APPLICA INC
Form 10-Q
August 10, 2001

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

OR

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

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 [X] No [ ]

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

CLASS	NUMBER OF SHARES OUTSTANDING ON AUGUST 1, 2001
Common Stock, $.10 par value................	23,191,974

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

APPLICA INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	JUNE 30, 2001
	(UNAUDITED)
	(IN TH
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 10,367
Accounts and other receivables, less allowances of $7,931 in 2001 and $8,049 in 2000	156,891
Receivables from affiliates	3,405
Inventories	133,649
Prepaid expenses and other	20,061
Refundable income taxes	1,314
Future income tax benefits	19,284
Total current assets	344,971
INVESTMENT IN JOINT VENTURE	1,395
PROPERTY, PLANT AND EQUIPMENT - at cost, less accumulated depreciation of $92,253 in 2001 and $82,770 in 2000	83,352
FUTURE INCOME TAX BENEFITS, NON-CURRENT	5,912
NOTE RECEIVABLE	500
OTHER ASSETS	214,495
TOTAL ASSETS	$ 650,625
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES	
Notes and acceptances payable	$ 2,255
Current maturities of long-term debt	19,569
Accounts payable	46,997
Accrued expenses	38,128
Deferred income	478
Total current liabilities	107,427
LONG-TERM DEBT	226,316
OTHER LONG-TERM LIABILITIES	2,495
SHAREHOLDERS' EQUITY:	
Common stock - authorized: 75,000 shares of $.10 par value; issued and outstanding: 23,203 in 2001 and 23,080 in 2000	2,320
Paid-in capital	153,065
Retained earnings	164,584
Notes receivable - officers	(1,496)
Accumulated other comprehensive (loss)	(4,086)
Total shareholders' equity	314,387
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 650,625

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

APPLICA INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		
	2001		2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Sales and other revenues	$ 161,664	100.0%	$ 171,411
Cost of goods sold	113,997	70.5	119,231
Gross profit	47,667	29.5	52,180
Selling, general and administrative expenses	45,992	28.5	45,268
Operating profit	1,675	1.0	6,912
Other (income) expense:			
Interest expense	5,688	3.5	7,785
Interest and other income	(508)	(0.3)	(535)
	5,180	3.2	7,250
Loss before income taxes .	(3,505)	(2.2)	(338)
Income tax benefit	906	0.6	93
Net loss	$ (2,599)	(1.6)%	$ (245)
Per share data:			
Loss per common share - basic ..	$ (0.11)		$ (.01)
Loss per common share - diluted	$ (0.11)		$ (.01)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

APPLICA INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	SIX MONTHS ENDED JUNE 30,		
	2001		200
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Sales and other revenues	$ 313,485	100.0%	$ 318,102
Cost of goods sold	225,394	71.9	221,508
Gross profit	88,091	28.1	96,594
Selling, general and administrative expenses	88,685	28.3	87,865
Operating (loss) profit ..	(594)	(0.2)	8,729
Other (income) expense:			
Interest expense	12,371	3.9	14,064
Interest and other income	(970)	(0.3)	(965)
	11,401	3.6	13,099
Loss before income taxes .	(11,995)	(3.8)	(4,370)
Income tax benefit	3,113	1.0	1,097
Net loss	$ (8,882)	(2.8)%	$ (3,273)
Per share data:			
Loss per common share - basic ..	$ (0.38)		$ (0.14)
Loss per common share - diluted	$ (0.38)		$ (0.14)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

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APPLICA INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	2001	
	(IN THOUSANDS	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (8,882)	$
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation of property, plant and equipment	9,753	
Amortization of intangible assets	9,341	
Net change in allowance for losses on accounts receivable ..	(118)	
Consulting expense on non-employee stock options	25	
Amortization of deferred income	(36)	
Changes in assets and liabilities:		
Accounts and other receivables	29,425	
Inventories	26,671	(
Prepaid expenses and other	(2,784)	
Other assets	1,178	
Accounts payable and accrued expenses	(5,339)	(
Current and deferred income taxes	(6,943)	
Other liabilities	--	(
Other receivables	--	
Other accounts	--	
Net cash provided by (used in) operating activities ...	$ 52,291	$(
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(14,905)	(
Distributions from joint venture	130	
Receivables from affiliates	(124)	
Net cash used in investing activities	(14,899)	(
CASH FLOWS FROM FINANCING ACTIVITIES:		
Notes and acceptances	(11,239)	
Long-term debt - net	(33,104)	
Exercises of stock options	461	
Net cash (used in) provided by financing activities ...	(43,882)	
DECREASE IN CASH AND CASH EQUIVALENTS	(6,490)	
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	16,857	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 10,367	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
CASH PAID DURING THE SIX-MONTH PERIOD ENDED JUNE 30, 2001:		
Interest	$ 11,434	$
Income taxes	$ 3,254	$

