

APPLICA INC  
Form 10-Q  
May 02, 2003

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**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 MARCH 31, 2003

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)

**5980 Miami Lakes Drive, Miami Lakes, Florida**

**33014**

(Address Of Principal Executive Offices)

(Zip Code)

**(305) 362-2611**

(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 an accelerated filer (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:

<b>Class</b>	<b>Number of shares outstanding on April 30, 2003</b>
Common Stock, \$0.10 par value	23,500,555

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	<b>March 31, 2003</b> <b>(Unaudited)</b>	<b>December 31,</b> <b>2002</b>
	<b>(In thousands)</b>	
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 6,146	\$ 7,683
Accounts and other receivables, less allowances of \$16,243 in 2003 and \$15,830 in 2002	103,023	146,567
Receivables from affiliates	1,993	2,060
Inventories	117,308	111,453
Prepaid expenses and other	10,552	11,862
Refundable income taxes	7,154	1,663
Future income tax benefits	14,654	18,654
	<u>          </u>	<u>          </u>
Total current assets	260,830	299,942
<b>Investment in Joint Venture</b>	38,749	1,249
<b>Property, Plant and Equipment</b> - at cost, less accumulated depreciation of \$115,169 in 2003 and \$109,949 in 2002	78,571	76,963
<b>Future Income Tax Benefits, Non-Current</b>	42,024	54,378
<b>Goodwill</b>	62,812	62,812
<b>Other Intangibles</b>	18,621	20,860
<b>Other Assets</b>	4,748	5,461
	<u>          </u>	<u>          </u>
<b>Total Assets</b>	<b>\$ 506,355</b>	<b>\$ 521,665</b>
	<u>          </u>	<u>          </u>
<b>Liabilities and Shareholders Equity</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 34,070	\$ 31,446
Accrued expenses	52,624	74,686
Current maturities of long-term debt	144	144
Current taxes payable	2,820	518
Deferred rent	354	372
	<u>          </u>	<u>          </u>
Total current liabilities	90,012	107,166
<b>Other Long-Term Liabilities</b>	1,649	1,533
<b>Long-Term Debt, Less Current Maturities</b>	176,209	193,838
<b>Shareholders Equity:</b>		
Common stock authorized: 75,000 shares of \$.10 par value; issued and outstanding: 23,501 shares in 2003 and 23,497 shares in 2002	2,350	2,350
Paid-in capital	155,417	155,395
Retained earnings	90,872	71,251
Notes receivable - officer	(1,496)	(1,496)
Accumulated other comprehensive earnings (loss)	(8,658)	(8,372)
	<u>          </u>	<u>          </u>

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Total shareholders' equity	238,485	219,128
<b>Total liabilities and shareholders' equity</b>	<b>\$ 506,355</b>	<b>\$ 521,665</b>

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

**Table of Contents****Applica Incorporated and Subsidiaries****CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

	Three Months Ended March 31,			
	2003		2002	
	(In thousands, except per share data)			
Net sales	\$ 121,239	100.0%	\$ 143,058	100.0%
Cost of goods sold	83,110	68.6	101,668	71.1
Gross profit	38,129	31.4	41,390	28.9
Selling, general and administrative expenses:				
Operating expenses	39,444	32.5	42,318	29.6
Repositioning charge			362	0.2
Operating earnings (loss)	(1,315)	(1.1)	(1,290)	(0.9)
Other expense (income):				
Interest expense	3,887	3.2	3,815	2.7
Interest and other income	(404)	(0.3)	(340)	(0.2)
	3,483	2.9	3,475	2.5
Earnings (loss) before equity in net earnings (loss) of joint venture and income taxes	(4,798)	(4.0)	(4,765)	(3.4)
Equity in net earnings (loss) of joint venture	37,500	30.9	(96)	(0.0)
Earnings (loss) before income taxes	32,702	26.9	(4,861)	(3.4)
Income tax expense (benefit)	13,081	10.7	(1,680)	(1.2)
Earnings (loss) before cumulative effect of change in accounting principle	19,621	16.2	(3,181)	(2.2)
Cumulative effect of change in accounting principle, net of tax benefit of \$0 and \$42,447 in 2003 and 2002			(78,829)	(55.1)
Net earnings (loss)	\$ 19,621	16.2%	\$ (82,010)	(57.3)%
Earnings (loss) per common share basic:				
Earnings (loss) before cumulative effect of change in accounting principle	\$ 0.84		\$ (0.14)	
Cumulative effect of change in accounting principle			(3.37)	
Earnings (loss) per common share basic	\$ 0.84		\$ (3.51)	
Earnings (loss) per common share diluted:				
Earnings (loss) before cumulative effect of change in accounting principle	\$ 0.83		\$ (0.14)	
Cumulative effect of change in accounting principle			(3.37)	
Earnings (loss) per common share diluted	\$ 0.83		\$ (3.51)	

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



**Table of Contents****Applica Incorporated and Subsidiaries****CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

	Three Months Ended March 31,	
	2003	2002
(In thousands)		
<b>Cash flows from operating activities:</b>		
Net earnings (loss)	\$ 19,621	\$(82,010)
Reconciliation to net cash provided by (used in) operating activities:		
Depreciation of property, plant and equipment	4,689	4,831
Provision for doubtful accounts	898	590
Amortization of intangible assets	2,426	2,287
Cumulative effect of change in accounting principle, net of tax		78,829
Deferred income taxes	16,354	(3,906)
Other non-cash changes in equity items	10	26
Equity in net (earnings) loss of joint venture	(37,500)	96
Changes in assets and liabilities:		
Accounts and other receivables	42,646	36,311
Inventories	(6,538)	(4,459)
Prepaid expenses and other	1,310	(4,446)
Other assets	240	(1,909)
Accounts payable and accrued expenses	(19,438)	(10,030)
Current income taxes	(3,189)	(2,658)
Other liabilities	98	3,484
Net cash provided by (used in) operating activities	21,627	17,036
<b>Cash flows from investing activities:</b>		
Additions to property, plant and equipment	(6,297)	(3,413)
Distributions from (investments in) joint ventures net		(80)
Receivables from affiliates	77	(197)
Net cash (used in) provided by investing activities	(6,220)	(3,690)
<b>Cash flows from financing activities:</b>		
Notes payable		3,997
Net (payments) borrowings under lines of credit	(17,629)	(24,483)
Exercise of stock options and issuance of common stock under employee stock purchase plan	12	175
Interest receivable from officer	(10)	(16)
Net cash (used in) provided by financing activities	(17,627)	(20,327)
<b>Effect of exchange rate changes on cash</b>	683	1,912
<b>Decrease in cash and cash equivalents</b>	(1,537)	(5,069)
<b>Cash and cash equivalents at beginning of period</b>	7,683	15,743
<b>Cash and cash equivalents at end of period</b>	\$ 6,146	\$ 10,674
<b>Supplemental Disclosures of Cash Flow Information:</b>		
<b>Cash paid during the three-month period ended March 31:</b>		
Interest	\$ 6,797	\$ 7,291
Income taxes	\$	\$ 4,884

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), which, in the opinion of management, are necessary for a fair presentation of the financial statements, have been included. Operating results for the period ended March 31, 2003 are not necessarily indicative of the results that may be expected for the remaining quarters or the year ending December 31, 2003 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, 2002.

