QEP CO INC
Form 10-K
May 29, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended February 28, 2007

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	**13-2983807**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
1001 BROKEN SOUND PARKWAY NW, SUITE A,	**33487**

BOCA RATON, FLORIDA
(Address of Principal Executive Offices) **(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 Each Exchange on Which Registered
Common Stock, $001 Par Value Per Share	**The NASDAQ Stock Market LLC**
	(NASDAQ Global Market)

Securities registered pursuant to Section 12(g) of the Act: None

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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, 2006 was $11.7 million.

The number of shares outstanding of each of the registrant s classes of common stock as of May 24, 2007 is 3,440,401 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 August 3, 2007 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.

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

FISCAL YEAR 2007 FORM 10-K

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Forward-Looking Statements

This report contains certain forward-looking statements that are made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. Forward-looking statements present the Company s expectations or forecasts of future events. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They are frequently accompanied by words such as believe , intend , expect , anticipate , plan , or estimate and other words of similar meaning, and include statements relating to the adequacy of the Company s liquidity sources to meet the Company s working capital needs and anticipated expenditures; the Company s ability to increase the amount of sales of its products and expected sales levels of its products, the Company s ability to increase prices and maintain or improve its gross margins; the Company s ability to maintain good relationships with its suppliers and major customers; the Company s ability to pass cost increases on to its customers; the Company s ability to continue to do business around the world; the Company s ability to successfully expand its market share, capitalize on new customers and cross-sell its products; the Company s ability to introduce new and innovative products, expand existing product lines, and increase its sales and marketing penetration; the Company s ability to successfully identify and complete acquisitions and to improve its distribution capabilities; the Company s ability to continue its performance and that of its products and to increase stockholder returns; the Company s ability to enhance its position as a worldwide manufacturer and distributor of specialty tools; expectations regarding the growth in sales of the largest home improvement retailers as compared to the rate of sales growth in the overall market; expectations regarding growth trends in the flooring segment of the home improvement market; expectations that the Company will continue to penetrate more foreign markets; the Company s ability to improve its distribution capabilities through increased use of technology and reevaluation of geographic locations; the Company s ability to compete with foreign competitors; the impact of the loss of one of more of the Company s patents; the expected settlement amount of the put warrant liability; the adequacy of the Company s existing physical facilities; the expected timeline for completion of the disposition of the Holland assets; the Company s expectations regarding its future effective tax rate; and the Company s anticipated expenditures on monitoring of wells and other environmental activity.

These forward-looking statements are based on currently available information and are subject to risks and uncertainties which could cause actual results to differ materially from those discussed in the forward-looking statements and from historical results of operations (See Item 1A-Risk Factors). Among the risks and uncertainties which could cause such a difference are the assumptions upon which the Company bases its assessments of its future working capital and capital expenditures; the Company s ability to satisfy its working capital needs and to finance its anticipated capital expenditures; the Company s dependence upon a limited number of customers for a substantial portion of its sales and the continued success of initiatives with those customers; the success of the Company s marketing and sales efforts; improvements in productivity and cost reductions; increased pricing pressures from customers and competitors and the ability to defend market share in the face of price competition; the Company s ability to maintain and improve its brands; the Company s reliance upon certain major foreign suppliers; the Company s reliance upon suppliers and sales agents for the purchase of finished products which are then resold by it; the level of demand for the Company s products among existing and potential new customers; the Company s ability to successfully integrate its acquired businesses; the Company s dependence upon the efforts of Mr. Lewis Gould, the Company s Chief Executive Officer and certain other key personnel; the Company s ability to successfully integrate new management personnel into the Company; the Company s ability to accurately predict the number and type of employees required to conduct its operations and the compensation required to be paid to such personnel; the Company s ability to manage its growth, and the risk of economic and market factors affecting the Company or its customers; the impact of new accounting standards on the Company; the Company s belief that there will be no future adverse effect on the fair value of the Company s goodwill or other intangible assets; decisions by management related to accounting issues, and regulation and litigation matters; the general economic conditions in North America and the world; and other risks and uncertainties described elsewhere herein and in other reports filed by the Company with the Securities and Exchange Commission.

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All forward looking statements included herein are made only as of the date such statements are made and the Company does not undertake any obligation to publicly update or correct any forward-looking statements to reflect events or circumstances that subsequently occur or of which the Company hereafter becomes aware. Subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements set forth above and elsewhere in this report and in other reports filed by the Company with the Securities and Exchange Commission.

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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 (See Subsequent Event Note S), 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; 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.

The Company operates in five business segments: domestic, Canada, Europe, Australia/New Zealand and Other. Management has chosen to organize the segments into geographic areas, with each segment being the responsibility of a segment manager, except for the Canadian segment, which is managed by members of the domestic segment s senior management team. Each segment markets and sells flooring-related products to the residential, new construction, do-it-yourself and professional remodeling and renovation markets and home centers. The European segment is made up of our operations in the UK, France, Ireland, Holland and Germany. The Other segment is made up of operations in Latin America and other geographic areas.

