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## **Ag Leader Technology, Inc.**

Financial Report  
December 31, 2009



**McGladrey & Pullen**  
Certified Public Accountants

McGladrey & Pullen LLP is an independent member firm of RSM International, an affiliation of separate and independent legal entities

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Board of Directors  
Ag Leader Technology, Inc  
Ames, Iowa

We have audited the accompanying balance sheet of Ag Leader Technology, Inc. as of December 31, 2009, and the related statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Company has not adopted the accounting guidance for uncertain tax positions discussed in Note 9 that requires the calculation and disclosure of potential liabilities for uncertain tax positions. The accounting treatment is not in accordance with accounting principles generally accepted in the United States of America (GAAP). The effects of this departure from GAAP on the Company's financial position and results of operations have not been determined.

In our opinion, except for the effects of not adopting the accounting for uncertain tax positions as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Ag Leader Technology, Inc. as of December 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Des Moines, Iowa  
December 20, 2010

**Ag Leader Technology, Inc**

**Balance Sheet  
December 31, 2009**

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**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 64,161
Accounts receivable, net of allowance of \$180,000	4,667,455
Inventories	6,774,428
Prepaid expenses and other	105,882

<b>Total current assets</b>	<b>11,611,926</b>
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**PROPERTY AND EQUIPMENT**

Land and land improvements	1,140,840
Buildings and improvements	9,056,182
Equipment and vehicles	6,370,155
Construction in progress	183,751
	16,750,928
Less accumulated depreciation	2,757,719
	13,993,209

**OTHER ASSETS**

Capitalized software costs, net of accumulated amortization of \$222,208	437,197
Other	78,844
	516,041

<b>\$ 26,121,176</b>
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See Notes to Financial Statements

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## LIABILITIES AND STOCKHOLDERS' EQUITY

### CURRENT LIABILITIES

Accounts payable	\$ 2,600,551
Accrued expenses	1,122,135
Current portion of long-term debt	<u>413,159</u>

<b>Total current liabilities</b>	<b><u>4,135,845</u></b>
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LONG-TERM DEBT, less current portion	<u>4,438,883</u>
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### COMMITMENTS AND CONTINGENCIES

### STOCKHOLDERS' EQUITY

Common stock	100,000
Additional paid in capital	905,529
Retained earnings	<u>16,540,919</u>
	<u>17,546,448</u>

<b>\$ 26,121,176</b>
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**Ag Leader Technology, Inc**

**Statement of Income  
Year Ended December 31, 2009**

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Net sales	\$ 43,256,526
Cost of goods sold	<u>31,492,714</u>
<b>Gross profit</b>	11,763,812
Operating expenses	<u>8,561,424</u>
<b>Operating income</b>	<u>3,202,388</u>
Other income (expense)	
Interest income	15,744
Interest (expense)	<u>(236,480)</u>
	<u>(220,736)</u>
<b>Net income</b>	<u><u>\$ 2,981,652</u></u>

See Notes to Financial Statements

**Ag Leader Technology, Inc**

**Statement of Retained Earnings  
Year Ended December 31, 2009**

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Balance, December 31, 2008	\$ 15,912,100
Net income	2,981,652
Dividends	<u>(2,352,833)</u>
<b>Balance, December 31, 2009</b>	<b><u>\$ 16,540,919</u></b>

See Notes to Financial Statements

**Ag Leader Technology, Inc.**

**Statement of Cash Flows  
Year Ended December 31, 2009**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Net income	\$ 2,981,652
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	983,547
Amortization	108,676
Loss on disposal of equipment	146,591
Changes in working capital components	
Accounts receivable	961,693
Inventories	1,610,514
Prepaid expenses and other	229,520
Accounts payable and accrued expenses	(1,033,401)
<b>Net cash provided by operating activities</b>	<u>5,988,792</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchases of property and equipment	(3,780,134)
Proceeds from sale of equipment	19,745
Capitalization of software costs	(291,773)
<b>Net cash (used in) investing activities</b>	<u>(4,052,162)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Dividends paid	(2,352,833)
Proceeds from long-term debt	2,297,593
Payments on long-term debt	(1,817,229)
<b>Net cash (used in) financing activities</b>	<u>(1,872,469)</u>

<b>Increase in cash and cash equivalents</b>	64,161
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**CASH AND CASH EQUIVALENTS**

Beginning	-
Ending	<u>\$ 64,161</u>

**SUPPLEMENTAL CASH FLOW INFORMATION**

Cash paid for interest, including \$70,988 of capitalized interest	\$ 307,468
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See Notes to Financial Statements