**Reclassifications**

Certain prior period amounts have been reclassified for comparability.

**Receivables from Affiliates**

Receivables from affiliates include the current portion of receivables due from certain senior officers of Applica. These receivables are due upon demand or upon termination of the applicable employment contract and bear interest at prevailing market interest rates. Receivables due from Applica s senior officers are unsecured.

**Foreign Currency Reporting Argentina**

Effective January 1, 2003, the functional currency of the Argentinean operation was changed from the U.S. dollar to the Argentinean peso. For 2002, the functional currency of our Argentinean operation was the U.S. dollar and, accordingly, Applica recognized a translation loss of approximately \$1.7 million during 2002. However, recently the peso has stabilized and further translation gains or losses are recognized as part of other accumulated comprehensive earnings, a component of shareholders equity.

**Inventories**

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

	March 31, 2003	December 31, 2002
	(In thousands)	
Raw materials	\$ 3,904	\$ 4,103
Work in process	1,816	1,513
Finished goods	111,588	105,837
	<u>\$ 117,308</u>	<u>\$ 111,453</u>

**Stock Based Compensation**

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At March 31, 2003, the Company had four active stock based compensation plans. The Company accounts for stock-based compensation using the intrinsic value method. Accordingly, compensation cost for stock options

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issued is measured as the excess, if any, of the fair value of the Company's common stock at the date of grant over the exercise price of the options. The Company's net earnings (loss) and earnings (loss) per share would have been changed to the pro forma amounts indicated below had compensation cost 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 method of SFAS 123.

	<b>March 31, 2003</b>	<b>March 31, 2002</b>
	<b>(In thousands, except per share data)</b>	
Net earnings (loss):		
As reported	\$ 19,621	\$ (82,010)
Pro forma	\$ 19,471	\$ (83,438)
Basic earnings (loss) per share:		
As reported	\$ 0.84	\$ (3.51)
Pro forma	\$ 0.83	\$ (3.53)
Diluted earnings (loss) per share:		
As reported	\$ 0.83	\$ (3.51)
Pro forma	\$ 0.82	\$ (3.53)

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

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 used for grants in 2003 and 2002, respectively: no dividend yield; expected volatility ranging from 93.3% to 96.5%; risk-free interest rates of 5.3%; and expected holding periods of four years.

**Recent Accounting Pronouncements**

In December 2002, the FASB issued Statement No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure* (SFAS 148). SFAS 148 amends FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. Additionally, SFAS 148 requires prominent disclosures about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. SFAS 148 also amends APB Opinion No. 28, *Interim Financial Reporting*, to require disclosures about such effects in interim financial information. Applica currently accounts for its stock-based compensation awards to employees and directors under the accounting prescribed by Accounting Principles Board Opinion No. 25 and provides the disclosures required by SFAS No. 123. Applica currently intends to continue to account for its stock-based compensation awards to employees and directors under the accounting prescribed by Accounting Principles Board Opinion No. 25. Applica adopted the additional disclosure provisions of SFAS 148 during the first quarter of 2003.

In December 2002, the FASB issued Interpretation 45 (FIN 45), *Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. For a guarantor subject to FASB Interpretation 45, a guarantor is required to:

measure and recognize the fair value of the guarantee at inception (for many guarantees, fair value will be determined using a present value method); and

provide new disclosures regarding the nature of any guarantees, the maximum potential amount of future guarantee payments, the current carrying amount of the guarantee liability, and the nature of any recourse

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provisions or assets held as collateral that could be liquidated and allow the guarantor to recover all or a portion of its payments in the event guarantee payments are required.

The disclosure requirement of this Interpretation is effective for financial statements for fiscal years ending after December 15, 2002 and did not have a material effect on Applica financial statements. The initial recognition and measurement provision are effective prospectively for guarantees issued or modified on or after January 1, 2003, which should not have a material effect on Applica's financial statements.

**2. SHAREHOLDERS EQUITY****Earnings Per Share**

Basic shares for the three-month periods ended March 31, 2003 and 2002 were 23,500,555 and 23,342,893, respectively. Included in diluted shares for the three-month period ended March 31, 2003 are common stock equivalents relating to options of 165,312. All common stock equivalents have been excluded from the diluted per share calculations in the three-month period ended March 31, 2002 because their inclusion would have been anti-dilutive.

**3. COMMITMENTS AND CONTINGENCIES**

**Toaster Recall.** In February 2002, Applica Consumer Products, Inc., in cooperation with the Consumer Products Safety Commission, voluntarily recalled approximately 2.1 million Black & Decker® T1200 and T1400 toasters. Applica's Canadian operating subsidiary, Applica Canada Corporation, also recalled approximately 180,000 of these toasters in Canada. Management charged 2001 operations with an estimated reserve of \$13.4 million for these recalls and does not believe the ultimate liability will be materially different.

Four lawsuits have been filed in connection with property damage or bodily injury relating to the recalled toasters (one of which has been settled) and several other claims have been made. We believe that the amount of ultimate liability of these claims, if any, is not likely to have a material effect on our business, financial condition, results of operations or liquidity. However, as the outcome of litigation is difficult to predict, significant changes in the estimated exposures could occur.

**Other Matters.** Applica is subject to other legal proceedings, product liability claims and other claims that arise in the ordinary course of our business. In the opinion of management, the amount of ultimate liability with respect to such matters, if any, in excess of applicable insurance coverage, is not likely to have a material effect on our business, financial condition, results of operations or liquidity of Applica. However, as the outcome of litigation or other claims is difficult to predict, significant changes in the estimated exposures could occur.

