Quality Products Announces Results For the Three and Nine Months Ended June 30, 2014

Quality Products, Inc. (Pink Sheets: QPDC), a manufacturer and distributor of aircraft ground support equipment ("Columbus Jack" & "Regent Manufacturing") and industrial products ("Multipress", "Pacific Press", & "Fenn"), today reported fiscal 2014 third quarter and nine months operating results.

QUARTERLY RESULTS

Net income was $1,495,730 compared to $1,281,132 earned last year, an increase of $214,598 or 16.8%. Revenues were $7,195,569 compared to $7,113,807 last year, an increase of $81,762 or 1.1%. The gross margin increased to 48.9% this year from 44.8% last year. As with most manufacturers, our margins can vary significantly depending on product mix and pricing pressures in the marketplace. Due to these factors, we consider the range of 35 – 40% to be normal for gross margins.

Shipments in the industrial products segment were $2,838,095 compared to $3,392,313, a decrease of $(554,218) or (16.3)%, and gross profit was $1,137,967 or 40.1% compared to $1,220,618 or 36.0%, a decrease of $(82,651) or (6.8)%. Incoming orders were $3,987,545 compared to $2,393,258 last year, an increase of $1,594,287 or 66.6%. Historically, the visibility of future business for this segment has rarely exceeded six months, making it difficult to predict long-term trends.

Shipments in the ground support equipment segment were $4,357,474 compared to $3,721,494 last year, an increase of $635,980 or 17.1%. Gross profit was $2,381,884 or 54.7% compared to $1,969,384 or 52.9% last year, an increase of $412,500 or 20.9%. Incoming orders were $3,976,530 compared to $4,536,717 last year, a decrease of $(560,187) or (12.3)%. A majority of this segment's business is with the U.S. government. If defense spending is reduced, it is likely this segment will be unfavorably impacted.

S G & A expenses were $1,600,378 or 22.2% of sales in the latest quarter compared to $1,476,929 or 20.8% last year, an increase of $123,449 or 8.4%, primarily resulting from a full quarter of owning PPT in the current year compared to only 2/3 of the quarter in the prior year, as it was acquired April 26, 2013.

Total other income was $414,797 in the latest quarter compared to other income of $278,059 last year, an increase of $136,738 or 49.2%. The latest quarter includes approximately $403,000 of distributions and net realized gains from our investments. Last year included approximately $126,000 of distributions and net realized gains from our investments. Last year also included $209,000 for a bargain purchase gain on the acquisition of the net assets of PPT, indicating the price paid for the net assets was below fair value.

Interest expense, which reduces total other income, decreased from $61,586 last year to $29,465 this year as a result of lower average debt levels during the fiscal 2014 quarter.

Income tax expense was $838,540 in the latest quarter compared to $710,000 last year, an increase of $128,540 or 18.1%. This primarily resulted from higher taxable income in the latest period.

Basic and diluted EPS were $0.63, up from $0.54 and the weighted average shares outstanding decreased to 2,362,282 from 2,373,553.

FISCAL NINE MONTHS RESULTS

Net income was $4,821,171 compared to $3,021,367 earned last year, an increase of $1,799,804 or 59.6%. Revenues were $28,654,854 compared to $16,324,773 last year, an increase of $12,330,081, or 75.5%. Gross margins were 42.7% this year, down from 43.7% last year. As with most manufacturers, our margins can vary significantly depending on product mix and pricing pressures in the marketplace. Due to these factors, we consider the range of 35 – 40% to be normal for gross margins.

Shipments in the industrial products segment were $15,652,797 compared to $5,680,359 last year, an increase of $9,972,438 or 175.6%. Gross profit was $5,636,932 or 36.0% compared to $2,083,429 or 36.7%, an increase of $3,553,503 or 170.6%. Incoming orders were $11,471,579 compared to $4,795,719 last year, an increase of $6,675,860 or 139.2%. The increase in shipments, gross profit, and incoming orders primarily resulted from the April 2013 acquisition of PPT, as it was not owned by the Company for most of the comparable nine-month period last year. Historically, the visibility of future business for this segment has rarely exceeded six months, making it difficult to predict long-term trends.

Shipments in the ground support equipment segment were $13,002,057 compared to $10,644,415 last year, an increase of $2,357,642 or 22.1%. Gross profit was $6,601,304 or 50.8% compared to $5,044,531 or 47.4% last year, an increase of $1,556,773 or 30.9%. Incoming orders were $12,941,384 compared to $12,054,835 last year, an increase of $886,549 or 7.4%. A majority of this segment’s business is with the U.S. government. If defense spending is reduced, it is likely this segment will be unfavorably impacted.

S G & A expenses were $5,102,777 or 17.8% of sales in fiscal 2014 compared to $3,250,378 or 19.9% in fiscal 2013, an increase of $1,852,399 or 57.0%. The increase resulted from the addition of PPT.

2014 total other income was $585,629 compared to $913,605 in 2013, a decrease of $(327,976) or (35.9)%. 2014 includes no royalties from our joint participation in certain military contracts and approximately $650,000 of distributions and net realized gains from our investments.

