

APPLICA INC  
Form 10-Q  
May 08, 2002

**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,  
2002
- 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**

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(Exact Name of Registrant as Specified in its Charter)

**Florida**

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(State or Other Jurisdiction of Incorporation or Organization) **59-1028301**

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(I.R.S. Employer Identification Number)

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**5980 Miami Lakes Drive, Miami Lakes, Florida 33014**

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(Address Of Principal Executive Offices) (Zip Code)

**(305) 362-2611**

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

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| Class                         | Number of shares<br>outstanding on May 1, 2002 |
|-------------------------------|--|
| Common Stock, \$.10 par value | 23,359,203                                     |

**APPLICA INCORPORATED**

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Applica Incorporated and Subsidiaries****CONSOLIDATED BALANCE SHEETS**

| March 31,<br>2002<br>(Unaudited) | December 31,<br>2001 |
|----------------------------------|----------------------|
|----------------------------------|----------------------|

(In thousands)

**Assets****Current Assets:**

|   |          |          |
|---|----------|----------|
| Cash and cash equivalents   | \$10,674 | \$15,743 |
| Accounts and other receivables,<br>less allowances of \$9,539 in 2002<br>and \$12,061 in 2001 | 144,487  | 181,388  |
| Receivables from affiliates   | 3,744    | 3,531    |
| Inventories   | 107,994  | 103,716  |
| Prepaid expenses and other  | 17,650   | 13,204   |
| Refundable income taxes   | 539      | 689      |
| Future income tax benefits  | 27,557   | 23,649   |

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Total current assets

|  |         |         |
|--|---------|---------|
|  | 312,645 | 341,920 |
|--|---------|---------|

**Investment in Joint Ventures**

|  |       |       |
|--|-------|-------|
|  | 1,396 | 1,412 |
|--|-------|-------|

**Property, Plant and Equipment**

at cost, less accumulated  
depreciation of \$105,743 in 2002  
and \$100,961 in 2001

|  |        |        |
|--|--------|--------|
|  | 80,919 | 82,337 |
|--|--------|--------|

**Future Income Tax Benefits,****Non-Current**

|  |        |       |
|--|--------|-------|
|  | 50,500 | 8,055 |
|--|--------|-------|

**Goodwill**

|  |        |         |
|--|--------|---------|
|  | 49,488 | 170,764 |
|--|--------|---------|

**Other Intangibles**

|  |        |        |
|--|--------|--------|
|  | 23,549 | 24,648 |
|--|--------|--------|

**Other Assets**

|  |       |       |
|--|-------|-------|
|  | 5,691 | 4,325 |
|--|-------|-------|

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**Total Assets**  
\$524,188 \$633,461

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**Liabilities and Shareholders  
Equity**

**Current Liabilities:**

Notes and acceptance payable  
\$3,997  
Accounts payable  
43,249 \$38,140  
Accrued expenses  
53,563 66,971  
Current taxes payable  
5,434 8,242  
Deferred income  
425 443

---

Total current liabilities  
106,668 113,796

**Other Long-Term Liabilities**  
3,502

**Long-Term Debt**  
201,243 225,726

**Shareholders Equity:**

Common stock authorized:75,000  
shares of \$.10 par value; issued and  
outstanding: 23,343 shares in 2002  
and 23,319 shares in 2001  
2,334 2,332  
Paid-in capital  
154,248 154,049  
Retained earnings  
63,018 145,028  
Notes receivable officer  
(1,496) (1,496)  
Accumulated other comprehensive  
earnings (loss)  
(5,329) (5,974)

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Total shareholders equity  
212,775 293,939

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**Total liabilities and shareholders  
equity**  
\$524,188 \$633,461

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



**Applica Incorporated and Subsidiaries**

**CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

|   | <b>Three Months Ended<br/>March 31,</b>          |        |             |        |
|---|--|--------|-------------|--------|
|   | <b>2002</b>                                      |        | <b>2001</b> |        |
|   | <b>(In thousands, except per<br/>share data)</b> |        |             |        |
| Net sales                                     | \$143,058  | 100.0% | \$151,821   | 100.0% |
| Cost of goods sold                            | 101,668  | 71.1   | 111,397     | 73.4   |
| <hr/>   |  |        |             |        |
| <hr/>   |  |        |             |        |
| <hr/>   |  |        |             |        |
| <hr/>   |  |        |             |        |
| Gross profit                                  | 41,390   | 28.9   | 40,424      | 26.6   |
| Selling, general and administrative expenses: |  |        |             |        |
| Operating expenses                            | 42,318   | 29.6   | 42,693      | 28.1   |
| Repositioning charge                          | 362  | 0.2    |             |        |
| <hr/>   |  |        |             |        |
| <hr/>   |  |        |             |        |
| <hr/>   |  |        |             |        |
| <hr/>   |  |        |             |        |
| Operating earnings (loss)                     | (1,290)  | (0.9)  | (2,269)     | (1.5)  |
| Other expense (income):                       |  |        |             |        |
| Interest expense                              | 3,815  | 2.7    | 6,683       | 4.4    |
| Interest and other income                     | (340)  | (0.2)  | (462)       | (0.3)  |
| <hr/>   |  |        |             |        |
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3,475 2.5 6,221 4.1

