ABC CORPORATION
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

ABC CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2005 AND 2004
(Dollars in thousands)

ASSETS

	2005	2004
CURRENT ASSETS		
Cash	$ 8,336	$ 322
Accounts receivable		
Trade, net of allowance for doubtful accounts of $1,100 and $187, respectively	60,514	50,367
Employee and affiliated companies	50	31
Inventory	187,519	163,256
Prepaid expenses and other	6,035	3,787
Total current assets	262,454	217,763
LAND, BUILDINGS AND EQUIPMENT		
Land and land improvements	12,731	-
Buildings and building improvements	28,573	8,340
Warehouse and office equipment	25,834	22,492
Transportation equipment	14,830	-
	81,968	30,832
Less accumulated depreciation and amortization	21,245	12,928
	60,723	17,904
Construction in progress and assets not yet placed in service	8,360	-
	69,083	17,904
NOTES RECEIVABLE FROM AFFILIATE	785	785
	$ 332,322	$ 236,452

See accompanying notes.

ABC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2005 AND 2004

(Dollars in thousands)

LIABILITIES AND OWNERS' EQUITY

	2005	2004
CURRENT LIABILITIES		
Disbursements in transit in excess of cash on deposit	$ 35,282	$ 38,644
Note payable to bank	75,014	57,673
Interest rate swap	223	612
Advances from owners	24,736	16,387
Accounts payable and accrued liabilities	46,963	24,144
Current portion of long-term debt	966	3,571
Total current liabilities	183,184	141,031
LONG-TERM DEBT, net of current portion	14,383	-
COMMITMENTS (Notes 3-6 and 10)		
OWNERS' EQUITY		
Controlling interest		
Common stock	523	523
Accumulated other comprehensive loss	(61)	(612)
Retained earnings	119,952	95,510
	120,414	95,421
Noncontrolling interest in consolidated variable interest entities	14,341	-
	134,755	95,421
	$ 332,322	$ 236,452

See accompanying notes.

ABC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
YEARS ENDED DECEMBER 31, 2005 AND 2004
(Dollars in thousands)

	2005	2004
SALES	$ 512,979	$ 420,881
COST OF SALES	349,192	296,413
GROSS PROFIT	163,787	124,468
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	92,855	74,828
OPERATING INCOME	70,932	49,640
OTHER		
Other income (expense), net	84	(94)
Interest income	104	80
Interest expense	(4,683)	(2,583)
	(4,495)	(2,597)
INCOME BEFORE CUMULATIVE EFFECT	66,437	47,043
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING (Note 2)	5,887	-
INCOME BEFORE ALLOCATION TO NONCONTROLLING INTEREST	72,324	47,043
ALLOCATION OF EARNINGS AND CUMULATIVE EFFECT TO NONCONTROLLING INTEREST	(7,882)	-
NET INCOME	$ 64,442	$ 47,043

See accompanying notes.

ABC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OWNERS' EQUITY
YEARS ENDED DECEMBER 31, 2005 AND 2004
(Dollars in thousands)

	Common Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interest	Total
BALANCE, December 31, 2003	$ 523	$ (1,454)	$ 81,467	$ -	$ 80,536
Income	-	-	47,043	-	47,043
Other comprehensive income	-	842	-	-	842
Capital contributions	-	-	-	-	-
Distributions	-	-	(33,000)	-	(33,000)
BALANCE, December 31, 2004	523	(612)	95,510	-	95,421
Cumulative effect of change in accounting	-	-	-	5,887	5,887
Income	-	-	64,442	1,995	66,437
Other comprehensive income	-	551	-	108	659
Capital contributions	-	-	-	7,746	7,746
Distributions	-	-	(40,000)	(1,395)	(41,395)
BALANCE, December 31, 2005	$ 523	$ (61)	$ 119,952	$ 14,341	$ 134,755

Note: These materials are provided to facilitate understanding of the issues to be addressed at PCFRC meetings. These materials are presented for discussion purposes only; they are not intended to reflect the views of the FASB, AICPA, or their staffs. Official positions of the FASB are determined only after extensive due process and deliberations.

