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

Consolidated Financial Statements
For the Years Ended February 28, 2011 and 2010

CONTENTS

	Page
Report of Independent Certified Public Accountants	2
Financial Statements	
• Consolidated Balance Sheets	3
• Consolidated Statements of Earnings	4
• Consolidated Statements of Shareholders' Equity and Comprehensive Income	5
• Consolidated Statements of Cash Flows	6
• Notes to Consolidated Financial Statements	7

Grant Thornton

Audit • Tax • Advisory

Grant Thornton LLP
1301 International Parkway, Suite 300
Fort Lauderdale, FL 33323-2874

T 954.768.9900
F 954.768.9908

801 Brickell Avenue, Suite 2450
Miami, FL 33131-4944

T 305.341.8040
F 305.341.8099
www.GrantThornton.com

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, 2011 and 2010, and the related consolidated statements of earnings, 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, 2011 and 2010, 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 18, 2011

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

	February 28, 2011	February 28, 2010
ASSETS		
CURRENT ASSETS		
Cash	$ 447	$ 856
Accounts receivable, less allowance for doubtful accounts of approximately $841 and $621 as of February 28, 2011 and 2010, respectively	31,350	32,792
Inventories	34,447	30,485
Prepaid expenses and other current assets	2,638	2,497
Deferred income taxes	1,430	1,386
Total current assets	70,312	68,016
Property and equipment, net	12,991	11,908
Deferred income taxes, net	1,084	1,776
Intangibles, net	2,499	2,788
Other assets	1,012	1,559
Total Assets	$ 87,898	$ 86,047
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade accounts payable	$ 16,887	$ 19,555
Accrued liabilities	13,448	13,070
Lines of credit	9,568	12,443
Current maturities of notes payable	2,801	2,749
Total current liabilities	42,704	47,817
Notes payable	9,294	11,639
Other long-term liabilities	657	566
Total Liabilities	52,655	60,022
Commitments and Contingencies	--	--
SHAREHOLDERS' EQUITY		
Preferred stock, 2,500 shares authorized, $1.00 par value; 337 shares issued and outstanding at February 28, 2011 and 2010	337	337
Common stock, 20,000 shares authorized, $.001 par value; 3,696 shares issued; 3,293 and 3,402 shares outstanding at February 28, 2011 and 2010, respectively	4	4
Additional paid-in capital	10,406	10,419
Retained earnings	27,703	18,276
Treasury stock, 403 and 294 shares held at cost at February 28, 2011 and February 28, 2010, respectively	(3,219)	(1,823)
Accumulated other comprehensive loss	12	(1,188)
Total Shareholders' Equity	35,243	26,025
Total Liabilities and Shareholders' Equity	$ 87,898	$ 86,047

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

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

(In thousands except per share data)

	Year Ended	
	February 28, 2011	February 28, 2010
Net sales	$ 237,886	$ 205,853
Cost of goods sold	164,334	140,486
Gross profit	73,552	65,367
Costs and expenses:		
Shipping	24,862	22,905
General and administrative	18,877	17,087
Selling and marketing	14,869	11,520
Other (income) expense, net	(225)	143
Total costs and expenses	58,383	51,655
Operating income	15,169	13,712
Interest expense, net	(1,363)	(1,156)
Income before provision for income taxes	13,806	12,556
Provision for income taxes	4,372	3,579
Net income	$ 9,434	$ 8,977
Net income per share:		
Basic	$ 2.84	$ 2.59
Diluted	$ 2.77	$ 2.57
Weighted average number of common shares outstanding:		
Basic	3,314	3,468
Diluted	3,409	3,496

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
(In thousands, except share data)

	Preferred Stock		Common Stock		Paid-in	Retained	Accumulated Other Comprehensive	Treasury	Total Shareholders'	Comprehensive
	Shares	Amount	Shares	Amount	Capital	Earnings	Income (Loss)	Stock	Equity	Income
Balance at February 28, 2009	336,660	$ 337	3,694,841	$ 4	$ 10,406	$ 9,306	$ (3,400)	$ (1,113)	$ 15,540	
Net income						8,977			8,977	$ 8,977
Unrealized currency translation adjustments							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 February 28, 2010	336,660	$ 337	3,695,841	$ 4	$ 10,419	$ 18,276	$ (1,188)	$ (1,823)	$ 26,025	$ 11,189
Net income						9,434			9,434	$ 9,434
Currency translation adjustments:										
Unrealized							632		632	632
Realized							568		568	568
Option repurchase					(13)				(13)	
Purchase of Treasury Stock								(1,396)	(1,396)	
Dividends paid						(7)			(7)	
Balance at February 28, 2011	336,660	$ 337	3,695,841	$ 4	$ 10,406	$ 27,703	$ 12	$ (3,219)	$ 35,243	$ 10,634

