Q.E.P. CO., INC. and Subsidiaries

Consolidated Financial Statements
For the Years Ended February 28, 2010 and 2009

C O N T E N T S

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Report of Independent Certified Public Accountants

Board of Directors and Shareholders
Q.E.P. Co., Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Q.E.P. Co., Inc. (a Delaware Corporation) and Subsidiaries (the "Company") as of February 28, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Q.E.P. Co., Inc. and Subsidiaries as of February 28, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Miami, Florida
May 21, 2010

Q.E.P. CO., INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except par values)

	February 28, 2010	February 28, 2009
ASSETS		
CURRENT ASSETS		
Cash	$ 856	$ 695
Accounts receivable, less allowance for doubtful accounts of approximately $621 and $561 as of February 28, 2010 and February 28, 2009, respectively	32,792	26,746
Inventories	30,485	24,446
Prepaid expenses and other current assets	2,497	2,026
Deferred income taxes	1,386	1,472
Total current assets	68,016	55,385
Property and equipment, net	12,385	6,225
Deferred costs	1,322	2,203
Deferred income taxes, net	1,776	2,072
Intangibles, net	2,788	2,817
Other assets	237	263
Total Assets	$ 86,524	$ 68,965
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade accounts payable	$ 19,555	$ 15,136
Accrued liabilities	13,547	8,228
Lines of credit	12,443	24,832
Current maturities of notes payable	2,749	1,292
Total current liabilities	48,294	49,488
Notes payable	11,639	3,442
Other long-term liabilities	566	495
Total Liabilities	60,499	53,425
Commitments and Contingencies	--	--
SHAREHOLDERS' EQUITY		
Preferred stock; 2,500 shares authorized, $1.00 par value; 337 shares issued and outstanding at February 28, 2010 and February 28, 2009	337	337
Common stock; 20,000 shares authorized, $.001 par value; 3,696 shares and 3,695 shares issued, and 3,402 shares and 3,531 shares outstanding at February 28, 2010 and February 28, 2009, respectively	4	4
Additional paid-in capital	10,419	10,406
Retained earnings	18,276	9,306
Treasury stock; 294 and 164 shares held at cost at February 28, 2010 and February 28, 2009, respectively	(1,823)	(1,113)
Accumulated other comprehensive loss	(1,188)	(3,400)
Total Shareholders' Equity	26,025	15,540
Total Liabilities and Shareholders' Equity	$ 86,524	$ 68,965

The accompanying notes are an integral part of these financial statements.

Q.E.P. CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands except per share data)

	Year Ended	
	February 28, 2010	February 28, 2009
Net sales	$ 205,853	$ 203,603
Cost of goods sold	140,486	147,571
Gross profit	65,367	56,032
Costs and expenses:		
Shipping	22,905	22,607
General and administrative	17,087	17,107
Selling and marketing	11,520	12,952
Impairment loss on goodwill	-	7,927
Other (income) expense, net	143	(136)
Total costs and expenses	51,655	60,457
Operating income (loss)	13,712	(4,425)
Interest expense, net	(1,156)	(1,740)
Income (loss) before provision for income taxes	12,556	(6,165)
Provision for income taxes	3,579	1,090
Net income (loss)	$ 8,977	$ (7,255)
Net income (loss) per share:		
Basic	$ 2.59	$ (2.13)
Diluted	$ 2.57	$ (2.13)
Weighted average number of common shares outstanding:		
Basic	3,468	3,415
Diluted	3,496	3,415

The accompanying notes are an integral part of these financial statements.

Q.E.P. CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except share data)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity	Comprehensive Income (Loss)
Balance at February 29, 2008	336,660	$ 337	3,528,341	$ 3	$ 10,154	$ 16,574	$ 43	$ (756)	$ 26,355	
Net loss						(7,255)			(7,255)	$ (7,255)
Foreign currency translation adjustment							(3,443)		(3,443)	(3,443)
Stock expense					92				92	
Purchase of Treasury Stock								(357)	(357)	
Issuance of stock			166,500	1	160				161	
Dividends paid						(13)			(13)	
Balance at February 28, 2009	336,660	$ 337	3,694,841	$ 4	$ 10,406	$ 9,306	$ (3,400)	$ (1,113)	$ 15,540	$ (10,698)
Net income						8,977			8,977	$ 8,977
Foreign currency translation adjustment							2,212		2,212	2,212
Stock expense					13				13	
Purchase of Treasury Stock								(710)	(710)	
Issuance of stock			1,000	-					-	
Dividends paid						(7)			(7)	
Balance at Febuary 28, 2010	336,660	$ 337	3,695,841	$ 4	$ 10,419	$ 18,276	$ (1,188)	$ (1,823)	$ 26,025	$ 11,189

The accompanying notes are an integral part of these financial statements.

Q.E.P. CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended February 28, 2010	Year Ended February 28, 2009
Cash flows from operating activities:		
Net income (loss)	$ 8,977	$ (7,255)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,518	2,005
Impairment loss on goodwill	-	7,927
Deferred income taxes	410	(1,003)
Other non-cash adjustments	461	406
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	(1,553)	2,243
Inventories	233	(918)
Prepaid expenses and other assets	665	(1,814)
Trade accounts payable and accrued liabilities	4,601	(2,111)
Net cash provided by (used in) operating activities	15,312	(520)
Cash flows from investing activities:		
Acquisition	(6,212)	-
Capital expenditures	(601)	(842)
Proceeds from sale of business	-	335
Net cash used in investing activities	(6,813)	(507)
Cash flows from financing activities:		
Net borrowings (repayments) under lines of credit	(13,052)	2,119
Borrowings of notes payable	6,919	471
Repayments of notes payable	(1,682)	(1,451)
Purchase of treasury stock	(603)	(359)
Proceeds from exercise of stock options	-	161
Dividends paid	(7)	(13)
Net cash provided by (used in) financing activities	(8,425)	928
Effect of exchange rate changes on cash	87	(155)
Net increase (decrease) in cash	161	(254)
Cash and cash equivalents at beginning of year	695	949
Cash and cash equivalents at end of year	$ 856	$ 695

The accompanying notes are an integral part of these financial statements.

