

Q.E.P. CO., INC.
a Delaware corporation

1001 Broken Sound Parkway, NW, Suite A
Boca Raton, FL 33487

Telephone: 561-994-5550
Corporate Website: www.qepcorporate.com
Company Email: ir@qep.com

SIC Code: 3420

Quarterly Report
For the period ending: May 31, 2024
(the "Reporting Period")

The number of shares outstanding of our Common Stock was 3,269,000 as of May 31, 2024.

The number of shares outstanding of our Common Stock was 3,286,000 as of February 29, 2024.

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: No:

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: No:

Indicate by check mark whether a Change in Control¹ of the company has occurred over this reporting period:

Yes: No:

¹ "Change in Control" shall mean any events resulting in:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becoming the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities;

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board occurring within a two (2)-year period, as a result of which fewer than a majority of the directors are directors immediately prior to such change; or

(iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

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All information contained in this Quarterly Report has been compiled to fulfill the disclosure requirements of OTC Markets Group, Inc. and Rule 15c2-11 under the Securities Exchange Act of 1934. The captions contained herein correspond to the sequential format as set forth in the applicable disclosure guidelines of OTC Markets Group, Inc. All dollar amounts are presented in thousands except par values.

Forward-Looking Statements

This Quarterly Report contains forward-looking statements. All statements contained in this Quarterly Report, other than statements of historical facts, may constitute forward-looking statements within the meaning of the federal securities laws. These statements can be identified by words such as "expects," "plans," "projects," "will," "may," "anticipates," "believes," "should," "intends," "estimates," and other words of similar meaning. These forward-looking statements include, but are not limited to, (i) statements regarding (a) pending legal proceedings and/or administrative matters, (b) exposure of the Company to significant fines and penalties if the Company fails to comply with certain environmental laws or approval requirements and (c) the inability to obtain components and products as required or to develop alternative sources, if and as required in the future and (ii) statements under the section titled "Competitive Business Conditions, the Issuer's Competitive Position in the Industry, and Methods of Competition." Any forward-looking statements contained herein are based on current expectations and beliefs, and are subject to a number of risks and uncertainties, including risks related to the following: challenges presented by (i) scarcity and rising cost for raw materials, (ii) shifts in global sourcing patterns, and (iii) general inflationary pressures, economic conditions, sales growth, price increases, maintaining and improving profitability, product development and marketing, operating expenses, cost savings, the successful completion of acquisitions and dispositions, acquisition integration, operational synergy realization, global sourcing, political uncertainty, cash flow, debt and currency exchange rates. Forward-looking statements may also be adversely affected by general market factors, competitive product development, product availability, federal and state regulations and legislation, manufacturing issues that may arise, patent positions and litigation, among other factors. The forward-looking statements contained in this Quarterly Report speak only as of the date the statements were made, and the Company does not undertake any obligation to update forward-looking statements, except as required by law.

PART A GENERAL COMPANY INFORMATION

Item 1 The exact name of the issuer and its predecessor (if any).

Q.E.P. Co., Inc. ("QEP", the "Company", "we", "us", or "our")

Item 2 The address of the issuer's principal executive offices and principal place of business:

Principal Executive Offices:

1001 Broken Sound Parkway, NW, Suite A
Boca Raton, FL 33487

Telephone: 561-994-5550
Facsimile: 561-994-1530
Corporate Website: www.qepcorporate.com

Investor Relations Representatives:

Enos Brown, Executive Vice President, Chief Financial Officer & Treasurer (Email: ebrown@qep.com); or

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Adam Morgan, Chief Legal & Administrative Officer (Email: amorgan@qep.com)

Q.E.P. Co., Inc.
1001 Broken Sound Parkway, NW, Suite A
Boca Raton, FL 33487
Telephone: 561-994-5550
Facsimile: 561-994-1530

Check box if principal executive office and principal place of business are the same address:

Item 3 The jurisdiction(s) and date of the issuer's incorporation or organization.

Jurisdiction of incorporation: Delaware (Active)
Date of incorporation: August 5, 1996 (founded in 1979)

PART B SHARE STRUCTURE

Item 4 Exact title and class of securities outstanding.

A. Common Stock

Title: Q.E.P. Co., Inc.
Class: Common Stock, \$0.001 par value
CUSIP: 74727K 102
Trading Symbol: QEPC

B. Preferred Stock (authorized, but no shares outstanding)

Title: Q.E.P. Co., Inc.
Class: Preferred Stock, \$1.00 par value
CUSIP: N/A
Trading Symbol: N/A

Item 5 Par or stated value and description of the security.

A. Par or Stated Value.

Common Stock: \$0.001 par value
Preferred Stock: \$1.00 par value

B. Common or Preferred Stock.

1. Common Stock dividend, voting and preemptive rights:

Cash dividend: Cash dividends may be paid on shares of Common Stock when and if declared by the Company's Board of Directors. Cash dividends are not declared with any defined regularity. The most recent cash dividend was \$1.00 per share paid on June 26, 2024 to stockholders of record on May 31, 2024.

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Stock dividend: Stock dividends may be paid on shares of Common Stock when and if declared by the Company's Board of Directors. Stock dividends are not declared with any defined regularity. The most recent stock dividend was a 5% stock dividend distributed on February 19, 2021.

Voting rights: Each share is entitled to one vote.

Preemptive Rights: None.

- 2. Preferred Stock dividend, voting, conversion and liquidation rights as well as redemption or sinking fund provisions.**

N/A—no shares of Preferred Stock issued and outstanding

- 3. Describe any other material rights of common or preferred stockholders.**

N/A

- 4. Describe any provision in the issuer's charter or by-laws that would delay, defer or prevent a change in control of the issuer.**

The Company has a classified (also known as "staggered") board of directors which, as of May 31, 2024, consisted of five members, divided into three classes of two Class I, one Class II and two Class III directors. The directors in each class each serve for a three-year term, one class being elected each year by the Company's stockholders. This system of electing and removing directors may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of the Company because it generally makes it more difficult for stockholders to replace a majority of the directors. Effective June 10, 2024, the Class II director resigned from the board of directors.

Item 6 The number of shares or total amount of the securities outstanding for each class of securities authorized.

The following table sets forth information for each class of equity securities of the Company as of the end of (i) the Company's most recent fiscal quarter ended May 31, 2024, and (ii) the Company's last two fiscal years ended February 29, 2024 and February 28, 2023, respectively.

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Securities Authorized and Outstanding

Class	As of	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (public float)	Total Number of Beneficial Stockholders⁽¹⁾	Total Number of Stockholders of Record⁽²⁾
Common Stock	Quarter ended 5/31/2024	20,000,000	3,286,000	3,269,000	2,917	12
Common Stock	Year ended 2/29/2024	20,000,000	3,286,000	3,286,000	2,917	12
Common Stock	Year ended 2/28/2023	20,000,000	3,293,000	3,293,000	2,917	14
Preferred Stock	Quarter ended 5/31/2024	2,500,000	0	0	0	0
Preferred Stock	Year ended 2/29/2024	2,500,000	0	0	0	0
Preferred Stock	Year ended 2/28/2023	2,500,000	0	0	0	0

(1) Estimate of individual participants represented by security position listings who beneficially own at least 100 shares of the Company's Common Stock.

(2) Excludes holders who hold their shares in street name.

Item 7 Name and address of the transfer agent.

Mail correspondence:

Computershare Limited
c/o Computershare Investor Services
P.O. Box 43078
Providence, RI 02940-3078

Overnight correspondence:

Computershare Limited
150 Royall Street, Suite 101
Canton, MA 02021

Telephone:

Toll: 781-575-3120
Toll Free: 800-962-4284
TTD for Hearing impaired: 800.231.5469
Shareholder website: <http://www.computershare.com/investor>
Shareholder online inquiries: <https://www-us.computershare.com/investor/contact>

Computershare Limited is currently registered under the Securities Exchange Act of 1934 as an authorized transfer agent subject to regulation by the U.S. Securities and Exchange Commission.

PART C BUSINESS INFORMATION

Item 8 Nature of the issuer's business.

A. Business Development.

1. **Form of organization:** Corporation (Delaware)
2. **Year organized:** 1996 (founded in 1979)
3. **Fiscal year end date:** Last day of February
4. **Bankruptcy, receivership or any similar proceedings:** None
5. **Material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets:**

On September 20, 2023, the Company sold certain assets of its *Harris Flooring Group* to Marquis Industries Inc., a subsidiary of Live Ventures Incorporated (Nasdaq: LIVE), in a transaction valued at approximately \$7,558,000. The purchased assets included the Naturally Aged Flooring™, Harris®, Kraus® and Heritage Mill® brands in North America, as well as related inventory and associated domain names and websites.

On September 28, 2023, the Company sold certain machinery and equipment at its Johnson City, Tennessee manufacturing facility in an online auction. On September 29, 2023, the Company sold its manufacturing facility in Johnson City, Tennessee to Hatley Properties, LLC in a transaction valued at \$5,300,000.

On October 4, 2023, the Company sold its business in the United Kingdom by selling all of the outstanding shares of Q.E.P. U.K. Limited to QEP UK Holdings Limited led by Paul Boyce in a transaction valued at approximately £12,000,000 (\$14,500,000). Mr. Boyce previously served as the Company's CEO of International Operations and as a member of its Board of Directors.

On February 29, 2024, the Company sold its business in Australia and New Zealand by selling substantially all of the assets of Q.E.P. Aust. Pty. Limited and Q.E.P. NZ Limited (collectively, the "ANZ Business") to QEP Australasia Pty. Limited led by Bruce Maclaren and Tony Lei in a transaction valued at approximately AUD 14,050,000 (\$9,100,000). Mr. Maclaren previously served as the Managing Director of the ANZ Business.

