

Strothman & Company P S C

Certified Public Accountants & Advisors



Consolidated Financial Statements

**The Keller Manufacturing Company, Inc.
and Subsidiary**

December 31, 2005

Consolidated Financial Statements

The Keller Manufacturing Company, Inc. and Subsidiary

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Independent Auditors' Report



Board of Directors
The Keller Manufacturing Company, Inc. and Subsidiary
Louisville, Kentucky

We have audited the accompanying consolidated balance sheets of The Keller Manufacturing Company, Inc. and Subsidiary (the "Company") as of December 31, 2005 and 2004 and the related consolidated statements of operations, changes in stockholders' deficit 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note A to the financial statements, the Company has experienced recurring losses from operations. Those conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note A. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Strothman & Company P S C

Louisville, Kentucky
February 24, 2006

Consolidated Balance Sheets

The Keller Manufacturing Company, Inc. and Subsidiary

	December 31	
	<u>2005</u>	<u>2004</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,395,307	\$ 1,093,734
Accounts receivable, less allowance for doubtful accounts of \$500,000 for (2004)	-	556,155
Other receivables	21,698	-
Inventories	-	1,542,810
	<u>1,417,005</u>	<u>3,192,699</u>
Total Current Assets	1,417,005	3,192,699
Equipment , net of accumulated depreciation	<u>4,222</u>	<u>6,022</u>
	<u><u>\$ 1,421,227</u></u>	<u><u>\$ 3,198,721</u></u>
Liabilities and Stockholders' Deficit		
Current Liabilities		
Accounts payable	\$ 29,076	\$ 688,460
Accrued insurance	-	54,909
Allowance for sales returns	-	100,000
Accrued compensation	-	25,180
Other current liabilities	16,585	106,329
	<u>45,661</u>	<u>974,878</u>
Total Current Liabilities	45,661	974,878
Long-Term Liabilities		
Accrued pension liability	3,957,368	3,881,320
Other long-term liabilities	-	25,720
	<u>3,957,368</u>	<u>3,907,040</u>
Total Long-Term Liabilities	3,957,368	3,907,040
Stockholders' Deficit		
Common Stock, no par value, 40,000,000 shares authorized, 4,870,224 shares issued and outstanding	439,523	439,523
Deferred stock compensation and vesting stock options	510,519	301,391
Retained earnings (deficit)	(123,927)	862,386
Accumulated other comprehensive loss	(3,407,917)	(3,286,497)
	<u>(2,581,802)</u>	<u>(1,683,197)</u>
Total Stockholders' Deficit	(2,581,802)	(1,683,197)
	<u><u>\$ 1,421,227</u></u>	<u><u>\$ 3,198,721</u></u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Operations

The Keller Manufacturing Company, Inc. and Subsidiary

	Year Ended December 31	
	2005	2004
Sales	\$ 2,101,716	\$ 10,645,368
Costs of Goods Sold	<u>1,997,063</u>	<u>15,775,630</u>
Gross Profit (Loss)	104,653	(5,130,262)
Selling, general and administrative expenses	1,659,023	4,944,472
Impairment of property and equipment	<u>-</u>	<u>1,989,437</u>
Operating Loss	(1,554,370)	(12,064,171)
Other Income, Net		
Interest income	32,638	50,239
Gain on sale of property and equipment	-	261,899
Other, net	<u>535,419</u>	<u>628,412</u>
Total Other Income, Net	<u>568,057</u>	<u>940,550</u>
Net Loss	<u>\$ (986,313)</u>	<u>\$ (11,123,621)</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Changes in Stockholders' Deficit

The Keller Manufacturing Company, Inc. and Subsidiary

Years Ended December 31, 2005 and 2004

	<u>Common Stock</u>		<u>Deferred Stock Compensation and Vesting Stock Options</u>	<u>Retained Earnings (Deficit)</u>	<u>Accumulated Other Comprehensive Loss *</u>	<u>Total Stockholders' Equity (Deficit)</u>
	<u>Outstanding Shares</u>	<u>Amount</u>				
Balance at January 1, 2004	5,177,800	\$ 1,671,317	\$ 73,163	\$ 11,986,007	\$ (1,650,088)	\$ 12,080,399
Net loss				(11,123,621)		(11,123,621)
Other comprehensive loss:						
Minimum pension liability adjustment net of tax benefit of \$978,958					(1,666,874)	(1,666,874)
Market value adjustments on investments					30,465	30,465
Redemptions of common stock	(308,326)	(1,233,304)				(1,233,304)
Stock options			228,228			228,228
Deferred stock compensation	750	1,510				1,510
Balance at December 31, 2004	4,870,224	439,523	301,391	862,386	(3,286,497)	(1,683,197)
Net loss				(986,313)		(986,313)
Other comprehensive loss:						
Minimum pension liability adjustment net of tax benefit of \$71,310					(121,420)	(121,420)
Stock options			209,128			209,128
Balance at December 31, 2005	<u>4,870,224</u>	<u>\$ 439,523</u>	<u>\$ 510,519</u>	<u>\$ (123,927)</u>	<u>\$ (3,407,917)</u>	<u>\$ (2,581,802)</u>

