

Edgar Filing: ALBERTO CULVER CO - Form 10-Q

ALBERTO CULVER CO  
Form 10-Q  
August 09, 2001

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:

June 30, 2001

-OR-

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

Commission File No. 1-5050

ALBERTO-CULVER COMPANY

-----  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

36-2257936  
(I.R.S. Employer  
Identification No.)

2525 Armitage Avenue  
Melrose Park, Illinois  
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(Address of principal executive offices)

60160  
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(Zip code)

Registrant's telephone number, including area code: (708) 450-3000

Indicate by check mark whether the registrant (1) has filed all reports required  
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during  
the preceding 12 months (or for such shorter period that the registrant was  
required to file such reports) and (2) has been subject to such filing  
requirements for the past 90 days. YES X NO  
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At June 30, 2001, the company had 23,761,341 shares of Class A common stock and  
32,957,471 shares of Class B common stock outstanding.

PART I

ITEM 1. FINANCIAL STATEMENTS  
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### ALBERTO-CULVER COMPANY AND SUBSIDIARIES

#### Consolidated Statements of Earnings Three Months Ended June 30, 2001 and 2000 (in thousands, except per share data)

	(Unaudited)	
	2001	2000
Net sales	\$634,416	573,095
Cost of products sold	309,606	280,377
	-----	-----
Gross profit	324,810	292,718
Advertising, promotion, selling and administrative	275,478	249,092
	-----	-----
Operating earnings	49,332	43,626
Interest expense, net of interest income of \$1,430 in 2001 and \$1,705 in 2000	5,285	5,616
	-----	-----
Earnings before provision for income taxes	44,047	38,010
Provision for income taxes	14,976	12,544
	-----	-----
Net earnings	\$ 29,071	25,466
	=====	=====
Net earnings per share:		
Basic	\$ 0.52	0.46
	=====	=====
Diluted	\$ 0.50	0.45
	=====	=====
Cash dividends paid per share	\$ .0825	.0750
	=====	=====

See notes to consolidated financial statements.

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### ALBERTO-CULVER COMPANY AND SUBSIDIARIES

#### Consolidated Statements of Earnings Nine Months Ended June 30, 2001 and 2000 (in thousands, except per share data)

	(Unaudited)	
	2001	2000
Net sales	\$1,850,534	1,652,707
Cost of products sold	901,059	809,267
	-----	-----
Gross profit	949,475	843,440
Advertising, promotion, selling and administrative	813,693	727,094
Non-recurring gain (Note 5)	--	(9,257)

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Operating earnings (Note 5)	135,782	125,603
Interest expense, net of interest income of \$3,939 in 2001 and \$3,070 in 2000	16,707	13,302
Earnings before provision for income taxes (Note 5)	119,075	112,301
Provision for income taxes (Note 5)	40,486	37,245
Net earnings (Note 5)	\$ 78,589	75,056
Net earnings per share (Note 5):		
Basic	\$ 1.40	1.35
Diluted	\$ 1.36	1.33
Cash dividends paid per share	\$ .240	.215

See notes to consolidated financial statements.

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ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets  
June 30, 2001 and September 30, 2000  
(dollars in thousands, except share data)

	(Unaudited) June 30, 2001	September 2000
	-----	-----
ASSETS		
-----		
Current assets:		
Cash and cash equivalents	\$ 157,814	11
Short-term investments	819	
Receivables, less allowance for doubtful accounts (\$10,938 at 6/30/01 and \$10,135 at 9/30/00)	162,576	1
Inventories:		
Raw materials	42,562	
Work-in-process	5,074	
Finished goods	439,388	3
Total inventories	487,024	44
Other current assets	27,725	2
Total current assets	835,958	74
Property, plant and equipment at cost, less accumulated depreciation (\$228,292 at 6/30/01 and \$211,337 at 9/30/00)	232,152	24
Goodwill, net	263,646	26
Trade names, net	79,979	8
Other assets	60,349	5
Total assets	\$1,472,084	1,38
	=====	=====

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LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Short-term borrowings and current maturities of long-term debt	\$ 2,972	
Accounts payable	201,067	18
Accrued expenses	149,215	13
Income taxes	17,479	1

