

**DENNIS CORPORATION**

**REPORT ON FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
DECEMBER 31, 2007 AND 2006**

# *DENNIS CORPORATION*

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Dennis Corporation  
Columbia, South Carolina

We have compiled the accompanying balance sheets of Dennis Corporation as of December 31, 2007 and 2006, and the related statements of income, stockholders' equity and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements, and accordingly, do not express an opinion or any other form of assurance on them.

We are not independent with respect to Dennis Corporation for 2007.

*Elliott Davis, LLC*

Columbia, South Carolina  
February 12, 2008

**DENNIS CORPORATION**  
**BALANCE SHEETS**

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 18,150	\$ 87,367
Accounts receivable, net of allowance of \$102,164 and \$0	649,749	418,623
Total current assets	667,899	505,990
<b>PROPERTY AND EQUIPMENT, net</b>	925,293	573,576
	<b>\$ 1,593,192</b>	<b>\$ 1,079,566</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 166,319	\$ 67,359
Line of credit	337,074	-
Accounts payable	192,477	272,961
Credit cards payable	25,942	1,402
Due to stockholder	130,740	84,709
Total current liabilities	852,552	426,431
<b>LONG-TERM DEBT</b>	450,969	394,090
<b>DEFERRED INCOME TAXES</b>	50,827	51,608
<b>STOCKHOLDERS' EQUITY</b>		
Common stock (\$1.50 stated value; 100,000 shares authorized, 87,666 shares issued)	131,500	131,500
Retained earnings	107,344	75,937
Total stockholders' equity	238,844	207,437
	<b>\$ 1,593,192</b>	<b>\$ 1,079,566</b>

See accountants' compilation report and notes to financial statements  
which are an integral part of these statements.

**DENNIS CORPORATION**  
**STATEMENTS OF INCOME**

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<u>\$ 3,008,074</u>	<u>\$ 1,456,219</u>
<b>OPERATING REVENUES</b>		
<b>OPERATING EXPENSES</b>		
Automobile	118,239	40,236
Bad debts	125,584	-
Bank service charges and fees	30	2,217
Contract labor	294,160	227,171
Contributions	12,480	4,152
Depreciation	149,013	56,078
Dues and subscriptions	30,448	7,111
Gifts	3,373	10,031
Insurance	119,121	66,698
Internet	1,849	2,095
Lab testing	29,219	4,762
Leased equipment	6,699	6,770
Marketing and advertising	14,690	12,690
Meals and entertainment	23,960	12,944
Miscellaneous expenses and fees	7,926	5,975
Office supplies	55,087	25,964
Payroll	1,530,799	542,377
Payroll fees	3,015	1,943
Permitting fees	5,470	-
Postage and delivery	8,644	1,173
Printing and reproduction	20,186	25,936
Professional development	12,062	3,979
Professional fees	106,663	45,546
Reimbursed expenses - employees	-	25,524
Rent	78,269	38,605
Repairs and maintenance	3,433	-
Supplies	38,312	6,510
Survey expense	11,632	16,437
Taxes and licenses	44,812	12,324
Telephone and fax	25,589	9,933
Training and certification	15,035	5,519
Travel	31,856	5,413
Total operating expenses	<u>2,927,655</u>	<u>1,226,113</u>
Net operating revenues over expenses	<u>80,419</u>	<u>230,106</u>
<b>OTHER INCOME (EXPENSE)</b>		
Rental income	6,000	-
Interest income	56	626
Other income	16,851	-
Interest expense	(72,700)	(20,909)
Total other income (expense)	<u>(49,793)</u>	<u>(20,283)</u>
Net income before income taxes	30,626	209,823
<b>PROVISION FOR (BENEFIT FROM) INCOME TAXES</b>	(781)	71,032
Net income	<u><u>\$ 31,407</u></u>	<u><u>\$ 138,791</u></u>

