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

Consolidated Financial Statements
For the Years Ended February 28, 2014 and February 28, 2013

C O N T E N T S

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
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Q.E.P. Co., Inc.

We have audited the accompanying consolidated financial statements of Q.E.P. Co., Inc. (a Delaware corporation) and subsidiaries, which comprise the consolidated balance sheets as of February 28, 2014 and February 28, 2013, and the related consolidated statements of earnings, comprehensive income, cash flows, and shareholders' equity for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Q.E.P. Co., Inc. and subsidiaries as of February 28, 2014 and February 28, 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Miami, Florida
May 19, 2014

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

	February 28, 2014	February 28, 2013
ASSETS		
Cash	$ 2,621	$ 737
Accounts receivable, less allowance for doubtful accounts of $382 and $298 as of February 28, 2014 and February 28, 2013, respectively	45,726	39,581
Inventories	42,906	37,299
Prepaid expenses and other current assets	3,338	2,586
Deferred income taxes	744	1,238
Current assets	**95,335**	**81,441**
Property and equipment, net	24,353	14,018
Deferred income taxes	3,926	1,152
Intangibles, net	21,697	4,119
Other assets	470	386
Total Assets	**$ 145,781**	**$ 101,116**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Trade accounts payable	$ 21,989	$ 19,650
Accrued liabilities	14,250	13,641
Lines of credit	28,173	8,872
Current maturities of notes payable	1,746	1,246
Current liabilities	**66,158**	**43,409**
Notes payable	11,487	5,222
Other long-term liabilities	1,294	647
Total Liabilities	**78,939**	**49,278**
Preferred stock, 2,500 shares authorized, $1.00 par value; 337 shares issued and outstanding at February 28, 2014 and February 28, 2013	337	337
Common stock, 20,000 shares authorized, $.001 par value; 3,801 and 3,799 shares issued, and 3,262 and 3,282 shares outstanding at February 28, 2014 and February 28, 2013, respectively	4	4
Additional paid-in capital	10,620	10,639
Retained earnings	62,130	46,049
Treasury stock, 539 and 517 shares held at cost at February 28, 2014 and February 28, 2013, respectively	(5,701)	(5,305)
Accumulated other comprehensive (loss) income	(548)	114
Shareholders' Equity	**66,842**	**51,838**
Total Liabilities and Shareholders' Equity	**$ 145,781**	**$ 101,116**

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, 2014	February 28, 2013
Net sales	**$ 302,706**	**$ 283,699**
Cost of goods sold	217,481	202,404
Gross profit	**85,225**	**81,295**
Operating expenses:		
Shipping	28,497	28,776
General and administrative	25,032	22,395
Selling and marketing	22,287	19,055
Other income, net	(492)	(505)
Total operating expenses	**75,324**	**69,721**
Operating income	**9,901**	**11,574**
Non-operating income	11,461	1,260
Interest expense, net	(963)	(718)
Income before provision for income taxes	**20,399**	**12,116**
Provision for income taxes	4,311	3,977
Net income	**$ 16,088**	**$ 8,139**
Net income per share:		
Basic	$ 4.92	$ 2.46
Diluted	$ 4.88	$ 2.44
Weighted average number of common shares outstanding:		
Basic	3,271	3,308
Diluted	3,295	3,338

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

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

	Year Ended	
	February 28, 2014	February 28, 2013
Net income	**$ 16,088**	**$ 8,139**
Unrealized currency translation adjustments	(662)	(598)
Comprehensive income	**$ 15,426**	**$ 7,541**

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)

	February 28, 2014	February 28, 2013
Operating activities:		
Net income	$ 16,088	$ 8,139
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,270	2,959
Deferred income taxes	823	(40)
Non-operating income	(11,680)	(1,260)
Other non-cash adjustments	390	99
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(1,464)	(2,232)
Inventories	(246)	(2,890)
Prepaid expenses and other assets	(795)	543
Trade accounts payable and accrued liabilities	268	2,849
Net cash provided by operating activities	**7,654**	**8,167**
Investing activities:		
Acquisitions	(32,364)	(8,857)
Capital expenditures	(984)	(1,217)
Proceeds from sale of property	4,630	-
Net cash used in investing activities	**(28,718)**	**(10,074)**
Financing activities:		
Net borrowings under lines of credit	25,556	3,879
Repayments of notes payable	(2,177)	(1,031)
Purchase of treasury stock	(386)	(1,114)
Stock options exercised (repurchased), net	(31)	(27)
Dividends	(7)	(7)
Net cash provided by financing activities	**22,955**	**1,700**
Effect of exchange rate changes on cash	**(7)**	**(32)**
Net increase (decrease) in cash	**1,884**	**(239)**
Cash at beginning of year	737	976
Cash at end of year	**$ 2,621**	**$ 737**

