RSI

RECONDITIONED SYSTEMS, INC

ANNUAL REPORT 2015

Dear Fellow Shareholders,

As I stated in last year's annual letter, this year was the first full year operating as a wholesale manufacturer of systems furniture operating out of our new facility in Chandler, Arizona. Both of our stated goals of increasing sales and increasing margins were accomplished.

For this fiscal year ending March 31, 2015, we made $584 thousand on sales of $12.15 million. This compares to a profit $272 thousand on sales of $10.15 million for the previous year ending March 31, 2014. This is the first sales increase and the best operating performance in many years, and I am very proud and most pleased with these results.

Even though last November we lost Kerrie Janik, who was our director of sales, our CFO, and longtime employee and friend, we have been successfully implementing the marketing strategy that she had devised. Dirk Anderson has done an outstanding job balancing the additional responsibilities and managing the company.

We appointed David Ryan, head of GSA sales, to replace Kerrie Janik as a Director on the Board of Directors and he is on the ballot for this year; I am hopeful that you will give him your support. Although we have all been disappointed with GSA sales, Dave has worked very hard on renewing our contract and positioning us in that market. We continue to be one of the few GSA-approved remanufacturers of systems furniture; I remain hopeful that this business will become important to us.

The economy continues to improve albeit at a subdued rate; however, the domestic business outlook remains excellent. Interest rates and inflation remain historically low and energy prices are the lowest they have been in some time. Europe continues to struggle and this will keep our economic growth subdued for at least this next year, especially given the strength of the dollar. In our business, the growth in domestic employment we have enjoyed should have a positive impact on our industry. We will try to take advantage of these excellent business conditions and indeed we are off to a good start for fiscal 2016.

The Board of Directors decided to pay our tenth annual cash dividend; this year it is $.20 per share. The dividend is payable August 27, 2015, to shareholders of record July 9. As in the past, any future dividends will depend on our performance and financial condition.

Although we are a non-reporting public company, I will continue to write a quarterly letter and post it on our new Internet website at http://www.rsisystemsfurniture.com. Please keep track of our quarterly progress and filings by checking there under "About Us".

Scott W. Ryan
Chairman of the Board

Reconditioned Systems, Inc.

Financial Statements

For the Years Ended March 31, 2015 and 2014

RECONDITIONED SYSTEMS, INC.
BALANCE SHEETS
March 31, 2015 and 2014

	2015	2014
ASSETS		
Current Assets:		
Cash and cash equivalents	$1,196,702	$621,291
Accounts receivable	1,250,342	1,355,392
Notes receivable – current	-	11,089
Income tax receivable – deferred	33,500	65,800
Inventory	1,739,333	1,804,040
Prepaid expenses and other current assets	77,214	139,147
Total current assets	4,297,091	3,996,759
Property and Equipment, net:	4,702,335	4,835,142
Other Assets:		
Notes receivable – long term	-	63,276
Refundable deposits and other	49,593	65,119
Total Assets	$9,049,019	$8,960,296
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$556,651	$535,282
Customer deposits	133,190	162,524
Accrued compensation and benefits	400,577	316,175
Income tax payable – current	187,878	22,343
Notes payable – current	241,450	517,514
Other accrued expenses and current liabilities	-	1,466
Total current liabilities	1,519,746	1,555,304
Long-term Liabilities:		
Notes payable – long term	2,422,692	2,664,142
Income tax payable – deferred	160,300	176,800
	2,582,992	2,840,942
Stockholders' Equity:		
Common stock, no par value; 100,000,000 shares authorized, 1,734,652 shares issued, 974,630 and 985,397 shares outstanding, respectively	4,774,411	4,775,981
Retained earnings	1,948,639	1,511,307
	6,723,050	6,287,288
Less: treasury stock, 760,022 and 749,255 shares respectively, at cost	(1,776,769)	(1,723,238)
	4,946,281	4,564,050
Total Liabilities and Stockholders' Equity	$9,049,019	$8,960,926

The Accompanying Notes are an Integral Part
of the Financial Statements

RECONDITIONED SYSTEMS, INC.
STATEMENTS OF OPERATIONS
For the Years Ended March 31, 2015 and 2014