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Earnings (loss) before equity in net earnings  
(loss) of joint ventures, income taxes and  
cumulative effect of change in accounting  
principle

(4,765) (3.4) (8,490) (5.6)

Equity in net earnings (loss) of joint ventures  
(96) (0.0)

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Earnings (loss) before income taxes and  
cumulative effect of change in accounting  
principle

(4,861) (3.4) (8,490) (5.6)

Income tax expense (benefit)  
(1,680) (1.2) (2,207) (1.5)

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Earnings (loss) before cumulative effect of change  
in accounting principle

(3,181) (2.2) (6,283) (4.1)

Cumulative effect of change in accounting  
principle, net of tax benefit of \$42,447.

(78,829) (55.1)

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Net earnings (loss)

\$(82,010) (57.3)% \$(6,283) (4.1)%

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Earnings per common share:

Earnings (loss) before cumulative effect of change  
in accounting principle

\$(0.14)    \$(0.27)

Cumulative effect of change in accounting  
principle

(3.37)

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Basic and diluted earnings (loss) per common  
share

\$(3.51)    \$(0.27)

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

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

|  | <b>Three Months<br/>Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2002</b>                                 | <b>2001</b> |
|  | <b>(In thousands)</b>                       |             |
| <b>Cash flows from operating activities:</b>                           |   |             |
| Net earnings (loss)  |   |             |
| \$ (82,010) \$ (6,283)   |   |             |
| Reconciliation to net cash provided by (used in) operating activities: |   |             |
| Depreciation of property, plant and equipment                          | 4,831                                       | 4,883       |
| Amortization of intangible assets                                      | 2,287                                       | 4,240       |
| Cumulative effect of change in accounting principle                    | 78,829                                      |             |
| Net change in allowance for losses on accounts receivable              | (2,522)                                     | 150         |
| Equity in net earnings (loss) of joint venture                         | 96  |             |
| Consulting expense on non-employee stock options                       | 26  | 13          |
| Net change in deferred income  | (18)  | (18)        |
| Changes in assets and liabilities:                                     |   |             |
| Accounts and other receivables   | 39,423                                      | 38,667      |
| Inventories  | (4,278)                                     | 19,786      |
| Prepaid expenses and other   | (4,446)                                     | (258)       |
| Other assets   | (1,909)                                     |             |
| Accounts payable and accrued expenses                                  | (8,299)                                     | (26,575)    |
| Current and deferred income taxes                                      | (6,564)                                     | (3,935)     |
| Other liabilities  | 3,502                                       |             |
| Other accounts   |   |             |

576

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Net cash provided by (used in)  
operating activities  
\$18,948 \$31,246

**Cash flows from investing  
activities:**

Additions to property, plant and  
equipment

(3,413) (6,035)

Distributions from (investments  
in) joint ventures net

(80) 129

Receivables from affiliates

(197)

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Net cash used in (provided by)  
investing activities

(3,690) (5,906)

**Cash flows from financing  
activities:**

Notes and acceptances

3,997 1,486

Long-term debt net

(24,483) (32,709)

Interest receivable from officer

(16) (36)

Exercises of stock options and  
issuance of common stock under  
employee stock purchase plan

175

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Net cash (used in) provided by  
financing activities

(20,327) (31,259)

**Decrease in cash and cash  
equivalents**

(5,069) (5,919)

**Cash and cash equivalents at  
beginning of period**

15,743 16,857

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**Cash and cash equivalents at  
end of period**

\$10,674 \$10,938

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**Supplemental Disclosures of  
Cash Flow Information:**

**Cash paid during the  
three-month period ended  
March 31:**

|              |         |
|--------------|---------|
| Interest     |         |
| \$7,291      | \$9,400 |
| Income taxes |         |
| \$4,884      | \$1,163 |

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

**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, 2002 are not necessarily indicative of the results that may be expected for the remaining quarters or the year ending December 31, 2002 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, 2001.

### Reclassifications

Certain prior period amounts have been reclassified for comparability.

### Receivables from Affiliates

Receivables from affiliates include the current portion of receivables due from Applica s joint ventures partners and certain executive 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 executive officers are unsecured.

### Foreign Currency Reporting Argentina

Effective January 1, 2002, the functional currency of the Argentinean operation was changed from the Argentinean peso to the US dollar. Accordingly, Applica recognized a \$1.7 million translation loss for the three months ended March 31, 2002.

### 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:

|                 | <b>March 31,<br/>2002</b> | <b>December 31,<br/>2001</b> |
|-----------------|---------------------------|------------------------------|
|                 | <hr/>                     | <hr/>                        |
| Raw materials   |                           |                              |
| \$4,264         | \$4,264                   |                              |
| Work in process |                           |                              |
|                 | <b>(In thousands)</b>     |                              |

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4,039 4,039  
Finished goods  
99,691 95,413

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\$107,994 \$103,716

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**Applica Incorporated and Subsidiaries**  
**Notes to Consolidated Financial Statements**

## 2. SHAREHOLDERS EQUITY

### Earnings Per Share

Basic shares for the three-month periods ended March 31, 2002 and 2001 were 23,342,893 and 23,090,382, respectively. All common stock equivalents have been excluded from the diluted per share calculations in the three-month periods ended March 31, 2002 and 2001 as their inclusion would have been anti-dilutive.

