MERCANTILE SELF INSURANCE TRUST FUND

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2005

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To The Board of Trustees
Mercantile Self Insurance Trust
Syracuse, New York

We have audited the accompanying balance sheets of Mercantile Self Insurance Trust as of December 31, 2005 and 2004, and the related statements of operations and members' deficit, and cash flows, for the years then ended. These financial statements are the responsibility of the Trust'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mercantile Self Insurance Trust as of December 31, 2005 and 2004, and results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

The accompanying financial statements have been preparing assuming the Trust will continue as a going concern.

As discussed in Note G, the Trust's ratio of liquid assets to claims reserve at December 31, 2005 is below the acceptable level as determined by the New York State Worker's Compensation Board (the Board). Management has met with the Board regarding the ratio and the steps that it is taking to meet the requirements. However, if management is not successful in their efforts, the Board has the authority to revoke the Trust's self-insurance privilege. These matters raise substantial doubt about the ability of the Trust to continue as a going concern. The ability of the Trust to continue as a going concern is dependent on many factors, one of which is regulatory action, including ultimate acceptance of the Trust's comprehensive plan. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Kruth, Stein, Squadrito, Liberman & Silverman

Kruth, Stein, Squadrito, Liberman & Silverman, CPAs, LLP

April 26, 2006

MERCANTILE SELF INSURANCE TRUST

BALANCE SHEETS

DECEMBER 31, 2005 AND 2004

ASSETS

		2005		2004
ASSETS				
Cash and cash equivalents	$	2,665,651	$	2,832,649
Contributions receivable, net		503,829		155,264
Marketable securities		4,155,375		3,008,109
Accrued interest receivable		25,413		23,590
Prepaid insurance		7,800		103,800
Deferred tax asset		-0-		352,000
TOTAL ASSETS	$	7,358,068	$	6,475,412

LIABILITIES AND MEMBERS' DEFICIT

		2005		2004
LIABILITIES				
Deferred revenue and customer deposits	$	756,630	$	289,374
Accounts payable		195,053		167,267
Unpaid losses and loss adjustment expense including incurred but not reported claims		10,701,750		7,196,000
Accrued New York State assessment		1,679,125		1,118,000
Deferred tax liability		792,000		-0-
TOTAL LIABILITIES		14,124,558		8,770,641
MEMBERS' DEFICIT				
Accumulated deficit		(6,789,825)		(2,302,941)
Accumulated other comprehensive income - unrealized holding gain on marketable securities		23,335		7,712
TOTAL MEMBERS' DEFICIT		(6,766,490)		(2,295,229)
TOTAL LIABILITIES AND MEMBERS' DEFICIT	$	7,358,068	$	6,475,412

See accompanying notes to financial statements.

MERCANTILE SELF INSURANCE TRUST

STATEMENTS OF OPERATIONS AND MEMBERS' DEFICIT

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
REVENUE		
Contributions	$ 7,332,976	$ 7,878,851
Interest income	112,191	93,178
Realized loss on investments	(893)	(37,499)
TOTAL REVENUE	7,444,274	7,934,530
OPERATING EXPENSES		
Assessments and surcharges	576,142	305,265
Bad debt expense	85,316	23,248
Claims paid	3,324,107	3,495,446
Reserve expense	4,066,875	2,902,057
Trust re-insurance	843,362	393,451
Professional and administrative fees	1,888,716	1,966,919
Miscellaneous expenses	2,540	11,587
TOTAL OPERATING EXPENSES	10,787,058	9,097,973
LOSS BEFORE PROVISION FOR INCOME TAXES	(3,342,784)	(1,163,443)
(PROVISION) CREDIT FOR INCOME TAXES	(1,144,100)	294,900
NET LOSS	(4,486,884)	(868,543)
OTHER COMPREHENSIVE INCOME		
Unrealized holding gains on marketable securities	15,623	7,712
COMPREHENSIVE LOSS	(4,471,261)	(860,831)
MEMBERS' DEFICIT- BEGINNING OF YEAR	(2,295,229)	(1,434,398)
MEMBERS' DEFICIT - END OF YEAR	$ (6,766,490)	$ (2,295,229)

See accompanying notes to financial statements.

MERCANTILE SELF INSURANCE TRUST

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (4,486,884)	$ (868,543)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Realized loss on investments	893	37,499
Bad debt expense	85,316	23,248
Deferred tax provision	1,144,000	(295,000)
Reserve expense	4,066,875	2,902,057
Changes in assets and liabilities:		
Increase in contributions receivable	(433,881)	(95,768)
Increase in accrued interest receivable	(1,823)	(5,315)
Decrease (increase) in prepaid expenses	96,000	(94,239)
Increase in deferred revenue	467,256	119,683
Increase in accounts payable	27,786	52,543
TOTAL ADJUSTMENTS	5,452,422	2,644,708
NET CASH PROVIDED BY OPERATING ACTIVITIES	965,538	1,776,165
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of marketable securities	(2,973,211)	(3,770,150)
Proceeds from sale of marketable securities	1,840,675	1,959,629
NET CASH USED IN INVESTING ACTIVITIES	(1,132,536)	(1,810,521)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(166,998)	(34,356)
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	2,832,649	2,867,005
CASH AND CASH EQUIVALENTS-END OF YEAR	$ 2,665,651	$ 2,832,649
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	$ 100	$ -0-

See accompanying notes to financial statements.