	2015	2014
Sales	$12,151,177	$10,146,380
Cost of sales	9,725,469	8,338,779
Gross profit	2,425,708	1,807,601
Selling & administrative expenses	1,504,916	1,357,633
Income from operations	920,792	449,968
Other income (expense):		
Section 1256 gains (losses)	28,016	(36,883)
Interest income	7,654	13,276
Interest expense	(199,327)	(131,793)
Gain on casualty claim	-	278,584
Non-operating building and moving expenses, net of sublease income	-	(196,502)
Other	118,619	49,915
Net income before income taxes	875,754	426,565
Provision for income tax expense	(291,377)	(154,182)
Net income	$584,377	$272,383
Earnings per share : Basic and Diluted	$0.60	$0.28
Weighted average number of shares outstanding: Basic and Diluted	978,558	987,311

The Accompanying Notes are an Integral Part
of the Financial Statements

RECONDITIONED SYSTEMS, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended March 31, 2015 and 2014

	Common Stock Shares	Common Stock Amount	Retained Earnings	Treasury Stock	Total
Balance at March 31, 2013	**993,789**	**$4,774,907**	**$1,339,600**	**$(1,692,457)**	**$4,422,050**
Cash Dividend			(100,676)		(100,676)
Treasury stock purchases	(8,793)			(31,528)	(31,528)
ESP shares sold	401	1,074		747	1,821
Net income			272,383		272,383
Balance at March 31, 2014	**985,397**	**$4,775,981**	**$1,511,307**	**$(1,723,238)**	**$4,564,050**
Cash Dividend			(147,045)		(147,045)
Treasury stock purchases	(11,428)			(55,103)	(55,103)
ESP shares sold	661	(1,570)		1,572	2
Net income			584,377		584,377
Balance at March 31, 2015	**974,630**	**$4,774,411**	**$1,948,639**	**$(1,776,769)**	**$4,946,281**

The Accompanying Notes are an Integral Part
of the Financial Statements

RECONDITIONED SYSTEMS, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended March 31, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities:		
Cash received from customers	$12,434,362	$9,853,179
Cash paid to suppliers and employees	(10,900,003)	(9,318,795)
Gain on casualty claim	-	278,584
Non-operating building and moving expenses	-	(196,502)
Income taxes	(76,542)	(57,880)
Interest received	7,654	13,276
Interest paid	(200,793)	(88,182)
Net cash provided by operating activities	1,264,678	483,680
Cash Flows from Investing Activities:		
Change in note receivable	74,365	72,238
Sale of fixed assets	6,000	68,500
Purchase of property, equipment and amortizable assets	(41,504)	(318,562)
Other	(8,466)	(54,358)
Net cash received (used) by investing activities	30,395	(232,182)
Cash Flows from Financing Activities:		
Repayment of debt principal	(517,514)	(328,246)
Payment of cash dividend	(147,047)	(100,676)
Transfers to/from ESP Plan	2	1,821
Purchase of treasury stock	(55,103)	(31,528)
Net cash used by financing activities	(719,662)	(458,629)
Increase/(Decrease) in cash and cash equivalents	575,411	(207,131)
Cash and cash equivalents at beginning of period	621,291	828,422
Cash and cash equivalents at end of period	$1,196,702	$621,291

The Accompanying Notes are an Integral Part
of the Financial Statements

RECONDITIONED SYSTEMS, INC.
STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended March 31, 2015 and 2014

	2015	2014
Reconciliation of Net Income to Net Cash Provided by Operating Activities:		
Net Income	584,377	272,384
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	201,661	206,792
Amortized interest	-	29,902
(Gain)/Loss on disposal of fixed assets	-	(40,321)
Provision for doubtful accounts	(16,500)	13,500
Loss on investment	-	36,883
Changes in assets and liabilities:		
Accounts receivable	136,550	(302,795)
Inventory	64,707	95,233
Prepaid expenses and other assets	4,077	70,757
Current and Deferred income taxes	214,835	96,302
Accounts payable	21,369	(813)
Customer deposits	(29,334)	60, 445
Accrued compensation	84,402	(53,565)
Other accrued expenses	(1,466)	(1,024)
Net cash provided by operating activities	$1,264,678	$483,680

The Accompanying Notes are an Integral Part
of the Financial Statements

RECONDITIONED SYSTEMS, INC.
Notes to the Financial Statements

Note 1.
Summary of Significant Accounting Policies, Nature of Operations, and Use of Estimates

Nature of Business:

Reconditioned Systems, Inc. ("RSI" or the "Company"), is a corporation that was incorporated in the State of Arizona in March 1987. The principal business purpose of the Company is the manufacturing and sale of office workstations comprised of panel systems to customers located throughout the United States and Canada. The Company markets its products primarily in the continental United States.

