QEP CO INC
Form 10-K
June 13, 2006
Table of Contents

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended February 28, 2006

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 incorporation or organization)**	**13-2983807** **(I.R.S. Employer Identification No.)**
1001 BROKEN SOUND PARKWAY NW, SUITE A, BOCA RATON, FLORIDA **(Address of principal executive offices)**	**33487** **(Zip Code)**

Registrant s telephone number, including area code: (561) 994-5550

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
NONE	NONE

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $0.001 par value

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the 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 x No ¨

Indicate by check mark if disclosures of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large Accelerated filer ¨	Accelerated filer ¨	Non-Accelerated filer x

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

The aggregate market value of Q.E.P. Co., Inc. Common Stock, $.001 par value, held by non-affiliates, computed by reference to the price at which the stock was sold as of August 31, 2005 was $19.9 million.

The number of shares outstanding of each of the registrant s classes of common stock as of June 6, 2006 is 3,465,788 shares of Common Stock, par value $0.001 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the definitive Proxy Statement which the Registrant will file with the Securities and Exchange Commission in connection with the Registrant s Annual Meeting of Stockholders to be held on July 27, 2006 are incorporated by reference in Part III of this Form 10-K to the extent provided in Items 10, 11, 12, 13 and 14 hereof.

Table of Contents

PART I

Item 1. Business

General

Founded in 1979, Q.E.P. Co., Inc. (the Company or Q.E.P.) manufactures, markets and distributes a broad line of specialty tools and flooring related products for the home improvement market in the United States of America and throughout the world. Under brand names including Q.E.P.®, ROBERTS®, Capitol®, QSet, Vitrex® and Elastiment, the Company markets over 3,000 specialty tools and flooring related products used primarily for surface preparation and installation of ceramic tile, carpet, vinyl and wood flooring. Q.E.P. s products include trowels, floats, tile cutters, wet saws, spacers, nippers, pliers, carpet trimmers and cutters, flooring adhesives, seaming tape, tack strips, knives, dry set powders and grouts. These products are sold to home improvement retailers, including national and regional chains such as Home Depot and Lowe s, international chain stores such as Bunnings, Wickes and Topps Tiles, specialty distributors to the hardware, construction, flooring and home improvement trades and chain or independent hardware, tile, and carpet retailers for use by the do-it-yourself consumers as well as the construction or remodeling professional.

The Company s principal subsidiaries include Roberts Consolidated Industries, Inc., a worldwide leader in the carpet installation market; Roberts Capitol, Inc., a manufacturer of adhesives in Dalton, Georgia; Q.E.P. Stone Holdings, which manufactures dry set powders and grouts in Georgia and Florida; O Tool Company, a distributor to the trowel trades; Boiardi Products Corp. of Little Falls, N.J., a manufacturer of a full line of thin-set mortars, grouts, self-leveling concrete toppings and crack-suppressing waterproof membranes used in the flooring industry; Roberts Holland B.V., a European distributor of flooring installation products in Holland and France; PRCI S.A., a distributor of ceramic tile tools to the retail and distribution marketplace in France; Q.E.P. Co. U.K., Ltd., Roberts U.K., Ltd. and Q.E.P. Roberts Ireland, Ltd. manufacturers and distributors of accessory flooring and safety products in the United Kingdom and Ireland; Q.E.P. Australia Pty, Ltd., one of the largest distributors of tools and installation products for all types of flooring in the Australian marketplace; Q.E.P. New Zealand, a distributor of accessory flooring supplies; Roberts Mexicana S.A. de C.V., a manufacturer and distributor of flooring installation products in Mexico; Q.E.P. Chile, a distributor of ceramic tile accessories located in Santiago, Chile; and Zocalis, SRL, an Argentinean manufacturer of ceramic borders and trim.

Market Overview

The Company is a supplier of specialty flooring installation products and sells to the home improvement market. According to industry information published by *Floor Covering Weekly*, a trade publication, total floor covering sales for the United States rose 9% in 2004 to approximately $54.9 billion while home center sales, with lumberyards similar to Home Depot and Lowe s, were approximately $9.4 billion. The Company believes that this growth is being driven by several factors, including (i) a slowing but continued strong housing activity, (ii) aging of the United States housing stock which requires greater repair and maintenance expenditures, (iii) increased housing turnover of both new and existing homes, (iv) continued home improvement demand being facilitated by the current level of sales of new and existing homes, (v) appreciation of the United States housing market thus giving homeowners the ability to increase the investment in their homes through improvement projects, and (vi) changes in consumer preferences, which have caused an increase in the median size of new homes and which have contributed to demand for remodeling and expansion of older homes. Home improvement market distribution channels continue to consolidate as a result of the success of the warehouse home center format. The continued dominance of national home improvement retailers results from their ability to offer broad product lines, project advice and orientation, competitive pricing, aggressive promotions, and multiple location, large-format stores. The Company s two largest customers, Home Depot and Lowe s, accounted for over approximately $124 billion of home center sales in fiscal 2006. Based on data available to the Company, the Company believes that the primary beneficiaries of this consolidation among worldwide home improvement retailers have been the top two or three companies (ranked by annual sales volume). Thus, while the home improvement market s retail sales have expanded, the market is being increasingly dominated by the largest retailers.