6. **Default of the terms of any note, loan, lease, or other indebtedness or financing arrangement requiring us to make payments:** During the quarters ended November 30, 2021 and May 31, 2024, the Company dissolved certain of its inactive subsidiaries. Although such dissolutions would have constituted a technical event of default under the Company's Amended and Restated Loan Agreement, Bank of America N.A. waived any default.
7. **Any change of control:** None
8. **Any increase of ten percent (10%) or more of the same class of equity securities:** None
9. **Any past, pending or anticipated stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization:**

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- a. **Stock Splits (including stock splits in the form of a stock dividend) and/or stock dividends:**
 - i. No stock splits in the last three years
 - ii. No stock dividend in the last three years
- b. **Recapitalizations:** None
- c. **Mergers and Acquisitions:** (during the three-year period ended February 29, 2024 and during the subsequent period ending with the filing of this Report): None
- d. **Spin-offs:** None
- e. **Reorganizations:**

The Company began the process of restructuring its Canadian operating subsidiary, Roberts Company Canada Limited, on June 29, 2020 under the Companies' Creditor Arrangement Act (CCAA). The CCAA filing was necessitated by the Canadian subsidiary's lack of liquidity, which was further exacerbated by the negative impact of the COVID-19 pandemic. The subsidiary substantially completed its reorganization as of February 28, 2021, and the CCAA proceedings formally terminated as of May 1, 2023. As of February 28, 2023, there was no restructuring liability.

- 10. **Any delisting of the issuer's securities by any securities exchange:** None.
- 11. **Any current, past, pending or threatened legal proceedings or administrative actions either by or against the issuer that could have a material effect on the issuer's business, financial condition, or operations and any current, past or pending trading suspensions by a securities regulator:**
 - a. **Legal proceedings and/or administrative matters:**

The Company and certain of its subsidiaries are involved in various disputes and proceedings that arise from time to time in the ordinary course of our business.

We record accruals for loss contingencies to the extent that we conclude their occurrence is probable and any related damages are estimable. If a range of liability is probable and estimable and some amount within the range appears to be a better estimate than any other amount within the range, we accrue that amount. If a range of liability is probable and estimable and no amount appears to be a better estimate than any other amount within the range, we accrue the minimum of such probable range. These assessments can involve a series of complex judgments about future events and can rely heavily on estimates and assumptions.

While we do not believe any of our current legal proceedings will have a material adverse effect on our financial position or results of operations, litigation is inherently unpredictable, and excessive verdicts do occur. Although we may believe we have substantial defenses in these matters, we could in the future incur judgments or enter into settlements that could have a material adverse effect on our consolidated financial position or results of operations of the Company in any particular period.

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The Company is subject to federal, state and local laws, regulations and ordinances regarding water discharges, hazardous and solid waste management, air quality, and other environmental matters (together, “Environmental Laws”). The Company also must obtain and comply with a wide variety of environmental registrations, licenses, permits, inspections and other approvals in conducting its operations (together, “Approval Requirements”). Failure to comply with Environmental Laws or Approval Requirements may expose the Company to significant fines and penalties.

The Company’s management is not aware of any situation requiring remedial action by the Company that, because of liability under Environmental Laws or Approval Requirements, would have a material adverse effect on the Company as a whole. The Company continually evaluates its operations to identify potential environmental exposures and for its compliance with regulatory requirements, but can give no assurance that it will not incur any material costs or liability in the future.

Premix-Marbletite Manufacturing Co. (“Premix”), an indirect subsidiary of the Company, is a co-defendant in 45 cases, where the plaintiffs are seeking unspecified damages due to injuries allegedly sustained as a result of exposure to products containing asbestos, which, in the case of Premix, were manufactured in excess of 30 years ago. Imperial Industries Inc. (“Imperial”), Premix’s parent company and the Company’s direct subsidiary, is named as a co-defendant in 18 of those cases. Insurance carriers that provide umbrella/excess coverage for these pending cases have, under a reservation of rights, appointed outside counsel to represent and defend Premix and Imperial. These policies are not subject to a deductible or self-insured retention. Premix and Imperial believe that, based on past settlements and outcomes of asbestos cases, there should be adequate insurance coverage for these pending cases.

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

- b. **Trading suspensions by a securities regulator:** None

B. Business of Issuer.

Who We Are

Founded in 1979, QEP is a leading designer, manufacturer and distributor of a broad range of best-in-class flooring installation solutions for commercial and home improvement projects. QEP is headquartered in Boca Raton, Florida with other offices in the United States, Canada, Europe and Asia.

What We Do

QEP offers a comprehensive line of specialty installation tools, adhesives, and underlayment. QEP sells its products throughout the world to home improvement retail centers and professional specialty distribution outlets under brand names including QEP®, LASH®, ROBERTS®, Capitol®, Premix-Marbletite® (PMM), Brutus®, Homelux®, PRCI®, and Tomecanic®.

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Organization

Following the divestiture of the majority of its foreign operations, which are presented within discontinued operations in the financial statements, the Company now reports under a single financial segment.

Acquisitions

Our business strategy includes, from time to time, the acquisition of complementary businesses financed by a combination of internally generated funds, debt and/or the issuance of shares of Common Stock. Our consolidated financial statements and results of operations reflect the acquired business after the completion of the acquisition and are not restated. We account for acquired businesses using the acquisition method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

Our History

1. Primary and secondary SIC Codes:

Primary:

3420: Cutlery, Hand Tools & General Hardware

Secondary:

3423: Hand and Edge Tools, Except Machine Tools and Handsaws

3429: Hardware, Not elsewhere classified

2. Has the issuer never conducted operations, in the development stage, or currently conducting operations?

The Company has been conducting operations continuously since being founded in 1979.

3. Has the issuer at any time been a “shell company”²?

No.

²For the purpose of this section, a “shell company” means an issuer, other than a business combination related shell company, as defined by Securities Act Rule 405, or an asset-backed issuer, as defined by Item 1101(b) of Regulation AB, that has:

(1) No or nominal operations; and

(2) Either:

(A) No or nominal assets;

(B) Assets consisting solely of cash and cash equivalents; or

(C) Assets consisting of any amount of cash and cash equivalents and nominal other assets.

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4. The names and contact information of any parent, subsidiary, or affiliate of the issuer, its business purpose, method of operation, ownership, and whether it is included in the financial statements of the issuer:

As of May 31, 2024, Q.E.P. Co., Inc. was the parent company and 100% owner of the following domestic and foreign subsidiaries, all of which are consolidated in its financial statements and can be contacted at c/o Q.E.P. Co., Inc., 1001 Broken Sound Parkway, NW, Boca Raton, FL 33487, (561) 994-5550.

Q.E.P. Co., Inc. and Subsidiaries

Name	Relationship	Business Purpose	Method of Operation	Ownership	Included in Issuer's Consolidated Financial Statements
DOMESTIC COMPANIES					
Q.E.P. Co., Inc.	Parent	Manufacture and distribution of flooring, installation tools, adhesives and flooring-related accessories	Corporation (Delaware)	This is the Issuer	Yes
Imperial Industries, Inc.	Subsidiary	Parent of Premix-Marbletite Manufacturing Co.	Corporation (Delaware)	Parent (100%)	Yes
Premix-Marbletite Manufacturing Co.	Subsidiary	Manufacture of pool finishes, stucco, plaster and roof tile mortars	Corporation (Florida)	Imperial Industries (100%)	Yes
Q.E.P. Zocalis Holding LLC	Subsidiary	Non-operating subsidiary	Limited Liability Company (Delaware)	Parent (100%)	Yes
Roberts Consolidated Industries, Inc.	Subsidiary	Non-operating subsidiary	Corporation (Delaware)	Parent (100%)	Yes
Roberts Capitol, Inc.	Subsidiary	Non-operating subsidiary	Corporation (Florida)	Roberts Consolidated Industries (100%)	Yes
Roberts Holding International, Inc.	Subsidiary	Non-operating subsidiary	Corporation (Delaware)	Roberts Consolidated Industries (100%)	Yes
Faus Group, Inc.	Subsidiary	Non-operating subsidiary	Corporation (Georgia)	Parent (100%)	Yes

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Name	Relationship	Business Purpose	Method of Operation	Ownership	Included in Issuer's Consolidated Financial Statements
FOREIGN COMPANIES					
Q.E.P. Aust. Pty. Ltd.	Subsidiary	Non-operating subsidiary	Limited Company (Australia)	Parent (100%)	Yes
Roberts Company Canada Limited	Subsidiary	Manufacture and distribution of flooring, installation tools, adhesives and flooring-related accessories in Canada	Limited Company (Canada)	Roberts Consolidated Industries, Inc.(100%)	Yes
P.R.C.I., S.A.S.	Subsidiary	Distribution of flooring, installation tools, adhesives and flooring-related accessories in France	France	Parent (100%)	Yes
QEP Germany GmbH	Subsidiary	Distribution of flooring, installation tools, adhesives and flooring-related accessories in Germany	Corporation (Germany)	Parent (100%)	Yes
Q.E.P. Co., HK Limited/Shanghai Regional Office	Subsidiary	Sourcing flooring and tool products in Asia	Limited Company (Hong Kong)	Parent (100%)	Yes
QEP Roberts Mexicana S.A. de C.V.	Subsidiary	Non-operating subsidiary	Corporation (Mexico)	Parent (100%)	Yes
Q.E.P. Holding B.V.	Subsidiary	Non-operating subsidiary	Corporation (The Netherlands)	Parent (100%)	Yes
Roberts Holland B.V.	Subsidiary	Non-operating subsidiary	Corporation (The Netherlands)	Q.E.P. Holding B.V. (100%)	Yes
Q.E.P. Co. N.Z. Limited	Subsidiary	Non-operating subsidiary	Limited Company (New Zealand)	Parent (100%)	Yes
Q.E.P. Spain Flooring and Industrial Solutions, S.L.	Subsidiary	Non-operating subsidiary	Corporation (Spain)	Parent (100%)	Yes

5. The effect of existing or probable governmental regulations on the business.

See response to Question 7 below.

6. An estimate of the amount spent during each of the last two fiscal years on research and development activities, and, if applicable, the extent to which the cost of such activities were borne directly by customers.

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N/A.

7. Costs and effects of compliance with environmental laws (federal, state and local).

The Company is subject to Environmental Laws (as defined above). The Company also must obtain and comply with Approval Requirements (as defined above). Failure to comply with Environmental laws or Approval Requirements may expose the Company to significant fines and penalties.

The Company's management is not aware of any situation requiring remedial action by the Company that, because of liability under any environmental laws or approval requirements, would have a material adverse effect on the Company as a whole. The Company continually evaluates its operations to identify potential environmental exposures and for its compliance with regulatory requirements, but can give no assurance that it will not incur any material costs or liability in the future.

8. The number of total employees and number of full-time employees.

	<u>Total</u>	<u>Full-time</u>
Employees as of July 15, 2024	356	331

Item 9 Nature of products or services offered.

