

Consolidated Balance Sheets

December 31	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,653,594	\$10,151,503
Accounts and notes receivable, less allowances of \$39,700 in 2005 and \$11,500 in 2004	775,623	872,592
Accounts due from employees and distributors	152,760	70,620
Inventories:		
Finished goods	3,569,449	3,528,135
Raw materials	1,441,107	1,877,210
Sales aids and promotional materials	573,900	491,437
Total inventories	5,584,456	5,896,782
Refundable income taxes	—	1,288,260
Prepaid expenses and other current assets	1,240,138	1,052,428
Deferred income taxes	452,430	286,430
Total current assets	13,859,001	19,618,615
Other assets	1,626,330	1,196,780
Accounts due from employees and distributors	355,651	213,123
Property, plant, and equipment	19,055,766	18,594,197
Less accumulated depreciation	8,915,325	8,626,048
	10,140,441	9,968,149
Total assets	\$25,981,423	\$30,996,667
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 8,158,770	\$ 7,826,073
Income taxes payable	820,246	—
Current maturities of long-term debt	916,244	325,895
Total current liabilities	9,895,260	8,151,968
Noncurrent liabilities:		
Long-term debt, less current maturities	2,211,065	3,357,691
Noncurrent deferred income taxes	89,000	289,000
Other noncurrent liabilities	1,221,270	1,007,255
Total noncurrent liabilities	3,521,335	4,653,946
Stockholders' equity:		
Preferred stock, par value \$0.001 per share; 3,000,000 shares authorized; -0- shares issued and outstanding in 2005 and 2004	—	—
Common stock, par value \$0.001 per share; 30,000,000 shares authorized, 15,613,644 shares issued and 15,563,562 shares outstanding in 2005 and 16,323,668 shares issued and 16,320,931 outstanding in 2004	15,614	16,324
Additional paid-in capital	22,972,463	22,661,179
Accumulated deficit	(9,252,413)	(3,719,711)
Accumulated other comprehensive loss:		
Foreign currency translation adjustment	(669,346)	(758,331)
Treasury stock	(501,490)	(8,708)
Total stockholders' equity	12,564,828	18,190,753
Total liabilities and stockholders' equity	\$25,981,423	\$30,996,667

See accompanying notes.

Consolidated Statements of Income

Year ended December 31	2005	2004	2003
Sales at suggested retail	\$163,968,979	\$139,442,752	\$110,569,576
Less distributor allowances on product purchases	50,403,815	42,460,319	33,609,853
Net sales	113,565,164	96,982,433	76,959,723
Costs and expenses:			
Cost of products sold	19,264,347	16,662,935	13,228,050
Distributor royalties and commissions	45,479,062	38,622,537	29,916,744
Selling, general, and administrative	36,348,526	32,710,657	26,438,447
Income from operations	12,473,229	8,986,304	7,376,482
Other income (expense):			
Interest expense	(313,329)	(243,118)	(234,956)
Other income	339,516	264,503	157,914
Income before income taxes	12,499,416	9,007,689	7,299,440
Provision for income taxes	4,978,000	3,621,000	2,902,000
Net income	7,521,416	5,386,689	4,397,440
Preferred dividends accrued and paid	—	12,292	56,762
Net income available to common shareholders	\$ 7,521,416	\$ 5,374,397	\$ 4,340,678
Earnings per common share — Basic	\$ 0.47	\$ 0.34	\$ 0.29
Weighted average shares	15,885,000	15,662,000	14,969,000
Earnings per common share — Diluted	\$ 0.46	\$ 0.31	\$ 0.26
Weighted average shares	16,388,000	17,137,000	16,706,000

See accompanying notes.