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 June 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information, refer to the Consolidated Financial Statements and Notes thereto included in Applica's Annual Report on Form 10-K for the year ended December 31, 2000.

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 venture partner 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.

DERIVATIVE FINANCIAL INSTRUMENTS

Applica uses forward exchange contracts to reduce fluctuations in foreign currency cash flows related to third party raw material and other operating purchases. The terms of the foreign currency instruments used are generally consistent with the timing of the committed or anticipated transactions being hedged. Applica does not use derivative financial instruments for trading or speculative purposes. Outstanding at June 30, 2001 were $48.8 million notional value of contracts to purchase and/or sell foreign currency forward with a fair market value of approximately $0.1 million. The market value represents the amount Applica would receive upon exiting the contracts at June 30, 2001 and was determined based on quotes obtained from Applica's financial institutions. This amount is included in prepaid expenses and other as of June 30, 2001 and the related credit is included in accumulated other comprehensive loss as of June 30, 2001. All contracts have terms of twelve months or less.

Applica uses interest rate derivatives to reduce the impact of changes in interest rates on its floating rate debt and to maintain its desired fixed/floating rate ratio. The notional amounts of the agreements are used to measure interest to be paid or received and do not represent the amount of exposure to credit loss. The differential paid or received on the agreements is recognized as an adjustment of interest expense. Applica does not use derivative financial instruments for trading or speculative purposes. Outstanding as of June 30, 2001 were derivatives on $220.0 million notional principal amount with a negative fair market value of approximately $2.5 million. The market value represents the amount Applica would have to pay to exit the contracts at June 30, 2001 and was determined based on quotes obtained from Applica's financial institutions. This amount is included in other long-term liabilities as of June 30, 2001 and the related debit is included in accumulated other comprehensive loss as of June 30, 2001. Applica does not intend to exit these contracts at this time. All contracts have terms between one and seven years, which reflect the tenor of the underlying obligation.

At June 30, 2001, Applica had no significant commodity future contracts.

APPLICA INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- CONTINUED

2. SHAREHOLDERS' EQUITY

EARNINGS PER SHARE

Basic shares for the three-month period ended June 30, 2001 and 2000 were 23,093,291 and 22,991,460, respectively. Basic shares for the six-month period ended June 30, 2001 and 2000 were 23,085,231 and 22,857,889, respectively. All common stock equivalents have been excluded from the diluted per share calculations as their inclusion would have been anti-dilutive.

3. COMMITMENTS AND CONTINGENCIES

Applica is a defendant in certain litigation. See Part II, "Item 1. Legal Proceedings."

4. BUSINESS SEGMENT INFORMATION

The Consumer Products North America segment distributes kitchen electric, professional personal care, pet and home environment products under licensed brand names such as Black & Decker(R), as well as the Windmere(R), Littermaid(R) and private label brand names. The sales are handled primarily through in house sales representatives to mass merchandisers, specialty retailers and appliance distributors in the United States and Canada.

The Consumer Products International segment distributes kitchen electric, personal care and home environment products under the Black & Decker(R) and Windmere(R) brand names. Products are marketed throughout Latin America except for Brazil.

The Manufacturing segment includes Applica's manufacturing operations located in China and Mexico. The majority of Applica's products are manufactured in these two facilities. Applica also manufactures products on an "original equipment manufacturing" (OEM) basis for other consumer products companies. The

Manufacturing segment also includes these OEM sales.

Summarized financial information concerning Applica's reportable segments is shown in the following table. Corporate related items, results of insignificant operations and income and expense not allocated to reportable segments are included in the reconciliations to consolidated results.