A. Principal products or services, and their markets.

Flooring installation tools, adhesives and flooring-related accessories are sold throughout the world to home improvement retail centers and professional specialty distribution outlets.

B. Distribution methods of the products or services.

The Company's specialty tools and related products are currently sold through: (i) the Company's sales staff; (ii) independent manufacturing representatives; (iii) outside salaried and commissioned sales representatives; (iv) an in-house telemarketing sales force; and (v) e-commerce.

C. Status of any publicly announced new product or service.

N/A.

D. Competitive business conditions, the issuer's competitive position in the industry, and methods of 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

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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 that may have greater financial, marketing and other resources than the Company. 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 international sales.

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.

E. Sources and availability of raw materials and the names of principal suppliers.

The Company has multiple sources of supply for nearly all raw materials and finished products purchased from suppliers, and is not dependent on a single supplier for more than 10% of such purchases. Certain raw materials representing less than 10% of purchases are available only from a single supplier or a limited number of suppliers. The inability to obtain components and products as required, or to develop alternative sources, if and as required in the future, could result in delays or reductions in product shipments, which in turn could have an adverse effect on the Company's business, financial condition, and results of operations.

F. Dependence on one or a few major customers.

The Company's customer base includes a concentration of home improvement retailers in each of its primary markets. One such customer accounted for approximately 66% and 69% of net sales from continuing operations in the fiscal years ended February 29, 2024 and February 28, 2023, respectively, and approximately 59% and 58% of accounts receivable at February 29, 2024 and February 28, 2023, respectively.

G. Patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts, including their duration.

We own various trademarks, licenses and patents associated with our business that range in original length from 15 years to perpetual. We do not own or lease any franchises and are not subject to any concessions. The Company's workforce is not unionized.

The Company is party to a written agreement with a third party to whom it pays a monthly royalty for the Company's LASH[®] tile leveling system products.

The Company previously received royalties from a third party based on their net sales of the Company's tile leveling system products, which ceased in April 2024.

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H. **The need for any government approval of principal products or services and the status of any requested government approvals.**

N/A.

Item 10 Nature and extent of the issuer's facilities.

The Company's principal executive office is located in Boca Raton, Florida. We currently lease office and equipment space in 11 facilities in five states and four countries representing approximately 713,000 square feet, which are used for a variety of business purposes including administrative offices, manufacturing, warehousing and distribution, and other functions. The terms of the leases vary from month-to-month to terms expiring in 2033.

We believe our facilities are generally well maintained, in good operating condition and adequate for our present and foreseeable business needs.

PART D MANAGEMENT STRUCTURE AND FINANCIAL INFORMATION

Item 11 Company Insiders (Officers, Directors and Control Persons).

A. Directors and Executive Officers.

1. **Directors.** The directors of the Company as well as certain information about them are as follows:

Name	Position with Company	Director Since
Lewis Gould	Executive Chairman; Chairman of the Board of Directors	1979
Leonard Gould, MBA	President and Chief Executive Officer; Director	1999
Martin Cooperman	Director	2010
Robert Costello	Director	2023

For privacy reasons, the business addresses of the Company's non-employee directors have been excluded from the above table. All correspondence to the Company's directors may be sent to any director in care of the Company's Corporate Headquarters at 1001 Broken Sound Parkway, NW, Suite A, Boca Raton, FL 33487.

The following information is provided regarding the Company's directors:

Lewis Gould, age 81, has served as the Chairman of the Company's Board of Directors from the Company's inception in 1979. Mr. Gould currently serves as the Executive Chairman of the Company. He previously served as the Company's Chief Executive Officer from its inception until August 2018 and from December 2018 to July 2020. Mr. Gould is the father of Leonard Gould.

Leonard Gould, MBA, age 55, has served as a director of the Company since 1999 and as a member of its Audit Committee since April 2021. Mr. Gould has served as the

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Company's President & Chief Executive Officer, since January 2021. From May 2008 to January 2021, he served as the Company's President. Mr. Gould is the son of Lewis Gould.

Martin Cooperman, age 71, has served as a director of the Company since 2010 and as a member of its Audit Committee since April 2021. Mr. Cooperman has been a Principal at MEC Consulting since 2012. From 2011 until 2012, he was a Managing Partner at Geller & Company. From 1975 until 2010, Mr. Cooperman worked for Grant Thornton LLP, a global accounting, tax and advisory services firm, serving most recently as its Northeast Region Managing Partner and as a member of the firm's Senior Leadership Team.

Robert Costello, age 58, has served as a director of the Company since 2023. Mr. Costello is a Partner and General Counsel of TTC Equity Partners, a private investment firm, since January 2020. Prior to TTC, Mr. Costello served as General Counsel of Whitesell International from 2012 through December 2019.

David Kreilein resigned from the Company's Board of Directors effective June 10, 2024. Mr. Kreilein's resignation letter indicated that his decision was not the result of any disagreement with the Company's operations, policies or practices.

2. Executive Officers.

The executive officers of the Company as of May 29, 2024 as well as certain biographical information about the executive officers who are not directors are as follows:

<u>Name & Business Address</u>	<u>Position with Company</u>	<u>Officer Since</u>
Lewis Gould Q.E.P. Co., Inc. 1001 Broken Sound Parkway, NW Boca Raton, FL 33487	Executive Chairman	1979
Leonard Gould Q.E.P. Co., Inc. 1001 Broken Sound Parkway, NW Boca Raton, FL 33487	President & Chief Executive Officer	1995
Enos Brown Q.E.P. Co., Inc. 1001 Broken Sound Parkway, NW Boca Raton, FL 33487	Executive Vice President, Chief Financial Officer & Treasurer	2009

The following information is provided regarding the Company's executive officer not already described herein:

Enos Brown, age 61, became Executive Vice President, Chief Financial Officer & Treasurer of the Company in July 2020. Mr. Brown joined the Company in 2002 and has held various senior financial positions of increasing responsibility with the Company.

Q.E.P. Co., Inc.
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For the Fiscal Quarter Ended May 31, 2024

3. Equity Ownership of Directors and Executive Officers.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Lewis Gould ¹	1,610,205	48.9%
All other Directors and Executive Officers as a group	N/A	Less than 1%

¹Mr. Gould's address is the Company's address at 1001 Broken Sound Parkway, NW, Suite A, Boca Raton, FL 33487.

4. Compensation of Directors and Executive Officers.

The following table sets forth information concerning the compensation paid during the last fiscal year by the Company to its directors and executive officers as a group:

Summary Compensation Schedule

Name	Fiscal Year	Fees Earned or Paid in Cash (\$) ⁽¹⁾	Salaries (\$) ⁽¹⁾	Bonuses (\$) ⁽¹⁾	Fees Earned or Paid in Stock (\$) ⁽²⁾	Stock Awards (\$) ⁽²⁾	All Other Compensation ⁽³⁾	Total (\$)
Non-Employee Directors ⁽⁴⁾ (3 in total)	2024	\$90,000	N/A	N/A	\$266,100	N/A	N/A	\$356,100
Executive Officers ⁽⁵⁾ (4 in total)	2024	N/A	\$2,302,122	\$1,315,428	N/A	N/A	\$62,162	\$3,679,712

⁽¹⁾ Directors who are employed by the Company do not receive any separate compensation for service on the Board of Directors. As of February 29, 2024, each non-employee Director receives an annual retainer of \$30,000 and a grant of 5,000 shares of restricted stock. In addition, non-employee directors receive \$1,000 for each meeting of the Board of Directors they attend.

⁽²⁾ Represents the dollar amount recognized for financial statement reporting purposes for the fiscal year ended February 29, 2024, of restricted stock awards granted in and prior to fiscal year 2024.

⁽³⁾ The Company pays for or reimburses directors' travel, lodging and other reasonable out-of-pocket expenses in connection with attendance at Board, Committee and Stockholder meetings.

⁽⁴⁾ Includes compensation to David Kreilein who resigned from the Company's Board of Directors effective June 10, 2024.

⁽⁵⁾ The Company has determined that compensation information regarding the executive officers as a group is sufficient to an understanding of the Company and that providing confidential information as to each individual executive officer would not contribute materially to an understanding of the Company. The Company's Executive Chairman and the Company's President & Chief Executive Officer, each have an Employment Agreement with the Company. No other officer has an Employment Agreement. Certain of the Company's executive officers are parties to a Severance Agreement with the Company. Copies of the agreements referenced in this Note have been filed previously as Exhibits (see Item 18, below). Includes compensation to the Company's former Chief Executive Officer of International Operations, Paul Boyce, who resigned from the Company on October 4, 2023.

B. Other Control Persons.

None.

C. Legal/Disciplinary History. Please identify whether any of the foregoing persons have, in the last five years, been the subject of:

1. **A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses).**

None.

2. **The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities.**

None.

3. **A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated.**

None.

4. **The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or securities activities.**

None.

D. Disclosure of Family Relationships³. Describe any family relationships among and between the issuer's directors, officers, persons nominated or chosen by the issuer to become directors or officers, or beneficial owners of more than five percent (5%) of the any class of the issuer's equity securities.

The Company's President and Chief Executive Officer and member of the Board of Directors, Leonard Gould, is the son of the Company's Executive Chairman and Chairman of the Board of Directors, Lewis Gould. The Company's Corporate Secretary, Susan Gould, is the former wife of Lewis Gould and mother of Leonard Gould. The Company's Vice President Business Process Improvement, Lauraleigh Gould, is the wife of Leonard Gould and the daughter-in-law of Lewis Gould and Susan Gould. The Company's Marketing Communications Coordinator, Ben Gould, is the son of Leonard Gould and the grandson of Lewis Gould.

³The term "family relationship" means any relationship by blood, marriage or adoption, not more remote than first cousin.

