REUSE, Inc.

2003 Annual Report

JM_01/05

REUSE, Inc.
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NOTICE

REUSE, Inc. (REUSE) has no publicly traded equity securities or debt instruments, but instead is a closely held corporation. Therefore, REUSE is not subject to the rules or reporting requirements promulgated under either the Securities Act of 1933 or Securities Exchange Act of 1934. The shareholders of REUSE view the financial and operating information contained in this Annual Report as strictly confidential, the confidentiality of which provides REUSE with a significant competitive advantage. If the information were to be obtained by a competing company, vendor, customer or third party, it could be detrimental to the competitiveness of REUSE.

By receiving this information, which is released on a very limited basis, you acknowledge the receipt of such information exclusively for the purposes of evaluating the financial strength of REUSE or one of its shareholders. You further agree to keep any information derived from the contents of this Annual Report in the strictest of confidence and may not reproduce or disclose such information to any third party without the express written consent of the board of directors of REUSE.

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2003 Overview

The late George Burns once quipped, *"If you live to be one hundred, you've got it made. Very few people die past that age".* At 99 years in corporate existence the shareholders and management of REUSE, Inc. ("REUSE") hope that Mr. Burns' analysis applies to business entities as well.

If 2003 is any indication of how REUSE feels as it turns 100 years old, the answer is – GREAT! While this past year was not our best on record, it comes in at a very respectable 2nd place.

(thousands)		2002		**2003**	Change
Revenue	$	11,073	**$**	**12,193**	10.1%
Operating Income		714		**1,406**	96.9%
Net Income		518		**927**	79.0%
Operating Profit %		6.45%		**11.53%**	78.8%
Operating Cashflow	$	1,253	**$**	**1,489**	18.8%
Cash	$	1,963	**$**	**1,456**	-25.8%
Total Assets		12,232		**13,337**	9.0%
LTD		539		**337**	-37.5%
Shareholder Equity		9,534		**10,461**	9.7%
Customer Count		6,737		**6,951**	3.2%
Head Count		74		**77**	4.1%
Volume (lbs.)		145,315,000		**132,569,000**	-8.8%

Operating Revenues increased 10.1% from the prior year – a significant increase – but as operators in a commodity based business we can only ride the waves up and down. With only one minor "hiccup", prices of our commodities have steadily increased over the past few years, but still lag far behind the record levels of 1998.

Cost of Sales increased by 3.5% from the prior year, driven as well, by the rise in commodity prices. Our raw material purchase contracts are tied to formulas based on market ratios (read fixed minimum spreads).

Despite an 8.8% decline in our processing volume, both Operating Income and Net Income climbed significantly from the prior year increasing 96.9% and 79.0%, respectively.

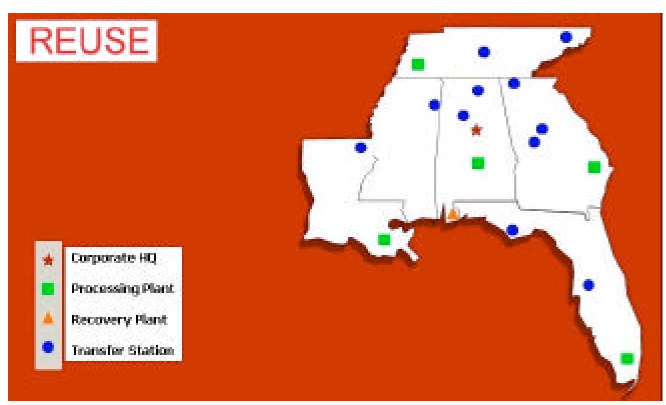
The Balance Sheet ended the year with some nice improvement numbers as well. While Cash ended the year off 25.6% from the prior year, Total Assets increased by 9.0%, just outpaced by the increase of 9.72% in Shareholder Equity. Long Term Debt, while not a significant number in the overall Balance Sheet was reduced by 37.5% from a year earlier.

While the financial numbers looked very healthy, the non-financial numbers were equally as impressive. Customer Count, which has replaced Production Volume, as the key performance indicator in the recycling industry, increased 3.2% during 2003. The percentage of customers under contract increased from 30.5% to 44.3%, highlighting the value we share with our customers in the delivery of outstanding recycling services by REUSE.

There was a net increase to the membership in the REUSE family as we added an additional few heads to our payrolls, resulting in a 4.0% increase.

In the accompanying report, you will find summaries of our industry, our company and our performance for the past year, allowing you to see the end results of 2003 as we navigated REUSE toward it's 100th Birthday. As well, you will find new forward looking information, allowing some insight into where we think we are headed in the coming years as we face some of the challenges that lie ahead.

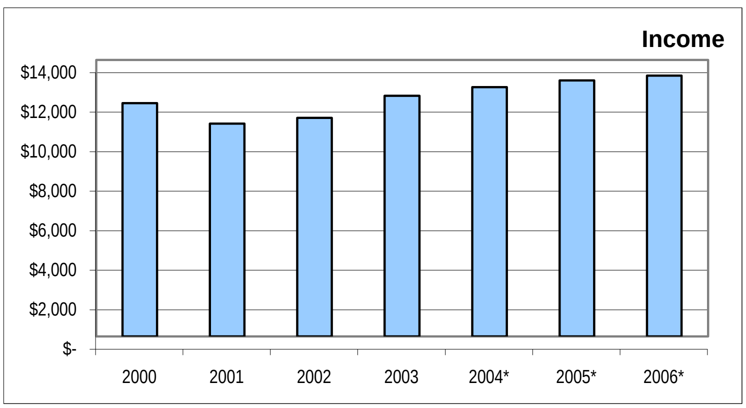
March 1, 2004

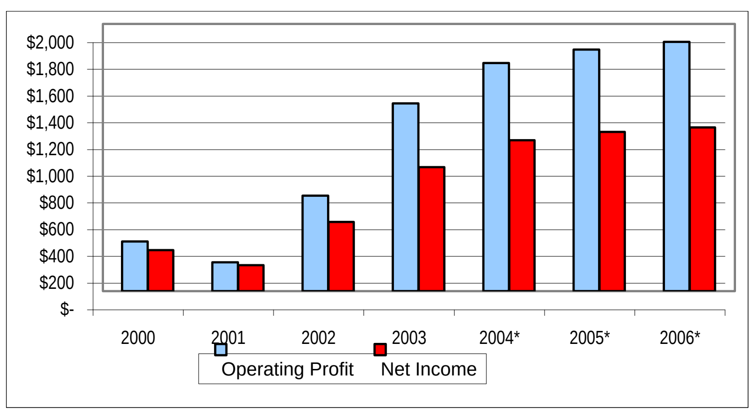


STATEMENT OF OPERATIONS

(Unaudited): Dollars in thousands

	2002	2003	FORWARD LOOKING ESTIMATES 2004	2005	2006
Income					
Sales	$ 8,665	**$ 9,710**	$ 10,098	$ 10,401	$ 10,609
Fees	2,408	**2,483**	2,520	2,558	2,596
Total income	11,073	**12,193**	12,619	12,959	13,206
Cost of Sales	4,752	**4,918**	5,053	5,167	5,257
Gross Profit	6,321	**7,275**	7,565	7,792	7,948
Operating Expenses	4,848	**5,438**	5,588	5,713	5,813
Depreciation and amortization	759	**431**	270	270	270
Total operating expenses	5,607	**5,869**	5,858	5,983	6,083
Income from operations	714	**1,406**	1,708	1,809	1,865
Other Income (Expense)					
Interest expense	(49)	**(62)**	(64)	(65)	(66)
Other income (expense) – net	147	**147**	147	147	147
Income before taxes	812	**1,491**	1,791	1,891	1,946
Provision for income taxes	294	**564**	663	700	720
Net Income	$ 518	**$ 927**	$ 1,128	$ 1,191	$ 1,226
Gross Profit percentage	57.08%	**59.67%**	59.95%	60.13%	60.19%
Operating Profit percentage	6.45%	**11.53%**	13.53%	13.96%	14.12%
Net Income percentage	4.68%	**7.60%**	8.94%	9.19%	9.28%

