

QEP CO INC
Form 10-Q
October 14, 2003
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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, 2003

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)

Delaware
(State or Other Jurisdiction of

13-2983807
(I.R.S. Employer

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Incorporation or Organization)

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

3,404,723 SHARES (\$.001 PAR VALUE)

AS OF OCTOBER 14, 2003

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

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* Information derived from our audited financial statements on Form 10-K.

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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

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

CONDENSED CONSOLIDATED BALANCE SHEETS

AUGUST 31, 2003 AND FEBRUARY 28, 2003

	<u>August 31, 2003</u>	<u>February 28, 2003</u>
	<u>(Unaudited)</u>	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,163,266	\$ 304,453
Accounts receivable, less allowance for doubtful accounts of \$346,000 and \$354,000 at August 31, 2003 and February 28, 2003, respectively	21,074,960	20,548,282
Inventories	23,741,681	28,386,525
Prepaid expenses	1,533,308	1,861,999
Deferred Income Taxes	598,876	598,876
	<u>48,112,091</u>	<u>51,700,135</u>
Total current assets	48,112,091	51,700,135
Property and equipment, net	6,598,165	6,443,379
Deferred income taxes	917,475	1,216,913
Goodwill	10,222,897	10,096,318
Other intangible assets, net	2,193,724	2,254,593
Other assets	851,751	814,020
	<u>68,896,103</u>	<u>72,525,358</u>
TOTAL ASSETS	\$ 68,896,103	\$ 72,525,358
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Lines of credit	\$ 15,939,560	\$ 20,339,721
Acquisition notes payable	727,904	839,326
Current maturities of long term debt	2,841,840	2,818,148
Accounts payable	10,408,970	12,499,204
Accrued liabilities	4,768,617	3,393,251
	<u>34,686,891</u>	<u>39,889,650</u>
Total current liabilities	34,686,891	39,889,650
Notes payable	5,857,378	6,582,680
Acquisition notes payable	942,256	1,171,795
Deferred income taxes	590,638	590,638
Warrant put liability	1,585,637	1,175,300
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS EQUITY		

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Preferred stock, 2,500,000 shares authorized, \$1.00 par value; 336,660 shares issued and outstanding at August 31, 2003 and February 28, 2003	336,660	336,660
Common stock, 20,000,000 shares authorized, \$.001 par value; 3,397,090 shares and 3,381,190 shares issued and outstanding at August 31, 2003 and February 28, 2003, respectively	3,397	3,381
Additional paid-in capital	9,172,410	9,068,703
Retained earnings	17,223,830	15,838,522
Cost of stock held in treasury	(245,485)	(436,170)
Accumulated other comprehensive income	(1,257,509)	(1,695,801)
	<u> </u>	<u> </u>
	\$ 25,233,303	\$ 23,115,295
	<u> </u>	<u> </u>
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 68,896,103	\$ 72,525,358
	<u> </u>	<u> </u>

The accompanying notes are an integral part of these statements

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

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

FOR THE SIX MONTHS AND THREE MONTHS ENDED AUGUST 31, 2003 AND 2002

(UNAUDITED)

	Six Months Ended		Three Months Ended	
	August 31, 2003	August 31, 2002	August 31, 2003	August 31, 2002
Net Sales	\$ 69,199,518	\$ 64,599,153	\$ 34,489,070	\$ 33,408,699
Cost of goods sold	45,278,369	42,486,574	22,518,444	21,694,221
Gross profit	23,921,149	22,112,579	11,970,626	11,714,478
Costs and expenses				
Shipping	6,303,419	5,943,218	3,021,146	3,279,956
General and administrative	6,055,389	5,534,322	3,098,201	2,917,247
Selling and marketing	7,260,338	6,806,521	3,633,304	3,517,680
Other expense	905,795	241,559	264,288	126,154
	20,524,941	18,525,620	10,016,939	9,841,037
Operating income	3,396,208	3,586,959	1,953,687	1,873,441
Interest income	474	627	279	
Interest expense	(1,056,267)	(956,499)	(330,740)	(499,143)
Income before provision for income taxes and cumulative effect of change in accounting principle	2,340,415	2,631,087	1,623,226	1,374,298
Provision for income taxes	(949,721)	(1,121,014)	(643,960)	(577,993)
Net income before cumulative effect of change in accounting principle	1,390,694	1,510,073	979,266	796,305
Cumulative effect of change in accounting principle		(3,047,788)		
Net income (loss)	\$ 1,390,694	\$ (1,537,715)	\$ 979,266	\$ 796,305
Basic earnings (loss) per common share:				
Income before cumulative effect of change in accounting principle	\$ 0.41	\$ 0.44	\$ 0.29	\$ 0.23
Cumulative effect of change in accounting principle		(0.89)		
Net income (loss)	\$ 0.41	\$ (0.45)	\$ 0.29	\$ 0.23
Diluted earnings (loss) per common share:				
	\$ 0.40	\$ 0.44	\$ 0.28	\$ 0.23

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Income before cumulative effect of change in accounting principle

Cumulative effect of change in accounting principle		(0.89)		
Net income (loss)	\$ 0.40	\$ (0.45)	\$ 0.28	\$ 0.23

The accompanying notes are an integral part of these statements.

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Q.E.P. CO., INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED AUGUST 31, 2003 AND 2002
(UNAUDITED)

	Six Months Ended	
	August 31, 2003	August 31, 2002
Cash flows from operating activities:		
Net income (loss)	\$ 1,390,694	\$ (1,537,715)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Cumulative effect of change in accounting principle		3,047,788
Change in fair value of warrant put liability	410,337	256,000
Depreciation and amortization	1,705,746	881,040
Bad debt expense	151,527	267,665
Gain on sale of property and equipment	(160,803)	
Deferred income taxes	299,438	242,886
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(378,150)	(2,574,270)
Inventories	4,879,219	(2,969,383)
Prepaid expenses	441,676	647,479
Other assets	(157,272)	(244,541)
Accounts payable and accrued liabilities	(988,740)	