ABC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004
(Dollars in thousands)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 64,442	$ 47,043
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	4,327	2,258
Loss on disposal of equipment and leasehold improvements	185	199
Cumulative effect of change in accounting	(5,887)	-
Allocation of earnings and cumulative effect to noncontrolling interest	7,882	-
Cash effect of changes in assets and liabilities		
Accounts receivable	(10,166)	(9,243)
Inventory	(24,263)	(40,392)
Prepaid expenses and other	(2,290)	(934)
Accounts payable and accrued liabilities	19,227	3,498
	53,457	2,429
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, buildings and equipment	(40,005)	(10,772)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in note payable to bank and disbursements in transit in excess of cash on deposit	13,979	34,365
Proceeds on advances from owners, net	8,349	6,923
Proceeds from borrowings on long-term debt	6,400	-
Principal repayments of long-term debt	(781)	-
Capital contributions from noncontrolling interest owners	7,746	-
Distributions to controlling interest stockholders	(40,000)	(33,000)
Distributions to noncontrolling interest owners	(1,395)	-
	(5,702)	8,288
NET CHANGE IN CASH	7,750	(55)
CASH		
Beginning of year ABC Corporation and wholly owned subsidiaries cash (excluding variable interest entities	322	377
Beginning of year cash of variable interest entities	264	-
End of year	$ 8,336	$ 322

ABC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004
(Dollars in thousands)

	2005	2004
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for interest, net of interest received under interest rate swap agreements classified as cash flow hedges	$ 4,683	$ 2,583
NON-CASH FINANCING TRANSACTIONS		
Fair value of interest rate swap attributable to controlling interest, net	$ 551	$ 842
Fair value of interest rate swap attributable to noncontrolling interest, net	$ 108	$ -

See accompanying notes.

ABC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2005 AND 2004
(Dollars in thousands)

	2005		2004	
NET INCOME		$ 64,442		$ 47,043
OTHER COMPREHENSIVE INCOME				
Derivative instruments designated as cash flow hedges				
Decline in fair value of interest rate swap liability, net	134		38	
Plus: reclassification adjustment of interest expense included in net income	525		804	
Other comprehensive income before allocation to noncontrolling interests	659		842	
Allocation of comprehensive income to noncontrolling interest	(108)		-	
		551		842
COMPREHENSIVE INCOME		$ 64,993		$ 47,885

See accompanying notes.

Note 1 - Description of Operations and Summary of Significant Accounting Policies

Operations and Principles of Consolidation - The 2004 consolidated financial statements include the accounts of ABC Corporation (ABC), two wholly-owned single member limited liability companies (LLCs). The 2005 consolidated financial statements include the accounts of ABC Corporation (ABC), two wholly-owned single member limited liability companies (LLCs), and seven variable interest entities (VIEs) of which ABC is the primary beneficiary (collectively, the Company) (Note 2). Of the consolidated variable interest entities, six are in the form of limited liability companies and one is an S corporation. One of the wholly owned consolidated subsidiaries is scheduled to dissolve no later than December 31, 2024. Certain of the consolidated VIEs are scheduled to dissolve no later than April 30, 2022 and December 31, 2024. Significant intercompany transactions between ABC, the LLCs and VIEs have been eliminated in consolidation.

ABC's principal operation is the wholesale distribution of widgets. Sales are made to customers throughout the United States of America.

The LLC's principal operation is acquisition and operation of transportation equipment, all of which is leased to ABC for use in its business.

The VIEs' principal operation is acquisition of land and buildings, all of which is leased to ABC for use in its business (Note 2).

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Accounts Receivable - Sales are made to approved customers on an open-account basis. Receivables are generally unsecured. The Company monitors credit limits and payment habits of its customers to mitigate risk of loss from uncollectible accounts.

Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to pay through a charge to earnings and a credit to the valuation allowance based on their assessment of the current status of individual accounts and the overall aging of the receivables. The Company has established credit policies and historically the losses related to customer nonpayment have been low as a percentage of sales.

Note 1 - Description of Operations and Summary of Significant Accounting Policies (Continued)

Inventory - Inventory is stated at the lower of cost (first-in, first-out) or market. Certain items included in the inventory balance at December 31, 2004 are stated at market, which is $1,813,000 and $1,507,000 less than cost.

