



**TJT, Inc.**

**Quarterly Report to Shareholders**

**For the periods ended March 31, 2012 and 2011**

**T.J.T., INC.**  
**March 31, 2012**

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Effective February 15, 2005, T.J.T., Inc. (the Company) no longer has a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 (the "Act"), and the Company is no longer subject to the reporting requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934. Accordingly, this quarterly report is not filed with the Securities and Exchange Commission and this information is not and cannot be deemed the substantial equivalent of the information required of reporting companies under the Act.

This quarterly report and other periodic reports to shareholders are available on the Company's website, [www.tjtusa.com](http://www.tjtusa.com), and at [www.otcm Markets.com](http://www.otcm Markets.com). Interested persons may also request copies directly from the Company by calling 1-800-458-3555 or writing to the Chief Financial Officer, T.J.T., Inc., 775 S. Rivershore Ln., Suite 200, Eagle, Idaho 83616.

**T.J.T., INC.**  
**BALANCE SHEETS (Unaudited)**  
(Dollars in thousands)

	<u>Mar. 31</u> 2012	<u>Sept. 30</u> 2011
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,084	\$ 1,875
Accounts receivable (net of allowances and discounts of \$122 and \$111)	232	337
Current portion of notes receivable	71	74
Inventories	1,177	1,189
Prepaid expenses and other current assets	<u>45</u>	<u>181</u>
Total current assets	2,609	3,656
Property, plant and equipment, net of accumulated depreciation	731	317
Notes receivable, net of current portion	27	29
Real estate held for sale	272	474
Real estate held for investment	373	167
Other assets	<u>12</u>	<u>5</u>
Total assets	<u>\$ 4,024</u>	<u>\$ 4,648</u>
<b>Current liabilities:</b>		
Accounts payable	\$ 431	\$ 244
Accrued liabilities	124	286
Deferred income	<u>50</u>	<u>69</u>
Total current liabilities	605	599
<b>Shareholders' equity:</b>		
Preferred stock, \$.001 par value; 5,000,000 shares authorized; 0 shares issued and outstanding	-	-
Common stock, \$.001 par value; 10,000,000 shares authorized; 4,532,862 shares outstanding	5	5
Capital surplus	5,875	5,872
Retained earnings	<u>(2,427)</u>	<u>(1,812)</u>
	3,453	4,065
Treasury shares, at cost, 81,113 and 46,735 shares, respectively	<u>(34)</u>	<u>(16)</u>
Total shareholders' equity	<u>3,419</u>	<u>4,049</u>
Total liabilities and shareholders' equity	<u>\$ 4,024</u>	<u>\$ 4,648</u>

See accompanying notes to consolidated financial statements.

**T.J.T., INC.**  
**STATEMENTS OF OPERATION (Unaudited)**  
(Dollars in thousands except per share amounts)

	Three Months Ended		Six Months Ended	
	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
Sales (net of returns and allowances):				
Axles and tires	\$ 552	\$ 888	\$ 1,398	\$ 1,719
Accessories and siding	364	424	810	942
Other	75	-	95	-
Total sales	991	1,312	2,303	2,661
Cost of goods sold				
Axles and tires	419	741	1,165	1,473
Accessories and siding	224	269	506	612
Other	14	-	17	-
Cost of goods sold	657	1,010	1,688	2,085
Gross profit	334	302	615	576
Selling, general and administrative expenses	672	520	1,313	1,125
Operating loss	(338)	(218)	(698)	(549)
Impairment loss on real estate	-	(88)	-	(88)
Interest income, net of expense	5	8	10	14
Equity investment income	-	-	-	32
Rental income	6	3	13	9
Gain (loss) on sale of assets	41	(1)	60	-
Net loss	\$ (286)	\$ (296)	\$ (615)	\$ (582)
Net loss to common shareholders:				
Basic	\$ (0.06)	\$ (0.07)	\$ (0.14)	\$ (0.13)
Diluted	\$ (0.06)	\$ (0.07)	\$ (0.14)	\$ (0.13)
Weighted average shares outstanding:				
Basic	4,532,862	4,532,862	4,532,862	4,532,862
Diluted	4,557,388	4,544,159	4,553,012	4,540,118

See accompanying notes to consolidated financial statements.