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

Q.E.P. CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(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	Treasury Stock	Total Shareholders' Equity
Balance at February 29, 2012	**336,660**	**$ 337**	**3,792,591**	**$ 4**	**$ 10,666**	**$ 37,917**	**$ 712**	**$ (4,201)**	**$ 45,435**
Net income						8,139			8,139
Other comprehensive income							(598)		(598)
Options exercised			6,000	-	27				27
Options repurchased					(54)				(54)
Purchase of treasury stock								(1,104)	(1,104)
Issuance of stock									-
Dividends paid						(7)			(7)
Balance at February 28, 2013	**336,660**	**$ 337**	**3,798,591**	**$ 4**	**$ 10,639**	**$ 46,049**	**$ 114**	**$ (5,305)**	**$ 51,838**
Net income						16,088			16,088
Other comprehensive income							(662)		(662)
Options exercised			2,000	-	17				17
Options repurchased					(48)				(48)
Purchase of treasury stock								(396)	(396)
Stock-based compensation expense					12				12
Dividends paid						(7)			(7)
Balance at February 28, 2014	**336,660**	**$ 337**	**3,800,591**	**$ 4**	**$ 10,620**	**$ 62,130**	**$ (548)**	**$ (5,701)**	**$ 66,842**

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

1. DESCRIPTION OF BUSINESS

Q.E.P. Co., Inc., founded in 1979, is a world class, worldwide provider of innovative, quality and value-driven flooring and industrial solutions. As a leading manufacturer, marketer and distributor, QEP delivers a comprehensive line of hardwood and laminate flooring, flooring installation tools, adhesives and flooring related products targeted for the professional installer as well as the do-it-yourselfer. In addition, the Company provides industrial tools with cutting edge technology to the industrial trades. Under brand names including QEP®, ROBERTS®, Capitol®, Harris®Wood, Fausfloor®, Vitrex®, Homelux®, TileRite®, PRCI®, Nupla®, HISCO®, Plasplugs, Ludell®, Porta-Nails®, Tomecanic®, Bénètiere® and Elastiment®, the Company markets over 7,000 products. The Company sells its products to home improvement retail centers, specialty distribution outlets, municipalities and industrial solution providers in 50 states and throughout the world.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 19, 2014, the date the financial statements were available to be issued, for material subsequent events requiring recognition or disclosure.

Accounts Receivable

The Company's accounts receivable principally are due from home centers and trade 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 selling arrangements and credit worthiness. 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. Uncollectible accounts are written off against the allowance. Payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

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. Standard costs include the manufacturing or purchase costs of a product, as well as related freight, duties and fees.

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.

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.

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 and on available net operating loss carry forwards. 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 upon examination. For tax positions meeting the "more-likely-than-not" threshold, the amount recognized in the financial statements generally is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority as adjusted for future economic uncertainties. Penalties and interest on the Company's reserve for uncertain tax positions are included in provision for income taxes.

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 its fair value. The Company determined that there was no impairment of intangible assets during its fiscal years 2014 or 2013.

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 on a straight-line basis.

Earnings Per Share

Basic earnings per share are computed based on weighted average shares outstanding during the period. Diluted earnings per share are 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 and restricted stock awards.

Fair Value of Financial Instruments

The carrying amount of financial instruments, including cash, accounts receivable and payable, accrued liabilities, lines of credit and notes payable, approximate fair value due to the short maturity, variable interest rates and other terms of these instruments.

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 and expenses are translated at average rates of exchange prevailing during each month of the year. Gains and losses on foreign currency transactions are included in general and administrative expenses. In fiscal 2014 and 2013, losses of $0.3 million and $0.1 million, respectively, were recorded for foreign currency transactions.

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 and allowances based on current and historical information and trends. Net sales have been reduced by such amounts. The Company presents taxes collected from customers and remitted to governmental authorities on a net basis.

Shipping Costs

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

Advertising Allowances and Costs

Advertising allowances are expensed as incurred and totaled $8.7 million and $7.2 million for the years ended February 28, 2014 and February 28, 2013, respectively. In return, the Company's products are advertised in various forms of media on a local, regional or national level. The Company's products are also 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 $0.7 million for each of the fiscal years ended February 28, 2014 and February 28, 2013. These costs are recorded in selling and marketing expenses and primarily consist of advertising through direct media and in trade publications.