Market Overview

The Company is a supplier of specialty flooring installation products and sells to the home improvement market. According to the industry information published by *Floor Covering Weekly*, a trade publication, total installed floor covering sales for the United States rose 13% in 2005 to approximately $62 billion while home center sales, with lumberyards similar to Home Depot and Lowe s, were approximately $10.8 billion. Although 2006 saw the continued slowdown in housing starts and dwindling builder confidence that started in 2005, the Company believes that several factors remain supportive of a strong home improvement market, including (i) slowing but still strong housing activity, (ii) aging of the United States housing stock which requires greater repair and maintenance expenditures, (iii) signs that the recent decline in housing turnover of both new and existing homes will stabilize in 2007, (iv) increases in personal disposable income, (v) near record home ownership that provides a customer base for increased

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investment homes 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 approximately $138 billion of home center sales their fiscal year 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.

The Company s two largest customers, Home Depot and Lowe s, experienced annual sales growth rates in fiscal 2007 of 11% and 9%, 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.

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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 2007, the Company closed its facility in Illinois and moved the manufacturing and distribution operations to its Dalton location. The Company 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. On August 31, 2006, the Company entered into a license and royalty agreement with Estillon B.V., a European supplier of carpet specialty tools, granting Estillon rights to manufacture, market and distribute products using our Roberts® and Smoothedge® brand names to customers, other than mass merchants, principally within certain European Union countries. As a result of this license and royalty agreement and the sale agreements, we will no longer conduct direct operations in Holland. The Company estimates that in fiscal 2007, it manufactured approximately 20% of its Q.E.P. and Roberts product lines.

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 47% and 10% of the Company s fiscal 2007 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

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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.

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 2007 it manufactured approximately 20% 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 Dalton, Georgia. 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 2007. 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 2007, the Company purchased in excess of $14.1 million and $5.7 million of finished product from two foreign suppliers representing 17% and 7%, 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 2007 were as follows: 65% to national and regional home improvement retailers and 35% 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.

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 2007. Fiscal 2007 net sales generated by the Company s European subsidiaries were 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

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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 $0.6 million to $0.9 million based on an estimate for the cost of remediation. During fiscal 2007, the Company increased the reserve by an additional $0.1 million. Through fiscal 2007, the Company has spent approximately $0.8 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.

During fiscal 2002, 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 and October 2006, the record owner and a prior 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 that, pursuant to Washington State law, the Company is or may be liable for clean up 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.

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Employees

As of May 15, 2007, the Company had 536 employees, including 102 administrative employees, 110 sales and marketing employees, 142 manufacturing employees and 182 employees responsible for shipping activities. Of the 536 total employees, 25 are part-time and 231 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.

Item 1A. Risk Factors

You should carefully consider the risks described below and all other information contained in this annual report on Form 10-K, including our consolidated financial statements and the related notes thereto. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance. If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected.

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 is 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. 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 that 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. These two customers accounted for approximately 57% and 55% of the Company s total net sales in fiscal 2007 and fiscal 2006, respectively. 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 $1.6 million during the twelve months ended February 28, 2007. 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 2007 and approximately $0.2 million in fiscal 2006. 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.

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, 2007, the net foreign currency translation adjustments reduced shareholders equity by $2.4 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.

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The Company may not be able to retain key personnel or replace them when they leave.

Senior management changes, including, without limitation to Lewis Gould, the Company s Chief Executive Officer, could disrupt the Company s ability to manage its business, and any such disruption could 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 you 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 and cannot provide assurance that it will not violate certain covenants in the future. 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, (ii) ensuring proper documentation and review of consolidating adjusting journal entries, (iii) recording inventory transactions appropriately and preparing the financial results of one of its foreign subsidiaries, and (iv) reviewing the financial results of its foreign subsidiaries. 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

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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 when it becomes applicable for the year ending February 28, 2009. 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 36.

The Company s method for estimating the value of the Company s put warrant liability may differ materially from the actual settlement amount of the put warrant liability.

The Company had issued 325,000 10-year warrants at an exercise price of $3.63 per share. The put warrants continue to remain outstanding and since April 5, 2006, the put feature may be exercised by the Holder at any time or from time to time, based on criteria set forth in the Warrant Agreement. In the event the put is exercised, the Company is required to pay cash to the Holder of the warrants for the value of the warrants. The Company cannot determine the actual amount of the liability until such time as the put feature of the warrant is exercised, as the liability is based on the determination of the Company s entity value, which is defined in the Warrant Agreement as the greatest of: (1) the fair market value of the Company established as of a capital transaction or public offering; or, (2) a formula value based on a multiple of six times trailing twelve month EBITDA; or (3) an appraised value as if the Company was sold as a going concern.

The Company determined to value the put warrant liability at any reporting date by calculating the difference between the Company s closing stock price on the last day of the reporting period and the exercise price of $3.63 per share multiplied by the 325,000 warrants granted. The Company believes this methodology provides an appropriate estimate of entity value. The other methodologies may be utilized to value the liability if they yield a higher entity value than the stock price method. Consequently, the actual settlement amount of the put warrant liability could differ materially from the value determined by marking the warrants to market at the end of any particular fiscal period.

The Company may be required to record a significant charge to earnings if it determines that its goodwill or other intangible assets arising from acquisitions are impaired.

The Company is required to review its goodwill and other intangible assets for impairment in accordance with SFAS No. 142 at least annually or when events or changes in circumstances indicate the carrying value may not be recoverable. If The Company determines that significant impairment has occurred in the future, it would be required to write off goodwill or other intangible assets. The Company s annual impairment assessment date is August 31st.

