Photo Lighting Supply, Inc.: An Auditing Case Study

Jack Armitage, (Email: Jack_Armitage@unomaha.edu), University of Nebraska, Omaha

ABSTRACT

Photo Lighting Supply, Inc. (PLS) is a small manufacturer of tungsten and strobe studio and location photography lighting. This case requires students to consider the accounting matching principle, materiality, audit procedures for bonus payments, letters of representation, and planning and supervision. This case is appropriate for an introductory auditing class used near the end of the term, or used at any time in an advanced auditing class. The requirements of the case necessitate students consult several sections of the accounting and auditing standards. With the CPA Examination having moved to a computerized format, candidates will be required to use electronic accounting and auditing databases. This case requires students to search the standards to prepare their solution to the case.

INTRODUCTION

Photo Lighting Supply, Inc. (PLS) is a small manufacturer of tungsten and strobe studio and location photography lighting. Ora Kimle founded the company in 1958 and was its sole stockholder. In the early 1980s, Harden Andersen purchased a 50% interest in PLS's outstanding shares of common stock. Shortly after that time, Markus Wendell purchased 25% of the company's shares and in 1984 was named president of PLS.

PLS's financial statements for the fiscal years 1992 to 2003 are shown in Exhibit 4. During each of these years, PLS received an unqualified audit opinion on its financial statements.

When Andersen and Wendell purchased PLS, Hanson, Selleck & Co., CPAs (HSC) was retained as PLS's public accounting firm. Russell Johnson was an audit partner in HSC and engineered the purchase of PLS by Andersen and Wendell. Johnson served as partner in charge of the PLS audit starting in 1984.

The relationship between PLS and HSC was a long continuing relationship. Through the years, HSC conducted the annual audit of PLS and prepared PLS's federal and state income tax returns. In addition, HSC provided tax advice, business and computer consulting services, and also advised PLS regarding employment benefits including an employee stock ownership plan, employee pension plan, retirement plans, and executive compensation issues.

In June 2003 PLS terminated its relationship with HSC. This was a result of a controversy involving Wendell's annual bonus.

At a special meeting of the PLS Board of Directors on July 16, 1984, the Board approved a compensation plan for Wendell consisting of a salary and a bonus. The minutes of the meeting show that the bonus was to be computed as follows:

- 25% of net operating profit before income taxes
- Expense of bonus to be in following year
- Bonus payable after completion of annual audit

The complete minutes of the Board of Directors meeting are shown in Exhibit 1.

EXHIBIT 1
Minutes of Special Meeting of Board of Directors of Photo Lighting Supply, Inc.

A special meeting of the Board of Directors of Photo Lighting Supply, Inc. was held at the office of the corporation on July 16, 1984 at 10:00 AM. All directors were present.

The Chairman of the Board stated that the purpose of the meeting was to set up a compensation plan for Markus Wendell, President. The following plan was proposed:

Base Salary - $40,000.00 per year subject to annual review.

Bonus - 25% of net operating profit before income taxes. Expense of bonus to be in following year. Bonus payable after completion of annual audit.

Upon motion duly made, seconded, put to vote and unanimously carried, the above compensation plan was adopted.

There being no further business, the meeting was adjourned.

Signed by Corporate Secretary

The bonus became a source of controversy in 1991 when HSC informed PLS that the method for computing the bonus did not agree with generally accepted accounting principles. In the years following the adoption of the bonus plan, the amount of the bonus that Wendell was paid in the current year was subtracted from PLS's operating profit in the subsequent year.

In 1991, Johnson told Andersen that for accounting purposes the bonus should be expensed in the current year. Then, in 1992, HSC initially calculated the bonus without deducting the prior year's bonus because it had been recorded as an expense in 1991. When Johnson reviewed the calculation he contacted Andersen (See Johnson's September 29, 1992 letter in Exhibit 2.) This letter prompted Andersen to send a letter to Wendell (See Andersen's October 20, 1992 letter in Exhibit 3.)