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 the 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 deferred income taxes and intangibles, inventory valuation and product warranty reserves, the allowance for doubtful accounts, and the fair value of assets acquired and liabilities assumed. Actual results could differ from those estimates.

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 that are reported as a separate component of stockholders' equity. The Company's balance in comprehensive income is derived from currency translation adjustments.

3. NON-OPERATING INCOME

Non-operating income consists of the following (in thousands):

	Year Ended	
	February 28, 2014	February 28, 2013
Acquisition bargain purchase gains	$ 8,301	$ 1,260
Sale and leaseback of facility	3,379	-
Other	(219)	-
Non-operating income, net	$ 11,461	$ 1,260

4. ACQUISITIONS

During the fiscal year ended February 28, 2014, the Company made three separate investments totaling $31.8 million for the acquisition of two businesses and the purchase of certain assets from another company.

On March 4, 2013, the Company acquired the Homelux® and TileRite® distribution businesses ("Homelux") of Homelux Nenplas Limited for $23.0 million. Homelux is a full range, worldwide supplier of tiling accessories based in the United Kingdom. Simultaneous with the acquisition, Homelux entered into a long-term agreement with the surviving Homelux Nenplas entity to supply extruded plastic trims on favorable terms. On February 28, 2014, the Company also acquired Faus Group, Inc. ("Faus") for $8.6 million, net of cash acquired. Faus manufactures and distributes premium laminate flooring under the Fausfloor® brand. These acquisitions expanded the Company's existing product lines and its channels of distribution.

The acquisitions of Homelux and Faus were accounted for as purchases and, accordingly, their results have been included in the Company's consolidated results of operations as part of its European and Domestic segments, respectively, since their acquisition dates. The purchase price of the acquired companies was allocated based on the fair value of the assets acquired and liabilities assumed.

A summary of the aggregate fair values of assets acquired and liabilities assumed in connection with the businesses acquired during the fiscal year ended February 28, 2014 follows (in thousands):

	Homelux	Faus
Consideration paid, net of cash acquired	$ 23,031	$ 8,550
Less: Fair value of assets acquired:		
Accounts receivable	3,984	381
Inventories	2,603	2,255
Property and equipment	975	11,542
Deferred income tax benefits	-	3,102
Identifiable intangible assets	15,235	-
Other assets	40	84
	194	(8,813)
Plus: Fair value of trade accounts payable and accrued liabilities assumed	2,186	513
Goodwill / (Gain on bargain purchase)	$ 2,380	$ (8,301)

The acquired Homelux intangibles relate to the favorable supply agreement, trademarks, customer relationships and non-compete agreements. The Homelux intangibles are being amortized over a weighted average period of 14 years and are not deductible for either UK or Domestic tax reporting purposes.

The fair value of the Faus net assets acquired is based on information currently available to the Company and is subject to change as further information becomes available, principally as to inventories. The estimated fair value of Faus net assets acquired in excess of consideration paid of $8.3 million is included in non-operating income in the accompanying statement of earnings for the fiscal year ended February 28, 2014.

The fiscal year 2014 acquisitions of Homelux and Faus were financed from funds available under the Company's domestic revolving loan facility. In March 2014, funds used to finance the Faus acquisition were refinanced with a term loan facility collateralized by certain acquired assets.

During the fiscal year ended February 28, 2014, the Company also acquired inventory, machinery and equipment for $0.2 million in a transaction that did not qualify for purchase accounting because it did not meet the definition of a business.

During the fiscal year ended February 28, 2013, the Company made four separate investments totaling $9.4 million for the acquisition of two businesses and the purchase of certain assets from two other companies.

On June 15, 2012, the Company acquired Nupla Corporation and its two sister companies (collectively "Nupla") for $6.1 million, net of cash acquired. Nupla manufactures and distributes professional grade fiberglass handled striking, digging, cutting and fire tools. On October 16, 2012, the Company also acquired Imperial Industries, Inc. ("Imperial") for aggregate consideration of $1.2 million. Through its subsidiary Premix-Marbletite Manufacturing Co., Imperial manufactures and distributes pool, stucco, plaster and roofing products to building materials dealers, contractors and others, primarily in the Southeastern United States and the Caribbean. These acquisitions similarly expanded the Company's product lines and its channels of distribution.

The acquisitions of Nupla and Imperial were accounted for as purchases and, accordingly, their results have been included in the Company's consolidated statements of earnings as part of its Domestic segment since their respective acquisition dates. The purchase price was allocated based on the fair value of the assets acquired and the liabilities assumed.