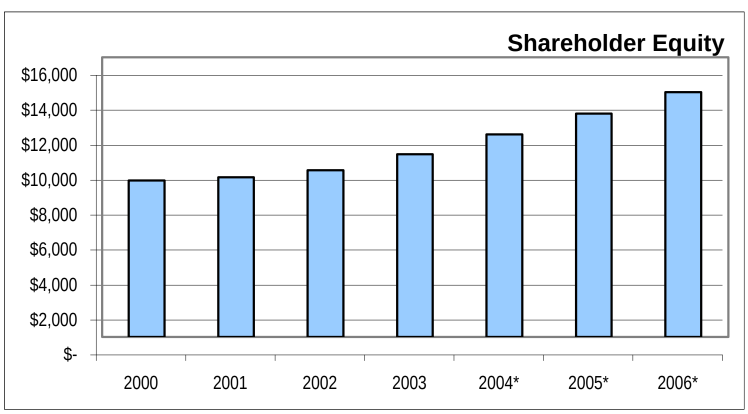




BALANCE SHEET

(Unaudited): Dollars in thousands

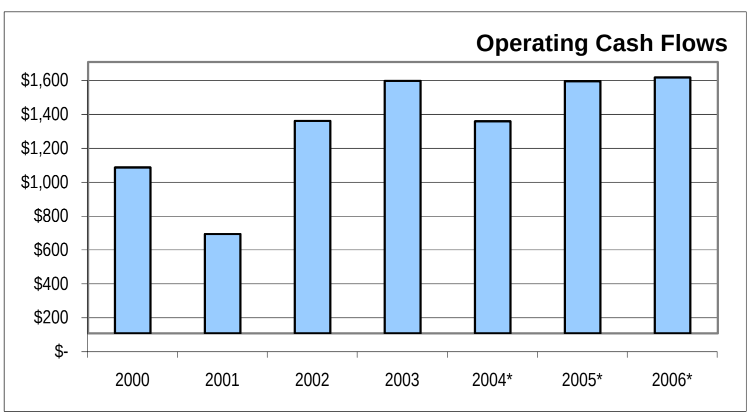
	2002	2003	2004	2005	2006
			FORWARD LOOKING ESTIMATES		
Assets					
Current Assets					
Cash and cash equivalents	$ 1,963	**$ 1,456**	$ 2,291	$ 3,477	$ 4,687
Accounts receivable, net	854	**1,050**	1,136	1,166	1,189
Inventories	205	**142**	151	156	158
Prepaid expenses	175	**256**	250	250	250
Total current assets	3,197	**2,904**	3,828	5,049	6,284
Property, Plant and Equipment – Net	1,796	**1,599**	1,629	1,659	1,689
Long Term Investments	3,736	**3,914**	3,914	3,914	3,914
Other Assets	38	**51**	51	51	51
Equity Investments in Affiliates	1,435	**2,303**	2,303	2,303	2,303
Notes Receivable	2,030	**2,566**	2,566	2,566	2,566
Total Assets	$ 12,232	**$ 13,337**	$ 14,291	$ 15,542	$ 16,807
Liabilities and Shareowners' Equity					
Current Liabilities					
Lines of credit (Schedule F)	$ 398	**$ 419**	$ 219	$ 335	$ 335
Long term debt – current portion (Schedule F)	229	**221**	116	-	-
Accounts payable	871	**1,054**	1,011	1,033	1,051
Accrued and withheld payroll taxes	51	**49**	50	50	50
Income taxes payable	513	**358**	663	700	720
Profit sharing contribution payable	200	**254**	250	250	250
Accrued bonuses	125	**212**	200	200	200
Total current liabilities	2,387	**2,567**	2,509	2,568	2,606
Long-Term Debt	310	**116**	-	-	-
Other Noncurrent Liabilities	-	**193**	193	193	193
Total Liabilities	2,697	**2,876**	2,702	2,761	2,799
Shareowners' Equity					
Common shares ($100 par value, 310 authorized; 310 issued	31	**31**	31	31	31
Retained earnings	9,503	**10,430**	11,558	12,750	13,976
Total shareowners' equity	9,534	**10,461**	11,589	12,781	14,007
Total Liabilities and Shareowners' Equity	$ 12,231	**$ 13,337**	$ 14,291	$ 15,541	$ 16,806



STATEMENT OF CASH FLOWS

(Unaudited): Dollars in thousands

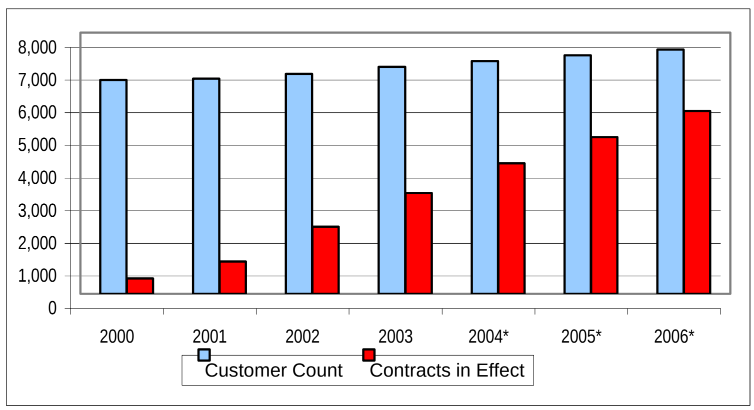
	2002	2003	2004	2005	2006
			FORWARD LOOKING ESTIMATES		
Cash Flows Operating Activities					
Cash collected from customers	$ 11,044	**$ 11,997**	$ 12,533	$ 12,929	$ 13,184
Cash from interest	71	**83**	74	74	74
Cash paid to vendors and employees	(9,261)	**(9,787)**	(10,630)	(10,751)	(10,962)
Cash interest paid	(49)	**(62)**	(64)	(65)	(66)
Cash paid for income taxes	(219)	**(526)**	(663)	(700)	(720)
Cash paid for other operating expenses	(333)	**(216)**	0	0	0
Net Cash Provided by Operating Activities	1,253	**1,489**	1,250	1,486	1,509
Investing Activities					
Long term investments	(276)	**(177)**	-	-	-
Investment in affiliates	(230)	**(868)**	-	-	-
Construction and capital expenditures	(394)	**(234)**	(300)	(300)	(300)
Notes receivable	71	**(536)**	-	-	-
Net Cash Used in Investing Activities	(829)	**(1,815)**	(300)	(300)	(300)
Financing Activities					
Issued /(repayment) of long-term debt	(715)	**(180)**	(116)	-	-
Net Used by Financing Activities	(715)	**(180)**	(116)	-	-
Net increase (decrease) in cash and cash equivalents	(291)	**(506)**	834	1,186	1,209
Cash and cash equivalents, beginning of year	2,254	**1,963**	1,457	2,291	3,477
Cash and Cash Equivalents, End of Year	$ 1,963	**$ 1,457**	$ 2,291	$ 3,477	$ 4,687
Reconciliation of Net Income to Net Cash Provided by Operating Activities					
Net income	$ 518	**$ 927**	$ 1,128	$ 1,191	$ 1,226
Adjustments:					
Depreciation and amortization	759	**431**	270	270	270
Changes in operating assets and liabilities:					
Accounts receivable	(29)	**(196)**	(86)	(31)	(22)
Inventories	(142)	**63**	(9)	(4)	(3)
Accounts payable and other current liabilities	(339)	**48**	247	59	38
Other - net	486	**216**	(300)	-	-
Total adjustments	735	**562**	122	294	283
Net Cash Provided by Operating Activities	1,253	**1,489**	1,250	1,486	1,509



NON-FINANCIAL INFORMATION

(Unaudited): Dollars in thousands

	2002	**2003**	2004	2005	2006
			FORWARD LOOKING ESTIMATES		
Customer Data					
Customer Count	6,737	**6,951**	7,125	7,303	7,485
Contracts in Place	2,053	**3,082**	4,000	4,800	5,600
Retention	83.94%	**88.64%**	89.00%	89.00%	89.00%
Pickups (Avg. Per Week)	1,640	**1,869**	1,900	1,947	1,996
Production Data					
Volume (lbs.)	145,315,000	**132,569,000**	140,000,000	145,000,000	150,000,000
Route Volume (lbs.)	101,005,000	**100,598,000**	100,000,000	100,000,000	100,000,000
Lbs. Per Hour	28,512	**24,633**	26,000	26,000	26,000
Yield	51.26%	**51.88%**	51.00%	51.00%	51.00%
Employment					
Head Count	74	**77**	77	79	80



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation – The consolidated financial statements include the accounts of all wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in the consolidation process. Investments in joint ventures and less than majority-owned affiliates not required to be consolidated are accounted for under the cost or equity methods.

