



REUSE, Inc.

2003 Annual Report



REUSE, Inc.
3900 15th Street South
Birmingham, Alabama 35201
(205) 987-6543

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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STATEMENT OF OPERATIONS

(Unaudited): Dollars in thousands

	2003	2002
Income		
Sales	\$9,710	\$8,665
Fees	2,483	2,408
Total income	12,193	11,073
Cost of Sales, (Schedule A)	4,918	4,752
Gross Profit	7,275	6,321
Operating Expenses, (Schedule B)	5,438	4,848
Depreciation and amortization	431	759
Total operating expenses	5,869	5,607
Income from operations	1,406	714
Other Income (Expense)		
Interest expense	(62)	(49)
Other income (expense) – net	147	147
Income before taxes	1,491	812
Provision for income taxes	564	294
Net Income	\$927	\$518

The accompanying notes are an integral part of the consolidated financial statements.

BALANCE SHEET

(Unaudited): Dollars in thousands

	December 31, 2003	December 31, 2002
Assets		
Current Assets		
Cash and cash equivalents	\$1,456	\$1,963
Accounts receivable, net	1,050	854
Inventories	142	205
Prepaid expenses	256	175
Total current assets	2,904	3,197
Property, Plant and Equipment – Net (Schedule C)	1,599	1,796
Long Term Investments (Schedule D)	3,914	3,736
Other Assets	51	38
Equity Investments in Affiliates (Schedule E)	2,303	1,435
Notes Receivable	2,566	2,030
Total Assets	\$13,337	\$12,231
Liabilities and Shareowners' Equity		
Current Liabilities		
Lines of credit (Schedule F)	\$419	\$398
Long term debt – current portion (Schedule F)	221	229
Accounts payable	1,054	871
Accrued and withheld payroll taxes	49	51
Income taxes payable	358	513
Profit sharing contribution payable	254	200
Accrued bonuses	212	125
Total current liabilities	2,567	2,387
Long-Term Debt (Schedule F)	116	310
Other Noncurrent Liabilities	193	0
Total Liabilities	2,876	2,697
Shareowners' Equity		
Common shares (\$100 par value, 310 authorized; 310 issued)	31	31
Retained earnings	10,430	9,503
Total shareowners' equity	10,461	9,534
Total Liabilities and Shareowners' Equity	\$13,337	\$12,231

The accompanying notes are an integral part of the consolidated financial statements.

STATEMENT OF CHANGES IN EQUITY

(Unaudited): Dollars in thousands

	Common Stock		Retained Earnings	Total
	# Shares	Amount		
Balance, January 1, 2002	310	\$31	\$8,986	\$9,017
Capital contributions			0	
Net income			517	
Distributions			0	
Balance, December 31, 2002	310	31	9,503	9,534
Capital contributions			0	
Net income			927	
Distributions			0	
Balance, December 31, 2003	310	\$31	\$10,430	\$10,461

The accompanying notes are an integral part of the consolidated financial statements.

STATEMENT OF CASH FLOWS

(Unaudited): Dollars in thousands

	2003	2002
Cash Flows Operating Activities		
Cash collected from customers	\$11,997	\$11,044
Cash from interest	83	71
Cash paid to vendors and employees	(9,787)	(9,261)
Cash interest paid	(62)	(49)
Cash paid for income taxes	(526)	(219)
Cash paid for other operating expenses	(216)	(333)
Net Cash Provided by Operating Activities	1,489	1,253
Investing Activities		
Long term investments	(177)	(276)
Investment in affiliates	(868)	(230)
Construction and capital expenditures	(234)	(394)
Notes receivable	(536)	71
Net Cash Used in Investing Activities	(1,815)	(829)
Financing Activities		
Issued /(repayment) of long-term debt	(180)	(715)
Net Cash Provided by Financing Activities	(180)	(715)
Net increase (decrease) in cash and cash equivalents	(506)	(291)
Cash and cash equivalents, beginning of year	1,963	2,254
Cash and Cash Equivalents, End of Year	\$1,456	\$1,963
Reconciliation of Net Income to Net Cash Provided by Operating Activities		
Net income	\$927	\$518
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	431	759
Changes in operating assets and liabilities:		
Accounts receivable	(196)	(29)
Inventories	63	(142)
Accounts payable and other current liabilities	48	(339)
Other - net	216	486
Total adjustments	562	735
Net Cash Provided by Operating Activities	1,489	1,253

The accompanying notes are an integral part of the consolidated financial statements.

