

APPLICA INC
Form 10-Q
November 03, 2006

Table of Contents

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

**☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006
OR**

**○ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____
COMMISSION FILE NUMBER 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 No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

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 November 1, 2006
Common Stock, \$0.10 par value	24,995,100

Table of Contents

**APPLICA INCORPORATED
INDEX**

	Page
<u>PART I. FINANCIAL INFORMATION</u>	3
<u>Item 1. Financial Statements</u>	3
<u>Consolidated Balance Sheets as of September 30, 2006 and December 31, 2005</u>	3
<u>Consolidated Statements of Operations for the Three Months Ended September 30, 2006 and 2005</u>	4
<u>Consolidated Statements of Operations for the Nine Months Ended September 30, 2006 and 2005</u>	5
<u>Consolidated Statement of Shareholders' Equity for the Nine Months Ended September 30, 2006</u>	6
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2006 and 2005</u>	7
<u>Notes to Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	34
<u>Item 4. Controls and Procedures</u>	34
<u>PART II. OTHER INFORMATION</u>	36
<u>Item 1. Legal Proceedings</u>	36
<u>Item 1A. Risk Factors</u>	37
<u>Item 6. Exhibits</u>	38
<u>EX-31.1 Section 302 Certification of CEO</u>	
<u>EX-31.2 Section 302 Certification of CFO</u>	
<u>EX-32.1 Section 906 Certification of CEO</u>	
<u>EX-32.2 Section 906 Certification of CFO</u>	

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

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

	September 30, 2006 (Unaudited)	December 31, 2005
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	\$ 5,477	\$ 4,464
Accounts and other receivables, less allowances of \$7,039 in 2006 and \$8,773 in 2005	127,682	140,479
Inventories	131,301	101,638
Prepaid expenses and other	9,919	11,137
Refundable income taxes	2,562	3,661
Future income tax benefits	1,287	1,249
Total current assets	278,228	262,628
Property, Plant and Equipment - at cost, less accumulated depreciation of \$50,921 in 2006 and \$46,755 in 2005	16,481	19,715
Future Income Tax Benefits, Non-Current	9,091	9,185
Intangibles, Net	1,181	1,765
Other Assets	2,944	3,989
Total Assets	\$ 307,925	\$ 297,282
<u>Liabilities and Shareholders' Equity</u>		
Current Liabilities:		
Accounts payable	\$ 48,467	\$ 33,682
Accrued expenses	42,289	50,034
Short-term debt	87,205	69,524
Current taxes payable	4,933	3,747
Deferred rent	863	919
Total current liabilities	183,757	157,906
Other Long-Term Liabilities	337	475
Long-Term Debt	75,750	75,750
Shareholders' Equity:		
Common stock - authorized: 75,000 shares of \$0.10 par value; issued and outstanding: 24,847 shares in 2006 and 24,179 in 2005	2,485	2,418
Paid-in capital	161,078	159,226
Accumulated deficit	(111,577)	(95,749)
Accumulated other comprehensive loss	(3,905)	(2,744)
Total shareholders' equity	48,081	63,151

Total Liabilities and Shareholders Equity	\$307,925	\$297,282
--------------------------------------------------	-----------	-----------

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

3

Table of Contents

Applica Incorporated and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended September 30,			
	2006		2005	
	(In thousands, except per share data)			
Net sales	\$ 149,184	100.0%	\$ 139,637	100.0%
Cost of sales:				
Cost of goods sold	101,960	68.3	101,247	72.5
Restructuring charges			4,744	3.4
	101,960	68.3	105,991	75.9
Gross profit	47,224	31.7	33,646	24.1
Operating expenses	39,165	26.3	37,533	26.9
Operating income (loss)	8,059	5.4	(3,887)	(2.8)
Other expense (income):				
Interest expense	3,371	2.3	2,888	2.1
Interest and other income	(125)	(0.1)	(848)	(0.6)
	3,246	2.2	2,040	1.5
Income (loss) before income taxes	4,813	3.2	(5,927)	(4.2)
Income tax provision	1,707	1.1	2,252	1.6
Net income (loss)	\$ 3,106	2.1%	\$ (8,179)	(5.9)%
Income (loss) per common share:				
Income (loss) per common share basic	\$ 0.13		\$ (0.34)	
Income (loss) per common share diluted	\$ 0.12		\$ (0.34)	