**T.J.T., INC.**  
**STATEMENTS OF CASH FLOWS (Unaudited)**  
(Dollars in thousands)

For the six months ended March 31,	2012	2011
<b>Cash flows from operating activities:</b>		
Net loss	\$ (615)	\$ (582)
Adjustments to reconcile net loss		
to net cash used by operating activities:		
Depreciation and amortization	33	35
Impairment loss on real estate held for sale	-	88
Loss on sale of other assets held for sale	-	1
Gain on sale of assets	(60)	(2)
Gain on sale of equity investment	-	(30)
Equity investment earnings	-	(2)
Stock compensation	3	5
Change in accounts receivables	105	(6)
Change in inventories	12	361
Change in prepaid expenses and other current assets	136	(46)
Change in accounts payable	187	56
Change in other assets and liabilities	(169)	(61)
Net cash used by operating activities	(368)	(183)
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(478)	(15)
Repayments received on notes receivable	5	7
Proceeds from sale of assets	73	7
Proceeds from sale of equity investment	-	30
Investment in real estate held for investment and sale	(5)	-
Proceeds from sale of other assets held for sale	-	5
Net cash provided (used) by investing activities	(405)	34
<b>Cash flows from financing activities:</b>		
Purchase of treasury shares	(18)	(16)
Net cash used by financing activities	(18)	(16)
Net change in cash and cash equivalents	(791)	(165)
Cash and cash equivalents at October 1	1,875	1,825
Cash and cash equivalents at March 31	\$ 1,084	\$ 1,660

See accompanying notes to consolidated financial statements.

T.J.T., INC.  
NOTES TO FINANCIAL STATEMENTS  
(unaudited)

NOTE A – BASIS OF PRESENTATION

*Unaudited Financial Statements*

In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial position of T.J.T., Inc. (the “Company”) and the results of operations and cash flows. Certain reclassifications of prior quarter amounts were made to conform with current quarter presentation, none of which affect previously recorded net income.

The Company’s fiscal year begins October 1 and ends September 30. All period references are to the Company’s fiscal periods unless otherwise indicated. These interim financial statements should be read in conjunction with the financial statements and accompanying notes included in the Company’s Annual Report for the year ended September 30, 2011. All tabular amounts are in thousands except per share amounts.

*Reclassifications*

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements. Total shareholders’ equity and net loss are unchanged due to these reclassifications.

*Receivables*

The Company performs credit history checks and limited financial analysis before credit terms are offered to customers. Accounts receivable are generally unsecured. Bad debts are accounted for using the allowance method. Expense is recognized based on an estimate of uncollectable accounts. Historically, credit losses, when realized, have been within the range of the Company’s expectations. Trade receivables are reported in the balance sheet net of any chargeoffs and the allowance for doubtful accounts. All past due accounts continue to accrue finance charges until paid. Trade accounts receivable of \$127,000 are past due ninety days or more and include less than \$1,000 of accrued finance charges.

Notes receivable consist primarily of amounts owed by individuals as a result of the sale of real estate and fixed assets and are generally secured by the asset sold.

*Real Estate Held for Sale*

Sales of real estate generally are accounted for under the full accrual method. Under that method, gain is not recognized until the collectability of the sales price is reasonably assured and the

earnings process is virtually complete. When a sale does not meet the requirements for income recognition, gain is deferred until those requirements are met.

### *Deferred Gains*

Deferred gains include gains on the sale of land held for investment or fixed assets where the Company provided virtually 100 percent financing to the buyer under an installment sale. The Company recognizes interest income and then a reduction of the principal balance to the extent of payments received on the related notes receivable until it has received 25 percent or more of the original purchase price, at which point the remaining deferred gain is recognized over the remaining term of the note if the balance is deemed collectable.

### *Revenue Recognition*

The Company recognizes revenue at the time delivery is made to the customer, or when used by the customer in the case of consigned inventory, net of applicable provisions for customer discounts and allowances. No agreements exist requiring any performance by the Company subsequent to the sale.

### *Stock Options*

In February 2012, the Company approved a stock option plan which allows officers, directors and key employees to receive non-qualified and incentive stock options. No options have yet been granted from this new plan. The Company's prior plan expired in February 2010. Options granted through February 22, 2010 continue to vest in accordance with that plan.

The Company adopted the fair value method of accounting for stock options contained in the Financial Accounting Standards Codification (ASC) as set forth in ASC 718, *Stock Compensation*. Stock options are expensed over the stock option vesting period based on fair value which is determined using the Black-Scholes option-pricing method at the date the options are granted.