Derivative Financial Instruments - The Company uses interest rate swap agreements to hedge its exposure to variability in expected future cash flows resulting from interest rate risk related to portions of its revolving line of credit and long-term debt agreements (Note 3).

The swap contracts are inversely correlated to the related hedged debt and are therefore considered an effective cash flow hedge of the designated underlying debt. The level of effectiveness of the hedge is measured by changes in the market value of the hedged debt resulting from fluctuations in interest rates. As a matter of policy, the Company does not enter into derivative transactions for trading or speculative purposes.

Certain amounts of the accumulated other comprehensive loss attributable to the change in the fair value of the interest rate swap will be reclassified into earnings over the next twelve months as the payments of the net settlement (excess fixed rate interest payments over the variable rate interest received) are made during 2006. Accounting principles generally accepted in the United States of America require these types of financial instruments to be recorded at their fair value (Note 9). Additionally, cash flows from certain hedging transactions are offset against cash flows from items being hedged for presentation in the statement of cash flows.

Depreciation and Amortization - The Company uses both straight-line and accelerated methods of depreciation and amortization. The cost of equipment less any estimated salvage value is depreciated over their estimated useful lives or expected holding periods. The cost of leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the lease, including extension periods where the Company has the first right of refusal to extend and intends to exercise such extension rights. In general the estimated useful lives are as follows:

Buildings	39 - 40 years
Land and building improvements	10 - 15 years
Warehouse and office equipment	3 - 10 years

At December 31, 2005 transportation equipment has a carrying cost of $14,830,000 and a depreciable basis of $6,030,000 as a result of an estimated salvage value of $8,800,000 at the end of seven years when the Company will re-evaluate the replacement or retention of the transportation equipment.

Note 1 - Description of Operations and Summary of Significant Accounting Policies (Continued)

Advertising - The Company capitalizes the costs of its annual catalogs which it amortizes over the associated catalog's expected circulation period, generally one year. At December 31, 2005 and 2004 unamortized capitalized catalog costs of $4,777,000 and $2,329,000 are included in prepaid expenses. Capitalized amounts at December 31, 2005 are expected to be amortized during 2006. All other advertising costs are expensed as incurred. Advertising expense for the year ended December 31, 2005 and 2004 was $8,043,000 and $6,715,000 which includes amortization of capitalized catalog costs of $5,196,000 and $4,762,000.

Federal Income Tax - The stockholders of ABC have elected to be taxed as an S corporation whereby the taxable income of the corporation is taxed at the stockholder level. However, ABC expects to make distributions to its stockholders as needed for the payment of taxes related to its income.

The LLCs are single-member limited liability companies which are disregarded for federal income tax purposes. The LLCs' items of income, deduction, loss and credit are reported on the federal income tax return of the sole member as if the activities were performed by the member.

The VIEs consist of six limited liability companies and one S corporation. The taxable income of the VIEs is taxed at their members' and stockholders' level. However, the VIEs expect to make distributions to their owners as needed for the payment of taxes related to the VIEs' income.

Shipping and Handling Costs - The Company accounts for shipping and handling fees charged to customers as a component of sales revenue, shipping costs as a component of cost of sales and warehouse handling costs as a component of selling, general and administrative expenses. Amounts included in selling, general and administrative expenses for handling costs in 2005 and 2004 were $13,683,000 and $9,241,000 of wages, $1,508,000 and $1,254,000 of payroll taxes and $1,779,000 and $1,380,000 of warehouse supplies.

Note 2 - Adoption of FASB Interpretation No. 46 – *Consolidation of Variable Interest Entities*

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 (FIN 46). In December 2003, the FASB modified FIN 46 to make certain technical corrections and address certain implementation issues that had arisen which became known as FIN 46(R). FIN 46(R) provides a new framework for identifying variable interest entities (VIEs) and determining when a company should include the assets, liabilities, noncontrolling interests and results of activities of a VIE in its consolidated financial statements.

In general, a VIE is a corporation, partnership, limited-liability corporation, trust, or any other legal structure used to conduct activities or hold assets that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that are unable to make significant decisions about its activities, or (3) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations.