SUPPLEMENTAL SCHEDULES

(Unaudited): Dollars in thousands

	2003	2002
Schedule A – Cost of Sales		
Beginning inventory	\$512	\$365
Purchases	1,877	1,968
Wages and employee benefits	820	873
Variable expense	1,971	1,954
Fixed expense	93	104
Less: Ending inventory	(355)	(512)
Total Cost of Sales	\$4,918	\$4,752
Schedule B – Operating Expenses		
Salaries and employee benefits	\$3,247	\$3,140
Routing and transfer stations	1,115	1,029
General and administrative	1,076	679
Total Operating Expenses	\$5,438	\$4,848
Schedule C – Property, Plant and Equipment – Net		
Land	\$175	\$175
Buildings	863	863
Machinery and equipment	3,673	3,570
Trucks and automobiles	4,074	3,946
Office furniture and equipment	85	82
Leasehold improvements	71	71
Total Property, Plant and Equipment	8,941	8,707
Less: Accumulated Depreciation	(7,342)	(6,911)
Net Property, Plant and Equipment	\$1,599	\$1,796

The accompanying notes are an integral part of the consolidated financial statements.

SUPPLEMENTAL SCHEDULES - CONTINUED

(Unaudited): Dollars in thousands

	2003	2002
Schedule D – Long Term Investments		
Local Bank, common stock, NASDAQ "LOCAL"	\$1,000	\$1,000
Platinum Condominium, Panama City, FL	439	114
Highrise Condominium, Destin, FL	350	350
Plum Park Development, County, NC	600	600
Development Property, King County, AL	1,112	1,112
BOI Convertible Debentures	0	161
Mortgages	96	132
Westside Condominium, Perdido Key, FL	196	33
Key Man Life Insurance Cash Values	121	120
Long Term Investments	\$3,914	3,736
Marketable Equity Securities – Unrecognized Gain/(Loss) at Fair Market Value		
Local Bank, common stock, NASDAQ "LOCAL"	\$838	\$678
Total Unrecognized Gain/(Loss) at Fair Market Value	\$838	\$678
Schedule E - Equity Investments in Affiliates		
Money Investors, LP	\$2,098	\$1,230
ABC, LLC	205	205
Equity Investments in Affiliates	\$2,303	\$1,435

The accompanying notes are an integral part of the consolidated financial statements.

SUPPLEMENTAL SCHEDULES - CONTINUED

(Unaudited): Dollars in thousands

	2003	2002
Schedule F - Debt		
Current		
Notes, 0.00% - 3.90% (fleet equipment)	\$56	\$61
Revolving Line of Credit, LIBOR + 175bp (receivables & inventory), \$1.0 million	419	398
Current Maturity of LT Bank Note, LIBOR + 175bp (land & development property)	165	168
Total Debt Maturing Within One Year	640	627
Long Term		
Notes, 0.00% - 3.90% (process machinery)	34	51
Current Maturity of LT Bank Note, LIBOR + 115bp (land & development property)	82	259
Total Debt Maturing Beyond One Year	116	310
Total Debt	\$756	\$937
Subsequent Maturities		
2004	\$27	
2005	\$7	

The accompanying notes are an integral part of the consolidated financial statements.

Business Questionnaire

Business Name:	REUSE, Inc.		
Address:	3900 15th Street South, Birmingham, Alabama 35201		
Telephone:	(205) 987-6543	Tax ID Number:	63-1234567
Year Established:	1904	Entity Type:	C Corporation

Prepared by:	Patrick M. Rogers, CFO/VP	Date:	October 29, 2004
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Accountant:	TMM & Associates, P.C.	Telephone:	(205) 321-7896
Attorney:	Adam and Eve, P.C.	Telephone:	(205) 999-0901
Insurance Agent:	Positive Insurance Corp.	Telephone:	(502) 422-3698

Products or Services

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

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.

Significant Recent Changes

The Company sells its finished products at prices established by published commodity markets. These commodity markets are impacted by such things as: global production, inventories, populations, weather/natural disasters, human consumption trends, holidays and energy/fuel prices. In recent years threats of Bio-Regeneration, as well as, incidences of OPEC price fixes and oil spills have negatively impacted these markets.

