

***Semco***

***INSTRUMENTS, INC.***

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*ANNUAL  
REPORT  
2000*

1 9 6 5      *35<sup>th</sup>*      2 0 0 0

*SEMCO INSTRUMENTS, INC. was founded in December 1965 as an engineering based aerospace manufacturer of precision sensors and electronic controls. Our primary market has been the gas turbine engine manufacturers and the related commercial aircraft industry. Company efforts continue to be directed toward the expansion of our market share of temperature sensors and speed sensors in the commercial and military markets.*

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## To Our Shareholders:

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Sales achieved by your Company in the year 2000 were \$8,053,746 as compared to 1999 sales of \$6,376,818. In 2000, net income was \$610,687 or \$0.15 per share as compared to a 1999 net income of \$269,193 or \$0.06 per share.

In the year 2000 the Company achieved a 26% growth in sales in a very tight market wherein supplier-customer partnerships and long-term agreements have a limiting effect upon new business opportunities. Still, the Company has persistently attempted to differentiate itself as a customer-driven, technology-rich, low-cost provider of sensors in a consolidating marketplace and these efforts have had favorable results. In addition, the Company has continued to market its capabilities outside of the gas turbine engine industry with some success. We are optimistic that all of these efforts will enhance the Company's growth in the future.

The Company achieved a 126% increase in net income in the year 2000. Multiple factors contributed to this growth in income including the increased volume in sales, the relentless pursuit of process improvements throughout the business, the automation of several processes, and the rationalization of certain products that did not adequately contribute to the desired profit margin. In addition, the Company instituted a discretionary employee profit sharing plan wherein all employees are equally rewarded for stepped improvements in profitability, on-time delivery, and quality of product. The Company continues its efforts to develop a business environment where waste is quickly identified and eliminated at all levels throughout the business .

In the year 2000 the Company was authorized by the Joint Aviation Authorities (JAA) of The Netherlands to perform repairs on sensors within our product line for the European Community. This is an extension of our current FAA Repair Station authority and creates an expanded opportunity for the Company.

We remain optimistic about the future of the Company. The Company continues to distinguish itself in the areas of technical expertise, quality, delivery, and customer support and we believe that this is a recipe for the continued success of Semco Instruments, Inc.

I am thankful for your continued interest and support.

Sincerely,

**SEMCO INSTRUMENTS, INC.**



Michael G. Moore  
President



# Balance Sheets

<b>ASSETS</b>	<b>December 31</b>	
	<b>2000</b>	<b>1999</b>
Current Assets		
Cash and cash equivalents	\$ 633,266	\$ 416,158
Short-term investment	600,000	
Trade receivables	1,177,254	1,039,111
Inventories	2,083,594	2,161,376
Prepaid expenses and other current assets	64,841	88,754
Deferred taxes	179,000	118,000
	<hr/>	<hr/>
<b>Total current assets</b>	<b>4,737,955</b>	<b>3,823,399</b>
Property, Plant and Equipment		
Land	898,993	898,993
Building and improvements	2,095,172	2,047,021
Machinery and equipment	1,978,490	1,893,022
Automotive equipment	69,675	69,675
Furniture, fixtures and computers	664,141	637,774
	<hr/>	<hr/>
	5,706,471	5,546,485
Less accumulated depreciation	3,030,795	2,758,161
	<hr/>	<hr/>
	2,675,676	2,788,324
	<hr/> <hr/>	<hr/> <hr/>
	<b>\$ 7,413,631</b>	<b>\$ 6,611,723</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Current maturities of long-term debt	\$ 32,777	\$ 30,402
Accounts payable and accrued expenses	973,191	688,765
	<hr/>	<hr/>
<b>Total current liabilities</b>	<b>1,005,968</b>	<b>719,167</b>
Long-term Debt, less current maturities	<hr/>	<hr/>
	1,781,366	1,814,143
Deferred Taxes	<hr/>	<hr/>
	309,000	296,000
Stockholders' Equity		
Common stock, \$0.01 par value; 6,000,000 shares authorized	43,553	43,905
Additional paid-in capital	850,537	867,785
Treasury stock	(97,802)	(39,599)
Retained earnings	3,521,009	2,910,322
	<hr/>	<hr/>
<b>Total stockholders' equity</b>	<b>4,317,297</b>	<b>3,782,413</b>
	<hr/> <hr/>	<hr/> <hr/>
	<b>\$ 7,413,631</b>	<b>\$ 6,611,723</b>

See Notes to Financial Statements.