NOTE A - DESCRIPTION OF BUSINESS

Q.E.P. Co., Inc. (the "Company"), founded in 1979, is a leading worldwide manufacturer, marketer and distributor of a comprehensive line of hardwood flooring, flooring installation tools, adhesives and flooring related products targeted for the professional installer as well as the do-it-yourselfer. Under brand names including QEP®, ROBERTS®, Capitol®, Harris®Wood, Vitrex®, PRCI®, BRUTUS® and Elastiment®, the Company markets over 3,000 flooring and flooring related products. In addition to a complete hardwood flooring line, Q.E.P. products are used primarily for surface preparation and installation of wood, laminate, ceramic tile, carpet and vinyl flooring. The Company sells its products to home improvement retail centers and specialty distribution outlets in 50 states and throughout the world.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Principles of Consolidation

The consolidated financial statements include the accounts of Q.E.P. Co., Inc. and its wholly owned subsidiaries, after eliminating all significant inter-company accounts and transactions.

In preparing the accompanying consolidated financial statements, the Company evaluated the period through May 21, 2010, the date the financial statements were available to be issued, for material subsequent events requiring recognition or disclosure.

2. Accounts Receivable

The Company's accounts receivable are principally due from home centers and flooring accessory distributors. Credit is extended based on an evaluation of a customer's financial condition and collateral is not required. Accounts receivable are due at various times based on each customer's credit worthiness and selling arrangement. The outstanding balances are stated net of an allowance for doubtful accounts. The Company determines its allowance by considering a number of factors, including the extent to which trade accounts receivable are past due, loss history, customers' ability to pay their obligations, and the condition of the general economy and the industry as a whole. An account may be determined to be uncollectible if all collection efforts have been exhausted, a customer has filed for bankruptcy, all recourse against an account is exhausted, or disputes are unresolved and negotiations to settle are exhausted. Uncollectible accounts are written off against the allowance. Payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

3. Inventories

Inventories are stated at the lower of standard cost or market, which approximates the lower of cost on a first-in, first-out basis or net realizable value.

4. Property and Equipment

Property and equipment are stated at cost. Depreciation is recorded using the straight-line method in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Leasehold improvements are amortized over their expected useful life or the remaining life of the respective lease, whichever is shorter.

The following are the estimated lives of the Company's property and equipment:

Machinery and warehouse equipment	5 to 10 years
Furniture and computer equipment	3 to 10 years
Capital leases	3 to 5 years
Buildings	30 to 33 years
Leasehold improvements	5 to 15 years

Maintenance and repairs are charged to expense and significant renewals and betterments are capitalized. When property is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in operations for the period.

5. *Intangible Assets*

Goodwill is tested for impairment using a fair value approach applied to each reporting unit and considers the Company's market capitalization. Impairment charges are recognized for amounts where the reporting unit's goodwill exceeds its fair value. The Company amortizes the cost of other intangibles over their estimated useful lives. Amortizable intangible assets may also be tested for impairment if indications of impairment exist. If the Company determines that an asset is impaired, it is written down to fair value. The Company's annual impairment assessment date is August 31st.

6. *Impairment of Long-Lived Assets*

The Company evaluates its long-lived assets and definite-lived intangibles for impairment whenever events or circumstances indicate that the carrying amount of such assets or intangibles may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to its fair value. If such an asset is considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the asset exceeds its fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

7. *Income Taxes*

Deferred income taxes are based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities. Deferred income tax provisions and benefits are based on changes to the assets or liabilities from year to year. In providing for deferred taxes, the Company considers tax regulations of the jurisdictions in which it operates, estimates of future taxable income, and available tax planning strategies. If tax regulations, operating results or the ability to implement tax-planning strategies vary, adjustments to the carrying value of deferred tax assets and liabilities may be required. Valuation allowances are recorded related to deferred tax assets based on the "more likely than not" criteria.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the "more-likely-than-not" threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

8. *Leases*

Leases which meet relevant criteria are classified as capital leases. For such leases, assets and obligations are recorded initially at the present value of the contractual lease payments. The capitalized leases are amortized using the straight-line method over the shorter of the assets' estimated economic lives or the term of the lease. Interest expense relating to the lease liabilities is recorded to affect a constant rate of interest over the terms of the obligations. Leases not meeting capitalization criteria are classified as operating leases and related rentals are charged to expense as incurred.

9. Earnings Per Share

Basic earnings per share is computed based on weighted average shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and dilutive common stock equivalent shares outstanding during the period. Dilutive common stock equivalent shares consist of the dilutive effect of stock awards.

10. Fair Value of Financial Instruments

The following methods and assumptions were used in estimating the indicated fair values of financial instruments:

Cash, accounts receivable and payable, accrued liabilities and lines of credit: The carrying amount approximates fair value due to the short maturity and terms of these instruments.

Notes payable: The fair value of the Company's borrowings approximates the carrying value based on current rates offered to the Company for similar debt.

