow-moving items.
- Are your customers aware of the full range of products and services offered by your company?
- Understand all of the costs involved in inventorying product. This includes space, carrying costs, utilities, insurance, and so forth.
- Develop a good sales forecasting system, especially for promotions and seasonal items. Keep track of the impact of various promotions have on sales.
- Track inventory turnover historically. Does any pattern emerge?
- Consider donating unsalable inventory to a qualified/willing charity and receive a tax deduction.
- Track supplier performance. If deliveries are consistently late, for example, it can affect inventory turnover, fill rates, customer satisfaction, etc.
- If you are discontinuing an item, notify the biggest buyers of the product in the past and see if you can move quantities quickly.
- Check competitor prices, where possible, and analyze differences.
- High inventory turnover can be a reminder that a high level of sales must be balanced with sufficient customer service staff and processes to maintain customer satisfaction.
- Improve timely shipping performance.
- Check for any breakdowns or bottlenecks that might cause inventory to accumulate.
- The best time to discontinue a sales product may be when there is low physical inventory.
- If there have been significant increases or decreases in inventory during the year, you may want to consider the "average" inventory during the year in the calculations.
- The accounting method used to value inventory can affect the calculated inventory turnover ratio.

- Provide information to customers on the beneficial ways to use your products and/or services.
- Be sure to emphasize any cost saving benefits to customers through using your product and/or service.
- Try not to keep products that aren't selling. Know when it's time to eliminate an item.
- Find ways to collect information from your customers on what business elements can be improved.
- Contacting old customers who have not recently used your products/services can lead to additional sales to those customers, as well as lead to additional leads.

A relatively low level of sales is being created with the existing asset base.

- Look for under-utilized assets. For example, unused space that can be leased or equipment that can be liquidated.
- Determine if sales would be increased more by rehabilitating existing fixed assets or by purchasing new.
- Consider the capital budget process very seriously and analyze all major alternatives in depth. Management must take the lead in this process.
- Evaluate capital investments which will raise the average asset turnover rate (that is, where the incremental sales/investment is higher).
- Create a detailed action plan for each major strategy. This helps make sure investments will remain productive.

- Set an action plan review at least once a month as part of a total face-to-face operations review.
- Have a quarterly review of the total plan, including capital budgets. Make adjustments during the year as needed.
- Consider quarterly sales goals, if you are not doing so already.
- Assign performance standards for all major company resources. Be able to identify which resources are not pulling their weight and why.
- Continually work towards making your reporting systems easier to understand and more actionable. Go for data quality, not data volume.
- Consider expansion of current services or products to ultimately boost sales.
- Provide on-going product knowledge training for sales/marketing people, if applicable. This will be particularly helpful in selling new products or services.
- Retain top-performing salespeople (if applicable) through a strong incentive program. Recognize the rarity of such individuals.
- Have a system to follow-up on sales leads (if applicable). There are even inexpensive computer software packages to help with this.
- Share experience among those involved in the sales effort to help build total sales.
- Make sure major new equipment purchases are based on actual need rather than one person's opinion.
- Keep equipment in top operating condition.
- Evaluate short-term leasing as an alternative to purchasing for major investments.
- Well-planned promotions can raise sales as well as profits. Keep track of what works and what doesn't. Are there reasons?
- Dispose of any leased or owned asset that is not in productive use.