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, 2011	February 28, 2010
Cash flows from operating activities:		
Net income	$ 9,434	$ 8,977
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,565	1,518
Deferred income taxes	648	410
Realized currency translation adjustments	568	198
Other non-cash adjustments	282	263
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	2,095	(1,553)
Inventories	(3,315)	233
Prepaid expenses and other assets	139	665
Trade accounts payable and accrued liabilities	(2,871)	4,601
Net cash provided by operating activities	9,545	15,312
Cash flows from investing activities:		
Acquisition	-	(6,212)
Capital expenditures	(2,814)	(601)
Net cash used in investing activities	(2,814)	(6,813)
Cash flows from financing activities:		
Net repayments under lines of credit	(3,137)	(13,052)
Repayments of notes payable	(2,553)	(1,682)
Borrowings of notes payable	-	6,919
Purchase of treasury stock	(1,455)	(603)
Dividends and other	(20)	(7)
Net cash used in financing activities	(7,165)	(8,425)
Effect of exchange rate changes on cash	25	87
Net (decrease) increase in cash	(409)	161
Cash at beginning of year	856	695
Cash at end of year	$ 447	$ 856

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 18, 2011, 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	3 to 10 years
Furniture and computer equipment	3 to 10 years
Buildings	30 years
Leasehold improvements	5 to 10 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 each year using a fair value approach applied to each reporting unit. The Company amortizes the cost of other intangibles over their estimated useful lives and tests such items for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. If the Company determines that an intangible asset is impaired, it is written down to fair value.

6. *Impairment of Long-Lived Assets*

The Company evaluates its property and equipment for impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability is measured by a comparison of the carrying amount to its fair value. If 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 basis of 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.

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. Penalties and interest on the Company's reserve for uncertain tax positions are included in provision for income taxes.

8. *Leases*

Leases that 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 option 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 2011 and 2010, a gain of $0.2 million was recorded for foreign currency transactions. During fiscal 2011, the Company also realized accumulated currency translation losses associated with the restructuring of certain foreign operations during the fiscal year.

12. *Revenue Recognition*

Sales are recognized when title to merchandise has passed to the customer, the selling price is fixed and determinable, and collectability of the sales price is reasonably assured. The Company establishes reserves for returns, allowances and warranties 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 and is expensed as a reduction to revenue over the term of the agreement. The Company evaluates the impairment of deferred cost assets whenever events or circumstances indicate that the carrying amount may not be recoverable.

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 $6.7 million and $5.5 million for the years ended February 28, 2011 and 2010, respectively. In return, the Company's products are advertised in various forms of media on a local, regional and national level, the Company's products are displayed on in-store signage, and the Company receives the benefit of advertising its products directly to 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 $0.2 and $0.1 million the fiscal years ended February 28, 2011 and 2010, respectively. 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 of 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 intangible assets and the fair value of assets acquired and liabilities assumed. Actual results could differ from those estimates.

16. Comprehensive Income

Comprehensive income includes net income as currently reported and also considers the effect of additional economic events that are not required to be recorded in determining net income, but are rather reported as a separate component of stockholders' equity. The Company's balance in comprehensive income is derived from currency translation adjustments.

17. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year's presentation.

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 was 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 was allocated based on the fair value of the assets acquired and the liabilities assumed.

Pro Forma combined net sales (unaudited) of the Company and ArborCraft for the fiscal year 2010 were approximately $232.8 million.

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

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		5,817
Other assets		136
		13,713
Less: Fair value of trade accounts payable and accrued liabilities assumed		3,455
Fair value of net assets acquired	$	10,258

Provisional amounts were recorded for the fair value of assets acquired and liabilities assumed based on information available to the Company at the date of acquisition. During fiscal year 2011, the Company finalized its determination of the fair value of assets acquired and liabilities assumed and retrospectively reduced the fair value of property and equipment and accrued liabilities in the amount of $0.5 million as of the date of acquisition.