**4. REPOSITIONING AND OTHER CHARGES**

Applica took a charge of \$13.4 million in the fourth quarter of 2001 relating to the estimated expenses of the toaster recall discussed in Note 3 above. As of March 31, 2003, \$8.8 million had been charged against the accrual. For the three months ended March 31, 2003, the activity in the accrued repositioning and other charges was as follows:

Activity	Amount Accrued at Dec. 31, 2002	Charges	Amount Accrued at March 31, 2003
		(In thousands)	
Recall	\$ 4,763	\$ 159	\$ 4,604
Back-office consolidation	5,956	756	5,200
Shareholder litigation settlement	450	450	0
	\$ 11,169	\$ 1,365	\$ 9,804
	\$ 11,169	\$ 1,365	\$ 9,804

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For the three months ended March 31, 2002, the activity in the accrued repositioning and other charges was as follows:

Activity	Amount Accrued at	Amount Paid	Amount Accrued at
	Dec. 31, 2001		March 31, 2002
		(In thousands)	
Recall	\$ 13,418	\$ 3,952	\$ 9,466
Back-office consolidation	5,179	100	5,079
Shareholder litigation settlement	1,000	550	450
	<u>\$ 19,597</u>	<u>\$ 4,602</u>	<u>\$ 14,995</u>

**5. INVESTMENT IN JOINT VENTURE**

At December 31, 2002, Applica's investment in Anasazi Partners L.P. totaled \$1.2 million with no loans outstanding. Anasazi's investments include certain privately traded securities whose values have been estimated by the general partner in the absence of readily ascertainable market values. Fair value of these securities may differ significantly from the values that would have been used had a ready market for the securities existed. Any change from the estimated values could have a significant impact on the Company's operations.

In the fourth quarter of 2002, Anasazi engaged an investment banker to pursue strategic exit strategies for one of its investments. As part of this process, a valuation of the investment was performed. Based on this valuation, Anasazi increased the fair value of the investment by approximately \$75.0 million, resulting in equity in net earnings of unconsolidated joint venture of \$37.5 million in the first quarter statement of operations.

**6. GOODWILL AND INTANGIBLE ASSETS**

Applica applied the provisions of SFAS 142 beginning on January 1, 2002 and performed a transitional fair valued based impairment test. Based on the initial impairment test, Applica recognized a non-cash adjustment of \$121.3 million (\$78.8 million, net of tax) in the first quarter of 2002 to reduce the carrying value of goodwill to its implied fair value, which was estimated using a combination of market-multiples, comparable transactions and discounted cash flow methodologies. Under SFAS 142, the impairment adjustment was reflected as a cumulative effect of change in accounting principle in the first quarter of 2002.

Components of other intangible assets not subject to amortization include \$4.1 million allocated to trademarks acquired in the Weitech acquisition. The components of Applica's intangible assets subject to amortization are as follows:

	Average Life  (Years)	March 31, 2003		December 31, 2002	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
		(In thousands)			
Licenses	6.5	\$ 49,200	\$ (34,602)	\$ 49,200	\$ (32,786)
Contract-Based	3.3	20,193	(16,170)	20,193	(15,747)
		<u>\$ 69,393</u>	<u>\$ (50,772)</u>	<u>\$ 69,393</u>	<u>\$ (48,533)</u>

Amortization expense for intangible assets during the first three months of 2003 was \$2.2 million.

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The following table provides information regarding estimated amortization expense for each of the following years ended December 31:



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	(In thousands)
2003	\$ 8,912
2004	\$ 8,744
2005	\$ 1,442
2006	\$ 776
2007	\$ 469
2008	\$ 161

**7. CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

Applica Incorporated's domestic subsidiaries are guarantors of its 10% Senior Subordinated Notes due 2008. The following condensed consolidating financial information presents the results of operations, financial position and cash flows of Applica Incorporated (on a stand alone basis), the guarantor subsidiaries (on a combined basis), the non-guarantor subsidiaries (on a combined basis) and the eliminations necessary to arrive at the consolidated results of Applica. The results of operations and cash flows presented below assume that the guarantor subsidiaries were in place for all periods presented. Applica Incorporated and the Subsidiary Guarantors have accounted for investments in their respective subsidiaries on an unconsolidated basis using the equity method of accounting. The Subsidiary Guarantors are wholly-owned subsidiaries of Applica and have fully and unconditionally guaranteed the Notes on a joint and several basis. The Notes contain certain covenants that, among other things, restrict the ability of the Subsidiary Guarantors to make distributions to Applica Incorporated.

**Table of Contents****Three Months Ended March 31, 2003**

	<u>Parent</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>(In thousands)</b>					
<b>Statement of Operations:</b>					
Net sales	\$	\$ 94,002	\$ 76,775	\$ (49,538)	\$ 121,239
Cost of goods sold		64,728	67,920	(49,538)	83,110
Gross profit		29,274	8,855		38,129
Operating (income) expenses	10	31,693	7,741		39,444
Operating earnings (loss)	(10)	(2,419)	1,114		(1,315)
Other (income) expense, net	(26)	3,840	(331)		3,483
Earnings (loss) before equity in net earnings (loss) of joint venture and subsidiaries, and income taxes	16	(6,259)	1,445		(4,798)
Equity in net earnings (loss) of joint venture	55,395			(17,895)	37,500
Equity in net earnings (loss) of subsidiaries	(17,895)			17,895	
Income tax expense (benefit)		19,441	(6,360)		13,081
Net earnings (loss)	\$ 37,516	\$ (25,700)	\$ 7,805	\$	\$ 19,621
<b>Balance Sheet:</b>					
Cash and cash equivalents	\$	\$ 578	\$ 5,568	\$	\$ 6,146
Accounts and other receivables, net		74,039	28,984		103,023
Receivables from affiliates	(151,263)	104,485	48,771		1,993
Inventories		80,653	36,655		117,308
Future income tax benefits		14,906	(252)		14,654
Other current assets		2,941	14,765		17,706
Total current assets	(151,263)	277,602	134,491		260,830
Investment in joint venture	38,749				38,749
Investment in subsidiaries	699,921	113,482	70,430	(883,833)	
Property, plant and equipment, net		17,349	61,222		78,571
Long-term future income tax benefits		36,983	5,041		42,024
Other assets	2,499	114,305	20,341	(50,964)	86,181
Total assets	\$ 589,906	\$ 559,721	\$ 291,525	\$ (934,797)	\$ 506,355
Accounts payable and accrued expenses	\$	\$ 36,689	\$ 50,005	\$	\$ 86,694
Current maturities of long-term debt	144				144
Deferred rent		354			354
Current taxes payable		629	2,191		2,820
Total current liabilities	144	37,672	52,196		90,012
Long-term debt	176,209	44,351	17,143	(61,494)	176,209
Future income tax liabilities		(909)	909		
Other long-term liabilities	1,686	(37)			1,649
Total liabilities	178,039	81,077	70,248	(61,494)	267,870
Shareholders' equity	411,867	478,644	221,277	(873,303)	238,485
Total liabilities and shareholders' equity	\$ 589,906	\$ 559,721	\$ 291,525	\$ (934,797)	\$ 506,355