Table of Contents

The Company s two largest customers, Home Depot and Lowe s, experienced annual sales growth rates in fiscal 2006 of 12% and 19%, respectively, according to their published financial reports and both have plans to continue increasing the number of stores each operates. As consolidation continues among home improvement retailers, the Company expects that sales of the largest national and regional home improvement retailers will continue to increase at greater rates than the rate of sales growth in the overall market. The Company expects that the growth trends in the flooring segment of the home improvement market and among its customer base will directly affect the Company s ability to generate growth in its sales and net income, its expansion strategy and the nature of its sales and marketing initiatives.

Business Strategy

The Company s strategy is to continue to enhance its position as a worldwide leading manufacturer and distributor of specialty tools and related products by introducing new products and cross-selling products among its channels of distribution, expanding market share by obtaining new customers, and capitalizing on expected growth of its largest customers and of the home improvement market as a whole. Key elements of the Company s strategy include:

Increase Sales By Expanding Product Lines and Adding New Customers. The Company seeks to expand its product lines by introducing new and innovative products which can be marketed to the Company s existing customer base. Through its acquisitions, the Company has expanded the number of products available and its line of flooring installation products. In addition to expanding product offerings through acquisitions, the Company internally develops and offers products in response to customer demands. The Company believes that broadening its product lines will make it a more attractive supplier to the major home improvement retailers and specialty distributors, thereby increasing the Company s sales and market penetration. Additionally, the Company is targeting mass merchandisers as prospective customers for a portion of its current product line.

Capitalize on Cross-Selling Opportunities. The Company believes that there are significant opportunities for cross selling its products among its existing markets and channels of distribution. The Company has sought to identify acquisition candidates with complementary product lines and to cross sell acquired product lines to its existing customer base and its existing product lines to the customers of the acquired business.

Pursue Strategic Acquisitions. The Company has broadened its product lines, increased its customer base and increased its manufacturing, distribution and marketing capabilities through acquisitions. The Company expects to continue to evaluate acquisitions of both domestic and worldwide specialty tool and adhesive manufacturers, distributors and other companies whose products, distribution channels and brand names are complementary to those of the Company and which could offer further opportunities for product cross selling, expansion of manufacturing and marketing operations and the addition of new customers.

Enhance Distribution and Manufacturing Capabilities. In order to effectively serve the customer base and help to restrain cost increases, the Company seeks to improve its distribution capabilities through the increased use of technology as well as reviewing its facilities for correct size and geographic location. In fiscal 2006, after the acquisition of new adhesives manufacturing capacity at a facility in Dalton, Georgia, the Company closed its Boca Raton, Florida office and warehouse facility and moved the warehousing and distribution operations to Dalton, Georgia and relocated the corporate offices within Boca Raton, Florida to a smaller facility. In addition, the Company has moved other functions to the Dalton location and is considering consolidating other operations where appropriate. The Company currently has distribution and manufacturing capability located throughout the United States, Canada, Australia, New Zealand, the United Kingdom, Mexico, France, Ireland, and Central and South America. The Company restructured its European manufacturing and distribution function in fiscal 2006 by significantly reducing operations in Holland. The Company estimates that in fiscal 2006, it manufactured approximately 30% of its Q.E.P. and Roberts product lines.

Table of Contents

Products

The Company manufactures, markets and distributes a broad line of over 3,000 specialty tools and flooring related products. The Company s products are offered under brand names including Q.E.P.®, ROBERTS®, Capitol®, QSet, Vitrex® and Elastiment and are used primarily for surface preparation and installation of ceramic tile, carpet, vinyl and wood flooring and laminate.

The Company manufactures and distributes adhesives, grouts, mortars, dry set powders and an assortment of carpet installation tools as well as floats, tile cutters, trowels, electric saws, nippers and other products to the flooring industry. These products are sold to distributors, retailers and do-it-yourself customers. Although the Company manufactures and distributes over 3,000 products, a majority of the Company s sales are to customers who purchase between 20 and 250 individual stock-keeping units. As the Company seeks to broaden its product lines, the competition for limited shelf space available at home improvement retailers for specialty tools and related products may limit sales of existing or newly introduced products.