## 3. COMMITMENTS AND CONTINGENCIES

**Shareholder Litigation and Related Matters.** Applica is a defendant in *Sherleigh Associates LLC and Sherleigh Associates Inc. Profit Sharing Plan, on their own behalf and on behalf of all others similarly situated v. Windmere-Durable Holdings, Inc., David M. Friedson and Nationsbanc Montgomery Securities LLC*, 98-2273-CIV-LENARD which was filed in the United States District Court, Southern District of Florida in October 1998.

In January 2002, Applica reached an agreement in principle to settle the securities class action litigation and the related derivative claims for approximately \$11.0 million in cash. Applica took a charge of approximately \$1.0 million in the fourth quarter of 2001 for expenses related to the litigation, \$550,000 of which was paid in the first quarter of 2002. All other amounts related to the settlement of the litigation are expected to be covered under Applica's insurance policies. Under the terms of the settlement, all claims against Applica and all other defendants will be dismissed without any admission of liability or wrongdoing. Settlement is subject to final documentation and court approval. Failure of the court to approve the settlement could result in significant changes in estimated exposures. Details regarding the shareholder litigation settlement will be communicated to potential class members prior to final court approval.

**Salton Litigation.** Applica is also a defendant in *Salton, Inc. v Windmere-Durable Holdings, Inc. and Windmere Corporation*, which was filed in the United States District Court, Northern District of Illinois in January 2001. Discovery procedures have been initiated and are ongoing.

**Toaster Recall.** In February 2002, Applica Consumer Products, Inc., in cooperation with the U.S. Consumer Products Safety Commission, voluntarily recalled approximately 2.1 million Black & Decker® two-slice and four-slice toasters. Applica's Canadian operating subsidiary, Applica Canada Corporation, also recalled approximately 180,000 of these toasters in Canada. In connection therewith, Applica took a charge of \$13.4 million in the fourth quarter of 2001 relating to the estimated expenses of such recalls. Management does not believe the ultimate liability will be materially different.

Currently, no cases have been filed in connection with property damage or bodily injury relating to the recalled toasters; however, several 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 or results of operations. 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 the 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**

In the fourth quarter of 2001, Applica recorded charges relating to several events in the aggregate amount of \$14.8 million. These charges included \$6.8 million relating to Applica's 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. In addition, \$5.2 million of charges related to Applica's execution of a new four-year senior secured revolving credit facility and write-off of fees and expenses associated with the prior credit facility. Also included in the charge was \$1.5 million relating to the devaluation of the Argentinean peso and \$1.0 million related to the settlement of the shareholder class action litigation.

**Applica Incorporated and Subsidiaries**  
**Notes to Consolidated Financial Statements**

Additionally, Applica Consumer Products, Inc., Applica's U.S. operating subsidiary, in cooperation with the U.S. Consumer Products Safety Commission, voluntarily recalled approximately 2.1 million Black & Decker® two-slice and four-slice toasters. Applica's Canadian operating subsidiary, Applica Canada Corporation, also recalled approximately 180,000 of these toasters in Canada. In connection therewith, Applica took a charge of \$13.4 million in the fourth quarter of 2001 relating to the estimated expenses of such recalls.

Accrued liabilities as of December 31, 2001 relating to the 2001 repositioning and other charges were as follows:

| Activity                          | Amount Accrued at<br>December 31, 2001 | Amount Paid | Amount<br>Accrued at<br>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                                    |
|                                   | \$19,597                               | \$4,602     | \$14,995                               |

In addition, during 2002, Applica expects to incur an additional \$10.0 million in expenses relating to the consolidation of facilities and functions that did not qualify for accrual at December 31, 2001. These expenses will primarily consist of recruitment, severance and moving costs. During the first quarter of 2002, Applica incurred an expense of \$362,000 related to the consolidation.

## 5. GOODWILL AND INTANGIBLE ASSETS

In June 2001, the Financial Accounting Standards Board approved the issuance of SFAS 142, *Goodwill and Other Intangible Assets*, which establishes new accounting and reporting requirements for goodwill and other intangible assets. The new standards require 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.

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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, 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, 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. Per the provisions of SFAS 142, Applica will no longer record annual amortization of \$5.0 million per year.

SFAS 142 requires the allocation of purchase price, including goodwill, at a reporting unit level, which is defined as an operating segment or one level below an operating segment. During the fourth quarter of 2001, Applica began reporting its operations as one business segment. Previously, Applica had reported three business segments. The change to one business segment was made to conform to organizational changes Applica made in the management of its business to more effectively utilize and deploy its assets on a world-wide basis.