FIN 46(R) requires a VIE to be consolidated if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) is obligated to absorb a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns (if no party absorbs a majority of the VIE's losses), or both. A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon initial consolidation, the primary beneficiary must record all of the VIE's assets, liabilities and noncontrolling interests and subsequently account for the VIE as if it were consolidated based on majority voting interest. FIN 46 also requires disclosures about VIEs that the variable interest holder is not required to consolidate but in which it has a significant variable interest.

FIN 46(R) was effective immediately for a nonpublic entity with an interest in a VIE created after December 31, 2003 and by the beginning of the first annual period beginning after December 15, 2004 for all previously created VIEs. The provisions of FIN 46(R) were adopted by the Company as of January 1, 2005.

Note 2 - Adoption of FASB Interpretation No. 46 – *Consolidation of Variable Interest Entities* (Continued)

In accordance with the transition provisions of FIN 46(R), the assets, liabilities and noncontrolling interests of newly consolidated VIEs under common control as the primary beneficiary were initially recorded at the amounts at which they would have been carried in the consolidated financial statements if FIN 46(R) had been effective when the Company first met the conditions to be the primary beneficiary of the VIE. The difference between the net amount added to the Company's Consolidated Balance Sheet and the amount of any previously recognized interest in the newly consolidated VIEs was a gain of $5,887,000 and was recognized as a cumulative effect of an accounting change as of January 1, 2005. The adoption of FIN 46(R) on January 1, 2005 also resulted in an increase of total assets and total liabilities of approximately $15,908,000 and $10,021,000.

At December 31, 2005 and for the year then ended, the collective summary financial information of the VIEs prior to consolidation with ABC is as follows:

Assets	$ 42,194,000
Liabilities	$ 27,659,000
Equity	$ 14,535,000
Revenues	$ 4,937,000
Net income	$ 1,995,000

In consolidation, substantially all of the revenues of the VIEs are eliminated in addition to a corresponding amount of rent expense related to the operating leases in which ABC is the lessee and the VIEs are the lessors.

ABC guarantees a lease obligation of DEF, LLC (a consolidated VIE) and has assigned a purchase option entered into with the lessor, A Leasing, L.P., related to the facility in which ABC conducts its business in Las Vegas, Nevada (Note 10).

In connection with the $6,400,000 bank debt arrangement entered into by GHI, LLC (a consolidated VIE), ABC has guaranteed up to $7,160,000 of principal, interest and expenses pertaining to the enforcement of the guarantee and collection of payment by the bank on behalf of GHI, LLC. The GHI, LLC bank debt is collateralized by the land and building held by GHI, LLC which has a net carrying value of $7,109,000 in the consolidated balance sheet.

The creditors of the VIEs do not have recourse against ABC or the LLCs other than certain guarantees identified above.

Note 3 - Bank Financing Agreements

Long-Term Debt

The Company has the following long-term debt outstanding at December 31, 2005:

JKL, LLC (a consolidated VIE) - $11,250,000, 10-year note payable to bank, due in monthly payments of principal plus interest at LIBOR plus 1.2% per annum plus one balloon payment of approximately $7,502,000 on November 1, 2008, secured by real property held by JKL, LLC.	$ 8,369,000
GHI, LLC (a consolidated VIE) - $6,400,000, 7-year note payable to bank, due in monthly payments of principal plus interest at LIBOR plus 0.9% per annum beginning February 1, 2006 plus one balloon payment of approximately $4,984,000 on January 1, 2013, secured by real property held by GHI, LLC and guaranteed by ABC (Note 2).	6,400,000
MNO, LLC (a consolidated VIE) - $3,300,000, 7-year note payable to bank, due in monthly payments of principal plus interest at LIBOR plus 1.25% per annum beginning plus one balloon payment of approximately $57,000 on January 1, 2007, secured by real property held by MNO, LLC.	580,000
	15,349,000
Less current portion	966,000
	$ 14,383,000

Future principal payments on long-term debt are as follows:

Year Ending December 31,	
2006	$ 966,000
2007	544,000
2008	7,965,000
2009	203,000
2010	215,000
Thereafter	5,456,000
	$ 15,349,000

Note 3 - Bank Financing Agreements (Continued)

Revolving Line of Credit
At December 31, 2004 ABC had a revolving line of credit agreement with a bank totaling $90,000,000 which includes a $5,000,000 swing line (collectively, the bank line of credit), which is collateralized by 80% of trade receivables and 60% of inventory. Advances under the bank line of credit bear interest at the bank's prime rate or the Company may choose LIBOR plus 1.0% to 1.75%.