11. Foreign Currencies

The financial statements of subsidiaries outside the United States are measured using the local currency as the functional currency. Assets and liabilities recorded in foreign currencies are translated at the exchange rate on the balance sheet date. Translation adjustments resulting from this process are charged or credited to equity. Revenues, costs and expenses are translated at average rates of exchange prevailing during the year. Gains and losses on foreign currency transactions are included in general and administrative expenses. In fiscal 2010, a gain of $0.2 million was recorded for foreign currency transactions. A net loss of $0.5 million was recorded in fiscal 2009 for foreign currency transactions.

12. Revenue Recognition

Sales are recognized when title to merchandise has passed to the customer, the selling price is fixed and determinable and collectibility of the sales price is reasonably assured. The Company establishes reserves for returns and allowances based on current and historical information and trends. Net sales and accounts receivable have been reduced by such amounts. The Company presents taxes collected from customers and remitted to governmental authorities on a net basis.

The Company accounts for upfront consideration given to customers as a reduction to revenue at the earlier of the Company making payment or incurring an obligation to the customer, unless the Company has an agreement with the customer in which the Company can control the benefit, in which case the incentive is recorded as a deferred cost asset and is expensed as a reduction to revenue over the term of the agreement. The Company evaluates the impairment of deferred cost assets on a quarterly basis.

13. Shipping Costs

Shipping costs, other than costs billed to customers, are expensed as incurred. Shipping costs billed to customers are included in net sales.

14. Advertising Allowances and Costs

Advertising allowances are expensed as incurred and totaled $5.5 million and $4.6 million for the years ended February 28, 2010 and 2009, respectively. In return, the Company receives and tracks the advertising of its products in various forms of media on a local, regional and national level, displays of the Company's products on in-store signage, and benefits from advertising of the Company's products directly to its customers' professional contractors. The Company is not able to reasonably estimate the fair value of the benefit received under these arrangements. Accordingly, the Company accounts for these promotional funds as a reduction to the selling price and the costs are included in net sales.

Advertising costs are expensed as incurred and totaled $0.1 million for both the year ended February 28, 2010 and 2009. These costs are recorded in selling and marketing expenses and primarily consist of advertising in trade publications.

15. Use of Estimates

In preparing financial statements, management is required to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the revenues and expenses during the reporting period. Significant estimates include the valuation of income taxes, the allowance for doubtful accounts and inventory valuation reserves, the impairment evaluation of goodwill, other intangible and long-lived assets, and the fair value of assets acquired and liabilities assumed. Actual results could differ from those estimates.

16. Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The Company's balance in comprehensive income (loss) is specifically derived from foreign currency translation adjustments.

NOTE C – ACQUISITION

On February 12, 2010, the Company acquired substantially all the assets and assumed certain liabilities of ArborCraft, LLC, a manufacturer and distributor of a broad line of hardwood flooring, including prefinished engineered plank and prefinished solid flooring along with related moldings and accessories, to complement the Company existing product lines. The acquired operations are located in three facilities on approximately 67 acres, including over 500,000 square feet of manufacturing and drying space in addition to a 192,000 square foot lumber yard.

The acquisition is accounted for as a purchase and, accordingly, is included in the Company's consolidated results of operations as part of its Domestic segment since the acquisition date. The purchase price is allocated based on the fair value of the assets acquired and the liabilities assumed.

A summary of the estimated fair value of assets acquired and liabilities assumed in connection with the acquisition follows (in thousands):

Consideration:		
Cash paid	$	6,212
Note payable issued		3,826
Working capital adjustment accrued		220
Total consideration	$	10,258
Fair value of assets acquired:		
Accounts receivable	$	3,060
Inventories		4,700
Property and equipment		6,294
Other assets		136
		14,190
Less: Fair value of trade accounts payable and accrued liabilities assumed		3,932
Fair value of net assets acquired	$	10,258

The fair values of certain assets acquired and liabilities assumed, principally inventories and accrued liabilities, are based on information currently available to the Company and are subject to change as further information becomes available. Acquisition costs included in general and administrative expenses were approximately $0.2 million. Sales and earnings included in the Company's consolidated income statement for fiscal 2010 related to the acquisition were not material.

Net sales (unaudited) of ArborCraft for the calendar years 2009 and 2008 were approximately $27.8 million and $30.3 million, respectively; the unaudited pro forma net loss of ArborCraft for the corresponding periods was approximately $1.8 million and $4.3 million, respectively. Pro Forma combined net sales (unaudited) of the Company and ArborCraft for the fiscal years 2010 and 2009 were approximately $232.8 million and $233.9 million, respectively; the pro forma combined net income (loss) for the corresponding periods was approximately $7.2 million and $(11.5) million, respectively.

The pro forma unaudited results of ArborCraft and the pro forma combined results of operations of the Company and ArborCraft do not reflect increased sales or cost reductions expected to be realized in connection with the acquisition. Accordingly, the unaudited combined pro forma results are not intended to be indicative of the results that would have been actually reported if the acquisition had occurred on March 1, 2008 or as being representative of the acquisition's contribution to the Company's future consolidated results of operation.

NOTE D – EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income (loss), after deducting preferred stock dividends, by the weighted average number of shares of common stock outstanding. Diluted earnings per share is computed by dividing net income, after deducting preferred stock dividends, by the weighted average number of shares of common and dilutive common stock equivalent shares outstanding. The amount of preferred stock dividends is immaterial in all periods presented. There were approximately 125 thousand and 249 thousand common stock equivalent shares excluded from the dilutive earnings per share calculation because they were anti-dilutive in fiscal 2010 and fiscal 2009, respectively.