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**Cash Flow Information:**

Net cash provided by (used in) operating activities	\$ 36,805	\$ (71,263)	\$ 26,972	\$ 29,113	\$ 21,627
Net cash provided by (used in) investing activities	(19,917)	(7,201)	(16,612)	37,510	(6,220)
Net cash provided by (used in) financing activities	(17,571)	75,433	(8,866)	(66,623)	(17,627)
Effect of exchange rate changes on cash	683				683
Cash at beginning		3,609	4,074		7,683
Cash at end		578	5,568		6,146

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	<b>Three Months Ended March 31, 2002</b>				
	<b>Parent</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(In thousands)</b>				
<b>Statement of Operations:</b>					
Net sales	\$	\$ 109,372	\$ 109,633	\$ (75,947)	\$ 143,058
Cost of goods sold		72,346	105,269	(75,947)	101,668
Gross profit		37,026	4,364		41,390
Operating (income) expenses	(207)	34,033	8,492		42,318
Repositioning charge		362			362
Operating earnings (loss)	207	2,631	(4,128)		(1,290)
Other (income) expense, net	(21)	3,914	(118)	(300)	3,475
Earnings (loss) before equity in net earnings (loss) of joint venture and subsidiaries, and income taxes and cumulative effect of change in accounting principle	228	(1,283)	(4,010)	300	(4,765)
Equity in net earnings (loss) of joint venture	(96)				(96)
Equity in net earnings (loss) of subsidiaries	(82,442)			82,442	
Income tax expense (benefit)		(4,123)	2,443		(1,680)
Earnings (loss) before cumulative effect of change in accounting principle	(82,310)	2,840	(6,453)	82,742	(3,181)
Cumulative effect of change in accounting principle		(78,829)			(78,829)
Net earnings (loss)	\$ (82,310)	\$ (75,989)	\$ (6,453)	\$ 82,742	\$ (82,010)
<b>Balance Sheet:</b>					
Cash and cash equivalents	\$	\$ 2,023	\$ 8,651	\$	\$ 10,674
Accounts and other receivables, net		99,800	44,687		144,487
Receivables from affiliates	(120,395)	72,306	51,833		3,744
Inventories		66,396	41,598		107,994
Future income tax benefits		27,557			27,557
Other current assets		3,707	14,482		18,189
Total current assets	(120,395)	271,789	161,251		312,645
Investments in joint venture	1,396				1,396
Investment in subsidiaries	716,391	113,553	70,476	(900,420)	
Property, plant and equipment, net		16,739	64,180		80,919
Long-term future income tax benefits		49,852	648		50,500
Other assets	2,281	90,460	31,379	(45,392)	78,728
Total assets	\$ 599,673	\$ 542,393	\$ 327,934	\$ (945,812)	\$ 524,188
Notes and acceptances payable	\$	\$	\$ 3,997	\$	\$ 3,997
Accounts payable and accrued expenses	20	29,812	66,980		96,812
Deferred rent		425			425
Current taxes payable		930	4,504		5,434
Total current liabilities	20	31,167	75,481		106,668
Long-term debt	201,243	17,590	29,698	(47,288)	201,243
Future income tax liabilities		(2,070)	2,070		
Other long-term liabilities	3,502				3,502

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Total liabilities	204,765	46,687	107,249	(47,288)	311,413
Shareholders' equity	394,908	495,706	220,685	(898,524)	212,775
Total liabilities and shareholders' equity	\$ 599,673	\$ 542,393	\$ 327,934	\$ (945,812)	\$ 524,188

**Cash Flow Information:**

Net cash provided by (used in) operating activities	\$ (1,686)	\$ (34,804)	\$ 22,031	\$ 31,495	\$ 17,036
Net cash provided by (used in) investing activities	19,977	546	(24,118)	(95)	(3,690)



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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

As used in this Quarterly Report on Form 10-Q, we, our, us, the Company and Applica refer to Applica Incorporated and its subsidiaries, unless the context otherwise requires.

The following discussion and analysis and the related financial data present a review of the consolidated operating results and financial condition of Applica for the three-month period ended March 31, 2003 and 2002. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes thereto contained in Applica's Annual Report on Form 10-K for the year ended December 31, 2002.

**Forward Looking Statement Disclosure**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Such statements are indicated by words or phrases such as anticipates, projects, management believes, believes, intends, expects, and similar words or phrases. Such forward-looking statements are subject to certain risks, uncertainties or assumptions and may be affected by certain other factors, including the specific factors set forth below.

You should carefully consider the following risk factors, together with the other information contained in our annual report on Form 10-K for the year ended December 31, 2002, in evaluating us and our business before purchasing our securities:

If Our Investment In Joint Venture Is Not Realized, It Could Have A Material Adverse Effect On Our Results Of Operations.

Uncertainties Regarding The Impact Of Terrorist Activities, The Current War On Terrorism And The War With Iraq Could Have A Material Adverse Effect On Our Business.

An Outbreak Of Severe Acute Respiratory Syndrome (SARS) Among Our Employees Located In China And Hong Kong Could Have A Material Adverse Effect On Our Business.

The Failure Of Our Growth Strategy Could Have A Material Adverse Effect On Our Business.

If We Are Unable To Renew The Black & Decker® Trademark License Agreement, Our Business Could Be Adversely Affected.

We Depend On Purchases By Several Large Customers And Any Significant Decline In These Purchases Or Pressure From These Customers To Reduce Prices Could Have A Negative Effect On Our Business.

The Bankruptcy Or Financial Difficulty Of Any Major Customer Or Fluctuations In The Financial Condition Of The Retail Industry Could Adversely Affect Our Business.

Our Business Is Very Sensitive To The Strength Of The U.S. Retail Market And Weakness In This Market Could Adversely Affect Our Business.

Our Business Can Be Adversely Affected By Fluctuations In Cost And Availability Of Raw Materials (Particularly The Cost Of Petroleum) And Components.