* Net of tax

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

The Keller Manufacturing Company, Inc. and Subsidiary

	Year Ended December 31	
	2005	2004
Operating Activities		
Net loss	\$ (986,313)	\$ (11,123,621)
Adjustments		
Depreciation	1,800	520,754
Gain on sale of property and equipment	-	(261,899)
Loss on impairment of property and equipment	-	1,989,437
Bad debt expense and other non-cash expenses	-	27,498
Inventory reserve adjustments	-	(460,100)
Compensation for stock options granted	209,128	228,228
Changes in certain assets and liabilities		
Accounts receivable	556,155	1,116,501
Inventories	1,542,810	3,990,370
Other current assets	(21,698)	96,567
Accrued pension liability	(45,372)	559,031
Accounts payable	(659,384)	(776,987)
Accrued compensation	(25,180)	(168,522)
Allowance for sales returns	(100,000)	(380,270)
Accrued insurance	(54,909)	(506,998)
Accrued property taxes	-	(180,000)
Accrued vacation	-	(393,746)
Other long-term liabilities	(25,720)	
Other	(89,744)	(184,606)
Net Cash Provided By (Used In) Operating Activities	301,573	(5,908,363)
Investing Activities		
Purchases of property and equipment		(742,061)
Proceeds from sale of property and equipment		3,572,295
Proceeds from disposal of investments available for sale		2,754,839
Net Cash Provided By Investing Activities		5,585,073
Financing Activities		
Redemptions of common stock		(1,233,304)
Issuance of common stock		1,510
Net Cash Used In Financing Activities		(1,231,794)
Net Increase (Decrease) in Cash and Cash Equivalents	301,573	(1,555,084)
Cash and Cash Equivalents Beginning of Year	1,093,734	2,648,818
Cash and Cash Equivalents End of Year	\$ 1,395,307	\$ 1,093,734

See Notes to Consolidated Financial Statements

The Keller Manufacturing Company, Inc. and Subsidiary

December 31, 2005 and 2004

Note A--Basis of Presentation and Nature of Business

The consolidated financial statements include the accounts of The Keller Manufacturing Company, Inc. and its wholly-owned subsidiary, Keller Dedicated Transportation Co. (the "Company"). All significant intercompany transactions and balances have been eliminated. The subsidiary was merged into the Company during 2005.

Historically, the Company operated in one business segment, the manufacturing of dining room and bedroom furniture. In January 2005, the Board of Directors approved a plan to offer for sale its remaining furniture operations and assets, and to seek an acquisition of an established operating business. The decision was made not to sell the legal entity but to offer for sale only the furniture operations and assets. The Company began a search process to purchase a new business using its remaining cash and other assets. A business was purchased in January 2006 (see Note K).

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company incurred net losses of approximately \$1.0 million and \$11 million in 2005 and 2004, respectively. The consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts and to the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flows to meet its obligations on a timely basis.

Note B--Summary of Significant Accounting Policies

Impairment of Property and Equipment--In accordance with the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company performs a review for impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposal are less than its carrying amount.

In 2004, the Company ceased operations at its New Salisbury, Indiana facility. Property and equipment with an original cost of \$8.2 million were adjusted to their net realizable values, creating an impairment loss of approximately \$1.9 million. Substantially all of the property and equipment was sold in November 2004.

Net realizable values were based on the estimated market values of the assets as of the date of their evaluation (December 31, 2003 and August 31, 2004).

Continued

Notes to Consolidated Financial Statements--Continued

The Keller Manufacturing Company, Inc. and Subsidiary

December 31, 2005 and 2004

Note B--Summary of Significant Accounting Policies--Continued

Cash and Cash Equivalents--Cash and cash equivalents are defined as cash in banks and investment instruments having maturities of three months or less from their acquisition date. The Company maintains substantially all of its cash in one commercial bank. This cash account is insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000. The bank balance of the Company as of December 31, 2005 and 2004 exceeded its FDIC insurance by approximately \$1,300,000 and \$1,200,000, respectively.