# Statements of Income

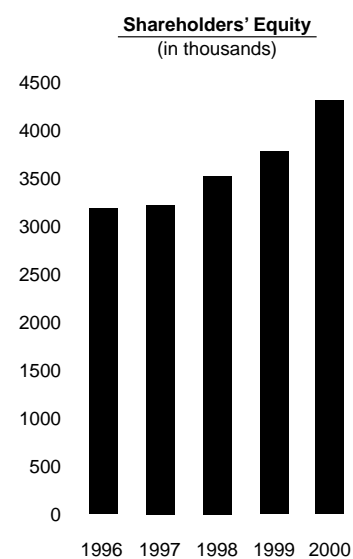
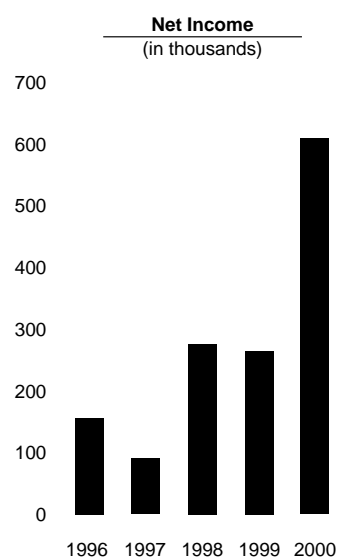
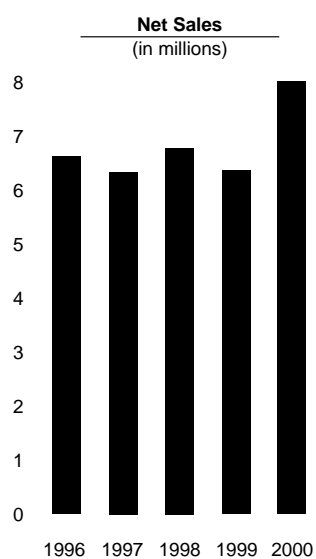
	Years Ended December 31		
	2000	1999	1998
Net sales	\$ 8,053,746	\$ 6,376,818	\$ 6,791,165
Cost of sales	<u>5,671,844</u>	4,720,789	5,107,063
<b>Gross profit</b>	<b>2,381,902</b>	1,656,029	1,684,102
Selling, general and administrative expenses	<u>1,261,513</u>	1,101,273	1,021,394
<b>Operating income</b>	<b>1,120,389</b>	554,756	662,708
Financial (income) expense:			
Interest expense, net	119,328	142,009	232,446
Other	<u>(3,626)</u>	<u>(11,446)</u>	
	<b>115,702</b>	130,563	232,446
Income before income taxes	<u>1,004,687</u>	424,193	430,262
Federal and state income taxes	<u>394,000</u>	155,000	145,000
<b>Net income</b>	<b>\$ 610,687</b>	<b>\$ 269,193</b>	<b>\$ 285,262</b>
Earnings per common share:			
Basic earnings per share	<u>0.15</u>	0.06	0.06
Diluted earnings per share	<u>0.14</u>	0.06	0.06
Weighted average number of common shares outstanding, basic	<u>4,110,510</u>	4,322,386	4,406,549
Weighted average number of common shares outstanding, diluted	<u>4,380,122</u>	4,373,251	4,406,549

See Notes to Financial Statements.