NOTE D – EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income, 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 13 thousand and 125 thousand common stock equivalent shares excluded from the dilutive earnings per share calculation because they were anti-dilutive in fiscal 2011 and fiscal 2010, 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, 2011	February 28, 2010
Weighted average number of common shares outstanding - basic	3,314	3,468
Dilution from stock options	95	28
Weighted average number of common shares outstanding - diluted	3,409	3,496

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, which is 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 and France. 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. Segment results were as follows (in thousands):

	Year Ended	
	February 28, 2011	February 28, 2010
Net sales		
Domestic	$ 166,747	$ 138,230
Canada	21,384	21,874
Australia/New Zealand	30,253	24,139
Europe	18,094	19,484
Other	1,408	2,126
	$ 237,886	$ 205,853
Operating income (loss)		
Domestic	$ 11,507	$ 9,224
Canada	2,397	2,400
Australia/New Zealand	1,216	884
Europe	1,323	1,696
Other	(1,274)	(492)
	$ 15,169	$ 13,712

	Year Ended	
	February 28, 2011	February 28, 2010
Depreciation and amortization		
Domestic	$ 1,633	$ 601
Canada	500	486
Australia/New Zealand	341	304
Europe	62	79
Other	29	48
	$ 2,565	$ 1,518
Capital expenditures		
Domestic	$ 2,651	$ 453
Canada	12	5
Australia/New Zealand	58	98
Europe	69	21
Other	25	24
	$ 2,814	$ 601

	February 28, 2011	February 28, 2010
Total assets		
Domestic	$ 59,167	$ 59,021
Canada	7,559	8,485
Australia/New Zealand	10,162	8,749
Europe	10,174	8,369
Other	836	1,423
	$ 87,898	$ 86,047

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, 2011	February 28, 2010
Finished goods	$ 26,542	$ 24,277
Raw materials and work-in-process	7,905	6,208
	34,447	30,485

NOTE G - PROPERTY AND EQUIPMENT

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

	February 28, 2011	February 28, 2010
Machinery and warehouse equipment	$ 13,327	$ 11,767
Building and leasehold improvements	10,557	9,707
Office furniture, equipment and computer equipment	6,190	7,787
	30,074	29,261
Less: Accumulated depreciation and amortization	(17,083)	(17,353)
	$ 12,991	$ 11,908

Depreciation expense of property and equipment was $2.2 million and $1.2 million for fiscal 2011 and 2010, respectively. Amortization of assets recorded under capital leases is included in depreciation expense.

NOTE H – 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 determined that there was no impairment of intangible assets during its fiscal years 2010 and 2011. The balance of goodwill at February 28, 2011 and 2010 is associated with the Canada segment and totals $1.1 million and $1.0 million respectively. The change in the carrying amount of goodwill is the result of translation adjustments.

The Company will continue to assess the impairment of 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.

Intangible assets subject to amortization are as follows (in thousands):

	Weighted Average Useful Life	February 28, 2011			February 28, 2010		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks	20	$ 2,894	$ (1,610)	$ 1,284	$ 3,023	$ (1,489)	$ 1,534
Other intangibles	5	1,087	(937)	150	1,383	(1,118)	265
		$ 3,981	$ (2,547)	$ 1,434	$ 4,406	$ (2,607)	$ 1,799

Other intangibles include customer lists, non-compete agreements, patents and financing fees. Amortization expense of $0.3 million was recorded related to intangible assets in fiscal 2011 and fiscal 2010. Estimated amortization expense is approximately $0.3 million for fiscal year 2012, $0.2 million for each of the fiscal years 2013 through 2015 and an aggregate of approximately $0.5 million thereafter.

NOTE I – DEBT

Debt consists of the following (in thousands):

	February 28, 2011	February 28, 2010
Lines of Credit:		
Domestic revolving credit facility	$ 8,387	$ 11,235
International credit facilities	1,181	1,208
	$ 9,568	$ 12,443
Notes Payable:		
Term loan facilities	$ 8,967	$ 10,971
Mortgage facilities	3,052	3,262
Capital lease facilities	76	155
	12,095	14,388
Less current installments	2,801	2,749
	$ 9,294	$ 11,639

The aggregate maturities of notes payable are as follows (in millions): $2.8 in 2012, $4.1 in 2013 and $5.2 in 2014.