- Recognize that there are many factors to consider on major investment purchases. These include initial cost, maintenance cost, warranty period, salvage value (if any), reliability of the equipment, and so forth.
- Look also at Fixed Assets percentage of Total Assets. If asset turnover is low and Fixed Assets percentage high, it could indicate opportunities to improve use of assets.
- Keep a current list of major assets that are leased and those which are owned/financed by the company.
- All assets should support sales directly or indirectly. Non-productive or luxury-type assets will be a drag on company performance.
- Consider alternatives for creating revenue by utilizing under-used assets.
- Before purchasing any asset, analyze its capability for enhancing sales performance. Always compare costs of new vs. used equipment, and be mindful of changing technology.
- Activity-based Costing (ABC) methods can identify and ultimately help reduce operating expense and get most from assets.
- Never forget the importance of the human element. Even the most sophisticated equipment and systems will not work well without oversight of the people who will use them.
- When evaluating capital projects, use the excellent comparative measures of internal rate of return (IRR), payback method, and net present value.
- Each department should keep an ongoing "wish list" and use it to help with capital budgeting.
- Consider donating (for a tax deduction) inventory that cannot be sold and takes up space.
- Contact the major buyers of an item that is going to be discontinued. Offer to sell it to them at a reduced price.
- When making sales projections involving product sales, be mindful of the inventory levels of products considered for discontinuation.
- Require customer service staff to determine customer objections to all products/services and write customer expectation standards. Assign accountability to staff department or individuals charged with implementing the standards.
- Seek bids on major asset purchases.
- Recognize that asset turnover is analogous to inventory turnover, but considers the entire asset base of the company.
- It may be beneficial to let your customers choose their payment terms among options. Reward those that choose shorter payment terms with a discount.
- Have ways to reward your "best" customers.
- Look for easy ways to increase sales, such as by contacting old customers or giving a commission to any employee who brings in new business.

Sales to fixed assets is at a low level.

- Evaluate the usage of key depreciable assets. If any are being used only part of the time, consider using them to earn money from outside sources during idle times (certain vehicles or extra space, for example).
- Evaluate the relative contribution to sales by all assets and whether any under-performing assets can be rehabilitated or if they should be replaced.
- Include a full evaluation of all alternatives when planning a capital budget.

- Always evaluate whether a capital investment will increase sales sufficiently to raise the fixed asset turnover rate.
- Require a detailed plan and justification for any major fixed asset purchase.
- Meet with key employees at least once per month to share ideas, update each other, and review operating performance.
- Evaluate the condition of fixed assets each year before developing the capital budget.
- Every company should have key short-term (such as quarterly) sales and operating goals. Have a way to disseminate information on meeting those goals.
- Establish performance standards for all company resources. Identify where resources are not pulling their weight and why.
- Reports should be designed to provide easy-to-understand, yet high quality, information. Reports that provide a mountain of data are useless.
- Always be thinking of ways to leverage the existing asset base to increase sales.
- Keep sales people up-to-date on all new and updated products and policies.
- Have a reward/commission structure which appropriately recognizes top performance in sales. These are the people that are creating growth in the company.
- Have a well-developed system to follow-up on sales leads, possibly using available inexpensive software packages.
- The people most knowledgeable about the best ways to build sales are likely already working for the company. Conduct routine meetings to share what works and what doesn't.
- Make sure major new equipment purchases are based on actual need rather than one person's opinion. Ideally, the purchase should help support increased sales.
- Analyze the long-term needs and uses of a fixed asset before investing. Consider the advantages of short-term leasing.
- Use promotions to boost sales.
- Carefully monitor and record the performance of each sales promotion and seek to find the reasons for those that are successful.
- Liquidate (if owned) or return (if leased) any unused asset.
- When deciding between different equipment options, make a comparison matrix of key characteristics, benefits, and costs.
- Recognize that accumulated depreciation can have a major influence on this ratio. The ratio may be artificially inflated because major old or obsolete equipment needs to be replaced.
- Records should be kept on all assets that are leased and those that are owned.
- Keep in mind that all assets should help produce revenue. Lavish or super-plush furnishings, for example, is a luxury few can afford.
- Consider renting idle space or equipment to produce revenue.
- Be cautious of "trading up" certain assets currently in use. Always compare the full cost effectiveness of buying new rather than used equipment.
- Activity-based Costing (ABC) methods can identify and ultimately help reduce operating expense and improve asset utilization.