# Statements of Stockholders' Equity

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost		Total
	Shares Outstanding	Amount			Shares	Amount	
Balance, December 31, 1997	4,488,999	\$ 44,890	\$ 890,018	\$ 2,355,867	(79,000)	\$ (18,960)	\$ 3,271,815
Net income	-	-	-	285,262	-	-	285,262
Retirement of previously repurchased treasury stock	(94,463)	(945)	(20,953)	-	94,463	21,898	-
Repurchase of common stock	-	-	-	-	(102,088)	(19,992)	(19,992)
Balance, December 31, 1998	4,394,536	43,945	869,065	2,641,129	(86,625)	(17,054)	3,537,085
Net income	-	-	-	269,193	-	-	269,193
Retirement of previously repurchased treasury stock	(3,960)	(40)	(1,280)	-	3,960	1,320	-
Repurchase of common stock	-	-	-	-	(68,960)	(23,865)	(23,865)
Balance, December 31, 1999	4,390,576	43,905	867,785	2,910,322	(151,625)	(39,599)	3,782,413
Net income	-	-	-	610,687	-	-	610,687
Retirement of previously repurchased treasury stock	(35,200)	(352)	(17,248)	-	35,200	17,600	-
Repurchase of common stock	-	-	-	-	(172,700)	(75,803)	(75,803)
Balance, December 31, 2000	<b>4,355,376</b>	<b>\$ 43,553</b>	<b>\$ 850,537</b>	<b>\$ 3,521,009</b>	<b>(289,125)</b>	<b>\$ (97,802)</b>	<b>\$ 4,317,297</b>

See Notes to Financial Statements.



# Statements of Cash Flows

	Years Ended December 31		
	2000	1999	1998
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 610,687	\$ 269,193	\$ 285,262
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	272,633	248,447	229,968
Gain on disposal of equipment	-	(13,575)	-
Deferred taxes	(48,000)	41,000	(1,500)
Changes in working capital components:			
(Increase) decrease in trade receivables	(138,143)	(93,177)	129,912
Decrease in inventories	77,782	110,282	8,925
(Increase) decrease in prepaid expenses and other current assets	23,913	(21,923)	9,374
Increase in accounts payable and accrued expenses	284,426	24,276	31,225
<b>Net cash provided by operating activities</b>	<b>1,083,298</b>	<b>564,523</b>	<b>693,166</b>
<b>Cash Flows from Investing Activities</b>			
Purchase of equipment	(159,985)	(450,607)	(72,213)
Purchase of short-term investments	(600,000)	-	-
Proceeds on sale of equipment	-	13,575	-
<b>Net cash (used in) investing activities</b>	<b>(759,985)</b>	<b>(437,032)</b>	<b>(72,213)</b>
<b>Cash Flows from Financing Activities</b>			
Borrowings under lines of credit	-	-	380,000
Repayments on lines of credit	-	-	(800,000)
Borrowings on long-term debt	-	-	1,874,998
Principal repayments of long-term debt	(30,402)	(69,292)	(1,709,450)
Repurchase of common stock	(75,803)	(23,865)	(19,992)
<b>Net cash (used in) financing activities</b>	<b>(106,205)</b>	<b>(93,157)</b>	<b>(274,444)</b>
<b>Net increase in cash</b>	<b>217,108</b>	<b>34,334</b>	<b>346,509</b>
<b>Cash and cash equivalents</b>			
Beginning	416,158	381,824	35,315
Ending	<b>\$ 633,266</b>	<b>\$ 416,158</b>	<b>\$ 381,824</b>
<b>Supplemental Disclosures of Cash Flow Information</b>			
Cash payments for:			
Interest	<b>\$ 161,268</b>	<b>\$ 168,440</b>	<b>\$ 240,255</b>
Income taxes	<b>\$ 94,206</b>	<b>\$ 261,102</b>	<b>\$ 5,696</b>
<b>Supplemental Schedule of Noncash Investing and Financing Activities</b>			
Issuance of notes payable for vehicle	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 26,139</b>

See Notes to Financial Statements.

# Notes to Financial Statements

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## **1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***NATURE OF BUSINESS***

Semco Instruments, Inc. (the Company) manufactures and sells precision sensors and systems for measurement and control, principally to original equipment manufacturers in aerospace and commercial industries primarily located in North America. All sales are denominated in U.S. dollars.