During fiscal 2007, the Company completed its annual impairment test on the goodwill and other intangible assets currently recorded. These tests indicated that the carrying amount of the goodwill exceeded fair value in our Mexico, UK and domestic reporting units, and led the Company to conclude that goodwill and other intangibles were impaired. Therefore, under the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, the Company recorded a non-cash impairment charge of $7.5 million to reduce the carrying value of goodwill and other intangibles to their implied fair value. Any future impairment charges could have a material adverse effect on our financial condition, earnings and results of operations and could cause our stock price to decline.

Item 2. Properties

The Company operates 34 facilities in the United States, Canada, Mexico, Europe, Australia, South America, New Zealand and China. Ten 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 Dalton, Georgia facility was expanded and certain operations from other facilities were consolidated into this location in order to gain manufacturing and cost efficiencies.

Item 3. Legal Proceedings

The Company is involved in litigation from time to time in the course of its business. Based on information currently available to management, the Company does not believe that the outcome of any legal proceedings in which the company is involved will have a material adverse impact on the Company.

During fiscal 2002, 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 and October 2006, the record owner and a prior 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 that, pursuant to Washington State law, the Company is or may be liable for clean up 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).

In August 2006, we were served with a complaint in *Greene v. Ashland Chemical, Inc., et al*., Case No. 03-CV-231458, Div. 7, which matter is currently pending in the Circuit Court of Jackson County, Missouri at Kansas City. In this wrongful death matter, plaintiff has alleged that the Company, and Roberts Consolidated Industries, Inc., a wholly owned subsidiary of the Company, along with more than 30 other defendants, manufactured products containing benzene with which the plaintiff came into contact while working between approximately 1954 and 1999, and which allegedly caused his death. An answer to the Complaint was filed in December 2006 denying the allegations and asserting several defenses. The Company does not currently believe that either named defendant is a proper defendant or that plaintiff s claims against either entity are meritorious. The Company intends to defend against the allegations. The case is in the discovery stage. Plaintiffs have not yet quantified the damages they seek.

In March 2006, the Company was served with a complaint in *Imogene Calcaterra-Lepique and C.C., by and through her Next Friend, Brenda O Neal v. Q.E.P. Co., Inc. and Roberts Consolidated Industries, Inc., Home Depot, Inc., General Electric Co., and Rheem Mfg. Co*,, Case No. 4:06-CV-1050 CAS, which is currently pending in the U.S. District Court for the Eastern Distinct of Missouri. In this wrongful death matter, plaintiffs have alleged that the decedent suffered burns, allegedly causing his death, when installing carpet using Roberts 4000 carpet adhesive, a product manufactured by Roberts Consolidated Industries, Inc., a wholly owned subsidiary of

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the Company. Plaintiffs allege that fumes from the Roberts 4000 caused the fire that injured the decedent. The Company has submitted the matter to its insurer and the insurer has retained counsel. Plaintiffs have served a statutory demand for $20,000,000. The case is in the discovery stage and is set for trial in May 2008. The Company intends to defend against the allegations.

Item 4. Submission of Matters to a 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.

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PART II

Item 5. Market for Registrant s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market Price and Dividend Information

The Company s Common Stock is traded on the Nasdaq Global Market. The following table sets forth the high and low sales price per share for the Common Stock for each quarter during fiscal year 2007 and 2006, as reported on the Nasdaq Global Market.

	Fiscal Year Ended February 28,			
	2007		2006	
	High	Low	High	Low
First Quarter	$ 12.55	$ 9.27	$ 15.02	$ 8.82
Second Quarter	$ 10.21	$ 6.00	$ 14.94	$ 9.30
Third Quarter	$ 7.69	$ 6.07	$ 12.99	$ 9.69
Fourth Quarter	$ 6.90	$ 4.37	$ 11.47	$ 10.43

On May 16, 2007, the closing price of the Common Stock on the Nasdaq Global Market was $6.00. As of that date, there were 24 holders of record of the common stock and approximately 1,926 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.

Stock Performance Graph

Notwithstanding anything to the contrary set forth in any of our previous filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings or this Annual Report, the following performance graph and accompanying data shall not be deemed to be incorporated by reference into any such filings. In addition, they shall not be deemed to be soliciting material or filed with the SEC.

The following graph is a comparison of the cumulative total returns for the Company s Common Stock as compared with the cumulative total return for the NASDAQ Stock Market (U.S.) Index and the Russell 2000 Index. The Securities and Exchange Commission rules provide that the Company may compare its returns to those of issuers with similar market capitalization if the Company does not use a published industry or line-of-business index as a comparison and does not believe it can reasonably identify a peer group. After reasonable inquiry, the Company determined that no existing published industry or line-of-business indexes were applicable to the Company s business. In addition, the Company was unable to identify a peer group of publicly traded companies to which it believed a reasonable and meaningful comparison could be made. Therefore, the Company determined to compare its returns to those of the Russell 2000 Index, an index which the Company believes includes companies with market capitalizations similar to its own. The graph assumes that $100 was invested in the Company s Common Stock on February 28, 2002 and in each of the indexes on such date, and that all dividends were reinvested.