### *Income Taxes*

Income taxes are accounted for using the asset and liability method under which deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, using statutory tax rates in effect for the year in which the differences are expected to reverse. In assessing the ability to realize the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that the Company will realize the benefits of the net deferred tax assets. The ability to realize these assets is reassessed at the end of each reporting period or as significant events occur which may impact management's assessment.

### Earnings Per Share

Basic earnings per share (EPS) is computed based on net income and the weighted average number of common shares outstanding. Diluted EPS is similar to basic EPS except that the weighted average of common shares outstanding is increased to include the number of potential additional common shares that would have been outstanding if the dilutive options had been exercised. Antidilutive shares are not included in the diluted earnings per share calculation because the exercise prices of the options are greater than the average market prices of the common shares.

The following reconciliation details the numerators and denominators used to calculate basic and diluted earnings per share for the respective periods:

	Three Months Ended		Six Months Ended	
	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
Net loss	\$(286,000)	\$(296,000)	\$(615,000)	\$(582,000)
Average shares outstanding:				
Basic	4,532,862	4,532,862	4,532,862	4,532,862
Add dilutive effect of options issued	<u>24,526</u>	<u>11,297</u>	<u>20,150</u>	<u>7,256</u>
Diluted	4,557,388	4,544,159	4,553,012	4,540,118
Loss per share:				
Basic	\$ (0.06)	\$ (0.07)	\$ (0.14)	\$ (0.13)
Diluted	\$ (0.06)	\$ (0.07)	\$ (0.14)	\$ (0.13)
Antidilutive shares	80,000	90,000	90,000	110,000

### NOTE B - INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out and average cost methods) or market.

	Mar. 31, 2012	Sept. 30, 2011
Raw materials	\$ 350	\$ 607
Finished goods	<u>827</u>	<u>582</u>
Total	<u>\$ 1,177</u>	<u>\$ 1,189</u>

#### NOTE C – PROPERTY, PLANT AND EQUIPMENT

	Mar. 31, 2012	Sept. 30, 2011
Land and building	\$ 490	\$ 225
Leasehold improvements	70	179
Furniture and equipment	837	704
Vehicles and trailers	629	816
	<u>2,026</u>	<u>1,924</u>
Less accumulated depreciation	1,295	1,607
Net property, plant and equipment	<u>\$ 731</u>	<u>\$ 317</u>

#### NOTE D – REAL ESTATE HELD FOR SALE

Real estate held for sale includes property owned by the Company in Idaho. In March 2012, the Company began negotiations on a lease for the Platteville, Colorado location. As a result, this property has been reclassified to real estate held for investment.

#### NOTE E – REAL ESTATE HELD FOR INVESTMENT

Real estate held for investment includes industrial property owned by the Company in Idaho and Platteville, Colorado.

#### NOTE F – SEGMENT DISCLOSURE

The Company operates in two primary business segments: Axle and Tire Reconditioning and Accessories and Siding Distribution. These reportable segments have been determined by evaluating the Company's internal reporting structure and nature of products offered.

**Axle and Tire Reconditioning:** The Company provides reconditioned axles and tires to manufactured housing factories.

**Accessories and Siding Distribution:** The Company provides skirting, siding, and other aftermarket accessories to manufactured housing dealers and contractors.

Other segments include the start-up of various businesses in North Dakota, including RV Repair Services and Mobile Shower and Laundry Services.

	<u>Axle &amp; Tire Reconditioning</u>	<u>Accessories &amp; Siding</u>	<u>Other</u>	<u>Total</u>
Three months ended March 31, 2012				
Operating revenue	\$ 552	\$ 364	\$ 75	\$ 991
Operating loss	\$ (157)	\$ (129)	\$ (52)	\$ (338)
Depreciation	\$ 7	\$ 6	\$ 5	\$ 18
Three months ended March 31, 2011				
Operating revenue	\$ 888	\$ 424	\$ -	\$ 1,312
Operating loss	\$ (171)	\$ (47)	\$ -	\$ (218)
Depreciation	\$ 12	\$ 5	\$ -	\$ 17
Six months ended March 31, 2012				
Operating revenue	\$ 1,399	\$ 810	\$ 94	\$ 2,303
Operating loss	\$ (353)	\$ (234)	\$ (111)	\$ (698)
Depreciation	\$ 13	\$ 13	\$ 7	\$ 33
Six months ended March 31, 2011				
Operating revenue	\$ 1,719	\$ 942	\$ -	\$ 2,661
Operating loss	\$ (446)	\$ (103)	\$ -	\$ (549)
Depreciation	\$ 25	\$ 10	\$ -	\$ 35

The Company does not assign interest income, interest expense, other expenses or income taxes to operating segments. Identifiable assets and related capital expenditures are assigned to operating locations rather than operating segments, with depreciation allocated to the segments based upon usage.