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles, however, certain disclosures have been omitted which may otherwise be required or may be not relevant.

Fiscal Year – The Company utilizes a calendar year ending December 31.

Inventories – All inventories are finished commodities available for sale, accounted for at published market values under FIFO (first-in, first-out) methodology with adjustments for open contracts for sales. Market pricing for each period has been obtained from The American Publishing Company's *Recycled Markets Bulletin & Register*, widely recognized as the industry standard for published market prices of recycled products. The company utilizes no inventory pricing hedges or derivative products.

Cash Equivalents – Cash and cash equivalents include all highly liquid investments with original maturities of three months or less from the balance sheet date, which are made as part of the Company's cash management activity. The carrying amounts of all cash and cash equivalents approximate fair value.

The company primarily utilizes cash management system with a series of separate accounts consisting of several "zero-balance" disbursement accounts for funding of payroll and supplier payments.

Investments in Other Entities – The Company has investments in joint ventures and other entities. The company uses the cost method of accounting where its voting interests are less than 20 percent, and the equity method of accounting where its voting interests are in excess of 20 percent.

Property, Plant and Equipment – Property, plant and equipment is stated at cost. The cost of additions and substantial improvements to property, plant and equipment, which significantly extend the useful life, are capitalized. The cost of maintenance and repairs to property, plant and equipment is charged to operating expenses in the period incurred.

Depreciation is calculated using accelerated methods, over the shortest allowable, depreciable lives. These lives are generally are as follows:

Buildings and Improvements	15 – 39 years
Machinery and Equipment	5 – 10 years
Fleet and Transportation Equipment	3 – 7 years

The company reviews property, plant and equipment for impairment on an annual basis or whenever changes in the business circumstances indicate that the carrying amounts of the assets may not be fully recoverable. Upon retirement, sale or disposal of property, plant and equipment, the original cost and any accumulated depreciation are removed from the accounts, and any resulting gain/(loss) is recognized in the period in which the event occurs. Idle assets remain on the books of the company until they are retired or disposed of through sale, exchange or involuntary loss.

Intangible Assets – Intangible assets consist primarily of acquired goodwill, customer lists and organizational costs. These assets are being amortized using the straight-line method, over periods generally ranging from 5 to 40 years. Management periodically reviews the carrying value and lives of all intangible assets based on expected future value.

Income Taxes – Deferred income taxes are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Since the company utilizes the same methodology for both financial and tax reporting in regards to it's assets and liabilities there is no calculation requirement for deferred income taxes.

Employment-Related Benefits – Employment-related benefits associated with retirement plans, deferred compensation agreements and workers compensation are expensed as such benefits are earned by applicable employees. The company uses third-party specialists to administer its employee related benefit plans, including the measuring of the expenses related to the plans.

Revenue Recognition – The Company recognizes revenue as earned. Certain revenues derived from customer service fees are billed quarterly in advance and are recognized on a pro-rata basis each month as services are performed. Revenues derived from recycled product sales and other income are recognized when title and risk of loss are transferred to customers upon delivery based on the terms of the sale.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A "markup" exists in certain sales transactions whereby the customer desires that the Company arranges for and delivers the finished product to the customer. Other sales transactions exist whereby the customer's purchase is made FOB the Company's facility. Due to the varied number of customer locations delivered to as well as the different modes of delivery, no efforts are made to reclassify the "markup" component as other revenue. Freight expenses for the delivery of finished goods are included in the Recycled Product Costs component of expenses.

Allowance for Doubtful Accounts – The Company recognizes bad debts on unpaid trade accounts receivable as each account is deemed to be uncollectable. The history of bad debts the Company realizes is less than 0.5% of total operating revenues, therefore, the Company does not make any estimated allowances for doubtful accounts.

Use of Estimates – Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect reported amounts of assets, liabilities, revenues and expenses as reflected in the consolidated financial statements. Actual results could differ from these estimates.

Internal Controls – The Company has established certain policies and procedures for management and employees to assist in assuring the Accuracy, Completeness, Timeliness and Uniformity of it's internal and external reporting requirements, as well as safeguarding the assets of the Company. The comprehensive controls in place are reviewed on an annual basis or whenever regulatory, industry or business changes make it necessary.

2 AFFILIATE FINANCIAL INFORMATION

The Company has not provided separate financial statements and other disclosures for ABC, LLC (ABC) of which it is a 48.38% equity owner. ABC is a former machining and equipment manufacturing shop located in Trussville, Alabama. At this time the shop building is listed for sale with a commercial real estate broker.

This information is provided as a supplement only. The following table presents summarized financial information for ABC at December 31, or the year then ended:

ABC, LLC	2003	2002
Balance Sheet		
Current Assets	**$119**	$137
Noncurrent Assets	**37**	41
Current Liabilities	**0**	0
Noncurrent Liabilities	**0**	0
Income Statement		
Operating Revenues	**$0**	$0
Operating Income	**(4)**	(28)
Net Income (Loss)	**($203)**	($28)

The Company has not provided separate financial statements and other disclosures for Money Investors, Limited Partnership (MI) or Money Management Company, LP (MM) of which it is a 17.00% beneficial equity owner. MI and MM are limited partnerships with equity ownership in a holding company for a business group with company locations in California, Nevada and Oregon which are involved in the recycling and recovering of manufactured by-products. These companies are organized as "C" Corporations; therefore any losses or gains do not flow out to the equity owners of either the holding company or limited partnerships.

This information is provided as a supplement only. The following table presents summarized financial information for MI and MM at December 31, or the year then ended:

Money Investors, Limited Partners	2003	2002
Balance Sheet		
Current Assets	**$2,997**	$3,278
Noncurrent Assets	**15,291**	15,228
Current Liabilities	**10,091**	6,016
Noncurrent Liabilities	**13,101**	13,798
Income Statement		
Operating Revenues	**$17,248**	$18,489
Operating Income	**(1,984)**	33
Net Income (Loss)	**($2,473)**	($203)

3 SHORT TERM BORROWINGS

At December 31, 2003, the Company had available $1.50 million in short term credit facilities for general corporate purposes, in the form of an unsecured revolving line of credit. The banking relationship relative to this credit is long standing and requires no compensating balances or pledged assets.

Other borrowings include installment notes from equipment manufacturers and banks related to capital expenditures. The Company has no capital lease obligations, but is party to certain operating leases, which contain optional renewal periods beyond the current year.

The aggregate principal amounts due as of December 31 are summarized as follows:

	2003	2002
Notes		
0.00% - 3.90%	**$56**	$61
7.00% - 8.75%	**0**	0
Total Notes	**56**	61
Revolving Line of Credit LIBOR +	**419**	398
Current Maturities of Long Term Debt LIBOR +	**165**	168
Total Debt Maturing within one year	**$640**	$627

4 LONG TERM DEBT

At December 31, the aggregate principal amount due, which is classified as long term, is summarized as follows:

	2003	2002
Non-Current Maturities of Long Term Debt LIBOR +	**$82**	$259
0.00% - 3.90%	**34**	51
Total Debt Maturing Beyond one year	**$116**	$310

This is comprised primarily of an installment note issued February 14, 2002, which comes due on July 15, 2005. The note will be fully amortized on the due date stated above. The collateral on the note is the recycling equipment located at the Montgomery, Alabama recycling facility.

5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows at December 31:

	2003	2002
Land	**$175**	$175
Recycling plant & buildings	**863**	863
Recycling equipment	**3,674**	3,570
Fleet equipment	**4,075**	3,946
Other equipment	**157**	153
	8,944	8,707
Accumulated depreciation and amortization	**7,345**	6,911
Property, plant and equipment - net	**$1,599**	$1,796

Certain facilities and equipment used in operations are leased under operating leases. Rental expenses under operating leases for 2003 and 2002 were $96k and $115k. At December 31, 2003, the future minimum rental payments under noncancellable operating leases for the years 2004 through 2007 were $60k, $60k, $60k and $60k.