	Cumulative Total Return					
	2/02	2/03	2/04	2/05	2/06	2/07
Q.E.P. Co., Inc.	100.00	152.94	357.41	341.41	251.76	147.76
NASDAQ Composite	100.00	77.36	118.86	122.40	137.91	148.37
Russell 2000	100.00	77.90	128.08	140.28	163.55	179.70

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 $0.6 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, 2007, Ms. Gould has sold a total of 114,000 shares to the Company. The Company repurchased 12,000 shares from Ms. Gould during fiscal 2007. No shares were repurchased in the fourth quarter of fiscal 2007.

Equity Compensation Plans

The following table provides information as of February 28, 2007 about shares of the Company s Common Stock to be issued upon exercise of options, warrants and other rights under the Company s existing equity compensation plans.

Plan Category	Number Of Securities To Be Issues Upon Exercise Of Outstanding Options/SARS	Weighted Average Exercise Price Of Outstanding Options/SARS	Number Of Securities Remaining Available For Future Issuance Under The Equity Compensation Plan (Excluding Securities Reflected In The First Column)
Equity Compensation Plan Approved by Security Holders[1]	450,125	$ 8.07	363,057
Equity Compensation Plan Not Approved by Security Holders	40,000	$ 4.00	
Total	490,125		363,057

[1] This plan is the Company s Omnibus Stock Plan of 1996.

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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, 2003, 2004, 2005, 2006 and 2007 have been derived from the audited consolidated financial statements of the Company. The audited consolidated statements of income for the years ended February 28, 2003 and 2004 and the audited consolidated balance sheets as of February 28 or 29, 2003 through 2005 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.

OPERATING DATA:	**FISCAL YEAR ENDED FEBRUARY 28 OR 29,**				
	2007	**2006**	**2005**	**2004**	**2003**
	(In thousands, except per share amounts)				
Net Sales	$ 216,006	$ 206,252	$ 168,926	$ 139,172	$ 125,713
Cost of goods sold	156,326	150,318	120,038	94,065	84,883
Gross profit	59,680	55,934	48,888	45,107	40,830
Shipping	23,577	22,024	17,798	14,934	12,256
General and administrative	19,355	18,821	15,068	12,300	10,980
Selling and marketing	12,581	13,065	11,566	8,929	9,888
Impairment loss on goodwill and other intangibles	7,520				
Other expense (income), net	(43)	(1,156)	243	721	(68)
Operating income	(3,310)	3,180	4,213	8,223	7,774
Change in put warrant liability	1,437	1,238	221	(2,824)	(731)
Interest expense, net	(2,977)	(2,498)	(1,537)	(1,586)	(1,876)
Income (loss) before provision (benefit) for income taxes and cumulative effect of change in accounting principle.	(4,850)	1,920	2,897	3,813	5,167
Provision (benefit) for income taxes	723	922	(119)	2,379	2,243
Net income (loss) before cumulative effect of change in accounting principle	(5,573)	998	3,016	1,434	2,924
Cumulative effect of change in accounting principle					(3,048)
Net income (loss)	$ (5,573)	$ 998	$ 3,016	$ 1,434	$ (124)
Net income (loss) per share:					
Basic	$ (1.64)	$ 0.29	$ 0.89	$ 0.43	$ (0.04)
Diluted	$ (1.64)	$ 0.26	$ 0.78	$ 0.41	$ (0.04)
Weighted average number of common shares outstanding					
Basic	3,411	3,387	3,388	3,345	3,328
Diluted	3,411	3,752	3,837	3,474	3,328

BALANCE SHEET DATA:	**2007**	**2006**	**2005**	**2004**	**2003**
Working capital	$ 5,079	$ 7,863	$ 11,370	$ 12,036	$ 10,623
Total assets	87,156	101,086	87,108	78,233	71,889
Long term obligations	4,949	9,147	10,068	10,715	8,687
Total liabilities	64,873	74,069	60,016	54,366	49,765
Shareholders equity	22,283	27,017	27,092	23,866	22,125

See Note B 17 of the Consolidated Financial Statements for a description of the reclassification, for comparative purposes, of amounts relating to cooperative advertising, in-store service expense and certain shipping costs. This reclassification results in a decrease in sales and selling and marketing expenses, and an increase in shipping cost. The reclassification has also been applied to fiscal years 2004 and 2003. In fiscal year 2004, sales decreased by $4.1 million, selling and marketing expense decreased by $4.5 million and shipping cost increased by $0.4

million. In fiscal year 2003, sales decreased by $3.6 million, selling and marketing expense decreased by $3.9 million and shipping cost increased by $0.3 million. This reclassification had no impact on the Company s financial condition, operating income or net earnings.

The Company has revised its prior years weighted average number of common shares outstanding to consider the shares held in treasury. The impact on net income (loss) per share is immaterial.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Executive Overview

The Company is a worldwide leader in the manufacturing, marketing and distribution of a broad line of specialty tools and flooring related products, marketing over 3,000 specialty tools and related products used primarily for surface preparation and installation of ceramic tile, carpet, vinyl and wood flooring. The Company s products are sold to home improvement retailers, specialty distributors to the hardware, construction, flooring and home improvement trades, chain or independent hardware, tile and carpet retailers for use by the do-it-yourself consumer as well as the construction or remodeling professional, and original equipment manufacturers. The Company has executed a growth strategy intended to improve overall performance and profitability of operations that included acquisitions, the reduction of risk associated with certain large customer concentrations and the enhancement of cross selling of product among the Company s channels of distribution. Although the Company has realized certain benefits from its growth strategy, the Company s rapid growth and challenges relating to the Company s overseas operations and integration of acquired business has had certain negative effects on the Company s financial performance.