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**DENNIS CORPORATION**  
**STATEMENTS OF STOCKHOLDERS' EQUITY**

	<u>Common Stock</u>		<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Earnings (Deficit)</u>	
<b>BALANCE, January 1, 2006</b>	87,333	\$ 131,000	\$ (62,854)	\$ 68,146
Net income	-	-	138,791	138,791
Issuance of common stock	333	500	-	500
<b>BALANCE, December 31, 2006</b>	87,666	\$ 131,500	\$ 75,937	\$ 207,437
Net income	-	-	31,407	31,407
<b>BALANCE, December 31, 2007</b>	<u>87,666</u>	<u>\$ 131,500</u>	<u>\$ 107,344</u>	<u>\$ 238,844</u>

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**DENNIS CORPORATION**  
**STATEMENTS OF CASH FLOWS**

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 31,407	\$ 138,791
Adjustments to reconcile net income to net cash provided by (used for) operating activities		
Depreciation	149,013	56,078
Amortization	-	3,933
Deferred income taxes	(781)	71,032
Changes in deferred and accrued amounts		
Accounts receivable, net	(231,126)	(418,623)
Accounts payable and accrued expenses	(55,944)	178,916
Due from employees	-	700
Net cash provided by (used for) operating activities	(107,431)	30,827
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(500,730)	(417,555)
Net cash used for investing activities	(500,730)	(417,555)
<b>FINANCING ACTIVITIES</b>		
Proceeds from (payments on) stockholder loan	46,031	(24,531)
Principal payments on notes payable	(144,111)	(36,607)
Proceeds from new notes payable	299,950	444,816
Proceeds from issuance of common stock	-	500
Proceeds from bank line of credit	337,074	-
Net cash provided by financing activities	538,944	384,178
Net decrease in cash and cash equivalents	(69,217)	(2,550)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	87,367	89,917
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 18,150</b>	<b>\$ 87,367</b>
<b>CASH PAID DURING THE YEAR FOR</b>		
Interest	<b>\$ 72,855</b>	<b>\$ 19,507</b>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Acquisition of equipment through trade accounts payable	<b>\$ -</b>	<b>\$ 95,447</b>

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**DENNIS CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of business**

Dennis Corporation (the Company) was established on June 13, 2005 as a civil engineering and survey firm specializing in transportation engineering, survey, construction services, civil infrastructure, traffic engineering and construction inspection and testing primarily in South Carolina.

The Company's significant accounting policies are summarized as follows:

**Cash and cash equivalents**

The Company considers all liquid, non-equity investments with an original maturity of three months or less to be cash equivalents.

**Accounts receivable**

Trade receivables are carried at their estimated collectible amounts. They are periodically evaluated for collectibility based on management's assessment of the collectibility of each account. An allowance for doubtful accounts is established as losses are estimated to have occurred through recognition of bad debt expense. When management confirms the uncollectibility of an account receivable, such amount is charged off against the allowance for doubtful accounts.

The Company also maintains allowances for customer returns and chargebacks. These are recorded when the sales revenue is earned and recorded as a reduction of sales to arrive at net sales.

**Property and equipment**

Property and equipment is stated at cost. Maintenance and repairs which do not improve or extend the useful lives of the assets are charged to expense as incurred. Depreciation is computed using accelerated and straight-line methods over the estimated useful lives of the respective assets, which range from five to ten years.

**Revenue recognition**

The Company recognizes revenue from performing services as the services are performed.

**Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Advertising**

The Company expenses advertising costs as they are incurred.

**Income taxes**

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. Under SFAS No. 109, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable (refundable) for the period and the change during the period in deferred tax assets and liabilities.

## **NOTE 2 - CONCENTRATIONS OF CREDIT RISK**

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and trade receivables. The Company places its temporary cash investments with banks located in South Carolina. At times, such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insured limits. The Company sells its products to customers throughout South Carolina and extends credit based on an evaluation of the customer's financial condition, generally without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company monitors its exposure to credit losses and writes off uncollectible accounts as needed.