- Recognize the importance of thoroughly teaching employees how to use new technology, software, and equipment. Problems, errors, and possible avoidance of use can occur otherwise.
- Many analysts favor the discounted cash flow internal rate of return (DCF-ROR) to evaluate competing capital projects. This considers the timing and magnitude of cash flows.
- Have each department keep a "wish list" of major equipment and use it to help develop alternatives for the capital budget.
- Evaluate any surplus or obsolete inventory for a tax-deductible donation.
- Solicit competitive bids before purchasing major new equipment.
- Move out discontinued items quickly. Contact previous buyers and offer a generous discount for large-quantity purchases.
- Determine if any production/distribution inefficiencies are affecting sales.
- Analyze asset base to be sure it is appropriate for optimum product/service mix.
- Properly maintain equipment to get the maximum usage possible from it. Keep maintenance logs for all equipment.
- Sales growth may require increases in current assets. Be sure this process will not threaten cash flow required for normal operations.
- Going through the files and contacting previous customers who have not recently used your products/services can increase business in down times.
- Boost sales by encouraging non-sales employees, through a bonus plan, to pass along names of prospective customers.
- Trade shows usually showcase new equipment that can increase productivity. Assign someone to gather information.

The company's return on assets is below the industry median.

- Examine individual operating cost categories for any that are unusually high. Excessive operating costs is a common cause of poor return on assets.
- Look at return on sales percentage for insight into whether the ROA is influenced more by the size of the company's asset base or by profit performance.
- Consider also the Fixed Assets percentage of assets. If return on assets is low and Fixed Assets percentage high, it could indicate opportunities to improve.
- Return on assets is probably the single most important measure of business "success" since it considers both profitability and asset management.
- Look at productivity levels in the various functional areas to see where specific efficiency problems may be occurring.
- Consider rehabilitating old buildings or equipment rather than purchasing new.
- Before using ROA for decision-making, be sure that pre-tax profit has not been highly affected by significant non-recurring expenses or income.
- Earn extra revenue by charging others for the partial usage of certain fixed assets that are not fully employed.

- Cost-justify any major new capital expenditure. The anticipated ROA of any new investment should obviously be higher than your current ROA.
- Leasing equipment, rather than owning, may improve this ratio. However, do cost/benefit study first.
- Dispose of unused property so that it is no longer a financial burden.
- Evaluate the costs vs. benefits of outsourcing certain activities that involve assets.
- Develop a reporting system that clearly highlights unusual expenses. Be able to identify exactly what is causing the given expense to be high.
- Recognize that this ratio depends greatly on how the business is being financed.
- Before making asset disposition decisions based on ROA, analyze components of Net Profit Before Taxes for consistent problem areas that may depress earnings.
- Encourage honest employee feedback and make it easy for them to provide it.
- Provide adequate incentives for quality job performance. Have periodic reviews with employees.
- Consider changes in customer service policies. Can these be fine-tuned to increase profitability while maintaining good will?
- Implement functional area or departmental accounting. Assign individuals to be responsible for cost areas.
- Set quantifiable short-term operating goals and periodically review progress towards them.
- Increase profits through improved training and employee performance.
- Develop capital and operating budgets only after adequate planning.
- Perform quarterly review of the total company plan, including operating and capital budgets.
- Establish performance standards for all company resources. Usually, things need to be quantified in order to be improved.
- Note that ROA can be influenced by depreciation rates/schedules on fixed assets since that impacts yearly profit.

- When making an equipment investment consider: cost, reliability, flexibility, volume, type of job, building type/layout (if applicable), etc.
- Maintain a current list of plant and equipment items. Verify that all are still in use and accurately recorded.
- Facilitate an annual retreat for management to carefully consider the issues they are facing.
- Many companies have two components to their strategic plan: a multi-year long-range plan, and a 1-year operational plan. They should obviously fit together well.
- In evaluating your customers and developing strategies to enhance return on assets, consider their management direction, their strengths, and growth potential.
- Maintain flexibility in your strategic plan. Changes are bound to occur.
- When looking at another company's operations, focus on what they are doing differently from you and also things that you need to change.
- Take advantage of the Internet to help boost sales, advertise the firm, post employment opportunities, and so forth.
- Return on assets needs to be higher than the cost of capital to have any financial leverage.
- Consider the tax implications of new investments.