EXHIBIT 2
Hanson, Selleck & Co., CPAs

September 29, 1992

Mr. Harden Andersen
Photo Lighting Supply, Inc.

Dear Harden:

Perhaps I should not be getting into this, but I have never hesitated to step forward when I thought I could be of help.

Markus is really uptight about the bonus provision and is convinced that it was never intended that one year's bonus would be deducted from the following year's income to compute the bonus for the following year.

For the last couple of years, I have felt that Markus's base salary should be increased and have discussed that with Markus. He has been very reluctant to suggest any increase because of the lack of confidentiality about such matters among his employees.

It seems to me that some compromise is in order on the bonus computation and you might want to take the above into consideration in making your determination.

After you have read this, why don't you give me a call?

Yours truly,
Russell G. Johnson

EXHIBIT 3
Harden S. Andersen

October 20, 1992

Mr. Markus Wendell
Photo Lighting Supply, Inc.

Dear Markus:

Even though I intend to discuss the matter with you in a face-to-face meeting, I did want to get my thoughts put on paper to avoid any future misunderstanding.

I have spoken to Russell Johnson, and have a thorough understanding of what he told you and why. I have also discussed our situation with other outsiders and feel that I have obtained a good cross section of opinion.

Additionally, I have come across an article of which I am going to give you a copy, which covers compensation for a person operating a business of this size.

My offer to you is as follows:

A. Your base pay for the period July 1, 1992, through June 30, 1993, be adjusted to $104,000 per year.
B. Normally bonus plans for the President of a business like Photo Lighting Supply, Inc., only cover situations where profit has been earned; therefore, I do not feel you should receive a bonus for the past fiscal year.
C. Your base pay for the current fiscal year should be $124,000 per year and your bonus should be our current bonus agreement.
D. If for any reason you would like to arrange a new bonus system, then I suggest you bring it forward to the Board of Directors for action. I recognize that there are bonus systems that allow for bonus for performance other than profit. Systems of this type are generally not as generous in good years as our current arrangement is, but nevertheless, I would consider anything that you feel is appropriate.

If this, as outlined above, would be agreeable to you, have our corporate law firm do the necessary paperwork and include this as a part of our directors meeting on October 12th.

Sincerely yours,
Harden Andersen

In a letter he wrote to Wendell on February 24, 1993, Johnson summarized what transpired during the past several months:

After discussing this with you and Harden, it was decided that the prior year's bonuses should again be deducted before computing bonus accrued at June 30, 1992. My contribution has been to see that it was accrued in the proper year for accounting purposes and that it was computed in a consistent manner. You and Harden can interpret the plan any way you want, as long as you are in agreement and we will apply that interpretation for accounting and tax purposes as long as it conforms to generally accepted accounting.

In other words, Johnson was able to reconcile that the bonus would be an expense for accounting purposes in the current year, yet still be deducted from the subsequent year's operating profit to determine Wendell's next year's bonus.

After the 1992 bonus was paid, however, Wendell became unhappy. He wanted the bonus expensed in the current year so it would not have any effect on his next year's bonus. Wendell would get a substantial amount more in bonus if it was calculated his way. Wendell calculated that from 1986 to 1992, the difference between the two methodologies was $70,500.00 less under the way the plan was written. This became a serious disagreement.

Despite bitterness and the threat of Wendell's resignation, Andersen remained adamant that the bonus calculation would not be changed to fit Wendell's wishes. After many meetings and much correspondence, Andersen informed Wendell by letter that if Wendell wanted to arrange a new bonus system, he should bring it forward to the Board of Directors for action. Wendell never brought the matter to the Board.