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MERCANTILE SELF INSURANCE TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The Mercantile Self Insurance Trust (the Trust) is a group, self-insurance trust providing Workers' Compensation coverage in the State of New York to employers in the retail distribution and sale of food products. Contributions paid by members are used to pay covered losses, claims administration and costs associated with the management of the group, such as loss control, legal, accounting, actuarial, and excess insurance. Any excess of contributions over expenses are returned to the Trust members as dividends on a prorata share basis or through the reduction of future rates. The Trust began providing coverage to its members in October 1994.

Contributions Receivable: Receivables are carried at their estimated collectible amounts. Credit is generally extended on a short-term basis; thus receivables do not bear interest, although a finance charge may be applied to such receivables that are more than 30 days past due. Receivables are periodically evaluated for collectibility based on past credit history with members and their current financial conditions. After 90 days, unpaid contributions will result in the cancellation of the policy. At termination, an audit is performed to determine a final contribution. If the member refuses to cooperate with the audit, a "shock audit" is billed at an amount based on a multiple of the final premium. Once an audit is performed this premium is adjusted. When receivables are deemed to be uncollectible, they are charged against the allowance account. The allowance for uncollectible accounts is $85,316 and $-0- at December 31, 2005 or 2004, respectively.

Cash and Cash Equivalents: For purposes of the statements of cash flows, the Trust considers all cash and invested cash with original maturities not in excess of three months to be cash equivalents.

Contributions: Contributions are recorded based on estimated payroll of the participating members. No final adjustment has been made for the difference between estimated contributions and contributions calculated based on audited payrolls of the members. Such final adjustments will be made prospectively upon completion of such audits in the year such audits are finalized. Contributions are considered short-duration contracts and are recognized as income on an installment basis to match billings to members.

Deferred revenue represents contributions billed that are applicable to the next policy year.

Income Taxes: The Trust is a self insured entity which essentially is taxed on the excess of members' contributions over expenses incurred.

Unpaid Losses: Liabilities for reported claims and for "incurred but not reported" claims are estimated by the Trust. The Trust's policy is to establish a reserve for losses for reported claims on a case basis and for unreported claims on a basis of historically established industry statistical data and the Trust's own historical experience. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than provided. Changes in the estimated liability are charged or credited to operations as the estimates are revised. It is at least reasonably possible that the Trust's recorded estimates will change within the near term.

Management utilizes an actuarial service in its calculation of this estimated liability.

MERCANTILE SELF INSURANCE TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued New York State Assessment: The accrued New York State assessment is a statutory charge imposed by the State of New York and is calculated as a percentage of indemnity payments made by the Trust. The Trust has calculated this accrued assessment on a discounted basis, at approximately 22.8% of indemnity payments and estimated reserve for indemnity as of December 31, 2005 and 2004, less any payments made to date.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications: Certain reclassifications have been made to the 2004 financial statements to conform with the classifications used in 2005.

NOTE B - TRUST RE-INSURANCE

The Trust purchases specific excess insurance as required by the State of New York, to meet statutory requirements for Workers' Compensation. The Trust also purchases coverage of $2,000,000 for employers liability. Both are for excess of the retention of $400,000 per each claim.

Failure of the reinsurers to honor their obligations could result in losses to the Trust. The Trust evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency. At December 31, 2005 there are no losses recorded or anticipated due to failure of the reinsurers to honor their obligations.

NOTE C - MARKETABLE SECURITIES

The Trust has marketable securities held for them by M&T Investment Group, a brokerage firm. The securities are classified as available for sale and are recorded at their current market value, with unrealized gains and losses reported as a net amount in other comprehensive income. Realized gains and losses are determined using the specific identification method. The securities are summarized as follows:

	December 31, 2005		
	Cost	Market Value	Unrealized Gain (Loss)
US Government bonds	$ 3,125,954	$ 3,077,117	$ (48,837)
Common stock	1,006,086	1,078,258	72,172
	$ 4,132,040	$ 4,155,375	$ 23,335

MERCANTILE SELF INSURANCE TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

NOTE C - MARKETABLE SECURITIES (CONTINUED)

		December 31, 2004	
	Cost	Market Value	Unrealized Gain (Loss)
Corporate bonds	$ 377,201	$ 368,783	$ (8,418)
US Government bonds	1,881,504	1,836,517	(44,987)
Common stock	741,692	802,809	61,117
	$ 3,000,397	$ 3,008,109	$ 7,712

The cost and fair value of U.S. Government Bonds by contractual maturity as of December 31, 2005 are shown below. Actual maturities may differ from contractual maturities because the issuers may have the right to prepay obligations with or without prepayment penalties.