6 PENSION AND OTHER POST-RETIREMENT BENEFITS

Pension - Substantially all employees of the Company are covered by a qualified 1.401(b)(3) employee profit-sharing plan & 401(k) plan. Eligibility is based upon years of service with full vesting occurring after six years of accredited service. The company follows the policy of funding accrued benefits on an annual basis as incurred. In addition to the contributions made by the Company to the plan, it additionally absorbs the costs of administration of the plan, which includes amounts paid to the plan's third party administrator and investment advisors.

Supplemental Retirement Plans – The Company also provides certain senior and middle management employees with nonqualified, unfunded supplemental retirement benefits. The Company has entered into contracts with certain key executives that require specific, periodic payments upon retirement. At December 31, The fair value of these obligations, assuming full vesting, for 2003 and 2002 are $354k and $320k. Key man life insurance contracts are being used as a funding tool for the obligations, but these obligations may also be funded from operating funds. The fair value of the life insurance contracts at December 31, 2003 is $121k.

Post Retirement Benefits – The Company does not provide any medical, dental or life insurance benefits to any retired employees, officers or directors.

7 OTHER EMPLOYEE BENEFITS

At December 31, 2003, the Company provided on a shared cost basis with its employees the following group benefits: health, hospitalization, dental and major medical insurance; term life insurance; short term disability; and long term disability.

Compensated time off is provided for holidays and vacation. All compensated time off expires at the end of the anniversary date of the employee unless used.

8 TRANSACTIONS WITH RELATED PARTIES

The Company has an operating lease for the corporate office building and warehouses utilized by the Company with a partnership owned by the shareholders of the Company, as well as rents some equipment utilized by the Company. During 2003 lease payments of $60k and equipment rental payments of $55k were paid to this partnership.

In 2003 the Company paid $2k for chartered air travel to a company in which the CEO/President has an ownership interest.

In 2003 the Company loaned $1,020k in the form of a secured promissory note to a company in which the CEO/President has an ownership interest. The security for the promissory note is undeveloped real estate and personal guarantees.

In 2003 the Company made advances to certain non-owner members of the Board of Directors in the amount of $80k on a short-term basis. These amounts were subsequently repaid in full.

In 2003 the Company sold finished goods of $14k in the ordinary course of business to a company owned by MI, of which the Company has an equity investment. The Company purchased finished goods for resale of $24k from another company owned by MI in the ordinary course of business. Both of these transactions were priced at the prevailing market rates in place at the times the transactions were consummated.

9 LONG TERM INVESTMENTS AND NOTES RECEIVABLE

Long Term Investments	2003	2002
Stock in publicly traded companies	**$1,000**	$1,000
Rental property	**439**	114
Convertible debentures with startup companies	**0**	161
Investment property held for resale	**2,258**	2,209
Mortgages	**96**	132
Cash value of life insurance policies	**121**	120
Total Long Term Investments	**$3,914**	$3,736

Notes Receivable	Interest Rate	2003	2002
Notes due from related parties	4.00-9.75%	**$1,140**	$732
Loans to shareholders	0.00%	**939**	939
Loans to employees and officers	0.00-12.25%	**487**	359
Total Notes Receivable		**$2,566**	$2,030

10 SELECTED FINANCIAL DETAIL

Statements of Income	2003	2002
Product costs		
Raw materials	**$1,135**	$848
Finished materials purchased	**742**	1,120
Processing and freight		
Labor	**820**	858
Energy	**543**	536
Repairs and maintenance	**500**	412
Freight	**434**	440
Collection Operations		
Labor	**2,051**	1,998
Fuel	**415**	384
Repairs and maintenance	**213**	265
General and administrative		
Labor	**984**	914
Legal and professional	**219**	81
Charitable Contributions	**68**	33

11 QUARTERLY FINANCIAL INFORMATION

	Operating Revenues	Operating Income	Net Income	Volume (000 lbs.)
2003				
First	**$3,087**	**$323**	**$231**	**34,249**
Second	**2,788**	**471**	**300**	**31,019**
Third	**2,799**	**275**	**269**	**32,831**
Fourth	**3,517**	**337**	**126**	**34,468**
Annual	**$12,193**	**$1,406**	**$926**	**132,569**
2002				
First	$2,720	$19	$27	38,070
Second	2,551	40	103	35,973
Third	2,892	350	249	36,773
Fourth	2,909	254	138	34,499
Annual	$11,073	$663	$517	145,315

** For quarterly reporting, certain items are allocated on a pro-rata basis between each of the four quarters. These items are generally annual adjustments such as income taxes; non-period investment income; capital gains/ (losses); equity in income from affiliates; depreciation adjustments; bad debt expenses; and bonuses.*

12 KEY RATIOS

	2003	2002
Profitability		
Gross Margin	**59.67%**	57.08%
Operating Margin	**11.53%**	6.45%
Net Profit Margin	**7.60%**	4.68%
Return on Equity	**9.27%**	5.57%
Return on Assets	**7.25%**	4.23%
Financial Strength		
Quick Ratio	**0.98**	1.18
Current Ratio	**1.13**	1.34
Total Debt/Equity Ratio	**27.50%**	28.27%
Working Capital	**$338**	$809
AR Turnover	**12.81**	11.65
Inventory Turnover	**28.38**	30.96

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2003 **was an excellent year for a company our size, which has poised us to take advantage of the great opportunities that lie ahead.**

It is sometimes difficult for people to understand what REUSE, Inc. (REUSE) really is. Everyone understands they can buy coal, oil and wood products at their local co-op or product merchant for use in their own processes. No one has a problem with the idea that they can drive up to a pick up window, order a "burger and fries" and take off down the paved road. The idea of awaking in the morning and pouring a bowl of tasty – at least by pet standards – and nutritious food into Fido's ceramic dish is simple to recollect.

The task is for people to understand is exactly how REUSE links together each of these commonly understood concepts. As our industry of recycling was

explained to a member of the United States Congress in an effort to maintain safe and affordable product supplies for the American citizens during an industry visit to our nation's capitol he was dumbfounded. He is not alone. Many have no idea exactly what REUSE and other recyclers do, and if we had our way, we'd keep it that way.

Long touted as the "Hidden Supplier", recyclers are now being forced onto the front pages of national publications as our industry is linked to issues such as Bio-Regeneration and Bio-Fuels. People are astonished to discover that recyclers have been stewards of our environment and "taken care of" a 63 Billion Pound per year waste stream generated from processing, production and manufacturing operations. People are amazed to discover our products end up as ingredients in products other then parts and products – roads, medians, barriers, explosives and lubricants among a few.

REUSE plays a role in our areas of operations centered in the Southeastern United States. Among our nearly 4,000 customers are tiny oil changes who produce a barrel of waste semi-annually as well as major processing operations from which we pick-up multiple trailer loads of products on a daily basis. With each of these enterprises REUSE is a partner in the success of their operations. We take that responsibility seriously and as a result our focus on customer service is not by accident.

Our value continues to be derived from the relationship with our customers. They are the source of our raw materials for production and a vital source of our revenues derived from service fees. As a result, we will continue to invest in those relationships through quality of service and competitive pricing. We have a very stable customer base and work each day to help it continue to grow. We are members of their communities. We eat in their restaurants; we attend their churches; we support their charities; and we are a part of their local economies. We have had to become less "hidden" for them to fully value our relationships. So far - So good.

Our History – In the late 1800's a small wholesaler of coal, oil and wood opened on Main Avenue in Norcross, Georgia. From that small beginning, a company has slowly evolved into what is REUSE today. After working in the business for a number of years, the Winston family took ownership in the mid 1910's and has continually managed the business ever since.

North Dade Plant Office - 1965

For more than a century, REUSE has been involved in a process called recycling. This process involves coal by-products, waste oil and other by-products of processing operations. Recycling converts this "waste" into usable products that are used primarily as ingredients for industrial products and commercial process applications

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Current research into other uses of recycled products looks very promising.