The Company maintains a research and development program through which it seeks to identify new product opportunities within its core markets. Methods by which the Company seeks to identify product opportunities include soliciting product feedback from customers through its outside sales force and manufacturers representatives, review of product brochures and catalogs issued by foreign and domestic competitors of specialty tools, review of product concepts with buyers employed by its customers, and attendance at industry trade shows and conventions at which new product concepts are introduced and discussed. The Company also considers participation in joint ventures and evaluation of product samples to be an important part of its effort to identify new product opportunities. The Company maintains a product quality control program primarily to verify the quality of its existing products and to develop ideas for additional products or enhancements to existing products.

Relationship with Major Customers

In 1982, the Company began selling products to Home Depot, which is currently the largest home improvement retailer in the world, third largest retailer globally and the second largest retailer in the United States based on annual sales volume. In 1993, the Company added Lowe s as a customer, which is now the second largest home improvement retailer in the world and eighth largest retailer in the United States. Home Depot and Lowe s are the Company s two largest customers accounting for 44% and 11% of the Company s fiscal 2006 sales, respectively.

Because of the importance of home improvement retailers to its business, the Company has worked with these major customers to supplement their customer service programs to ensure that the specific needs of the end-user are given a high priority. Features of the Company s customer service programs for its major customers include providing a wide range of in-store services, such as, assistance with inventory, maintenance of product displays, introduction of new products, maintaining inventories of tools and related products in multiple locations to permit rapid shipping, delivering orders promptly, holding education classes for retail store personnel, packaging with multilingual labels, prepaying delivery for product shipments with minimum purchase requirements, participating in cooperative promotions and special sales events, providing product research for buyers, operating a customer service hotline, providing parts and repair service, extension of advertising allowances, accepting orders electronically and billing through electronic data interchange, bar coding for each individual stock-keeping unit, and incorporating anti-theft tags in packaging. The Company believes that its major customers place considerable value on service and promotional support and frequently evaluates its service and promotional activities in an effort to serve its customers more effectively.

Table of Contents

The Company believes that the consolidation among home improvement retailers will continue and that the national and large regional home improvement retailers will continue to increase their market share in the near future. Home Depot and Lowe s have plans to increase significantly the number of stores each operates over the next several years. As a result, the Company expects the percentage of its sales to these customers to continue to be significant.

The loss of, or any significant reduction in business with, Home Depot or Lowe s as a customer of the Company would have a material adverse effect on the financial position and results of operations of the Company.

Manufacturing and Suppliers

The Company estimates that in fiscal 2006 it manufactured approximately 30% of its Q.E.P. and Roberts product lines. The Company manufactures adhesives, carpet installation tools and ceramic tile spacers at its main manufacturing facility in Mexico, Missouri. Flooring adhesives are produced at the Company s facilities in Bramalea, Ontario, Canada; Mexico City, Mexico; and Dalton, Georgia. Grouts and related products are manufactured at the Company s Little Falls, New Jersey; Dalton, Georgia; Bramalea, Ontario, Canada and Ft. Pierce, Florida facilities; and laminate flooring underlayment is manufactured in Naperville, Illinois. In Australia, the Company manufactures accessories used for the installation of ceramic tile. Ceramic trim is manufactured in Argentina. Tile cutters, safety products and ceramic tile spacers are manufactured in the United Kingdom.

The Company purchased finished products and components from approximately 250 different suppliers in fiscal 2006. Although the Company believes that multiple sources of supply exist for nearly all of the products and components purchased from outside suppliers and generally maintains at least two sources of supply for each item purchased, interruptions in supply or price changes in the items purchased by the Company could have a material adverse effect on the Company s operations. The Company receives product from its suppliers into its four main North American warehouses located in Mexico, Missouri; Henderson, Nevada; Dalton, Georgia; and Bramalea, Ontario, Canada. Disruption in supply to any of these warehouses may result in excessive inventory levels and added costs to the Company. Further, in fiscal 2006, the Company purchased in excess of $14.4 million and $6.2 million of finished product from two foreign suppliers representing 22% and 9%, respectively of domestic product purchases.

Distribution, Sales and Marketing

The Company s specialty tools and related products are currently sold through four distinct distribution channels: (i) the Company s sales staff; (ii) independent manufacturing representatives; (iii) an in-house telemarketing sales force; and (iv) outside salaried and commissioned sales representatives. Management estimates that gross sales through its primary distribution channels in fiscal 2006 were as follows: 59% to national and regional home improvement retailers and 41% to specialty distributors, other specialty retailers and original equipment manufacturers.