The carrying amount of goodwill attributable to Applica is as follows:

|  | December 31,<br>2001 | Impairment<br>Adjustment | March 31,<br>2002 |
|--|----------------------|--------------------------|-------------------|
|  | (In thousands)       |                          |                   |
| Consolidated goodwill, net of accumulated amortization | \$170,764            | \$(121,276)              | \$49,488          |
| <hr/>  |                      |                          |                   |
| <hr/>  |                      |                          |                   |
| <hr/>  |                      |                          |                   |

**Applica Incorporated and Subsidiaries**  
**Notes to Consolidated Financial Statements**

In connection with adopting SFAS 142, Applica also reassessed the useful lives and the classifications of its identifiable intangible assets and determined that they continue to be appropriate. The components of Applica's intangible assets subject to amortization are as follows:

|                | March 31, 2002 |                       | December 31, 2001     |                          |
|----------------|----------------|-----------------------|-----------------------|--------------------------|
|                | Average Life   | Gross Carrying Amount | Gross Carrying Amount | Accumulated Amortization |
|                | (Years)        |                       |                       |                          |
| (In thousands) |                |                       |                       |                          |
| Licenses       |                |                       |                       |                          |
| 6.5            | \$49,200       | \$(27,340)            | \$48,200              | \$(25,525)               |
| Contract-Based |                |                       |                       |                          |
| 1.5            | 16,651         | (14,962)              | 16,651                | (14,678)                 |
|                |                |                       |                       |                          |
|                |                |                       |                       |                          |
|                |                |                       |                       |                          |
|                |                |                       |                       |                          |
|                | \$65,851       | \$(42,302)            | \$64,851              | \$(40,203)               |
|                |                |                       |                       |                          |
|                |                |                       |                       |                          |
|                |                |                       |                       |                          |
|                |                |                       |                       |                          |

Amortization expense for intangible assets during the first quarter of 2002 was \$2.1 million. The following table provides information regarding estimated amortization expense for each of the following years ended December 31:

|      | (In thousands) |
|------|----------------|
| 2002 | \$8,113        |
| 2003 | 8,090          |
| 2004 | 7,980          |
| 2005 | 828            |
| 2006 | 161            |
| 2007 | 161            |

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The following table adjusts earnings and earnings per share for the adoption of SFAS 142:

|   | <b>Three Months Ended March 31,</b>             |             |
|---|---|-------------|
|   | <b>2002</b>                                     | <b>2001</b> |
|   | <b>(In thousands, except per share amounts)</b> |             |
| Reported net earnings (loss)  | \$(82,010)                                      | \$(6,283)   |
| Add: Goodwill amortization, net of tax  |   |             |
| 925   |   |             |
| Adjusted net earnings (loss)  | (82,010)  | (5,358)     |
| Add: cumulative effect of change in accounting principle, net of tax                    |   |             |
| 78,829  |   |             |
| Adjusted net earnings (loss) before cumulative effect of change in accounting principle | \$(3,181)                                       | \$(5,358)   |
| Basic and diluted earnings per share:   |   |             |
| Reported net earnings (loss)  | \$(3.51)  | \$(0.27)    |
| Add: Goodwill amortization, net of tax  |   |             |
| 0.04  |   |             |
| Adjusted net earnings (loss)  | (3.51)  | (0.23)      |
| Add: cumulative effect of change in accounting principle                                |   |             |
| 3.37  |   |             |

Adjusted net earnings  
 (loss) before cumulative effect  
 of change in accounting  
 principle  
 \$(0.14) \$(0.23)

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**6. 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.

**Applica Incorporated and Subsidiaries**  
**Notes to Consolidated Financial Statements**

Three Months Ended March 31, 2001

**Applica**                      **Non-**  
**Incorporated**              **Guaranteed**              **Eliminations**              **Consolidated**

(In thousands)

**Statement of Operations:**

|                             |           |           |            |           |
|-----------------------------|-----------|-----------|------------|-----------|
| Net sales                   |           |           |            |           |
| \$                          | \$109,372 | \$109,633 | \$(75,947) | \$143,058 |
| Cost of goods sold          |           |           |            |           |
|                             | 72,346    | 105,269   | (75,947)   | 101,668   |
| <hr/>                       |           |           |            |           |
| <hr/>                       |           |           |            |           |
| <hr/>                       |           |           |            |           |
| <hr/>                       |           |           |            |           |
| <hr/>                       |           |           |            |           |
| Gross profit                |           |           |            |           |
|                             | 37,026    | 4,364     |            | 41,390    |
| Operating (income) expenses |           |           |            |           |
|                             | (207)     | 34,033    | 8,492      | 42,318    |
| Repositioning charge        |           |           |            |           |
|                             | 362       |           | 362        |           |
| <hr/>                       |           |           |            |           |
| <hr/>                       |           |           |            |           |
| <hr/>                       |           |           |            |           |
| <hr/>                       |           |           |            |           |
| <hr/>                       |           |           |            |           |
| Operating earnings (loss)   |           |           |            |           |
|                             | 207       | 2,631     | (4,128)    | (1,290)   |
| Other (income) expense, net |           |           |            |           |
|                             | (21)      | 3,914     | (118)      | (300)     |
|                             |           |           |            | 3,475     |
| <hr/>                       |           |           |            |           |
| <hr/>                       |           |           |            |           |
| <hr/>                       |           |           |            |           |
| <hr/>                       |           |           |            |           |
| <hr/>                       |           |           |            |           |