A summary of the aggregate fair values of assets acquired and liabilities assumed in connection with the businesses acquired during the fiscal year ended February 28, 2013 follows (in thousands):

Consideration paid, net of cash acquired	$ 7,307
Less: Fair value of assets acquired:	
Accounts receivable	2,459
Inventories	2,512
Property and equipment	3,283
Identifiable intangible assets	1,568
Other assets	683
	(3,198)
Plus: Fair value of trade accounts payable and accrued liabilities assumed	1,938
Gain on bargain purchase	$ (1,260)

The estimated fair value of net assets acquired in excess of consideration paid of $1.3 million is included in non-operating income in the accompanying statement of earnings for the fiscal year ended February 28, 2013.

The intangibles acquired during the fiscal year 2013 were trademarks and customer relationships, which are being amortized over a weighted average period of 18 years.

During fiscal year ended February 28, 2013, the Company also acquired assets in connection with two separate transactions that did not qualify for purchase accounting because they did not meet the definition of a business. The Company acquired primarily inventory, equipment and $0.3 million of intangible assets in these transactions which totaled $2.1 million.

In both fiscal 2014 and fiscal 2013, upon determination that the Company was going to recognize a gain related to the bargain purchase of certain acquisitions, the Company reassessed its assumptions and measurement of identifiable assets acquired and liabilities assumed and concluded that the preliminary valuation procedures and resulting measures were appropriate. The bargain purchase gains recorded by the Company primarily arose as a result of the distressed sale of the companies acquired.

The following unaudited pro forma information summarizes the consolidated results of operations for the fiscal years ended February 28, 2014 and February 28, 2013, as if the fiscal 2014 and fiscal 2013 acquisitions had been completed on March 1, 2012:

	Year Ended (Unaudited)	
	February 28, 2014	February 28, 2013
Net sales	$ 311,493	$ 324,861
Operating Income	$ 7,703	$ 14,891

The unaudited pro-forma combined results of operations do not reflect cost reductions or sales increases expected to be realized in connection with the acquisitions. Accordingly, these pro-forma amounts do not purport to be indicative of the results that would have actually been obtained if these acquisitions had occurred as of March 1, 2012 or that may be obtained in the future.

Included in the Company's consolidated results of operations for the years ended February 28, 2014 and February 28, 2013 are net sales of $20.6 million and $11.8 million, respectively, and operating income of $2.7 million and $1.1 million, respectively, from acquisitions completed during fiscal 2014 and fiscal 2013, respectively.

During fiscal year 2014 and 2013, the Company recognized $0.2 million and $0.8 million, respectively of acquisition related expenses in general and administrative expenses.

5. 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 no anti-dilutive common stock equivalent shares in fiscal 2014 or 2013.

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, 2014	February 28, 2013
Weighted average number of common shares outstanding - basic	3,271	3,308
Dilution from stock options and restricted stock	24	30
Weighted average number of common shares outstanding - diluted	3,295	3,338

6. SEGMENT INFORMATION

The Company operates in four business segments: Domestic, Canada, Europe and Australia/New Zealand. 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, France and Holland.

The performance of the business is evaluated at the segment level. Cash, debt and income taxes generally are managed centrally. Accordingly, the Company evaluates performance of its segments based on operating earnings exclusive of financing activities and income taxes.

Segment results were as follows (in thousands):

	Year Ended February 28, 2014	Year Ended February 28, 2013
Net sales:		
Domestic	$ 196,116	$ 198,061
Canada	20,284	21,109
Europe	45,507	24,996
Australia/New Zealand	40,799	39,533
Total	$ 302,706	$ 283,699
Operating income:		
Domestic	$ 3,922	$ 6,742
Canada	833	1,943
Europe	3,752	1,518
Australia/New Zealand	1,394	1,371
Total	$ 9,901	$ 11,574
Depreciation and amortization:		
Domestic	$ 2,510	$ 2,344
Canada	108	311
Europe	1,541	96
Australia/New Zealand	112	208
Total	$ 4,270	$ 2,959
Capital expenditures:		
Domestic	$ 501	$ 953
Canada	8	57
Europe	111	52
Australia/New Zealand	364	155
Total	$ 984	$ 1,217
Total assets:		
Domestic	$ 85,576	$ 72,298
Canada	6,092	7,229
Europe	43,919	11,904
Australia/New Zealand	10,194	9,685
Total	$ 145,781	$ 101,116

Amounts are attributed to the country of the legal entity that recognized the sale or holds the assets.