The Company maintains an in-house creative services department through which it produces and develops color product catalogs, signage, point of purchase materials and distinctive packaging to enhance sales per square foot at the retail level and to reinforce the Company s brand images. The Company maintains a website which allows customers to obtain product information, catalogues and order replacement parts. The Company also informs customers of product promotions through direct contact via regular mail, e-mail or fax.

The Company s marketing and sales representatives, or its manufacturers representatives, conduct regular visits to many customers individual retail stores. In addition, the Company or its sales representatives provide product knowledge classes for retail store personnel. The Company also evaluates the product mix at its customers locations from time to time with a view toward evolving the product mix to increase sales per square foot. When the Company secures a new customer, or introduces new product into existing customer stores, the Company generally resets all displays and assists store personnel in becoming familiar with the Company s product line.

Table of Contents

Competition

The Company believes that competition in the home improvement flooring product market is based primarily on product quality, delivery capabilities, brand name recognition, availability of retail shelf space and price. The Company believes that its competitive strengths are its product quality, its wide range of products, delivery capabilities, brand recognition and strong customer relationships. The Company faces competition largely on a product-by-product basis from numerous manufacturing and distribution companies. The Company believes that the diversity of its product portfolio, among other things, allows it to compete effectively, although some competitors may sell larger quantities of a particular product than the Company.

The Company is aware of a number of competitors, many of which are foreign and may have greater financial, marketing and other resources than the Company. The Company s foreign sales, excluding Canada, accounted for approximately 21% of net sales during fiscal year 2006. Fiscal 2006 net sales generated by the Company s European subsidiaries was approximately 10%, its Australian/New Zealand subsidiaries approximately 10% and its Latin American subsidiaries was approximately 1%. The Company is continuing to penetrate more markets within the countries it currently serves and, as a result, the Company may experience competition from foreign companies, which could adversely affect the Company s gross margins on its foreign sales.

Certain of the Company s larger customers have in the past contacted one or more of the Company s foreign suppliers to discuss purchasing home improvement products directly from these suppliers. Although the Company believes that its diversified product line, brand recognition and customer service will continue to offer benefits not otherwise available to the Company s customers from foreign manufacturers, the Company could experience competition from one or more foreign manufacturers which now serve as suppliers to the Company. If one or more of the Company s larger customers were to begin purchasing products previously supplied by the Company directly from foreign manufacturers, the Company s business would be adversely affected. Increased competition from these manufacturers or others could result in lower sales, price reductions or loss of market share, each of which would have an adverse effect on the Company s results of operations.

Environmental Matters

The Company is subject to federal, state and local laws, regulations and ordinances governing activities or operations that may have adverse environmental effects, such as discharges to air and water, handling and disposal practices for solid, special and hazardous wastes, and imposing liability for the cost of clean up, and for certain damages resulting from sites of past spills, disposal or other releases of hazardous substances (together, Environmental Laws). Sanctions which may be imposed for violation of Environmental Laws include the payment or reimbursement of investigative and clean up costs, administrative penalties and, in certain cases, prosecution under environmental criminal statutes. The Company s manufacturing facilities are subject to environmental regulation by, among other agencies, the Environmental Protection Agency, the Occupational Safety and Health Administration, and various state authorities in the states where such facilities are located. The activities of the Company, including its manufacturing operations at its leased facilities, are subject to the requirements of Environmental Laws. The Company believes that the cost of compliance with Environmental Laws to date has not been material to the Company. The Company is not currently aware of any situations requiring remedial or other action which would involve a material expense to the Company, or expose the Company to material liability under Environmental Laws. As the operations of the Company involve the storage, handling, discharge and disposal of substances which are subject to regulation under Environmental Laws, there can be no assurance that the Company will not incur any material liability under Environmental Laws in the future or will not be required to expend funds in order to effect compliance with applicable Environmental Laws.

The Company completed testing at its facility in Bramalea, Ontario, Canada for leakage of hazardous materials and, as a result, in fiscal 1999 the Company prepared a plan to remediate the contamination over a period of years and this plan was subsequently approved by the Canadian Ministry of Environment. The Company recorded a reserve for potential environmental liability on the closing date of the Roberts Consolidated Industries, Inc. acquisition of approximately $0.3 million and this amount was subsequently increased by $0.5 million to $0.8 million based on an estimate for the cost of remediation. During fiscal 2006, the Company increased the reserve by an additional $0.1 million. Through fiscal 2006, the Company has spent approximately $0.7 million and anticipates spending less than $0.1 million on ongoing monitoring of wells and other environmental activity per year for the next few years.