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- E. Disclosure of Related Party Transactions. Describe any transaction during the issuer’s last two full fiscal years and the current fiscal year or any currently proposed transaction, involving the issuer, in which (i) the amount involved exceeds the lesser of \$120,000 or one percent of the average of the issuer’s total assets at year-end for its last three fiscal years and (ii) any related person⁴ had or will have a direct or indirect material interest. Disclose the following information regarding the transaction:**

The Company employs the following individuals who are related to the Company’s Executive Chairman and President & Chief Executive Officer:

<u>Name</u>	<u>Title</u>	<u>Nature of Relationship</u>
Susan Gould	Corporate Secretary	Former wife of Lewis Gould and mother of Leonard Gould
Lauraleigh Gould	Vice President Business Process Improvement	Wife of Leonard Gould and daughter-in-law of Lewis Gould and Susan Gould
Joseph Santinello	Manager, Store Operations	Brother-in-law of Leonard Gould
Ben Gould	Marketing Communications Coordinator	Son of Leonard Gould and grandson of Lewis Gould

These individuals were paid a total of \$0.4 million in each of fiscal years 2024 and 2023, respectively. Pursuant to a Board resolution, the Company may repurchase up to \$240,000 per annum of shares of its outstanding common stock from Susan Gould at a price per share equal to the closing price of the common stock on the date of repurchase. Pursuant to this resolution, the Company repurchased zero shares in fiscal 2024 and repurchased 8,000 shares at a cost of \$0.2 million in fiscal 2023.

On October 4, 2023, the Company sold all of the outstanding shares of its wholly owned subsidiary, Q.E.P. Co. U.K. Limited, to QEP UK Holdings Limited, an entity owned by Paul Boyce, who served as the Chief Executive Officer of International Operations of the Company and a member of its Board Directors through October 4, 2023.

- F. Disclosure of Conflicts of Interest.**

None.

⁴ The term “related person” means any director, executive officer, nominee for director, or beneficial owner of more than five percent (5%) of any class of the issuer’s equity securities, immediate family members of any such person, and any person (other than a tenant or employee) sharing the household of any such person. “Immediate family members” means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law.

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Item 12 Financial information for the issuer's most recent fiscal period.

The Company's audited consolidated financial statements for the fiscal year ended February 29, 2024 and unaudited consolidated financial statements for the quarterly period ended May 31, 2024 are incorporated herein by reference and filed through the OTC Disclosure and News Service, available at www.otcmarkets.com.

The consolidated financial statements include the following:

- (1) consolidated balance sheet;
- (2) consolidated statements of income;
- (3) consolidated statements of comprehensive income;
- (4) consolidated statements of cash flows;
- (5) consolidated statements of changes in equity;
- (6) notes to consolidated financial statements; and
- (7) independent auditor's report (if period ending is fiscal year).

Item 13 Similar financial information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence.

The Company's audited consolidated financial statements for the fiscal years ended February 29, 2024 and February 28, 2023, are incorporated herein by reference from the Company's 2024 and 2023 Annual Reports filed separately through the OTC Disclosure and News Service, available at www.otcmarkets.com.

The audited consolidated financial statements include the following:

- (1) consolidated balance sheets;
- (2) consolidated statements of income;
- (3) consolidated statements of comprehensive income;
- (4) consolidated statements of cash flows;
- (5) consolidated statements of changes in equity;
- (6) notes to consolidated financial statements; and
- (7) independent auditor's report.

Item 14 The name, address, telephone number, and email address of each of the following outside providers that advise the issuer on matters relating to operations, business development and disclosure:

1. Investment Banker.

None

2. Promoter.

None

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3. Securities Counsel.

ANTHONY LINDER & CACOMANOLIS, PLLC
1700 Palm Beach Lakes Boulevard, Suite 820
West Palm Beach, FL 33401
Phone: 844-281-2857
Email: lanthony@anthonypllc.com

4. Auditor.

Preparation of the Company's financial statements is the responsibility of the Company's management. The Company's outside audit firm, Grant Thornton LLP ("Grant Thornton"), is responsible for expressing an opinion on these financial statements based on its audit.

Grant Thornton has confirmed to the Company that Grant Thornton and its personnel are licensed to practice public accounting in all states in which the Company performs audit procedures. According to Grant Thornton, it is one of the ten largest certified public accounting and consulting firms in the United States. Grant Thornton is subject to required periodic inspection by the Public Company Accounting Oversight Board.

Auditor contact information:

Grant Thornton LLP
1301 International Parkway, Suite 300
Fort Lauderdale, FL 33323
Phone: 954 768 9900
Email: David.Kraynick@us.gt.com

5. Public Relations Consultant.

None.

6. Investor Relations Consultant.

None.

7. Any other advisor(s) that assisted, advised, prepared or provided information with respect to this disclosure statement - the information shall include the name, address, telephone number and email address of each advisor.

N/A.

Item 15 Management's Discussion and Analysis or Plan of Operation.

A. Plan of Operation.

This item is not applicable as the Company had revenues in each of the last two fiscal years.

Q.E.P. Co., Inc.
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B. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Founded in 1979, Q.E.P. Co., Inc. is a leading designer, manufacturer and distributor of a broad range of best-in-class flooring and installation solutions for commercial and home improvement projects. QEP offers a comprehensive line of specialty installation tools, adhesives, and underlayment. QEP sells its products throughout the world to home improvement retail centers, and professional specialty distribution outlets under brand names including QEP®, LASH®, ROBERTS®, Capitol®, Premix-Marbletite® (PMM), Brutus®, Homelux®, PRCI®, and Tomecanic®.

QEP is headquartered in Boca Raton, Florida with other offices in the United States, Canada, Europe, and Asia.

Results of Operations

For the three months ended May 31, 2024 as compared to May 31, 2023

During the prior fiscal year, QEP completed several strategic divestments to streamline operations and concentrate resources on its core product lines in the North American market. These divestments included the sale of the Company's Harris Flooring Group in North America and the Company's businesses in the United Kingdom, Australia and New Zealand. These divested operations have been classified as discontinued operations in the Company's financial statements for all periods presented.

Net Sales

Net sales for the three months ended May 31, 2024 (the "fiscal 2025 period") were \$63.5 million compared to \$66.0 million for the three months ended May 31, 2023 (the "fiscal 2024 period"), a decrease of \$2.5 million or 3.7%.

The fiscal 2025 period decrease in net sales compared to the prior fiscal year was primarily due to continued softening of consumer demand across multiple product categories and sales channels. The Company continues to invest in the expansion of its regional sales coverage in order to penetrate new and existing sales channels.

Gross Profit

Gross profit for the fiscal 2025 period was \$22.5 million compared to \$20.0 million in the fiscal 2024 period, an increase of \$2.5 million or 12.2%. As a percentage of net sales, gross profit increased to 35.4% in the fiscal 2025 period from 30.4% in the fiscal 2024 period.

The increase in gross margin as a percentage of net sales was largely due to lower inbound freight costs, along with continued improvement in product mix and other cost-reduction initiatives.

Operating Expenses

Operating expenses for the fiscal 2025 period and the fiscal 2024 period were \$17.3

Q.E.P. Co., Inc.
Quarterly Report
For the Fiscal Quarter Ended May 31, 2024

million or 27.2% of net sales and \$16.9 million or 25.6% of net sales, respectively. The increase in operating expenses was due to higher personnel and outbound shipping costs in the current fiscal period.

Interest income was \$0.2 million for the fiscal 2025 period as compared to interest expense of \$0.6 million in the fiscal 2024 period. This change is due to the Company's significant repayment of debt in the latter part of fiscal 2024 and the investment of the Company's cash surplus in the fiscal 2025 period.

The provision for income taxes as a percentage of income before taxes was 28% for both the fiscal 2025 period and the fiscal 2024 period.

Net income for the fiscal 2025 period was \$4.5 million or \$1.34 per diluted share, as compared to \$0.9 million or \$0.28 per diluted share for the fiscal 2024 period. Excluding discontinued operations, adjusted net income for the fiscal 2025 period was \$3.9 million or \$1.17 per diluted share, as compared to \$1.8 million or \$0.55 per diluted share for the fiscal 2024 period.

Liquidity and Capital Resources

Cash provided by operating activities during the fiscal 2025 period was \$6.1 million as compared to \$13.1 million in the fiscal 2024 period, reflecting the reduction in inventory to more normalized levels during the previous year. During the fiscal 2025 period, cash provided by operations, along with proceeds from the sale of businesses, was used to repurchase stock and increase the Company's cash surplus. During the fiscal 2024 period, cash provided by operations was used to reduce borrowings under the Company's lines of credit and increase cash balances.

Working capital as of May 31, 2024 was \$62.3 million compared to \$60.0 million at the end of fiscal 2024. Aggregate available cash, net of outstanding debt at May 31, 2024 was \$30.1 million compared to \$21.7 million at the end of fiscal 2024.

C. Off-Balance Sheet Arrangements.

As of February 29, 2024, the Company did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

PART E ISSUANCE HISTORY

Item 16 List of securities offerings and shares issued for services in the past two years.

A. Issuances of Equity Securities. The following table sets forth information concerning the equity securities of Q.E.P. Co., Inc. issued during the fiscal years ended February 29, 2024 and February 28, 2023, respectively, and during the current fiscal year through the filing of this Quarterly Report:

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COMMON STOCK ISSUED

Date	Nature of Offering	Party Shares Issued to	Number of Shares Issued	Trading Status of Shares	Certificates Issued with Restrictive Legends
December 9, 2022	Restricted Stock Grant	Outside Directors	9,000	Restricted	No
March 31, 2023	Restricted Stock Grant	Outside Directors	15,000	Restricted	No
December 16, 2023	Restricted Stock Grant	Outside Directors	15,000	Restricted	No

B. Promissory Notes

N/A

PART F EXHIBITS

Item 17 Material Contracts.

All of the following agreements are incorporated herein by reference to the Company's Initial Disclosure Statement for the fiscal year ended February 28, 2021 except for Item 17F., which was incorporated by reference to the Company's Quarterly Report for the quarterly period ended November 30, 2021, Item 17G., which was incorporated by reference to the Company's Quarterly Report for the quarterly period ended November 30, 2022, Item 17H., which was incorporated by reference to the Company's Annual Report for the fiscal year ended February 28, 2023, Item 17.I., which was incorporated by reference to the Company's Quarterly Report for the quarterly period ended August 31, 2023, and Item 17.J., which was incorporated by reference to the Company's Annual Report for the fiscal year ended February 29, 2024.