Earnings (loss) before equity in net earnings (loss) of joint ventures 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 ventures  
(96) (96)

Income tax expense (benefit)  
3 2,443 (4,126) (1,680)

Earnings (loss) before cumulative effect of change in accounting principle

228 (1,382) (6,453) 4,426 (3,181)

Cumulative effect of change in accounting principle  
(118,141) 39,312 (78,829)

Net earnings (loss)

\$228 \$(119,523) \$(6,453) \$43,738 \$(82,010)

**Balance Sheet:**

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

Other current assets

3,707 14,482 27,557 45,746

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Total current assets

(120,395) 244,232 161,251 27,557 312,645

Investment in joint ventures

425,119 113,553 70,476 (607,752) 1,396

Property, plant and equipment, net

16,739 64,180 80,919

Other assets

2,281 113,255 32,027 (18,335) 129,228

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Total assets

\$307,005 \$487,779 \$327,934 \$(598,530) \$524,188

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Notes and acceptance payable

\$ \$ \$3,997 \$ \$3,997

Accounts payable and accrued expenses

20 29,812 66,980 96,812

Current maturities of long-term debt

Deferred income

425 425

Current taxes payable

(176) 4,504 1,106 5,434

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|                               |         |        |          |          |         |
|-------------------------------|---------|--------|----------|----------|---------|
| Total current liabilities     | 20      | 30,061 | 75,481   | 1,106    | 106,668 |
| Long-term debt                | 200,306 | 17,590 | 29,698   | (46,351) | 201,243 |
| Future income tax liabilities | 22,388  | 2,070  | (24,458) |          |         |
| Other long-term liabilities   | 3,502   | 3,502  |          |          |         |

|                      |         |         |         |           |         |
|----------------------|---------|---------|---------|-----------|---------|
| Total liabilities    | 200,326 | 70,039  | 107,249 | (66,201)  | 311,413 |
| Shareholders' equity | 106,679 | 417,740 | 220,685 | (532,329) | 212,775 |

|  |           |           |           |             |           |
|--|-----------|-----------|-----------|-------------|-----------|
| Total liabilities and shareholders' equity | \$307,005 | \$487,779 | \$327,934 | \$(598,530) | \$524,188 |
|--|-----------|-----------|-----------|-------------|-----------|

**Cash Flow Information:**

|   |        |           |          |             |          |
|---|--------|-----------|----------|-------------|----------|
| Net cash provided by (used in) operating activities | \$226  | \$117,865 | \$22,031 | \$(121,254) | \$18,868 |
| Net cash provided by (used in) investing activities | 19,977 | 546       | (24,118) | (15)        | (3,610)  |
| Net cash provided by (used in) financing activities |        |           |          |             |          |

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|                   |           |         |         |          |
|-------------------|-----------|---------|---------|----------|
| (20,203)          | (117,144) | (4,249) | 121,269 | (20,327) |
| Cash at beginning |           |         |         |          |
| 756               | 14,987    |         | 15,743  |          |
| Cash at end       |           |         |         |          |
| 2,023             | 8,651     |         | 10,674  |          |

**Applica Incorporated and Subsidiaries**  
**Notes to Consolidated Financial Statements**

Three Months Ended March 31, 2001

**Applica**                      **Non-**  
**Incorporated**   **Guaranteed**   **Guaranteed**   **Eliminations**   **Consolidated**

(In thousands)

**Statement of Operations:**

Net sales  
 \$ 117,655 93,228 \$(59,062) 151,821  
 Cost of goods sold  
 90,335 80,124 (59,062) 111,397

Gross profit  
 27,320 13,104 40,424  
 Operating (income) expenses  
 (318) 34,932 7,720 359 42,693

Operating earnings (loss)  
 318 (7,612) 5,384 (359) (2,269)  
 Other (income) expense, net  
 6,016 (5) 210 6,221

Earnings (loss) before income taxes

(5,698) (7,607) 5,174 (359) (8,490)  
 Income tax expense (benefit)  
 4 2,841 (5,052) (2,207)

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Net earnings (loss)  
 \$(5,698) \$(7,611) \$2,333 \$4,693 \$(6,283)

**Balance Sheet:**

Cash and cash equivalents  
 \$13 \$1,342 \$9,583 \$ \$10,938  
 Accounts and other receivables, net  
 96,280 51,101 147,381  
 Receivables from affiliates  
 (68,527) 13,113 58,731 3,317  
 Inventories  
 83,740 57,294 141,034  
 Other current assets  
 7,713 15,257 12,862 35,832

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Total current assets  
 (68,514) 202,188 191,966 12,862 338,502  
 Investments in joint ventures  
 425,121 113,124 70,493 (607,342) 1,396  
 Property, plant and equipment, net  
 18,089 61,263 79,352  
 Other assets  
 234,117 10,232 (18,890) 225,459