The Company received notice from the United States Environmental Protection Agency (the EPA) that an entity identified as Roberts Consolidated Industries, Inc. may be involved in the contamination of landfill sites in Clark County, Ohio and Santa Barbara County, California. In addition, in April 2003, the record owner of certain real property in Vancouver, Washington informed the Company that an entity known as Roberts Consolidated Industry, Inc. owned or operated the facility during which time hazardous substances were disposed of or released at the site and pursuant to Washington State law, it is also liable for remedial action costs at the site. At this time, the Company is not aware whether these entities are predecessors to any of its affiliates or whether they are unrelated entities.

During fiscal 2005, the Company settled a lawsuit that was filed on December 27, 2002 whereby Roberts Holdings International, Inc. (Roberts Holding), an inactive subsidiary of the Company, was named as a third party defendant in a case before the United States District Court for the Western District of Michigan titled Strebor Inc. v. International Paper Co., Case No. 1:02 CV0948. The third party plaintiff alleged that Roberts Holding is a successor to a company known as Roberts Consolidated Industries, Inc. and was required to indemnify previous owners for costs associated with the clean-up of a property in Kalamazoo, Michigan. The Company agreed to pay $50,000 per year beginning in October 2004 for five consecutive years in settlement of this action.

Intellectual Property

The Company markets its specialty tools and related products under various trademarks owned by the Company or its subsidiaries, including Q.E.P.®, ROBERTS®, Capitol®, QSet, Vitrex® and Elastiment. The Company has devoted substantial time, effort and expense to the development of brand name recognition and goodwill for products sold under its trademarks, has not received any notice that its use of such marks infringes upon the rights of others, and is not aware of any activities which would appear to constitute infringement of any of its marks. Roberts Consolidated Industries, Inc. has secured domestic and foreign patents relating to certain of its products. These patents are scheduled to expire in the years 2008 and 2013. Although the patents are important to the operation of Roberts Consolidated Industries, Inc., the Company does not believe that the loss of any one or more of these patents would have a material adverse effect on the Company. Roberts Consolidated Industries, Inc. also licenses its name to various foreign distributors and a domestic manufacturer of tackstrip and carpet seaming tape.

Employees

As of May 17, 2006, the Company had 610 employees, including 142 administrative employees, 117 sales and marketing employees, 184 manufacturing employees and 167 employees responsible for shipping activities. Of the 610 total employees, 17 are part-time and 269 are located at the Company s international subsidiaries. The Company has not experienced any work stoppages and none of the Company s employees are represented by a union. The Company considers its relations with the employees to be good.

Table of Contents

Item 1A. Risk Factors

In addition to certain risks described elsewhere in this Annual Report on Form 10-K, the Company is subject to the following risk factors. While the Company believes its expectations are reasonable, they are not guarantees of future performance. The Company s results could differ substantially from its expectations if any of the events described in these risks occur.

The Company may be unable to pass on to its customers increases in the costs of raw materials.

The prices of many of the Company s raw materials vary with market conditions. In addition the price of many of the Company s finished goods are impacted by changes in currency, freight costs and raw materials at the point of production. The Company s costs of raw materials and fuel-related costs are currently higher than historical averages and may remain so indefinitely due to the historically high price of oil and gas. Although the Company generally attempts to pass on increases in the costs of raw materials and fuel-related costs to its customers, the Company s ability to pass these increases on varies depending on the product line, rate and magnitude of any increase. There may be periods of time during which increases in these costs cannot be recovered as occurred in fiscal 2006. During such periods of time, the Company s profitability may be materially adversely affected.

The Company s largest customers seek to purchase product directly from foreign suppliers.

Certain of the Company s larger customers have in the past contacted one or more of the Company s foreign suppliers to discuss purchasing home improvement products directly from these suppliers. Although the Company believes that its diversified product line, brand recognition and customer service will continue to offer benefits not otherwise available to the Company s customers from foreign manufacturers, the Company could experience competition from one or more foreign manufacturers which now serve as suppliers to the Company.

The Company depends on a limited number of customers, and the loss of one or more of these customers could adversely affect our business.

In particular, the Company is substantially dependent on two of its customers, Home Depot and Lowe s, for a large percentage of its revenues. The Company expects that it will continue to rely upon these customers for a significant portion of its revenues. Any significant reduction in business with Home Depot or Lowe s as a customer of the Company would have a material adverse effect on the financial position and results of operations of the Company.

The Company has foreign currency exposures related to buying, selling, and financing in currencies other than the local currencies in which it operates.