- A. Voting Trust Agreement dated August 3, 1996, by and between Lewis Gould and Susan J. Gould, as amended on March 11, 2002 and September 18, 2013
- B. Employment Agreement dated May 1, 2002 by and between Lewis Gould and the Company.
- C. Employment Agreement dated October 20, 2010 by and between Leonard Gould and the Company.
- D. Fifth Amended and Restated Loan Agreement dated as of February 15, 2021 by and among the Company, certain affiliates of the Company, Bank of America N.A. and Bank of America as agent.
- E. Form of Severance Agreement between the Company and certain of its executive officers.
- F. Amendment No. 2 to Fifth Amended and Restated Loan and Security Agreement and Joinder of Australian Borrower dated as of November 22, 2021 by and among Q.E.P. Co., Inc. certain affiliates of the company, and Bank of America, N.A.
- G. Amendment No. 3 to Fifth Amended and Restated Loan and Security Agreement and Joinder of Australian Borrower dated as of November 28, 2022 by and among Q.E.P. Co., Inc. certain affiliates of the company, and Bank of America, N.A.
- H. Amendment No. 4 to Fifth Amended and Restated Loan and Security Agreement and Joinder of Australian Borrower dated as of May 16, 2023 by and among Q.E.P. Co., Inc. certain affiliates of the company, and Bank of America, N.A.
- I. Amendment No. 5 to Fifth Amended and Restated Loan and Security Agreement and Joinder

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For the Fiscal Quarter Ended May 31, 2024

of Australian Borrower dated as of September 29, 2023 by and among Q.E.P. Co., Inc. certain affiliates of the company, and Bank of America, N.A.

- J. Amendment No. 6 to Fifth Amended and Restated Loan and Security Agreement, Waiver, Consent and Release dated as of February 29, 2024 by and among Q.E.P. Co., Inc. certain affiliates of the company, and Bank of America, N.A.

Item 18 Articles of Incorporation and Bylaws.

All of the following agreements are incorporated herein by reference to the Company's Initial Disclosure Statement for the fiscal year ended February 28, 2021.

- A. Certificate of Incorporation of the Company filed on August 5, 1996, as amended.
B. Second Amended and Restated Bylaws of the Company (as amended and restated on October 5, 2019).

Item 19 Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

Issuer and Affiliated Purchaser Purchases of Equity Securities				
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under Plans or Programs
Month 1 (March 1 to March 31)	6,000 ¹	\$24.50	N/A	N/A
Month 2 (April 1 to April 30)	0	N/A	N/A	N/A
Month 3 (May 1 to May 31)	64,923 ²	\$21.75	N/A	N/A

¹Pursuant to a Board resolution, the Company may repurchase up to \$240,000 per annum of shares of its outstanding common stock from Susan Gould at a price per share equal to the closing price of the common stock on the date of repurchase. Pursuant to this resolution, the Company repurchased 6,000 shares in March 2024, at a price per share of \$24.50.

²The Company exercised its option to purchase an aggregate of 54,376 shares of restricted common stock previously granted by the Company to its non-employee directors pursuant to Restricted Stock Agreements, at a mutually agreed upon price of \$21.75 per share. The Company also purchased an additional 10,547 shares of unrestricted common stock from one non-employee director, at a mutually agreed upon price of \$21.75 per share.

Item 20 Issuer's Certifications.

Please see Exhibits 21.A and 21.B on the following pages of this Quarterly Report.

Q.E.P. Co., Inc.
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For the Fiscal Quarter Ended May 31, 2024

EXHIBIT 21.A

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Leonard Gould, President and Chief Executive Officer of Q.E.P. Co., Inc., certify that:

1. I have reviewed this Quarterly Report of Q.E.P. Co., Inc.;
2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this Quarterly Report.

Date: July 15, 2024

/s/ Leonard Gould
Leonard Gould
President & Chief Executive Officer

Q.E.P. Co., Inc.
Quarterly Report
For the Fiscal Quarter Ended May 31, 2024

EXHIBIT 21.B

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Enos Brown, Executive Vice President, Chief Financial Officer & Treasurer, of Q.E.P. Co., Inc., certify that:

1. I have reviewed this Quarterly Report of Q.E.P. Co., Inc.;
2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this Quarterly Report.

Date: July 15, 2024

/s/ Enos Brown
Enos Brown
Executive Vice President, Chief Financial Officer
& Treasurer

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

**Consolidated Financial Statements
For the Three Months Ended May 31, 2024 and 2023**

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Q.E.P. CO., INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except par values)

	<u>May 31,</u> 2024	<u>February 29,</u> 2024
	<u>(Unaudited)</u>	<u>(Audited)</u>
ASSETS		
Cash	\$ 30,408	\$ 22,369
Accounts receivable, less allowance for credit losses of \$173 and \$134 at May 31, 2024 and February 29, 2024, respectively	27,880	30,338
Inventories, net	29,406	29,913
Prepaid expenses and other current assets	2,927	7,491
Prepaid income taxes	-	1,375
Discontinued operations	708	693
Current assets	<u>91,329</u>	<u>92,179</u>
Property and equipment, net	10,248	9,894
Right of use operating lease assets	19,432	19,852
Deferred income taxes, net	2,548	2,548
Intangibles, net	94	99
Other assets	1,097	1,276
Total assets	<u>\$ 124,748</u>	<u>\$ 125,848</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Trade accounts payable	\$ 11,553	\$ 14,438
Accrued liabilities	13,787	13,352
Current operating lease liabilities	3,296	3,210
Income taxes payable	109	-
Lines of credit	204	601
Current maturities of debt	57	74
Discontinued operations	-	479
Current liabilities	<u>29,006</u>	<u>32,154</u>
Long term debt	17	-
Non-current operating lease liabilities	19,213	19,855
Other long term liabilities	975	1,209
Total liabilities	<u>49,211</u>	<u>53,218</u>
Preferred stock, 2,500 shares authorized, \$1.00 par value; 0 shares issued and outstanding at May 31, 2024 and February 29, 2024, respectively	-	-
Common stock, 20,000 shares authorized, \$.001 par value; 4,005 shares issued: 3,269 and 3,286 shares outstanding at May 31, 2024 and February 29, 2024, respectively	4	4
Additional paid-in capital	10,718	11,901
Retained earnings	77,679	73,211
Treasury stock, 736 and 719 shares held at cost at May 31, 2024 and February 29, 2024, respectively	(9,894)	(9,517)
Accumulated other comprehensive income	(2,970)	(2,969)
Shareholders' equity	<u>75,537</u>	<u>72,630</u>
Total liabilities and shareholders' equity	<u>\$ 124,748</u>	<u>\$ 125,848</u>

The accompanying notes are an integral part of these financial statements.

Q.E.P. CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands except per share data)
(Unaudited)

	For the Three Months Ended	
	May 31, 2024	May 31, 2023
Net sales	\$ 63,524	\$ 65,978
Cost of goods sold	41,021	45,928
Gross profit	22,503	20,050
Operating expenses:		
Shipping	7,081	7,010
General and administrative	6,284	6,126
Selling and marketing	3,905	3,871
Other income, net	5	(89)
Total operating expenses	17,275	16,918
Operating income	5,228	3,132
Interest income (expense), net	183	(603)
Income before provision for income taxes	5,411	2,529
Provision for income taxes	1,508	709
Net income from continuing operations	3,903	1,820
Gain/(Loss) from discontinued operations, net of tax	565	(895)
Net income	\$ 4,468	\$ 925
Basic earnings (loss) per share:		
From continuing operations	1.17	0.55
From discontinued operations	0.17	(0.27)
Basic earnings per share	1.34	0.28
Diluted earnings (loss) per share:		
From continuing operations	1.17	0.55
From discontinued operations	0.17	(0.27)
Diluted earnings per share	1.34	0.28
Weighted average number of common shares outstanding:		
Basic	3,323	3,343
Diluted	3,334	3,350

The accompanying notes are an integral part of these financial statements.

Q.E.P. CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	For the Three Months Ended	
	May 31, 2024	May 31, 2023
Net income	\$ 4,468	\$ 925
Unrealized currency translation adjustments	(1)	43
Comprehensive income	\$ 4,467	\$ 968

The accompanying notes are an integral part of these financial statements.

Q.E.P. CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	For the Three Months Ended	
	May 31, 2024	May 31, 2023
Operating activities:		
Net income	\$ 4,468	\$ 925
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	338	858
Gain on disposal of businesses	(516)	-
Gain on sale of property	(1)	(4)
Gain from insurance recoveries	-	(390)
Proceeds from settlement of insurance claims	-	529
Other non-cash adjustments	44	171
Changes in assets and liabilities:		
Accounts receivable	2,529	(744)
Inventories	491	11,768
Prepaid expenses and other assets	833	(820)
Trade accounts payable and accrued liabilities	(2,135)	791
Net cash provided by operating activities	6,051	13,084
Investing activities:		
Capital expenditures	(679)	(362)
Proceeds from sale of businesses	4,292	-
Proceeds from sale of property	1	30
Proceeds from settlement of insurance claims	-	568
Net cash provided by investing activities	3,614	236
Financing activities:		
Net repayments under lines of credit	(394)	(8,010)
Net repayments of term loan facilities	-	(202)
Repurchase of restricted stock awards	(1,183)	-
Purchase of treasury stock	(30)	(30)
Principal payments on finance leases	(28)	(29)
Net cash used in financing activities	(1,635)	(8,271)
Effect of exchange rate changes on cash	9	(8)
Net increase in cash	8,039	5,041
Cash at beginning of period	22,369	3,060
Cash at beginning of the period from discontinued operations	-	1,936
Cash at end of period	\$ 30,408	\$ 10,037

The accompanying notes are an integral part of these financial statements.

Q.E.P. CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands, except share data)
(Unaudited)

The following table shows the changes in the shareholder's equity for the three months ended May 31, 2024 and 2023.

	Preferred Stock		Common Stock		Paid-in	Retained	Treasury	Accumulated	Total
	Shares	Amount	Shares	Amount	Capital	Earnings	Stock	Other	Shareholders'
								Comprehensive	Equity
								Income	
Balance at February 28, 2023	-	\$ -	4,005,370	\$ 4	\$ 11,449	\$ 81,205	\$ (9,410)	\$ (5,408)	\$ 77,840
Net Income						925			925
Unrealized currency translation adjustments								43	43
Stock-based compensation expense					186				186
Balance at May 31, 2023	-	\$ -	4,005,370	\$ 4	\$ 11,635	\$ 82,130	\$ (9,410)	\$ (5,365)	\$ 78,994
	Preferred Stock		Common Stock		Paid-in	Retained	Treasury	Accumulated	Total
	Shares	Amount	Shares	Amount	Capital	Earnings	Stock	Other	Shareholders'
								Comprehensive	Equity
								Income	
Balance at February 29, 2024	-	\$ -	4,005,370	\$ 4	\$ 11,901	\$ 73,211	\$ (9,517)	\$ (2,969)	\$ 72,630
Net Income						4,468			4,468
Unrealized currency translation adjustments								(1)	(1)
Purchase of treasury stock							(377)		(377)
Repurchase of restricted stock awards					(1,183)				(1,183)
Balance at May 31, 2024	-	\$ -	4,005,370	\$ 4	\$ 10,718	\$ 77,679	\$ (9,894)	\$ (2,970)	\$ 75,537

The accompanying notes are an integral part of these financial statements.