Total current liabilities

370,733

34

Long-term debt

327,898

34

Deferred income taxes

41,761

3

Other liabilities

28,703

3

Stockholders' equity:

Common stock, par value \$.22 per share:

Class A authorized 75,000,000 shares; issued 30,612,798 shares

6,735

Class B authorized 75,000,000 shares; issued 37,710,655 shares

8,296

Additional paid-in capital

188,075

19

Retained earnings

752,688

68

Deferred compensation

(5,139)

(

Accumulated other comprehensive income -  
foreign currency translation

(62,223)

(5

888,432

83

Less treasury stock at cost (Class A common shares: 6,851,457  
at 6/30/01 and 7,630,930 at 9/30/00; Class B common shares:  
4,753,184 at 6/30/01 and 9/30/00)

(185,443)

(20

Total stockholders' equity

702,989

63

Total liabilities and stockholders' equity

\$1,472,084

\$1,38

See notes to consolidated financial statements.

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ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows  
Nine Months Ended June 30, 2001 and 2000  
(dollar amounts in thousands)

(Unaudited)

Cash Flows from Operating Activities:

Net earnings

\$ 78,589

75,056

Adjustments to reconcile net earnings to net cash  
provided by operating activities:

Depreciation and amortization

38,508

35,797

Non-recurring gain (Note 5)

--

(9,257)

Cash effects of changes in (exclusive of acquisitions):

Receivables, net

(10,861)

(6,472)

Inventories

(38,447)

(13,920)

Other current assets

(1,544)

(1,749)

Accounts payable and accrued expenses

32,391

(2,626)

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Income taxes	(274)	2,645
Other assets	14,885	21,079
Other liabilities	(8,093)	(17,587)
	-----	-----
Net cash provided by operating activities	105,154	82,966
	-----	-----
Cash Flows from Investing Activities:		
	-----	-----
Short-term investments	(544)	1,533
Capital expenditures	(23,514)	(27,828)
Payments for purchased businesses, net of acquired companies' cash	(19,359)	(115,634)
Proceeds from sale of trademark (Note 5)	--	10,000
Other, net	(2,885)	(1,836)
	-----	-----
Net cash used by investing activities	(46,302)	(133,765)
	-----	-----
Cash Flows from Financing Activities:		
	-----	-----
Short-term borrowings	(1,074)	2,142
Proceeds from long-term debt	27	308,215
Debt issuance costs	--	(1,321)
Repayments of long-term debt	(12,579)	(168,927)
Proceeds from sale of receivables	--	5,000
Cash dividends paid	(13,531)	(11,991)
Cash proceeds from exercise of stock options	13,571	1,929
Stock purchased for treasury	(1,348)	(3,460)
	-----	-----
Net cash provided (used) by financing activities	(14,934)	131,587
	-----	-----
Effect of foreign exchange rate changes on cash	(741)	(1,855)
	-----	-----
Net increase in cash and cash equivalents	43,177	78,933
Cash and cash equivalents at beginning of period	114,637	55,931
	-----	-----
Cash and cash equivalents at end of period	\$157,814	134,864
	=====	=====

See notes to consolidated financial statements.

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ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (1) The consolidated financial statements contained in this report have not been audited by independent public accountants, except for balance sheet information presented at September 30, 2000. However, in the opinion of the company, the consolidated financial statements reflect all adjustments, which include only normal adjustments, necessary to present fairly the data contained therein. The results of operations for the periods covered are not necessarily indicative of results for a full year. Certain amounts for the prior year have been reclassified to conform to the current year's presentation.
- (2) Basic earnings per share is calculated using the weighted average of actual shares outstanding of 56,309,000 and 55,792,000 for the three months ended June 30, 2001 and 2000, respectively, and 56,093,000 and 55,747,000 for the nine months ended June 30, 2001 and 2000, respectively.

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Diluted earnings per share is determined by dividing net earnings by the weighted average shares outstanding, including common stock equivalents. Diluted weighted average shares outstanding were 58,105,000 and 56,757,000 for the three months ended June 30, 2001 and 2000, respectively, and 57,728,000 and 56,515,000 for the nine months ended June 30, 2001 and 2000, respectively.