Pervasiveness of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 periods. Actual results could differ from those estimates.

Revenue Recognition:

The Company recognizes a sale when its earnings process is complete. In connection with projects that are to be installed by a customer or an agent of the customer, the sale is recognized when the product is shipped to or possession is taken by the customer.

Cash and Cash Equivalents:

The Company considers all highly liquid debt instruments and money market funds purchased with an initial maturity of three (3) months or less to be cash equivalents.

Accounts Receivable – Trade:

Accounts receivable are reported at the customers' outstanding balances less any allowance for doubtful accounts. The allowance is based upon a review of the individual accounts outstanding and the Company's prior history of uncollectible receivables. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. At March 31, 2015 and 2014, the Company has established an allowance for doubtful accounts in the amount of $15,000 and $18,000, respectively.

Note 1.
Summary of Significant Accounting Policies, Nature of Operations, and Use of Estimates (Continued)

Inventory:

Inventory, which is primarily composed of used office workstations raw materials and manufacturing supplies, is stated at the lower of average cost or market. The Company reviews its inventory monthly and makes provisions for damaged and obsolete items. The Company contemplates its ability to alter the size of panels and other workstation components and designs projects so that the workstations are comprised of products currently in inventory in establishing its obsolescence reserve. At March 31, 2015 and 2014, the Company had established a reserve for damaged and obsolete inventory in the amount of $53,023 and $76,200, respectively.

Property and Equipment:

Property and equipment are recorded at cost. Major renewals and improvements are charged to the asset accounts while replacements, maintenance and repairs, which do not improve or extend the lives of respective assets, are expensed. At the time property and equipment are retired or otherwise disposed of, the assets and related depreciation accounts are relieved of applicable amounts. Gains or losses from retirements or sales are credited or charged to income. Depreciation is generally provided for on the straight-line basis over the following estimated useful lives of the assets:

	Years
Building & improvements	15-40
Office furniture and equipment	5 – 7
Machinery and equipment	5 – 7
Leasehold improvements	3 – 5
Vehicles	3 – 5
Showroom furniture	1 – 3

Long-Lived Assets:

The Company evaluates long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When undiscounted future cash flows are not expected to be sufficient to recover an asset's carrying amount, the asset is written down to its fair value.

Long-lived assets to be disposed of other than by sale are classified as held and used until they are disposed of. Long-lived assets to be disposed of by sale are classified as held for sale and are reported at the lower of carrying amount or fair value less cost to sell, and depreciation is ceased.

Note 1.
Summary of Significant Accounting Policies, Nature of Operations, and Use of Estimates (Continued)

Deferred Income Taxes:

Deferred income taxes are provided on an asset and liability method, whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, there is uncertainty of using the operating losses in future periods. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Stock-Based Plans:

The Company adopted an Employee Stock Purchase Plan (the "Plan) effective April 1, 2005, which offers the Company's common stock to employees at a purchase price of 90% of book value. The Plan is consider non-compensatory. As of March 31, 2015, there were a total of 13,562 outstanding shares issued under the Plan. As of May 29, 2015 this plan was discontinued and the company purchased all of the outstanding shares from the employees.

Earnings Per Common and Common Equivalent Share:

Basic earnings per share include no dilution and are computed by dividing income available to common stockholders by the weighted average number of shares outstanding for the period.

Diluted earnings per share amounts are computed based on the weighted average number of shares actually outstanding plus the shares that would be outstanding assuming the exercise of dilutive stock options, all of which are considered to be common stock equivalents. The number of shares that would be issued from the exercise of stock options has been reduced by the number of shares that could have been purchased from the proceeds at the average market price of the Company's stock. In addition, certain outstanding options are not included in the computation of diluted earnings per share because their effect would be antidilutive.

Advertising:

All direct advertising costs are expensed as incurred. The Company charged to operations $12,189 and $8,584 in advertising costs for the years ended March 31, 2015 and 2014, respectively.