**A summary of the Company's significant accounting policies follows:**

### ***Use of estimates in preparation of financial statements***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Actual results could differ from those estimates and could materially affect the reported amount of assets, liabilities and future operating results.

### ***Cash and cash equivalents***

The Company considers all highly liquid investments with a maturity of less than three months when purchased to be cash equivalents. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant risk relative to its cash accounts.

### ***Concentrations of credit risk***

The Company's customers are concentrated in the commercial aviation industry. The Company performs periodic credit evaluations of its customers' financial condition and does not require collateral. Receivables are generally due within 30 days. Credit losses have historically been within management's expectations.

### ***Fair value of financial instruments***

The Company's financial instruments consist of cash, accounts receivable, accounts payable and debt. The values reported in the financial statements approximate fair value due to their short-term nature and/or relative rates of interest.

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## NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### ***Short-term investments***

Short-term investments consist of certificates of deposit with maturities of 90 or more days. These short-term investments are accounted for at cost which approximates fair value.

### ***Accounting for Stock-based Compensation***

The Company follows Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, to measure stock-based employee compensation. Accordingly, stock compensation expense is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the exercise price. The Company also discloses the pro forma effects on net income and earnings per share as if compensation was measured in accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-based Compensation*.

### ***Inventories***

Inventories are stated at the lower of weighted average cost or market. The Company periodically reviews the age and turnover of its inventory to determine whether any inventory has become obsolete or has declined in value and records a charge to operations for known and anticipated inventory obsolescence.

### ***Property, plant and equipment***

Property, plant and equipment is recorded at cost. The Company uses the straight-line depreciation method for financial reporting purposes. The estimated useful lives by classes of assets used in computing depreciation are as follows:

	<u>Years</u>
Building and improvements	30
Machinery and equipment	5 – 10
Furniture and fixtures	7 – 8
Automotive equipment	5
Molds and tooling	5

### ***Revenue and cost recognition***

Revenue is primarily recognized as units are shipped. Any anticipated losses on contracts are charged to current operations as soon as they are determined.

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## **NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### ***Income taxes***

Deferred taxes are provided on a liability method whereby deferred tax liabilities are recognized for taxable temporary differences and deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when it cannot be demonstrated that the deferred tax assets are more likely than not to be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

### ***Segment information***

The Company operates as one segment, manufacturing and selling precision sensors and systems for measurement and control. For purposes of reporting and aggregating revenue to foreign countries, sales are attributed to the country of the headquarters of the customer.

### ***Basic and diluted net earnings per common share***

Basic earnings per share (EPS) excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the year. Diluted EPS is based upon the weighted average number of common shares outstanding during the period plus the additional weighted average common equivalent shares during the period, if any. Common equivalent shares are not included in the per-share calculations where the effect of their inclusion would be antidilutive. Common equivalent shares result from the assumed exercise of outstanding stock options, the proceeds of which are then assumed to have been used to repurchase outstanding stock using the treasury-stock method. For the year ended December 31, 2000, 900,000 common stock options had a dilutive effect and were included in the computation of diluted EPS and resulted in an increase in the weighted average number of common shares outstanding. There were no common stock options which were antidilutive and were excluded from the computation of diluted EPS and the weighted average number of common shares outstanding during 2000. For the year ended December 31, 1999, 600,000 common stock options had a dilutive effect and were included in the computation of diluted EPS and resulted in an increase in the weighted average number of common shares outstanding. There were 300,000 common stock options which were antidilutive and were excluded from the computation of diluted EPS and the weighted average number of common shares outstanding during 1999. Common stock options were not included in the computation of diluted EPS for 1998 because they had an antidilutive effect.