Q.E.P. CO., INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Founded in 1979, Q.E.P. Co., Inc. is a leading designer, manufacturer and distributor of a broad range of best-in-class flooring installation solutions for commercial and home improvement projects. QEP offers a comprehensive line of specialty installation tools, adhesives, and underlayment. QEP sells its products throughout the world to home improvement retail centers, and professional specialty distribution outlets, under brand names including QEP[®], LASH[®], ROBERTS[®], Capitol[®], Premix-Marbletite[®] (PMM), Brutus[®], Homelux[®], PRCI[®], and Tomecanic[®].

QEP is headquartered in Boca Raton, Florida with other facilities in the United States, Canada, Europe and Asia.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Q.E.P. Co., Inc. and its wholly owned subsidiaries, after eliminating all significant inter-company accounts and transactions.

The accompanying unaudited consolidated financial statements have been prepared in accordance to U.S generally accounting principles (“U.S. GAAP”). While these statements reflect all normal recurring adjustments which are, in the opinion of management, necessary for fair presentation of the results of the interim period, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements. Therefore, these statements should be read in conjunction with the consolidated financial statements and notes thereto, and the Company’s description of critical accounting policies, in the Company’s Consolidated Financial Statements for the year ended February 29, 2024. Results for the interim period are not necessarily indicative of results for the entire year.

Certain prior year amounts in the consolidated financial statements have been reclassified to conform to the current year presentation.

Discontinued Operations

The Company presents discontinued operations when there is a disposal of a component group or a group of components that represents a strategic shift that will have a major effect on the Company’s operations and financial results. At the end of fiscal year 2024, the Company entered into separate agreements for the divestiture of the Harris Flooring Group in North America, and the businesses in the United Kingdom, Australia and New Zealand. Fiscal year 2024 financial results of the divested businesses were retrospectively presented as discontinued operations. See Note 3 for additional information.

Accounts Receivable

The Company’s accounts receivable principally are due from home improvement retailers, professional specialty distributors and flooring dealers. 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 selling arrangements and credit worthiness. The outstanding balances are stated net of allowance for credit losses. The Company determines its allowance for credit losses by considering a number of factors, including the extent to which trade accounts receivable are past due, loss history, customers’ ability to pay, and the general condition of the economy and the industry as a whole. Uncollectible accounts are written off against the allowance. Payments subsequently received on such

receivables are credited to the allowance for credit losses.

Inventories

Inventories are stated at the lower of standard cost and net realizable value, which approximates the lower of cost on a first-in, first-out basis and net realizable value. Standard costs include the manufacturing or purchase costs of a product, as well as related freight, duties and fees.

Property and Equipment

Property and equipment are stated at cost. Depreciation is recorded using the straight-line method over the assets estimated service lives. Leasehold improvements and assets held under finance leases are amortized over their expected useful life or the remaining life of the respective lease, whichever is shorter.

The following are the estimated lives of the Company's property and equipment:

Machinery and warehouse equipment	3 to 20 years
Furniture and computer equipment	3 to 10 years
Leasehold improvements	5 to 10 years

Maintenance and repairs are charged to expense. Significant renewals and betterments are capitalized. When property is sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations for the period.

Impairment of Long-Lived Assets

The Company evaluates its property and equipment for impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability is measured by a comparison of the carrying amount to its fair value. If an asset is considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the asset exceeds its fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Income Taxes

Deferred income taxes are based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities, and on available net operating loss carry forwards. Deferred income tax provisions and benefits are based on changes to the basis of assets or liabilities from year to year. In providing for deferred taxes, the Company considers tax regulations of the jurisdictions in which it operates, estimates of future taxable income and available tax planning strategies. If tax regulations, operating results or the ability to implement tax-planning strategies vary, adjustments to the carrying value of deferred tax assets and liabilities may be required.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position upon examination. For tax positions meeting the "more-likely-than-not" threshold, the amount recognized in the financial statements generally is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority as adjusted for future economic uncertainties. Penalties and interest on the Company's reserve for uncertain tax positions are included in provision for income taxes.

Intangible Assets

The Company evaluates indefinite lived intangibles for impairment annually or whenever events or circumstances indicate that the fair value of a reporting unit may not exceed its carrying amount. The

Company amortizes the cost of other intangibles over their estimated useful lives and tests such items for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. If the Company determines that an intangible asset is impaired, it is written down to its fair value.

Leases

Lease agreements represent contracts that convey the right to control the use of an asset, which include warehouse, office space, equipment and vehicles. The Company classifies leases at their inception as operating, unless the occurrence of conditions listed in ASC 842 - *Leases* requires a classification as finance leases.

Right of use assets and lease liabilities are measured at commencement date at the present value of the future minimum lease payments over the lease term. Minimum lease payments include fixed, and variable lease payments depending on an index or rate, as determined at the lease inception date. Variable lease payments not based on an index or rate are not included in the capitalized base, as they cannot be reasonably estimated. These variable lease payments are recognized as incurred and they consist primarily of common area maintenance, property taxes and charges based on usage.

The Company uses an incremental borrowing rate to determine the present value of lease payments, since the implicit rate is not readily determinable for the majority of the contracts. The rate is determined on an annual basis.

Lease terms include any renewal option that the Company is reasonably certain to exercise. This determination is made based on market factors or other strategic considerations.

Some of the Company's leases include periodic adjustments to rental payments due to inflation or other step increases. The Company's leases do not contain any material residual value guarantees or material restrictive covenants.

Earnings (Loss) Per Share

Basic earnings (loss) per share are computed based on weighted average shares outstanding during the period. Diluted earnings (loss) per share are computed using the weighted average number of common and dilutive common stock equivalent shares outstanding during the period. Dilutive common stock equivalent shares consist of the dilutive effect of stock option and restricted stock awards. For periods in which the Company reports net losses, dilutive common stock equivalent shares outstanding are not included in the calculation of diluted loss per share, because they are anti-dilutive. Net income from continuing operation was used as a control number to determine whether common stock equivalent shares were dilutive or antidilutive. Basic and diluted earnings (loss) per share for prior periods are retrospectively adjusted as a consequence of a change in capital structure, for example stock dividends and stock splits.

Fair Value of Financial Instruments

The carrying amount of financial instruments, including cash, accounts receivable, notes receivable, accounts payable, accrued liabilities, lines of credit and notes payable, approximate fair value due to the short maturity, variable interest rates and other terms of these instruments.

Foreign Currencies

The consolidated financial statements are presented in US Dollars. The financial statements of subsidiaries outside the United States are measured using the local currency as the functional currency. Assets and liabilities recorded in foreign currencies are translated at the exchange rate on the balance sheet date. Translation adjustments resulting from this process are charged or credited to equity. Revenues and expenses are translated at average rates of exchange prevailing during each month of the

year. Gains and losses on foreign currency transactions are included in general and administrative expenses. Foreign currency transactions resulted in a loss of less than \$0.1 million and a gain of less than \$0.1 million for the three months ended May 31, 2024 and 2023, respectively.

Revenue Recognition

Revenue recognition is evaluated through the following five steps: 1) identification of the contracts with customers; 2) identification of the performance obligations in the contracts; 3) determination of the transaction price; 4) allocation of the transaction price to the performance obligations in the contract; and 5) recognition of revenue as or when performance obligations are satisfied.

Revenue is recognized at a point in time when title and control to merchandise has passed to the customer, typically when shipped. The significant majority of the Company's contracts with its customers are for standard product sales under standard ship and bill arrangements and are generally accounted for as having a single performance obligation and the transaction price is agreed upon in the contract. Contracts do not have significant financing components and payment terms do not exceed one year from the date of the sale. Adjustments for price adjustments, rebates, allowances, and certain advertising and promotional costs are variable consideration and are recorded as a reduction of product sales revenue in the same period the related product sales are recorded. The Company does not incur significant credit losses from contracts with customers. The Company establishes reserves for returns and allowances based on current and historical information and trends. Net sales have been reduced by such amounts. Taxes collected from customers and remitted to governmental authorities are excluded from revenues.

Shipping Costs

The Company treats shipping and handling activities that occur after control of the product transfers as fulfillment activities, and therefore, does not account for shipping and handling costs as a separate performance obligation. Shipping costs to customers are expensed as incurred and included in shipping expenses. Shipping costs billed to customers are included in net sales.

Warranty Costs

The Company provides for estimated product warranty expenses when it sells the related product. Since warranty estimates are forecasts that are based on the best available information, mostly historical claims experience, the claims costs may differ from amounts provided. The warranty accrual was \$0.5 million each at May 31, 2024 and February 29, 2024. This accrual represents management's best estimate of its probable future liability for warranty claims related to its products, including wood, laminate, adhesives, and tools, based on a lag analysis of historical warranty claims made and paid.

Use of Estimates

In preparing financial statements, management is required to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and of the revenues and expenses during the reporting period. Significant estimates include the valuation of deferred income taxes, impairment evaluation of goodwill, other intangible assets and long-lived assets, inventory valuation and product warranty reserves, the allowance for credit losses, and the fair value of assets acquired and liabilities assumed in business combinations. Actual results could differ from those estimates.

Comprehensive Income

Comprehensive income includes net income as currently reported and also considers the effect of additional economic events that are not required to be recorded in determining net income but that are reported as a separate component of shareholders' equity. The Company's balance in comprehensive

income is derived from currency translation adjustments.

New Accounting Standards

In November 2023, the FASB released 2023-07 “*Segment Reporting (Topic 280) Improvements to Reportable Segment Disclosures*”, which aims to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. This guidance should be applied retrospectively to all prior periods presented in the financial statements. Upon transition, the segment expense categories and amounts disclosed in the prior periods should be based on the significant segment expense categories identified and disclosed in the period of adoption. The new guidance is effective for public business entities in fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is assessing what impacts this new standard will have on its financial statements.