Inventories--Inventories are stated at the lower of cost (first-in, first-out method) or market. At December 31, 2004, the Company had established an inventory obsolescence reserve for slow moving and obsolete inventories of approximately \$666,000. This amount is reflected on the balance sheet as a reduction to the inventory balance. All inventory was sold by the end of 2005.

Equipment--Equipment is recorded at cost. Depreciation is provided by the straight-line method over the estimated useful lives of the depreciable assets.

Stock-Based Compensation--The Company has a stock-based compensation plan, which is described more fully in Note H. The Company measures compensation expense using the intrinsic-value-based method. Under the intrinsic-value-based method of accounting for stock option plans, compensation cost is the excess, if any, of the quoted market price of the stock at the grant date over the amount an employee must pay to acquire the stock.

Revenue Recognition--Sales are recorded when goods are delivered to the customer. The Company provides for estimated customer returns and allowances by reducing sales in the period of the sale.

Shipping Costs--Shipping costs, billed to customers as revenue, are included in the cost of sales.

Research, Development and Engineering--Research, development, and engineering expenditures for the creation and application of new and improved products and manufacturing processes were approximately \$175,000 for 2004. Research, development and engineering costs are charged to operations as incurred. There were no expenditures in 2005.

Income Taxes--The Company follows the provisions of SFAS No. 109, *Accounting for Income Taxes*, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the consolidated financial statements or income tax return.

Estimates--The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make assumptions regarding estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Notes to Consolidated Financial Statements--Continued

The Keller Manufacturing Company, Inc. and Subsidiary

December 31, 2005 and 2004

Note C--Inventories

Inventories consist of the following at December 31, 2004:

Raw materials	\$ 8,000
Finished goods	2,200,532
Inventory obsolescence reserve	<u>(665,722)</u>
	<u>\$ 1,542,810</u>

Note D--Equipment

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
Office equipment	\$ 6,690	\$ 6,690
Less accumulated depreciation	<u>(2,468)</u>	<u>(668)</u>
	<u>\$ 4,222</u>	<u>\$ 6,022</u>

Note E--Income Taxes

The components of deferred tax assets and liabilities are as follows at December 31, 2004:

Deferred tax current assets	
Allowance for doubtful accounts	\$ 307,646
Reserve for inventory obsolescence	247,657
Allowance for sales returns	38,456
Other	<u>47,322</u>
	641,081
Less valuation reserve	<u>(641,081)</u>
	<u>\$ -</u>
Net Deferred Tax Current Assets	<u>\$ -</u>

Continued

Notes to Consolidated Financial Statements--Continued

The Keller Manufacturing Company, Inc. and Subsidiary

December 31, 2005 and 2004

Note E--Income Taxes--Continued

	December 31	
	2005	2004
Deferred tax noncurrent assets:		
Pension costs	\$ 1,519,711	\$ 1,492,589
Net operating loss carryforwards	8,632,262	7,781,669
Other	70,503	70,602
	10,222,476	9,344,860
Less valuation reserve	(10,222,476)	(9,344,860)
	\$ -	\$ -

The Company has net operating loss carryforwards of in excess of \$22 million, which begin to expire in 2023.

Note F--Retirement Plans

Defined Benefit Pension Plan

The Company has a defined benefit pension plan that provides retirement benefits for substantially all employees. Annual contributions have been sufficient to satisfy legal funding requirements. During 2004, the plan was amended to end the accrual of benefits to participants.

Changes in benefit obligations and plan assets, as well as the funded status of the plan were as follows:

	Year Ended December 31	
	2005	2004
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 13,320,192	\$ 12,524,664
Service cost	-	266,161
Interest cost	739,293	762,141
Benefits paid	(876,293)	(1,905,794)
Actuarial loss	37,606	1,673,020
	\$ 13,220,798	\$ 13,320,192