## Ag Leader Technology, Inc

### Notes to Financial Statements

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#### Note 1 Nature of Business and Significant Accounting Policies

Nature of business Ag Leader Technology, Inc (the Company) designs and manufactures precision agricultural technology to be sold both domestically and internationally to independent customers, dealers, and O E M from its facility located in Ames, Iowa

#### Significant accounting policies

Accounting estimates and assumptions The preparation of financial statements in conformity with generally accepted accounting principles 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 balance sheet date and the reported amounts of revenue and expenses during the reporting period Actual results could differ from those estimates

Cash and cash equivalents Cash and cash equivalents include interest-earning deposits with original maturities of 90 days or less at the date of purchase

Accounts receivable Receivables billed are carried at original invoice amount less an estimate made for doubtful accounts Management determines the allowance for doubtful accounts by evaluating individual customer accounts and using historical experience Receivables are written off when deemed uncollectible Recoveries of receivables previously written off are recorded when received

Inventories Inventories are stated at the lower of cost (first-in, first-out method) or market

Property and equipment Property and equipment is stated at cost Depreciation is computed using the straight-line method over the estimated useful lives which range from 3 to 39 years

Capitalized software costs In accordance with applicable accounting guidance the Company accounts for costs of computer software to be sold subsequent to the establishment of technological feasibility Based upon the Company's product development process, technological feasibility is established upon the completion of a working model Costs are amortized over three years for display and embedded products and five years for software Capitalized software activity consisted of approximately the following as of December 31, 2009

	Externally Purchased Costs	Internal Costs	Total Costs	Amortization Expense December 31, 2009	Accumulated Amortization December 31, 2009	Net Book Value December 31, 2009
Display	\$ 20,000	\$ 364,000	\$ 384,000	\$ 72,000	\$ 114,000	\$ 270,000
Embedded	80,000	152,000	232,000	32,000	75,000	157,000
Software	4,000	39,000	43,000	5,000	33,000	10,000
	<u>\$ 104,000</u>	<u>\$ 555,000</u>	<u>\$ 659,000</u>	<u>\$ 109,000</u>	<u>\$ 222,000</u>	<u>\$ 437,000</u>

## Ag Leader Technology, Inc

### Notes to Financial Statements

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Revenue recognition policy The Company generates revenue from the sale of various hardware and standalone software products. Sales from the hardware and software categories for the year ended December 31, 2009 represent approximately 97% and 3% of total sales, respectively. Hardware products consist of display and embedded units which contain software that is essential to the functionality of the hardware, the Company accounts for these products in accordance with general revenue recognition accounting guidance. The Company accounts for the sale of standalone software products in accordance with industry specific software revenue recognition accounting guidance. The Company offers a variety of upgrade rights at no additional charge for the majority of its products sold. The associated cost of providing these upgrades is not material to an individual product therefore revenue recognition criteria has generally been met when the hardware and software products have shipped and title and risk of loss has transferred to the customers. The Company records reductions to revenue for expected future product returns based on the Company's historical experience.

Customer service and technical support Customer support includes technical support and customer inquiry assistance via telephone and e-mail. Free support is provided on all products primarily for the life of the product and are not considered material on an individual product basis.

Shipping and handling The costs of shipping and handling associated with inventory purchases are included in cost of purchased materials. The costs of shipping associated with sales to customers is generally billed to the customer and included in net revenues.

Product warranty The Company offers a two year warranty from the time of shipment on the majority of products sold. Included in accrued expenses is a warranty reserve of approximately \$107,000, which represents the Company's estimated future costs to service warranty obligations that existed as of December 31, 2009.

Research and development Research and development costs are expensed in the period incurred. Research and development costs charged to operating expenses totaled approximately \$495,500 for the year ended December 31, 2009.

Advertising The Company expenses advertising costs as incurred. Advertising expense totaled approximately \$1,140,000 for the year ended December 31, 2009.

Income taxes With the consent of its stockholders, the Company has elected to be taxed under sections of federal and state income tax law which provide that in lieu of corporation income taxes, the stockholders separately account for their pro rata shares of the Company's items of income, deductions, losses and credits.

Subsequent events Subsequent events have been evaluated through December 20, 2010 which is the date the financial statements were available for issuance.

**Ag Leader Technology, Inc.**

**Notes to Financial Statements**

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Recently issued accounting pronouncement In October 2009, the Financial Accounting Standards Board issued Accounting Standards Update No. 2009-14, "*Certain Revenue Arrangements that Include Software Elements*". This guidance modifies the scope of industry specific software revenue recognition guidance to exclude from its requirements hardware components of tangible products containing software and tangible products containing software and non-software components that work together to deliver the tangible product's essential functionality. The amendments included in this update will be effective prospectively for revenue arrangements entered into or materially modified on or after June 15, 2010, with early adoption permitted. The Company has adopted this guidance effective January 1, 2009, it did not have a material impact on the Company's financial condition or operating results in 2009, as the Company does not have a significant amount of sales that contain material undelivered elements.