Our Business Involves The Potential For Product Recalls And Product Liability Claims Against Us.

We Operate A Significant Portion Of Our Business Outside Of The United States Which Subjects Us To Additional Risks.

Our Business Could Be Adversely Affected By Changes In Trade Relations With China.

Our Business Could Be Adversely Affected By Currency Fluctuations In Our International Operations.

Our Business Could Be Adversely Affected By Retailer Inventory Management Or The Failure of Our Logistical Systems.

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Our Future Success Requires Us To Develop New And Innovative Products On A Consistent Basis In Order To Increase Revenues And We May Not Be Able To Do So.

We Rely Heavily On Our Manufacturing Facilities To Manufacture And Assemble Our Products. An Extended Interruption In The Operation Of Any Facility Could Have An Adverse Impact On Our Operating Results.

We Are Subject To Several Production-Related Risks Which Could Jeopardize Our Ability To Realize Anticipated Sales And Profits.

The Infringement Or Loss Of Our Proprietary Rights Could Have An Adverse Effect On Our Business.

Our Operating Results Can Be Affected By Seasonality.

We Compete With Other Large Companies That Produce Similar Products.

Our Debt Agreements Contain Covenants That Restrict Our Ability To Take Certain Actions.

Our Business Can Be Adversely Affected By Newly Acquired Businesses Or Product Lines.

Government Regulations Could Adversely Impact Our Operations.

Should one or more of these risks, uncertainties or other factors materialize, or should underlying assumptions prove incorrect, actual results, performance, or achievements of Applica may vary materially from any future results, performance or achievements expressed or implied by the forward-looking statements. All subsequent written and oral forward-looking statements attributable to Applica or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements in this paragraph. You are cautioned not to place undue reliance on forward-looking statements. Applica undertakes no obligation to publicly revise any forward-looking statements to reflect events or circumstances that arise after the filing of this Quarterly Report on Form 10-Q.

**General**

Applica Incorporated is a Florida corporation that was incorporated in 1963. Applica is a manufacturer, marketer and distributor of a broad range of branded and private-label small electric consumer goods. In 1998, we acquired the Black & Decker Household Products Group and became a leading supplier of brand name small household appliances in North and Latin America. We also manufacture and distribute professional personal care products, home environment products, pet care products, including the LitterMaid® self-cleaning cat litter box, and pest control products. We manufacture and market products under licensed brand names, such as Black & Decker®, our own brand names, such as Windmere® and Applica®, and other private-label brand names. Our customers include mass merchandisers, specialty retailers and appliance distributors primarily in North America, Latin America and the Caribbean.

We operate manufacturing facilities in China and Mexico. In 2002, approximately 76% of the products sold by Applica were manufactured in such facilities. In addition, we manufacture products for other consumer product companies, which we refer to as contract manufacturing.

Applica's manufacturing operations are conducted by two wholly owned subsidiaries: Applica Durable Manufacturing Limited in China and Applica Manufacturing, S. de R.L. de C.V. in Mexico. The distribution, sales, and marketing operations are primarily handled through our U.S. operating subsidiary, Applica Consumer Products, Inc. Applica also has separate entities providing distribution, sales and marketing operations in Canada, Puerto Rico, Mexico, Chile, Argentina, Venezuela and Colombia.



**Table of Contents****Results of Operations**

The operating results of Applica expressed as a percentage of sales are set forth below:

	Three Months Ended March 31,	
	2003	2002
Net sales	100.0%	100.0%
Cost of goods sold	68.6	71.1
Gross profit	31.4	28.9
Selling, general and administrative expenses:		
Operating expenses	32.5	29.6
Repositioning charge		0.2
Operating earnings (loss)	(1.1)	(0.9)
Other expense (income)	2.9	2.5
Equity in net earnings (loss) of joint venture	30.9	(0.0)
Earnings (loss) before income taxes and cumulative effect of change in accounting principle	26.9	(3.4)
Income taxes expense (benefit)	10.7	(1.2)
Earnings (loss) before cumulative effect of change in accounting principal	16.2	(2.2)
Cumulative effect of change in accounting principle, net of tax benefit		(55.1)
Net earnings (loss)	16.2%	(57.3)%

**Three Months Ended March 31, 2003 Compared To Three Months Ended March 31, 2002**

**Net Sales.** Sales for Applica decreased by \$21.9 million to \$121.2 million, a decrease of 15.3% over the first quarter of 2002. The decrease was largely the result of lower sales to key retailers, planned lower contract manufacturing sales and the loss of PHD, Inc., a significant customer, to bankruptcy in January 2003. For the quarter, sales of Black & Decker branded products decreased by \$20.8 million worldwide, contract manufacturing decreased by \$5.2 million and sales of Littermaid decreased by \$2.1 million. These decreases were partially offset by increases in sales of pest control products of \$5.0 million and Windmere and other branded products of \$1.2 million. No pest control products were sold in the first quarter of 2002.

Management anticipates that reduced contract manufacturing orders and persistent weakness in North and Latin America will continue to negatively affect sales in 2003.

**Gross Profit Margin.** Applica's gross profit margin increased to 31.4% in the first quarter of 2003 as compared to 28.9% for the same period in 2002. The gross profit margin increase is attributed to an improved product mix.

For the second quarter, management anticipates that margins will be lower than the first quarter of 2003, as a result of higher petroleum prices and lower production levels related to anticipated lower first half sales.

**Selling, General and Administrative Expenses.**

**Operating Expenses.** Operating expenses for Applica decreased \$2.9 million for the first quarter of 2003 to \$39.4 million as compared to the first quarter of 2002. Such expenses increased as a percentage of sales to 32.5% from 29.6% in the 2002 period as the result of lower sales volume. In the first quarter of 2003, expenses decreased by \$1.0 million resulting from the 2002 consolidation of certain facilities in North and

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Latin America and freight expenses decreased by \$1.0 million. Additionally, foreign exchange losses for the quarter totaled \$578,000 as compared to \$1.6 million in the first quarter of 2002.

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**Repositioning and Other Charges.** In the first quarter of 2002, Applica incurred expenses of \$362,000 relating to its decision to consolidate its Shelton, Connecticut office with the headquarters located in Miami Lakes, Florida, as well as certain back-office and supply chain functions in Canada and Latin America. Such consolidation was completed in the third quarter of 2002.