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

Table of Contents

Applica Incorporated and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

Nine Months Ended September 30,
2006 **2005**
(In thousands, except per share data)

Net sales	\$357,685	100.0%	\$368,544	100.0%
Cost of sales:				
Cost of goods sold	254,841	71.2	283,324	76.9
Restructuring charges			9,887	2.7
	254,841	71.2	293,211	79.6
Gross profit	102,844	28.8	75,333	20.4
Operating expenses	106,993	29.9	115,086	31.2
Operating loss	(4,149)	(1.2)	(39,753)	(10.8)
Other expense (income):				
Interest expense	8,830	2.5	7,971	2.2
Interest and other income	(374)	(0.1)	(1,638)	(0.4)
	8,456	2.4	6,333	1.7
Loss before income taxes	(12,605)	(3.5)	(46,086)	(12.5)
Income tax provision	3,223	0.9	3,550	1.0
Net loss	\$ (15,828)	(4.4)%	\$ (49,636)	(13.5)%
Loss per common share:				
Loss per common share basic and diluted	\$ (0.65)		\$ (2.06)	

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

Table of Contents

Applica Incorporated and Subsidiaries
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY (Unaudited)
(In thousands)

	Common Stock	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2005	\$ 2,418	\$ 159,226	\$ (95,749)	\$ (2,744)	\$ 63,151
Comprehensive loss:					
Net loss			(15,828)		(15,828)
Foreign currency translation adjustment				(1,161)	(1,161)
Total comprehensive loss					(16,989)
Stock-based compensation		401			401
Exercise of stock options	67	1,451			1,518
Balance at September 30, 2006	\$ 2,485	\$ 161,078	\$(111,577)	(\$3,905)	\$ 48,081

The accompanying notes are an integral part of this financial statement.

6

Table of Contents

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

	Nine Months Ended	
	September 30,	
	2006	2005
	(In thousands)	
Cash flows from operating activities:		
Net loss	\$(15,828)	\$(49,636)
Reconciliation to net cash used in operating activities:		
Depreciation of property, plant and equipment	4,369	9,461
(Gain) loss on disposal of equipment and raw materials	(6)	1,155
Recovery of doubtful accounts	(140)	(2,181)
Write-downs of inventory		16,794
Impairment of property, plant and equipment		1,062
Amortization of intangible and other assets	1,281	2,840
Product recall	3,363	
Deferred taxes	55	1,633
Stock-based compensation expense	401	
Changes in assets and liabilities:		
Accounts and other receivables	12,253	43,034
Inventories	(31,818)	(26,343)
Prepaid expenses and other	454	5,594
Accounts payable and accrued expenses	5,223	(1,117)
Current income taxes	2,285	(4,166)
Other assets and liabilities	(1,007)	410
Net cash used in operating activities	(19,115)	(1,460)
Cash flows from investing activities:		
Additions to property, plant and equipment	(1,135)	(3,072)
Proceeds from sale of equipment and raw materials	1,454	89
Receivable from former officer		3,079
Net cash provided by investing activities	319	96
Cash flows from financing activities:		
Net borrowings (payments) under lines of credit	17,681	(351)
Payments of long-term debt		(3,000)
Exercise of stock options	1,518	78
Interest receivable from former officer		(7)
Net cash provided by (used in) financing activities	19,199	(3,280)
Effect of exchange rate changes on cash	610	(435)
Net increase (decrease) in cash and cash equivalents	1,013	(5,079)
Cash and cash equivalents at beginning of period	4,464	10,463

Cash and cash equivalents at end of period	\$ 5,477	\$ 5,384
---------------------------------------------------	----------	----------

Supplemental Disclosures of Cash Flow Information:

	2006	2005
Cash paid during the nine-month period ended September 30:		
Interest	\$10,144	\$9,186
Income taxes	\$ 1,448	\$5,142

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

Table of Contents

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 nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the fourth quarter or full year 2006 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, 2005.