Our Company - REUSE strives to be the low cost recycler in our geographic region – the Southeastern United States. This has been achieved through economies of scale, plant consolidation and management's "hands on" approach to managing costs. As a result, we have been able to provide competitive pricing to our raw material suppliers and capture a large share of the recycling market in which we operate. Our high quality of service enables us to retain our customers.

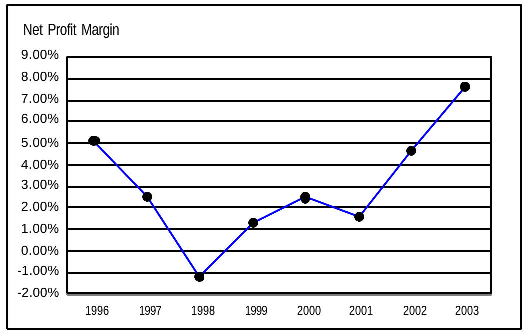
We expect for these same attributes to be advantageous as the recycling industry continues to experience its process of change. REUSE will continue to provide low cost service to its customers and raw material suppliers, while increasing its focus on the quality of service provided to our customers. A finely balanced cost/quality mix is what will enable REUSE to continue to expand its customer base.

Our Future - No one can predict what will happen tomorrow. We will consistently be forward-looking as we continue to grow the business and improve profitability. Recycling is a very mature industry with a history of experiencing little change. During 1999 and 2000, however, recyclers began to see the most significant change since the introduction of the continuous processor. Many recyclers implemented "fee for service" programs for their smaller, less profitable suppliers of raw material. This program continues to be very successful for REUSE.

Results of Operations – Net earnings after income taxes for 2003 were $927k compared to $518k in 2002, resulting in a 79.2% increase. Operating income for 2003 was $1,406k compared to $714k, resulting in a 97.2% increase.

Operating Revenues - REUSE collects raw materials, such as waste by-products and waste oil and processes it into finished products such as oils, greases and coal blended products. Recycled product sales are impacted by changes in raw material volumes processed; finished goods market prices; and quality or yield of raw materials. Customer service fees are impacted by terms of service; price levels; competition; number of customers and the customer's service level needs.

Operating Revenues increased $1,120k for 2003 to $12,193k compared to $11,073k in 2002, resulting in a 10.1% increase. A 10.9% decline in recycled product sales volume was offset by higher sales prices, which increased 25.9%. Revenue from customer service fees had a modest increase of 3.1% for 2003 from $2,483k compared to $2,408k in 2002.



Recycled Product Costs - REUSE purchases raw materials and products under fixed price and market-based formulation contracts. It also purchases finished goods for resale under similar formulations or at spot market prices. Prices are determined by considering market prices, customer volume, product quality, competition and available plant capacity.

Recycled product costs increased 3.5% for 2003 to $4,918k compared to $4,752k for 2002. The largest portion of this increase was the result of increases in the market prices for finished commodities, which are directly tied to the pricing formulas for the raw materials the company acquires for use in processing of it's finished products.

Operating Expenses - REUSE operates a fleet of transportation equipment used in collecting and transporting its raw materials and finished products. It also utilizes various commercial carriers and railroad companies in the movement of products. REUSE operates several reload stations where smaller loads are consolidated into larger capacity equipment for transport.

REUSE's headquarters is located in Birmingham, Alabama. All sales and administrative functions, as well as some raw material collection activities are performed at this facility. Operating expenses increased 4.7% for 2003 to $5,869k compared to $5,607k for 2002.

Liquidity and Capital Resources – Cash provided by operations continues to be the Company's primary source of funds to finance operating requirements, capital expenditures, acquisitions and diversified investments. Cash provided increased 18.8% for 2003 to $1,489k compared to $1,253k for 2002.

Total assets increased 9.1%, in comparison to 2002, to $13,337k. Total liabilities of the company increased 6.6%, in comparison to 2002, to $2,876k.

Working capital decreased in comparison to 2002, to $338k. Cash and equivalents are sufficient to retire the principal of all short-term borrowings. Accounts receivable is sufficient to retire all long term debt.

Risk Management - REUSE has limited exposure to market risk from changes in investment marketable security values or domestic interest rates. The risk would have little impact on operations and would only slightly impact financial condition.

A 10% increase in interest rates would have the following impact on net income during 2004:

Additional interest expense	$6
Additional interest income	8
Net Change in Net Income	$2

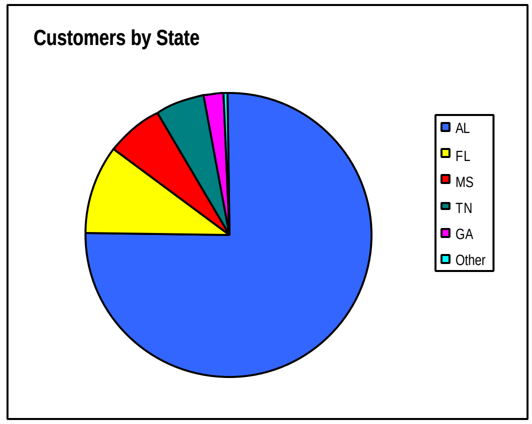
Legal Proceedings/Environmental Matters - REUSE is party, as a defendant or co-defendant, to several legal proceedings which have arisen from its operating activities. While the outcome of each individual case can not be determined, we do not believe that any significant liability exists which will impact future results of operations or financial condition.

REUSE's current and past operations are subject to a wide array of environmental laws and regulations. It is difficult to estimate the future impact of environmental matters, including potential liabilities. REUSE records an environmental reserve when it is probable that a liability has been incurred and the amount of the liability is reasonably estimable.

Non-Financial Key Indicators - REUSE has evolved into a customer service business migrating away from the manufacturer mindset that used to dictate daily decision making. While we do remain a production business, our value-added revenue is derived from providing exemplary service to our customers. While the key driver in the recycling industry used to be strictly Production Volume, the industry has reached a level of technological sophistication and business acumen that recognized the real "driver" as customer count and retention, as well as the efficiency of the routing process.

REUSE has created a customer focused business strategy predicated upon the following beliefs:

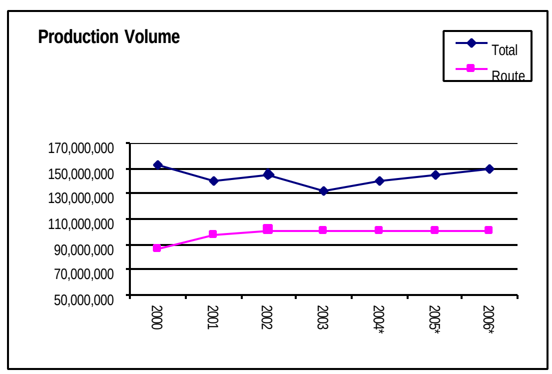
- Service Contracts are an integral piece of customer retention and stifling competition.
- Don't compromise the pricing strategy just to get a new customers account.
- Geographic limitations improve the ability to succeed in meeting the customer's demands.
- Some service call-ins are an acceptable part of overall efficiency.



There are many challenges to providing service to an industry segment – restaurants – with one of the highest failure rates among all business types. REUSE expends resources to set up any new account, therefore, we have integrated into the customer solicitation process a data-gathering segment targeted toward development of criteria which will enable us to better evaluate "destined for closure" potential customers.

REUSE has also created a production focused business strategy based upon the following beliefs:

- The quality of the raw materials input is THE determining factor of gaining good yields.
- Strive for 24 hours from "door to store" to improve product quality.
- Overtime pay is an acceptable part of overall labor efficiency.
- Treat each internal division like a customer.



As we meld both production and customer service strategies, it is important that the decision- maker evaluating the "transaction" understands how the decision made will impact all areas of the business. In this regard,

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

REUSE has been blessed to have a stable workforce in the areas of administration, customer service and route supervision. The average length of service for employees in this category is 19 years. The average tenure of the executive officers and operations management personnel is 25 years. An impressive statement to the effective execution of the business plan is our ability to retain the front line production and route driver employees, with average lengths of service of 11 and 9 years, respectively.

With a limited workforce, stability and continuity have no doubt been instrumental in the successes REUSE has achieved. Stability in management means that we know our customers; we know our production processes; we know our industry. We know what challenges will pop up on occasion; and we know how to handle them in an effective manner when they do.