Segment information for the three-month periods ended June 30, 2001 and 2000 was as follows:

	CONSUMER PRODUCTS NORTH AMERICA	CONSUMER PRODUCTS INTERNATIONAL	MANUFACTURING
		(IN THOUSANDS)	
2001:			
Net sales..............................	$116,496	$29,124	$89,389
Intersegment net sales.................	357	--	79,514
Operating earnings (loss)..............	(7,380)	1,748	7,662
2000:			
Net sales..............................	121,226	25,287	102,851
Intersegment net sales.................	2,585	--	84,915
Operating earnings (loss)..............	(2,568)	(1,200)	12,734

APPLICA INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- CONTINUED

Reconciliation to consolidated amounts was as follows:

	2001	2000
	(IN THOUSANDS)	
REVENUES:		
Total revenues for reportable segments................	$235,009	$249,364
Other revenues..	6,526	9,547
Eliminations of intersegment revenues.................	(79,871)	(87,500)
Total consolidated revenues......................	161,664	$171,411
Operating earnings:		
Total earnings for reportable segments...........	2,030	$8,966
Other income (loss)..............................	153	(1,519)
Interest expense.................................	(5,688)	(7,785)
Consolidated loss before income tax benefit.......	$(3,505)	$(338)

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Segment information for the six-month periods ended June 30, 2001 and 2000 was as follows:

	CONSUMER PRODUCTS NORTH AMERICA	CONSUMER PRODUCTS INTERNATIONAL	MANUFACTURING
		(IN THOUSANDS)	
2001:			
Net sales..............................	$234,373	$49,047	$157,603
Intersegment net sales..................	724	--	138,209
Operating earnings (loss)...............	(13,402)	813	14,375
2000:			
Net sales..............................	229,760	45,701	196,464
Intersegment net sales..................	4,235	--	165,289
Operating earnings (loss)...............	$(11,800)	$(690)	$23,827

Reconciliation to consolidated amounts was as follows:

	2001	2000
	(IN THOUSANDS)	
REVENUES:		
Total revenues for reportable segments.................	$441,023	$471,925
Other revenues...	11,395	15,701
Eliminations of intersegment revenues..................	(138,933)	(169,524)
Total consolidated revenues.......................	313,485	$318,102
Operating earnings:		
Total earnings for reportable segments............	$1,786	$11,337
Other (loss)......................................	(1,410)	(1,643)
Interest expense..................................	(12,371)	(14,064)
Consolidated loss before income tax benefit.......	$(11,995)	$(4,370)

APPLICA INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- CONTINUED

5. 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 -- CONTINUED

	SIX MONTHS ENDED JUNE 30, 2001			
	APPLICA INCORPORATED	GUARANTORS	NON-GUARANTORS	ELIMIN
			(IN THOUSANDS)	
STATEMENT OF OPERATIONS:				
Sales and other revenues	--	236,613	215,805	(138,9
Cost of goods sold	--	175,737	188,590	(138,9
Gross profit	--	60,876	27,215	
Operating expenses	(696)	73,713	15,244	4
Operating profit (loss)	696	(12,837)	11,971	(4
Other (income) expense, net	11,152	(40)	289	
Earnings (loss) before income taxes .	(10,456)	(12,797)	11,682	(4
Income taxes (benefit)	--	(9,574)	6,461	
Net earnings (loss)	(10,456)	(3,223)	5,221	(4

BALANCE SHEET:				
Cash	6	962	9,399	
Accounts and other receivables	--	107,505	49,386	
Receivables from affiliates	(72,058)	7,770	67,693	
Inventories	--	83,606	50,043	
Other current assets	--	7,762	17,901	14,9
Total current assets	(72,052)	207,605	194,422	14,9
Investment in joint venture	425,121	113,124	70,492	(607,3
Property, plant and equipment, net	--	19,182	64,170	
Other assets	2,175	245,030	19,047	(45,3
Total assets	355,244	584,941	348,131	(637,6
Notes and acceptances payable	--	--	2,255	
Accounts payable and accrued expenses	3	24,580	60,542	
Current maturities of long-term debt	19,569	--	--	
Deferred income	--	478	--	
Income taxes payable	--	4,899	2,567	(7,4
Total current liabilities	19,572	29,957	65,364	(7,4
Long-term debt	221,812	7,975	24,093	(27,5
Deferred income, less current portion	--	--	--	
Deferred income taxes	--	25,749	2,445	(28,1
Other long-term liabilities	--	2,495	--	
Total liabilities	241,384	66,176	91,902	(63,2
Shareholders' equity	113,860	518,765	256,229	(574,4
Total liabilities and shareholders' equity	355,244	584,941	348,131	(637,6
CASH FLOW INFORMATION:				
Net cash provided by (used in) operating activities	(12,629)	14,187	37,951	12,7
Net cash provided by (used in) investing activities	41,581	(11,382)	(41,559)	(3,5
Net cash provided by (used in) financing activities	(28,954)	(6,189)	504	(9,2
Cash at beginning	8	4,346	12,503	
Cash at end	6	962	9,399	

