

Consolidated Balance Sheets

December 31	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,332,810	\$ 5,653,594
Short-term investments	7,864,000	—
Accounts and notes receivable, less allowances of \$6,200 in 2006 and \$39,700 in 2005	669,379	775,623
Accounts due from employees and distributors	223,246	152,760
Inventories:		
Finished goods	2,752,770	3,569,449
Raw materials	1,337,661	1,441,107
Sales aids and promotional materials	687,790	573,900
Total inventories	4,778,221	5,584,456
Refundable income taxes	279,096	—
Prepaid expenses and other current assets	1,103,996	1,240,138
Deferred income taxes	594,430	452,430
Total current assets	24,845,178	13,859,001
Other assets	2,639,537	1,626,330
Accounts due from employees and distributors	362,959	355,651
Property, plant, and equipment	18,555,718	19,055,766
Less accumulated depreciation and amortization	9,121,172	8,915,325
	9,434,546	10,140,441
Total assets	\$ 37,282,220	\$ 25,981,423
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 8,615,256	\$ 8,158,770
Income taxes payable	—	820,246
Current maturities of long-term debt	—	916,244
Total current liabilities	8,615,256	9,895,260
Noncurrent liabilities:		
Long-term debt, less current maturities	—	2,211,065
Noncurrent deferred income taxes	42,000	89,000
Other noncurrent liabilities	891,113	1,221,270
Total noncurrent liabilities	933,113	3,521,335
Stockholders' equity:		
Preferred stock, par value \$0.001 per share; 3,000,000 shares authorized; -0- shares issued and outstanding in 2006 and 2005	—	—
Common stock, par value \$0.001 per share; 30,000,000 shares authorized, 16,730,465 shares issued and 16,605,523 shares outstanding in 2006; 15,613,644 shares issued and 15,563,562 outstanding in 2005	16,731	15,614
Additional paid-in capital	34,732,421	22,972,463
Accumulated deficit	(5,336,866)	(9,252,413)
Accumulated other comprehensive loss:		
Foreign currency translation adjustment	(540,653)	(669,346)
Treasury stock	(1,137,782)	(501,490)
Total stockholders' equity	27,733,851	12,564,828
Total liabilities and stockholders' equity	\$ 37,282,220	\$ 25,981,423

See accompanying notes.

Consolidated Statements of Income

Year ended December 31	2006	2005	2004
Product sales	\$ 105,497,420	\$ 102,045,383	\$ 87,565,109
Handling & freight income	11,969,737	11,519,781	9,417,324
Net sales	117,467,157	113,565,164	96,982,433
Costs and expenses:			
Cost of products sold	19,519,904	19,264,347	16,662,935
Distributor royalties and commissions	47,127,026	45,479,062	38,622,537
Selling, general, and administrative	38,716,529	36,348,526	32,710,657
Income from operations	12,103,698	12,473,229	8,986,304
Other income (expense):			
Interest income	692,595	238,473	118,467
Interest expense	(50,156)	(313,329)	(243,118)
Other income	256,966	101,043	146,036
Income before income taxes	13,003,103	12,499,416	9,007,689
Provision for income taxes	5,105,000	4,978,000	3,621,000
Net income	7,898,103	7,521,416	5,386,689
Preferred dividends accrued and paid	—	—	12,292
Net income available to common shareholders	\$ 7,898,103	\$ 7,521,416	\$ 5,374,397
Earnings per common share — Basic	\$ 0.48	\$ 0.47	\$ 0.34
Weighted average shares	16,465,000	15,885,000	15,662,000
Earnings per common share — Diluted	\$ 0.47	\$ 0.46	\$ 0.31
Weighted average shares	16,727,000	16,388,000	17,137,000

See accompanying notes.

Consolidated Statements of Stockholders' Equity

	Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount
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	—	—	—	—
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
Net income	—	—	—	—
Other comprehensive income:				
Foreign currency translation adjustment	—	—	—	—
Total comprehensive income	—	—	—	—
Common stock dividends paid, \$0.100 per share	—	—	—	—
Warrants granted under DSPP	—	—	—	—
Employee stock-based compensation	—	—	—	—
Common stock purchased for treasury	—	—	—	—
Retirement of treasury stock	—	—	(341,627)	(342)
Proceeds from issuance of common stock, net	—	—	1,200,000	1,200
Options and warrants exercised	—	—	258,448	259
Tax benefit from exercise of options and warrants	—	—	—	—
Balance at December 31, 2006	—	\$ —	16,730,465	\$ 16,731

See accompanying notes.

Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock		Total
			Shares	Amount	
\$ 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)
					<u>5,342,885</u>
—	(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
					<u>7,610,401</u>
—	(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
—	7,898,103	—	—	—	7,898,103
—	—	128,693	—	—	128,693
					<u>8,026,796</u>
—	(1,675,582)	—	—	—	(1,675,582)
102,224	—	—	—	—	102,224
62,991	—	—	—	—	62,991
—	—	—	416,487	(3,602,531)	(3,602,531)
(707,608)	(2,258,289)	—	(341,627)	2,966,239	—
11,917,592	—	—	—	—	11,918,792
262,451	(48,685)	—	—	—	214,025
122,308	—	—	—	—	122,308
\$ 34,732,421	\$ (5,336,866)	\$ (540,653)	124,942	\$ (1,137,782)	\$ 27,733,851

Consolidated Statements of Cash Flows

Year ended December 31	2006	2005	2004
Operating activities			
Net income	\$ 7,898,103	\$ 7,521,416	\$ 5,386,689
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,243,407	1,417,166	1,209,577
Stock-based compensation	165,215	66,674	129,287
Tax benefit from exercise of options	—	1,370,000	2,617,159
Deferred income taxes	(189,000)	(366,000)	220,332
Foreign currency transaction (gain)/loss	(194,760)	268,436	(99,628)
(Increase) decrease in accounts and notes receivable	52,869	(108,587)	(275,604)
(Increase) decrease in inventories	896,792	327,447	(1,210,461)
(Increase) decrease in refundable income taxes	(260,035)	1,288,260	(1,288,260)
(Increase) decrease in prepaid expenses and other current assets	154,428	(173,057)	(320,920)
Increase in other assets	(49,677)	(465,991)	(403,690)
Increase in accounts payable and accrued expenses	63,346	538,723	1,549,544
Increase (decrease) in income taxes payable	(821,571)	819,344	(146,683)
Net cash provided by operating activities	8,959,117	12,503,831	7,367,342
Investing activities			
Proceeds from sale of property, plant, and equipment	97,117	148,506	119,609
Purchase of property, plant, and equipment	(572,748)	(1,710,523)	(1,870,632)
Purchase of investments, net	(8,864,000)	—	—
Net cash used in investing activities	(9,339,631)	(1,562,017)	(1,751,023)
Financing activities			
Principal payments on long-term borrowings and line of credit	(3,127,344)	(3,655,514)	(433,116)
Principal payments under capital lease obligations	—	—	(5,750)
Net proceeds from issuance of common stock	11,918,792	—	48,601
Redemption of preferred stock	—	—	(975,000)
Preferred stock dividends paid	—	—	(12,292)
Common stock dividends paid	(1,675,582)	(1,188,288)	(1,030,040)
Proceeds from options and warrants exercised	214,025	273,520	291,754
Excess tax benefits from stock-based compensation	103,182	—	—
Purchase of stock for treasury	(3,602,531)	(10,690,375)	(1,293,980)
Proceeds from sale of treasury stock	—	33,360	—
Net cash provided by (used in) financing activities	3,830,542	(15,227,297)	(3,409,823)
Effect of exchange rate changes on cash and cash equivalents	229,188	(212,426)	42,499
Increase (decrease) in cash and cash equivalents	3,679,216	(4,497,909)	2,248,995
Cash and cash equivalents at beginning of year	5,653,594	10,151,503	7,902,508
Cash and cash equivalents at end of year	\$ 9,332,810	\$ 5,653,594	\$ 10,151,503
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 81,156	\$ 300,329	\$ 267,926
Income taxes	\$ 6,262,000	\$ 1,838,000	\$ 2,144,000
Noncash investing and financing transactions:			
Insurance of promissory notes for purchase of stock for treasury	\$ —	\$ 4,050,000	\$ —

See accompanying notes.