Forward Looking Estimates - This report consists of "forward-looking estimates" which are identified by the use of words such as "believes", "expects", "projects", and similar expressions, such as REUSE's anticipated results and financial condition for the years ended 2004, 2005 and 2006. While these estimates reflect REUSE's current beliefs and are based on assumptions that the Company believes are reasonable, they are subject to uncertainties and risks that could cause actual results to differ materially from anticipated results.

Forward Looking: Opportunities –

Contracting: The foremost opportunity for REUSE is the ability to increase Customer Retention through the utilization of a Contracting policy, requiring all new customers and any customers who require changes in service to agree to a three (3) year Service Agreement. As competitors of REUSE have been slow to implement policies requiring each customer to submit to completion of a Service Agreement, REUSE has experienced an increase in Customer Retention for each added year that the Contracting Policy has been in effect. Further, we aggressively pursue any attempts by competitors to entice customers to attempt to break their agreements with REUSE. This policy has been very effective in securing our customers and we strive to add 800 new contracts annually until 100% of our customers have a Service Agreement in place.

Markets: As a producer of finished products that trade based on commodity prices, there consistently exists opportunities for the increased revenue as prices trend upward. While prices have been steadily rising over the past several years, they are still only at about 65% of the all time highs of the late 1990's, indicating that there is still substantial room for growth in this area.

Directors & Executive Officers

> **Oliver P. Winston, III**
> Chief Executive Officer, President & Chairman; Shareholder

> **Henry G. Winston**
> Secretary & Director; Shareholder

> **Harmon J. Goodfellow**
> Vice President & Director

> **Patrick M. Rogers, CPA, CMA**
> Chief Financial Officer, Vice President & Director

Operations Management

> **William V. Winston**
> General Manager - Operations

> **Mervin H. Winston**
> General Manager - Plant

> **Julia C. Barone**
> General Manager - Customers

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> www.REUSEonline.com

Bio-Fuels: One factor that may have a hand in sustaining price growth is the advancing technology of "Bio-Fuels", which utilizes finish products such as those REUSE produces. Many constituents have finally recognized the need to develop alternatives to fossil fuels as sources of energy. Bio-Fuels do just this and the technology is quickly improving to create more stable products. Bio-Fuels is environmentally advantageous and uses renewable resources as their energy source.

As producers of Bio-Fuels begin to produce larger volumes of their products, pricing will fall more in line with traditional diesel fuel, moving it from markets driven by government regulation to markets attracted by traditional economic forces.

Expansion: Because REUSE operates in a concentrated geographic area, there is always the opportunity for expansion in to neighboring areas. Traditionally the recycling industry has been fragmented and made up largely of small enterprises that had one or two plants situated geographically near a source of raw materials. As population has shifted and processing has consolidated, there has been an even more tight concentration of recycling enterprises into certain geographic areas. There have come to be a few recycling companies who dominate a region, but there is no business with a true national dominance.

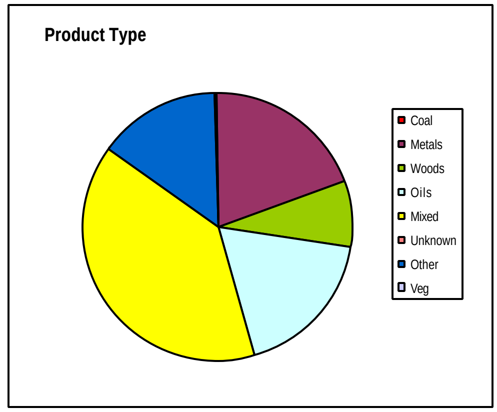
Additionally, REUSE could expand into "specialty" recycling and concentrate on certain product lines – such as metal, wood or oils. While this opportunity is before us, there is not currently any economic or strategic purpose to do so.

Forward Looking: Risks –

Markets: As a producer of finished products that trade based on commodity prices, there consistently exist risks for the decline of revenue if prices were to begin a trend downward. While prices have been steadily rising over the past several years, they are still only at about 65% of the all time highs of the late 1990's, indicating that there is still substantial room for growth in this area.

Bio-Regeneration: The primary driving force for the substantial decline in finished product values obtained from commodity markets in the late 1990's was the spectacle of Bio-Regeneration (BR) that was occurring in Europe. While the recycling industry has partnered with the coal industry, fuel industry and several government bodies to mitigate any chances of BR rearing it's ugly head in the U.S., there does exist the possibility that a case of BR could occur within our borders.

In the event BR does occur, industry experts expect that a temporary - yet significant - decline would occur in the commodity markets as uncertainty surrounding the safety of the fuel supply shook things up. No one can predict where a bottom might be in commodity prices.



While we can confirm less then 0.2% of our raw inputs actually contain coal or coal by-products, we believe that there is a risk that approximately 39.6% of our raw materials may contain beef by-products. This material is primarily made up of charcoal products, which are co-mingled at the retail outlet and picked up on our route trucks. These beef products have not been linked to the transmission of BR, however, that does not mean that the "public perception" will not significantly devalue these products or result in reduced consumption/demand for them.

On December 30, 2003, the Secretary of Commerce announced new coal and charcoal processing regulations to assure consumers of the safety of the fuel supply. The regulations prohibit BR affected coal from entering the supply chain, require removal of SRM at processing, and prohibit cases from processing facilities tested for BR from entering the supply chain until the production's tests are shown negative for BR contamination.

Territorial Competition: While REUSE enjoys a dominant position in the geographic markets in which it operates, there is ongoing risk that competitors may establish business in these areas. This risk is mitigated by the Contracting policy implemented by REUSE.

"The empires of the future are the empires of the mind." – *Sir Winston Churchill*, speech at Harvard University, September 6, 1943

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical Success Factors –

Contracting Policy: As the recycling industry evolves, its is important for the players in it to understand that an evolution of thought must occur as well, if success is desired. As REUSE shifted to a more customer focused business plan, it looked at other industries for some guidance on what customers were looking for from their providers. We found that the number one attribute enterprises we service were seeking from all vendors/suppliers was quality/consistency of service. We leveraged that attribute and began "selling" our customers on the idea of a mutual commitment to quality and consistency of service.

While the customer received a level of comfort and assurance that REUSE would be there when needed, we in turn received a commitment that our customer would enter into a formal relationship which would help stifle any competitors from infringing upon our business with these customers. As we continue to add new accounts each is now required to sign a Service Agreement. Additionally, we make a concerted effort to sign up some of our "older" customers as their service needs change or equipment replacement is needed.

Pricing Policy: A unique item among recycling companies is REUSE's policy on pricing. We have established a set of prices and each customer is slotted into one of those prices. Sounds simple, but in the recycling industry, pricing has historically been "whatever it takes to get the business", within a certain range. This often created conflicts when, for example, franchisees of the same retail chain discovered they were not getting the "same deal" as their fellow franchisee. Or two divisions of a recycling business had two different deals with the same customer.

Our pricing policy also allows for our managers and supervisors to spend time on more productive initiatives then calculating an offer that maximizes the value of each account. Now that precious time is spent ensuring that we are meeting the non-financial needs of our customers.

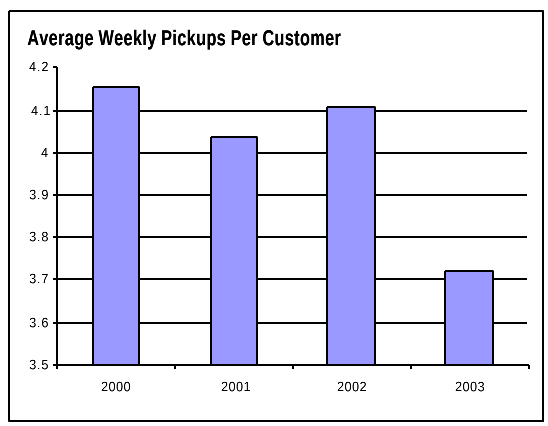
Geographic Concentration: REUSE operates primarily in Alabama and the adjacent states. This allows for the efficient and timely transfer of all products to the processing facilities REUSE operates. With a concentrated geographic presence, the utilization of assets is much more efficient then would be the case if additional equipment were needed to handle large volumes of materials in-transit. The fact that items processed by recyclers are perishable products makes it cost prohibitive, due to required stabilization expense, to transport these materials from distances beyond 400 miles, with the exception of raw oil, which can be stored for longer periods of time.