Interest paid for all debt was approximately $1.3 million in fiscal 2011 and 2010.

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. 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, 2011, the interest rate under the revolving credit facility was Libor (0.26%) plus 3.00%, the Company had borrowed approximately $8.4 million and approximately $19.4 million was available for future borrowings.

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, 2011, the interest rate under the agreement was the financial institution's Sterling reference rate (0.60%) plus 3.00%, the subsidiary had borrowed approximately $0.2 million and approximately $1.8 million was available for future borrowing.

The Company's Australian subsidiary has an accounts receivable financing 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 0.22% of the receivables purchased. The interest rate applicable to the facility is equal to the Bank Bill Swap Bid Rate (4.91% at February 28, 2011) 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, 2011, the subsidiary had borrowed approximately $1.0 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 $2.1 million against drafts presented for future settlement in payment of the subsidiary's accounts receivable. As of February 28, 2011, the facilities bear interest rates that range from the Euro Overnight Index Average (0.60%) plus 1.00% to the Euro Interbank Offer Rate (0.87%) plus 1.40% and the subsidiary had no outstanding borrowing under these facilities.

Term Loan Facilities

In connection with the acquisition of ArborCraft, LLC on February 12, 2010, a 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 with a balloon payment upon maturity. At February 28, 2011, the outstanding balance of the term loan was approximately $5.4 million.

In connection with ArborCraft transaction, the Company also issued a subordinated term note to the seller. On March 10, 2011, the company settled in full the balance due under the note of approximately $2.6 million utilizing funds available under its domestic revolving credit facility.

The Company's Australian subsidiary has a AUD0.7 million (approximately $0.7 million) term loan facility with an Australian financial institution. The facility matures in April 2012 and requires equal annual repayments of principal in April 2011 and 2012. The facility includes an annual fee equal to 2.20% of the outstanding facility and bears interest on a discount basis at a floating rate (6.27% at February 28, 2011) based on the Bank Bill Rate of the Day. 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, 2011, the outstanding balance of an unsecured note issued in connection with a 1999 acquisition was approximately $0.3 million with an interest rate of 7.00%.

Mortgage Facilities

The Company has a mortgage facility collateralized by its manufacturing, distribution and administrative facility in Canada. As of February 28, 2011, the mortgage balance was approximately $1.7 million. The mortgage bears interest rate equal to Libor (0.26% at February 28, 2011) 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, 2011, the mortgage balance was approximately $1.3 million. The mortgage bears interest equal to Libor (0.26% at February 28, 2011) 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.

NOTE J - 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, 2011 (in thousands):

2012	$ 1,848
2013	1,148
2014	1,051
2015	905
2016	777
Therafter	290
Total	$ 6,019

Total rent expense under non-cancelable operating leases approximated $2.1 million in fiscal 2011 and 2010.

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 these laws, regulations and approval requirements may expose the Company to significant fines and penalties. The Company believes that the cost of compliance 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 these laws, regulations and approval requirements 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 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 K – EMPLOYEE BENEFIT PLANS

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, 2011 and 2010.

The Company also offers a deferred compensation plan that provides certain management personnel with an opportunity to defer receipt of a portion of their salary, bonus and other specified cash compensation. The Company entered into a trust under the plan that is used to set aside the amounts of deferred compensation and the earnings from the investment of such amounts. As of February 28, 2011 and 2010, the trust assets and Company's liability under the plan were $0.3 million and $0.2 million, respectively.

NOTE L - INCOME TAXES

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

	Year Ended February 28,	
	2011	2010
United States	$ 10,697	$ 9,280
Foreign	3,109	3,276
Total	$ 13,806	$ 12,556

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

	Year Ended February 28,	
	2011	2010
Current:		
Federal	$ 2,000	$ 1,766
State	318	542
Foreign	1,293	778
	3,611	3,086
Deferred:		
Federal	615	113
State	142	291
Foreign	4	89
	761	493
Total income tax provision	$ 4,372	$ 3,579