The following is a reconciliation of the number of shares used in the basic and diluted computation of income per share (in thousands):

	Year Ended	
	February 28, 2010	February 28, 2009
Weighted average number of common shares outstanding - basic	3,468	3,415
Dilution from stock options	28	-
Weighted average number of common shares outstanding - diluted	3,496	3,415

NOTE E – SEGMENT INFORMATION

The Company operates in five business segments: Domestic, Canada, Europe, Australia/New Zealand and Other. Management has chosen to organize the segments into geographic areas, with each segment being the responsibility of a segment manager, except for the Canadian segment and Mexico in the Other segment, which are managed by members of the Domestic segment's senior management team. Each segment markets and sells to home improvement retail centers and specialty distribution outlets. The European segment is made up of operations in the UK, France, and Ireland. The Other segment is made up of operations in Latin America and worldwide purchasing operations in Asia.

The performance of the business is evaluated at the segment level. Cash, debt and income taxes generally are managed centrally. Accordingly, we evaluate performance of our segments based on operating earnings exclusive of financing activities and income taxes. The fiscal 2009 operating income includes a non-cash charge for the impairment of goodwill in the Company's Domestic segment of $6.5 million, Australia/New Zealand segment of $1.1 million and Europe segment of $0.3 million. Segment results were as follows (in thousands):

	Year Ended	
	February 28, 2010	February 28, 2009
Net sales		
Domestic	$ 138,230	$ 140,346
Canada	21,874	21,924
Europe	19,484	15,502
Australia/New Zealand	24,139	22,472
Other	2,126	3,359
	$ 205,853	$ 203,603
Operating income (loss)		
Domestic	$ 9,224	$ (2,173)
Canada	2,400	1,933
Europe	1,696	(468)
Australia/New Zealand	884	(2,990)
Other	(492)	(727)
	$ 13,712	$ (4,425)

	Year Ended February 28, 2010	February 28, 2009
Depreciation and amortization		
Domestic	$ 601	$ 716
Canada	486	458
Europe	79	201
Australia/New Zealand	304	580
Other	48	50
	$ 1,518	$ 2,005
Capital expenditures		
Domestic	$ 453	$ 303
Canada	5	381
Europe	21	45
Australia/New Zealand	98	98
Other	24	15
	$ 601	$ 842

	February 28, 2010	February 28, 2009
Total assets		
Domestic	$ 59,498	$ 48,037
Canada	8,485	7,091
Europe	8,369	6,448
Australia/New Zealand	8,749	5,773
Other	1,423	1,616
	$ 86,524	$ 68,965

Amounts are attributed to the country of the legal entity that recognized the sale or holds the assets. Intercompany sales are billed at prices established by the Company, which take into account the product cost and overhead of the selling location.

NOTE F – INVENTORIES

Inventories consisted of the following (in thousands):

	February 28, 2010	February 28, 2009
Finished goods	$ 24,277	$ 21,142
Raw materials and work-in-process	6,208	3,304
	$ 30,485	$ 24,446

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following (in thousands):

	February 28, 2010	February 28, 2009
Machinery and warehouse equipment	$ 12,244	$ 7,549
Building and leasehold improvements	9,707	6,664
Office furniture, equipment and computer equipment	7,787	7,337
	29,738	21,550
Less: Accumulated depreciation and amortization	(17,353)	(15,325)
	$ 12,385	$ 6,225

Depreciation expense of property and equipment was $1.2 million and $1.5 million for fiscal 2010 and 2009, respectively. Amortization of assets recorded under capital leases is included in depreciation expense.

NOTE H – DEFERRED COSTS

The Company records the upfront consideration given to customers associated with future purchase agreements as deferred costs within the non-current assets classification. These deferred costs are expensed as a reduction to sales on a straight line basis over the term of the agreement. As of February 28, 2010 and 2009, the Company had unamortized deferred costs of $1.3 million and $2.2 million, respectively. The Company evaluates the impairment of deferred costs on a quarterly basis.

The Company expensed $0.9 million and $1.5 million of deferred costs in fiscal 2010 and fiscal 2009, respectively.

NOTE I – INTANGIBLE ASSETS

Intangible assets with definite lives are amortized while intangibles with indefinite lives, such as goodwill, are tested annually for impairment or when events or changes in circumstances indicate the carrying value may not be recoverable. The Company performs an impairment test on goodwill during the second quarter of each fiscal year. The Company performed an impairment test during the second quarter of fiscal 2010 and determined that there was no impairment to goodwill. The impairment test in fiscal 2009 resulted in an impairment charge of $7.9 million. The balance of goodwill at February 28, 2010 is associated with the Canada segment.

The Company will continue to assess the impairment of goodwill and other intangibles in the future. If the Company's operating performance and resulting cash flows in the future are less than expected an additional impairment charge could be incurred.

The changes in the carrying amount of goodwill were as follows (in thousands):

Balance on February 29, 2008	$ 9,685
Goodwill impairment	(7,927)
Translation adjustments	(932)
Balance on February 28, 2009	826
Translation adjustments	163
Balance on February 28, 2010	$ 989

All other intangible assets are subject to amortization. The total balance of intangible assets is classified as follows (in thousands):

	Weighted Average Useful Life	February 28, 2010 Gross Carrying Amount	February 28, 2010 Accumulated Amortization	February 28, 2010 Net Carrying Amount	February 28, 2009 Gross Carrying Amount	February 28, 2009 Accumulated Amortization	February 28, 2009 Net Carrying Amount
Trademarks	20	$ 3,023	$ (1,489)	$ 1,534	$ 2,993	$ (1,303)	$ 1,690
Other intangibles	5	1,383	(1,118)	265	1,187	(886)	301
		$ 4,406	$ (2,607)	$ 1,799	$ 4,180	$ (2,189)	$ 1,991

Other intangibles include customer lists, non-compete agreements, patents and financing fees. Amortization expense of $0.3 million and $0.5 million was recorded related to intangible assets in fiscal 2010 and fiscal 2009, respectively. Estimated amortization expense for each of the fiscal years 2011 through 2015 is approximately $0.2 million and an aggregate of approximately $0.7 million thereafter.