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APPLICA INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- CONTINUED

SIX MONTHS ENDED JUNE 30, 2000

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	INCORPORATED	GUARANTORS	NON-GUARANTORS	ELIMIN
			(IN THOUSANDS)	
STATEMENT OF OPERATIONS:				
Sales and other revenues	--	238,906	248,720	(169,5
Cost of goods sold	--	176,250	214,782	(169,5
Gross profit	--	62,656	33,938	
Operating expenses	421	71,346	15,918	1
Operating profit (loss)	(421)	(8,690)	18,020	(1
Other (income) expense, net	12,760	335	4	
Earnings (loss) before income taxes .	(13,181)	(9,025)	18,016	(1
Income taxes (benefit)	--	(3,897)	2,800	
Net earnings (loss)	(13,181)	(5,128)	15,216	(1
BALANCE SHEET:				
Cash	6	(4,415)	12,922	
Accounts and other receivables	--	113,823	56,271	
Receivables from affiliates	11,790	(56,741)	48,157	
Inventories	--	138,821	61,330	
Other current assets	--	2,384	12,059	11,5
Total current assets	11,796	193,872	190,739	11,5
Investments in joint venture	426,028	113,121	70,536	(607,3
Property, plant and equipment, net	--	17,589	66,785	
Other assets	--	591,253	11,164	(366,1
Total assets	437,824	915,835	339,224	(961,9
Notes and acceptances payable	--	--	452	
Accounts payable and accrued expenses ..	2	28,528	54,265	
Current maturities of long-term debt ...	17,842	--	--	
Deferred income, current portion	--	585	--	
Income taxes payable	--	(1,816)	4,627	(1,5
Total current liabilities	17,844	27,297	59,344	(1,5
Long-term debt	283,832	353,636	11,847	(362,9
Deferred income, less current portion ..	--	199	--	
Deferred income taxes	--	5,514	2,843	(8,3
Total liabilities	301,676	386,646	74,034	(372,8
Shareholders' equity	136,148	529,189	265,190	(589,0
Total liabilities and shareholders' equity	437,824	915,835	339,224	(961,9
CASH FLOW INFORMATION:				
Net cash provided by (used in) operating activities	(13,180)	(177,313)	23,227	130,4
Net cash provided by (used in) investing activities	(33,342)	45,598	(25,789)	(3,5
Net cash provided by (used in) financing activities	46,524	123,361	5,659	(126,8
Cash at beginning	4	3,939	9,825	

Cash at end	6	(4,415)	12,922

APPLICA INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- CONTINUED

6. SUBSEQUENT EVENTS

As part of its acquisition of the Black & Decker Household Products Group in June 1998, Applica licensed the Black & Decker(R) brand in North America, Central America, South America (excluding Brazil) and the Caribbean for specific household appliances. The license was on a royalty-free basis for core product categories through June 2003. In July 2001, Applica and The Black & Decker Corporation entered into an extension of the trademark license agreement through December 31, 2006. Under the agreement as extended, Applica will pay certain fees and guaranteed minimum royalty payments to The Black & Decker Corporation of $1.2 million in 2001, $2.0 million in 2002, $5.0 million in 2003 and $12.5 million in each year thereafter through 2006. Renewals of the license agreement, if mutually agreed upon, are for five-year periods. If Black & Decker does not agree to renew the license agreement, Applica has 18 months to transition out of the product line. No minimum royalty payments will be due during such transition period.

