

QEP CO INC
Form 10-Q
October 14, 2005
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal quarter ended August 31, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-21161

Q.E.P. CO., INC.

(Exact Name of Registrant as Specified in Its Charter)

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Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

13-2983807
(I.R.S. Employer
Identification No.)

1081 Holland Drive

Boca Raton, Florida 33487

(Address of Principal Executive Offices) (Zip Code)

(561) 994-5550

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

3,458,288 SHARES (\$.001 PAR VALUE)

AS OF OCTOBER 14, 2005

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Q.E.P. CO., INC. AND SUBSIDIARIES

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* Information derived from the Company's audited financial statements on Form 10-K.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM I. FINANCIAL STATEMENTS****Q.E.P. CO., INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(UNAUDITED)**

	Six Months Ended		Three Months Ended	
	August 31, 2005	August 31, 2004	August 31, 2005	August 31, 2004
Net sales	\$ 105,672,281	\$ 85,695,129	\$ 54,413,542	\$ 42,590,802
Cost of goods sold	74,067,686	56,764,803	38,546,130	28,272,627
Gross profit	31,604,595	28,930,326	15,867,412	14,318,175
Costs and expenses:				
Shipping	10,320,336	8,697,028	5,285,843	4,288,044
General and administrative	9,222,434	7,455,428	4,639,797	3,716,557
Selling and marketing	9,963,881	8,201,238	5,132,521	4,016,590
Other (income) expense	(1,006,206)	129,244	(358,271)	38,678
	28,500,445	24,482,938	14,699,890	12,059,869
Operating income	3,104,150	4,447,388	1,167,522	2,258,306
Interest expense, net	1,130,657	629,846	643,395	320,162
Income before provision for income taxes	1,973,493	3,817,542	524,127	1,938,144
Provision for income taxes	851,766	1,439,521	172,214	722,289
Net income	\$ 1,121,727	\$ 2,378,021	\$ 351,913	\$ 1,215,855
Basic earnings per common share	\$ 0.32	\$ 0.69	\$ 0.10	\$ 0.35
Diluted earnings per common share	\$ 0.31	\$ 0.65	\$ 0.10	\$ 0.33

The accompanying notes are an integral part of these statements.

Table of Contents**Q.E.P. CO., INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	<u>August 31, 2005</u>	<u>February 28, 2005</u>
	(UNAUDITED)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 459,858	\$ 1,869,184
Accounts receivable, less allowance for doubtful accounts of approximately \$511,000 and \$288,000 at August 31, 2005 and February 28, 2005, respectively	29,448,404	27,015,754
Inventories	32,583,424	29,928,905
Prepaid expenses	1,626,622	2,047,489
Deferred income taxes	592,690	456,570
Total current assets	64,710,998	61,317,902
Property and equipment, net	8,692,862	9,186,164
Deferred income taxes	188,909	182,191
Goodwill	16,499,971	12,931,482
Other intangible assets, net	3,079,935	2,808,047
Other assets	583,415	682,631
Total Assets	\$ 93,756,090	\$ 87,108,417
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Lines of credit	\$ 24,285,951	\$ 24,702,540
Current maturities of long term debt	2,632,503	2,445,580
Acquisition notes payable	1,650,039	1,026,344
Accounts payable	18,240,447	17,144,036
Accrued liabilities	5,063,124	4,630,170
Warrant put liability	940,950	
Total current liabilities	52,813,014	49,948,670
Notes payable	6,526,580	4,488,400
Acquisition notes payable	4,429,274	2,043,799
Warrant put liability		782,609
Total Liabilities	63,768,868	57,263,478
Commitments and contingencies		
Shareholders Equity		
Preferred stock, 2,500,000 shares authorized, \$1.00 par value; 336,660 shares issued and outstanding	336,660	336,660
Common stock, 20,000,000 shares authorized, \$.001 par value; 3,458,288 shares and 3,456,800 shares issued and outstanding at August 31, 2005 and February 28, 2005, respectively	3,458	3,457
Additional paid-in capital	9,539,497	9,529,520
Retained earnings	24,090,047	22,976,101
Cost of stock held in treasury	(542,845)	(542,845)
Accumulated other comprehensive income	(3,439,595)	(2,457,954)

Total Shareholders' Equity	29,987,222	29,844,939
Total Liabilities and Shareholders' Equity	\$ 93,756,090	\$ 87,108,417

The accompanying notes are an integral part of these statements

Table of Contents**Q.E.P. CO., INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

	Six Months Ended	
	August 31, 2005	August 31, 2004
Cash flows from operating activities:		
Net income	\$ 1,121,727	\$ 2,378,021
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,048,214	1,257,262
Change in fair value of warrant put liability	158,341	95,000
Bad debt expense	222,673	102,024
Gain on sale of business	(1,120,000)	
Deferred income taxes	(147,818)	191,084
Changes in assets and liabilities, net of sale and acquisitions:		
Accounts receivable	(2,704,456)	(2,264,637)
Inventories	(490,395)	(3,200,168)
Prepaid expenses	420,867	98,935
Other assets	(307,277)	(72,586)
Accounts payable and accrued liabilities	1,139,720	1,206,699
Net cash provided by (used in) operating activities	341,596	(208,366)
Cash flows from investing activities:		
Acquisition consideration, net of cash acquired	(2,330,000)	(2,051,433)
Capital expenditures	(815,862)	(463,270)
Net cash used in investing activities	(3,145,862)	(2,514,703)
Cash flows from financing activities:		
Net (payments) borrowings under lines of credit	(47,477)	3,966,196
Borrowings of long term debt	3,208,722	750,540
Repayments of long term debt	(954,612)	(1,450,304)
Repayments of acquisition debt	(482,146)	(315,966)
Purchase of treasury stock	(60,000)	(61,500)
Proceeds from exercise of stock options	9,978	254,824
Dividends	(7,781)	(4,988)
Net cash provided by financing activities	1,666,684	3,138,802
Foreign currency translation adjustment	(271,744)	(291,653)
Net (decrease) increase in cash	(1,409,326)	124,080
Cash and cash equivalents at beginning of period	1,869,184	956,608
Cash and cash equivalents at end of period	\$ 459,858	\$ 1,080,688

Supplemental disclosure of cash flow information:

Interest paid	\$ 821,581	\$ 680,172
Income taxes paid	\$ 203,695	\$ 1,053,272

The accompanying notes are an integral part of these statements

Table of Contents**Q.E.P. CO., INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(UNAUDITED)

Note 1. Interim Reporting

The accompanying financial statements for the interim periods are unaudited and include the accounts of Q.E.P. Co., Inc. and its subsidiaries (the Company). All significant intercompany transactions and balances have been eliminated. The interim financial statements have been prepared in conformity with Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (SEC) and therefore do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the periods presented have been included. These financial statements should be read in conjunction with the financial statements and notes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in the Annual Report on Form 10-K for the year ended February 28, 2005 of the Company as filed with the SEC. The February 28, 2005 balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The results of operations for the six months ended August 31, 2005 are not necessarily indicative of the results for the full fiscal year ending February 28, 2006.

Note 2. Acquisition

In May 2005, the Company purchased the flooring adhesives manufacturing assets of a company in the United States. Consideration for the purchase included cash of \$830,000, issuance of a four-year, non-interest-bearing \$4,000,000 note, and sale of the Company's carpet seaming tape distribution business. A summary of the fair value of assets acquired, liabilities assumed and expenses incurred in connection with this acquisition follows:

Cash consideration paid	\$ 830,000
Fair value of carpet seaming tape distribution business	1,500,000
Discounted value of notes payable issued	