NOTE J – DEBT

Debt consists of the following (in thousands):

	February 28, 2010	February 28, 2009
Lines of Credit:		
Domestic revolving credit facility	$ 11,235	$ 22,266
International credit facilities	1,208	2,566
	$ 12,443	$ 24,832
Notes Payable:		
Term loan facilities	$ 10,971	$ 1,169
Mortgage facilities	3,262	3,259
Capital lease facilities	155	306
	14,388	4,734
Less current installments	2,749	1,292
	$ 11,639	$ 3,442

The aggregate maturities of notes payable during each of the next five fiscal years as of February 28, 2010 are as follows (in millions): $2.8 in 2011, $2.7 in 2012, $3.8 in 2013 and $5.1 in 2014.

Interest paid for all debt was approximately $1.3 million and $1.9 million in fiscal 2010 and 2009, respectively.

Domestic Revolving Credit Facility

The Company has an asset based loan agreement with a domestic financial institution to provide a revolving credit facility, term loan and mortgage financing. As amended in February 2010, the Company is allowed to borrow a maximum of $34 million under the revolving credit facility based on a percentage of eligible accounts receivable and inventories. The interest rate applicable to the revolving credit facility is equal to a range of Libor plus 2.75% to 3.75% for advances with fixed maturities or to a range of the Base Rate plus 1.75% to 2.75% for all other advances. The Base Rate varies with fluctuations in money market conditions and the interest rate on Base Rate advances is equal to or higher than the interest rate on advances with fixed maturities.

The agreement is collateralized by substantially all of the Company's assets, requires the Company to maintain certain financial covenants, prohibits the Company from incurring certain additional indebtedness, limits certain investments, advances or loans, restricts substantial asset sales and capital expenditures, and prohibits the payment of dividends, except for dividends due on the Company's Series A and C preferred stock. The agreement matures in May 2013.

At February 28, 2010, the interest rate under the revolving credit facility was Libor (0.23%) plus 3.00%, the Company had borrowed approximately $11.2 million and approximately $16.4 million was available for future borrowings, net of approximately $0.4 million in an outstanding letter of credit. Subsequent to February 28, 2010 the letter of credit was cancelled.

International Credit Facilities

The Company's U.K. subsidiary has an asset based revolving credit facility with a domestic financial institution that allows the subsidiary to borrow up to $2.5 million against a percentage of accounts receivable and inventories. The facility has an interest rate and term that varies with the interest rate and term of the Company's domestic revolving credit facility. This agreement is collateralized by substantially all of the subsidiary's assets and is guaranteed by the Company. The agreement prohibits the subsidiary from incurring certain additional indebtedness, limits certain investments, advances or loans, restricts substantial asset sales and capital expenditures, and prohibits the payment of dividends. At February 28, 2010, the interest rate under the agreement was the financial institution's Sterling reference rate (0.60%) plus 3.00%, the subsidiary had borrowed approximately $0.3 million and approximately $2.0 million was available for future borrowing.

The Company's Australian subsidiary has an accounts receivable finance facility with an Australian financial institution that provides the subsidiary with advances of up to AUD2.5 million (approximately $2.2 million) against a percentage of eligible accounts receivable. Under the agreement, the financial institution purchases eligible accounts receivable, with recourse, from the subsidiary at a charge equal to 0.25% of the receivables purchased. The interest rate applicable to the facility is equal to the Bank Bill Swap Bid Rate (4.17% at February 28, 2010) plus 250 basis points. The subsidiary's obligations under the facility are collateralized by substantially all of the subsidiary's assets. The facility is cancelable by the Australian financial institution upon three months notice. At February 28, 2010, the subsidiary had borrowed approximately $0.9 million under the facility.

The Company's French subsidiary has lines of credit with three French financial institutions that allow it to borrow an aggregate of approximately $1.8 million against drafts presented for future settlement in payment of the subsidiary's accounts receivable. As of February 28, 2010, the facilities bear interest rates that range from the Euro Overnight Index Average (0.32%) plus 1.00% to the Euro Interbank Offer Rate (0.42%) plus 1.50% and the subsidiary had no outstanding borrowing under these facilities.

Term Loan Facilities

In connection with the acquisition of substantially all the assets and the assumption of certain liabilities of ArborCraft, LLC on February 12, 2010, a $6.0 million term loan was established under the Company's domestic credit facility. The term loan bears interest equal to, at the option of the Company, the Libor rate or Base Rate interest rates applicable to the revolving credit facility plus 0.25%, has a term that varies with the term of the loan agreement, and requires quarterly payments of principal of approximately $0.2 million starting in June 2010 with a balloon payment upon maturity.

In connection with ArborCraft transaction, the Company also issued a subordinated term note to the seller of $3.8 million that matures in May 2013, requires quarterly payments of principal of approximately $0.3 million and bears interest at 6.75% per annum. The note is fully subordinated to the Company's domestic asset based loan agreement and is collateralized by certain property and equipment and intangibles acquired in the ArborCraft transaction.