**Note 2. Inventories**

The composition of inventories at December 31, 2009 is as follows:

Raw materials	\$ 4,592,000
Work in process	211,000
Finished goods	1,971,000
	<u>\$ 6,774,000</u>

**Note 3. Line of Credit and Long-Term Debt**

At December 31, 2009 the Company had a \$3,000,000 line of credit with no outstanding borrowings, which matures in July 2010. Interest is payable monthly at prime plus 0.25% with a 5.25% floor (5.25% at December 31, 2009). The agreement contains a financial covenant requirement to maintain a certain minimum debt service coverage ratio.

Long-term debt consists of the following as of December 31, 2009:

Bank term note payable, due in monthly installments of approximately \$57,000, including interest at 6.25%, with any remaining balance due March 2014. The note is secured by a real estate mortgage	\$ 4,818,000
Other	34,000
	<u>4,852,000</u>
Less current portion	413,000
	<u>\$ 4,439,000</u>

**Ag Leader Technology, Inc.**

**Notes to Financial Statements**

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Approximate aggregate future maturities of long-term debt are as follows

2010	\$	413,000
2011		436,000
2012		455,000
2013		479,000
2014		3,069,000
	\$	<u>4,852,000</u>

**Note 4. Lease Commitments and Rent Expense**

The Company leases certain equipment under operating leases expiring at various times through September 2012

The Company also leases land from two affiliates related through common ownership for semi-annual payments of approximately \$6,000 and monthly payments of \$19,000, expiring in March 2011 and November 2019, respectively

At December 31, 2009, the Company's approximate future minimum lease commitments are as follows

	Related Party	Other	Total
2010	\$ 239,000	\$ 52,000	\$ 291,000
2011	228,000	12,000	240,000
2012	228,000	2,000	230,000
2013	228,000	-	228,000
2014	228,000	-	228,000
Thereafter	1,121,000	-	1,121,000
	<u>\$ 2,272,000</u>	<u>\$ 66,000</u>	<u>\$ 2,338,000</u>

Rental expense for all operating leases totaled approximately \$85,000, including \$25,000 paid to the affiliate in 2009

**Note 5. Employee Benefit Plan**

The Company has a 401(k) plan covering substantially all employees. Company contributions are made at the discretion of the Company but are limited to a matching contribution of 100% of employee contributions up to 4% of annual compensation and 50% of total employee contributions for the year. Company contributions for 2009 totaled approximately \$384,000.

**Ag Leader Technology, Inc**

**Notes to Financial Statements**

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**Note 6. Major Customer, Concentration of Foreign Sales and Major Supplier**

The Company has one major customer that made up approximately 12% of total 2009 net revenues. Accounts receivable with the customer was approximately \$1,165,000 at December 31, 2009.

During the year ended December 31, 2009 sales to customers located in foreign countries totaled approximately \$3,466,000.

Subsequent to December 31, 2009 the Company has experienced an increased level of purchases with a supplier causing it to become a major supplier in 2010. Purchases from January 1, 2010 through December 20, 2010 were approximately \$9,464,000. Products purchased from this supplier are only available from direct competitors; therefore management believes the Company would be adversely affected if they were no longer able to purchase products from this supplier.

**Note 7. Stockholders' Equity**

The Company is authorized to issue 1,000,000 shares of \$1 par value common stock, which consists of 500,000 shares of voting stock and 500,000 shares of non-voting stock. At December 31, 2009, 100,000 shares issued and outstanding were voting shares.

**Note 8. Commitments and Contingencies**

The Company is involved from time to time in routine legal matters incidental to its business including patent infringement matters and intellectual property claims. In the opinion of the Company's management, resolution of such matters will not have a material effect on the Company's financial position or its results of operations.

**Note 9. Income Taxes**

In considering the adoption of accounting guidance for uncertain tax positions, the Company performed a cost-benefit analysis for the assessment of its tax positions and determined that the costs of evaluating its open C-Corporation positions exceeded the benefits. Therefore, the Company has not yet adopted the accounting guidance for uncertainty in income taxes. The Company's last open C-Corporation tax year closes in 2010. Subsequent to that date, the Company intends on evaluating its tax positions, and it does not anticipate the adoption will have a material impact on its financial statements.