- Acquisition of a company or operation with a higher return on assets may raise the acquiring firm's ROA.
- Minor shifts in gross profit percentages (for any product sales) can dramatically affect ROA.
- Reduced interest expense on borrowed funds will increase return on assets.
- After-tax ROA can also be boosted through paying lower local, state, and federal taxes. Consult with your accountant on possible ways to do this.
- Carefully consider any dividend policy you may have. If you have a strong need for capital and can invest it well (that is, generate a high return with it), that can make more sense than using capital for dividends.
- Negotiate lower costs with vendors, where possible.
- Consider bidding out major capital expenditure items.
- New investments should be more productive than existing ones.
- Use ROA and current interest rate to measure financial leverage that will serve as a guide for deciding whether profitable growth can be achieved with outside financing.
- Your managers should understand that the financial consequences of every decision they make can greatly affect your profitability. Find ways to have them think about how each move they make affects the company's bottom-line.
- Closely monitor all costs relating specifically to asset performance so inefficiencies can be identified quickly.

Action Plans for K-911 Services

Action	Timeline	Person(s)

Appendix

Definition of Percentiles

Definitions for Balance Sheet Items

Methodology for Calculating Financial Area Percentiles

Summary of Ratio Formulas

Definition of Percentiles

Percentiles are a way of expressing where a particular value exists in the total range of ordered data. The minimum value is 1 and the maximum is 99. The percentile shown indicates where a company is for a particular ratio or value in relation to other similar-sized companies in the same industry.

The percentile figure indicates the percentage of companies in the sample that have a less favorable ratio. As an example, a percentile value of 70 would indicate that a firm has a "better" value for that item than 70% of the other comparable firms, but a "worse" value than 30% of them. In some cases, having a higher magnitude ratio value is better (such as the current ratio). In other cases, having a lower magnitude ratio value is preferable (such as days in accounts receivable). In this report it is true that the higher the percentile value, the better.

A value of 50 is defined as the "median", where half of the companies are below that value and half are above. Importantly, the median reduces the effect of very low or high values in the data set compared to just looking at the overall average where a few "unusual" values can distort it.

The percentiles referred to in this report are based upon information from the latest information submitted by companies of similar size in the same industry. Therefore, results for the subject firm are being compared to other similar companies. An algorithm is used to estimate company percentile values based upon the 25th, 50th (median), and 75th percentiles available within the data set.

Balance sheet and income statement information available through RMA are averages of the data provided in the samples. All other financial ratios (with the exception of operating cycle days and trade accounts payable to inventory) have percentile value distributions.

Definitions for Balance Sheet Items

Assets

Cash and equivalents: Actual cash on hand, balances in bank accounts, checks, bank drafts, money orders, demand deposits, time deposits, bearer bonds, and other near-cash items. It excludes any sinking funds.

Trade receivables (net): Amounts claimed against another company or party that arise from the sale of goods or services. It is net of any allowance for doubtful accounts.

Inventory: This amount represents costs incurred in the acquisition or production of goods that are held for sale. These costs include raw materials, work-in-process, and finished goods. Note that inventory amounts are usually shown at cost unless the market value is lower than the cost.

All other current assets: Amounts that relate to near-term (usually less than one year), excluding the above items, for which the intended benefits to the firm have not been fully realized.

Total current assets: The sum of the above listed items. The term "current" usually means that the asset can be liquidated (turned into cash) in less than one year.

Fixed assets (net): This item is sometimes referred to as property, plant, and equipment. It includes assets that are not intended for sale, but rather to create the product or service offering. It includes land, buildings, machinery, furniture, fixtures, equipment of all types, and vehicles. Net fixed assets means that it is net of accumulated depreciation, depletion, or amortization.

Intangibles (net): Such assets includes goodwill, trademarks, patents, catalogs, brands, copyrights, formulas, franchises, and mailing lists, net of accumulated amortization.

All other non-current assets: Any other assets not previously listed above that cannot be liquidated in less than one year.

Total assets: The sum of all of the above listed asset items.

Liabilities

Notes payable (short-term): Any short-term note obligations, including bank and commercial paper.

Current maturity of long-term debt: The portion of the long-term debt that will need to be paid within the next fiscal year. This figure excludes any trade payables.

Trade payables: Total amount owed on open accounts related to the trade of the business.

Income taxes payable: The debt that is due to the Internal Revenue Service or other taxing authorities. It includes the current portion of deferred taxes.

All other current liabilities: Any current liabilities not listed above. It includes accrued expenses.