Inventories

Inventories are comprised of finished goods and stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

Stock Based Compensation

At September 30, 2006, Applica had two active stock-based compensation plans, which are described below. On January 1, 2006, Applica adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Shared Based Payment (SFAS No. 123R), which requires the measurement and recognition of compensation cost for all share-based payment awards made to employees and directors based on estimated fair values. Prior to the adoption of SFAS No. 123R, Applica accounted for its stock-based employee compensation related to stock options under the intrinsic value recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and the disclosure alternative prescribed by SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. Accordingly, Applica presented pro forma information for the periods prior to the adoption of SFAS No. 123R and no employee compensation cost was recognized for the stock-based compensation plans in the three months and nine months ended September 30, 2005.

Applica has elected to use the modified prospective transition method for adopting SFAS No. 123R, which requires the recognition of stock-based compensation cost on a prospective basis; therefore, prior period financial statements have not been restated. Under this method, the provisions of SFAS No. 123R are applied to all awards granted after the adoption date and to awards not yet vested with unrecognized expense at the adoption date based on the estimated fair value at grant date as determined under the original provisions of SFAS No. 123. The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount recognized. In addition, the realization of tax benefits in excess of amounts recognized for financial reporting purposes will be recognized as a financing activity rather than an operating activity as in the past. Pursuant to the requirements of SFAS No. 123R, Applica will continue to present the pro forma information for periods prior to the adoption date.

In June 2005, the Compensation Committee of the Board of Directors approved the acceleration of 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 accelerated. Options to purchase approximately 425,000 shares of common stock were accelerated. These options had a range of exercise prices of \$3.63 to \$11.16 and a weighted average exercise price of \$4.91. The aggregate pre-tax expense associated with the accelerated

Table of Contents

Applica Incorporated and Subsidiaries
Notes to Consolidated Financial Statements Continued

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 below.

Employee Stock Purchase Plan

In September 2005, the Compensation Committee of the Board of Directors elected to terminate the Employee Stock Purchase Plan effective December 31, 2005. Therefore, no additional shares will be issued under such plan.

Stock Compensation Plans

Under the two active plans, Applica may grant incentive or non-qualified stock options to employees and directors. The terms of stock options granted under the plans are determined by the Compensation Committee of the Board of Directors at the time of grant, including the exercise price, term and any restrictions on the exercisability of such option. The exercise price of all options granted under the plans equals the market price at the date of grant and no option is exercisable after the expiration of ten years from the date of grant. The stock options outstanding under the plans were generally granted for terms of five, six or ten years and vest on a straight line basis over periods ranging from zero to six years.

As of September 30, 2006, there were 207,227 shares available for grant under the 1998 Stock Option Plan and 687,336 shares available for grant under the 2000 Stock Option Plan.

Information with respect to stock option activity is as follows:

	Shares(000)	Weighted Average Exercise Price
Outstanding at December 31, 2005	2,483	\$ 4.45
Granted	11	\$ 4.10
Exercised	(669)	\$ 2.28
Forfeited	(574)	\$ 5.82
Outstanding at September 30, 2006	1,251	\$ 4.98
Options exercisable at September 30, 2006	862	\$ 5.35

