



RECONDITIONED SYSTEMS, INC

ANNUAL REPORT 2019

Dear Fellow Shareholders,

I am very pleased to report that we were profitable this past year. Our margins continue to be under pressure, primarily due to the Arizona minimum wage increases and their impact on our work force. Primarily due to this, we have pursued developing a line of new systems furniture manufactured in mainland China by Xinda Clover. We have named the line EZcube because of the ease of installation. Of course the new tariffs on Chinese goods have impacted us, but we remain hopeful that the new line will be successful. As of this writing we have received our first shipment of product from China, we have over 15 dealer showroom stations installed, and already have several orders. I am hopeful that EZcube will be the future of our company and I look forward to reporting our progress to you. Meanwhile we continue with our remanufactured products.

For this fiscal year ending March 31, 2019, we made \$56 thousand on sales of \$10.82 million. This compares to a profit \$225 thousand on sales of \$10.86 million for the previous year ending March 31, 2018.

We were able to sell a lot from the building property, which resulted in some sorely needed cash. The sale allowed us to repay the operating loan we were forced to take out during the year.

The US economy continues to grow at a very subdued rate. However, domestic business conditions remain good with interest rates, inflation, taxes and energy costs all below historical norms. The environment is good and I am hopeful that 2020 will be a good year for us.

The Board of Directors once again decided not to pay an annual cash dividend this year. The board felt we should use the cash to fund the new line mentioned above, which requires a substantial investment. 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 newly updated Internet website at <http://www.rsisystems furniture.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, 2019 and 2018

RECONDITIONED SYSTEMS, INC.
BALANCE SHEETS
March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$497,120	\$779,273
Accounts receivable	995,154	1,138,263
Prepaid Income Taxes	64,381	74,446
Deferred Income Taxes	16,000	14,000
Inventory	2,250,072	2,170,157
Prepaid expenses and other current assets	<u>104,978</u>	<u>56,794</u>
Total current assets	3,927,705	4,232,933
 Property and Equipment, net:	 4,590,494	 4,635,322
 Other Assets:		
Refundable deposits and other	<u>20,506</u>	<u>28,332</u>
 Total Assets	 <u>\$8,538,705</u>	 <u>\$8,896,587</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$454,022	\$703,106
Customer deposits	65,128	116,630
Accrued compensation and benefits	242,925	317,809
Income tax payable	-	193
Notes payable – current	<u>561,436</u>	<u>290,332</u>
Total current liabilities	<u>1,323,511</u>	<u>1,428,070</u>
 Long-term Liabilities:		
Notes payable – long term	1,289,752	1,585,164
Deferred Income Taxes	<u>102,600</u>	<u>98,400</u>
	<u>1,392,352</u>	<u>1,683,564</u>
 Stockholders' Equity:		
Common stock, no par value; 100,000,000 shares authorized, 1,734,652 shares issued, 957,878 and 960,878 shares outstanding, respectively	4,774,411	4,774,411
Retained earnings	<u>2,901,204</u>	<u>2,845,310</u>
	7,675,615	7,619,721
Less: treasury stock, 776,774 and 773,774 shares respectively, at cost	<u>(1,852,773)</u>	<u>(1,834,768)</u>
	<u>5,822,842</u>	<u>5,784,953</u>
 Total Liabilities and Stockholders' Equity	 <u>\$8,538,705</u>	 <u>\$8,896,587</u>

The Accompanying Notes are an Integral Part
of the Financial Statements

RECONDITIONED SYSTEMS, INC.
STATEMENTS OF OPERATIONS
For the Years Ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Sales	\$10,817,439	\$10,856,604
Cost of sales	<u>9,203,745</u>	<u>9,048,222</u>
Gross profit	1,613,694	1,808,382
Selling & administrative expenses	<u>1,480,318</u>	<u>1,433,058</u>
Income from operations	133,376	375,324
Other income (expense):		
Section 1256 gains (losses)	73	-
Interest income	423	434
Interest expense	(74,950)	(107,724)
Other	<u>9,146</u>	<u>6,736</u>
Net income before income taxes	68,068	274,770
Provision for income tax expense	<u>(12,174)</u>	<u>(49,548)</u>
Net income	<u>\$55,894</u>	<u>\$225,222</u>
Earnings per share : Basic and Diluted	<u>\$0.06</u>	<u>\$0.24</u>
Weighted average number of shares outstanding:		
Basic and Diluted	<u>957,878</u>	<u>960,878</u>