Total current liabilities: The sum of the above items.

Long-term debt: Amounts owed by the company that are due after one year. It includes any bonds, debentures, bank debt, mortgages, deferred portions of long-term, and capital lease obligations.

Deferred taxes: Any tax liabilities that are deferred beyond one year.

All other non-current liabilities: Any other liabilities and obligations due beyond one year that are not listed above.

Total liabilities: The sum of all of the liabilities listed above.

Equity (Net Worth)

Capital stock: The amount is typically stated at par value of the outstanding stock. For stock that is without par value, it is normally the stated value of the stock as determined by the board of directors.

Treasury stock: This is stock that has been issued, reacquired, and not cancelled by the company. It is normally valued at the par value or stated value.

Paid-in capital: This measures the amount invested in the company in excess of par or stated value of the stock.

Retained earnings: This item represents the cumulative total net profits after taxes of the company since it began operations, minus the cumulative amount of these profits that have been paid in dividends. Negative retained earnings means that the company has not generated a cumulative profit since inception.

Equity: This represents the amount equal to total assets minus total liabilities. It is the equity of the shareholders of the company.

Liabilities and net worth: The sum of liabilities and equity. It is equal to the total assets of the firm.

Methodology for Calculating Financial Area Percentiles

In the table provided in the early part of this report, percentiles were provided for each of the financial ratios. These financial ratios were grouped in the following general financial areas:

Liquidity Ratios

Efficiency Ratios

Operating Ratios

Financing Ratios

Profitability Ratios

The graph in the Key Results section of the report provided "weighted average" percentiles for each of the above financial areas. The methodology is described below.

Weighting factors are applied to each of the ratios. These weighting factors are somewhat subjective, but based upon a poll of knowledgeable professionals. Simply stated, it is believed that the importance of some of the ratios is greater than for others, therefore they should be given greater weight and consideration. The methodology used does just that. The weighting factors for the financial ratios are stated on a 1-10 basis.

For each of the main financial areas (such as liquidity), the company percentile for each financial ratio was multiplied by the above weighting factors and the sum of the products then divided by the sum of the weighting factors in that area to yield the weighted average percentile.

For example, assume the company's current ratio has a percentile of 35, the quick ratio a percentile of 17, and a working capital to sales percentile of 65. Also assume that the respective weighting factors are 6.9, 6.5, and 7.2. For the overall liquidity score then, the value would be calculated as:

(35)(6.9) + (17)(6.5) + (65)(7.2) / (6.9 + 6.5 + 7.2) = 820 / 20.6 = 40

Note that a sufficient number of percentile values must be available to determine a meaningful overall weighted average for that financial area.

Summary of Ratio Formulas

Several ratios are presented in this report. As a quick reference source, below are the calculations used for each of the ratios.

Liquidity Ratios

Current ratio	Current assets / current liabilities
Quick ratio	(Current assets - inventory) / current liabilities
Working capital to sales (%)	[(Current assets - current liabilities) / sales] X 100%

Efficiency Ratios

Days in accounts receivable	Accounts receivable / (sales / 365 days)
Days in accounts payable	Accounts payable / (cost of sales / 365 days)
Annual inventory turnover	Cost of sales / inventory
Days in inventory	365 days / annual inventory turnover
Operating cycle	Days in inventory + days in accounts receivable

Operating Ratios

Asset turnover	Annual net sales / total assets
Sales to net fixed assets	Annual net sales / net fixed assets
Sales to working capital	Annual net sales / (current assets - current liabilities)

Financing Ratios

Debt to equity	Total liabilities / equity
Cash flow to current LTD	(Net profit + depr. & amort.) / current portion of long-term debt
Times interest earned	(Net profit + interest) / interest
Net fixed assets to equity	Net fixed assets / equity
Financial Leverage	Total assets / equity
Trade AP to Inventory	Trade accounts payable / inventory

Profitability Ratios

Return on sales	(Net profit / annual net sales) X 100%
Return on equity (net worth)	(Net profit / equity) X 100%
Return on assets	(Net profit / total assets) X 100%

Note that all net profit figures used in this report and the formulas above are "before tax".