Consolidated Statements of Cash Flows

Year ended December 31	2005	2004	2003
Operating activities			
Net income	\$ 7,521,416	\$ 5,386,689	\$ 4,397,440
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,417,166	1,209,577	935,292
Stock-based third-party compensation	66,674	129,287	90,068
Tax benefit from exercise of options	1,370,000	2,617,159	535,583
Deferred income taxes	(366,000)	220,332	(132,189)
Foreign currency transaction loss/(gain)	268,436	(99,628)	(63,273)
Increase in accounts and notes receivable	(108,587)	(275,604)	(46,951)
(Increase) decrease in inventories	327,447	(1,210,461)	(1,188,179)
(Increase) decrease in refundable income taxes	1,288,260	(1,288,260)	7,942
Increase in prepaid expenses and other current assets	(173,057)	(320,920)	(94,995)
Increase in other assets	(465,991)	(403,690)	(350,164)
Increase in accounts payable and accrued expenses	538,723	1,549,544	1,384,499
Increase (decrease) in income taxes payable	819,344	(146,683)	(116,109)
Net cash provided by operating activities	12,503,831	7,367,342	5,358,964
Investing activities			
Proceeds from sale of property, plant, and equipment	148,506	119,609	79,414
Purchase of property, plant, and equipment	(1,710,523)	(1,870,632)	(983,269)
Net cash used in investing activities	(1,562,017)	(1,751,023)	(903,855)
Financing activities			
Proceeds from long-term borrowings and line of credit	—	—	218,343
Principal payments on long-term borrowings and line of credit	(3,655,514)	(433,116)	(513,330)
Principal payments under capital lease obligations	—	(5,750)	(67,155)
Proceeds from issuance of common stock	—	48,601	—
Proceeds from issuance of preferred stock	—	—	1,500,000
Redemption of preferred stock	—	(975,000)	(525,000)
Preferred stock dividends paid	—	(12,292)	(56,762)
Common stock dividends paid	(1,188,288)	(1,030,040)	—
Proceeds from options and warrants exercised	273,520	291,754	327,771
Repayment of loans by officers and directors	—	—	50,699
Purchase of stock for treasury	(10,690,375)	(1,293,980)	(1,199,913)
Proceeds from sale of treasury stock	33,360	—	142,240
Net cash used in financing activities	(15,227,297)	(3,409,823)	(123,107)
Effect of exchange rate changes on cash and cash equivalents	(212,426)	42,499	206,022
Increase (decrease) in cash and cash equivalents	(4,497,909)	2,248,995	4,538,024
Cash and cash equivalents at beginning of year	10,151,503	7,902,508	3,364,484
Cash and cash equivalents at end of year	\$ 5,653,594	\$10,151,503	\$ 7,902,508
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 300,329	\$ 267,926	\$ 247,385
Income taxes, net of refunds	\$ 1,838,000	\$ 2,144,000	\$ 2,582,000
Noncash investing and financing transactions:			
Capital lease obligations entered into	\$ —	\$ —	\$ 64,150
Issuance of promissory notes for purchase of stock for treasury	\$ 4,050,000	\$ —	\$ —

See accompanying notes.