7. INVENTORIES

Inventories consisted of the following (in thousands):

	February 28, 2014	February 28, 2013
Finished goods	$ 32,683	$ 28,261
Raw materials and work-in-process	10,223	9,038
	$ 42,906	$ 37,299

8. PROPERTY AND EQUIPMENT

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

	February 28, 2014	February 28, 2013
Machinery and warehouse equipment	$ 21,430	$ 17,127
Building and leasehold improvements	13,033	10,003
Office furniture, equipment and computer equipment	7,506	7,236
	41,969	34,366
Less: Accumulated depreciation and amortization	(17,616)	(20,348)
Property and equipment, net	$ 24,353	$ 14,018

Depreciation expense of property and equipment was $2.7 million in each year for fiscal 2014 and 2013. Amortization of assets recorded under capital leases is included in depreciation expense.

In May 2013, the Company sold its manufacturing, distribution and administrative facility in Canada. In connection with the sale, the Company entered into a two year lease-back of the facility. The Company recorded a gain on sale of the property, net of selling costs and the present value of future leases payments, of approximately $3.4 million, which is included in non-operating income. The Company realized net after tax proceeds of approximately $3.0 million after settlement of the outstanding mortgage obligation.

9. INTANGIBLE ASSETS

The balance of goodwill at February 28, 2014 was $3.6 million, including $2.6 million and $1.0 million associated with the Company's European and Canadian segments, respectively. The balance of goodwill at February 29, 2013 was associated with the Company's Canadian segment. A reconciliation of the beginning and ending balances of goodwill is as follows (in thousands) for the years ended:

	February 28, 2014	February 28, 2013
Beginning of year	$ 1,014	$ 1,043
Acquisition of Homelux	2,380	-
Unrealized currency translation adjustments	164	(30)
End of Year	$ 3,558	$ 1,014

Other intangible assets, which are subject to amortization, are as follows (in thousands):

	Weighted Average Useful Life	February 28, 2014 Gross Carrying Amount	February 28, 2014 Accumulated Amortization	February 28, 2014 Net Carrying Amount	February 28, 2013 Gross Carrying Amount	February 28, 2013 Accumulated Amortization	February 28, 2013 Net Carrying Amount
Supply agreement	15	$ 11,333	$ (756)	$ 10,577			
Trademarks	20	7,677	(2,442)	5,235	$ 5,132	$ (2,037)	$ 3,095
Customer lists	7	2,500	(367)	2,133			
Other intangibles	5	363	(169)	194	79	(69)	10
		$ 21,873	$ (3,734)	$ 18,139	$ 5,211	$ (2,106)	$ 3,105

Other intangibles include non-compete agreements and financing fees. Amortization expense related to intangible assets was $1.6 million and $0.3 million in fiscal 2014 and fiscal 2013, respectively. Estimated amortization expense is approximately $1.5 million annually over the next five fiscal years and an aggregate of $10.5 million thereafter.

10. DEBT

Debt consists of the following (in thousands):

	February 28, 2014	February 28, 2013
Lines of Credit:		
Domestic revolving credit facility	$ 25,842	$ 7,513
International credit facilities	2,331	1,359
	$ 28,173	$ 8,872
Notes Payable:		
Term loan facilities	$ 11,987	$ 3,893
Mortgage facilities	1,060	2,304
Capital lease facilities	186	271
	13,233	6,468
Less current installments	1,746	1,246
	$ 11,487	$ 5,222

The aggregate maturities of notes payable for each of the fiscal years in the five year period ending in February 2019, including new April 2014 term loan facilities totaling $10.9 million, are as follows: $3.4 million in 2015, $4.6 million in 2016, $4.4 million in 2017, $6.2 million in 2018, $0.9 million in 2019 and $4.6 million thereafter.

Interest paid for all debt was $1.0 million in fiscal 2014 and $0.7 million in fiscal 2013.

Domestic Revolving Credit Facility

The Company has a loan agreement with a domestic financial institution to provide an asset based revolving credit facility, term loans and mortgage financing. The Company was allowed to borrow a maximum of $54.8 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 was equal to a range of the Libor rate associated with the borrowing currency plus 1.75% to 2.75% for advances with fixed maturities or to a range of the Base Rate plus 0.75% to 1.75% for all other US dollar 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.

In April 2014, the Company amended its loan agreement with the domestic financial institution to increase the revolving credit facility to a maximum of $58.0 million, permit the Company to allocate the maximum revolving credit facility between its domestic and U.K. revolving credit facilities, provide new term loan facilities in the amount of $10.9 million, reduce the range of each of the revolving credit interest rates by 0.25% and the interest rate on a term loan by 0.50%, and extend the maturity date of the loan agreement to June 2017.

The loan 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 without the lender's prior agreement, limits certain investments, advances, loans and treasury stock purchases, restricts substantial asset sales and certain capital expenditures, and prohibits the payment of dividends, except for dividends due on the Company's Series A and C preferred stock.