Because a portion of the Company s business is conducted in foreign currencies, fluctuations in currency prices can have a material impact on its results of operations. As a result of the fluctuations in currency prices, the Company had a total foreign exchange benefit on net revenue of approximately $2.5 million during the twelve months ended February 28, 2006. Although the Company finances certain foreign operations utilizing debt denominated in the currency of the local operating unit in order to mitigate its foreign currency exposure, the Company cannot predict the effect foreign currency fluctuations will have on its results of operations in future periods.

The Company estimates that a 10% change of the U.S. dollar against local currencies would have changed its operating income by approximately $0.2 million in fiscal 2006 and approximately $0.2 million in fiscal 2005. However, this quantitative measure has inherent limitations. The sensitivity analysis disregards the possibility that rates can move in opposite directions and that changes in currency may or may not be offset by losses from another currency.

Table of Contents

The translation of the assets and liabilities of international operations is made using the currency exchange rates as of the end of the fiscal year. Translation adjustments are not included in determining net income but are disclosed as *Accumulated Other Comprehensive Income* within shareholders equity. In certain markets, the Company could recognize a significant gain or loss related to unrealized cumulative translation adjustments if it were to exit the market and liquidate its net investment. As of February 28, 2006, the net foreign currency translation adjustments reduced shareholders equity by $3.5 million.

Failure to identify suitable acquisition candidates, to complete acquisitions and to integrate successfully the acquired operations.

As part of its business strategy, the Company continues to evaluate acquisitions that could enhance its current product line, manufacturing capabilities and distribution channels either in the United States or around the world. Although the Company regularly evaluates acquisition opportunities, it may not be able to successfully identify suitable acquisition candidates, obtain sufficient financing on acceptable terms to fund acquisitions, or profitably manage the acquired businesses. In addition, the Company may not be able to successfully integrate the acquired operations and the acquired operations may not achieve the expected results.

The Company has been, and in the future may be subject to claims and liabilities under environmental, health and safety laws and regulations, which could be significant.

The Company is subject to federal, state and local laws, regulations and ordinances governing activities or operations that may have adverse environmental effects, such as discharges to air and water, and handling and disposal practices for solid, special and hazardous wastes. The activities of the Company, including its manufacturing operations at its leased facilities, are subject to the requirements of Environmental Laws. The Company has received various notices from state and federal agencies that it may be responsible for certain environmental remediation activities and is, or has been, a defendant in environmental litigation. Although the Company is not currently aware of any situation requiring remedial or other action that would involve a material expense to the Company or expose the Company to material liability under Environmental Laws, the Company cannot provide assurance that it will not incur any material liability under Environmental Laws in the future or that it will not be required to expend funds in order to effect compliance with applicable Environmental Laws, either of which could have a material adverse effect on the Company.

The Company faces intense competition in its industry, which could decrease demand for its products and could have a material adverse effect on its profitability.

The Company s industry is highly competitive. The Company faces competition from a large number of manufacturers and independent distributors. Many of its competitors are larger and have greater resources and access to capital than the Company. In order to maintain the Company s competitive position, the Company will need to continue to develop new products and expand its customer base both domestically and internationally. Competitive pressures may also result in decreased demand for the Company s products. Any of these factors could have a material adverse effect on the Company.

Recent management changes may disrupt the Company s operations, and the Company may not be able to retain key personnel or replace them when they leave.

During the past year, the Company has experienced a number of changes in its management. On April 26, 2005, the Company s controller and principal accounting officer was relieved of his duties and subsequently terminated. On October 10, 2005, the Company appointed James Brower as the Company s Executive Vice President, Chief Operating Officer. On December 2, 2005, the Company s Chief Financial Officer resigned effective January 15, 2006. On January 12, 2006, the Company appointed Randall N. Paulfus, a partner with Tatum LLC, to serve as Interim Chief Financial Officer, effective January 31, 2006. These senior management changes could disrupt the Company s ability to manage its business, and any such disruption could

Table of Contents

adversely affect the Company s operations, growth, financial condition and results of operations. The Company s success is also dependent upon its ability to hire and retain qualified finance and accounting, operations, and other personnel. The Company cannot assure that it will be able to hire or retain the personnel necessary for its planned operations or that the loss of any such personnel will not have a material impact on the Company s financial condition and results of operation.

The Company s inability to maintain access to the debt and capital markets may adversely affect our business and financial results

The Company s ability to invest in its business, refinance maturing debt obligations and make strategic acquisitions may require access to sufficient bank credit lines and capital markets to support short-term borrowings and cash requirements. If the Company s current level of cash flow is insufficient and it is unable to access additional resources, the Company could experience a material adverse affect on its business and financial results.

The Company has debt service obligations which are subject to restrictive covenants that limit the Company s flexibility to manage its business and could trigger an acceleration of the Company s outstanding indebtedness.