The Company experienced a 5% increase in net sales in fiscal 2007 in comparison to the previous fiscal year, which management attributes primarily to the growth in sales of flooring underlayment and adhesives products. In addition, further penetration of the Company s existing and new product offerings across more and within existing home center locations also contributed to the increase. The Company s gross profit as a percent of sales increased to 27.6% in fiscal 2007 from 27.1% in fiscal 2006 and was positively impacted by several factors in fiscal 2007. The Company experienced success in increasing the sale of higher margin products, most notably the underlayment products, and also was able to increase selling prices and reduce the cost on select categories of products. This offset the raw material cost increases that occurred throughout fiscal 2007 primarily for petroleum-based raw materials used in adhesives and aluminum and copper used in other flooring tools. Gross margin was also affected by an increase in the level of sales and rebates issued to home center customers in fiscal 2007. As a regular practice, customers in the home center distribution channel are issued rebates from each vendor, the magnitude of which depends on the particular level of business activity.

During fiscal 2007, the Company performed its annual impairment test on the goodwill and other intangible assets currently recorded. These tests indicated that the carrying amount of the goodwill exceeded fair value in our Mexico, U.K. and U.S. reporting units, and led the Company to conclude that goodwill was impaired. The Company recorded a non-cash impairment charge of $7.5 million in fiscal 2007.

Effective in fiscal 2007, the Company no longer conduct direct operations in Holland. All future obligations related to the employees, the facilities in Holland and the disposition of assets have been paid or accrued as of February 28, 2007. The Company recorded a charge of $0.5 million for the write-off of Holland s accumulated foreign currency translation during the second quarter of fiscal 2007, which is recorded in general and administrative expenses. In addition, the charge recorded in fiscal 2007 for the disposition of Holland operations assets and obligations was approximately $0.9 million, which is also recorded in general and administrative expense.

Net loss for the year was $5.6 million, or $1.64 per diluted share compared with net income of $1.0 million or $0.26 per diluted share in fiscal 2006. The non-cash goodwill impairment charge and disposition of the Company s Holland operations described above contributed to the reduction in net income in comparison to the fiscal 2006 period.

Accounting Policies and Estimates

Significant accounting policies are contained in Note B to the Consolidated Financial Statements. The following are our most critical accounting policies which are those that require complex judgments and estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

Revenue Recognition

The Company recognizes revenue when products are shipped and title has passed to the customer, the selling price is fixed and determinable, and collectibility of the sales price is reasonably assured. The Company provides for estimated costs of future anticipated product returns based on historical experience, when the related revenues are recognized. The Company records estimated reductions to revenue for customer programs including volume-based incentives.

Inventories

The Company records inventory at the lower of standard cost or market. The Company maintains reserves for excess and obsolete inventory based on market conditions and expected future demand. If actual market conditions were to be less favorable than those projected by management, additional inventory reserves could be required.

Accounts Receivable

The Company s accounts receivable are principally due from home centers or flooring accessory distributors. Credit is extended based on an evaluation of a customer s financial condition, and collateral is not required. Accounts receivable are due at various times based on each customer s credit worthiness and selling arrangement. The outstanding balances are stated net of an allowance for doubtful accounts. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the customer s previous loss history, the customer s ability to pay its obligations and the condition of the general economy and the industry as a whole.

Impairment Evaluations

The Company evaluates the recoverability of long-lived assets, including property, plant and equipment, and identifiable intangible assets, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company performs indefinite-lived impairment tests on at least an annual basis and more frequently in certain circumstances. When the Company determines that the carrying amount of long-lived assets may not be recoverable based upon the existence of certain indicators, the assets are assessed for impairment based on the future undiscounted cash flows expected to result from the use of the asset. For goodwill and other indefinite-lived intangibles, impairment assessments are generally determined using the estimated future discounted cash flows of the asset s reporting unit using a discount rate determined by management to be commensurate with the risk inherent in the current business model. In both instances, if the carrying amount of the asset being tested exceeds its fair value, an impairment of the value has occurred and the asset may be written down. The Company will assess impairment of its intangible assets as of August 31st or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Should the Company s operating performance and resulting cash flows be less than expected, an impairment charge could be incurred which may have a material impact on the Company s results of operations.

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Income Taxes

The Company is required to estimate income tax in each jurisdiction in which it operates. This process involves estimating actual current tax exposure and deferred income taxes to reflect the tax consequences on future years of differences between the tax basis of assets and liabilities and their financial reporting amounts each year-end. The Company must then consider the likelihood that any deferred tax assets will be recoverable from future taxable income and to the extent that the Company believes that recoverability is not likely, the Company establishes a valuation allowance.