At February 28, 2014, the interest rate under the revolving credit facility was Libor (ranging from 0.15% to 0.48%) plus 1.75%, the Company had borrowed $34.8 million (including $28.1 million of advances in foreign currencies) and $12.8 million was available for future borrowings, net of $0.1 million in an outstanding letter of credit. Proceeds from a March 2014 term loan were used to refinance amounts outstanding under the Company's domestic revolving credit facility and, accordingly, $8.9 million of advances under the revolving credit facility at February 28, 2014 are classified as term loan facilities.

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 $3.2 million against a percentage of eligible 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 certain capital expenditures, and prohibits the payment of dividends. At February 28, 2014, the interest rate under the agreement was the financial institution's Sterling Reference Rate (0.50%) plus 0.75%, the subsidiary had borrowed $1.3 million and $2.0 million was available for future borrowing.

In April 2014, the Company amended its domestic revolving credit facility to permit the Company to allocate the maximum revolving credit facility under its domestic revolving credit facility between its domestic and U.K. revolving credit facilities.

The Company's Australian subsidiary has a revolving credit facility with an Australian financial institution that provides the subsidiary with advances of up to AUD2.5 million ($2.8 million). The interest rate applicable to the facility is equal to the Bank Bill Swap Bid Rate (3.9% at February 28, 2014) plus 2.2%. The subsidiary's obligations under the facility are collateralized by substantially all of the subsidiary's assets and the Australian financial institution is indemnified against loss by the Company. The facility expires in October 2014. At February 28, 2014, the subsidiary had borrowed $0.8 million under the facility.

The Company's French subsidiary has lines of credit with two French financial institutions that allow it to borrow an aggregate of €0.8 million ($1.1 million) against drafts presented for future settlement in payment of the subsidiary's accounts receivable. As of February 28, 2014, the facilities bear interest rates that range from the Euro Interbank Offer Rate (0.12%) plus 0.65% to 1.50% and the subsidiary had borrowed $0.2 under the facilities.

Term Loan Facilities

The Company has a term loan under its domestic credit facility (the "2010 Term Loan") that 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%. The facility has a term that varies with the term of the revolving credit facility. At February 28, 2014, the outstanding balance of the 2010 Term Loan was $2.8 million.

In connection with the Company's April 2014 amendment of its domestic credit facility, the principal balance of the 2010 Term Loan was increased to $6.0 million and the interest rate applicable to the loan was reduced to the interest rate applicable to the revolving credit facility. The 2010 Term Loan requires quarterly payments of principal of $0.2 million with a balloon payment at maturity.

In connection with the Company's April 2014 amendment of its domestic credit facility, the Company also borrowed $7.5 million under a new term loan (the "2014 Term Loan"). The 2014 Term Loan bears interest equal to the Libor rate plus 3.25%, matures in June 2017 and requires monthly payments of principal of $0.2 million.

In connection with its Faus acquisition, in March 2014 the Company borrowed $8.9 under a new term loan facility with a second domestic financial institution. The loan bears interest equal to the Libor rate plus 1.75%, matures in April 2019 and requires monthly payments of principal of less than $0.1 million with a balloon payment at maturity. The loan facility is collateralized by certain of the Company's assets and requires the Company to maintain the same financial covenants required by the domestic revolving credit facility. The proceeds of the loan were used to reduce the balance outstanding under the Company's domestic revolving credit facility.

At February 28, 2014, the outstanding balance of an unsecured note issued in connection with a 1999 acquisition was $0.3 million with an interest rate of 5.5%.

Mortgage Facility

The Company has a mortgage facility that is collateralized by its manufacturing and distribution facility in Adelanto, California. The mortgage bears interest equal to the Libor rate (0.15% at February 28, 2014) plus 2.25%, matures in February 2018, and requires principal payments of less than $0.1 million annually with a balloon payment on maturity. At February 28, 2014, the mortgage balance was $1.1 million.

Capital Lease Facilities

Assets purchased under capital leases are composed primarily of manufacturing and computer equipment.

11. COMMITMENTS AND CONTINGENCIES

Future Minimum Obligations

Future minimum payments under non-cancelable operating leases are as follows for fiscal years ending after February 28, 2014 (in millions): $3.1 in 2015, $1.8 in 2016, $0.8 in 2017, $0.5 in 2018, $0.4 in 2019 and $0.1 in 2020.

Rent expense under non-cancelable operating leases totaled $3.3 million and $2.7 million in fiscal 2014 and 2013, respectively.

