APPLICA INC
Form 10-Q
August 02, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005
OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM _________ TO _________
COMMISSION FILE NUMBER 1-10177
APPLICA INCORPORATED
(Exact Name of Registrant as Specified in its Charter)

Florida	**59-1028301**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
3633 Flamingo Road, Miramar, Florida	**33027**
(Address Of Principal Executive Offices)	(Zip Code)

(954) 883-1000

(Registrant s Telephone Number, Including Area Code)
Former Name, If Changed Since Last Report:
Not Applicable

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes þ No o

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

Class	**Number of shares outstanding on July 29, 2005**
Common Stock, $0.10 par value	24,163,812

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Applica Incorporated and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value data)

	June 30, 2005 (Unaudited)	December 31, 2004
Assets		
Current Assets:		
Cash and cash equivalents	$ 10,892	$ 10,463
Accounts and other receivables, less allowances of $10,166 in 2005 and $11,711 in 2004	105,380	160,436
Notes receivable former officer		2,569
Inventories	122,363	131,503
Prepaid expenses and other	8,745	12,309
Refundable income taxes	2,544	2,032
Future income tax benefits	932	33
Total current assets	250,856	319,345
Property, Plant and Equipment at cost, less accumulated depreciation of $72,171 in 2005 and $73,171 in 2004	33,171	38,327
Future Income Tax Benefits, Non-Current	11,625	11,212
Other Intangibles, Net	2,671	4,493
Other Assets	2,570	2,560
Total Assets	$ 300,893	$ 375,937
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable	$ 47,672	$ 41,827
Accrued expenses	42,427	62,046
Short-term debt	74,671	89,455
Current portion of long-term debt		3,000
Current taxes payable	3,461	5,947
Deferred rent	710	680
Total current liabilities	168,941	202,955
Other Long-Term Liabilities	567	1,004
Long-Term Debt	60,750	61,008
Shareholders Equity:		
Common stock authorized: 75,000 shares of $0.10 par value; issued and outstanding: 24,164 shares in 2005 and 24,137 in 2004	2,416	2,414
Paid-in capital	159,207	159,131
Accumulated deficit	(87,937)	(46,480)
Note receivable former officer		(502)
Accumulated other comprehensive loss	(3,051)	(3,593)

Total shareholders equity	70,635	110,970
Total Liabilities and Shareholders Equity	$ 300,893	$ 375,937

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

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Applica Incorporated and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended June 30,			
	2005		2004	
	(In thousands, except per share data)			
Net sales	$116,458	100.0%	$ 154,677	100.0%
Cost of sales:				
Cost of goods sold	89,256	76.6	110,505	71.4
Restructuring charges	4,243	3.6		
	93,499	80.3	110,505	71.4
Gross profit	22,959	19.7	44,172	28.6
Selling, general and administrative expenses:				
Operating expenses	38,310	32.9	46,023	29.8
Impairment of goodwill			62,812	40.6
Operating loss	(15,351)	(13.2)	(64,663)	(41.8)
Other expense (income):				
Interest expense	2,641	2.3	2,243	1.5
Interest and other income	(515)	(0.4)	(642)	(0.4)
	2,126	1.8	1,601	1.0
Loss before income taxes	(17,477)	(15.0)	(66,264)	(42.8)
Income tax provision	1,024	0.9	57,554	37.2
Net loss	$ (18,501)	(15.9)%	$(123,818)	(80.0)%
Loss per common share:				
Loss per common share basic and diluted	$ (0.77)		$ (5.16)	

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

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Applica Incorporated and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Six Months Ended June 30,			
	2005		2004	
	(In thousands, except per share data)			
Net sales	$228,907	100.0%	$ 283,203	100.0%
Cost of sales:				
Cost of goods sold	182,077	79.5	204,627	72.3
Restructuring charges	5,143	2.2	900	0.3
	187,220	81.8	205,527	72.6
Gross profit	41,687	18.2	77,676	27.4
Selling, general and administrative expenses:				
Operating expenses	77,553	33.9	85,600	30.2
Restructuring and other credits			(563)	(0.2)
Impairment of goodwill			62,812	22.2
Operating loss	(35,866)	(15.7)	(70,173)	(24.8)
Other expense (income):				
Interest expense	5,083	2.2	4,358	1.5
Interest and other income	(790)	(0.3)	(989)	(0.3)
Loss on early extinguishment of debt			187	0.1
	4,293	1.9	3,556	1.3
Loss before income taxes	(40,159)	(17.5)	(73,729)	(26.0)
Income tax provision	1,298	0.6	54,568	19.3
Net loss	$ (41,457)	(18.1)%	$(128,297)	(45.3)%
Loss per common share :				
Loss per common share basic and diluted	$ (1.72)		$ (5.38)	

The accompanying notes are an integral part of these statements.