In December 2023, the FASB released 2023-09 “*Income Taxes (Topic 740) Improvements to Income Tax Disclosures*” which enhances income tax disclosures, primarily related to the rate reconciliation and income tax paid information. Other provisions included in this update require to disaggregate income (loss) from continuing operations before income tax expense between domestic and foreign and income tax expense (benefit) from continuing operations to be disaggregated by federal (national), state, and foreign. This guidance should be applied prospectively, but a retrospective approach is also permitted. This update is effective for public business entities in fiscal years beginning after December 15, 2024. The Company is assessing what impacts this new standard will have on its financial statements.

Recent accounting standards pending adoption not discussed above or in the Consolidated Financial Statements for the years ended February 29, 2024 are either not applicable or are not expected to have a material impact on the Company’s financial statements.

3. DISCONTINUED OPERATIONS

During fiscal year 2024, the Company completed several strategic divestments to streamline operations and concentrate resources on its core product lines in the North American market. These divestments included the sale of its Harris Flooring Group in North America and its businesses in the United Kingdom, Australia and New Zealand. These divested operations have been classified as discontinued operations in our Consolidated Balance Sheets and Consolidated Statements of Operations for all periods presented.

The Company’s Consolidated Statements of Shareholder’s Equity, Consolidated Statement of Comprehensive Income, and Consolidated Statements of Cash Flows combine results of continuing and discontinued operations.

The following is a summary of the assets and liabilities of the discontinued operations at May 31, 2024 and February 29, 2024 (in thousands):

	May 31, 2024	February 29, 2024
Prepaid expenses and other current assets	\$ 708	\$ 693
Current assets	<u>\$ 708</u>	<u>\$ 693</u>
	May 31, 2024	February 29, 2024
Accrued liabilities	\$ -	\$ 479
Current liabilities	<u>\$ -</u>	<u>\$ 479</u>

The following is a summary of the operating results of the Harris Flooring Group, United Kingdom Group, and Australia / New Zealand business, which are included in discontinued operations as of the three ended months May 31, 2024 and 2023 (in thousands):

	<u>For the Three Months Ended May 31, 2024</u>			
	Harris Flooring Group	United Kingdom Group	Australia/ New Zealand	Total
Net sales	\$ -	\$ -	\$ -	\$ -
Cost of goods sold	-	-	-	-
Gross profit	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operating expenses:				
General and administrative	-	-	(25)	(25)
Total operating expenses	<u>-</u>	<u>-</u>	<u>(25)</u>	<u>(25)</u>
Operating income from discontinued operations	<u>-</u>	<u>-</u>	<u>25</u>	<u>25</u>
Gain on divestiture of discontinued operations	-	-	547	547
Net income before provision for income taxes	<u>-</u>	<u>-</u>	<u>572</u>	<u>572</u>
Provision for income taxes	-	-	7	7
Income from discontinued operations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 565</u>	<u>\$ 565</u>

	For the Three Months Ended May 31, 2023			
	Harris Flooring Group	United Kingdom Group	Australia/ New Zealand	Total
Net sales	\$ 14,007	\$ 9,128	\$ 14,170	\$ 37,305
Cost of goods sold	12,071	6,146	9,793	28,010
Gross profit	1,936	2,982	4,377	9,295
Operating expenses:				
Shipping	1,168	1,198	2,326	4,692
General and administrative	364	1,184	901	2,449
Selling and marketing	1,989	528	1,163	3,680
Other (income) expense, net	-	(396)	-	(396)
Total operating expenses	3,521	2,514	4,390	10,425
Operating income (loss) from discontinued operations	(1,585)	468	(13)	(1,130)
Interest expense	-	(21)	(93)	(114)
Net income (loss) before provision for income taxes	(1,585)	447	(106)	(1,244)
Provision (benefit) for income taxes	(444)	125	(30)	(349)
Income (Loss) from discontinued operations	\$ (1,141)	\$ 322	\$ (76)	\$ (895)

	For the Three Months Ended	
	May 31, 2024	May 31, 2023
Depreciation and Amortization	\$ -	\$ 502
Capital Expenditures	-	114

4. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed by dividing net income (loss), after deducting preferred stock dividends, by the weighted average number of shares of common stock outstanding. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common and dilutive common stock equivalent shares outstanding. The Company did not pay a preferred stock dividend in any of the periods presented. There were no anti-dilutive common stock equivalent shares in either of the three months ended May 31, 2024 and 2023.

The following is a reconciliation of the number of shares used in the basic and diluted computation of earnings (loss) per share (in thousands):

	For the Three Months Ended	
	May 31, 2024	May 31, 2023
Weighted average number of common shares outstanding - basic	3,323	3,343
Dilution from stock options and restricted stock dilute ^c	11	7
Weighted average number of common shares outstanding - dilute ^c	<u>3,334</u>	<u>3,350</u>

5. SEGMENT INFORMATION

Following the divestiture of the majority of its foreign operations, which are presented within discontinued operations, the Company now operates under a single geographic segment.

6. INVENTORIES

Inventories consisted of the following (in thousands):

	May 31, 2024	February 29, 2024
Finished goods	\$ 24,042	\$ 24,449
Raw materials and work-in-process	5,364	5,464
Inventory, net	<u>\$ 29,406</u>	<u>\$ 29,913</u>

7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following (in thousands):

	May 31, 2024	February 29, 2024
Machinery and warehouse equipment	\$ 14,810	\$ 14,405
Building and leasehold improvements	5,773	5,532
Office furniture, equipment and computer equipment	9,812	9,809
Finance leases	491	463
	<u>30,886</u>	<u>30,209</u>
Less: Accumulated depreciation and amortization	(20,638)	(20,315)
Property and equipment, net	<u>\$ 10,248</u>	<u>\$ 9,894</u>

Depreciation expense of property and equipment was \$0.3 million and \$0.4 million in the three months ended May 31, 2024 and 2023, respectively.

8. LEASES

Right of use assets and lease liabilities presented in the Balance sheet as follows (in thousands):

		May 31, 2024	February 29, 2024
	Consolidated balance sheets classification		
Assets			
Operating (1)	Right of use operating lease assets	\$ 19,432	\$ 19,852
Finance (2)	Property and equipment, net	78	75
Total lease assets		<u>\$ 19,510</u>	<u>\$ 19,927</u>
Liabilities			
Current			
Operating	Current operating lease liabilities	\$ 3,296	\$ 3,210
Finance	Current maturities of debt	57	74
Non-current			
Operating	Non-current operating lease liabilities	19,213	19,855
Finance	Long term debt	17	-
Total lease liabilities		<u>\$ 22,583</u>	<u>\$ 23,139</u>

(1) Operating Lease assets are recorded net of accumulated amortization of \$11.3 million and \$10.9 million at May 31, 2024 and February 29, 2024, respectively, and net of right of use asset accumulated impairment of \$1.2 million each at May 31, 2024 and February 29, 2024.

(2) Finance Lease assets are recorded net of accumulated amortization of \$0.4 million each at May 31, 2024 and February 29, 2024.

Lease expense is included in cost of goods sold, shipping, general and administrative, and sales and marketing expenses in the Company's consolidated statements of operations. Operating lease expense was \$0.9 million and \$1.1 million for the three months ended May 31, 2024 and 2023, respectively.

Supplemental cash flow information related to leases consists of the following (in thousands):

	For the Three Months Ended	
	May 31, 2024	May 31, 2023
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flow from operating leases	\$ 1,081	\$ 1,700
Operating cash flow from finance leases	1	2
Financing cash flow from finance leases	28	29
Right of use assets obtained in exchange for lease obligations		
Operating leases	\$ 269	\$ 780
Finance leases	28	-

9. INTANGIBLE ASSETS

Other intangible assets, which are subject to amortization, are as follows (in thousands):

	Remaining Weighted Average Useful Life	May 31, 2024			February 29, 2024		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks	5	\$ 380	\$ (286)	\$ 94	\$ 380	\$ (281)	\$ 99
		<u>\$ 380</u>	<u>\$ (286)</u>	<u>\$ 94</u>	<u>\$ 380</u>	<u>\$ (281)</u>	<u>\$ 99</u>

Amortization expense related to intangible assets was less than \$0.1 million for each of the three months ended May 31, 2024 and 2023. Estimated remaining amortization expense for each of the fiscal years in the five-year period ending in February 2029 is less than \$0.1 million for each of the years presented and thereafter.

10. DEBT

Debt consists of the following (in thousands):

	May 31, 2024	February 29, 2024
Lines of Credit:		
North America revolving credit facility	\$ 204	\$ 601
	<u>\$ 204</u>	<u>\$ 601</u>
Long term debt:		
Finance leases	\$ 74	\$ 74
	74	74
Less current installments	57	74
	<u>\$ 17</u>	<u>\$ -</u>

The aggregate maturities of long term debt, excluding finance leases, is zero for each of the fiscal years in the five-year period ending February 2029 and thereafter.

Interest paid for all debt was \$0.1 million and \$0.6 million for the three months ended May 31, 2024 and 2023, respectively.

General

The Company has a Loan and Security Agreement (“Loan Agreement”) with a domestic financial institution to provide an asset based revolving credit facility and term loans.

On February 29, 2024, the Company entered into a Sixth Amendment to the Fifth Amended and Restated Loan and Security Agreement, Waiver, Consent and Release dated February 15, 2021 with its lending institution, Bank of America, N.A. The Amendment waives certain covenants and restrictions relating to the sale of Australia/New Zealand assets, agrees to release all liens covering the purchased assets, and consents to the transaction. The Amendment also provides the Company with additional flexibility with respect to certain financial covenants as well as permitted acquisitions and distributions.

On October 4, 2023, the Company and its lenders executed a Waiver, Consent, Release and Amendment to waive certain covenants and restrictions under the Loan Agreement, provide consent to the consummation of the Share Sale of the UK entities, and agree to release the security interest in Q.E.P. Co. U.K. Limited and the other UK Obligor.

On September 29, 2023, the Company entered into a Fifth Amendment to the Fifth Amended and Restated Loan and Security Agreement, Waiver, Consent and Release to waive certain covenants and restrictions relating to the sale of the manufacturing facility in Johnson City, Tennessee, agree to release all liens covering the purchased assets, and consent to the transaction.