Sometime in the mid 1990s, the calculation of bonus was changed so that it was no longer required to deduct the prior year's bonus when calculating the bonus for the current year. At this time Johnson was no longer the partner in charge of the PLS audit, as he was about to retire from the firm. Terry McGill, a new young partner in Hanson, Selleck & Co. CPAs, was given the PLS audit. Before Johnson retired, he found out about the change in calculating the bonus for Wendell when he conferred with the new audit crew. Upon Johnson's question to the crew if this was in accordance with the plan, he was told by the crew that they were informed by Wendell that Andersen had agreed to that interpretation of the plan. Johnson recognized that this was a departure from what Andersen had earlier insisted be done, but he did not insist that this change be placed in minutes of the PLS Board of Directors meeting because he was no longer the partner in charge of the PLS audit.

On the basis of Wendell's statement, the change was implemented in the bonus calculation in every year thereafter in which a bonus was paid. However, at PLS, only Wendell was aware of the change. Doug Robinson, PLS's inside accountant, knew only that Wendell received a bonus in some years. Robinson was given the amount of the bonus by Wendell, and Robinson prepared the bonus check and had the payment booked. All financial details of the company were released through Wendell, and Wendell never discussed any PLS employee's salary with any one in the company. Also, Wendell kept his own personnel and payroll files in his own office, separate from all other employee's files.

Until the mid 1990s, a Hanson, Selleck & Co. CPAs auditor prepared the bonus work paper for the PLS audit. When McGill was in charge of the PLS audit, the audit firm gave Robinson a copy of the prior year's bonus work paper and told him to calculate the current year's bonus like it was done on last year's work paper. The work paper was Robinson's only point of reference for the bonus. He was never shown the Board of Director's resolution regarding bonus.

During each year of the audit, Hanson, Selleck & Co. CPAs obtained a management representation letter from PLS. Hanson, Selleck & Co. CPAs prepared the letter for PLS, and the letter was signed each year by Wendell and Robinson.

During the 1990s, Roger Moss was a vice president of PLS, and in the late 90s became a minority shareholder of PLS and a member of the Board of Directors. During this time he knew that a 25% bonus was paid to the president of PLS, but did not know any of the specifics of the calculation of the bonus. He also was aware of the dispute between Andersen and Wendell, but did not know the basis of the dispute.

In February, 2003, Wendell retired and resigned his position as president of PLS. Moss was appointed by the PLS Board of Directors to replace Wendell as president. During Moss' first few months as president, he had conversations with Robinson regarding how management bonuses were calculated. Shortly thereafter in a telephone conversation with Andersen regarding management bonuses, Moss suggested that bonuses be calculated as they have been in the past. That is, Moss proposed that the bonus be calculated as 25% of the year's net profit, not mentioning any deduction of the prior year's bonus. Andersen stated that was not the correct method for the calculation of bonuses, and he would be at the PLS office the next morning to investigate this matter further.

The next day, Andersen came to the PLS office and met with Robinson and Moss. After finding out that the bonus calculation had been done in a method not following the resolution of the Board of Directors, Andersen became very upset and walked out of the room.

Discussion Questions

1. What is GAAP for the bonus paid to the PLS president?

2. Calculate the bonus to be paid the PLS President each year following the method approved by the PLS Board of Directors.
3. Calculate the bonus to be paid the PLS President each year following the method favored by Wendell.
4. Is the amount of the bonus material to PLS's financial statements?
5. Is the difference in the bonus between the two methods material to PLS's financial statements?
6. What auditing procedures should be followed in auditing the bonus payment?
7. Would it be significant in this case if the representation letter provided to HSC by PLS contained a representation that all salaries and bonuses are in accordance with directives of the board of directors?
8. What are Robinson's responsibilities for the correct determination of bonus?
9. Was there a loss suffered by any party in this case? What is the amount of the loss? Who could the injured party turn to for recovery of the loss?
10. What sections of professional accounting and auditing standards provide the guidance to the issues presented in this case?

Teaching Notes

Case Overview

The use of cases brings realism into the classroom. Cases put principles and procedures learned from a textbook into a real business sitting, allowing students a richer learning experience. The Photo Lighting Supply, Inc. case is based on real events and provides auditing students a realistic setting to examine several auditing issues. This case requires students to consider the accounting matching principle, materiality, audit procedures for bonus payments, letters of representation, and planning and supervision.