On February 28, 2005 ABC's revolving line of credit agreement was amended to provide for maximum borrowings of $110,000,000 and is collateralized by substantially all assets of ABC. Advances under the line of credit bear interest at the bank's prime rate plus zero to 0.25% or ABC may choose LIBOR plus 0.85% to 1.45%.

The bank line of credit available to ABC for borrowings is reduced by outstanding letters of credit. Payments to satisfy letters of credit presented for payment are funded from advances on the bank line of credit. At December 31, 2005 and 2004, the maximum remaining revolving bank line of credit available for borrowings was $24,912,000 and $15,194,000.

The agreement in effect at December 31, 2005 expires January 31, 2008 and requires the Company to maintain certain financial covenants.

Interest Rate Swap Agreements
ABC - ABC entered into a 5-year interest rate swap agreement effective in May 2001, which applies to $20,000,000 of ABC's bank line of credit balance at December 31, 2005 and 2004 and expires May 17, 2006 (Note 10). The agreement calls for ABC to pay interest at a fixed rate of 5.41% and receive interest at a variable rate as defined by the 1-month London Interbank Offering Rate (LIBOR) on a notional amount of $20,000,000. Interest on the underlying bank line of credit borrowings at December 31, 2005 and 2004 is based upon LIBOR plus 0.85% to 1.45% and LIBOR plus 1.0% to 1.75%.

JKL, LLC - JKL, LLC, one of the consolidated VIEs, entered into a 10-year interest rate swap agreement in October 1998 which applies to a specified declining dollar amount of long-term debt used to finance the land acquisition and warehouse construction costs. The swap agreement calls for JKL, LLC to pay interest at a fixed rate of 5.492% and receive interest at a variable rate as defined by the 1-month LIBOR on a reducing notional amount over a 10-year term expiring November 1, 2008, as specified in the swap agreement. Interest on the underlying long-term debt is based upon LIBOR plus 1.20%. The notional amount of the swap agreement at December 31, 2005 approximated $4,306,000 or 51% of JKL, LLC's long-term debt.

Note 3 - Bank Financing Agreements (Continued)

GHI, LLC - GHI, LLC, a consolidated VIE, entered into a 7-year interest rate swap agreement in November 2005 that applies to a specified declining dollar amount of long-term debt used to refinance the land and building acquisition, which occurred earlier in 2005. The swap agreement calls for GHI, LLC to pay interest at a fixed rate of 5.98% and receive interest at a variable rate as defined by the 1-month LIBOR plus 0.9% on a reducing notional amount beginning January 1, 2006 over a 7-year term expiring January 3, 2013, as specified in the swap agreement. Interest on the underlying long-term debt is based upon LIBOR plus 0.9%. The notional amount of the swap agreement at December 31, 2005 was $6,400,000 or 100% of the GHI, LLC's long-term debt.

Note 4 - Related Party Transactions and Financing

Notes Receivable from Affiliate - A stockholder of the ABC and PQR Corporation (a consolidated VIE) and a key member of management individually each own a minority interest in STU Company (STU), a Canadian Corporation. ABC holds unsecured notes receivable arising from advances under a $900,000 line of credit agreement with STU and unpaid management fees earned in previous years. The notes are due on demand and require monthly interest payments at annual rates ranging from 6.0% to 15.5%. The amount outstanding at December 31, 2005 and 2004 was $785,000. Interest income on these notes in the amount of $104,000 and $79,000 has been recognized in 2005 and 2004. These notes are subordinated to certain bank debt of STU. Accordingly, these notes have been classified as non-current assets as repayment is not expected within the next 12 months.

Royalty Agreement, Sales of Merchandise, and Receivables - ABC has a royalty agreement with and sells merchandise to STU. Revenues earned from STU were not significant during 2005 and 2004. No significant receivables related to the royalty agreement or sale of merchandise to STU were outstanding at December 31, 2005 and 2004.