Upon request, Black & Decker may elect to extend the license to use the Black & Decker(R) brand to certain additional products. Such additional products are subject to royalty payments. In 2000, Black & Decker agreed to extend the license to seven new product categories, including heaters, fans, deep fryers and humidifiers.

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 and six-month periods ended June 30, 2000 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, 2000.

FORWARD LOOKING STATEMENT DISCLOSURE

This document 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:

- If we are unable to renew the Black & Decker(R) Trademark License Agreement beyond December 2006, our business could be adversely affected.
- The infringement or loss of our proprietary rights could have an adverse effect on our business.
- We depend on purchases from 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.
- Our business is very sensitive to the strength of the U.S. retail market and weakness in this market could adversely effect our business.
- Our performance can fluctuate with the financial condition of the retail industry.
- Our business can be adversely effected by fluctuations in cost and availability of raw materials and components.
- Our business involves the potential for product recalls and product liability claims against us.
- We could be adversely affected by changing conditions in foreign countries.
- 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 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 that could jeopardize our ability to realize anticipated sales and profits.
- Our operating results can be affected by seasonality.
- We compete with other large companies that produce similar products.
- Our advertising, marketing and promotional programs may not be as successful as we expect them to be.
- Our debt agreements contain covenants that restrict our ability to take certain actions.

- A class action lawsuit has been brought against us in connection with our acquisition of the Black & Decker Household Products Group; we cannot predict the outcome of this lawsuit.

- 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 such forward-looking statements. All subsequent written and oral forward-looking statements attributable to Applica or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements in this paragraph. Applica disclaims any obligation to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

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(R) self-cleaning cat litter box. We manufacture and market products under licensed brand names, such as Black & Decker(R), our own brand names, such as Windmere(R), 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. Applica operates manufacturing facilities in China and Mexico. In addition, Applica manufactures products on an "original equipment manufacturing" (OEM) basis for other consumer products companies.

As part of our acquisition of the Black & Decker Household Products Group in June 1998, we licensed the Black & Decker(R) brand in North America, Central America, South America (excluding Brazil) and the Caribbean for specific household appliances. The license was on a royalty-free basis for core product categories through June 2003. In July 2001, Applica and The Black & Decker Corporation entered into an extension of the trademark license agreement through December 31, 2006. Under the agreement as extended, Applica will pay certain fees and guaranteed minimum royalty payments to The Black & Decker Corporation of $1.2 million in 2001, $2.0 million in 2002, $5.0 million in 2003 and $12.5 million in each year thereafter through 2006. Renewals of the license agreement, if mutually agreed upon, are for five-year periods. If Black & Decker does not agree to renew the license agreement, Applica has 18 months to transition out of the product line. No minimum royalty payments will be due during such transition period.

Upon request, Black & Decker may elect to extend the license to use the Black & Decker(R) brand to certain additional products. Such additional products are subject to royalty payments. In 2000, Black & Decker agreed to extend the license to seven new product categories, including heaters, fans, deep fryers and humidifiers.

In the fourth quarter of 2000, we entered into a joint product development relationship with a consumer products company to develop, manufacture, market and distribute new household products. We have entered into development agreements for two products pursuant to such alliance and currently expect them to be launched in the U.S. in 2003.

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RESULTS OF OPERATIONS

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

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
Sales and other revenues	100.0%	100.0%
Cost of goods sold	71.9	69.6
Gross profit	28.1	30.4
Selling, general and administrative expenses	28.3	27.6
Other (income) expense - net	3.6	4.1
Loss before income taxes	(3.8)	(1.3)
Income taxes benefit	1.0	0.3
Net loss	(2.8)%	(1.0)%

THREE MONTHS ENDED JUNE 30, 2001 COMPARED TO THREE MONTHS ENDED JUNE 30, 2000

SALES AND OTHER REVENUES. Sales and other revenues for Applica decreased by $9.7 million to $161.7 million, a decrease of 5.7% over the second quarter of 2000. The change was primarily the result of a decrease of $12.0 million in sales of product categories that were exited in the fourth quarter of 2000 repositioning and a decrease of $8.1 million in OEM sales. The decrease was partially offset by a $5.8 million increase in Black & Decker branded product sales, a $3.3 million increase in Littermaid sales and a $3.0 million increase in Windmere branded and other product sales in Latin America.