2013 included approximately $60,000 of royalties from our joint participation in certain military contracts and $766,000 of distributions and net realized gains from our investments. Additionally, 2013 included $209,000 for a bargain purchase gain on the acquisition of the net assets of PPT, indicating the price paid for the net assets was below fair value.

Interest expense, which reduces total other income, decreased from $136,284 last year to $111,853 this year, resulting from lower average debt levels during fiscal 2014.

Income tax expense was $2,899,917 in the current fiscal year compared to $1,769,820 last year, an increase of $1,130,097 or 63.9%. This primarily resulted from higher pre-tax income in the current year.

Basic and diluted EPS increased to $2.04 from $1.27 and the weighted average shares outstanding decreased to 2,363,995 from 2,378,327.

Backlog

On August 14th the Company’s backlog was approximately $16.7 million (including Fenn LLC which was acquired July 24, 2014), up from the previous quarter’s reported level of $9.4 million, and up from last year’s level of $13.8 million. For competitive reasons, we no longer disclose the backlog of the operating segments individually.

We do not provide financial estimates for future periods.

Liquidity & Cash Flows for the Nine Months Ended June 30, 2014

As shown in the June 30, 2014 balance sheet, cash, short-term investments, accounts receivable and inventories totaled $9.7 million compared to $13.8 million of total liabilities. The balance outstanding under our credit lines was $3,701,685, leaving us with borrowing capacity of $6,798,315 at June 30, 2014, down by $(3,695,467) from the previous quarter’s availability.

We generated positive operating cash flow of $6,747,625, while capital expenditures were $595,803. We received net cash of $330,882 from the sale and purchase of investments. The items classified on the balance sheet as "short-term investments" consist of various publicly traded mutual funds and common stocks. The items classified as "non-current investments" are minority positions in numerous non-related party private equity companies in manufacturing, service, distribution, technology, real estate, and financial industries. These are considered long-term investments and are not intended for short-term liquidation. Many of our “non-current” investments require the Company to commit to additional funding in excess of the initial contribution. These additional funds are collected from time-to-time, usually over 2 – 3 years, as the management of the investment deems it necessary. At June 30, 2014, we had remaining commitments to these entities of approximately $829,000 which does not appear as a liability on our balance sheet. Subsequent to quarter-end, we have not funded any of these remaining commitments.

During the nine months we purchased 5,531 shares of our common stock but subsequent to quarter-end we have not purchased any shares. Through August 14th, we have purchased 400,865 shares, or 80.2% of the 500,000 shares authorized by the Board on May 20, 2010.

During the nine months we paid dividends of $5.9 million to our common shareholders.

Subsequent to quarter-end, as announced on July 28th, we acquired Fenn, LLC, a manufacturer of metalworking machinery. Terms were not disclosed.

Other Information

Quality Products' large number of smaller shareholders has become increasingly costly and burdensome to service. In addition to the stock repurchase program referenced above, the Board of Directors is considering effecting a reverse stock split as another solution to this issue. Such an action, if it were to occur, would reduce the number of shareholders by paying cash for the resulting fractional shares. Should the Company decide to proceed with this action, it will issue a separate communication at a later date more fully describing the matter.

Since 2010, the Company's subsidiary, Multipress, has been named as a defendant in multiple lawsuits. During 2011 a third party assumed the defense of these cases, but it is possible for the defense to revert back to Multipress. However, based on the outcome of a similar claim involving Multipress, management expects the lawsuits to be fully dismissed and does not expect any liability to the Company to result from these matters. Two new claims have been received in fiscal 2014.

Quality Products currently has 143 employees (including those hired as part of the Fenn LLC acquisition), up from 110 in the previous report.

As announced on July 17th, David A. Somers was appointed President of the Company. He reports to Richard A. Drexler, who remains in his positions of Chairman and Chief Executive Officer.

Columbus Jack will occasionally be a joint participant in certain military contracts which are awarded in the name of the other participating entity. As such, we will not recognize revenues associated with those contracts, but instead will recognize our share of the contract profits as royalty income.

For more information on products and services please visit: www.columbusjack.com, www.multipress.com, and www.pacific-press.com.

This press release, other than the historical information, consists of "forward-looking statements" (as defined in the Private Securities Litigation Reform Act of 1995), which are identified by the use of words such as "believes", "expects", "projects", and similar expressions. While these statements reflect the Company's current beliefs and are based on assumptions that the Company believes are reasonable, they are subject to uncertainties and risks that could cause actual results to differ materially from anticipated results.

QUALITY PRODUCTS, INC.