The Company s credit facilities require that the Company maintain specific financial ratios and comply with certain covenants, including various financial covenants that contain numerous restrictions on the Company s ability to incur additional debt, pay dividends or make other restricted payments, sell assets, or take other actions. Furthermore, the Company s existing credit facilities are, and future financing arrangements are likely to be, secured by substantially all of the Company s assets. If the Company breaches any of these covenants, a default could result under one or more of these agreements. The Company has in the past violated certain covenants under its credit facilities. A default, if not waived by the Company s lenders, could result in the acceleration of outstanding indebtedness and cause the Company s debt to become immediately due and payable.

The Company and its independent auditors have identified material weaknesses in the Company s internal control over financial reporting and the Company cannot assure you that additional material weaknesses will not be identified in the future.

The Company and its independent auditors have identified material weaknesses in the Company s internal control over financial reporting relating to the Company s procedures for (i) reconciling intercompany balances, and (ii) ensuring proper documentation and review of consolidating adjusting journal entries. Under current standards of the Public Company Accounting Oversight Board, a material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Although the Company has implemented, and continues to implement, various measures to improve internal control over financial reporting, there can be no assurance that the Company will be able to remedy the material weaknesses that have been identified or that additional material weaknesses will not be identified by the Company or its independent auditors. Any failure to remediate the material weaknesses identified by the Company and its independent auditors or to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company s operating results, cause the Company to fail to meet its reporting obligations or result in material misstatements in the Company s financial statements. Any such failure also could affect the ability of the Company s management to certify that the Company s internal controls are effective when it provides an assessment of internal control over financial reporting pursuant to rules of the Securities and Exchange Commission under Section 404 of the Sarbanes-Oxley Act of 2002, when they become applicable to the Company beginning with the Annual Report on Form 10-K for the year ending February 29, 2008, and could affect the results of the Company s independent registered public accounting firm s attestation report regarding management s assessment pursuant to those rules. Inferior internal controls could also cause investors to lose confidence in the Company s reported financial information, which could have a negative effect on the trading price of the Company s stock. For more discussion, see Controls and Procedures beginning on page 24.

Table of Contents

Item 2. Properties

The Company operates 33 facilities in the United States, Canada, Mexico, Europe, Australia, South America, New Zealand and China. Thirteen of these facilities are used in whole or in part for manufacturing operations. The remainder of the facilities are used for administrative, sales and warehousing functions.

The following are the Company s most significant physical properties and their current function:

Located in the United States: Boca Raton, Florida (administration/corporate headquarters), Mexico, Missouri (manufacturing, distribution, administration), Henderson, Nevada (distribution), Dalton, Georgia (manufacturing, distribution, administration) and Ft. Pierce, Florida (manufacturing, distribution).

Located outside the United States: Bramalea, Canada (manufacturing, distribution, administration); Lancashire, UK (manufacturing, distribution, administration); Dandenong (distribution) and Wetherill Park (administration and distribution), Australia; and Vallejo, Mexico (manufacturing, distribution, administration);

The Company currently owns the facility in Bramalea, Ontario, Canada and leases all other facilities located in the United States, Canada, Europe, South America, New Zealand, China and Australia.

The Company believes that its existing facilities are adequate to meet its current needs and that additional facilities can be leased to meet future needs. During fiscal 2007, the lease for the Mexico, Missouri facility will expire, but the Company expects to extend the lease and maintain the manufacturing, distribution and administrative capability currently in place. During fiscal 2006, the Dalton, Georgia facility was expanded and certain operations from other facilities were consolidated into this location In order to gain manufacturing and cost efficiencies, it is expected that other functions will be consolidated into Dalton during fiscal 2007.

Item 3. Legal Proceedings

The Company is involved in litigation from time to time in the course of its business. In the opinion of management, no material legal proceedings are pending to which the Company or any of its property is subject.

The Company received notice from the United States Environmental Protection Agency (the EPA) that an entity identified as Roberts Consolidated Industries, Inc. may be involved in the contamination of landfill sites in Clark County, Ohio and Santa Barbara County, California. In addition, in April 2003, the record owner of certain real property in Vancouver, Washington informed the Company that an entity known as Roberts Consolidated Industry, Inc. owned or operated a facility during which time hazardous substances were disposed of or released at the site and pursuant to Washington State law, it is also liable for remedial action costs at the site. At this time, the Company is not aware whether these entities are predecessors to any of its affiliates or whether they are unrelated entities (see Environmental Matters).

Item 4. Submission of Matters to Vote of Security Holders

No matters were submitted to a vote of security holders of the Company during the fourth quarter of the period covered by this report.