North America sales decreased by $4.7 million, or 3.9%, to $116.5 million in the second quarter of 2001. The change is primarily attributable to a $12.0 million decrease in sales of product categories that were exited in the fourth quarter of 2000 and was partially offset by a $5.0 million increase in sales of Black & Decker branded products and a $3.3 million increase in sales of Littermaid products.

Sales for the international segment increased by $3.8 million to $29.1 million, or 15.2%, from the 2000 period. The change primarily resulted from a $3.0 million increase in Windmere branded and other product sales.

Sales at Applica's manufacturing subsidiaries decreased by $13.5 million, or 13.1%, to $89.4 million from the second quarter of 2000. The decrease in manufacturing sales was primarily the result of the production slow down at the Mexico and China factories and the decrease in OEM sales of $8.1 million, or 45.0%, to $9.9 million. The decrease in OEM sales was primarily the result of the loss of one customer. However, management believes that sales to new customers will eliminate such loss in the second half of the year.

GROSS PROFIT MARGIN. Applica's gross profit margin was 29.5% in the second quarter as compared to 30.4% in 2000. The decrease in the gross profit margin was primarily the result of lower production at Applica's manufacturing facilities, as Applica continued to reduce its inventory levels. The slowdown of production in the China and Mexico factories during the second quarter resulted in unabsorbed overhead costs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. Selling, general and administrative expenses for Applica increased by $0.7 million in the second quarter of 2001. Such expenses increased as a percentage of sales to 28.5% from 26.4% in the 2000 period. In the second quarter 2001, promotion expenses increased $1.0 million and distribution and freight costs increased by $1.0 million. The increase in distribution and freight costs primarily related to the liquidation of products exited in the 2000 repositioning and also reflected higher year-over-year rates and fuel surcharges from freight carriers. The increase was partially offset by a decrease of approximately $1.3 million in selling and other expenses.

See "New Accounting Pronouncement" below for information regarding a change in the accounting for goodwill.

INTEREST EXPENSE. Interest expense decreased by $2.1 million, or 26.9%, to $5.7 million for the three months ended June 30, 2001, as compared to $7.8 million for the 2000 period. Such decrease was the result of lower interest rates and the reduction of debt by $56.5 million to $248.1 million as compared to $304.6 million as of June 30, 2000.

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. The earnings of subsidiaries in Canada, Mexico and Latin America (other than Chile) are generally taxed at rates comparable to or higher than 34%, 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.

In the second quarter of 2001, Applica used an effective tax rate of 26%, as compared to 25% for the second quarter of 2000.

EARNINGS PER SHARE. All common stock equivalents have been excluded from the diluted per share calculations in the second quarter of 2001 and 2000 as Applica incurred a net loss in both periods and such inclusion would have been anti-dilutive.

SIX MONTHS ENDED JUNE 30, 2001 COMPARED TO SIX MONTHS ENDED JUNE 30, 2000

SALES AND OTHER REVENUES. Sales and other revenues for Applica decreased by $4.6 million to $313.5 million, a decrease of 1.5% over the 2000 period. The change was primarily the result of a decrease of $27.1 million in sales of product categories that were exited in the fourth quarter 2000 repositioning and a decrease of $11.8 million in OEM sales. The decrease was partially offset by a $20.9 million increase in sales of Black & Decker branded products, a $10.3 million increase in Windmere branded and other product sales, and a $3.1 million increase in sales of Littermaid pet products.

North America sales increased by $4.6 million, or 2.0%, to $234.4 million in the first six months of 2001. The change resulted from a $23.6 million increase in sales of Black & Decker branded products, a $5.0 million increase in Windmere branded and other product sales, and a $3.1 million increase in sales of Littermaid pet products. The increase was partially offset by a decrease of $27.1 million in sales of product categories that were exited in the fourth quarter of 2000.

Sales for the international segment increased by $3.3 million to $49.0 million, or 7.3%, from the 2000 period. The change resulted from a $6.0 million increase in Windmere branded and other products partially offset by a $2.7 million decrease in sales of Black & Decker branded products.