Contingencies

The Company is subject to federal, state and local laws, regulations and ordinances regarding water discharges, hazardous and solid waste management, air quality, and other environmental matters (together, "Environmental Laws"). The Company also must obtain and comply with a wide variety of environmental registrations, licenses, permits, inspections and other approvals in conducting its operations (together, "Approval Requirements"). Failure to comply with Environmental Laws or Approval Requirements may expose the Company to significant fines and penalties.

The Company's management is not aware of any situation requiring remedial action by the Company that, because of liability under Environmental Laws or Approval Requirements, would have a material adverse effect on the Company as a whole. The Company continually evaluates its operations to identify potential environmental exposures and for its compliance with regulatory requirements, but can give no assurance that it will not incur any material costs or liability in the future.

Premix-Marbletite Manufacturing Co. is a co-defendant in twenty-nine (29) cases where the plaintiffs are seeking unspecified damages due to injuries allegedly sustained as a result of exposure to products containing asbestos, which, in the case of Premix, were manufactured in excess of thirty years ago. Imperial Industries Inc., Premix's parent company, also is named as a co-defendant in fifteen (15) of these cases. Imperial is a co-defendant in one additional case, which does not name Premix as a co-defendant. Insurance carriers that provide umbrella/excess coverage for these pending cases have, under a reservation of rights, appointed outside counsel to represent and defend Premix and Imperial. These policies are not subject to a deductible or self-insured retention. Premix and Imperial believe that, based on past settlements and outcomes of asbestos cases, there should be adequate insurance coverage for these pending cases.

The Company is otherwise 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.

The Company maintains deposits of cash from time to time in excess of federally insured limits with certain financial institutions and, accordingly, the Company is subject to credit risk. The Company evaluates the credit standing of financial institutions with which it maintains such balances.

12. EMPLOYEE BENEFIT PLANS

The Company and certain of its subsidiaries offer defined contribution benefit plans to employees. These plans provide for voluntary contributions by employees and matching contributions by the Company, subject to certain limitations. The Company made matching contributions totaling $0.2 million in the years ended February 28, 2014 and 2013.

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. The trust assets and the Company's liability under the plan as of February 28, 2014 and 2013 were $0.6 million and $0.4 million, respectively.

13. INCOME TAXES

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

	February 28, 2014	February 28, 2013
United States	$ 13,338	$ 8,739
Foreign	7,061	3,377
Income before provision for income taxes	$ 20,399	$ 12,116

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

	February 28, 2014	February 28, 2013
Current:		
Federal	$ 1,695	$ 2,805
State	193	283
Foreign	1,616	929
	3,504	4,017
Deferred:		
Federal	119	(21)
State	16	8
Foreign	672	(27)
	807	(40)
Provision for income taxes	$ 4,311	$ 3,977

Cash paid for income taxes in fiscal 2014 and 2013 was $2.6 million and $3.7 million, respectively.

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

	February 28, 2014		February 28, 2013	
	Amount	%	Amount	%
Provision for income taxes at the federal statutory rate	$ 6,936	34.0%	$ 4,119	34.0%
State and local income taxes, net of federal tax benefit	41	0.2%	252	2.1%
Foreign tax rate differential	(275)	-1.3%	(247)	-2.0%
Non-operating income	(2,822)	-13.8%	(428)	-3.5%
Intangible assets amortization	435	2.1%	-	
Other	(4)		281	2.3%
Actual provision for income taxes	$ 4,311	21.2%	$ 3,977	32.8%

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

	February 28, 2014	February 28, 2013
Deferred Tax Assets:		
Net operating losses and foreign tax credit carry forwards	$ 22,265	$ 3,137
Inventories	1,724	1,083
Intangible assets	837	595
Accrued expenses	1,266	1,501
Other	105	111
	26,197	6,427
Less: valuation allowance on net operating losses and foreign tax credit carry forwards	(19,848)	(2,619)
Total deferred tax assets	6,349	3,808
Deferred Tax Liabilities:		
Property and equipment	(1,209)	(963)
Prepaid expenses	(307)	(285)
Other	(163)	(170)
Total deferred tax liabilities	(1,679)	(1,418)
Net Deferred Tax Asset	$ 4,670	$ 2,390

In fiscal 2014 and fiscal 2013 the Company acquired the stock of Faus and Imperial, respectively, which resulted in a net increase in the deferred tax asset by $1.2 million and $0.2 million, respectively, relating to differences in the book versus tax basis of the acquiree's assets as of the date of acquisition and other tax attributes acquired. In addition, as part of the Faus and Imperial acquisitions, the Company acquired federal loss carry forwards of $53.9 million and $6.8 million, respectively, that will begin to expire in 2027. Realization of the loss carry forwards is subject to statutory limitation resulting from ownership changes. Accordingly, on the date of the acquisitions, the Company recorded deferred tax assets related to the Faus and Imperial acquisitions loss carry forwards of $19.7 million and $2.6 million, respectively, and related valuation allowances of $17.9 million and $1.9 million, respectively, principally as a result of the statutory limitation.