The learning objectives for this case were derived from the AICPA Core Competency Framework (AICPA 2002). This case helps students acquire the AICPA Core Competencies of decision modeling (the ability to identify problems and potential solution approaches), risk analysis (the ability to identify risks of negative outcomes), measurement (the ability to identify what needs to be measured, the appropriate measurement basis, and how to measure it), and research (the ability to use relevant research skills to access the relevant standards and rules).

This case is appropriate for an introductory auditing class used near the end of the term, or used at any time in an advanced auditing class. The requirements of the case necessitate students consult several sections of the auditing standards, accounting and auditing textbooks, and the AICPA Audit and Accounting Manual or other lists of audit programs. With the CPA Examination moving to a computerized format, candidates will be required to use electronic accounting and auditing databases. This case requires students to search the standards to prepare their solution to the case.

Suggested Answers for Discussion Questions

1. What is GAAP for the bonus paid to the PLS president?

The matching principle under GAAP requires "... efforts (expenses) be matched with accomplishment (revenue) whenever it is reasonable and practicable to do so." (Kieso, et al, 2003, p. 38). SFAC No. 5 (FASB 2003, CON 5: Par. 86) states, "Many expenses, such as selling and administrative salaries, are recognized during the period in which cash is spent or liabilities are incurred for goods and services that are used up either simultaneously with acquisition or soon after." Clearly the President's bonus creates a liability in the year the bonus is earned and should be an expense of that year.

This should be a relatively simple issue to auditing students that have previously completed an intermediate financial accounting course, but it is important that students understand the proper accounting treatment of the bonus payment.

2. Calculate the bonus to be paid the PLS President each year following the method approved by the PLS Board of Directors.

The key issue in this question is that students correctly implement the PLS Board of Director's resolution shown in Exhibit 1. Students must deduct year one's bonus from year two's net income to determine the base for year two's bonus. The calculations are shown in Exhibit 5. The cumulative amount of the bonus over the 12 years is $664,000.

To save time for students, I make an electronic copy of Exhibit 4 available to the students so they can copy and paste the net income amounts into their solutions.

3. Calculate the bonus to be paid the PLS President each year following the method favored by Wendell.

This calculation makes no deduction for the prior year's bonus in computing the current year's bonus. The calculations are shown in Exhibit 5. The cumulative amount of the bonus over the 12 years is $785,000.

EXHIBIT 5
Photo Lighting Supply, Inc.
Calculation of Bonus - Correct Method (amounts in 000s)

Fiscal Year	Net Income	Deduction of Prior Year Bonus	Basis for Bonus	Bonus Percentage	Bonus
1992	$ (14)		$ (14)	25%	$ -
1993	$ 37	$ -	$ 37	25%	$ 9
1994	$ 301	$ 9	$ 292	25%	$ 73
1995	$ (36)	$ 73	$ (109)	25%	$ -
1996	$ 245	$ -	$ 245	25%	$ 61
1997	$ 400	$ 61	$ 339	25%	$ 85
1998	$ 605	$ 85	$ 520	25%	$ 130
1999	$ 340	$ 130	$ 210	25%	$ 52
2000	$ (39)	$ 52	$ (91)	25%	$ -
2001	$ 77	$ -	$ 77	25%	$ 19
2002	$ 739	$ 19	$ 720	25%	$ 180
2003	$ 395	$ 180	$ 215	25%	$ 54
					$ 664

Photo Lighting Supply, Inc.
Calculation of Bonus - Wendell's Method (amounts in 000s)