For the three month period ended September 30, 2006, Applica recognized \$0.1 million in stock-based compensation costs, which is reflected in operating expenses. For the nine month period ended September 30, 2006, Applica recognized \$0.4 million in stock-based compensation costs. No tax benefits were attributed to the stock-based compensation expense because a valuation allowance was maintained for substantially all net deferred tax assets. Applica elected to adopt the alternative method of calculating the historical pool of windfall tax benefits as permitted by FASB Staff Position (FSP) No. SFAS 123R-c, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards. This is a simplified method to determine the pool of windfall tax benefits that is used in determining the tax effects of stock compensation in the results of operations and cash flow reporting for awards that were outstanding as of the adoption of SFAS No. 123R. As of September 30, 2006, Applica had \$0.6 million of unrecognized compensation costs related to non-vested stock option awards that is expected to be recognized over a weighted average period of two years. Proceeds received from option exercises were \$1.5 million during the nine months ended September 30, 2006 and \$0.1 million during the nine months ended September 30, 2005. No tax benefits were realized from these stock option exercises.

Table of Contents

Applica Incorporated and Subsidiaries
Notes to Consolidated Financial Statements Continued

The following information applies to options outstanding and exercisable at September 30, 2006:

	Options Outstanding			Options Exercisable	
	Shares(000)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares(000)	Weighted-Average Exercise Price
\$1.62 - \$3.17	105	4.3	\$ 2.19	105	\$ 2.19
\$3.17 - \$6.34	993	2.7	\$ 4.39	604	\$ 4.53
\$6.34 - \$9.51	81	2.4	\$ 7.63	81	\$ 7.63
\$9.51 - \$12.68	30	4.5	\$10.19	30	\$10.19
\$12.68 - \$15.84	34	2.5	\$14.00	34	\$14.00
\$31.69	8	1.7	\$31.69	8	\$31.69
	1,251		\$ 4.98	862	\$ 5.35

Applica uses the Black-Scholes option-pricing model to determine the fair value of stock options on the date of grant. This model derives the fair value of stock options based on certain assumptions related to expected stock price volatility, expected option life, risk-free interest rate and dividend yield. Applica's expected volatility is based on the historical volatility of Applica's stock price over the most recent period commensurate with the expected term of the stock option award. The estimated expected option life is based primarily on historical employee exercise patterns and considers whether and the extent to which the options are in-the-money. The risk-free interest rate assumption is based upon the U.S. Treasury yield curve appropriate for the term of Applica's stock options awards and the selected dividend yield assumption was determined in view of Applica's historical and estimated dividend payout. Applica has no reason to believe that the expected volatility of its stock price or its option exercise patterns will differ significantly from historical volatility or option exercises.

For the nine month period ended September 30, 2006 and the three month and nine month periods ending September 2005, the fair value of each option grant was estimated on the date of grant using the following weighted-average assumptions. There were no stock option grants in the three month period ended September 30, 2006.

	For the three months ended		For the nine months ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Expected dividend yield		00.0%	00.0%	00.0%
Expected price volatility		70.9%	80.7%	24.2% - 80.9%
Risk free interest rate		3.80%	4.0%	3.75%
Expected life of options in years	&>			

Depreciation and amortization

6,292

10,177

3,161

5,327

Stock compensation related to employees stock options

380

776

171

Accrued severance pay, net

216

141

(89

)

(312

)

Interest accrued on short and long-term restricted cash

(496

)

(736

)

(45

)

(476

Table of Contents

16

Edgar Filing: APPLICA INC - Form 10-Q

)	
Interest on held to maturity marketable securities	
	(1,635
)	
	(937
)	
	(847
)	
	(937
)	
Exchange rate differences on long-term loans	
	504
	140
	(20
)	
	63
Table of Contents	17

Exchange rate differences on loans to employees

20

41

4

69

Capital loss (gain) from disposal of property and equipment

51

75

32

(68

)

Deferred income taxes

Table of Contents

18

)	(226)
)	(348)
)	(292)
)	(304)
Increase in trade receivables, net	
)	(14,035)
)	(7,264)
)	(6,938)
)	(3,223)
Decrease (increase) in other assets (including short-term, long-term and deferred charges)	

)	(4,218)
	4,368
	2,580
	3,631
Decrease (increase) in inventories	
)	(2,437)
	4,049
)	(5,598)
	559
Increase (decrease) in trade payables	