Advances from Owners - Advances from the ABC's owners are due on demand, unsecured, and bear interest at minimum applicable federal rates. Interest expense related to these advances was $791,000 and $352,000 in 2005 and 2004. At December 31, 2005 and 2004, $2,000,000 of the balance was subordinated to the bank line of credit.

Note 5 - Commitments

Operating Leases

ABC's warehouse and office facility in Los Angeles, California is owned by JKL, LLC (a consolidated VIE) which is related through common ownership. ABC rents this facility under two operating lease agreements. The first lease agreement provides for monthly rent of $108,000 and expires March 2010. The second lease agreement provides for monthly rent of $80,000 and expires June 2008. The second lease agreement provides one remaining five-year option to extend this lease. Both of these agreements provide for rent increases annually based upon the Consumer Price Index (CPI) with a ceiling of 6% per year. The lease transactions have been eliminated in the consolidation of JKL, LLC by ABC for the year ended December 31, 2005.

ABC's primary warehouse and office facility in Chicago, Ohio is owned by MNO, LLC (a consolidated VIE) which is related through common ownership with ABC. ABC rents this facility under an operating lease agreement that provides for monthly rent of $81,000 and expires September 2009. The agreement provides for one remaining five-year option to extend this lease and for rent increases annually based upon the CPI with a ceiling of 6% per year. The lease transactions have been eliminated in the consolidation of MNO, LLC by ABC for the year ended December 31, 2005.

DEF, LLC rents a warehouse facility under an operating lease agreement with A Leasing, L.P. that expires September 2011. The lease agreement provides for monthly rent of $135,000 with annual rent increases of 3% each July. DEF, LLC holds an option to purchase the facility for $13,500,000, which if not exercised by July 2006 the monthly rent shall increase by 20% at that time (Note 10). DEF, LLC subleases this facility to ABC who is required under the sublease agreement to deliver the monthly rental payments due from DEF, LLC directly to A Leasing, L.P.

ABC has a month to month lease with an unrelated party for a secondary warehouse facility in Chicago, Ohio. This lease requires monthly lease payments of $67,000.

ABC has a lease with an unrelated party for warehouse space in Los Angeles, California. Minimum rent under this lease agreement is $3,000 per month and expires in June 2009.

ABC has a lease with an unrelated party for a warehouse and office facility in Pittsburg, Pennsylvania. Minimum rent under this lease agreement is $78,000 per month and expires in August 2007.

Note 5 - Commitments (Continued)

ABC has a lease with an unrelated party for a warehouse and office facility in Albuquerque, New Mexico. Minimum rent under this lease agreement is $40,000 per month through August 2006 at which point monthly rent increases to $44,000 through August 2007 and $47,000 through the end of the lease term, August 2009. The agreement provides for two five-year options to extend this lease.

ABC has a lease with an unrelated party for a warehouse and office facility in Atlanta, Georgia. Minimum rent under this lease agreement is $43,000 through March 2006, $44,000 through March 2007, $46,000 through March 2008, and $47,000 through the end of the lease term, March 2009. The agreement provides for one five-year option to extend this lease.

One of the LLCs had an operating lease agreement with an unrelated party for transportation equipment based in Los Angeles, California, which was scheduled to expire in August 2007. The agreement provided for lease payments equal to a base rate of $252,500 per quarter plus an amount calculated at 90-day LIBOR plus 1.75% on a notional amount that is reduced by the base quarterly payment. The transportation equipment under this lease was purchased by the LLC during 2005 for approximately $14,830,000. The lease transactions have been eliminated in the consolidation of the LLCs by ABC for the years ended December 31, 2005 and 2004.

Future minimum lease payments are as follows:

Year Ending December 31,	
2006	$ 3,677,000
2007	3,474,000
2008	2,946,000
2009	2,380,000
2010	1,905,000
Thereafter	1,464,000
	$ 15,846,000

Rent expense for the year ended December 31, 2005 was $5,549,000. Rent expense was for the year ended December 31, 2004 was $7,309,000, including amounts paid under related party lease agreements of $3,622,000.

In addition to the monthly rent payments, the Company is generally responsible for repairs, maintenance, property taxes, insurance, and other operating costs of the leased properties.