The following table provides a reconciliation of diluted weighted average shares outstanding (in thousands):

	Three Months Ended June 30		Nine Months Ended June 30	
	2001	2000	2001	2000
Basic weighted average shares outstanding	56,309	55,792	56,093	55,747
Effect of dilutive securities:				
Assumed exercise of stock options	1,431	890	1,270	693
Assumed vesting of restricted stock	365	--	365	--
Other	--	75	--	75
Diluted weighted average shares outstanding	58,105	56,757	57,728	56,515

Stock options for 732,800 shares were excluded from the computation of diluted earnings per share for the three months and nine months ended June 30, 2000 as the options' exercise prices were greater than the average market price and, therefore, were anti-dilutive. No stock options were anti-dilutive in fiscal year 2001.

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### ALBERTO-CULVER COMPANY AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements (Continued)

- (3) Comprehensive income consists of net earnings and foreign currency translation adjustments as follows (in thousands):

	Three Months Ended June 30		Nine Months Ended June 30	
	2001	2000	2001	2000
Net earnings	\$29,071	25,466	78,589	75,056
Other comprehensive income adjustments-foreign currency translation	(2,365)	(5,880)	(7,823)	(13,379)

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Comprehensive income	\$26,706	19,586	70,766	61,677
	=====	=====	=====	=====

- (4) During fiscal year 1998, the Board of Directors authorized the company to purchase up to 6.0 million shares of its Class A common stock. This authorization was increased to 9.0 million shares in fiscal year 1999. As of June 30, 2001, the company had purchased 7,290,400 Class A common shares under this program at a total cost of \$162.9 million. No Class A shares have been purchased under this program since October, 1999.
- (5) In the first quarter of fiscal year 2000, the company sold a European trademark with a nominal carrying value for \$10.0 million. The transaction resulted in a non-recurring pre-tax gain of \$9.3 million and an increase in net earnings of \$6.0 million. The non-recurring gain added 11 cents to the company's basic and diluted earnings per share.
- (6) Segment data for the three and nine months ended June 30, 2001 and 2000 is as follows (in thousands):

	Three Months Ended June 30		Nine Months Ended June 30	
	2001	2000	2001	2000
	-----	-----	-----	-----
Net sales:				
-----				
Consumer products:				
Alberto-Culver North America	\$151,920	140,259	453,983	397,573
Alberto-Culver International	114,392	111,973	329,309	332,794
	-----	-----	-----	-----
Total consumer products	266,312	252,232	783,292	730,367
Specialty distribution - Sally	375,910	327,225	1,088,773	938,669
Eliminations	(7,806)	(6,362)	(21,531)	(16,329)
	-----	-----	-----	-----
	\$634,416	573,095	1,850,534	1,652,707
	=====	=====	=====	=====
Earnings before provision for income taxes:				
-----				
Consumer products:				
Alberto-Culver North America	\$ 10,464	7,302	35,347	21,474
Alberto-Culver International	5,608	5,114	8,522	7,210
	-----	-----	-----	-----
Total consumer products	16,072	12,416	43,869	28,684
Specialty distribution - Sally	39,005	34,044	110,182	95,520
	-----	-----	-----	-----
Segment operating profit	55,077	46,460	154,051	124,204
Non-recurring gain (Note 5)	--	--	--	9,257
Unallocated expenses, net	(5,745)	(2,834)	(18,269)	(7,858)
Interest expense, net of interest income	(5,285)	(5,616)	(16,707)	(13,302)
	-----	-----	-----	-----
	\$ 44,047	38,010	119,075	112,301
	=====	=====	=====	=====

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

-----  
Third Quarter and Nine Months Ended June 30, 2001 versus Third Quarter and Nine  
-----  
Months Ended June 30, 2000  
-----

The company achieved record third quarter net sales of \$634.4 million in fiscal year 2001, up \$61.3 million or 10.7% over the comparable period of fiscal year 2000. For the nine month period ending June 30, 2001, net sales reached a new high of \$1.85 billion, representing a 12.0% increase compared to last year's nine month period.

Net earnings for the three months ended June 30, 2001 were \$29.1 million or 14.2% higher than the same period of the prior year. Basic earnings per share were 52 cents in fiscal year 2001 and 46 cents in 2000. Diluted earnings per share increased 11.1% to 50 cents in fiscal year 2001 from 45 cents in 2000.