Consolidated Statements of Stockholders' Equity

	Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount
Balance at December 31, 2002	—	\$ —	12,006,761	\$ 12,007
Net income	—	—	—	—
Other comprehensive income:				
Foreign currency translation adjustment	—	—	—	—
Total comprehensive income	—	—	—	—
Proceeds from sales of preferred stock	150,000	1,500,000	—	—
Redemption of preferred stock	(52,500)	(525,000)	—	—
Preferred stock dividends paid	—	—	—	—
Repayment of loans by officers/directors	—	—	—	—
Warrants granted under DSPP	—	—	—	—
Common stock purchased for treasury	—	—	—	—
Retirement of treasury stock	—	—	(306,698)	(307)
Proceeds from sale of treasury stock	—	—	—	—
Options and warrants exercised	—	—	448,906	449
Tax benefit from exercise of options	—	—	—	—
Stock split declared September 4, 2003	—	—	2,994,992	2,995
Balance at December 31, 2003	97,500	975,000	15,143,961	15,144
Net income	—	—	—	—
Other comprehensive loss:				
Foreign currency translation adjustment	—	—	—	—
Total comprehensive income	—	—	—	—
Common stock dividends paid, \$0.065 per share	—	—	—	—
Redemption of preferred stock	(97,500)	(975,000)	—	—
Preferred stock dividends paid	—	—	—	—
Warrants granted under DSPP/compensation shares	—	—	8,000	8
Common stock purchased for treasury	—	—	—	—
Retirement of treasury stock	—	—	(191,564)	(191)
Proceeds from sale of common stock	—	—	8,934	9
Options and warrants exercised	—	—	1,354,337	1,354
Tax benefit from exercise of options and warrants	—	—	—	—
Balance at December 31, 2004	—	—	16,323,668	16,324
Net income	—	—	—	—
Other comprehensive income:				
Foreign currency translation adjustment	—	—	—	—
Total comprehensive income	—	—	—	—
Common stock dividends paid, \$0.075 per share	—	—	—	—
Warrants granted under DSPP	—	—	—	—
Common stock purchased for treasury	—	—	—	—
Retirement of treasury stock	—	—	(1,410,698)	(1,411)
Proceeds from sale of treasury stock	—	—	—	—
Options and warrants exercised	—	—	700,674	701
Tax benefit from exercise of options and warrants	—	—	—	—
Balance at December 31, 2005	—	\$ —	15,613,644	\$15,614

See accompanying notes.

Additional Paid-In Capital	Notes Receivable –Officers and Directors	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock		Total
				Shares	Amount	
\$ 17,863,505	\$ (2,449)	\$ (8,960,782)	\$ (775,383)	84,829	\$ (339,252)	\$ 7,797,646
—	—	4,397,440	—	—	—	4,397,440
—	—	—	60,856	—	—	60,856
—	—	—	—	—	—	4,458,296
—	—	—	—	—	—	1,500,000
—	—	—	—	—	—	(525,000)
—	—	(56,762)	—	—	—	(56,762)
—	2,449	—	—	—	—	2,449
90,068	—	—	—	—	—	90,068
—	—	—	—	244,059	(1,199,913)	(1,199,913)
(424,436)	—	(1,059,674)	—	(306,698)	1,484,417	—
96,200	—	—	—	(20,000)	46,040	142,240
523,418	—	(196,096)	—	—	—	327,771
535,583	—	—	—	—	—	535,583
—	—	(2,995)	—	547	—	—
18,684,338	—	(5,878,869)	(714,527)	2,737	(8,708)	13,072,378
—	—	5,386,689	—	—	—	5,386,689
—	—	—	(43,804)	—	—	(43,804)
—	—	—	—	—	—	5,342,885
—	—	(1,030,040)	—	—	—	(1,030,040)
—	—	—	—	—	—	(975,000)
—	—	(12,292)	—	—	—	(12,292)
129,279	—	—	—	—	—	129,287
—	—	—	—	191,564	(1,293,980)	(1,293,980)
(228,019)	—	(1,065,770)	—	(191,564)	1,293,980	—
48,592	—	—	—	—	—	48,601
1,409,830	—	(1,119,429)	—	—	—	291,755
2,617,159	—	—	—	—	—	2,617,159
22,661,179	—	(3,719,711)	(758,331)	2,737	(8,708)	18,190,753
—	—	7,521,416)	—	—	—	7,521,416
—	—	—	88,985	—	—	88,985
—	—	—	—	—	—	7,610,401
—	—	(1,188,288)	—	—	—	(1,188,288)
66,674	—	—	—	—	—	66,674
—	—	—	—	1,460,155	(13,790,375)	(13,790,375)
(1,746,357)	—	(11,539,012)	—	(1,410,698)	13,286,780	—
22,547	—	—	—	(2,112)	10,813	33,360
598,420	—	(326,818)	—	—	—	272,303
1,370,000	—	—	—	—	—	1,370,000
\$22,972,463	\$ —	\$ (9,252,413)	\$ (669,346)	50,082	\$ (501,490)	\$ 12,564,828