The Company's Australian subsidiary has a AUD1.0 million (approximately $0.9 million) term loan facility with an Australian financial institution. The facility matures in April, 2012 and requires approximately equal annual repayments of principal. The facility includes an annual fee equal to 2.50% of the outstanding facility and bears interest on a discount basis at a floating rate (5.19% at February 28, 2010) based on the Bill Swap Bid Rate. The facility requires the subsidiary to maintain a minimum earnings to interest ratio. The subsidiary's obligations under the facility are collateralized by substantially all of the subsidiary's assets.

At February 28, 2010, the outstanding balance of an unsecured note issued in connection with a 1999 acquisition was approximately $0.3 million with an interest rate of 7%.

Mortgage Facilities

The Company has a mortgage facility collateralized by its manufacturing, distribution and administrative facility in Canada. As of February 28, 2010, the mortgage balance was approximately $1.8 million. The mortgage bears an interest rate of Libor (0.30% at February 28, 2010) plus 4.00% and matures on the same date as the Company's domestic revolving credit facility. The mortgage loan requires payments of less than $0.1 million per month with a balloon payment upon maturity.

The Company also has a mortgage facility collateralized by its manufacturing and distribution facility in Adelanto, California. As of February 28, 2010, the mortgage balance was approximately $1.5 million. The mortgage bears an interest rate of Libor (0.23% at February 28, 2010) plus 1.50% and matures in February 2013. The mortgage loan requires principal payments of less than $0.1 million per month with a balloon payment on maturity.

Capital Lease Facilities

Assets purchased under capital leases are composed primarily of manufacturing and computer equipment. The latest maturity date under these leases is October 2012.

NOTE K - COMMITMENTS AND CONTINGENCIES

The Company provides accruals for estimated costs associated with the resolution of contingencies at the earliest date at which it is deemed probable that a liability has been incurred and the amount of such liability can be reasonably estimated.

The Company is involved in litigation from time to time in the ordinary course of its business. Based on information currently available to management, the Company does not believe that the outcome of any legal proceeding in which the Company is involved will have a material adverse impact on the Company.

Future Minimum Obligations

Future minimum payments under non-cancelable operating leases are as follows for fiscal years ending after February 28, 2010 (in thousands):

2011	$ 2,163
2012	1,511
2013	931
2014	836
2015	599
Total	$ 6,040

Total rent expense under non-cancelable operating leases approximated $2.1 million and $2.2 million in fiscal 2010 and 2009, respectively.

Commitment

On May 21, 2010, the Company entered into an agreement to purchase manufacturing equipment for approximately $1.8 million.

Contingencies

The Company is subject to federal, state and local laws and regulations regarding water quality, hazardous and solid waste management, air quality control and other environmental matters. (together, “Environmental Laws”). The Company must obtain and comply with a wide variety of environmental registrations, licenses, permits, inspections and other approvals in conducting its operations. Failure to comply with Environmental Laws may expose the Company to significant fines and penalties. The Company believes that the cost of compliance with Environmental Laws to date has not been material to the Company. Based on information available to management, the Company is not aware of any situation requiring remedial action by the Company or which because of liability under Environmental Laws would have a material adverse effect on the Company as a whole. The Company evaluates its operations to identify potential environmental exposures and enhance compliance with regulatory requirements, but can give no assurance that it will not incur any material liability under Environmental Laws in the future.

In 2008, the Company and two subsidiaries and other non-related companies were named in an environmental suit brought by the owner and former owner of property on which the Company currently operates a facility manufacturing adhesives. The complaint alleges the discharge of hazardous waste, both before and after the Company began to occupy the premises. The plaintiffs are seeking $1.4 million for alleged past and future clean-up costs and for attorneys’ fees. The Company and its two subsidiaries have denied all liability and are contesting the claims vigorously.

NOTE L - 401(k) BENEFIT PLAN

The Company and its subsidiaries offer a 401(k) benefit plan that provides for voluntary contributions by employees subject to a maximum annual contribution. The Company may, at the discretion of the board of directors, make contributions to the plan. The Company contributed approximately $0.1 million in each of the years ended February 28, 2010 and 2009.

In 2004 the Company adopted the QEP Executive Deferred Compensation Plan. The purpose of the plan is to provide participants with an opportunity to defer receipt of a portion of their salary, bonus and other specified cash compensation. Participation in the plan is limited to certain management personnel. The Company also entered into a Trust under the plan. The trust is a “rabbi trust” and is used to set aside the amounts of deferred compensation allocated to the participants in the plan and the earnings from the investment of such amounts. As of February 28, 2010 and 2009, the Company’s liability under the plan was $0.2 million and $0.1 million, respectively.

NOTE M - INCOME TAXES

Income (loss) before provision for income taxes consisted of the following (in thousands):

	Year Ended February 28,	
	2010	2009
United States	$ 9,280	$ (2,340)
Foreign	3,276	(3,825)
Total	$ 12,556	$ (6,165)

The components of the provision for income taxes are as follows (in thousands):

	Year Ended February 28, 2010	Year Ended February 28, 2009
Current:		
Federal	$ 1,766	$ 946
State	542	254
Foreign	778	893
	3,086	2,093
Deferred:		
Federal	113	23
State	291	11
Foreign	89	(1,037)
	493	(1,003)
Total income tax provision	$ 3,579	$ 1,090

Cash paid for income taxes in fiscal 2010 and 2009 was approximately $4.1 and $1.8 million, respectively.