#### NOTE G – INCOME TAXES

A valuation allowance has been recorded to reduce the carrying amounts of deferred tax assets to zero, as management does not believe that the Company is more likely than not to realize the benefits of the net deferred tax assets.

## NOTE H – CONTINGENCIES

On February 4, 2008, the Company received an unfavorable ruling from the District Court of the Fourth Judicial District in Idaho wherein the Company was attempting to enjoin Ulysses Mori (a former T.J.T. employee and director) from competing against the Company in the tire and axle business as prohibited by a non-competition agreement executed by Mr. Mori with the Company, which he signed when T.J.T. purchased his company, Leg-It Industries. The District Court declared the covenant not to compete unenforceable in spite of the fact that Mr. Mori had continuously worked for the Company from the time Leg-It was acquired until early 2007. The court had awarded Mr. Mori a judgment against the Company in the amount of \$107,000 for the attorney fees he incurred in the case. The Company had accrued a contingent liability for the judgment of \$107,000. The Company successfully appealed the District Court's ruling to the Idaho Supreme Court because Mr. Mori has intimate knowledge of proprietary information related to the Company's business operations.

On November 30, 2011, the Idaho Supreme Court reversed the District Court's ruling that had awarded Mr. Mori \$107,000 in attorney fees. As a result, the Company recognized into income and removed the associated liability from the balance sheet. On January 31, 2012, the Company executed a settlement with Mr. Mori, in which both parties agreed to waive rights to any further proceedings. As a result, the company was able to retrieve the supersedeous bond for \$146,000 that was held by Northern Specialty Company on Mr. Mori's behalf.

In March 2012, the Company filed suit against four former management employees of the Company on the grounds of the alleged wrongful use, disclosure and acquisition of trade secrets, breach of fiduciary duties to the Company and tortuous interference with third-party relationships. The suit names Fred Amen, Doug Strunk, Mike Gentry, and former President, CEO, and Chairman of T.J.T., Inc. Terrence Sheldon.

## NOTE I – CREDIT FACILITY

The Company had a revolving credit facility for \$250,000, which matured on March 31, 2011. Management believes the existing cash and cash flow from operations will be sufficient to fund operations. As a result, the credit facility was not renewed.

## NOTE J – RISKS AND UNCERTAINTIES

The Company has incurred losses from operating activities in 2011, 2010, 2009, and 2008. Management has mitigated losses through expense control, layoffs, and by suspending the Company's 401K matching funds. Salary reductions continue to be in effect for management and salaried personnel.

T.J.T. has leased two sites in Watford City, ND. One facility handles the wholesale and retail distribution of manufactured home set-up supplies, including piers, anchors, skirting, and

accessories, as well as RV Repair Services inventory. The second site is currently being prepared to house the Company's Mobile Shower and Laundry services.

Management believes that existing cash and cash flow from operations will be sufficient to fund our activities throughout fiscal 2012. However, we have based this estimate on assumptions that may prove to be wrong, and we may use our available capital resources sooner than we currently expect. Further, our operating plan may change, as we focus on developing other, profitable, uses for our resources. Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement and involves risks and uncertainties, and actual results could vary as a result of a number of factors, including the factors identified in Management's Discussion and Analysis of Financial Condition and Results of Operations.

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

*This report contains certain forward-looking statements which are based on management's current expectations. These forward-looking statements are subject to certain risks and uncertainties. The words "believe," "expect," "anticipate," "intend," "estimate," "will," "should," "could," and other expressions that indicate future events and trends identify forward-looking statements. Forward-looking statements include, without limitation, statements made regarding levels of sales, gross margin and selling, general and administrative expenses anticipated in the remainder of 2012. The Company has identified risk factors which could cause actual results to differ substantially from the forward-looking statements. These risk factors include, but are not limited to, general economic conditions, changes in interest rates, availability of financing for both manufactured home buyers and suppliers, real estate values, adverse weather conditions, the economic viability of our customers and vendors, and availability of qualified employees. In addition, industry conditions that may have an adverse impact on future results include, but are not limited to, changes in available supply of tires and axles, low barriers of entry, changes and/or enforcement in legislation or regulations, and competitive pressure on both the purchasing of used axles and tires from manufactured housing dealers and the selling of refurbished axles and tires to manufactured housing factories. Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement.*

*This discussion and analysis should be read in conjunction with the Financial Statements and accompanying notes and with the Company's Annual Report for the year ended September 30, 2011.*

### **Overview**

T.J.T., Inc. has two principle business lines: axle and tire reconditioning, and accessories and siding distribution.