Continued

Notes to Consolidated Financial Statements--Continued

The Keller Manufacturing Company, Inc. and Subsidiary

December 31, 2005 and 2004

Note F--Retirement Plans--Continued

	Year Ended December 31	
	2005	2004
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 9,438,872	\$ 10,774,531
Actual return on plan assets	198,506	570,135
Employer contributions	502,345	-
Benefits paid	<u>(876,293)</u>	<u>(1,905,794)</u>
Fair value of plan assets at end of year	<u>\$ 9,263,430</u>	<u>\$ 9,438,872</u>
Funded status	\$ (3,957,368)	\$ (3,881,320)
Unrecognized net actuarial loss	<u>5,408,757</u>	<u>5,216,027</u>
Net amount recognized	<u>\$ 1,451,389</u>	<u>\$ 1,334,707</u>
Amounts recognized in the balance sheet consist of:		
Accrued pension liability	\$ (3,957,368)	\$ (3,881,320)
Accumulated other comprehensive loss	<u>5,408,757</u>	<u>5,216,027</u>
Net amount recognized	<u>\$ 1,451,389</u>	<u>\$ 1,334,707</u>

The following weighted-average assumptions were used to determine the Company's obligations under the plan:

	December 31	
	2005	2004
Discount rate	5.75%	5.75%
Expected return on plan assets	7.50%	7.50%

Continued

Notes to Consolidated Financial Statements--Continued

The Keller Manufacturing Company, Inc. and Subsidiary

December 31, 2005 and 2004

Note F--Retirement Plans--Continued

The components of net pension expense are as follows:

	December 31	
	2005	2004
Service cost—benefits earned during the year		\$ 266,161
Interest cost on projected benefit obligation	\$ 739,293	762,141
Expected return on plan assets	(673,196)	(783,310)
Net amortization and deferral	319,566	118,078
Net Pension Expense	\$ 385,663	\$ 363,070

The Company attempts to mitigate investment risk by rebalancing between equity and bond asset classes as the Company's contributions and monthly benefit payments are made. Although changes in interest rates may affect the fair value of the investment portfolio and cause unrealized gains or losses, such gains or losses would not be realized unless the investments are sold.

The Company's benefit plan weighted-average asset allocations at December 31, 2005 and 2004, by asset category are as follows:

	December 31	
	2005	2004
Equity securities	43%	38%
Debt securities	53%	58%
Other	4%	4%
Total	<u>100%</u>	<u>100%</u>

The following benefit payments are expected to be paid:

<u>Year Ending December 31</u>	
2006	\$ 794,074
2007	788,376
2008	771,863
2009	759,785
2010	747,884
Years 2011 through 2015	3,563,429

The above amounts are determined annually each December 31st by the Company's actuary.

Continued

Notes to Consolidated Financial Statements--Continued

The Keller Manufacturing Company, Inc. and Subsidiary

December 31, 2005 and 2004

Note F--Retirement Plans--Continued

The Company is concerned that it will not be able to fund future required deposits to the defined benefit pension plan. During the second quarter of 2006, the Company plans to initiate formal action with the Pension Benefit Guaranty Corporation to terminate its pension plan in what is known as a "distress termination".

Defined Contribution Savings Plan

The Company also has a defined contribution savings plan under the provisions of Section 401(k) of the Internal Revenue Code that provides retirement benefits to substantially all employees. The Company's contributions, which are based upon the salary redirection contributions of the eligible employees, totaled approximately \$8,000 and \$38,000 in 2005 and 2004, respectively. During the second quarter of 2006, the Company plans to initiate formal action to terminate this plan.

Note G--Employee Health Plan

The Company had a self insured medical plan providing comprehensive major medical benefits for eligible employees and members of their immediate families. The Plan was subject to the provisions of the Employee Retirement Income Security Act of 1974. The Company's contributions, which were based upon the contributions of currently employed participants and any additional amounts required to pay benefits for participants, totaled approximately \$458,000 for 2004. This Plan ended effective December 31, 2004, at which time the Company offered a fully insured health insurance plan to its employees.

Note H--Stock Option Plan

The Keller Manufacturing Company, Inc. Amended and Restated 2003 Stock Option Plan

In August 2003, the Board of Directors approved The Keller Manufacturing Company, Inc. amended and restated 2003 Stock Option Plan. Under the terms of the plan, the Company is authorized to grant options of common shares to certain key management employees. In connection with the plan, the Company issued 560,000 options on common shares in August 2003, 45,000 options in December 2004, and 250,000 options in December 2005. For 2005 and 2004, the Company recorded approximately \$209,000 and \$228,000, respectively, of deferred stock compensation expense with a credit to stockholders' equity. This amount represents the fair value of stock options earned during the year.