Table of Contents

PART II

Item 5. Market for Registrant s Common Equity and Related Shareholder Matters

Market Price and Dividend Information

The Company s Common Stock is traded on the Nasdaq National Market System. The following table sets forth the high and low sales price per share for the Common Stock for each quarter during fiscal year 2006 and 2005, as reported on the Nasdaq National Market System.

	Fiscal Year Ended February 28,			
	2006		2005	
	High	Low	High	Low
First Quarter	15.02	8.82	16.73	13.25
Second Quarter	14.94	9.30	16.54	12.52
Third Quarter	12.99	9.69	17.25	13.00
Fourth Quarter	11.47	10.43	16.49	13.50

On May 15, 2006, the closing price of the Common Stock on the Nasdaq National Market System was $11.65. As of that date, there were 26 holders of record of the common stock and approximately 1,865 beneficial owners of the common stock.

The Company has not paid cash dividends on its common stock and does not intend for the foreseeable future to declare or pay any cash dividends on this stock; rather it intends to retain earnings, if any, for the future operation and expansion of the Company s business. Any determination to declare or pay dividends will be at the discretion of the Company s board of directors and will depend upon the Company s future results of operations, financial condition, capital requirements, considerations imposed by applicable law and other factors deemed relevant by the board of directors. The Company s credit facility also prohibits the payment of dividends on its common stock without the consent of the lenders.

Issuer Purchases of Equity Securities

Beginning in fiscal 1999, the Company has from time to time repurchased shares of its outstanding Common Stock from Ms. Susan Gould, Corporate Secretary, having a value of approximately $0.5 million pursuant to a Board resolution to purchase up to 1,000 shares of Common Stock per month at a price per share equal to $.50 less than the closing price of the Common Stock on the date of repurchase. Ms. Gould is not obligated to sell any shares of Common Stock to the Company. As of May 15, 2006, Ms. Gould has sold a total of 102,000 shares to the Company. The Company did not repurchase any shares from Ms. Gould during fiscal 2006.

Equity Compensation Plans

Information required by this item regarding securities authorized for issuance under equity compensation plans is incorporated by reference from the definitive Proxy Statement to be filed by the Company for the Annual Meeting of Stockholders to be held on July 27, 2006.

Table of Contents

Item 6. Selected Financial Data

The selected consolidated financial data set forth on the following page as of and for the years ended February 28 or 29, 2002, 2003, 2004, 2005 and 2006 have been derived from the audited consolidated financial statements of the Company. The audited consolidated statements of income for the years ended February 28, 2002 and 2003 and the audited consolidated balance sheets as of February 28 or 29, 2002 through 2004 are not included in this filing. The selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations (Item 7 of this report) and the audited consolidated financial statements and related notes

	FISCAL YEAR ENDED FEBRUARY 28 OR 29,				
OPERATING DATA:	**2006**	**2005**	**2004**	**2003**	**2002**
	(In thousands, except per share amounts)				
Net Sales	$ 212,314	$ 173,625	$ 143,273	$ 129,281	$ 109,675
Cost of goods sold	150,318	120,038	94,065	84,883	72,603
Gross profit	61,996	53,587	49,208	44,398	37,072
Shipping	20,943	17,299	14,531	11,950	9,589
General and administrative	18,821	15,068	12,300	10,980	9,740
Selling and marketing	20,208	16,764	13,436	13,762	11,895
Other expense (income), net	(1,156)	243	721	(68)	(792)
Operating income	3,180	4,213	8,220	7,774	6,640
Change in warrant put liability	(1,006)	1,160	(767)	(600)	(575)
Interest expense, net	(2,498)	(1,537)	(1,586)	(1,876)	(2,557)
Income (loss) before provision (benefit) for income taxes and cumulative effect of change in accounting principle.	(324)	3,836	5,867	5,298	3,508
Provision (benefit) for income taxes	922	(119)	2,379	2,243	1,405
Net income (loss) before cumulative effect of change in accounting principle	(1,246)	3,955	3,488	3,055	2,103
Cumulative effect of change in accounting principle				(3,048)	
Net income (loss)	$ (1,246)	$ 3,955	$ 3,488	$ 7	$ 2,103
Net income (loss) per share:					
Basic	$ (0.37)	$ 1.14	$ 1.02	$ 0.01	$ 0.62
Diluted	$ (0.37)	$ 1.06	$ 0.99	$ 0.01	$ 0.62
Weighted average number of common shares outstanding					
Basic	3,458	3,447	3,398	3,381	3,381
Diluted	3,458	3,711	3,527	3,394	3,390

BALANCE SHEET DATA:	**2006**	**2005**	**2004**	**2003**	**2002**
Working capital	$ 8,372	$ 11,369	$ 12,036	$ 10,623	