Net earnings were \$78.6 million for the nine months ended June 30, 2001 or 13.8% higher than the prior year's nine month net earnings of \$69.0 million before the non-recurring gain described below. Excluding the fiscal 2000 first quarter non-recurring gain, basic earnings per share of \$1.40 in fiscal year 2001 were 16 cents or 12.9% higher than the same period of fiscal year 2000. Diluted earnings per share before the non-recurring gain increased 11.5% to \$1.36 in fiscal year 2001 from \$1.22 in fiscal year 2000.

As described in Note 5, the company sold a European trademark in the first quarter of fiscal year 2000. As a result, the company recognized a non-recurring pre-tax gain of \$9.3 million and an increase in net earnings of \$6.0 million. Accordingly, basic and diluted earnings per share increased 11 cents as a result of the gain. Fiscal year 2001 nine month net earnings increased \$3.5 million or 4.7% compared to fiscal year 2000 net earnings including the non-recurring gain.

Compared to the same periods of the prior year, sales of Alberto-Culver North America consumer products increased 8.3% and 14.2% for the third quarter and first nine months of fiscal year 2001, respectively. The sales increases were primarily due to the acquired Pro-Line business, the introduction of TRESemme Hydrology, the Motions line of hair care products and St. Ives Swiss Formula facial products and body wash.

Sales of Alberto-Culver International consumer products ("International") increased 2.2% in the third quarter and decreased 1.0% in the first nine months of fiscal 2001 compared to last year. Fiscal year 2001 results were negatively affected by foreign exchange rates. Had foreign exchange rates this year been the same as the third quarter and first nine months of fiscal 2000, International sales would have increased 9.6% and 8.3%, respectively, primarily due to sales increases for the company's European and Latin American retail businesses.

The "Specialty distribution-Sally" business segment achieved sales increases of 14.9% for the third quarter and 16.0% for the first nine months of fiscal 2001. The increases were mainly attributable to the expansion of Sally's full service operations, higher sales for established Sally Beauty Company outlets and the addition of stores during the year. At June 30, 2001, Sally Beauty Company had

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2,386 stores offering a full range of professional beauty supplies.

Cost of products sold as a percentage of net sales was 48.8% for the third quarter and 48.7% for the first nine months of fiscal year 2001 compared to 48.9% and 49.0% for the third quarter and first nine months of the prior year, respectively. The lower cost of products sold percentages in fiscal year 2001 were primarily due to the introduction of higher margin new products, product mix and lower manufacturing costs.

Compared to the prior year, advertising, promotion, selling and administrative expenses in fiscal year 2001 increased \$26.4 million or 10.6% for the third quarter and \$86.6 million or 11.9 % for the first nine months. The increases primarily resulted from the selling and administration costs associated with the expansion of the Sally Beauty Company business and the growth of the North America business, including the acquisition of Pro-Line.

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Net interest expense in fiscal year 2001 decreased \$331,000 for the third quarter and increased \$3.4 million for the first nine months compared to the same periods of the prior year. The nine month increase was primarily attributable to additional interest expense related to the \$200 million of 8.25% senior notes issued in April, 2000. The higher interest expense was partially offset by lower interest expense related to the repayment of borrowings under the revolving credit facility, the payoff of the \$20 million of notes payable which matured in September, 2000, lower borrowings under the Swedish Krona revolving credit facility and higher interest income from investing the net senior note proceeds.

The fiscal year 2001 provision for income taxes as a percentage of earnings before income taxes was 34.0% for the third quarter and first nine months, compared to 33% for the third quarter and first nine months of fiscal year 2000. The higher 2001 tax rates are mainly due to the mix of foreign taxable earnings.

### FINANCIAL CONDITION

June 30, 2001 versus September 30, 2000

The ratio of current assets to current liabilities was 2.25 to 1.00 at June 30, 2001 and 2.17 to 1.00 at September 30, 2000. Working capital of \$465.2 million was \$65.5 million higher than the September 30, 2000 balance of \$399.7 million.

Inventories increased \$41.8 million to \$487.0 million during the first nine months of fiscal year 2001 mainly due to the growth of the Sally Beauty Company and North America businesses.

Accounts payable increased \$17.3 million to \$201.1 million during the first nine months of fiscal year 2001 primarily due to the timing of inventory purchases and vendor payments.