Scientific data and independent research have been developed to mitigate the risks of Bio-Regeneration (BR) becoming present in the U.S. population. Industry bans and other "firewalls" have been implemented to further ensure the prevention of BR in this country. Each "scare" or perceived case of BR does have a temporary negative impact on many of the market forces, which effect the prices of our finished products that contain coal, CH2, PS4 and YG6.

While the costs of collecting and processing our raw materials have remained relatively consistent, the prices received for finished products increased 25.8% in 2003, resulting in a return to 1990's price levels.

Significant Anticipated Changes

As discussed in the previous section, finished product prices are a function of external market forces and are not significantly impacted by marketing, advertising or other value-creating techniques. The data available at present implies that finished product prices should continue to rise, absent a serious event occurring, and be sustained through at least the last quarter of 2004.

Rising fuel oil, diesel fuel and natural gas prices could prove to be significant as a percentage of increase, however, neither of these items should have any significant impacts on the net profitability of the Company.

Top 5 Customers		
Name and Address	Credit Terms	% of Sales
General Masters; NC	Net 7	25.16%
Hardware Distributors; CT	Net 7	17.49%
Cats Meow; MS	Net 7	10.46%
Great Inventions; LA	Net 10	5.25%
Southern Laboratories; AL	Net 7	2.81%

Top 5 Suppliers		
Name and Address	Credit Terms	Credit Limit
Gold Coast Creators; MS	Net 10	\$50k
Surgical Generators; TN	Net 7	\$20k
American Processors; AL	Net 30	\$100k
Rock Island Contractors; AL	Net 30	\$60k
Pratt & Whitney Farms; MS	Net 7	\$25k

Examinations by Taxing Authorities			
	Any Delinquent Payments?	Current Examination	Last Examination
Federal - IRS	No	No	1997
State Income	No	No	1999
Sales & Use	No	No	2002
Fuel & Highway	No	No	1997
Other Taxes – City/County Employment	No	No	2000

Lawsuits or Pending Litigation

The Company is party to four items of litigation. Two of the actions are workers compensation insurance cases as a result of injuries that purportedly occurred at the workplace. Both are expected to settle well under the policy limits. The other two actions are automobile liability insurance cases as a result of accidents, which involved units from the Company's vehicle fleet. Both items are expected to settle within the limits of the policy.

Ownership Succession Plans

The Company has not engaged in any formal ownership succession plans or buy-sell agreements. Both owners of the Company have chosen to deal with this issue on an individual basis through the use of life insurance contracts, estate plans, wills and trusts. The Company does not anticipate any changes in ownership to significantly impact its earnings or operational effectiveness.

<u>Insurance Coverages</u>	Amount	Insurance Company
Inventories	N/A	N/A
Fixed Assets	\$4.5 million	West Insurance
General Liability	\$2 million	Fire and Marine
Business Interruption	\$1.6 million	West Insurance
Commercial Automobile	\$1 million	Fire and Marine
Product Liability	\$2 million	Fire and Marine
Excess Liability Umbrella	\$5 million	Umbrella Insurance
Workers Compensation	State Statutory	Carriers National
Key Person Life	\$1.5 million	American National Life

<u>Shareholders</u>	Position(s)	% Owned	2003 Compensation	2002 Compensation
Name				
Henry G. Winston	Secretary	50%	\$64,999	\$64,999
Oliver P. Winston, III	Chairman/CEO/Pres.	50%	\$305,098	\$293,584

<u>Notes Receivables from Shareholders or Related Parties</u>	Amount	Rate/Maturity/Collateral
Employee & Officer Loans	\$486,974	varied rates, maturity, collateral
Shareholder Loans	\$938,601	5%, 1 yr. note; 8,000 Altria shares
Winston & Associates, LLC	\$20,000	5%, 180 days; rental real estate
OV&GB, LLC	\$1,000,160	6%, 90 days; beach property
Pratt & Whitney Farms	\$119,840	8%, 2 yr. mortg.; real estate

Federal and State Regulations

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

Citations for violations in the past five years are limited to:
June 2002, King County Department of Health – NOV (failure of chemical equipment)
October 1999, State – NOV (storm water discharge limits for NM2 values)