## 2 INVENTORIES

Inventories consist of the following at December 31:

	<u>2000</u>	<u>1999</u>
Raw materials and fabricated parts	\$ 1,415,644	\$ 1,441,295
Work in process	400,561	347,799
Finished goods	267,389	372,282
	<u>\$ 2,083,594</u>	<u>\$ 2,161,376</u>

## 3 LINES OF CREDIT

The Company has a revolving line-of-credit agreement with a bank for borrowings up to a maximum of \$1,000,000. No amounts were outstanding at December 31, 2000 and 1999. The agreement provides for interest, payable monthly, at the bank's prime rate. The line of credit is collateralized by all assets of the Company, including trade receivables, inventories, equipment and fixtures. The line of credit expires June 1, 2001.

Under the line-of-credit agreement, the Company agrees to maintain certain minimum financial ratios related to working capital, stockholders' equity and profitability. In addition, the Company is restricted from paying dividends and is limited in its purchases of treasury stock and fixed assets and entering into new lease obligations.

The Company also has a \$250,000 line-of-credit facility available for equipment purchases with terms similar to the revolving line of credit. Outstanding balances accrue interest at the bank's prime rate, and interest is payable monthly. The line of credit expires June 1, 2001, at which time any outstanding principal may be converted to a four-year term loan with principal and interest payable monthly. There was no balance outstanding under the equipment line of credit at December 31, 2000 and 1999.

## 4 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at December 31 consist of:

	<u>2000</u>	<u>1999</u>
Accounts payable	\$ 269,376	\$ 394,641
Compensation and related payroll taxes	346,484	242,969
Federal and state income taxes	314,409	-
Interest	32,065	31,537
Other	10,857	19,618
	<u>\$ 973,191</u>	<u>\$ 688,765</u>

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## 5 LONG-TERM DEBT

Long-term debt at December 31 is as follows:

	<u>2000</u>	<u>1999</u>
Note payable, bank, secured by first deed of trust on real estate, payable in monthly installments of \$14,045 including interest at 7.5%, maturing in September 2005	<b>\$ 1,814,143</b>	\$ 1,844,545
Less current maturities	<u>32,777</u>	30,402
	<b><u>\$ 1,781,366</u></b>	<b><u>\$ 1,814,143</u></b>

Aggregate maturities of long-term debt as of December 31, 2000 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2001	\$ 32,777
2002	35,338
2003	38,098
2004	41,074
2005	44,282
Thereafter	<u>1,622,574</u>
	<b><u>\$ 1,814,143</u></b>

## 6 INCOME TAXES

Components of income tax expense for the years ended December 31 are as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Currently paid or payable:			
Federal	<b>\$ 364,000</b>	\$ 106,000	\$ 119,000
State	<b>78,000</b>	8,000	27,500
	<b><u>442,000</u></b>	<u>114,000</u>	<u>146,500</u>
Deferred	<b>(48,000)</b>	41,000	(1,500)
	<b><u>\$ 394,000</u></b>	<b><u>\$ 155,000</u></b>	<b><u>\$ 145,000</u></b>

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## INCOME TAXES (continued)

The following table presents a reconciliation of income tax determined by applying the maximum U.S. federal income tax rate to pretax income:

	<u>2000</u>	1999	<u>1998</u>
Computed expected statutory rate	<b>35 %</b>	35 %	35 %
Increase (decrease) in rate resulting from:			
State taxes, net of federal benefit	<b>5</b>	5	5
Benefit of income taxed at lower rates	<b>—</b>	(1)	(1)
Other	<b>(1)</b>	(2)	(5)
	<b>39 %</b>	37 %	34 %

Net deferred tax assets (liabilities) as of December 31 consist of the following components:

	<u>2000</u>	<u>1999</u>
Deferred tax liabilities:		
Property, Plant and Equipment	<b>\$ (101,000)</b>	\$ (105,900)
Undistributed DISC income	<b>(208,000)</b>	(190,100)
	<b>(309,000)</b>	(296,000)
Deferred tax assets:		
Inventories	<b>62,000</b>	56,800
Other	<b>117,000</b>	61,200
	<b>179,000</b>	118,000
	<b>\$ (130,000)</b>	\$ (178,000)

Net deferred tax (liabilities) described above have been included in the accompanying balance sheets as follows:

	<u>2000</u>	<u>1999</u>
Current assets	<b>\$ 179,000</b>	\$ 118,000
Long-term liabilities	<b>(309,000)</b>	(296,000)
	<b>\$ (130,000)</b>	\$ (178,000)

## 7 STOCK OPTION PLAN

The Company has adopted certain stock option plans covering the Company's common shares. Nonqualified stock options may be issued to officers, directors or key employees of the Company. Qualified stock options may be issued to employees of the Company. Qualified and nonqualified stock options are exercisable at prices not less than the fair market value on the date of grant (not less than 110% of the fair market value for participating individuals who own more than 10% of the outstanding voting stock of the Company).

Options granted under the Company's stock option plans generally are exercisable beginning one year from the date of grant at the rate of 25% per year on a cumulative basis. The options expire at the earlier of five years from the date of grant or three months from the stock option holder's termination of employment.

A summary of stock option activity is as follows:

	2000		1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year:						
Granted	900,000	\$0.23	900,000	\$ 0.23	450,000	\$ 0.27
Canceled or expired	-	-	-	-	450,000	0.19
Outstanding at end of year	<u>450,000</u>	<u>0.19</u>	<u>900,000</u>	0.23	<u>900,000</u>	0.23
Options exercisable, end of year	<u>225,000</u>	<u>0.19</u>	<u>562,500</u>	0.26	<u>337,500</u>	0.27
Options available for grant, end of year	<u>150,000</u>		<u>150,000</u>		<u>150,000</u>	
Weighted average fair value of options granted during the year	<u>\$ -</u>		<u>\$ -</u>		<u>\$ 0.04</u>	

## STOCK OPTION PLAN (continued)

The following table summarizes information about stock options outstanding at December 31, 2000:

Exercise Price	Number Outstanding	Remaining Contractual Life (in Years)	Number Exercisable
\$ 0.19	350,000	3	175,000
0.20	<u>100,000</u>	3	<u>50,000</u>
	<u>450,000</u>		<u>225,000</u>

The Company applies APB Opinion 25 and related Interpretations in accounting for its grants to employees. Accordingly, no compensation cost has been recognized in the financial statements. Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant dates for awards under this plan consistent with the provisions of FASB Statement No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	<u>2000</u>	1999	1998
Net income			
As reported	<b>\$ 610,687</b>	\$ 269,193	\$ 285,262
Pro forma	<b>606,312</b>	261,068	281,252
Basic earnings per share:			
As reported	<b>0.15</b>	0.06	0.06
Pro forma	<b>0.15</b>	0.06	0.06
Diluted earnings per share:			
As reported	<b>0.14</b>	0.06	0.06
Pro forma	<b>0.14</b>	0.06	0.06

The pro forma compensation cost was recognized for the fair value of the stock options granted, which was estimated using the Black-Scholes model with the following assumptions for 1998: expected volatility of 21%, risk-free interest rate of 4.75%, the options would be exercised at the end of the exercise period and the Company would declare and pay no dividends. There were no stock options granted during 2000 or 1999.

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## **8 SALES CONCENTRATIONS**

The Company derived 58% of its sales from two customers during 2000 and three customers in 1999 and 1998 (60% in 1999 and 65% in 1998). Individually, the customers accounted for 37% and 21% of 2000 sales (36%, 13% and 11% in 1999 and 36%, 16% and 13% in 1998).

## **9 RELATED-PARTY TRANSACTIONS**

The Company rents aircraft from its chairman on a month-to-month basis for development and certification of Company products. Such expenses were approximately \$21,000, \$16,500 and \$19,500 in 2000, 1999 and 1998, respectively.

## **10 PROFIT SHARING PLANS**

The Company has a 401(k) profit sharing plan for full-time employees who have completed 12 months of service and reached age 21. Eligible employees may contribute from 2% to 20% of their wages up to the allowable Internal Revenue Service limit. The plan allows for a discretionary matching contribution up to 5% of each employee's contributed salary deferral. The Company has made no matching contributions to the plan since its inception.