**Interest Expense.** Interest expense remained flat at \$3.9 million for the three months ended March 31, 2003. In the first quarter of 2003, lower debt levels were offset by reduced income from interest rate management contracts. Management anticipates that interest expense will remain flat as this trend continues into the second quarter of 2003.

**Equity in Net Earnings (Loss) of Joint Venture.** The equity in net earnings (loss) of joint venture increased from a \$96,000 loss in 2002 to a gain of \$37.5 million in the first quarter of 2003. The equity in net earnings resulted primarily from an unrealized gain in the fair value of an investment held by such joint venture. The gain was precipitated by a potential sale of the investment. Applica expects a sale and the related cash distribution to occur before the end of the third quarter of 2003. The remaining investments of Anasazi Partners include certain privately traded securities whose values have been estimated by the general partner in the absence of readily ascertainable market values. Fair value of these securities may differ significantly from the values that would have been used had a ready market for the securities existed.

**Taxes.** Applica's tax expense is based on an estimated annual aggregation of the taxes on earnings of each of its foreign and domestic operations. In the first quarter of 2003, Applica used an effective rate of 40%, as compared to 35% for the first quarter of 2002. The change in the tax rate from 2002 reflects additional permanent differences. Applica expects its future effective tax rate to approximate 40%.

The earnings of subsidiaries in Canada, Mexico and Latin America (other than Chile) are generally taxed at rates comparable to or higher than 35%, the United States statutory rate. In addition, commencing in January 2002, the earnings of Applica's Hong Kong subsidiary were also taxed at the United States statutory rate of 35% due to Applica's intent not to permanently reinvest the earnings outside of the United States. Applica does not make tax provisions for the undistributed earnings of its foreign subsidiaries that it expects will be permanently reinvested in its operations outside of the United States.

**Cumulative Effect of Change in Accounting Principle.** In June 2001, the Financial Accounting Standards Board approved the issuance of SFAS 142, Goodwill and Other Intangible Assets, which established new accounting and reporting requirements for goodwill and other intangible assets. The new standard requires that all intangible assets acquired that are obtained through contractual or legal right, or are capable of being separately sold, transferred, licensed, rented or exchanged must be recognized as an asset apart from goodwill. Goodwill and intangibles with indefinite lives are no longer amortized, but are subject to an annual assessment for impairment by applying a fair value based test.

Applica applied the provisions of SFAS 142 beginning in January 2002 and performed a transitional fair valued based impairment test. Based on its initial impairment tests, Applica recognized an adjustment of \$121.3 million (\$78.8 million, or \$3.37 per share, net of tax) in the first quarter of 2002 to reduce the carrying value of goodwill to its implied fair value. Under SFAS 142, the impairment adjustment was reflected as a cumulative effect of change in accounting principle in the first quarter of 2002.

**Earnings Per Share.** Basic shares for the three-month periods ended March 31, 2003 and 2002 were 23,500,555 and 23,342,893, respectively. Included in diluted shares of 23,665,867 are common stock equivalents relating to options of 165,312 for the three-month period ended March 31, 2003. All common stock equivalents have been excluded from the diluted per share calculations in the three-month period ended March 31, 2002 because their inclusion would have been anti-dilutive.

## **Liquidity and Capital Resources**

At March 31, 2003, Applica's working capital was \$170.8 million, as compared to \$206.0 million at March 31, 2002. Applica's current ratio was 2.9 to 1 at both March 31, 2003 and 2002. Applica's quick ratio was 1.2 to 1 at March 31, 2003 and 1.5 to 1 at March 31, 2002. The decrease in the current and quick ratios primarily reflected the use of the cash from the decrease in accounts receivable to repay long-term debt.

Cash balances decreased by \$1.5 million to \$6.1 million for the three months ended March 31, 2003.

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The net cash provided by operating activities totaled \$21.6 million in 2003 and \$17.0 million in 2002. Both periods reflected decreases in accounts receivable, which was partially offset by accrued expenses.

Cash used in investing activities totaled approximately \$6.2 million for the period, as compared to \$3.7 million for 2002, and reflected the purchase of equipment at Applica's manufacturing facilities and tooling for new products in both years.

Cash used in financing activities totaled approximately \$17.6 million in 2003 and \$20.3 million in 2002 reflecting the continued reduction of debt levels.

For the three months ended March 31, 2003 and 2002, the effect of exchange rate changes on cash were \$683,000 and \$1.9 million.

Applica's primary sources of liquidity are its cash flow from operations and borrowings under its credit facility. As of April 30, 2003, Applica was borrowing approximately \$45.4 million under its senior secured revolving credit facility and had approximately \$55.3 million available for future cash borrowings. Advances under the facility are primarily based upon percentages of eligible accounts receivable and inventories. The credit facility includes a \$10.0 million sublimit for the issuance of letters of credit, with approximately \$0.5 million outstanding under the limit as of April 30, 2003. All amounts outstanding under the credit facility are payable on December 28, 2005.

At Applica's option, interest accrues on the loans made under the credit facility at either:

LIBOR (adjusted for any reserves), plus a specified margin which is determined by Applica's leverage ratio and is currently set at 2.00% (3.32% at April 30, 2003); or

the Base Rate (which is Bank of America's prime rate), plus a specified margin, which is determined based upon Applica's leverage ratio and is currently set at 0.00% (4.25% at April 30, 2003).

Swing loans up to \$15.0 million bear interest at the Base Rate plus a specified margin, which is determined based on Applica's leverage ratio and is currently set at 0.00% (4.25% at April 30, 2003).

In July 1998, Applica issued \$130.0 million in Senior Subordinated Notes. The notes bear interest at a rate of 10%, payable semiannually, and mature on July 31, 2008. The notes are general unsecured obligations of Applica Incorporated and rank subordinate in right of payment to all senior debt of Applica and rank pari passu in right of payment to all future subordinated indebtedness of Applica. The notes may be redeemed at the option of Applica, in whole or in part, on or after July 31, 2003 at various redemption prices. See Note G of the Consolidated Financial Statements included in Schedule I to this Annual Report on Form 10-K for more detailed information regarding Applica's borrowings.

On September 28, 2002, Applica entered into credit approved receivables purchasing agreements with CIT Group/Commercial Services, Inc. (CIT). The agreements allow Applica to transfer to CIT, without recourse, approved receivables of specified customers under certain circumstances, including the bankruptcy of covered customers. Applica remains the servicer of the approved receivables and pays fees based upon a percentage of the gross face amount of each approved receivable. These arrangements are strictly for the purpose of insuring selected receivables. On January 17, 2003, the agreement covering receivables from a significant customer was converted into a full notification agreement under which CIT has agreed to purchase all approved receivables of such customer.