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Applica Incorporated and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30, 2005	2004
	(In thousands)	
Cash flows from operating activities:		
Net loss	$(41,457)	$(128,297)
Reconciliation to net cash provided by (used in) operating activities:		
Depreciation of property, plant and equipment	5,739	7,359
(Recovery) provision for doubtful accounts	(1,052)	221
Write-downs of inventory	16,204	
Loss on disposal of equipment	1,155	
Amortization of intangible and other assets	2,028	1,039
Loss on early extinguishment of debt		187
Impairment of goodwill		62,812
Deferred taxes	(1,312)	54,179
Restructuring credits		(563)
Changes in assets and liabilities:		
Accounts and other receivables	56,108	15,656
Inventories	(7,901)	(49,302)
Prepaid expenses and other	3,564	1,327
Other assets	326	(57)
Accounts payable and accrued expenses	(13,535)	23,178
Current income taxes	(2,998)	1,894
Other liabilities	(408)	(333)
Net cash provided by (used in) operating activities	16,461	(10,700)
Cash flows from investing activities:		
Additions to property, plant and equipment	(1,827)	(8,319)
Proceeds from sale of equipment	89	
Distributions from joint venture net		1,189
Receivable from officers	3,079	93
Net cash provided by (used in) investing activities	1,341	(7,037)
Cash flows from financing activities:		
Net (payments) borrowings under lines of credit	(15,042)	10,827
Payments of long-term debt	(3,000)	
Redemption of long-term debt		(4,390)
Exercise of stock options and issuance of common stock under employee stock purchase plan	78	2,184
Interest receivable from officer	(7)	(11)
Net cash (used in) provided by financing activities	(17,971)	8,610
Effect of exchange rate changes on cash	598	1,385

Net increase (decrease) in cash and cash equivalents	429	(7,742)
Cash and cash equivalents at beginning of period	10,463	12,735
Cash and cash equivalents at end of period	$ 10,892	$ 4,993
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the six-month period ended June 30:		
Interest	$ 4,873	$ 4,044
Income taxes	$ 4,825	

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

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Applica Incorporated and Subsidiaries
Notes to Consolidated Financial Statements

1. SUMMARY OF ACCOUNTING POLICIES

Interim Reporting

The accompanying unaudited consolidated financial statements include the accounts of Applica Incorporated and its subsidiaries (Applica). All significant intercompany transactions and balances have been eliminated. The unaudited consolidated financial statements have been prepared in conformity with Rule 10-01 of Regulation S-X of the Securities and Exchange Commission and therefore do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments (consisting of normal recurring accruals) that, in the opinion of management, are necessary for a fair presentation of the financial statements, have been included. Operating results for the three and six months ended June 30, 2005 are not necessarily indicative of the results that may be expected for the remaining quarters in 2005 or the full year ending December 31, 2005 due to seasonal fluctuations in Applica s business, changes in economic conditions and other factors. For further information, please refer to the Consolidated Financial Statements and Notes thereto contained in Applica s Annual Report on Form 10-K for the year ended December 31, 2004.

Reclassifications

Certain prior period amounts have been reclassified for comparability.

Cooperative Advertising and Slotting Fees

Effective January 1, 2005, Applica modified its accounting treatment for cooperative advertising and slotting fees provided to its customers. The modification was necessary because Applica is no longer using an unrelated third party to verify performance and determine the fair value of the benefits Applica receives in exchange for the payment of promotional funds. In accordance with Emerging Issues Task Force (EITF) 01-9, Accounting for Consideration Given By a Vendor To a Customer (Including a Reseller of the Vendor s Products) , which addresses the income statement classification of slotting fees and cooperative advertising arrangements with trade customer, these promotional funds should be accounted for as a reduction of selling price and netted against sales. Prior to January 1, 2005, Applica classified promotional funds as selling, general and administrative expenses in its consolidated statement of operations. This modification reduced net sales, gross profit and selling, general and administrative expenses by $2.5 million and $4.3 million for the three months ending June 30, 2005 and 2004, respectively, and $5.8 million and $8.3 million for the six months ending June 30, 2005 and 2004, respectively. Because the modification resulted solely in a reclassification within the consolidated statement of operations, there was no impact on Applica s financial condition, operating income or net earnings for any of the periods presented.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method. Inventories were comprised of the following:

	June 30, 2005	December 31, 2004
	(In thousands)	
Raw materials	$ 2,212	$ 4,528
Work in process	617	280
Finished goods	119,534	126,695
	$122,363	$ 131,503

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Applica Incorporated
Notes to Consolidated Financial Statements Continued

Stock Based Compensation

At June 30, 2005, Applica had four active stock based compensation plans. Applica accounts for stock-based compensation using the intrinsic value method. Accordingly, compensation expense for stock options issued is measured as the excess, if any, of the fair value of Applica s common stock at the date of grant over the exercise price of the options. Applica s net earnings (loss) and earnings (loss) per share would have been changed to the pro forma amounts indicated below had compensation expense for the stock option plans and non-qualified options issued to employees been determined based on the fair value of the options at the grant dates consistent with the provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation.