**Independent Auditor's Report**

To the Board of Directors and Stockholders  
Semco Instruments, Inc.  
Valencia, California

We have audited the accompanying balance sheets of Semco Instruments, Inc. as of December 31, 2000 and 1999, and the related statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Semco Instruments, Inc. as of December 31, 2000 and 1999 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with generally accepted accounting principles.

*McGladrey & Pullen, LLP*

Pasadena, California  
March 30, 2001

# Financial Highlights

## FIVE YEAR SUMMARY

	2000	1999	1998	1997	1996
<b>Income Statement Data</b>					
Net income before cumulative effect of change in accounting principle	610,687	269,193	285,262	214,812	162,023
Cumulative effect on prior years of changing to a different method of accounting for pre-contract costs, net of related tax effect	—	—	—	(123,951)	—
Net income	610,687	269,193	285,262	90,861	162,023
Return on sales before cumulative effect of change in accounting principle	7.6%	4.2%	4.2%	3.4%	2.4%
Earnings per share before cumulative effect of change in accounting principle	0.15	0.06	0.06	0.05	0.04
Cumulative effect on prior years of change in accounting principle	—	—	—	(0.03)	—
Earnings per share – basic	0.15	0.06	0.06	0.02	0.04
Weighted average # of shares outstanding – basic	4,110,510	4,322,386	4,406,549	4,431,643	4,488,999
Net sales	8,053,746	6,376,818	6,791,165	6,374,961	6,634,551
Cost of sales	5,671,844	4,720,789	5,107,063	4,909,688	5,188,712
Gross profit margin	29.6%	26.0%	24.8%	23.0%	21.8%
Selling & administrative expense	1,261,513	1,101,273	1,021,394	914,927	941,936
Selling & administrative % of sales	15.7%	17.3%	15.0%	14.3%	14.2%
Interest expense	119,328	142,009	232,446	219,534	261,880
EBITDA*	1,396,648	814,649	892,676	721,048	686,561
EBITDA margin*	17.3%	12.8%	13.1%	11.3%	10.3%
<b>Working Capital</b>					
Quick ratio	2.4	2.0	1.9	1.1	0.9
Current ratio	4.7	5.3	5.3	3.1	3.4
Debt/Equity	0.7	0.7	0.8	0.9	0.9
Liabilities/Assets	0.4	0.4	0.4	0.5	0.5
Days sales in receivables	53	59	51	62	49
Working capital as % of sales	46.3%	48.7%	45.2%	37.4%	33.3%
Inventory turnover	2.70	2.13	2.24	2.15	2.04
<b>Leverage and Other</b>					
Asset turnover	1.15	0.98	1.09	0.98	1.02
Shareholder's equity	4,317,298	3,782,413	3,537,085	3,271,815	3,199,914
Return on shareholders' equity*	14.1%	7.1%	8.1%	6.6%	5.1%
Debt/Equity	0.7	0.7	0.8	0.9	0.9
Liabilities/Assets	0.4	0.4	0.4	0.5	0.5

\*The Company adopted SOP 98-5 for the year ended December 31, 1997. The unamortized portion of pre-contract costs at December 31, 1996, net of tax, was recorded as cumulative effect of change in accounting principle.

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## DIRECTORS

M. S. Moore  
Chairman/CEO  
Semco Instruments, Inc.

Arnold Twersky  
Certified Public Accountant  
Northridge, California

Edwin H. Boyer  
Private Investor  
Westlake Village, California

Daniel C. de Brauwere  
Senior Vice President  
BankAmerica Business Credit, Inc.  
Pasadena, California

Michael G. Moore  
President  
Semco Instruments, Inc.

## OFFICERS

M.S. Moore – CEO  
Michael G. Moore – President  
Edwin H. Boyer – Secretary/Treasurer

## COUNSEL

Holland & Knight, LLP  
Los Angeles, California

## AUDITORS

McGladrey & Pullen, LLP  
Pasadena, California

## TRANSFER AGENT AND REGISTRAR

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