Put Warrant Liability

In connection with the subordinated loan agreement entered into during fiscal 2001 the Company issued 325,000 10-year warrants at an exercise price of $3.63 per share. The put warrants continue to remain outstanding and since April 5, 2006 can be put to the Company at any time, based on criteria set forth in the warrant agreement. In addition, the Company may call these warrants on and after April 5, 2007, based on the same criteria. In the event the warrant is put to the Company, the Company will be required to pay the holder of the warrants in cash in accordance with the warrant agreement. The liability is based on the determination of the Company s entity value, which is defined in the warrant agreement. The Company has determined to estimate the value of the put warrant liability by calculating the difference between the closing stock price at the end of a reporting period and the exercise price of $3.63 per share multiplied by the 325,000 warrants outstanding. Changes to the fair value of the put warrant liability are recognized in the earnings of the Company, and in fiscal 2007, the Company recognized income of $1.4 million. The Company believes this methodology provides an appropriate estimate of entity value. The put warrants will continue to be revalued on a quarterly basis as long as they remain outstanding which could result in either significant increases or reductions in the Company s annual and quarterly net income. In addition, the actual settlement amount of the put warrant liability could differ materially from the value determined based on the Company s stock price.

Results of Operations

Fiscal 2007 as compared to Fiscal 2006

Sales

Net sales for the twelve months ended February 28, 2007 (fiscal 2007 , or the fiscal 2007 period) were $216.0 million compared to $206.3 million for the twelve months ended February 28, 2006 (fiscal 2006 , or the fiscal 2006 period), an increase of $9.7 million or 5%. Sales amounts by segment are as follows (in thousands except percentages):

	2007	2006	Variance	Percent Change
Domestic	$ 148,687	$ 144,027	$ 4,660	3%
Canada	21,029	18,124	2,905	16%
Europe	20,945	20,668	277	1%
Australia/New Zealand	22,334	20,566	1,768	9%
Other	3,011	2,867	144	5%
Total	$ 216,006	$ 206,252	$ 9,754	5%

The sales increase in the domestic and Canadian segments in fiscal 2007 compared to fiscal 2006 was the result of increased sales to home center customers, which increased by approximately $11.7 million. This includes additional sales in existing stores, sales of new products and sales into new stores. The increase in home center sales was partially offset by the contraction of the Company s distribution customer base as retail sales move from smaller specialty distributors to larger mass merchandisers. Sales of

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underlayment products that were introduced to one of our home center customers in the latter half of fiscal 2006 increased by approximately $9.9 million in fiscal 2007 compared to fiscal 2006. Sales of adhesives increased by approximately $3.9 million over the same period. These increases were offset by lower wet saw sales of $4.1 million in the domestic segment, which is due to the expansion of a direct shipment program (direct from the Company s suppliers to some of the Company s customers with delivery being taken at the supplier s dock) with lower selling prices. The direct shipment program, however, is expected to generate greater overall operating profit margins after reductions in related operating expenses.

In addition, the Company was able to increase sales prices to its home center and distribution customers during fiscal year 2007, which resulted in an overall increase in worldwide selling prices of approximately 2%, which also contributed to the increase in sales in comparison to the previous fiscal year.

In the Company s European segment, sales increased slightly in fiscal 2007 compared to fiscal 2006, despite the disposition of the Company s subsidiary in Holland on August 31, 2006. The increase in sales in the Company s Australia/New Zealand segment was due to sales expansion with its two largest customers of approximately $1.2 million and with its network of distributors of approximately $0.6 million.

The effect of foreign currency exchange rate changes resulted in an increase in sales of approximately $1.6 million in the period, which was primarily in the Canadian and Europe segments. Sales outside of the domestic and Canadian segment represented approximately 21% of the Company s total sales in both fiscal 2007 and fiscal 2006.

Gross Profit

Gross profit for fiscal 2007 was approximately $59.7 million compared to approximately $55.9 million in fiscal 2006, an increase of approximately $3.7 million or 7%. As a percentage of net sales, gross profit increased to 27.6% in the fiscal 2007 period from 27.1% in the fiscal 2006 period. A summary of gross profit by segment is as follows (in thousands except percentages):

	2007	2006	Variance	Percent Change
Domestic	$ 39,231	$ 36,151	$ 3,080	9%
Canada	6,568	5,862	706	12%
Europe	5,252	5,585	(333)	-6%
Australia/New Zealand	8,001	7,247	754	10%
Other	628	1,089	(461)	-42%
Total	$ 59,680	$ 55,934	$ 3,746	7%

The increase in gross profit in the domestic and Canadian segments was primarily the result of increased sales volume for underlayment of approximately $3.2 million and $1.0 million, respectively. Additionally, the gross profit in the domestic segment increased on adhesive sales by approximately $0.9 million due to higher sales volume. Selling price increases and cost reduction initiatives that were implemented during fiscal 2007 offset commodity cost increases that also occurred throughout the year.

Gross margin as a percentage of sales in the domestic segment increased to 26.4% in the fiscal 2007 period from 25.1% in fiscal 2006. This improvement is due to favorable change in the Company s sales mix through the sales growth of higher profit margin products, including underlayment and some recently introduced adhesive products. Also, the Company has continued to make improvements in its manufacturing processes and has successfully raised prices to our customers in response to the increases in raw material costs.

Gross margin as a percentage of sales in the Canadian segment decreased to 31.2% in the fiscal 2007 period from 32.3% in fiscal 2006. This reduction was the result of the Company moving adhesive manufacturing volume from its Canadian facility to its domestic

facilities to reduce freight and other expenses. Consequently, the Canadian operation s fixed overhead is spread over lower manufacturing volume resulting in the decline in gross margin as a percent of sales.