	For the three months ended		For the six months ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
	(In thousands, except per share data)			
Net loss, as reported	$(18,501)	$ (123,818)	$(41,457)	$ (128,297)
Add: Stock-based employee compensation expense included in net loss				
Deduct: Total stock-based employee compensation expense determined under fair value based method	(1,524)	(104)	(1,996)	(201)
Pro forma net loss	$(20,025)	$ (123,922)	$(43,453)	$ (128,498)
Loss per share:				
Basic and diluted as reported	$ (0.77)	$ (5.16)	$ (1.72)	$ (5.38)
Basic and diluted pro forma	$ (0.83)	$ (5.16)	$ (1.80)	$ (5.38)

No tax benefits were attributed to the stock-based employee compensation expense during the periods presented above, because valuation allowances were required on substantially all of Applica s deferred tax assets.

The above pro forma disclosures may not be representative of the effects on reported net earnings (loss) for future periods as options vest over several years and Applica may continue to grant options to employees.

On June 16, 2005, the Compensation Committee of the Board of Directors approved accelerating the vesting of all unvested out-of-the-money stock options awarded to employees under Applica s stock option plans, except for those options held by executive officers. All stock options with exercise prices equal to or greater than $3.28 per share, the closing price of Applica s common stock on June 16, 2005, were considered to be out-of-the-money. No stock options held by non-employees, including directors, were subject to acceleration. Options to purchase approximately 425,000 shares of common stock were subject to the acceleration. The options have a range of exercise prices of $3.63 to $11.16 and a weighted average exercise price of $4.91.

Because the options that were accelerated have exercise prices in excess of the current market value of the common stock and, therefore, were not fully achieving their original objectives of incentive compensation and employee retention, the Compensation Committee believed that the acceleration may have a positive effect on employee morale and retention. Additionally, the acceleration enables Applica to avoid recognizing compensation expense associated with the options upon the adoption of SFAS 123R on January 1, 2006. The aggregate pre-tax expense associated with the accelerated options that would have been reflected in Applica s consolidated statement of operations in future fiscal years was approximately $1.2 million. This amount is reflected in the pro forma footnote disclosure above.

In accordance with the requirements of SFAS 123, the fair value of each option grant was estimated on the date of grant using a binomial option-pricing model with the following weighted-average assumptions:

	For the three months ended		For the six months ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Expected dividend yield	00.0%	00.0%	00.0%	00.0%
Expected price volatility	80.9%	64.1% - 82.7%	24.2% - 80.9%	64.1% - 82.7%
Risk-free interest rate	3.25%	3.0%	3.25%	3.0%
Expected life of options in years	4	4	4	4

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Applica Incorporated
Notes to Consolidated Financial Statements Continued

Comprehensive Loss

The components of other comprehensive loss, net of tax, were as follows:

	For the three months ended		For the six months ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
	(In thousands)			
Net loss	$(18,501)	$ (123,818)	$(41,457)	$ (128,297)
Foreign currency translation adjustment	(88)	237	(383)	38
Change in market value of derivatives	321	(363)	925	(258)
	$(18,268)	$ (123,944)	$(40,915)	$ (128,517)

Recent Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement No. 154 Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS 154). This Statement replaces APB Opinion No. 20, Accounting Changes , and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements , and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS 154 applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 is not expected to have a material impact on Applica s financial condition, results of operations, or cash flows.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R). SFAS 123R is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* , and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), and its related implementation guidance. SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123R requires public entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award the requisite service period (usually the vesting period).

SFAS 123R was originally scheduled to be effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. On April 14, 2005, the SEC announced the adoption of a new rule amending the compliance date to the beginning of the first annual reporting period that begins after June 15, 2005. Therefore, SFAS 123R will be effective for Applica s next fiscal year beginning January 1, 2006. As of the required effective date, public entities will apply SFAS 123R using a modified version of the prospective transition method. Under that transition method, compensation cost is recognized on or after the required effective date for the portion of outstanding awards for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under SFAS 123 for either recognition or pro forma disclosures. Applica has not determined the impact that SFAS 123R will have on its financial condition, results of operations or cash flows.

2. SHAREHOLDERS EQUITY

Loss Per Share

The following table shows weighted average basic shares for the respective periods:

	For the three months ended		For the six months ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Weighted average basic shares	24,139,188	24,019,174	24,137,874	23,868,715

Applica Incorporated
Notes to Consolidated Financial Statements Continued

The following table shows potential common stock equivalents outstanding to purchase shares of common stock that were excluded in the computation of diluted loss per share. All common stock equivalents have been excluded from the diluted per share calculations in the three-month and six-month periods ended June 30, 2005 and 2004 because their inclusion would have been anti-dilutive.

	For the three months ended		For the six months ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Number of shares	2,593,596	2,182,782	2,588,204	2,180,095