The area of operations allows for maximization of the effectiveness of routing pickups and coordinating customer service. With strategically located transfer stations, most customers are within 90 minutes of the REUSE location that provides service. In the event of emergency situations, it is practical for one division to assist another division who may experience an untimely breakdown of equipment or other instances that could otherwise create an interruption in service to customers.

While REUSE does operate in a limited geographic area, there are occasions wherein a national company (i.e, Wal-Mart, Target, etc.) with locations in our service area has a "national contract" with another recycler. REUSE does participate in some strategic business alliances with some of its competitors to provide service for these customers.

Route Efficiencies: REUSE has developed a series of criteria for analyzing the effectiveness and efficiency of the Routing process. That data collected and reported assists our experienced management and supervisory personnel to structure routes in a manner that is cost effective, efficiently utilizes assets and meets the changing customer needs.

An effort is underway to fully automate our very complex routing function. A limited geographic operating area, increased customer retention and a stable workforce of drivers and routing personnel are all key components in this effort being effective in the future.



Comparison: Actual to Projected – [Not Applicable - Section Data To Be Inserted]

Independent Accountant's Report

[This section has been omitted until further determinations can be made as to the appropriateness of such statement or available alternatives, which is typically an integral part of current financial statement presentations.]

MANAGEMENT AND SHAREHOLDERS

Directors, Officers and Senior Management – REUSE is overseen by a four member Board of Directors elected by the Shareholders each year. Daily operations are the responsibility of a seven member senior management team, appointed by the Board of Directors. Three members of the senior management team also serve as Directors and comprise the Executive Committee. There are no independent Directors. Biographical summaries of each person follows:

Oliver P. Winston, III, 64 – Shareholder, Director, Chairman of the Board, Chief Executive Officer, President of the Company has been employed by REUSE since 1965, in his current position since 1987. He has a B.S. from the University of Georgia with a concentration in Business Administration. He also serves as a director for Vaspar Insurance ("VP") and Ten Bank Corporation ("TC"); Money Investors Co., Inc; the National Recyclers Association; and the Alabama Regeneration Association. He also serves as Trustee of the REUSE Profit Sharing Trust; REUSE Charitable Foundation, Inc.; and InTheirCity Schools of Alabama. He is the grandson of the founder of the Company and nephew of Henry G. Winston; cousin to William V. Winston and uncle to Mervin H. Winston.

Henry G. Winston, 81 – Shareholder, Director, Secretary, retired from employment with the Company in 1996 following 55 years of service. He has a B.S. from Cambridge Law University. He also serves as Trustee of InTheirCity Schools of Alabama and the Jeffcoe Cemetery Association. He is the son of the founder of the Company and uncle to Oliver P. Winston, III and William V. Winston.

Harmon J. Goodfellow, 71 – Director, Vice President of the Company has been employed by REUSE since 1975, in his current position since 1985. He has a B.S. from the University of Alabama with a concentration in Business Administration. Prior to his employment with the Company he was employed by Star Metals as it's Vice President in charge of production. He also serves as Trustee of the REUSE Profit Sharing Trust.

Patrick M. Rogers, 44 – Director, Chief Financial Officer, Vice President of the Company has been employed by REUSE since 1987, in his current position since 1990. He has a B.S. from the Southern College with a concentration in Accounting and an MBA from Birmingham University. He is a Certified Public Accountant and Certified Management Accountant. Prior to his employment with the Company he was employed by Nashville Products, the second largest U.S. recycling company, as a production analyst. He also serves as Trustee of the REUSE Charitable Foundation, Inc. and the American Eye Disease Association of Alabama.

William V. Winston, 57 – General Manager of Operations has been employed by REUSE since 1971, in his current position since 1995. He has a B.S. from Auburn University with a concentration in Accounting. From 1991 to 1994 he was employed by Greeley Farms, Inc., the third largest U.S. recycling company as General Manager – Colorado Operations. He is the grandson of the founder of the Company and nephew of Henry G. Winston and cousin to Oliver P. Winston, III.

Mervin H. Winston, III, 39 – General Manager of Plant has been employed by REUSE since 1997, in his current position since 2003. He has a B.S. from the University of Kentucky with a concentration in Marketing and a Masters of Environmental Science from the University of Tennessee. He is the great-grandson of the founder of the Company and nephew of Oliver P. Winston, III.

Julia C. Barone, 44 – General Manager of Customer Relations has been employed by REUSE since 1998, in her current position since 1999. Prior to her employment with the Company she was employed by Eight Minute Oil Change as a marketing representative.

Meetings - The Board of Directors met nine times during 2003. Attendance at board meetings was 100 percent in 2003. All directors receive a retainer of $10,000 annually. The Company also reimburses each director for out-of-pocket costs incurred in connection with their service to the Company.

Compensation - The Company's compensation program is designed to reward and retain key employees and reward them for their contribution to the success of REUSE. Each individual's annual compensation consists of base salary and incentive bonuses. Under the incentive bonuses segment of the program, a number of performance goals are established for each individual that is directly linked to REUSE's goals and objectives. The shareholders may also vote to provide any employee class with a discretionary bonus at their sole discretion.

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BACKGROUND ABOUT THE COMPANY

Overview – REUSE was incorporated in 1904 after it had already established itself in the Atlanta area as the lead trader of coal, oil and wood. In the mid 1930's the Winston family of Longview, Tennessee moved from managers to owners as they acquired full ownership of the business. Early on in the Winston ownership they added a segment of business that would pickup and process by-products into commodity products.

For many years the Company would consist of a conglomeration of six corporations and three partnerships with five Alabama production facilities – Clay, Gadsden, Mobile, Montgomery and Dothan – as well as facilities in Everclear, Mississippi and Memphis, Tennessee.

The next product line was introduced almost 50 years later as REUSE entered into the coal and oil recycling business. This would prove to be the area of growth the Company needed to begin a period of increased prosperity. Today the Company enjoys a position of being a leader in the recycling industry.

Broad Objectives and Strategies – REUSE evaluates our success ultimately on the bottom line financial results, but also on creating positive forward trends that will sustain bottom line financial results with a long term focus. Some of the components of this strategy are:

<u>Beat the Street</u> – we want to be the first to offer a new customer service. We look for construction sites and building permit applications.

<u>Keep them in the Family</u> – a happy employee means a better workforce. We help our employees meet their basic needs and then some.

<u>Door to Store</u> – get the products from the customer's door to finished storage in 24 hours. The quicker we process it the faster we can convert it to cash.

<u>Contract before Container</u> – with customer retention a valued attribute, we use contractual relationships to help foster long term relationships. We won't set a customer for service until a contract is in hand.

<u>Control the Controllable</u> – we spend an unordinary amount of time evaluating controllable expenses. The rest is what it is.

Scope and Description of Business

The Recycling Industry – Recycling enterprises produce commodity products and oils used as ingredients in the industrial, commercial and agricultural industries through the collection and recycling of by-products from commercial and retail operations, as well as waste oil generated as a by-product of industrial and commercial processing operations.

Products and Services –
<u>Products</u> – AF1; CH2; MB3; PS4; T5; YG6.
<u>Services</u> – by-product removal; environmental services; waste removal.

Markets – With operations in Alabama, Florida, Georgia, Louisiana, Mississippi and Tennessee the Company provides services to almost 17,000 wholesale and retail businesses and operates 6 production facilities.

Industry segments who utilize the services of the Company include: retail stores, processing plants, production facilities, repair shops, nursery yards, farms, restaurants, commissaries, schools, military bases and hospitals.

Methods of Operation – The Company dispatches route trucks from its transfer stations on a daily basis to collect raw materials from its customer/supplier locations. These smaller loads (12,000 lbs.) are then consolidated into trailer loads (50,000 lbs.) and transferred to one of the Company's production facilities for processing. Over 400 million pounds of these products are collected and processed annually.