The Accompanying Notes are an Integral Part
of the Financial Statements

RECONDITIONED SYSTEMS, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended March 31, 2019 and 2018

	Common Stock Shares	Common Stock Amount	Retained Earnings	Treasury Stock	Total
Balance at March 31, 2017	960,878	\$4,774,411	\$2,716,176	\$(1,834,768)	\$5,655,819
Cash Dividend			(96,088)		(96,088)
Treasury stock purchases					
Net income			225,222		225,222
Balance at March 31, 2018	960,878	\$4,774,411	\$2,845,310	\$(1,834,768)	\$5,784,953
Cash Dividend					
Treasury stock purchases	(3,000)			(18,005)	(18,005)
Net income			55,894		55,894
Balance at March 31, 2019	957,878	\$4,774,411	\$2,901,204	\$(1,852,773)	\$5,822,842

The Accompanying Notes are an Integral Part
of the Financial Statements

RECONDITIONED SYSTEMS, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$10,969,694	\$10,462,934
Cash paid to suppliers and employees	(10,905,410)	(10,248,346)
Income taxes	(102)	(45,837)
Interest received and Section 1256	496	434
Interest paid	<u>(74,950)</u>	<u>(107,724)</u>
Net cash provided (used) by operating activities	<u>(10,272)</u>	<u>61,461</u>
Cash Flows from Investing Activities:		
Purchase of property, equipment and amortizable assets	(184,700)	(215,002)
Other	<u>—</u>	<u>—</u>
Net cash used by investing activities	<u>(184,700)</u>	<u>(215,002)</u>
Cash Flows from Financing Activities:		
Repayment of debt principal	(319,176)	(286,887)
Line of credit	250,000	
Payment of cash dividend	-	(96,088)
Purchase of treasury stock	<u>(18,005)</u>	<u>—</u>
Net cash used by financing activities	<u>(87,181)</u>	<u>(382,975)</u>
Decrease in cash and cash equivalents	(282,153)	(536,516)
Cash and cash equivalents at beginning of period	<u>779,273</u>	<u>1,315,789</u>
Cash and cash equivalents at end of period	<u>\$497,120</u>	<u>\$779,273</u>

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of Net Income to Net Cash Provided by Operating Activities:		
Net Income	55,894	225,222
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	231,684	212,451
Provision for doubtful accounts	15,323	(12,604)
Changes in assets and liabilities:		
Accounts receivable	143,109	(400,406)
Inventory	(79,915)	(258,161)
Prepaid expenses and other assets	(12,971)	(6,331)
Current and Deferred income taxes	12,072	3,711
Accounts payable	(249,084)	144,446
Customer deposits	(51,502)	95,359
Accrued compensation	<u>(74,882)</u>	<u>57,774</u>
Net cash provided by operating activities	<u>(\$10,272)</u>	<u>\$61,461</u>

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, 2019 and 2018, the Company has established an allowance for doubtful accounts in the amount of \$17,719 and \$2,396, respectively.

RECONDITIONED SYSTEMS, INC.
Notes to Financial Statements (Continued)

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.

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:

	<u>Years</u>
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.

RECONDITIONED SYSTEMS, INC.
Notes to Financial Statements (Continued)

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.

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 \$4,007 and \$5,597 in advertising costs for the years ended March 31, 2019 and 2018, 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.

RECONDITIONED SYSTEMS, INC.
Notes to Financial Statements (Continued)

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, 2019, the Company had approximately \$42,080 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, 2019 and 2018 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, 2019		March 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$497,120	\$497,120	\$779,273	\$779,273
Accounts receivable	\$995,154	\$995,154	\$1,138,263	\$1,138,263
Accounts payable	\$454,022	\$454,022	\$703,106	\$703,106
Notes payable	\$1,851,188	\$1,851,188	\$1,875,496	\$1,875,496

RECONDITIONED SYSTEMS, INC.
Notes to Financial Statements (Continued)

Note 4.
Property and Equipment

Property and equipment by major classifications are as follows:

	<u>March 31, 2019</u>	<u>March 31, 2018</u>
Land	\$1,547,830	\$1,547,830
Building & improvements	3,250,631	3,237,972
Office furniture and equipment	279,070	275,636
Machinery and equipment	1,103,590	1,013,820
Vehicles	<u>88,705</u>	<u>43,957</u>
	6,269,826	6,119,215
Accumulated depreciation	<u>(1,679,331)</u>	<u>(1,483,893)</u>
	<u>\$4,590,495</u>	<u>\$4,635,322</u>

Depreciation expense for the years ended March 31, 2019 and 2018 totaled \$195,438 and \$191,381 respectively.