Continued

Notes to Consolidated Financial Statements--Continued

The Keller Manufacturing Company, Inc. and Subsidiary

December 31, 2005 and 2004

Note H--Stock Option Plan--Continued

The following is a summary of the option transactions under the plan:

	<u>Shares</u>	<u>Weighted Average Exercise Price Per Share</u>
Balance at December 31, 2003	560,000	.75*
Granted	45,000	.08*
Exercised	-	
Forfeited	-	
	<hr/>	
Balance at December 31, 2004	605,000	0.70
Granted	250,000	0.08
Exercised	-	
Expired	-	
Forfeited	(410,000)	1.00
	<hr/>	
Balance at December 31, 2005	<u>445,000</u>	0.70

*In September 2005, the exercise price was changed from \$1.00 to \$.08 for 45,000 of options granted in 2004 and for 150,000 of options granted in 2003.

The Black-Scholes option pricing model was used to estimate fair value of the options as of the date of grant, using the following assumptions:

	<u>2005</u>	<u>2004</u>
Weighted average fair value of options granted	\$ 0.01	\$ 1.21
Dividend yield	-	-
Risk free interest rate	4.19%	4.19%
Volatility	32.00%	32.00%
Expected option term (years)	2	4

Subsequent to December 31, 2005, the following occurred:

- The 445,000 options outstanding as of December 31, 2005 became fully vested options of 208,750, with an exercise price of eight cents per share.

Continued

The Keller Manufacturing Company, Inc. and Subsidiary

December 31, 2005 and 2004

Note H--Stock Option Plan--Continued

- New fully vested options for 50,000 shares were issued, with an exercise price of fifty cents per share.
- New fully vested options for 50,000 shares were issued, with an exercise price of \$1.00 per share.
- All 308,750 of outstanding options were converted to warrants, with exercise prices the same as those noted above (average weighted exercise price of thirty cents per share). The warrants expire in January 2016.

Note I--Going Private Transaction

On November 20, 2003, the Company announced a going private transaction in which the Company effected a 1-for-500 reverse stock split immediately followed by a 500-for-1 forward stock split. On March 29, 2004, the transaction was effective, reducing the number of stockholders below 300 and terminating the Company's registration with the Securities and Exchange Commission. All stockholders holding less than 500 shares on March 29, 2004 were paid \$4 per share. All stockholders holding 500 or more shares at the time of the transaction held the same number of shares following the transaction. The Company purchased 308,326 shares totaling \$1,233,304 and paid approximately \$200,000 in fees and expenses associated with the transaction.

Note J--Borrowing Arrangement

In November 2004, the Company established a \$1.4 million credit facility with a local bank that provided for borrowings and letters of credit. Certain stockholders and directors personally guaranteed the credit facility. In April 2005, the Board elected to reduce the credit facility to \$170,000 and the personal guarantees were terminated with no compensation paid to the guarantors. In place of the guarantees, the Company pledged a bank certificate of deposit to collateralize a worker's compensation insurance letter of credit of the same amount.

Note K--Subsequent Events

On January 6, 2006, the Company and its stockholders entered into a stock purchase agreement with a Louisville, Kentucky based door manufacturing company, Paragon Door Designs, Inc. ("Paragon"), in which the Company purchased approximately 85% of the issued and outstanding shares of Paragon's Common Stock for \$420,000. The Company also contributed \$720,000 to Paragon, which was used to pay off notes payable to stockholders.

In connection with the financing of this acquisition, certain Company stockholders guaranteed bank debt of Paragon. In exchange, they received warrants to purchase 60,000 shares of the Company's stock at one cent per share for 2006.

Continued

Notes to Consolidated Financial Statements--Continued

The Keller Manufacturing Company, Inc. and Subsidiary

December 31, 2005 and 2004

Note K--Subsequent Events--Continued

Paragon's condensed balance sheet and income statement information as of and for the year ended December 31, 2005 follow:

Balance Sheet

Current assets	\$	848,940
Property and equipment, net		<u>114,522</u>
	Total Assets	\$ <u>963,462</u>
Current liabilities	\$	1,324,832
Stockholders' deficit		<u>(361,370)</u>
	Total Liabilities and Stockholder's Deficit	\$ <u>963,462</u>

Income Statement

Sales	\$	3,670,436
Cost of sales		<u>2,631,660</u>
	Gross Profit	1,038,776
Selling, general and administrative expenses		949,483
Other expense, net		<u>69,022</u>
	Net Income	\$ <u>20,271</u>