Shipping costs:

Shipping costs include freight and mailing charges associated with delivery of goods from the company's warehouse to customer's designated locations. The company's policy is to classify shipping costs as part of cost of goods sold in the statement of operations.

Note 2.
Concentrations

The Company maintains cash balances at various financial institutions. Deposits not to exceed $250,000 at the financial institutions are insured by the Federal Deposit Insurance Corporation. As of March 31, 2015, the Company had approximately $444,000 of uninsured cash.

In addition, the Company specializes in remanufacturing one particular original equipment manufacturers (OEM) line of office workstations. The business is dependent upon a readily available supply of new parts, as well as used product.

Note 3.
Fair Value of Financial Instruments

The Company estimates that the fair value of all financial instruments at March 31, 2015 and 2014 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheets. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

Estimated fair values of the Company's financial instruments (all of which are held for non-trading purposes), are as follows:

	March 31, 2015		March 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$1,196,702	$1,196,702	$621,291	$621,291
Accounts receivable	$1,250,342	$1,250,342	$1,355,392	$1,355,392
Notes receivable	-	-	$74,365	$74,365
Accounts payable	$556,651	$556,651	$535,282	$535,282
Notes payable	$2,664,142	$2,664,142	$3,181,656	$3,181,656

Note 4.
Notes Receivables

During the year ended March 31, 2011, the Company entered into an agreement to sell all of the assets, customer list and exclusive dealership rights associated with its New Mexico retail division to GL Solutions 3, LLC in exchange for a $200,000 note, payable in 180 monthly installments of $1,500 per month at an interest rate of approximately 4%. The outstanding balance on this note as of March 31, 2015 and 2014 was $0 and $95,208, respectively. The Company had a reserve against the note of $95,028 as of March 31, 2014. During the year ending March 21, 2015, the note was paid in full and the reserve was taking through other income.

Note 5.
Property and Equipment

Property and equipment by major classifications are as follows:

	March 31, 2015	March 31, 2014
Land	$1,547,827	$1,547,830
Building & improvements	3,170,429	3,161,190
Office furniture and equipment	234,550	229,674
Machinery and equipment	675,919	661,630
Vehicles	33,650	53,650
	5,662,375	5,653,974
Accumulated depreciation	(960,040)	(818,832)
	$4,702,335	$4,835,142

Depreciation expense for the years ended March 31, 2015 and 2014 totaled $161,208 and $172,049 respectively.

Note 6.
Pledged Assets and Line of Credit

As of March 31, 2015, the Company had a $250,000 line of credit agreement with JPMorgan Chase Bank. Under this agreement, interest is payable at the bank's Prime rate plus 1.5%. The line of credit is collateralized by accounts receivable, inventory, property and equipment, and intangibles, which total $5,660,119. As of March 31, 2015, the Company had no outstanding borrowings on the line of credit and was in compliance with all of the covenants of the agreement. The line of credit matures on January 17, 2016.

Note 7.
Notes Payable

On May 26, 2011, the Company closed escrow on the purchase of a 105,000 square foot commercial building located on an 8.62 acre parcel in Chandler, Arizona for a purchase price of $4,375,000. The Company made a cash payment of $1,000,000 and entered into a $3,375,000 promissory note payable to the seller. Under the terms of the original promissory agreement, the Company was scheduled to make another payment of $1,375,000 on September 1, 2013. The remaining principal balance of $2,000,000 was to be amortized over ten years at a 6.5% interest rate, payable in monthly installments of $22,709.59. On December 28, 2012, the Company terminated the original promissory agreement and entered into a revised note payable. Under the new promissory agreement, the Company made an additional cash payment of $355,000 and entered into a $3,000,000 promissory note payable to the seller to be amortized over ten years at a 6.5% interest rate, payable in monthly installments of $34,064 beginning September 1, 2013. As a result of the modification in terms, the carrying value of the note was discounted by an additional $20,000 for early payment.

The Company moved its primary manufacturing and administrative offices to the building in June 2013. For the years ended March 31, 2015 and 2014, the Company had amortized interest expense related to this note payable of $0 and $29,902, respectively and had an unamortized discount of $0 and $0, respectfully.