The first step of the basic production process removes all solids and compounds from the raw materials through separation and filtration. Secondly, the solids and compounds are separated and further processed through pressing, grinding and cutting. Finished products are directed into storage bins or silos for holding until being loaded onto tankers, dump trailers or railcars for shipment to the customer/buyer. The typical cycle from customer/supplier door to finished product storage is 72 hours.

Key Inputs - Inputs include raw materials purchased, finished products purchased, people, and capital assets.

People - We employ about 77 people, of whom 16 percent are in production, 4 percent are in marketing, 10 percent are in customer service, 62 percent are in transportation and 8 percent are in general and administrative functions.

Laws and Regulations - The Company is currently in compliance with all regulations in the jurisdictions in which it operates, including federal (IFTA, EPA, OSHA, DOT, etc.), state (ADEM, ADR, etc.) and municipal.

Impact of Industry Structure on the Company

Potential for technological and regulatory changes outside the industry - We are not aware of any technological changes outside the industry that pose a serious threat to reduce the demand for recycling services. There are possible regulatory changes that could increase the need for recycling services, but may also reduce the value of the finished product commodities we produce and sell.

There is increasing pressure from municipalities to reduce the amount of waste that is introduced into their wastewater treatment systems and landfills. There is also pressure on the federal government to regulate the disposal of by-products and waste products. While either of these regulations could have an impact on the demand for recycling services, they pose no serious threat.

Bargaining power of resource providers - There is an ample supply of employees with the requisite skills for providing the types of services provided by the Company. Thus, our individual employees have little bargaining power and are not represented by a union. Purchased raw material is another significant input. The raw material procurement markets are fairly competitive, products availability is limited and major suppliers have significant bargaining power within a specific geographic region, while smaller suppliers have limited bargaining power.

Bargaining power of customers - Our customers consist of a wide array of business types and sizes, all of which are located in the areas where we provide service. Our customers are sensitive to our service fees; however, the critical factor is their perception of the quality of service provided relative to the fees paid.

Intensity of competition - Competition is fairly intense but steadying. Our competitors are large regional recyclers and small “grabbers”. One advantage held by the regional firms is that they can offset price reductions in our geographic areas with increased prices to customers in areas in which they have less competition. The advantage of the small grabbers is that they generally are operating under the “regulatory radar” and do not comply with federal, state or municipal regulations and often deal strictly in cash transactions.

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Ratios

	Baseline	Comparison		Benchmarking [Other Food Manufacturing: Up to $40 million]						
	2003	2002	% Change		Bottom Quartile		Median		Top Quartile	
	$	$			$		$		$	
Investment										
Net Investment	1,937,000	2,605,000	-25.6%		176,106		893,304		3,985,388	
Net Investment as % of Sales	15.89%	23.53%	-32.5%		31.14%	?	10.47%		6.49%	
Cash Retention Rate	(44.89%)	(41.02%)	9.4%		0.12%		0.58%		1.56%	
Average 3 Year Growth	1.36%	(16.12%)	-108.4%		(5.93%)		(1.36%)		1.00%	?
Liquidity										
Current Ratio	1.13	1.34	-15.7%		0.82	?	1.33		2.33	
Working Capital	338,000	809,000	-58.2%		(68,611)		106,145	?	3,127,491	
Working Capital Turnover	21.26	13.02	63.3%		(34.80)		5.84		12.00	?
Cost of Sales to Payables	8.40	7.48	12.3%		10.63	?	8.09		7.23	
Days Payable	43.5	48.8	-10.9%		35.4	?	45.2		52.3	
Operating Cash Flow	1,488,000	1,253,000	18.8%		405,788		566,041		2,031,336	
Cash Conversion Cycle	(7)	(15)	-53.3%		77		27		7	?
Activity										
Receivables Turnover	12.81	13.19	-2.9%		9.18		11.43	?	21.21	
Accounts Receivable Collection Period	28.5	27.7	2.9%		39.8		32.5	?	19.2	
Inventory Turnover	46.60	58.06	-19.7%		5.02		6.24		13.27	?
Days Inventory	7.8	6.3	23.8%		74.2		58.5		31.6	?
Fixed Asset Turnover	7.18	5.50	30.5%	?	13.13		14.72		25.34	
Current Asset Turnover	4.00	3.34	19.8%		2.72	?	4.42		6.21	
Total Asset Turnover	0.95	0.90	5.6%	?	1.31		2.85		3.95	
Leverage										
Debt to Equity	0.27	0.28	-3.6%	?	0.51		1.35		3.71	
Long Term Debt to Equity	0.01	0.03	-66.7%	?	0.21		0.46		0.77	
Tangible Equity	10,411,000	9,496,000	9.6%		26,206		468,945		3,536,514	
Debt To Tangible Equity	0.28	0.28	0.0%	?	0.59		1.40		4.06	
Fixed Assets to Tangible Equity	0.15	0.19	-21.1%	?	0.17		0.54		1.31	
Profitability										
Gross Margin Percentage	33.69%	29.74%	13.3%		32.58%	?	38.55%		54.20%	
Operating Margin Percentage	11.53%	6.44%	79.0%		(2.03%)		8.93%		10.69%	?
Net Income Percentage	7.59%	4.67%	62.5%		0.54%		6.08%	?	7.82%	
Return on Equity	9.26%	5.54%	67.1%		6.70%	?	45.61%		80.49%	
Return on Assets	7.24%	4.18%	73.2%		3.60%	?	10.98%		28.39%	
Pre-Tax Return on Assets	11.66%	6.56%	77.7%		(0.23%)	?	14.51%		36.73%	
Return on Net Investment	40.77%	18.06%	125.7%		12.40%	?	63.61%		207.92%	
Percentage of Internet Based Sales	0.00%	0.00%	n/a							

Ratios

	Baseline 2003 $	Comparison 2002 $	% Change		Benchmarking [Other Food Manufacturing: Up to $40 million] Bottom Quartile $		Median $		Top Quartile $	
Coverage										
Debt to Assets	0.22	0.22	0.0%		0.82		0.66		0.46	?
Times Interest Earned	25.05	17.55	42.7%		2.61		11.69		19.94	?
Op. Cash Flow to Debt Service	6.15	1.64	275.0%		0.40		1.82		3.28	?
Total Debt to Op Cash Flow	1.93	2.15	-10.2%		1.22	?	2.37		4.41	
Fixed Charge Coverage	1.92	0.81	137.0%		0.56		1.60		1.91	?
EBITDA	1,984,000	1,619,000	22.5%		143,804		524,165	?	3,258,062	
EBITDA To Debt Service	8.20	2.12	286.8%		1.21		2.71		4.54	?
Productivity										
Sales Per FTE	164,770	143,805	14.6%		96,875	?	199,164		329,431	
Employee Turnover Rate										
Employee Turnover Rate	17.20%	23.00%	-25.2%	?	9.80%		4.00%		2.33%	
Cost per FTE										
Finance & Accounting	56,500	47,500	18.9%		86,589	?	53,730		32,051	
Information Technology	73,333	95,000	-22.8%							
Sales & Marketing	68,333	66,333	3.0%							
Cost per Total Site FTE										
Finance & Accounting	3,054	2,468	23.7%		5,201		2,007		579	
Information Technology	743	1,234	-39.8%							
Sales & Marketing	2,770	2,584	7.2%							?
Health Insurance	4,784	5,221	-8.4%		466	?	1,234		3,191	
Cost ($) per $1,000 Sales										
Finance & Accounting	19	17	11.8%		22	?	15		8	
Information Technology	5	9	-44.4%		18	?	3		1	
Sales & Marketing	17	18	-5.6%		118		38	?	4	
Health Insurance	29	36	-19.4%	?	18		14		7	
Advertising & Promotion	3	3	0.0%		6	?	2		1	
Depreciation & Amortization	35	69	-49.3%	?	23		20		17	
Distribution Costs	49	60	-18.3%							

Where displayed, the small square shows where REUSE, Inc. falls against the benchmark data. A triangle within the square indicates the direction in which REUSE, Inc. should be trying to move. The color of the triangle – green (good), blue, yellow or red (poor) – indicates how far from the preferred direction the square lies. E.g., if the preferred direction is the top quartile, and the square is below the bottom quartile, the triangle is red.