Axles and tires are purchased from manufactured homes dealers and reconditioned in two locations in the western United States. After axles are reconditioned and certified and tires are inspected and graded, they are sold primarily to manufactured housing factories. Axle and tire reconditioning is performed at the Company's locations in Emmett, Idaho and Woodland, California.

The Company sells accessories to manufactured home dealers and set-up contractors from all its locations. The major product lines are vinyl skirting, piers, and related products.

Manufactured housing shipments in the Company's market area during the second quarter of 2012 are estimated to have increased by approximately 40 percent compared to the same quarter a year ago according to the Monthly Economic Report distributed by the *Manufactured Housing Institute*. Over 70% of the increase is energy related development in western Canada and the Rocky Mountain West, particularly North Dakota.

## Results of Operations

The following table sets forth the operating data of the Company as a percentage of net sales for the periods listed below:

	Three Months Ended		Six Months Ended	
	Mar. 31, 2012	Mar. 31, 2011	Mar. 31, 2012	Mar. 31, 2011
Axle and tire reconditioning net sales	55.7%	67.7 %	60.7%	64.6 %
Manufactured housing accessories and siding net sales	36.7	32.3	35.2	35.4
Gross margin	33.7	23.0	26.7	21.6
Selling expense	34.0	23.5	25.4	25.7
Administrative expense	33.8	16.2	31.6	16.6
Interest income	0.8	0.6	0.4	0.5

### *Sales*

Net sales decreased 24 percent in the three month period ending March 31, 2012 as compared to the same period a year ago. Net sales of axles and tires decreased 38 percent in the second quarter of 2012 compared to 2011. Net sales for accessories and siding decreased 14 percent in that same time period. Prior to its closing in June 2011, the Colorado facility contributed sales of \$198,000 and \$431,000 for the three and six month periods ended March 31, 2011. In addition, the Washington facility contributed sales of \$14,000 and \$37,000 prior to its closing in February 2011.

In 2011, the axle and tire segment included sales associated with utilizing the Company's freight trucks to provide motor carrier services to outside customers. Residual sales associated with the wind-down of motor carrier services were \$11,000 and \$32,000 in the three and six month periods ended March 31, 2011.

Excluding Colorado, Washington, and motor carrier services, net sales decreased 9% and increased 7% for the three and six month periods ended March 31, 2012, respectively. Excluding the same impacts, the axle and tire segment sales decreased 20% for the second quarter due to the loss of several Idaho customers to new local competition.

### *Gross Margin*

The Company's gross margin increased 11 percentage points to 34 percent in the three month period ended March 31, 2012 as compared to the same period in 2011. The axle and tire segment increased 8 percentage points for the quarter primarily due to price increases to customers. Manufacturing expense dollars within comparable year over year facilities declined as a result of the Washington and Colorado market exits; and as a percent of sales were flat at 16% as the Company was able to leverage the reduction in sales.

Gross margin for the accessories business segment increased to 39 percent in the second quarter of 2012 compared to 37 percent in the same quarter a year ago. Accessories gross margin in the second quarter increased as inventory that was written down in the third and fourth quarters of fiscal 2011 was sold at higher than expected prices.

### ***Selling, General and Administrative***

Selling, general, and administrative (SG&A) expense increased \$152,000 during the three month period ended March 31, 2012 when compared to the same period a year ago. SG&A as a percentage of sales increased 29 percentage points during the three month period compared to prior year. SG&A increased as a result of increased headcount, mainly the addition of full time Corporate Executive Officers and start-up costs associated with the Company's new North Dakota facility.

### ***Net Loss***

The Company's net loss for the quarter ending March 31, 2012 was \$286,000 compared to a net loss of \$296,000 for the same quarter a year ago. The decrease in second quarter net loss compared to that of the same period in 2011 was driven primarily by a non-recurring 2011 impairment loss on real estate held for sale mostly offset by lower sales volume, increased administrative expenses and start-up costs associated with the new North Dakota facility. The Company did not record a tax benefit in either period because there are no carryback provisions available.