Cash paid for income taxes in fiscal 2011 and 2010 was approximately $3.9 million and $4.1 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,	
	2011	2010
Deferred Tax Assets:		
Foreign net operating loss and foreign tax credit carryforwards	$ 1,562	$ 1,844
Inventories	898	1,094
Intangible assets	659	902
Accrued expenses	926	765
Other	317	667
	4,362	5,272
Less: valuation allowance on foreign net operating loss and foreign tax credit carryforwards	(1,508)	(1,763)
Total deferred tax assets	2,854	3,509
Deferred Tax Liabilities:		
Prepaid expenses	(251)	(207)
Other	(89)	(140)
Total deferred tax liabilities	(340)	(347)
Net Deferred Tax Asset	$ 2,514	$ 3,162

The Company has net operating losses in various foreign countries of approximately $3.6 million, the majority of which have no limitation on their expiration. The Company also has US foreign tax credit carryforward benefits of approximately $0.6 million that 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,			
	2011		2010	
	Amount	%	Amount	%
Provision for federal income taxes at the statutory rate	$ 4,694	34.0%	$ 4,269	34.0%
State and local income taxes, net of federal income tax benefit	157	1.1%	394	3.1%
Write-off of foreign investment	(681)	-4.9%	(866)	-6.9%
Foreign tax rate differential	(41)	-0.3%	(203)	-1.6%
Other	243	1.8%	(15)	-0.1%
Actual provision	$ 4,372	31.7%	$ 3,579	28.5%

A reconciliation of the beginning and ending balances of unrecognized tax benefits included in other long-term liabilities in the accompanying consolidated balance sheets are as follows (in thousands):

	Year Ended February 28,	
	2011	2010
Unrecognized tax benefits, beginning of year	$ 601	$ 532
Additions based on tax position related to the current year	54	69
Reductions for tax positions of prior years	(3)	-
Unrecognized tax benefits, end of year	$ 652	$ 601

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. The Company is no longer subject to US federal income tax examinations by tax authorities for the years before 2010.

Undistributed earnings of the Company's foreign subsidiaries included retained earnings of approximately $1.0 million at February 28, 2011. 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 M - SIGNIFICANT CUSTOMER AND VENDOR 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 63% and 60% of sales in fiscal 2011 and 2010, respectively, and approximately 57% and 59% a of accounts receivable at February 28, 2011 and 2010, respectively.

Although the Company believes that multiple sources of supply exist for nearly all inventory purchased from suppliers, the Company purchased through one vendor approximately 11% and 14% in fiscal 2011 and 2010, respectively.

NOTE N - 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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, 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. As of February 28, 2011 the number of shares held in treasury was 402,544 at an aggregate cost of $3.2 million. In fiscal 2011, the Company purchased 108,621 shares of common stock at an aggregate cost of approximately $1.4 million. In fiscal 2010, the Company purchased 130,167 shares of common stock at an aggregate cost of approximately $0.7 million. The Company has entered into a formal purchase plan pursuant to which the Company may purchase $1.2 million additional shares of common stock from time to time on the open market or in privately negotiated transactions.

NOTE O - STOCK PLANS

The Company has removed from registration all of the previously registered shares of common stock under a previously adopted 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, 2009	174,250	$ 6.79
Cancelled or forfeited	(34,250)	$ 6.40
Options outstanding at February 28, 2010	140,000	$ 6.88
Repurchased	(3,750)	$ 7.25
Options outstanding at February 28, 2011	136,250	$ 6.87
Options currently exercisable	136,250	$ 6.87

The following table summarizes information about stock options outstanding as of February 28, 2011:

Range of exercise prices	Number outstanding and exercisable	Weighted average remaining contractual life	Weighted average exercise price
$ 3.65 - $ 5.55	67,250	0.56	$4.13
$ 5.56 - $ 7.25	32,000	5.20	$6.69
$ 7.26 - $15.56	37,000	3.53	$11.99
Total	136,250		

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

At February 28, 2011 and 2010 the intrinsic value of options outstanding and exercisable was $1.4 million and $1.0 million, respectively.

NOTE P: 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 2011 and 2010. Since fiscal 1999, the Company repurchased shares of its outstanding common stock from one of these individuals having a value of approximately $1.5 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, 2011, this individual sold a total of 195,038 shares to the Company under this resolution. During fiscal 2011 and 2010, the Company repurchased an additional 20,000 shares and 10,000 shares in privately negotiated transactions with the same individual, at a cost of approximately $0.3 million and $0.1 million, respectively.