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Total assets  
 \$356,607 \$567,518 \$333,954 \$(613,370) \$644,709

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Notes and acceptances payable  
 \$ \$ \$14,980 \$ \$14,980  
 Accounts payable and accrued expenses  
 17 21,003 42,869 63,889  
 Current maturities of long-term debt  
 19,342 19,342  
 Deferred income  
 496 496  
 Current taxes payable  
 5,747 1,217 (6,964)

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Total current liabilities  
 19,359 27,246 59,066 (6,964) 98,707  
 Long-term debt  
 220,596 (6,787) 15,690 (16,137) 226,936  
 Future income tax liabilities  
 8,461 2,409 (10,870)  
 Other long-term liabilities  
 707 707

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Total liabilities

239,955 43,201 77,165 (33,971) 326,350

Shareholders' equity

116,652 524,317 256,789 (579,399) 318,359

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Total liabilities and shareholders' equity

\$356,607 \$567,518 \$333,954 \$(613,370) \$644,709

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**Cash Flow Information:**

Net cash provided by (used in) operating activities

\$(5,682) \$10,428 \$35,462 \$(8,962) \$31,246

Net cash provided by (used in) investing activities

38,050 (17,105) (33,931) 7,080 (5,906)

Net cash provided by (used in) financing activities

(32,363) 3,673 (4,451) 1,882 (31,259)

Cash at beginning

8 4,346 12,503 16,857

Cash at end

13 1,342 9,583 10,938



## **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 periods ended March 31, 2002 and 2001. 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, 2001.

### **Forward Looking Statement Disclosure**

This 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 anticipate, projects, management believes, Applica 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. These factors include, but are not limited to:

Uncertainties regarding the impact of the terrorist activities and the public's confidence in general.

The failure of our growth strategy.

Our inability to renew the Black & Decker® Trademark License Agreement beyond December 2006.

The infringement or loss of our proprietary rights.

Any significant decline in purchases by our larger customers or pressure from these customers to reduce prices.

The bankruptcy or loss of any major retail customer or supplier.

Weakness in the U.S. retail market and changes in product mix.

Uncertainties in Latin America.

The financial condition of the retail industry.

Fluctuations in cost and availability of raw materials and components.

Product recalls and product liability claims against us or other regulatory actions.

Changing conditions in foreign countries.

Changes in trade relations with China.

Currency fluctuations in our international operations.

Changes in retailer inventory management or failure of our logistical systems.

Our ability to develop new and innovative products and customer acceptance of such products.

An extended interruption in the operation of our manufacturing facilities.

Production-related risks that could jeopardize our ability to realize anticipated sales and profits.

Seasonality of our operating results.

Competition with other large companies that produce similar products.

The success of our advertising, marketing and promotional programs.

Adverse effects of newly acquired businesses or product lines.

Our debt agreements contain covenants that restrict our ability to take certain actions.

Government regulations.

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. Readers 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 is a manufacturer, marketer and distributor of a broad range of branded and private-label small electric consumer goods. In 1998, Applica acquired the Black & Decker Household Products Group and became a leading supplier of brand name small household appliances in the United States. We also manufacture and distribute professional personal care products, home environment products and pet care products, including the LitterMaid® self-cleaning cat litter box. We manufacture and market products under licensed brand names, such as Black & Decker®, our own brand names, such as Windmere®, 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 2001, approximately 80% of the products sold by Applica were manufactured in such facilities. In addition, we manufacture products for other consumer products companies, which we refer to as contract manufacturing.

During the fourth quarter of 2001, Applica began reporting its operations as one business segment. Previously, we had reported three business segments. The change to one business segment was made to conform to organizational changes we made in the management of our business to more effectively utilize and deploy our assets on a world-wide basis.

### Results of Operations

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

|  | <b>Three Months<br/>Ended March 31,</b> |             |
|--|---|-------------|
|  | <b>2002</b>                             | <b>2001</b> |
| Net sales  | 100.0%                                  | 100.0%      |
| Cost of goods sold   |   |             |
| 71.1 73.4  |   |             |
| <hr/>  |   |             |
| <hr/>  |   |             |
| Gross profit   |   |             |
| 28.9 26.6  |   |             |
| Selling, general and<br>administrative expenses:                                 |   |             |
| Operating expenses   |   |             |
| 29.6 28.1  |   |             |
| Repositioning charge   |   |             |
| 0.2  |   |             |
| <hr/>  |   |             |
| <hr/>  |   |             |
| Operating earnings (loss)  |   |             |
| (0.9) (1.5)  |   |             |
| Other expense (income)   |   |             |
| 2.5 4.1  |   |             |
| Equity in net earnings<br>(loss) of joint ventures                               |   |             |
| <hr/>  |   |             |
| <hr/>  |   |             |
| Income taxes expense<br>(benefit)  |   |             |
| (1.2) (1.5)  |   |             |
| <hr/>  |   |             |
| <hr/>  |   |             |
| Earnings (loss) before<br>cumulative effect of change<br>in accounting principle |   |             |
| (2.2) (4.1)  |   |             |
| Cumulative effect of change<br>in accounting principle, net<br>of tax            |   |             |
| (55.1)   |   |             |