Fiscal Year	Net Income	Deduction of Prior Year Bonus	Basis for Bonus	Bonus Percentage	Bonus
1992	$ (14)	$ -	$ (14)	25%	$ -
1993	$ 37	$ -	$ 37	25%	$ 9
1994	$ 301	$ -	$ 301	25%	$ 75
1995	$ (36)	$ -	$ (36)	25%	$ -
1996	$ 245	$ -	$ 245	25%	$ 61
1997	$ 400	$ -	$ 400	25%	$ 100
1998	$ 605	$ -	$ 605	25%	$ 151
1999	$ 340	$ -	$ 340	25%	$ 85
2000	$ (39)	$ -	$ (39)	25%	$ -
2001	$ 77	$ -	$ 77	25%	$ 19
2002	$ 739	$ -	$ 739	25%	$ 185
2003	$ 395	$ -	$ 395	25%	$ 99
					$ 785
		Difference between methods:			$ 121

EXHIBIT 6

Fiscal Year	**Net Income**	**Bonus Calculated by Wendell's Method**	**Bonus Calculated Correctly**	**Difference**
1992	$ (14)	$ -	$ -	$ -
1993	$ 37	$ 9	$ 9	$ 0
1994	$ 301	$ 75	$ 73	$ 2
1995	$ (36)	$ -	$ -	$ -
1996	$ 245	$ 61	$ 61	$ 0
1997	$ 400	$ 100	$ 85	$ 15
1998	$ 605	$ 151	$ 130	$ 21
1999	$ 340	$ 85	$ 52	$ 33
2000	$ (39)	$ -	$ -	$ -
2001	$ 77	$ 19	$ 19	$ 0
2002	$ 739	$ 185	$ 180	$ 5
2003	$ 395	$ 99	$ 54	$ 45
		$ 785	$ 664	$ 121

4. Is the amount of the bonus material to PLS's financial statements?

Materiality is based on the importance of an item and if it would affect a decision of a user of the information. Materiality is based on both quantitative and qualitative considerations. The absolute and relative amounts of the item must be considered (quantitative factors), and the nature of the item (qualitative factors) must also be considered in judging materiality. Qualitative factors include considerations such as related party, illegal act, fraud, whether management can exercise discretion over the item, uncertainty exists over the item, etc.

In SFAC No. 2, materiality is defined as, "The magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement." (FASB 2003, CON 2: glossary) The International Accounting Standards define materiality in a very similar manner. (AICPA 2003, AC §9000C.29-30)

Additionally, the Auditing Standards Board defined materiality as, "The auditor's consideration of materiality is a matter of professional judgment and is influenced by his or her perception of the needs of a reasonable person who will rely on the financial statements." (AICPA 2003, AU §312.10) Again, the International Standards on Auditing define materiality very similarly. (AICPA 2003, AU §8320.04)

Practicing auditors also use rules of thumb developed over time in assessing an item's materiality. Robertson and Louwers (2002, p. 81) indicate that, "...anything less than 5 percent is probably not material and anything greater than 10 percent probably is material."

The bonus payments in this case are material. Every year that a bonus is paid, the amount of the bonus is greater than 10 percent of net income because bonus is calculated as 25 percent of net income. Also, using a rule of thumb of one-half to one percent of total assets or total revenue, the bonus amount is nearly always material.

5. Is the difference in the bonus between the two methods material to PLS's financial statements?

The analysis of materiality for this question requires a more detailed analysis than in the previous question. In only two years (1999 and 2003) is the difference between the amounts of bonus calculated by the two methods greater than 5 percent of net income. However, considering that Wendell can exercise discretion because he is the only one knowledgeable of the board of directors resolution and the possibility of fraud in the actions of Wendell, the amounts of the difference in bonus are material to the financial statements of PLS.