CONSOLIDATED BALANCE SHEET (UNAUDITED)
June 30, 2014

ASSETS

CURRENT ASSETS:	
Cash & Cash Equivalents	$ 100,723
Short-term Investments	232,651
Accounts Receivable, net of allowance for doubtful accounts of $80,030	1,544,454
Inventories, net of reserve of $369,727	7,845,268
Deferred Income Taxes, current	481,166
Prepaid Expenses and Other Current Assets	284,280
Total Current Assets	10,488,542
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of $2,940,726	4,430,465
INVESTMENTS, non-current	3,048,299
INTANGIBLE ASSETS, net of accumulated amortization of $433,375	989,718
GOODWILL	2,723,247
TOTAL ASSETS	$ 21,680,271

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:	
Accounts Payable	$ 1,376,112
Accrued Payroll and Payroll Related Expenses	996,229
Taxes Payable	662,604
Other Accrued Expenses and Current Liabilities	489,655
Customer Deposits	2,124,213
Notes Payable - Current Portion	365,000
Total Current Liabilities	6,013,813
PENSION & POSTRETIREMENT BENEFIT OBLIGATIONS	536,775
DEFERRED TAXES, non-current	1,011,707

LONG-TERM DEBT:	
Line of Credit	3,701,685
Notes payable, net of current portion	2,589,167
Total long-term debt	6,290,852
TOTAL LIABILITIES	13,853,147
STOCKHOLDERS' EQUITY:	
Convertible preferred stock, Series A	-
Convertible preferred stock, Series B	-
Common stock	16
Additional paid-in capital	8,010,989
Accumulated other comprehensive (loss)	(66,613)
Retained earnings	-
Less cost of treasury stock (5,394 shares of common stock)	(117,268)
Total stockholders' equity	7,827,124
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 21,680,271

QUALITY PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2014 AND 2013

	Three Months (UNAUDITED)		Nine Months (UNAUDITED)	
	2014	2013	2014	2013
NET SALES	$ 7,195,569	$ 7,113,807	$28,654,854	$16,324,773
COST OF GOODS SOLD	3,675,718	3,923,805	16,416,618	9,196,813
GROSS PROFIT	3,519,851	3,190,002	12,238,236	7,127,960
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,600,378	1,476,929	5,102,777	3,250,378
INCOME FROM OPERATIONS	1,919,473	1,713,073	7,135,459	3,877,582
OTHER INCOME:				
Interest expense	(29,465)	(61,586)	(111,853)	(136,284)
Gain on bargain purchase	--	209,158	--	209,158
Royalty and other income	444,262	130,487	697,482	840,731
Other income, net	414,797	278,059	585,629	913,605
INCOME BEFORE PROVISION FOR INCOME TAXES	2,334,270	1,991,132	7,721,088	4,791,187
PROVISION FOR INCOME TAXES	838,540	710,000	2,899,917	1,769,820
NET INCOME	$ 1,495,730	$ 1,281,132	$ 4,821,171	$ 3,021,367
UNREALIZED GAIN(LOSS) ON SHORT-TERM INVESTMENTS, NET OF TAX	(4,906)	2,004	(4,430)	5,607

CHANGE IN POSTRETIREMENT BENEFITS, NET OF TAX	--	8,049	--	8,049
COMPREHENSIVE INCOME	$ 1,490,824	$ 1,291,185	$ 4,816,741	$ 3,035,023
BASIC INCOME PER SHARE:	$ .63	$ .54	$ 2.04	$ 1.27
DILUTED INCOME PER SHARE:	$ .63	$ .54	$ 2.04	$ 1.27
WEIGHTED AVERAGE NUMBER OF COMMON SHARES:				
Basic	2,362,282	2,373,553	2,363,995	2,378,327
Diluted	2,362,282	2,373,553	2,363,995	2,378,327

QUALITY PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$4,821,171	$3,021,367
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	470,800	312,331
Inventory reserve	--	3,000
Bad Debt Expense	(3,886)	--
(Gain) on bargain purchase	--	(209,158)
(Gain) on sale of investments	(22,619)	(40,217)
Changes in operating assets and liabilities:		
Accounts receivable	596,697	(1,207,701)
Inventories	2,104,314	(655,508)
Other assets	309,732	73,888
Accounts payable	(1,055,893)	57,639
Accrued payroll	(173,019)	(194,432)
Accrued expenses	(83,627)	5,469
Taxes payable	662,604	314,620
Customer deposits	(878,649)	(408,833)
Net cash provided by operating activities	6,747,625	1,072,465
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(595,803)	(270,430)
Cash received from sale of investments	369,303	713,461
Purchase of investments	(38,421)	(205,508)
Net cash provided (used) by investing activities	(264,921)	237,523
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on Notes Payable	--	193,378
Repayments on Notes Payable	(743,349)	(1,406)
Proceeds from (Payments on) Line of Credit	(55,273)	946,072
Common Stock Repurchased	(120,248)	(233,457)
Dividends paid to common shareholders	(5,912,130)	(4,761,428)
Net cash (used) by financing activities	(6,831,000)	(3,856,841)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(348,296)	(2,546,853)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	449,019	2,693,447
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 100,723	$ 146,594

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid for interest	$ 112,026	$ 104,559
Cash paid for income taxes	$2,217,888	$1,221,429

NON-CASH OPERATING AND FINANCING ACTIVITIES:

In the current fiscal year the Company reduced a note payable by $30,401 in exchange for providing product warranty materials and services on behalf of the noteholder.

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