On May 16, 2023, the Company and the lenders entered into a Fourth Amendment of the Fifth Amended and Restated Loan and Security Agreement and Waiver to adjust the requirements for the Fixed Charge Coverage Ratio financial covenant and to waive the lender's right to any further action resulting from the Company's noncompliance with these requirements before this amendment.

Revolving Credit Facilities

The Company is allowed to borrow a maximum of \$65.0 million under the revolving credit facility based on a percentage of eligible North America accounts receivable and inventories. The interest rate applicable to the revolving credit facility is equal to a range of the Contract Rate associated with the borrowed currency plus 1.50% to 2.00% for advances with fixed maturities. The Contract Rate varies with fluctuations in money market conditions and may not be less than 0.0%.

The Loan Agreement permits the Company to allocate the maximum revolving credit facility between its US and Canada revolving credit facilities, is collateralized by substantially all of the Company's assets, requires the Company to maintain certain financial covenants, prohibits the Company from incurring certain additional indebtedness without the lender's prior agreement, limits certain investments, advances, loans and treasury stock purchases, restricts substantial asset sales and certain capital expenditures, and limits the payment of dividends.

At May 31, 2024, the interest rate under the North America revolving credit facility was 7.70%, the Company had borrowed \$0.2 million, and \$29.4 million was available for future borrowings, net of \$3.0 million in outstanding letters of credit and other reserves. At February 29, 2024, the interest rate under the North America revolving credit facility was 7.95%, the Company had borrowed \$0.6 million, and \$30.5 million was available for future borrowings, net of \$3.0 million in outstanding letters of credit and other reserves.

The Company's French subsidiary has lines of credit with a French financial institution that, as amended through March 2016, allow it to borrow an aggregate of €0.8 million (\$0.8 million), including €0.5 million against drafts presented for future settlement in payment of the subsidiary's accounts receivable and €0.3 million in working capital advances. During fiscal year 2024, the availability was reduced to an overdraft of €0.1 million (\$0.2 million) with a validity until September 30, 2024. As of May 31, 2024, the facility bore interest at the Euro Interbank Offered Rate (3.72%) plus 4.00%, and as of February 29, 2024, the facility bore interest at the Euro Interbank Offered Rate (3.89%) plus 4.00%. The subsidiary had no borrowings under the facility at May 31, 2024 and at February 29, 2024.

11. CONTINGENCIES AND COMMITMENTS

The Company is subject to federal, state and local laws, regulations and ordinances regarding water discharges, hazardous and solid waste management, air quality, and other environmental matters (together, "Environmental Laws"). The Company also must obtain and comply with a wide variety of environmental registrations, licenses, permits, inspections and other approvals in conducting its operations (together, "Approval Requirements"). Failure to comply with Environmental Laws or Approval Requirements may expose the Company to significant fines and penalties.

The Company's management is not aware of any situation requiring remedial action by the Company that, because of liability under Environmental Laws or Approval Requirements, would have a material adverse effect on the Company as a whole. The Company continually evaluates its operations to identify potential environmental exposures and for its compliance with regulatory requirements, but can give no assurance that it will not incur any material costs or liability in the future.

Premix-Marbletite Manufacturing Co. ("Premix"), a subsidiary of the Company, is a co-defendant in 45 cases, where the plaintiffs are seeking unspecified damages due to injuries allegedly sustained as a result of exposure to products containing asbestos, which, in the case of Premix, were manufactured in excess of thirty years ago. Imperial Industries Inc. ("Imperial"), Premix's parent company, is named as a co-defendant in 18 of those cases. With the exception of one case recently filed in Florida, insurance carriers that provide umbrella/excess coverage for these pending cases have, under a reservation of rights, appointed outside counsel to represent and defend Premix and Imperial. These policies are not subject to a deductible or self-insured retention. Premix and Imperial believe that, based on past settlements and outcomes of asbestos cases, there should be adequate insurance coverage for these pending cases where the insurance carriers have appointed counsel to defend Premix and Imperial's rights.

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

XPS Foam Limited Fire

On October 25, 2022, one of the Company's European subsidiaries, XPS Foam Limited, experienced a fire at its manufacturing facility in Wales. The fire destroyed all of the operation's machinery and equipment and a major portion of inventories. The leased building also suffered significant damage. At February 28, 2023, the Company recorded an estimated loss related to machinery and equipment of \$1.0 million, and inventory of \$0.6 million. The Company received insurance proceeds of \$0.9 million during fiscal year 2023, and \$1.1 million in the first three months ended May 2023. During the first three months ended May 31, 2023, the Company recognized a gain of \$0.4 million on insurance recoveries in excess of previously recognized losses, included in other (income) expense, net in the consolidated statement of operations, within loss from discontinued operations, net of tax. There were no insurance proceeds received and no recognized gain during the first three month ended May 31, 2024. The Company also has business interruption coverage; however, as of May 31, 2024, the Company is unable to estimate any recovery of losses under the business interruption policy.

Contractual Obligations

In March 2022, the Company entered into an agreement pursuant to which it is required to make monthly royalty fees payments until December 2025. The aggregated obligations that the Company is required to pay under this agreement for each of the fiscal years are as follows: \$0.6 million in 2025, and \$0.8 million in 2026.

12. EMPLOYEE BENEFIT PLANS

The Company and certain of its subsidiaries offer defined contribution benefit plans to employees. These plans provide for voluntary contributions by employees and matching contributions by the Company, subject to certain limitations. The Company made matching contributions totaling \$0.1 million in each of the three months ended May 31, 2024 and 2023.

13. INCOME TAXES

The Company recorded a provision for income taxes of \$1.5 million and \$0.7 million for the three months ended May 31, 2024 and 2023, respectively. The effective tax rate in all periods presented is 28%.

The fiscal 2025 and 2024 provisions are based upon the statutory tax rates available in every jurisdiction in which the Company operates.

14. SHAREHOLDERS EQUITY

Preferred Stock

Series A

500,000 of the Company's 2,500,000 authorized shares of preferred stock, \$1 par value per share, are designated as Series A Preferred Stock. The holder of each share of Series A Preferred Stock is entitled to receive, before any dividends on the Company's common stock, cumulative dividends equal to the prime interest rate less 1-1/4%, payable in semiannual installments.

The Company may redeem any or all of the shares of Series A Preferred Stock at a price per share of \$1.00 plus an amount equal to any accrued but unpaid dividends. The Series A Preferred Stock has no voting rights, but does have a liquidation preference equal to \$1.00 plus accrued and unpaid dividends. At May 31, 2024 and February 29, 2024 there were no outstanding shares of Series A Preferred Stock.

Series B

1,000,000 of the Company's 2,500,000 authorized shares of preferred stock, \$1 par value per share, are designated as Series B Preferred Stock. The holder of each share of Series B Preferred Stock is entitled to receive a non-cumulative dividend at the rate of \$0.05 per share per annum, payable annually, before any dividend on the common stock. The Company may redeem any or all of the shares of Series B Preferred Stock at a price per share of \$1.00. The Series B Preferred Stock has no voting rights. At May 31, 2024 and February 29, 2024 there were no outstanding shares of Series B preferred stock.

Series C

1,000,000 of the Company's 2,500,000 authorized shares of preferred stock, \$1 par value per share, are designated as Series C Preferred Stock. The holder of each share of Series C Preferred Stock is entitled to receive, before any dividends on the Company's common stock, cumulative dividends at the rate of \$0.035 per share per annum, payable in annual installments. The Series C Preferred Stock has no voting rights, but does have a liquidation preference equal to \$1.00 plus accrued and unpaid dividends. At May 31, 2024 and February 29, 2024 there were no outstanding shares of Series C preferred stock.

Treasury Stock

The Company has purchased from time to time shares of its common stock to be held in treasury. At May 31, 2024 the number of shares held in treasury was 736,037 at an aggregate cost of \$9.9 million. In the three months ended May 31, 2024, the Company purchased 16,547 shares of common stock at an aggregate cost of \$0.4 million. In the three months ended May 31, 2023, the Company did not purchase any shares of common stock. The Company has a formal purchase plan pursuant to which the Company may currently purchase up to \$1.0 million per year of additional shares of common stock on the open market or in privately negotiated transactions.

15. STOCK PLANS

The Company has removed from registration all of the previously registered shares of common stock

under a previously adopted stock plan and, therefore, is no longer issuing stock options under the stock plan.

In June 2020, the Board of Directors approved the granting of an option to purchase up to 15,000 shares of the Company's common stocks at an exercise price of \$9.30 per share to the Company's current President & Chief Executive Officer. The stock options fully vested on the date of grant and expire five years from the date of grant. Subsequent to the stock dividend, the option to purchase increased to 15,750 shares at an exercise price of \$8.86 per share. At May 31, 2024 and February 29, 2024 the options were outstanding.

In December 2023, the company granted 15,000 fully vested shares of restricted stock to its nonemployee directors, fully vested on the date of grant. The fair value of the shares was \$17.74 per share at the date of grant. In March 2023, the Company granted 15,000 fully vested shares of restricted common stock to its non-employee directors, which were fully vested on the date of grant. The fair value of the shares was \$12.35 per share at the date of grant. Until vested, the restricted shares cannot be transferred and have no rights to vote or receive dividends. There was no unamortized compensation expense at May 31, 2024 and February 29, 2024.

In May 2024, the Company repurchased 54,376 fully vested shares of restricted common stock from its nonemployee directors. The purchase price of the shares was \$21.75 per share.

16. RELATED PARTY TRANSACTIONS

During fiscal years 2025 and 2024, the Company employed certain individuals who are related to the Company's Executive Chairman or the President & Chief Executive Officer. These individuals were paid a total of \$0.1 million in each of the three months ended May 31, 2024 and 2023. Pursuant to a Board resolution, the Company may repurchase up to \$240,000 per annum of shares of its outstanding common stock from one of these individuals at a price per share equal to the closing price of the common stock on the date of repurchase. Pursuant to this resolution, the Company repurchased 6,000 shares in the three months ended May 31, 2024, at a cost of \$0.2 million, and did not repurchase any shares in the three months ended May 31, 2023.

17. SUBSEQUENT EVENTS

In preparing the accompanying consolidated financial statements, the Company evaluated the period through July 15, 2024, the date the financial statements were available to be issued, for material subsequent events requiring recognition or disclosure.