Long-term debt decreased \$13.1 million to \$327.9 million mainly due to reduced borrowing under the company's Swedish Krona revolving credit facility.

### NEW ACCOUNTING STANDARDS

In December, 1999, the Securities and Exchange Commission issued Staff

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Accounting Bulletin (SAB) No. 101, "Revenue Recognition." SAB No. 101 provides guidance in applying generally accepted accounting principles to revenue recognition. The company implemented SAB No. 101 in the first quarter of fiscal year 2001 and its adoption did not have a material effect on the consolidated financial statements.

In May, 2000, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) reached a consensus on Issue No. 00-14, "Accounting for Certain Sales Incentives." EITF Issue No. 00-14 addresses the recognition, measurement and income statement classification for various types of sales incentives including coupons, rebates and free products. The company is required to comply with EITF Issue No. 00-14 in the second quarter of fiscal year 2002. In April, 2001, the EITF reached a consensus on Issue No. 00-25, "Vendor Income Statement Characterization of Consideration from a Vendor to a Retailer." EITF Issue No. 00-25 addresses the income statement classification for various types of consideration paid by a vendor to a retailer. The company is required to comply with EITF Issue No. 00-25 in the second quarter of fiscal year 2002. The company estimates the adoption of EITF Issue Nos. 00-14 and 00-25 will result in a reduction of consolidated net sales of approximately 5%-6%, but will have no effect on consolidated net earnings.

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In September, 2000, the EITF reached a consensus on Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs." EITF Issue No. 00-10 addresses the income statement classification of shipping and handling fees and costs. The company implemented EITF Issue No. 00-10 in the first quarter of fiscal year 2001 and its adoption did not have a material effect on the consolidated financial statements.

In September, 2000, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 140 replaces SFAS No. 125 and revises the standards for accounting for securitizations and other transfers of financial assets and collateral. The company implemented SFAS No. 140 in the third quarter of fiscal year 2001 and its adoption did not have a material effect on the consolidated financial statements.

In June, 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 addresses financial accounting and reporting for business combinations. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and requires companies to discontinue the amortization of goodwill and certain other intangible assets. The company is required to comply with SFAS No. 141 in the fourth quarter of fiscal year 2001. The company is required to comply with SFAS No. 142 in the fourth quarter of fiscal year 2001 for new acquisitions and in the first quarter of fiscal year 2003 for previously acquired intangibles. The company currently expects to implement the requirements of SFAS No. 142 for previously acquired intangibles in the first quarter of fiscal year 2002. The company estimates the discontinuation of amortization of goodwill and certain other intangibles in accordance with SFAS No. 142 will result in an increase in consolidated net earnings of approximately 7%-8%.

### FORWARD - LOOKING STATEMENTS

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This Quarterly Report on Form 10-Q and the documents incorporated by reference herein, if any, may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities

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Exchange Act of 1934. Such statements are based on management's current expectations and assessments of risks and uncertainties and reflect various assumptions concerning anticipated results, which may or may not prove to be correct. Some of the factors that could cause actual results to differ materially from estimates or projections contained in such forward-looking statements include the pattern of brand sales, including variations in sales volume within periods; competition within the relevant product markets, including pricing, promotional activities, continuing customer acceptance of existing products, loss of distributorship rights and the ability to develop and successfully introduce new products; risks inherent in acquisitions and strategic alliances; changes in costs, including changes in labor costs, raw material prices or promotional expenses; the costs and effects of unanticipated legal or administrative proceedings; variations in political, economic or other factors such as currency exchange rates, inflation rates, recessionary or expansive trends, tax changes, legal and regulatory changes or other external factors over which Alberto-Culver Company has no control. Alberto-Culver Company has no obligation to update any forward-looking statement in this Quarterly Report on Form 10-Q or any incorporated document.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK  
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There have been no material changes in the company's market risk during the three months ended June 30, 2001.

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PART II

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K  
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(a) Exhibits:

None

(b) Reports on Form 8-K:

No report on form 8-K was filed by the registrant during the quarter ended June 30, 2001.

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SIGNATURE  
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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALBERTO-CULVER COMPANY  
(Registrant)

By: /s/ William J. Cernugel  
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William J. Cernugel  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)

August 9, 2001