RECONDITIONED SYSTEMS, INC.
Notes to Financial Statements (Continued)

Note 5.
Pledged Assets and Line of Credit

As of March 31, 2019, the Company had a \$250,000 line of credit agreement with Index Arbitrage Partners, L.P. Under this agreement, interest is payable monthly at the rate of 5%. As of March 31, 2019, the Company had an outstanding balance of \$250,000 on the line of credit and was in compliance with all of the covenants of the agreement. The line of credit matures on November 12, 2019. The Company's Chairman is the managing general partner of Index Arbitrage Partners, L.P.

Note 6.
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. Effective September 1, 2017, the interest rate was reduced to 4.00% per annum, resulting in monthly payments of \$31,704.09 for 72 months.

RECONDITIONED SYSTEMS, INC.
Notes to Financial Statements (Continued)

Note 7.
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, 2019:

<u>March 31,</u>	<u>Amount</u>
2020	<u>\$12,138</u>

\$12,138

Rent expense under the operating lease agreement for the year ended March 31, 2019 was \$36,058

Note 8.
Cash Dividends

On May 24, 2019, the Board of Directors elected to not pay a dividend, instead the cash will be used to fund the new product line.

RECONDITIONED SYSTEMS, INC.
Notes to Financial Statements (Continued)

Note 9.
Income Taxes

The income tax expense is comprised of the following:

	For the Year Ended	
	<u>March 31, 2019</u>	<u>March 31, 2018</u>
Current Tax Expense:		
Federal	\$ 9,693	\$48,178
State	<u>281</u>	<u>9,870</u>
	<u>9,974</u>	<u>58,048</u>
Deferred Tax Expense:		
Federal	1,900	(12,200)
State	<u>300</u>	<u>3,700</u>
	<u>2,200</u>	<u>(8,500)</u>
Total Income Tax Expense	<u>\$12,174</u>	<u>\$49,548</u>

RECONDITIONED SYSTEMS, INC.
Notes to Financial Statements (Continued)

Note 10.
Income Taxes (Continued)

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

	For the Year Ended	
	<u>March 31, 2019</u>	<u>March 31, 2018</u>
Deferred tax assets:		
Reserves, allowances and accruals	23,800	23,200
Deferred interest	<u>(7,800)</u>	<u>(9,200)</u>
Deferred tax asset	<u>\$16,000</u>	<u>\$14,000</u>
Deferred tax liability:		
Property and equipment related	\$88,650	\$76,650
Deferred interest	<u>13,950</u>	<u>21,750</u>
Deferred tax liability	<u>\$102,600</u>	<u>\$98,400</u>

Summary of valuation allowance:

Balance at April 1, 2018	\$ -
Addition for the year ended March 31, 2019	<u>-</u>
Balance at March 31, 2019	<u><u>-</u></u>

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.

RECONDITIONED SYSTEMS, INC.
Notes to Financial Statements (Continued)

Note 11.
Earnings Per Share

For the years ended March 31, 2019 and 2018 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,	
	<u>2019</u>	<u>2018</u>
Basic and Diluted EPS		
Income before extraordinary item	\$55,894	\$277,355
Extraordinary item	-	-
Net income	<u>\$55,894</u>	<u>\$277,355</u>
Weighted average number of shares outstanding	957,878	960,992
Effect of dilutive securities	<u>-</u>	<u>-</u>
Total common shares + assumed conversions	<u>957,878</u>	<u>960,922</u>
Basic and Diluted earnings per share	<u>\$0.06</u>	<u>\$0.29</u>

Corporate Information

COMMON STOCK LISTING AND TRADING

Reconditioned Systems, Inc. common stock is trading on the Pink Sheets under the ticker symbol RESY.

CORPORATE HEADQUARTERS

Reconditioned Systems, Inc.
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FOR INVESTOR RELATIONS

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Transfer Agent & Registrar

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Salt Lake City, UT 84113

Officers and Directors

Scott W. Ryan
Chairman

Dirk D. Anderson
President, CEO & Director

David M. Ryan
Director