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) for the years ended:

	February 28, 2014	February 28, 2013
Unrecognized tax benefits, beginning of year	$ 639	$ 709
Additions based on tax position related to current year	86	71
Reductions for tax positions of prior years	-	(141)
Unrecognized tax benefits, end of year	$ 725	$ 639

The Company is subject to income taxes in 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 not subject to US federal income tax examinations by tax authorities for the years before 2010.

Undistributed earnings of the Company's foreign subsidiaries included in retained earnings were $4.0 million at February 28, 2014. These earnings are considered to be permanently reinvested and, accordingly, no provision for additional US income taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company may be subject to foreign withholding taxes and would be subject to US income taxes, net of foreign tax credits. The amount of tax that would be payable upon remittance of these earnings would not be significant based on tax regulations and currency exchange rates in effect at February 28, 2014.

14. SIGNIFICANT CUSTOMER AND VENDOR INFORMATION

The Company's customer base includes a concentration of home improvement retailers in each of its primary markets. One such customer accounted for approximately 43% and 54% of net sales in fiscal 2014 and 2013, respectively, and approximately 34% and 51% of accounts receivable at February 28, 2014 and February 28, 2013, respectively.

The Company has multiple sources of supply for nearly all finished products purchased from suppliers and is not dependent on a single supplier for more than 10% of such purchases.

15. 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 is entitled to receive, before any dividends on the Company's common stock, cumulative dividends equal to the prime interest rate 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. The Series A Preferred Stock has no voting rights, but does have a liquidation preference equal $1.00 plus accrued and unpaid dividends. At February 28, 2014 and February 28, 2013, 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 each period 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 is 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, 2014 and February 28, 2013, 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 is 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 does 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, 2014 and February 28, 2013, there were 17,500 shares of Series C Preferred Stock issued and outstanding. Dividends declared and paid related to the Series C Preferred Stock were immaterial in each period 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, 2014 the number of shares held in treasury was 538,551 at an aggregate cost of $5.7 million. In fiscal 2014, the Company purchased 21,900 shares of common stock at an aggregate cost of $0.4 million. In fiscal 2013, the Company purchased 61,912 shares of common stock at an aggregate cost of $1.1 million. The Company has entered into a formal purchase plan pursuant to which the Company may purchase up to $1.0 million per year of additional shares of common stock on the open market or in privately negotiated transactions.

16. 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 and exercisable at February 29, 2012	59,500	$ 7.36
Repurchased	(6,500)	$ 4.88
Exercised	(6,000)	$ 4.44
Options outstanding and exercisable at February 28, 2013	47,000	$ 8.08
Repurchased	(10,000)	$ 10.40
Exercised	(2,000)	$ 8.75
Options outstanding and exercisable at February 28, 2014	35,000	$ 7.37

At February 28, 2014 the intrinsic value of options outstanding and exercisable was $0.4 million with exercise prices ranging from $6.75 to $11.11 per share. The difference between the exercise price and fair value of repurchased options is recorded as a reduction of paid-in capital.

In December 2013, the Company granted 15,000 shares of restricted common stock to its non-employee directors. The fair value of the shares was $19.50 per share at the date of grant. The terms of the grant include provisions for equal vesting over a five year period commencing in December 2014. Until vested, the restricted shares cannot be transferred and have no rights to vote or receive dividends. The amortization of the related expense for the year ended February 28, 2014 has been included in operating expenses and additional paid-in capital.

17. RELATED PARTY TRANSACTIONS

During fiscal 2014 and 2013, the Company employed certain individuals who are related to the Company's Chief Executive Officer or President. These individuals were paid a total of $0.2 million in fiscal 2014 and 2013. Pursuant to a Board resolution the Company may repurchase up to $120,000 per annum of shares of its outstanding common stock from one of these individuals at a price per share equal to the closing price of the common stock on the date of repurchase. Pursuant to this resolution, in fiscal 2014 and 2013 the Company repurchased 7,000 and 6,000 shares, respectively, at a cost of $0.1 million in each year. During fiscal 2014 and 2013, the Company repurchased additional 11,000 and 10,000 shares, respectively, in privately negotiated transactions with the same individual, at a cost of $0.2 million in each year.