The tax effects of temporary differences which give rise to deferred tax assets / (liabilities) are as follows (in thousands):

	Year Ended February 28, 2010	Year Ended February 28, 2009
Deferred Tax Assets:		
Foreign net operating loss and foreign tax credit carryforwards	$ 3,317	$ 3,767
Federal and state net operating losses	118	118
Inventories	1,094	1,074
Property and equipment	401	286
Intangible assets	902	1,259
Accrued expenses	765	684
Other	148	211
	6,745	7,399
Less: valuation allowance on foreign net operating loss and foreign tax credit carryforwards	(3,236)	(3,329)
Total deferred tax assets	3,509	4,070
Deferred Tax Liabilities:		
Prepaid expenses	(207)	(132)
Foreign exchange gain on notes payable	(19)	(177)
Federal liability on state deferred tax asset	(121)	(217)
Total deferred tax liabilities	(347)	(526)
Net Deferred Tax Asset	$ 3,162	$ 3,544

The Company has net operating losses in various foreign countries of approximately $9.9 million. Approximately $4.3 million of these losses expire in the years 2010 through 2020 and the remainder has no limitation on their expiration. The Company also has a US net operating loss carryforward of approximately $0.1 million which expires in 2011, all of which relates to the Company's acquisitions in fiscal 2000. Utilization of the US net operating loss carryforward is subject to IRC Section 382 limitation. Additionally, the Company has foreign tax credit carryforward benefits of approximately $0.6 million which begin to expire in 2017.

The following is a reconciliation of the statutory federal income tax rate to the effective rate reported in the financial statements (in thousands except percentage data):

	Year Ended February 28,			
	2010		2009	
	Amount	%	Amount	%
Provision for federal income taxes at the statutory rate	$ 4,269	34.0%	$ (2,096)	-34.0%
State and local income taxes, net of federal income tax benefit	394	3.1%	81	1.3%
Goodwill impairment charge			2,450	39.7%
Write-off of foreign investment	(866)	-6.9%		
Foreign tax rate differential	(203)	-1.6%	577	9.4%
Change in valuation allowance, FIN 48 reserves and other	(15)	-0.1%	78	1.3%
Actual provision	$ 3,579	28.5%	$ 1,090	17.6%

A reconciliation of the beginning and ending balances of unrecognized tax benefits is as follows (in thousands):

	Year Ended February 28,	
	2010	2009
Unrecognized tax benefits, beginning of year	$ 532	$ 445
Additions based on tax position related to the current year	69	122
Reductions for tax positions of prior years	-	(35)
Unrecognized tax benefits, end of year	$ 601	$ 532

The Company is subject to income taxes in the US federal and state jurisdictions, and in various foreign jurisdictions. Tax regulations within each jurisdiction are subject to interpretation of the related tax laws and regulations and require significant judgment to apply. Generally, the Company is no longer subject to US federal, state and local, or foreign income tax examinations by tax authorities for the years before 2006.

Undistributed earnings of the Company's foreign subsidiaries included retained earnings of approximately $10.2 million at February 28, 2010. These earnings are considered to be permanently reinvested and, accordingly, no provision for US federal and state income taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to both US income taxes (net of foreign tax credits) and foreign withholding taxes. Management has determined that it is not practical to determine the amount of tax that would be payable upon remittance of these earnings.

NOTE N - SIGNIFICANT CUSTOMER AND VENDOR INFORMATION

Significant Customer Information

The Company sells products to a large number of customers, performs ongoing credit evaluations of its customers' financial condition and requires no collateral from its customers. The Company's customer base includes a high concentration of home improvement retailers with one such customer accounting for a total of approximately 60% and 59% of sales in fiscal 2010 and 2009, respectively, and approximately 59% and 55% a of accounts receivable at February 28, 2010 and 2009, respectively.

Significant Vendor Information

Although the Company believes that multiple sources of supply exist for nearly all of the finished products and raw materials purchased from outside suppliers, the Company purchased through two vendors approximately 16% and 9% in fiscal 2010 and 12% and 8% in fiscal 2009 of domestic product purchases.

NOTE O - SHAREHOLDERS' EQUITY

The Company is authorized to issue a maximum of 2,500,000 shares of $1 par value preferred stock.

Series A

500,000 of the Company's 2,500,000 authorized shares of preferred stock, $1 par value per share, are designated as Series A Preferred Stock. The holder of each share of Series A Preferred Stock shall be entitled to receive, before any dividends on the Company's common stock, cumulative dividends equal to the prime interest rate on the first day of the month in which the dividends are payable, less 1-1/4%, payable in semiannual installments.

The Company may redeem any or all of the shares of Series A Preferred Stock at a price per share of $1.00 plus an amount equal to any accrued but unpaid dividends thereon. The Series A Preferred Stock has no voting rights, but do have a liquidation preference equal $1.00 plus accrued and unpaid dividends. At February 28, 2010 and 2009, there were 319,160 shares of Series A Preferred Stock issued and outstanding. Dividends declared and paid related to the Series A Preferred Stock were immaterial in all periods presented.

Series B

1,000,000 of the Company's 2,500,000 authorized shares of preferred stock, $1 par value per share, are designated as Series B Preferred Stock. The holder of each share of Series B Preferred Stock shall be entitled to receive a non-cumulative dividend at the rate of $.05 per share per annum, payable annually, before any dividend on the common stock. The Company may redeem any or all of the shares of Series B Preferred Stock at a price per share of $1.00. The Series B Preferred Stock has no voting rights. At February 28, 2010 and 2009, there were no outstanding shares of Series B preferred stock.