Sales at Applica's manufacturing subsidiaries decreased by $38.9 million, or 19.8%, to $157.6 million from the first six months of 2000. The decrease in manufacturing sales was primarily the result of the production slow down at the Mexico and China factories and decreases in OEM sales of $11.8 million, or 37.8%, in the 2001 period to $19.4 million. The decrease in OEM sales was primarily the result of the loss of one customer. However, management believes that sales to new customers will eliminate such loss in the second half of the year.

GROSS PROFIT MARGIN. Applica's gross profit margin was 28.1% in the first six months of 2001 as compared to 30.4% in 2000. The decrease in the gross profit margin was primarily the result of lower production at Applica's manufacturing facilities, as Applica continued to reduce its inventory levels, along with higher raw material costs in the first quarter of 2001. The slowdown of production in the China and Mexico factories during the first half of 2001 resulted in unabsorbed overhead costs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. Selling, general and administrative expenses for Applica increased by $0.8 million in the first six months of 2001 to $88.7 million. Such expenses increased as a percentage of sales to 28.3% from 27.6% in the 2000 period. In the first half of 2001, distribution and freight costs increased by $3.3 million. Such costs primarily related to the liquidation of products exited in the 2000 repositioning and also reflected higher year-over-year rates and fuel surcharges from freight carriers. In addition, promotion expenses increased by $1.0 million during the period. This was partially offset by a decrease of approximately $3.5 million in selling and other expenses.

See "New Accounting Pronouncement" below for information regarding a change in the accounting for goodwill.

INTEREST EXPENSE. Interest expense decreased by $1.7 million, or 12.1%, to $12.4 million for the six months ended June 30, 2001, as compared to $14.1 million for the 2000 period. Such decrease was the result of lower interest rates and the reduction of debt by $56.5 million to $248.1 million as compared to $304.6 million as of June 30, 2000.

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. The earnings of subsidiaries in Canada, Mexico and Latin America (other than Chile) are generally taxed at rates comparable to or higher than 34%, 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.

In the first six months of 2001, Applica used an effective tax rate of 26%, as compared to 25% for the first half of 2000.

EARNINGS PER SHARE. All common stock equivalents have been excluded from the diluted per share calculations in the first half of 2001 and 2000 as Applica incurred a net loss in both periods and such inclusion would have been anti-dilutive.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2001, Applica's working capital was $237.5 million, as compared to $305.0 million at June 30, 2000. At June 30, 2001 and 2000, Applica's current ratio was 3.2 to 1 and 4.0 to 1, respectively, and its quick ratio was 1.8 to 1 and 1.9 to 1, respectively. The change in ratios is primarily the result of the inventory reduction program.

Cash balances decreased by $6.5 million to $10.4 million for the six months ended June 30, 2001.

The net cash provided by operating activities, which totaled $52.3 million for the period, reflected primarily reductions in inventories and accounts receivable.

Cash used in investing activities totaled approximately $14.9 million for the six-month period, as compared to $17.1 million for the 2000 period, and consisted primarily of capital expenditures at Applica's manufacturing facilities.

Cash used in financing activities totaled approximately $43.9 million in the period, as compared to cash provided by financing activities of $48.7 million in the 2000 period, and primarily reflected the change in debt levels in 2001 and 2000 as Applica reduced its debt by approximately $43.0 million during the six month period in June 2001.

Certain of Applica's foreign subsidiaries have approximately $55.1 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 U.S. dollars.

Applica's primary sources of liquidity are its cash flow from operations and borrowings under its Senior Secured Credit Facilities. The Senior Secured Credit Facilities, as amended, consist of a Senior Secured Revolving Credit Facility, a Tranche A Term Loan and a Tranche B Term Loan. The Senior Secured Revolving Credit Facility as amended, provides for borrowings by Applica of up to $160 million. As of August 10, 2001, Applica was borrowing approximately $104 million under the term loan portion of its Senior Secured Credit Facilities. As of August 10, 2001, Applica was borrowing approximately $16 million under the Senior Secured Revolving Credit Facility and had approximately $94 million available for future cash borrowings as determined by the borrowing base under the Senior Secured Credit Facilities. Advances under the Senior Secured Revolving Credit Facility are based upon percentages of outstanding eligible accounts receivable and inventories.