	1,184
	125
)	(759
	1,443
Increase (decrease) in accrued expenses	
	(596
)	
	(1,950
)	
	262
	(2,064
)	
Increase (decrease) in advances from customer, held by trustees, net	
	496
Table of Contents	21

)	(7,522
)	44
)	(3,761
Decrease in other accounts payable and other long term liabilities, mainly deferred revenues	
)	(13,542
)	(1,483
)	(6,812
)	(3,595
)	
<hr/>	
<hr/>	
<hr/>	
<hr/>	

Net cash provided by (used in) operating activities

	(22,162
	10,104
	(13,856
	2,242

GILAT SATELLITE NETWORKS LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
US dollars in thousands

	Six months ended June 30,		Three months ended June 30,	
	2008	2007	2008	2007
	Unaudited	Unaudited	Unaudited	Unaudited
Cash flows from investing activities:				
Purchase of property and equipment	(4,325)	(2,954)	(2,783)	(2,272)
Return on investment	1,182			
Other investments	(195)			
Purchase of held to maturity marketable securities	(80,559)	(63,360)	(56,653)	(4,954)
Proceeds from held to maturity marketable securities	31,072	5,475	12,410	5,475
Proceeds from sale of property and equipment	426		25	
Loans to employees, net	2,778	447	20	159
Proceeds from restricted cash held by trustees		92		
Investment in restricted cash (including long-term)	(597)	(4,469)		(23)
Proceeds from restricted cash (including long-term)	171	3,821	77	3,388
Net cash provided by (used in) investing activities	(50,047)	(60,948)	(46,904)	1,773
Cash flows from financing activities:				
Exercise of options, net	1,866	1,625	799	1,212
Issuance of shares, net of issuance expenses		(259)		
Short-term bank credit, net	(323)	4,628		328
Repayments of long-term loans	(192)	(1,393)	(91)	(551)
Net cash provided by financing activities	1,351	4,601	708	989
Effect of exchange rate changes on cash and cash equivalents	743	539	659	360
Increase (decrease) in cash and cash equivalents	(70,115)	(45,704)	(59,393)	5,364
Cash and cash equivalents at the beginning of the period	122,807	149,545	112,085	98,477
Cash and cash equivalents at the end of the period	52,692	103,841	52,692	103,841

GILAT SATELLITE NETWORKS LTD.
RECONCILIATION BETWEEN GAAP AND NON-GAAP STATEMENTS OF OPERATIONS
FOR COMPARATIVE PURPOSES

U.S. dollars in thousands (except per share data)

	Six months ended June 30,		Three months ended June 30,	
	2008	2007	2008	2007
	Unaudited	Unaudited	Unaudited	Unaudited
GAAP operating income	4,695	8,194	742	4,443
Non-cash stock options expenses (1)	380	776	171	351
Non-GAAP operating income	5,075	8,970	913	4,794
GAAP net income	5,880	10,452	1,290	5,539
Non-cash stock options expenses (1)	380	776	171	351
Non-GAAP net income	6,260	11,228	1,461	5,890
GAAP Earnings per share (diluted)	0.14	0.25	0.03	0.13
Non-cash stock options expenses (1)	0.01	0.02	0.00	0.01
Non-GAAP Earnings per share (diluted)	0.15	0.27	0.03	0.14
(1) Non-cash stock options expenses:				
Cost of Revenues	14	4	5	4
Research and development	1	5	1	2
Selling, marketing, general and administrative	365	767	165	345
	380	776	171	351

GILAT SATELLITE NETWORKS LTD.
CONDENSED EBITDA
US dollars in thousands

	Six months ended June 30,		Three months ended June 30,	
	2008	2007	2008	2007
	Unaudited	Unaudited	Unaudited	Unaudited
Operating income	4,695	8,194	742	4,443
Add:				
Non-cash stock option expenses	380	776	171	351
Deprecation and amortization	6,292	10,177	3,161	5,327
EBITDA	11,367	19,147	4,074	10,121