Series C

1,000,000 of the Company's 2,500,000 authorized shares of preferred stock, $1 par value per share, are designated as Series C Preferred Stock. The holder of each share of Series C Preferred Stock shall be entitled to receive, before any dividends on the Company's common stock, cumulative dividends at the rate of $.035 per share per annum, payable in annual installments. The Series C Preferred Stock has no voting rights, but do have a liquidation preference equal to $1.00 plus accrued and unpaid dividends. The Company may redeem any or all of the shares of Series C Preferred Stock at a price per share of $1.00. At February 28, 2010 and 2009, there were 17,500 shares of Series C Preferred Stock issued and outstanding. Dividend declared and paid was immaterial in all periods presented.

Treasury Stock

The Company has purchased from time to time shares of its common stock to be held in treasury. Through February 28, 2010 the number of shares held in treasury was 293,923 at an aggregate cost of $1.8 million. In fiscal 2010, the Company purchased 130,167 shares of common stock at an aggregate cost of approximately $0.7 million. In fiscal 2009, the Company purchased 68,778 shares of common stock at an aggregate cost of approximately $0.4 million. During fiscal 2009, the Company entered into a formal purchase plan pursuant to which the Company may purchase, as of February 28, 2010, $1.2 million additional shares of common stock from time to time on the open market or in privately negotiated transactions.

NOTE P - STOCK PLANS

The Company has adopted a stock plan for employees, consultants and directors of the Company. Awards granted pursuant to the plan shall be authorized by the board of directors. The aggregate number of shares which may be issued under the plan, as amended, shall not exceed 1,000,000 shares of common stock. Awards term, vesting and exercise periods vary, except that the term of an award may not exceed ten years. No awards have been issued at a discount to market price on the date of the grant. In each of fiscal 2010 and 2009, the Company recorded compensation cost within general and administrative expenses related to awards granted in previous periods of less than $0.1 million. As at February 28, 2010, there was no compensation cost related to non-vested awards not yet recognized. No awards were granted during fiscal 2010 and 3,000 awards were granted in fiscal 2009.

On May 29, 2009, the Company withdrew and removed from registration all of the previously registered shares of common stock that remained unissued and unsold as of that date under the stock plan and, therefore, is no longer issuing stock options under the stock plan.

The following information relates to options outstanding:

	Shares	Weighted Average Exercise Price
Options outstanding at February 29, 2008	255,625	$ 7.04
Cancelled or forfeited	(81,375)	$ 7.59
Options outstanding at February 28, 2009	174,250	$ 6.79
Cancelled or forfeited	(34,250)	$ 6.40
Options outstanding at February 28, 2010	140,000	$ 6.88
Options currently exercisable	140,000	$ 6.88

The following table summarizes information about stock options outstanding as of February 28, 2010:

Range of exercise prices	Number outstanding and exercisable	Weighted average remaining contractual life	Weighted average exercise price
$ 3.65 - $ 5.55	67,250	1.55	$4.13
$ 5.56 - $ 7.25	35,750	5.59	$6.75
$ 7.26 - $15.56	37,000	4.42	$12.02
Total	140,000		

In addition, 40,000 non-qualified stock options have been issued and are outstanding to an officer of the Company. These options have an exercise price of $4.00 and expire in fiscal 2012.

In fiscal 2010 and 2009, the Company recorded compensation cost within general and administrative expenses related to restricted stock units of less than $0.1 million and $0.1 million, respectively. As at February 28, 2010, there was no compensation cost related to restricted stock units not yet recognized.

In fiscal 2009, the Board of Directors approved the granting of 162,500 shares of restricted stock to the Company's Chief Executive Officer in lieu of a cash payment for the remaining portion of the fiscal year

2008 executive bonus owed to the Chief Executive Officer. The value of the grant of restricted stock was $0.2 million representing such shares at $0.99 per share, the closing market price of the Company's common stock on the date of the grant.

At February 28, 2010 the intrinsic value of options outstanding and exercisable was $1.0 million. At February 28, 2009 the intrinsic value of options outstanding and options exercisable was immaterial.

NOTE Q – RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board ("FASB") issued a standard that established the FASB Accounting Standards Codification (the "ASC"), which effectively amended the hierarchy of U.S. GAAP and established only two levels of GAAP, authoritative and non-authoritative. All previously existing accounting standard documents were superseded, and the ASC became the single source of authoritative, nongovernmental GAAP. All other non-grandfathered accounting literature not included in the ASC became non-authoritative. The ASC was intended to provide access to the authoritative guidance related to a particular topic in one place. New guidance issued subsequent to June 30, 2009 will be communicated by the FASB through Accounting Standards Updates. The ASC was effective for financial statements for interim or annual reporting periods ending after September 15, 2009. The Company adopted and applied the provisions of the ASC in fiscal 2010, and has eliminated references to pre-ASC accounting standards throughout its consolidated financial statements.

NOTE R: RELATED PARTY TRANSACTIONS

The Company currently employs three individuals that are related to the Company's Chief Executive Officer or President. These individuals were paid a total of $0.3 in each of fiscal 2010 and 2009. Since fiscal 1999, the Company repurchased shares of its outstanding common stock from one of these individuals having a value of approximately $1.2 million pursuant to a Board resolution to purchase, from time to time, up to $120,000 of shares of common stock per annum at a price per share equal to the closing price of the common stock on the date of repurchase. This individual is not obligated to sell any shares of common stock to the Company. As of February 28, 2010, this individual has sold a total of 190,038 shares to the Company under this resolution. During fiscal 2009 and during fiscal 2010, the Company repurchased 10,000 shares in a privately negotiated transaction with the same individual, at a cost of approximately $0.1 million in each year, under the Company's previously announced treasury stock repurchase plan.