6. What auditing procedures should be followed in auditing the bonus payment?

In all audits, auditors must use adequate planning and supervision as required by the first standard of field work. This requires that auditors conduct an audit in accordance with GAAS, including obtaining knowledge of the entity's business and dealing with differences of opinion among firm personnel. And further, "the auditor should obtain a knowledge of matters that relate to the nature of the entity's business... and compensation methods." (AICPA 2003, §311.07)

The principle objective in auditing a bonus payment is that the payment is made in accordance with the board of director's resolution for bonus payments. Bonus payments are made to top executives, and since these executives are in a position to override controls to alter the amount of bonus, it is important that the auditor recalculate the amount of the bonus and verify that it is in accordance with the board of director's resolution. Thus, the procedures necessary to audit bonus payments are to examine the resolution of the board of directors and recalculate the amount.

The AICPA Audit and Accounting Manual (AICPA 1997, §5510 B.2.a.) states that auditors should examine officers' salaries and bonuses and determine board of directors' authorization. Also, Arens and Loebbecke (1997, p. 567) indicate that in many companies, the year-end bonuses to officers are such a major item that failure to record them would result in a material misstatement, and auditors should compare them with the amount authorized in the minutes of the board of directors.

7. Would it be significant in this case if the representation letter provided to HSC by PLS contained a representation that all salaries and bonuses are in accordance with directives of the board of directors.

During the course of an audit, management makes many representations to an auditor. These representations take the form of responses to specific questions and through the financial statements. However, a letter of representations provides supplementary evidence, not primary evidence for the audit. The auditing standards state that, "...representations from management are part of the evidential matter the independent auditor obtains, but they are not a substitute for the application of those auditing procedures necessary to afford a reasonable basis for an opinion regarding the financial statements under audit." (AICPA 2003, §333.02) Thus, even if the auditors obtain a letter of representations directly addressing officer bonus payments, the auditors are still obligated to conduct the procedures discussed in the solution to Question 6.

8. What are Robinson's responsibilities for the correct determination of bonus?

It might be expected that a company's chief account, Robinson for PLS in this case, would be aware of the method of bonus calculations. However, that is not always the case in real life. In the secretive environment of officer compensation at PLS, it should not be surprising that Robinson is not privy to information regarding the president's bonus payment. In obtaining an understanding of PLS's control environment, HSC should become aware that Wendell maintained complete secrecy regarding his salary and bonus payment. Thus, HSC's auditors should exercise sufficient professional skepticism to give extra attention to the bonus payment and be certain that the payment is in accordance with the board of director's wishes.

9. Was there a loss suffered by any party in this case? What is the amount of the loss? Who could the injured party turn to for recovery of the loss?

Photo Lighting Supply, Inc. suffered a loss of $121,000 because more money was paid to Wendell in bonus than was authorized by the PLS Board of Directors. PLS could attempt to recover the amount from Wendell charging that he knew the correct amount of bonus that should be paid, but he fraudulently paid himself more in bonus than was allowed.

Alternatively, PLS could attempt to recover the $121,000 loss from HSC, charging that the firm was negligent in conducting its audit of PLS. As was shown in solutions to previous questions, HSC had a duty to discover that the amount being paid to the CEO was not in accordance with the board's resolution.

10. What sections of professional accounting and auditing standards provide the guidance to the issues presented in this case?

The answers to this question may be given to the students as they start the case to ensure they will be prepared for the class discussion of the case. Or, this question may be omitted as its answer is addressed in the other questions.

The standards the students should consult are SFAC No. 2 and No. 5, and AU §311, §312, and §333.

REFERENCES

1. AICPA (1997). *Audit and accounting manual*, American Institute of Certified Public Accountants, Inc.
2. _____ (2002). "Core competency framework for entry into the accounting profession". Available at http//www.aicpa.org/edu/corecomp.htm.
3. _____ (2003). *Professional standards.* Updated as of March 1, 2003, CD-ROM.
4. Arens, A. and J. Loebbecke (1997). *Auditing: an integrated approach*, 7th ed. Prentice Hall.
5. FASB (2003). *Financial accounting research system*. Academic Version, CD-ROM.
6. Kieso, D., J. Weygandt, and T. Warfield (2003). *Fundamentals of intermediate accounting*. John Wiley & Sons, Inc.
7. Robertson, J., and T. Louwers (2002). *Auditing and assurance services*, 10th ed. Boston, MA: McGraw-Hill Irwin.