Note 5 - Commitments (Continued)

Purchase Obligations
New Chicago Facility - At December 31, 2005 VWX, LLC (a consolidated VIE) had an unconditional purchase obligation related to a construction contract for the construction of a warehouse facility in Chicago, Ohio. The total contract amount as of April 2006 is \$21,067,000 of which \$6,744,000 is included in construction in progress in the December 31, 2005 consolidated balance sheet. The construction is expected to be completed during 2006 at which time ABC will relocate its current Chicago, Ohio distribution facility to this new location.

In preparation for the new Chicago facility, which is significantly larger than the existing Chicago location, ABC has an outstanding unconditional purchase obligation of \$4,505,000 for warehouse racking of which \$1,065,000 has been paid as of December 31, 2005 and included in fixed assets at December 31, 2005.

Super Widget Purchase Obligation - ABC has entered into an agreement with Super Widget, Inc. for exclusive distribution rights of Super Widget product to the widget industry. In connection with this agreement, ABC is obligated to the following:

- Purchase and handle any delivery commitments of current merchandise that 123 Corporation previously established with Super Widget that were in process of being shipped to 123 Corporation.

- Inclusive of the first commitment, purchase an amount of Super Widget product that equals or exceeds \$15,500,000 by May 31, 2006 and equals or exceeds \$40,500,000 by May 31, 2007.

If Super Widget chooses not to extend their relationship with ABC by June 30, 2007, ABC has the right of return of all undamaged Super Widget product.

Note 6 - 401(k) Deferred Compensation Plan and Profit Sharing Plan

The Company has established a qualified deferred compensation plan under section 401(k) of the Internal Revenue Code. Under the plan, employees meeting certain eligibility requirements may elect to defer up to one-hundred percent (100%) of their salary, subject to Internal Revenue Code limits. ABC makes salary deferral matching contributions at twice the amount of each participant's deferral, up to a maximum of $1,300 annually. Contributions made by ABC to the plan totaled $552,000 and $496,000 for the years ended December 31, 2005 and 2004.

ABC has a profit sharing plan that covers employees who meet certain service requirements. The Board of Directors determines contributions to the profit sharing plan on an annual basis. There were no profit sharing contributions for the year ended December 31, 2005 or 2004.

Note 7 - Common Stock

At December 31, 2005 and 2004 , common stock of ABC consists of:

25,000 voting shares authorized, with no par value, 500 shares issued and outstanding	$ 13,000
25,000 nonvoting shares authorized, with no par value, 19,500 shares issued and outstanding	510,000
	$ 523,000

Note 8 - Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash on deposit, which at times may be in excess of federally insured limits, and accounts receivable. The Company maintains its cash on deposit with high credit quality financial institutions. The Company sells its products to approved customers on an open-account basis. Receivables are generally unsecured. The Company regularly monitors the credit limits and payment habits of its customers to mitigate its risk of loss from uncollectible accounts.

Note 9 - Fair Value of Financial Instruments

The Company's financial instruments include cash, receivables and bank debt (a revolving line of credit and term notes with variable interest rates) in addition to the interest rate swap agreements that are separately described below. The carrying values of these instruments approximate fair value. The Company also has financial instruments that include notes receivable from an affiliate and advances from stockholders. Because of the private nature of these transactions, it is not practicable to estimate the fair value of these financial instruments.

Interest Rate Swap Agreements - The fair value of the interest rate swap agreements as stated in the consolidated balance sheet is the estimated amount the Company would pay to terminate the agreements at the balance sheet date, taking into consideration the current interest rates and creditworthiness.

Note 10 - Subsequent Events

DEF, LLC, a consolidated VIE, has given notice to A Leasing, L.P. of its desire to exercise its purchase option on the land and building currently leased by DEF, LLC and subleased to ABC for its Las Vegas, Nevada distribution operations. The purchase option which was scheduled to expire in 2006 specifies a purchase price for the land and building of $13,500,000 and the date of sale to occur no earlier than August 1, 2006, nor any later than September 1, 2006.

Note 11 - Litigation

The Company is party to certain litigation and claims arising in the ordinary course of business. Management believes that the resolution of any such proceedings and claims will not have a material adverse impact on the financial position, results of operations or cash flows of the Company.