Accounting Policies & Procedures

	Yes	No	N/A	Comments
<u>Cash Accounts</u>				
All bank accounts reconciled monthly?	◆			
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.				
<u>Accounts Receivable</u>				
Aging prepared monthly?	◆			Weekly also
Aging reviewed monthly for possible bad debts?	◆			Weekly also
All credit memos approved in writing?	◆			3 approval levels
All credit memos issued by someone other than the person who posts cash receipts?	◆			
Are unusual sales terms offered?	◆			
Allowance for Doubtful Accounts – The Company recognizes bad debts on unpaid trade accounts receivable as each account is deemed to be uncollectible. 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.				
<u>Inventory</u>				
Perpetual inventory records maintained?	◆			Variance report daily
Physical inventories taken monthly?	◆			Weekly also
Inventory turnover rates calculated quarterly?	◆			
Signed shipping receipts obtained and kept?	◆			
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 <i>Recycled Markets Bulletin & Register</i> , widely recognized as the industry standard for published market prices of recycled products. The company utilizes no inventory pricing hedges or derivative products.				
<u>Accounts Payable</u>				
Aging prepared monthly?	◆			
Payables posted by someone other than the person who disburses funds?	◆			2 approval levels
<u>Taxes</u>				
Outside payroll preparation service used?		◆		
Accrued payroll taxes set aside at the time payroll checks are issued.	◆			EFT day of payroll
Any tax returns delinquent?		◆		
Income tax estimates filed and paid quarterly?	◆			
<u>Leases</u>				
Assets leased from owners evidenced by written agreements?	◆			

	Yes	No	N/A	Comments						
<u>Loans from Owners</u>										
Debts to owners evidenced by signed notes?			◆							
Debts to owners formally subordinated to other creditors?			◆							
Financial Statements										
Financial statements prepared internally on a monthly basis?	◆									
Cash, accounts receivable, inventory and accounts payable reconciled to the general ledger on a monthly basis?	◆									
<p>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.</p>										
<p>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 incomes are recognized when title and risk of loss are transferred to customers upon delivery based on the terms of the sale.</p>										
<p>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:</p> <table border="0" style="margin-left: 40px;"> <tr> <td>Buildings and Improvements</td> <td>15 – 39 years</td> </tr> <tr> <td>Machinery and Equipment</td> <td>5 – 10 years</td> </tr> <tr> <td>Fleet and Transportation Equipment</td> <td>3 – 7 years</td> </tr> </table> <p>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.</p>					Buildings and Improvements	15 – 39 years	Machinery and Equipment	5 – 10 years	Fleet and Transportation Equipment	3 – 7 years
Buildings and Improvements	15 – 39 years									
Machinery and Equipment	5 – 10 years									
Fleet and Transportation Equipment	3 – 7 years									
<p>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.</p>										
<p>Leases – 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 non-cancellable operating leases for the years 2004 through 2007 were \$60k, \$60k, \$60k and \$60k.</p>										
<p>Related Party Transactions – Certain facilities and equipment used in operations are leased from a partnership owned by both shareholders of the Company. The amounts paid under the terms of the lease are judged to be a "reasonable and fair values". [see note on Leases above]. The shareholders, employees and other related parties are parties to which the Company has loaned monies in the form of notes receivables. [see note on Notes Receivables from Shareholders or Related Parties above].</p>										
<p>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. As of 12/31/03, the Plan had Net Assets of \$2,639k.</p>										

TMM & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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The Board of Directors of REUSE, Inc.
Birmingham, Alabama 35203

We have compiled the Statement of Operations, Statement of Changes in Equity and Statement of Cash Flows for the fiscal year ending December 31, 2003 as well as the Balance Sheet as of December 31, 2003 for REUSE, Inc. in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

Our compilation was limited to presenting in the form designed by Robert Morris Associates (the “Business Credit Information Package”) and requested by Local Bank, information that is the representation of management. We have not audited or reviewed the financial statements referred to above and, accordingly, do not express an opinion or any other form of assurance on them.

These financial statements (including related disclosures) are for the use of Local Bank and are presented in accordance with the requirements of the Business Credit Information Package, which differ from generally accepted accounting principles. Accordingly, these financial statements are not designed for those who are not informed about such differences.

October 1, 2004