During fiscal 2007, the Company strategically reduced and ultimately disposed of its Holland operation resulting in a decrease in gross profit of the Europe segment of $0.9 million. This reduction was partially offset by the increase in gross profit in the UK and French operations that resulted from increased sales volume.

Increased sales volume was the primary reason for the increase in gross margin in our Australia/New Zealand segment during fiscal 2007 compared to fiscal 2006.

Lower margin in the Other segment in fiscal 2007 compared to fiscal 2006 was due to the Company s Mexican operation. In Fiscal 2007, the Mexican operation incurred cost increases that were not passed on to customers through price increases. In the fourth quarter of fiscal 2007, the Company changed the management team responsible for its Mexican operation as part of a broader plan to improve the operation s results.

Foreign currency exchange rate changes accounted for approximately $0.4 million of additional gross profits, primarily in the Canadian and European segments.

Operating Expenses

Total operating expenses, excluding the non-cash charge for goodwill impairment, for fiscal 2007 were $55.5 million compared to $52.8 million in fiscal 2006, an increase of $2.7 million, or 5%. A summary of the operating expenses by segment is as follows (in thousands except percentages):

				Percent
	2007	**2006**	**Variance**	**Change**
Domestic	$ 36,016	$ 35,291	$ 725	2%
Canada	4,012	2,990	1,022	34%
Europe	7,033	7,022	11	0%
Australia/New Zealand	7,007	6,334	673	11%
Other	1,402	1,117	285	26%
Total	$ 55,470	$ 52,754	$ 2,716	5%

Shipping expenses for the fiscal 2007 period were approximately $23.6 million compared to approximately $22.0 million for the fiscal 2006 period, an increase of approximately $1.6 million or 7.1%. The increase in shipping expenses was primarily due to the increased level of business activity in our Domestic, Canadian and Australia/New Zealand segments. During fiscal 2007, shipping expenses remained consistent as a percent of sales with the level experienced in fiscal 2006 at approximately 11%. Higher freight costs from common carriers resulting from increased fuel costs were offset by the Company improving its warehouse distribution logistics and revising its freight arrangement with a major customer in the domestic segment. In addition, foreign currency exchange rate changes resulted in approximately $0.1 million of increased shipping expenses.

General and administrative expenses for the fiscal 2007 period were approximately $19.4 million compared to approximately $18.8 million for the fiscal 2006 period an increase of approximately $0.6 million or 3%. Included in fiscal 2007 was approximately $1.4 million of expenses related to the disposition of the Holland operation, as discussed below. Excluding the amount related to the Holland transaction, general and administrative expenses decreased by $0.8 million in fiscal 2007 compared to fiscal 2006. The reduction is primarily due to investments made in corporate expenses in our domestic and Australia/New Zealand segments in fiscal 2006 that were not repeated in fiscal 2007. Approximately $0.1 million of the increase was foreign currency exchange rate related. General and administrative expenses were approximately 9% of sales in both fiscal 2007 and fiscal 2006.

Selling and marketing costs for the fiscal 2007 period decreased to approximately $12.6 million from approximately $13.1 million in

the fiscal 2006 period, a decrease of approximately $0.5 million or 4%. The decrease compared to fiscal 2006 was due to the elimination of selling expenses associated with the disposition of the Company s Holland operation in the current fiscal year. Foreign currency exchange rate changes increased selling and marketing expenses by $0.1 million. As a percent of sales, selling and marketing expenses were 6% on both fiscal 2007 and fiscal 2006.

Operating expenses in the Canadian segment do not reflect expenses related to shared infrastructure with the domestic segment. No charges for sales infrastructure related to home center customers, shared administrative expenses, integrated computer systems, and other shared services functions have been recorded in Canada. This would affect both general and administrative and selling and marketing expenses.

Impairment Loss on Goodwill and Other Intangibles

During the second quarter of fiscal 2007, the Company performed its annual impairment test on the goodwill and other intangible assets currently recorded. Earnings forecasts for each of our segments were updated in support of the fair value estimates used in the initial impairment tests. The valuations were based on market approaches, the present value of future cash flows and closing price of our stock as at August 31, 2006. These tests indicated that the carrying amount of the goodwill exceeded fair value in our Mexico, U.K. and U.S. reporting units, and led the Company to conclude that goodwill was impaired. In the second quarter of fiscal 2007 the Company recorded a $7.6 million impairment charge, which included an estimate for the step two charge, to reduce the carrying value of goodwill and other intangibles to its implied fair value. The second step of the impairment test was completed in the third quarter of fiscal 2007 and resulted in a final impairment charge of $7.5 million. This non-cash charge was recorded in the Domestic ($6.2 million), Europe ($1.0 million) and Other ($0.3 million) segments.

After the non-cash charge for impairment, the Company has $6.9 million of goodwill in the Domestic segment, $0.9 million in the Canada segment, $0.3 million in the Europe segment and $1.5 million in the Australia/New Zealand segment. No balance remains in the Other segment.

The Company will continue to assess potential impairment of goodwill and other indefinite-lived intangibles in accordance with FASB Statement No. 142 in future periods. Should the Company s business prospects change, and the expectations for acquired business be further reduced, or as other circumstances that affect the Company business dictate, the Company may be required to recognize additional impairment charges in accordance with SFAS No. 142.