In April 2002, Applica Consumer Products, Inc. entered into a five-year \$6.0 million mortgage loan on Applica's executive offices located in Miami Lakes, Florida. The loan bears interest at an annual rate of 7.25%, with monthly principal and interest payments based on a 20-year amortization. A final balloon payment is due at the end of the term. The loan is secured by a mortgage on the property and the building located thereon.

Certain of Applica's foreign subsidiaries have approximately \$18.4 million in trade finance lines of credit, payable on demand, which are secured by the subsidiaries' tangible and intangible property, and in some cases, a guarantee by the parent company, Applica Incorporated. As of March 31, 2003, there were no amounts outstanding under the working capital lines and \$200,000 outstanding under the letter of credit lines. As of April 30, 2003, there was \$1.4 million outstanding under the working capital lines and \$0.2 million under the letter of credit lines.

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Applica's aggregate capital expenditures for the three months ended March 31, 2003 were \$6.3 million, as compared to \$3.4 million for same three month period in 2001. Applica anticipates that the total capital expenditures for 2003 will be approximately \$23.0 million, which includes new information technology infrastructure, the cost of equipment at our manufacturing facilities and tooling for new products. Applica plans to fund such capital expenditures from cash flow from operations and, if necessary, borrowings under its credit facility.

At March 31, 2003, debt as a percent of total capitalization was 42.5%, as compared to 49.1% at March 31, 2002.

Applica's ability to make scheduled payments of principal of, or to pay the interest on, or to refinance, its indebtedness, or to fund planned capital expenditures, product research and development expenses and marketing expenses will depend on its future performance, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory, and international and United States domestic political factors and other factors that are beyond its control. Based upon the current level of operations and anticipated cost savings and revenue growth, we believe that cash flow from operations and available cash, together with available borrowings under its credit facility and other facilities, will be adequate to meet our future liquidity needs for at least the next several years. There can be no assurance that Applica's business will generate sufficient cash flow from operations, that anticipated revenue growth and operating improvements will be realized or that future borrowings will be available under the credit facility in an amount sufficient to enable Applica to service its indebtedness, including the outstanding 10% notes, or to fund its other liquidity needs. In addition, there can be no assurance that Applica will be able to effect any needed refinancing on commercially reasonable terms or at all.

Applica is also involved in certain ongoing litigation. See Part II. Item 1 Legal Proceedings.

## **Use of Estimates and Critical Accounting Policies**

The preparation of Applica's financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the period. Future events and their effects cannot be determined with absolute certainty; therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to our financial statements. Management continually evaluates its estimates and assumptions, which are based on historical experience and other factors that are believed to be reasonable under the circumstances. These estimates and Applica's actual results are subject to the risk factors listed above.

Management believes that the following may involve a higher degree of judgment or complexity:

**Collectibility of Accounts Receivable.** Applica's allowance for doubtful accounts is based on management's estimates of the creditworthiness of its customers, current economic conditions and historical information, and, in the opinion of management, is believed to be an amount sufficient to respond to normal business conditions. Management sets specific reserves for customers in bankruptcy and other reserves for the remaining customers based upon historical collection experience. Should business conditions deteriorate or any major customer default on its obligations to Applica, this allowance may need to be significantly increased, which would have a negative impact upon Applica's operations.

**Reserves on Inventories.** Applica establishes a reserve based on historical experience and specific reserves when it is apparent that the expected realizable value of an inventory item falls below its original cost. A charge to operations results when the estimated net realizable value of inventory items declines below cost. Management regularly reviews Applica's investment in inventories for declines in value.

**Income Taxes.** Significant management judgment is required in developing Applica's provision for income taxes, including the determination of foreign tax liabilities, deferred tax assets and liabilities and any valuation allowances that might be required against the deferred tax assets. At March 31, 2003, Applica had deferred tax assets in excess of deferred tax liabilities of \$66.9 million. Applica determined that it was more likely than not that \$56.7 million of such assets will be realized, resulting in a valuation allowance of \$10.2 million in the first quarter of 2003. Applica evaluates quarterly its ability to realize its deferred tax assets and adjusts the amount of its valuation allowance, if necessary. Applica operates within multiple taxing jurisdictions and is subject to audit in those jurisdictions. Because of the complex issues involved, any claims can require an extended period to resolve. In management's opinion, adequate provisions for income taxes have been made.

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**Goodwill.** On an annual basis, management assesses the composition of Applica's assets and liabilities, as well as the events that have occurred and the circumstances that have changed since the most recent fair value determination. If events occur or circumstances change that would more likely than not reduce the fair value of goodwill below its carrying amount, goodwill will be tested for impairment. Applica will recognize an impairment loss if the carrying value of the asset exceeds the fair value determination. During the first quarter of 2002, Applica recorded a write-down of its goodwill of \$121.3 million (\$78.8 million, net of tax).

**Long-Lived Assets.** Applica reviews long-lived assets and certain identifiable intangibles held and used for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In evaluating the fair value and future benefits of its intangible assets, management performs an analysis of the anticipated undiscounted future net cash flows of the individual assets over the remaining amortization period. Applica recognizes an impairment loss if the carrying value of the asset exceeds the expected future cash flows.

**Reserves for Product Liability Claims and Litigation.** Applica is subject to various legal proceedings, product liability claims and other claims in the ordinary course of its business. Management estimates the amount of ultimate liability, if any, with respect to such matters in excess of applicable insurance coverage based on historical claims experience and current claim amounts, as well as other available facts and circumstances. As the outcome of litigation is difficult to predict and significant estimates are made with regard to future events, significant changes from estimated amounts could occur.

**Product Recall Liability.** Applica is subject to potential product recalls. We estimate the amount of ultimate liability based on discussions with the Consumer Product Safety Commission and historical claims experience. For example, in February 2002, we voluntarily recalled our Black & Decker® branded T1200 and T1400 toasters. We charged the 2001 operations with an estimated reserve of \$13.4 million for this recall. Applica has charged \$8.8 million against this reserve through March 31, 2003. While we believe that the reserve is adequate, there can be no assurance that significant future adjustments will not be required.