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Net earnings (loss)  
(57.3)% (4.1)%

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### Three Months Ended March 31, 2002 Compared To Three Months Ended March 31, 2001

**Net Sales.** Sales for Applica decreased by \$8.8 million to \$143.1 million, a decrease of 5.8% over the first quarter of 2001. The decrease was primarily the result of decreases of \$14.8 million in sales of Windmere branded and other products and \$3.3 million in sales of electronic products. The decrease was partially offset by increases of \$4.5 million in contract manufacturing sales, \$2.9 million in sales of professional personal care products and \$1.9 million in LitterMaid sales. Black & Decker branded product sales remained flat. During the quarter, Applica experienced a decrease of \$8.1 million in sales to two of its large retail customers as the result of bankruptcy proceedings, one of which is currently in liquidation.

**Gross Profit Margin.** Applica's gross profit margin was 28.9% in the first quarter of 2002 as compared to 26.6% for the same period in 2001. The gross profit margins increased in the first quarter as Applica returned to normal production levels at its manufacturing facilities. Additionally, Applica experienced an improved product mix in the 2002 first quarter. Applica expects gross margins to improve in the future as the result of normal production at its manufacturing facilities and the introduction of new higher-margin products.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses for Applica remained relatively flat at \$42.3 million for the first quarters of 2002 and 2001. Such expenses increased as a percentage of sales to 29.6% from 28.1% in the 2001 period. In the first quarter of 2002, amortization expense decreased by \$2.0 million primarily as the result of the adoption of SFAS 142, Goodwill and Other Intangible Assets. Additionally, distribution and freight costs decreased by \$1.2 million during the quarter as the result of lower inventories. However, the decreases were offset by an exchange loss of \$1.7 million related to the continuing devaluation of the Argentinean peso and an increase of \$800,000 in advertising and promotional expenses.

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. These expenses did not qualify for accrual at December 31, 2001. Such consolidation will be completed in the third quarter of 2002. Applica expects to incur an additional \$9.6 million in expenses relating to the consolidation during the remainder of 2002.

In June 2001, the Financial Accounting Standards Board approved the issuance of SFAS 142, *Goodwill and Other Intangible Assets*, which establishes 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 on January 1, 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. Additionally, Applica will no longer record annual amortization of \$5.0 million per year.

For additional information regarding SFAS 142, see Note 6 of the Notes to Consolidated Financial Statements included in Part I of this Form 10-Q.

**Interest Expense.** Interest expense decreased by \$2.9 million, or 42.9%, to \$3.8 million for the three months ended March 31, 2002, as compared to \$6.7 million for the 2001 period. Such decrease was largely the result of the reduction of debt by \$56.1 million to \$205.2 million, as compared to \$261.3 million as of March 31, 2001, and lower interest rates.

**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 2002, Applica used an effective tax rate of 35%, as compared to 26% for the first quarter of 2001. The higher rate results from Applica's intent to repatriate earnings from certain of its foreign subsidiaries in 2002.

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. Income tax rates in Hong Kong and Chile range between 8% and 16%. Applica does not make tax provisions for the undistributed earnings of its foreign subsidiaries that it expects will be permanently invested out of the United States.

**Earnings Per Share.** All common stock equivalents were excluded from the per share calculations in the first quarter of 2002 and 2001 as Applica incurred a net loss in the periods and such inclusion would have been anti-dilutive.

## **Liquidity and Capital Resources**

At March 31, 2002, Applica's working capital was \$206.0 million, as compared to \$239.8 million at March 31, 2001. At March 31, 2002 and 2001, Applica's current ratio was 2.9 to 1 and 3.4 to 1, respectively, and its quick ratio was 1.5 to 1 and 2.0 to 1. The decrease in working capital primarily reflected decreases in inventory.

Cash balances remained flat at \$10.7 million for the quarter ended March 31, 2002.

The net cash provided by operating activities totaled \$18.9 million in the first quarter of 2002, as compared to cash provided by operating activities of \$31.2 million in 2001. The change primarily reflected continued improvements in working capital.

Cash used in investing activities totaled approximately \$3.6 million for the period, as compared to \$5.9 million for 2001, and consisted primarily of equipment at Applica's manufacturing facilities and tooling for new products.

Cash used in financing activities totaled approximately \$20.3 million in the period, as compared to \$31.3 million provided by financing activities in 2001, reflecting a net reduction in long-term borrowings.

Certain of Applica's foreign subsidiaries have approximately \$39.5 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. Outstanding borrowings by Applica's Hong Kong subsidiaries are primarily in Hong Kong dollars.

Applica's primary sources of liquidity are its cash flow from operations and borrowings under its \$205 million four-year asset-based senior secured revolving credit facility. As of May 1, 2002, Applica was borrowing approximately \$70.0 million under the facility and had approximately \$46.7 million available for future cash borrowings. Advances under the facility are primarily based upon percentages of outstanding eligible accounts receivable and inventories. The credit facility includes a \$10,000,000 sublimit for the issuance of letters of credit. 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 2.35% (4.23% at March 31, 2002); or

the Base Rate (which is Bank of America's prime rate), plus a specified margin, currently 0.35% (5.10% at March 31, 2002).