The Company derives a substantial portion of its gross revenues from sales to two major customers. Following is a summary of the sales and accounts receivable with these customers at December 31:

	<u>Sales for the year ended</u> <u>December 31, 2007</u>		<u>December 31,</u> <u>2007</u>	<u>Sales for the years ended</u> <u>December 31, 2006</u>		<u>December 31,</u> <u>2006</u>
	<u>Amount</u>	<u>Percent</u> <u>of sales</u>	<u>Accounts</u> <u>receivable</u>	<u>Amount</u>	<u>Percent</u> <u>of sales</u>	<u>Accounts</u> <u>receivable</u>
Customer 1	\$ 693,762	23%	\$ 22,296	\$ 184,230	13%	\$ 57,180
Customer 2	470,204	16%	221,856	-	- %	-

## **NOTE 3 - ACCOUNTS RECEIVABLE**

Accounts receivable consists of the following at December 31:

	<u>2007</u>	<u>2006</u>
Current billings	\$ 614,139	\$ 266,533
Unbilled receivables	137,774	152,090
	751,913	418,623
Less allowance for bad debts	102,164	-
	<u>\$ 649,749</u>	<u>\$ 418,623</u>

## **NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at December 31:

	<u>2007</u>	<u>2006</u>
Telephone system	\$ 4,750	\$ 4,750
Software and office equipment	212,638	105,199
Equipment	178,413	116,635
Furniture	107,681	66,347
Transportation equipment	635,401	345,223
	1,138,883	638,154
Less accumulated depreciation	213,590	64,578
	<u>\$ 925,293</u>	<u>\$ 573,576</u>

### NOTE 5 - LINE OF CREDIT

The Company has a \$350,000 line of credit with a local financial institution. Borrowings on the line accrue interest at Wall Street Journal Prime (7.25% at December 31, 2007) plus 1/2%. The line is secured by a blanket first lien on all accounts receivable and equipment of the Company. Additionally, the loan is secured by 3,000 shares of Carolina National common stock owned by the primary stockholder of the Company. As of December 31, 2007, the balance due was \$337,074.

### NOTE 6 - LONG-TERM DEBT

Long-term debt consists of the following:

	Interest Rate	Monthly Installment	Maturity Date	Collateral	Net Book Value	Balance December 31,	
						2007	2006
<b>Vehicle Loans - Banks</b>	5.625%	\$ 477	June 2011	Truck	\$ 14,508	\$ 17,664	\$ 22,186
	5.057%	450	July 2011	Truck	14,447	17,202	21,557
	7.50%	523	August 2011	Truck	7,822	19,427	23,917
	7.49%	448	March 2011	Truck	14,501	15,933	20,569
	8.00%	1,369	July 2011	3 Trucks	43,964	49,461	61,297
	7.50%	442	November 2011	Truck	16,118	18,057	21,374
	7.50%	1,568	November 2011	3 Trucks	58,611	59,573	77,869
	7.75%	1,058	March 2012	2 Trucks	40,594	45,998	51,203
	8.99%	571	March 2012	Truck	23,300	24,808	-
	8.99%	586	March 2012	Truck	23,442	24,958	-
	8.99%	572	May 2012	Truck	25,786	26,078	-
	3.90%	535	July 2012	Truck	26,673	27,460	-
	3.90%	534	July 2012	Truck	26,583	27,368	-
	2.90%	559	August 2012	Truck	29,086	29,329	-
	4.90%	586	November 2012	Truck	30,750	31,271	-
	4.90%	586	November 2012	Truck	30,750	31,271	-
	4.90%	465	December 2012	Truck	24,640	24,640	-
<b>Equipment Loans - Bank</b>	7.50%	1,525	December 2011	Survey equipment	84,312	58,530	76,000
	8.25%	926	June 2011	Survey equipment	41,451	31,724	-
<b>Equipment Loan - Related Party</b>	6.25%	-	May 2011	Equipment	-	36,536	85,477
						617,288	461,449
Less current maturities						166,319	67,359
Long-term portion						<u>\$ 450,969</u>	<u>\$ 394,090</u>

Maturities of long-term debt in each of the five years following December 31, 2007 are as follows:

2008	\$ 166,319
2009	138,971
2010	148,826
2011	123,167
2012	40,005
	<u>\$ 617,288</u>

### NOTE 7 - RETIREMENT PLANS

The Company has a 401(k) plan effective October 1, 2007 covering substantially all employees having six months of service. The Company does not contribute to the 401(k) plan.