At June 30, 2001, the interest rate applicable to the loans made under the revolving credit facility and the Tranche A Term Loan (other than Swing Line Loans) was 5.59% as compared to 8.52% at June 30, 2000. The interest rate applicable to the Tranche B Term Loan was 6.59% as compared to 9.52% for the 2000 period. Swing Line Loans bore interest at 7.50% at June 30, 2001 as compared to 10.25% at June 30, 2000.

At June 30, 2001, debt as a percent of total capitalization was 44.1%, as compared to 47.0% at June 30, 2000.

Applica's aggregate capital expenditures for the six months ended June 30, 2001 were $14.9 million as compared to $17.6 million for the 2000 period. Such expenditures related to capital expenditures at Applica's manufacturing facilities. Applica anticipates that the total capital expenditures for 2001 will be approximately $20.0 million to $25.0 million. Applica plans to fund such capital expenditures from cash flow from operations and, if necessary, borrowings under the Senior Secured Revolving Credit Facility.

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 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 the Senior Secured Credit Facilities 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 Senior Secured Credit Facilities 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."

NEW ACCOUNTING PRONOUNCEMENT

In June 2001, the Financial Accounting Standards Board approved the issuance of SFAS No. 141, "Business Combinations" and SFAS 142, "Goodwill and Other Intangible Assets". The new standards require that all business combinations initiated after June 30, 2001 must be accounted for under the purchase method. In addition, all intangible assets acquired that are obtained through contractual or legal right, or are capable of being separately sold, transferred, licensed, rented or exchanged shall be recognized as an asset apart from goodwill. Goodwill and intangibles with indefinite lives will no longer be subject to amortization, but will be subject to an annual assessment for impairment by applying a fair value based test. Applica will continue to amortize goodwill existing at June 30, 2001 under its current method until January 1, 2002. Thereafter, annual goodwill amortization of $5.0 million will be discontinued, and amortization of a newly recognized intangible, if any, will commence on January 1, 2002. By June 30, 2002, Applica will perform a transitional fair value based impairment test and if the fair value is less than the recorded value at January 1, 2002, Applica will record an impairment loss in the first half of 2002 as a cumulative effect of a change in accounting principle.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Applica's major market risk exposure is to changing interest rates, debt obligations issued at a fixed rate and fluctuations in the currency exchange rates. Applica's policy is to manage interest rate risk through the use of a combination of fixed and floating rate instruments, with respect to both its liquid assets and its debt instruments. The Senior Credit Facilities currently bear interest at LIBOR plus an applicable margin and thus are affected by changes in interest rates.

For additional information, see Footnote 1, "Derivative Financial Instruments," of the Notes to Consolidated Financial Statements included elsewhere in this Form 10-Q Report.

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 NATIONSBANC MONTGOMERY SECURITIES LLC, 98-2273-CIV-LENARD which was filed in the United States District Court, Southern District of Florida in October 1998. Discovery procedures have been initiated and are ongoing.

In connection with the Household Products Group acquisition, Applica also received two derivative demands from certain shareholders alleging breach of fiduciary duties by certain of our officers and directors. An independent committee of the Board of Directors is currently conducting an investigation as to whether such derivative actions are in the best interest of Applica.

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.

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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

At Applica's Annual Meeting of Shareholders held on May 8, 2001, the shareholders voted to elect Leonard Glazer, Lai Kin, Raymond So, Paul K. Sugrue and Arnold Thaler as Class II Directors. Continuing members of the Board of Directors of Applica include: Barbara Freidson Garrett, J. Maurice Hopkins, Thomas J. Kane, Felix S. Sabates, David M. Friedson, Harry D. Schulman, Jerald I. Rosen, Susan J. Ganz, Desmond Lai, and Frederick E. Fair.

The number of votes cast for or against with respect to each of the nominees were as follows:

NOMINEE	FOR	AGAINST
Leonard Glazer	20,135,351	1,390,067
Lai Kin	19,695,133	1,830,285
Raymond So	19,698,033	1,827,385
Paul K. Sugrue	20,139,156	1,386,262
Arnold Thaler	20,139,142	1,386,276

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)

August 9, 2001

By: /s/ HARRY D. SCHULMAN

Harry D. Schulman
President, Chief Operating Officer
and Secretary

August 9, 2001

By: /s/ TERRY L. POLISTINA

Terry L. Polistina
Senior Vice President and Chief
Financial Officer