Swing loans up to \$15.0 million bear interest at the Base Rate plus a specified margin, currently 0.35% (5.10% at March 31, 2002).

In April 2002, Applica Consumer Products, Inc., Applica's U.S. operating subsidiary, entered into a five-year \$6.0 million mortgage on its headquarters building located in Miami Lakes, Florida. The mortgage 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 mortgage is secured by the property and the building located thereon.

Applica's aggregate capital expenditures for the quarter ended March 31, 2002 were \$3.4 million, as compared to \$5.9 million for 2001. Applica anticipates that the total capital expenditures for 2002 will be approximately \$25.0 million, which includes 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, 2002, debt as a percent of total capitalization was 49.1%, as compared to 43.4% at December 31, 2001. The increase was primarily due to the reduction in shareholders' equity as the result of the non-cash goodwill write-down required by SFAS 142.

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, management believes that cash flow from operations and available cash, together with available borrowings under its credit facility and other facilities, will be adequate to meet Applica's 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.

### **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, 2002 were interest rate management contracts on \$189.0 million notional principal amount with a negative fair value of \$4.0 million. In addition, Applica had an \$80.0 million forward starting interest rate cap with a positive fair value of \$0.5 million. The negative/positive market value represents the amount Applica would pay/receive upon exiting the contracts at March 31, 2002 and was determined based on quotes obtained from Applica's financial institutions. The net negative market value related to interest rate risk management contracts of \$3.5 million is included as other long-term liabilities as of March 31, 2002. The negative market value related to the fair value hedge of \$2.7 million is also included (as a decrease to) long-term debt. Applica does not intend to exit these contracts at this time.

Significant interest rate risk management instruments held by Applica as of March 31, 2002 included pay-floating swaps, pay-fixed swaps and interest rate caps. The pay-floating swap effectively converts medium term obligations to LIBOR-rate indexed variable-rate instruments. Pay-fixed swaps effectively convert floating-rate obligations to fixed-rate instruments. Interest rate caps provide protection against rising interest rates. All swaps have maturity dates that mirror the maturity date of the underlying hedged transaction. For the period ending March 31, 2002, 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, 2002 was not material.

### **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 twenty-four 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, 2002 were \$54.1 million notional of contracts to purchase and/or sell foreign currency forward with a fair market value of approximately \$1.8 million. The market value represents the amount Applica would receive upon exiting the contracts at March 31, 2002 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, 2002. 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.

The impact of foreign exchange risk management activities on operating income during the quarter ending March 31, 2002 was not material.

**Additional Information**

For additional information, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk in Applicant's Annual Report on Form 10-K for the year ended December 31, 2001.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

**Shareholder Litigation and Related Matters.** Applica is a defendant in *Sherleigh Associates LLC and Sherleigh Associates Inc. Profit Sharing Plan, on their own behalf and on behalf of all others similarly situated v. Windmere-Durable Holdings, Inc., David M. Friedson and Nationsbank Montgomery Securities LLC*, 98-2273-CIV-LENARD which was filed in the United States District Court, Southern District of Florida in October 1998.

In January 2002, Applica reached an agreement in principle to settle the securities class action litigation and the related derivative claims for approximately \$11.0 million in cash. Applica took a charge of approximately \$1.0 million in the fourth quarter of 2001 for expenses related to the litigation. All other amounts related to the settlement of the litigation are expected to be covered under Applica's insurance policies. Under the terms of the settlement, all claims against Applica and all other defendants will be dismissed without any admission of liability or wrongdoing. Settlement is subject to final documentation and court approval. Failure of the court to approve the settlement could result in significant changes in estimated exposures. Details regarding the shareholder litigation settlement will be communicated to potential class members prior to final court approval.

**Salton Litigation.** Applica is also a defendant in *Salton, Inc. v Windmere-Durable Holdings, Inc. and Windmere Corporation*, which was filed in the United States District Court, Northern District of Illinois in January 2001. Discovery procedures have been initiated and are ongoing.

**Toaster Recall.** In February 2002, Applica Consumer Products, Inc., in cooperation with the U.S. Consumer Products Safety Commission, voluntarily recalled approximately 2.1 million Black & Decker® two-slice and four-slice toasters. Applica's Canadian operating subsidiary, Applica Canada Corporation, also recalled approximately 180,000 of these toasters in Canada. In connection therewith, Applica took a charge of \$13.4 million in the fourth quarter of 2001 relating to the estimated expenses of such recalls. Management does not believe the ultimate liability will be materially different.

Currently, no cases have been filed in connection with property damage or bodily injury relating to the recalled toasters; however, several 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 or results of operations. 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 the 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:

None.

(b) Reports on Form 8-K:

None.



**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)

May 6, 2002

By: /s/ HARRY D. SCHULMAN

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Harry D. Schulman  
President, Chief Operating Officer and Secretary

May 6, 2002

By: /s/ TERRY L. POLISTINA

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