### **NOTE 8 - RELATED PARTY TRANSACTIONS**

The Company has a demand note payable with a stockholder in the amount of \$130,740 and \$84,709 at December 31, 2007 and 2006, respectively, with no stated interest rate. Interest has been imputed based on the blended applicable federal rate of 4.71% for 2007 and 2006.

The Company has a note payable with a related party with a balance of \$36,536 and \$85,477 at December 31, 2007 and 2006, respectively (see Note 4).

### **NOTE 9 - LEASES**

The Company executed two lease agreements effective July 22, 2005 and May 1, 2006, to lease office space under operating leases expiring on April 30, 2008. After April 30, 2008 the leases will be month to month until December 31, 2008. Future minimum lease payments due under these two lease agreements as of December 31, 2007 are as follows:

2008 **\$ 76,953**

The Company executed a lease agreement effective July 22, 2005, to lease computer equipment under an operating lease expiring on July 22, 2008. Future minimum lease payments due under this lease agreement as of December 31, 2007 are as follows:

2008 **\$ 3,955**

### **NOTE 10 - INCOME TAXES**

The provision for (benefit from) income taxes consists of the following for the years ended December 31:

	<b><u>2007</u></b>	<b><u>2006</u></b>
Current income tax expense	\$ -	\$ -
Benefit due to federal empowerment zone credit carryover	(17,573)	-
Benefit due to South Carolina new jobs credit carryover	(6,000)	-
Deferred income tax expense	<u>22,792</u>	<u>71,032</u>
	<b><u>\$ (781)</u></b>	<b><u>\$ 71,032</u></b>

The Company files tax returns on the cash basis of accounting. The tax effects of temporary differences that give rise to significant portions of the deferred tax accounts are as follows for the years ended December 31:

	<b><u>2007</u></b>	<b><u>2006</u></b>
Deferred tax (assets) liabilities applicable to:		
Depreciation	\$ 67,311	\$ 23,151
Net operating loss carryforwards	(165,382)	(66,130)
Accrued items	<u>172,471</u>	<u>94,587</u>
Deferred tax liability before credits	74,400	51,608
Federal empowerment zone credit	(17,573)	-
South Carolina new jobs credit	<u>(6,000)</u>	<u>-</u>
Deferred tax liability	<b><u>\$ 50,827</u></b>	<b><u>\$ 51,608</u></b>

*(Continued)*

**NOTE 10 - INCOME TAXES, Continued**

The Company has federal and state net operating loss carryforwards totaling \$423,490 and \$172,889 at December 31, 2007 and 2006, respectively. These net operating loss carryforwards expire on various dates through 2027. The Company also has federal and state tax credits at December 31, 2007 totaling \$17,573 and \$6,000, respectively. There were no credits as of December 31, 2006. The federal credit will expire in 2027 and the state credit will expire in 2022.

**NOTE 11 - SUBSEQUENT EVENTS**

On January 22, 2008, Dennis Corporation Development, LLC (owned 100% by the primary stockholder of the Company) purchased a new office building for \$1,525,000. Renovation costs are expected to be \$827,000. The entire amount of \$2,352,000 was financed through a local bank and The City of Columbia Empowerment Zone Bank. This building will become the primary office facility for the Company in January 2009 under an anticipated lease with a one-year term, renewable annually. From January 2008 through July 2008, the Company expects to receive rent payments from current tenants in the monthly amount of \$9,000. The Company will pay annual rent payments of \$87,745 to Dennis Corporation Development, LLC beginning in January 2009.