On November 15, 2012, the Company entered into a $500,000 promissory note with Index Arbitrage Partners, L.P. to finance the improvements to the Company's building. The note is an interest only note bearing interest on the outstanding balance until paid in full at an annual rate of 6.5%, payable quarterly beginning February 16, 2013. As of March 31, 2015, and 2014 there was an outstanding balance of $0 and $290,000, respectively on the note payable which has been classified as a short-term note payable. Total interest expense on the note as of March 31, 2015, and 2014 was $15,261 and $28,817, respectively.

Note 8.
Operating Lease Commitments

The Company leases warehouse, and office space in Georgia. The lease agreement requires the Company to pay property taxes, insurance and maintenance costs.

Future minimum lease payments were as follows at March 31, 2015:

March 31,	Amount
2016	$31,668
2017	10,622
	$42,290

Rent expense under the operating lease agreement for the year ended March 31, 2015 was $32,503.

Note 9.
Cash Dividends

On May 7, 2015 and May 8, 2014, the Board of Directors approved cash dividends of $0.20 and $0.15, respectively per share payable on August 27, 2015 and August 30, 2014, respectively. Cash dividends paid for the years ending March 31, 2014 and 2013 totaled $147,045 and $100,676, respectively and have been charged to retained earnings.

Note 10.
Income Taxes

The income tax expense is comprised of the following:

	For the Year Ended March 31, 2015	For the Year Ended March 31, 2014
Current Tax Expense:		
Federal	227,697	72,905
State	47,880	16,477
	$275,578	$89,382
Deferred Tax Expense:		
Federal	12,600	53,200
State	3,200	11,600
	$15,800	$64,800
Total Income Tax Expense	$291,377	$154,182

The Company's income tax provision differs from the amounts computed by applying the federal statutory income tax rate to income before income taxes. Reconciliation to the statutory federal income tax rate is as follows:

	For the Year Ended March 31, 2015	For the Year Ended March 31, 2014
Income tax at statutory effective rate	297,756	145,032
State income taxes, net of federal benefit	15,895	18,465
Domestic production credit	(22,520)	(7,069)
Other nondeductible/nontaxable items	246	(2,246)
Income Tax Expense	$291,377	$154,182

Note 10.
Income Taxes (Continued)

Significant components of the Company's deferred tax assets and liabilities are as follows:

	For the Year Ended March 31, 2015	For the Year Ended March 31, 2014
Deferred tax assets:		
Reserves, allowances and accruals	52,800	69,000
Deferred interest	(19,300)	(20,500)
Deferred capital loss carry forward	-	17,300
Less valuation allowance	-	-
Deferred tax asset	$33,500	$65,800
Deferred tax liability:		
Property and equipment related	$65,350	$54,200
Deferred interest	82,200	101,500
Deferred gain on installment sale	12,750	21,100
Deferred tax liability	$160,300	$176,800

Summary of valuation allowance:

Balance at April 1, 2014	$ -
Addition for the year ended March 31, 2015	-
Balance at March 31, 2015	$ -

Realization of the net deferred tax assets is dependent on future reversals of existing taxable temporary differences and adequate future taxable income, exclusive of reversing temporary differences and carryforwards. Although realization is not assured, management believes that it is more likely than not that the net deferred tax assets will be realizable. The amount of the net deferred tax asset considered realizable could be reduced in the near term if actual future taxable income is lower than estimated, or if there are differences in the timing or amount of future reversals of existing taxable temporary differences.

Note 11.
Earnings Per Share

For the years ended March 31, 2015 and 2014 the following data shows amounts used in computing earnings per share and the effect on income and the weighted average number of shares of dilutive potential common stock.

	March 31, 2015	2014
Basic and Diluted EPS		
Income before extraordinary item	$584,377	$94,493
Extraordinary item	-	177,890
Net income	$584,377	$272,383
Weighted average number of shares outstanding	978,558	987,311
Effect of dilutive securities: Stock options		
Total common shares + assumed conversions	978,558	987,311
Basic and Diluted earnings per share	$0.60	$0.28

Corporate Information

COMMON STOCK LISTING AND TRADING
Reconditioned Systems, Inc. common stock is trading on the Pink Sheets
under the ticker symbol RESY.

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Officers and Directors

Scott W. Ryan Chairman	Dirk D. Anderson President & CEO	David M Ryan Director