	Cost	Fair Value
Due in one year or less	$ 728,912	$ 722,867
Due after one through five years	1,602,468	1,563,562
Due after five through ten years	794,574	790,688
	$ 3,125,954	$ 3,077,117

NOTE D - LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSE

Activity in the liability (reserve) for unpaid losses and loss adjustment expenses is summarized as follows:

	2005	2004
Reserve balance at beginning of year	$ 7,196,000	$ 4,697,699
Incurred (reserved and paid)	6,829,857	5,993,747
Paid	(3,324,107)	(3,495,446)
Reserve balance at end of year	$ 10,701,750	$ 7,196,000

At December 31, 2005 and 2004 the liability for unpaid losses and loss adjustment expenses, including incurred but not reported claims has been actuarially determined using a discount rate of 5%, which management believes to be representative of attainable future returns on Trust assets. The net liability for unpaid losses and loss adjustment expenses, including incurred but not reported claims as actuarially determined on an undiscounted basis, as of December 31, 2005 and 2004 is estimated to be $13,009,300 and $9,606,000, respectively.

Case reserves, excluding incurred but not reported claims, on an undiscounted basis approximated $5,412,495 and $4,196,248 at December 31, 2005 and 2004, respectively.

MERCANTILE SELF INSURANCE TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

NOTE E - INCOME TAXES

The (provision) benefit for taxes is composed of the following:

	2005	2004
Current provision	$ (100)	$ (100)
Deferred (provision) benefit	(1,144,000)	295,000
	$ (1,144,100)	$ 294,900

The deferred tax asset primarily results from the temporary difference between the rates used for the discounting of the claims reserve for financial statement purposes and the rates used for the discounting of the claims reserve for Federal income tax purposes, and net operating losses. The Trust has available at December 31, 2005, approximately $6,900,000 of operating loss carryforwards, expiring in 2024, that may be applied against future taxable income. The Trust does not believe that it will receive the full benefit associated with the full utilization of the net operating loss in future years. Therefore, the financial statements reflect a valuation allowance of $2,760,000 to adjust the deferred tax asset which relates to the net operating loss carryforwards.

NOTE F - FINANCIAL INSTRUMENTS AND CREDIT RISK

The Trust maintains its cash balances (including money market account balances) at various financial institutions. The amount shown as cash and cash equivalents and other diversified investments are at risk for normal market fluctuations. Cash balances other than money market accounts exceed the amounts insured by the Federal Deposit Insurance Corporation. Accounts receivable are unsecured and are generally from companies within the State of New York.

The Trust's investment portfolio is uninsured and is at risk for normal market fluctuation. A substantial portion (74% in 2005 and 61% in 2004) of the Trust's portfolio is invested in U.S. Treasuries and bonds of other U.S. Government Agencies. These investments are at risk to change in market interest rates.

NOTE G - GOING CONCERN

Management of the Trust has been informed by the New York State Workers' Compensation Board (the Board) that an acceptable ratio of the Trust's liquid assets to the Trust's claims reserve should approximate 90% or higher. The ratio, which is a formula calculated by the Board under regulatory requirements, measures certain assets and liabilities of the Trust. As an example, only receivables collected within 90 days of December 31, 2005 would be included in the Board's determination of liquid assets. Receivables collected within 90 days of December 31, 2005 amounted to $433,709.

As of December 31, 2005 and 2004, the Trust's related ratios were approximately 54% and 65%, respectively. Management, has indicated that it is in discussion stages with the Board regarding the ratio and that it is taking steps to meet the Board's requirements. The Trust has been underfunded for several years and there has been a substantial decline in its liquid assets to claims reserve ratio during that period.

Since the Trust has been unable to improve its ratio, the Board may impose certain sanctions against the Trust, one of which could be revoking the Trusts's self-insurance privilege.

MERCANTILE SELF INSURANCE TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

NOTE H - RELATED PARTY TRANSACTION

The Trust pays a monthly fee to an affiliated entity to provided management and administrative services, under an agreement that expires on April 15, 2011 and automatically renews through April 15, 2016. The entities are considered related based of the fact that the management company has significant control over the management and operating policies of the Trust. Administrative expense paid to this entity was $1,434,549 and $1,531,732 for 2005 and 2004, respectively. Amounts due to related parties of $119,946 and $144,515 are included in accounts payable at December 31, 2005 and 2004, respectively.