NOTES

EXHIBIT 4

Photo Lighting Supply, Inc.
Balance Sheet (amounts in 000s)

	Fiscal Years											
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Current Assets	$ 3,187	$ 3,425	$ 3,867	$ 2,735	$ 3,465	$ 5,390	$ 6,064	$ 5,018	$ 4,099	$ 4,026	$ 3,934	$ 3,960
Property, Plant & Equip.	$ 323	$ 347	$ 207	$ 212	$ 242	$ 418	$ 983	$ 1,099	$ 455	$ 439	$ 336	$ 307
Other Assets	$ 36	$ 48	$ 16	$ 37	$ 55	$ 6	$ 23	$ 34	$ -	$ 44	$ 9	$ 7
Total	$ 3,546	$ 3,820	$ 4,090	$ 2,984	$ 3,762	$ 5,814	$ 7,070	$ 6,151	$ 4,554	$ 4,509	$ 4,279	$ 4,274
Current Liabilities	$ 1,349	$ 1,443	$ 1,769	$ 1,003	$ 1,453	$ 3,589	$ 3,774	$ 2,404	$ 1,507	$ 1,434	$ 1,096	$ 1,119
Long-term Debt	$ 49	$ 67	$ 61	$ 66	$ 78	$ 93	$ 77	$ 61	$ 54	$ 47	$ 32	$ 38
Total Liabilities	$ 1,398	$ 1,510	$ 1,830	$ 1,069	$ 1,531	$ 3,682	$ 3,851	$ 2,465	$ 1,561	$ 1,481	$ 1,128	$ 1,157
Stockholders' Equity	$ 2,148	$ 2,310	$ 2,260	$ 1,915	$ 2,231	$ 2,132	$ 3,219	$ 3,686	$ 2,993	$ 3,028	$ 3,151	$ 3,117
Total	$ 3,546	$ 3,820	$ 4,090	$ 2,984	$ 3,762	$ 5,814	$ 7,070	$ 6,151	$ 4,554	$ 4,509	$ 4,279	$ 4,274

Photo Lighting Supply, Inc.
Income Statement (amounts in 000s)

	Fiscal Years											
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Sales	$ 9,060	$ 9,269	$ 10,006	$ 9,436	$ 9,735	$ 12,200	$ 12,734	$ 10,118	$ 8,551	$ 9,586	$ 9,191	$ 8,950
Cost of Goods Sold	$ 7,212	$ 6,673	$ 6,781	$ 4,892	$ 7,698	$ 9,255	$ 9,246	$ 6,914	$ 6,275	$ 7,251	$ 6,209	$ 6,302
Gross Profit	$ 1,848	$ 2,596	$ 3,225	$ 4,544	$ 2,037	$ 2,945	$ 3,488	$ 3,204	$ 2,276	$ 2,335	$ 2,982	$ 2,648
Expenses	$ 1,875	$ 2,389	$ 2,723	$ 4,606	$ 1,759	$ 2,192	$ 2,447	$ 2,568	$ 2,341	$ 2,323	$ 2,123	$ 2,218
Income before Taxes and Interest	$ (27)	$ 207	$ 502	$ (62)	$ 278	$ 753	$ 1,041	$ 636	$ (65)	$ 12	$ 859	$ 430
Interest	$ 14	$ 7	$ 11	$ 10	$ 7	$ 8	$ 28	$ 45	$ 12	$ 9	$ 28	$ 18
Taxes	$ (27)	$ 163	$ 190	$ (36)	$ 26	$ 345	$ 408	$ 251	$ (38)	$ (74)	$ 92	$ 17
Net Income	$ (14)	$ 37	$ 301	$ (36)	$ 245	$ 400	$ 605	$ 340	$ (39)	$ 77	$ 739	$ 395