**Other Estimates.** Applica makes a number of other estimates in the ordinary course of business relating to sales returns and allowances, warranty reserves, and reserves for promotional incentives. Historically, past changes to these estimates have not had a material impact on our financial condition. However, circumstances could change which may alter future expectations.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**Interest Rate Risk Management**

Applica is exposed to the impact of interest rate changes. Applica's objective is to manage the impact of interest rate changes on earnings and cash flows and on the market value of its borrowings. Applica maintains fixed rate debt as a percentage of its net debt between a minimum and maximum percentage, which is set by policy.

It is Applica's policy to enter into interest rate risk management transactions only to the extent considered necessary to meet its objectives as set forth above. Applica does not enter into interest rate risk management transactions for speculative purposes.

Outstanding as of March 31, 2003 were interest rate management contracts on approximately \$60.0 million notional principal amount with a fair value of approximately \$300,642. The market value represents the amount Applica would receive upon exiting the contracts at March 31, 2003 and was determined based on quotes obtained from Applica's financial institutions. The market value related to interest rate risk management contracts is included as other long-term liabilities as of March 31, 2003. Applica does not intend to exit these contracts at this time.

Significant interest rate risk management instruments held by Applica as of March 31, 2003 included pay-floating swaps. Pay-floating swaps effectively convert medium term obligations to LIBOR-rate indexed variable-rate instruments. All swaps have maturity dates that mirror the maturity date of the underlying hedged transaction. For the period ending March 31, 2003, Applica did not discontinue any hedges due to the probability that the original underlying forecasted transaction would not occur.

The impact of interest rate risk management activities on income during the quarter ending March 31, 2003 was not material.

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### **Foreign Exchange Risk Management**

Applica transacts business globally and is subject to risks associated with changing foreign exchange rates. Applica's objective is to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus attention on core business issues and challenges. By policy, Applica maintains hedge coverage between minimum and maximum percentages of its forecasted foreign exchange exposures for periods not to exceed 18 months. The gains and losses on these contracts offset changes in the value of the related exposures.

It is Applica's policy to enter into foreign currency transactions only to the extent considered necessary to meet its objectives as set forth above. Applica does not enter into foreign currency transactions for speculative purposes.

Outstanding as of March 31, 2003 were \$28.9 million notional of contracts to purchase and/or sell foreign currency forward with a negative fair market value of approximately \$2.1 million. The market value represents the amount Applica would pay upon exiting the contracts at March 31, 2003 and was determined based on quotes obtained from Applica's financial institutions. This amount is included in prepaid expenses and other assets as of March 31, 2003. Applica does not intend to exit these contracts at this time.

Applica enters into various contracts that change in value as foreign exchange rates change to protect the value of its existing foreign currency assets and liabilities, commitments and forecasted foreign currency revenues. Applica uses option strategies and forward contracts that provide for the sale of foreign currencies to hedge forecasted revenues and expenses. Applica also uses forward contracts to hedge foreign currency assets and liabilities. While these hedging instruments are subject to fluctuations in value, such fluctuations are offset by changes in the value of the underlying exposures being hedged. The principal currencies hedged are the Mexican peso, Chinese renminbi, Hong Kong dollar and Canadian dollar.

### **Additional Information**

For additional information, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk in Applica's Annual Report on Form 10-K for the year ended December 31, 2002.

### **Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures.** Applica's chief executive officer and chief financial officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Sections 13a-14(c) of the Securities Exchange Act of 1934) as of a date (the Evaluation Date) not more than 90 days before the filing date of this quarterly report, have concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were effective and designed to ensure that material information relating to the Company and its consolidated subsidiaries is accumulated and would be made known to them by others within those entities as appropriate to allow timely decisions regarding required disclosures.

**Changes in Internal Controls.** Subsequent to the Evaluation Date, there were no significant changes in our internal controls or in other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

Applica's senior management, in conjunction with its Board of Directors, continuously reviews overall company policies and improves documentation of important financial reporting and internal control matters. Accordingly, certain changes to Applica's internal controls were made during the first quarter of 2003, none of which were significant. Applica is committed to continuously improving the state of its internal controls, corporate governance and financial reporting.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

**Toaster Recall.** In February 2002, Applica Consumer Products, Inc., in cooperation with the Consumer Products Safety Commission, voluntarily recalled approximately 2.1 million Black & Decker® T1200 and T1400 toasters. Applica's Canadian operating subsidiary, Applica Canada Corporation, also recalled approximately 180,000 of these toasters in Canada. Management charged 2001 operations with an estimated reserve of \$13.4 million for these recalls and does not believe the ultimate liability will be materially different.

Four lawsuits have been filed in connection with property damage or bodily injury relating to the recalled toasters (one of which has been settled) and several other claims have been made. We believe that the amount of ultimate liability of these claims, if any, is not likely to have a material effect on our business, financial condition, results of operations or liquidity. However, as the outcome of litigation is difficult to predict, significant changes in the estimated exposures could occur.

**Other Matters.** Applica is subject to other legal proceedings, product liability claims and other claims that arise in the ordinary course of our business. In the opinion of management, the amount of ultimate liability with respect to such matters, if any, in excess of applicable insurance coverage, is not likely to have a material effect on our business, financial condition, results of operations or liquidity of Applica. However, as the outcome of litigation or other claims is difficult to predict, significant changes in the estimated exposures could occur.

**Item 6. Exhibits and Reports on Form 8-K.**

(a) Exhibits:

3.1 Second Amended and Restated Bylaws dated February 25, 2003

99.1 Certification of Principal Executive Officer Pursuant to 18 U.S.C. 1350

99.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350

(b) Reports on Form 8-K:

Form 8-K dated May 1, 2003 reporting under Item 9. Regulation FD Disclosure and Item 12. Results of Operations and Financial Condition that Applica issued a press release describing its results of operations for the first quarter ended March 31, 2003 and attaching such press release.



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**SIGNATURES**

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.

**APPLICA INCORPORATED**  
(Registrant)

April 30, 2003

By: /s/ Harry D. Schulman

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Harry D. Schulman  
President, Chief Executive Officer and Secretary

April 30, 2003

By: /s/ Terry L. Polistina

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Terry L. Polistina  
Senior Vice President and Chief Financial Officer  
(Chief Financial and Accounting Officer)

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**CERTIFICATION**

I, Harry D. Schulman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Applica Incorporated;
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;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 30, 2003

/s/ Harry D. Schulman

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Name: Harry D. Schulman  
Title: President, Chief Executive Officer and Secretary

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**CERTIFICATION**

I, Terry Polistina, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Applica Incorporated;
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;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 30, 2003

/s/ Terry Polistina

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Name: Terry Polistina  
Title: Chief Financial Officer and Senior Vice President