Disposition of Assets and Obligations in Holland

On August 31, 2006, the Company entered into a license and royalty agreement with Estillon B.V., a European supplier of carpet specialty tools, granting Estillon rights to manufacture, market and distribute products using our Roberts® and Smoothedge® brand names to customers, other than mass merchants, principally within certain European Union countries. This agreement also provides for certain supplier arrangements for the Company s products with Estillon. At the same time, additional agreements were executed with Estillon whereby Estillon purchased inventory, accounts receivable and certain other assets from the Company in exchange for cash. Estillon also assumed certain future warehousing, purchase commitments and employee obligations. As a result of this license and royalty agreement and the sale agreements, The Company will no longer conduct direct operations in Holland. All future obligations related to the employees, the facilities in Holland and the disposition of assets have been paid or accrued as of February 28, 2007. The Company recorded a charge of $0.5 million for the write-off of Holland s accumulated foreign currency translation during the second quarter of fiscal 2007, which is recorded in general and administrative expenses. Additionally, in fiscal 2007, the Company recorded a charge for the disposition of Holland operations assets and obligations of approximately $0.9 million, which is also recorded in general and administrative expenses. Any difference between the accrual and the realized value of the asset will be recorded at the time of disposition. This did not qualify for treatment as a discontinued operation due to the Company s continued involvement in the market through the license and royalty arrangement.

During fiscal 2007, the Company recorded income of $0.1 million related to the license and royalty agreement with Estillon. This income is recorded as a reduction to general and administrative expenses.

Changes in the Put Warrant Liability

At the end of fiscal 2007, the Company reported a liability of $0.9 million relating to the valuation of the put warrants as Other Current Liabilities, as compared to a $2.3 million liability reported at the end of fiscal 2006. The amounts were classified as liabilities in accordance with Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. Changes to the fair value of the put warrant liability are recognized in the earnings, as a result, the Company recognized income of $1.4 million and $1.2 million in fiscal 2007 and fiscal 2006, respectively. The put warrants will continue to be revalued on a quarterly basis as long as they remain outstanding which could result in either significant increases or reductions in our quarterly net income depending on fluctuations in the price of our stock. For a more detailed discussion regarding the put warrants and management s estimates of the associated liability, see Liquidity and Capital Resources .

Other income and expense for fiscal 2006 includes a gain of approximately $1.1 million resulting from the sale of the Company s carpet seaming tape distribution business.

Interest expense for the fiscal 2007 period was approximately $3.0 million compared to approximately $2.5 million in the fiscal 2006 period. Interest expense increased as a result of increased average borrowings throughout the year to fund the Company s acquisition debt and working capital needs, as well as increased interest rates during the fiscal 2007 period.

The Company recorded a provision for income taxes in fiscal 2007 of approximately $0.7 million compared to approximately $0.9 million in the fiscal 2006 period. Despite having a pre-tax loss in fiscal 2007, the Company recorded an income tax provision due to various permanent differences including approximately $2.4 million of goodwill impairment charges in the domestic segment that are non deductible for tax purposes. Additionally, a deferred tax asset valuation allowance for certain foreign net operating losses was taken in the fourth quarter due to the Company performing a detailed analysis under the guidelines of Statement of Financial Accounting Standards No. 109 at year end which included reviewing the subsidiaries financial results and projections and considering the likelihood that the deferred tax asset will be recoverable from future taxable income and, to the extent that the Company believes that recoverability is not likely, establishing a valuation allowance. The valuation allowance was the result of management estimates made in the fourth quarter of fiscal 2007. The Company does not realize a tax benefit or incur a tax provision associated with the accounting for the put warrant liability. Estimated tax rates are based upon the most recent effective tax rates available in every jurisdiction in which the Company operates.

Due to the reasons stated above the Company recorded net loss of approximately $5.6 million or $1.64 per diluted share in the fiscal 2007 period compared to net income of $1.0 million or $0.26 per diluted share in the fiscal 2006 period.

Reconciliation of Net Income to Net Income Adjusted for the Change in the Put Warrant Liability and Other Non-Recurring Items

While Net Income Adjusted for the Change in the Put Warrant Liability and Non-Recurring Items is not a measure of financial performance under generally accepted accounting principles, we believe that the measure provides meaningful comparisons of our current and projected operating performance with its historical results. We use Net Income Adjusted for the Change in the Put Warrant Liability and Non-Recurring Items as an internal measure of our business and believe it is an important measure of performance by the investment community. Net Income Adjusted for the Change in the Put Warrant Liability and Non-Recurring Items is not meant to be considered a substitute or replacement for Net Income as prepared in accordance with generally accepted accounting principles.

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The reconciliation of Net Income to Net Income Adjusted for the Change in the Put Warrant Liability and Non-Recurring Items is as follows (in thousands except for per share amounts:).

	2007	2006
Net income (loss), as reported (a)	$ (5,573)	$ 998
Add back (deduct):		
Impairment loss on goodwill and other intangible assets, net of tax	6,052	
Realization of currency translation loss related to the disposition of certain assets and obligations of the Holland subsidiary	478	
Loss related to the disposition of certain assets and obligations of the Holland subsidiary, net of tax benefit	563	
Gain on sale of carpet seaming tape business, net of tax		(708)
Change in put warrant liability	(1,437)	(1,238)
Net income (loss) adjusted for the change in the put warrant liabilityand non-recurring items (b)	$ 83	$ (948)
Earnings (loss) per share, as reported:		
Basic ((a)/(c		