### **Liquidity and Capital Resources**

The Company's decrease in net cash for the six months ended March 31, 2012 was \$791,000 compared to an decrease of \$165,000 in 2011.

*Operating activities* for the period used cash of \$368,000 compared to a decrease of \$183,000 in the same period a year ago. A decrease in accounts receivable contributed \$105,000 to cash in 2012 due to the the seasonal decline in the manufactured home industry and competitive impacts. Inventory remained relatively flat in 2012 compared to a more significant decrease of \$361,000 in the 2011 period. Accounts payable increased by \$187,000 in the first six months of 2012 compared to an increase of \$56,000 in 2011 as a result of efforts to extended payables terms. Prepaid expense and other current assets contributed \$136,000 in 2012 compared to a \$46,000 use of cash in 2011 due to the release of the \$146,000 supersedeous bond previously held on behalf of Ulysses Mori. Other assets and liabilities decreased in 2012 primarily due to the reversal of Ulysses Mori legal liability of \$107,000.

*Investing activities* used \$405,000 of cash in the first six months of 2012 compared to a \$34,000 source in the same time period a year ago. In the six months ending March 31, 2012, the Company acquired two manufactured homes, a mobile shower unit, and began construction on the operations site of the shower unit in North Dakota. In addition, the Company's new Emmett, Idaho manufacturing facility was completed. This resulted in \$478,000 of fixed asset additions. The Company disposed of idle trucks and trailers with a remaining net book value of \$9,000 for \$73,000 in proceeds in the same period.

*Net cash used by financing activities* was \$18,000 during the 2012 six month period as the Company repurchased shares from the 401K plan to facilitate payments to employees that are no longer with the Company.

As of March 31, 2012, the Company's cash and cash equivalents were \$1,084,000. Management believes the existing cash and cash flow from operations will be sufficient to fund operating activities.

### **Critical Accounting Policies**

The Company's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management makes many estimates and assumptions that affect the amounts and disclosures reported in the financial statements and related accompanying notes. Changes in most of the estimates and assumptions would not likely materially affect the Company's financial position and results of operations. However, calculations related to inventory, shipping expenses and deferred tax assets involve subjective judgments, estimates, and assumptions that could produce materially different results if different judgments, estimates, or assumptions were used.

#### ***Inventory***

Inventory is stated at lower of cost or market. Cost of the Company's tire and axle inventory includes unprocessed or raw tires and axles as well as processed or finished tires and axles. A portion of the costs incurred in acquiring and processing the tires and axles is allocated to finished inventory based on the number of tires and axles processed at the end of the period. The Company estimates per unit processing and gathering costs based upon labor and manufacturing overhead costs.

The Company reviews inventory for slow moving or obsolete items on a regular basis. Inventory is written-down based on specific identification, taking into consideration demand in certain markets and other industry conditions. If actual demand or market conditions are less favorable than those estimated, additional write-downs may be necessary.

#### ***Shipping Allocation***

The Company allocates to cost of goods sold a portion of the costs associated with gathering and distributing products (shipping costs). These expenses include labor for drivers, fuel, equipment operating leases as well as maintenance and depreciation, along with other expenses related to travel and per diem expenses. These shipping costs are allocated based on an estimate of the level of gathering and distribution utilized by department and segment of business for each facility operated by the Company. The estimates associated with gathering tires and axles from manufactured housing dealers are allocated to cost of goods sold for each location. The allocation to cost of goods sold could impact the gross margin analysis for the tire and axle segment from period to period if the estimated levels of shipping costs change. Shipping costs

associated with motor carrier services provided by the Company were considered direct expenses and were not included in the allocation process.

### ***Income Taxes***

Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, using statutory tax rates in effect for the year in which the differences are expected to reverse. In assessing the ability to realize the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The Company's accompanying balance sheets include net current and long term deferred tax assets, which are expected to reduce future taxable income. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that the Company will realize the benefits of the net deferred tax assets. The ability to realize these assets is reassessed at the end of each reporting period or as significant events occur which may impact management's assessment.

### **Other Information**

On December 15, 2011, Mr. Terrence J. Sheldon, a Class III outside Director, resigned from the Board of Directors.

On March 16, 2012, Shawn CJ Kling, President and Chief Executive Officer of the Company, was appointed to the Board of Directors effective February 21, 2012. He was appointed to fill an unexpired Class III Director term and will serve until the Annual Shareholders' Meeting in 2014, when he shall stand for reelection.