APPLICA INC
Form 10-Q
November 07, 2001

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 SEPTEMBER 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 NOVEMBER 1, 2001
Common Stock, $.10 par value..................	23,235,974

APPLICA INCORPORATED

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

APPLICA INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30, 2001
	(Unaudited)
	(In Th

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 8,499
Accounts and other receivables, less allowances of $9,050 in 2001 and $8,049 in 2000	193,594
Receivables from affiliates	3,600
Inventories	141,973
Prepaid expenses and other	21,215
Refundable income taxes	4,836
Future income tax benefits	19,284
Total current assets	393,001
INVESTMENT IN JOINT VENTURE	1,395
PROPERTY, PLANT AND EQUIPMENT - at cost, less accumulated depreciation of $96,526 in 2001 and $82,770 in 2000	83,027
FUTURE INCOME TAX BENEFITS, NON-CURRENT	5,896
OTHER ASSETS	210,590
TOTAL ASSETS	$ 693,909

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES	
Notes and acceptances payable	$ --
Current maturities of long-term debt	21,048
Accounts payable	54,972
Accrued expenses	45,777
Deferred income, current portion	461
Total current liabilities	122,258
LONG-TERM DEBT	247,617
FUTURE INCOME TAX LIABILITIES	2,483
OTHER LONG-TERM LIABILITIES	75
SHAREHOLDERS' EQUITY:	
Common stock - authorized: 75,000 shares of $.10 par value; issued and outstanding: 23,236 shares in 2001 and 23,080 shares in 2000	2,324
Paid-in capital	153,432
Retained earnings	173,121
Notes receivable - officers	(1,496)
Accumulated other comprehensive earnings (loss)	(5,905)
Total shareholders' equity	321,476
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 693,909

The accompanying notes are an integral part of these statements.

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APPLICA INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended Septembe		
	2001		
	(In thousands, except per share		
Sales and other revenues	$203,201	100.0%	$199,3
Cost of goods sold.........................	141,145	69.5	132,6
Gross profit......................	62,056	30.5	66,7
Selling, general and administrative expenses................................	45,699	22.4	48,0
Operating profit..................	16,357	8.1	18,6
Other expense (income):			
Interest expense........................	5,429	2.7	8,1
Interest and other income................	(608)	(0.3)	(7
	4,821	2.4	7,4
Earnings before equity in net loss of joint venture and income taxes.........	11,536	5.7	11,2
Equity in net loss of joint venture......	--	--	(1
Earnings before income taxes	11,536	5.7	11,0
Income tax expense........................	2,999	1.5	2,7
Net earnings......................	$8,537	4.2%	$ 8,2
Per share data:			
Earnings per common share - basic........	$ 0.37		$ 0.
Earnings per common share - diluted......	$ 0.35		$ 0.

The accompanying notes are an integral part of these statements.

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APPLICA INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Nine Months Ended September		
	2001		
	(In thousands, except per share		
Sales and other revenues	$516,685	100.0%	$517,4
Cost of goods sold.........................	366,539	70.9	354,1
Gross profit......................	150,146	29.1	163,3
Selling, general and administrative expenses................................	134,384	26.0	135,9
Operating profit..................	15,762	3.1	27,4
Other expense (income):			
Interest expense.........................	17,801	3.5	22,2
Interest and other income................	(1,579)	(0.3)	(1,6
	16,222	3.2	20,5
Earnings (loss) before equity in net loss of joint venture and income taxes.	(460)	(0.1)	6,8
Equity in net loss of joint venture......	--	--	(1
Earnings (loss) before income taxes	(460)	(0.1)	6,7
Income tax expense (benefit)	(115)	--	1,7
Net earnings (loss)................	$ (345)	(0.1)%	$ 5,0
Per share data:			
Earnings (loss) per common share - basic.	$ (0.02)		$ 0.
Earnings (loss) per common share - diluted...............................	$ (0.02)		$ 0.

The accompanying notes are an integral part of these statements.

APPLICA INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
	2001	200
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings (loss)	$ (345)	$ 5,
Reconciliation to net cash provided by (used in) operating activities:		
Depreciation of property, plant and equipment	14,575	14,
Amortization of intangible assets	14,142	14,
Net change in allowance for losses on accounts receivable	1,001	
Equity in net earnings of joint venture	--	
Consulting expense on non-employee stock options	25	
Net change in deferred income	(53)	(
Changes in assets and liabilities:		
Accounts and other receivables	(8,397)	(22,
Inventories	18,847	(61,
Prepaid expenses and other	(3,938)	3,
Other assets	(3,957)	(2,
Accounts payable and accrued expenses	10,285	(1,
Current and deferred income taxes	(7,966)	(9,
Other liabilities	--	(10,
Other receivables	--	12,
Other accounts	--	(
Net cash provided by (used in) operating activities	$ 34,219	$(56,
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(19,402)	(19,
Distributions from joint venture	130	
Receivables from affiliates	(319)	
Net cash used in investing activities	(19,591)	(18,
CASH FLOWS FROM FINANCING ACTIVITIES:		
Notes and acceptances	(13,494)	(
Long-term debt - net	(10,324)	70,
Proceeds from employee stock benefit plans	832	2,
Net cash (used in) provided by financing activities	(22,986)	71,
DECREASE IN CASH AND CASH EQUIVALENTS	(8,358)	(3,
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	16,857	13,
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 8,499	9,

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

CASH PAID DURING THE NINE-MONTH PERIODS ENDED SEPTEMBER 30:		
Interest	$ 19,566	$ 23,

Income taxes	$ 7,026	$ 8,

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 September 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 September 30, 2001 were $67.7 million notional value of contracts to purchase and/or sell foreign currency forward with a fair market value of approximately $400,000. The market value represents the amount Applica would receive upon exiting the contracts at September 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 September 30, 2001. All contracts expire on or before September 30, 2002.

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 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 September 30, 2001 were derivatives on $200.0 million notional principal amount with a negative fair market value of approximately $100,000. The market value represents the amount Applica would have to pay to exit the contracts at September 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 September 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.

One of Applica's interest rate derivatives qualifies as a fair value hedge. Accordingly, Applica increased the value of its debt by approximately $1.9 million at September 30, 2001, as required by SFAS 133.

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

2. SHAREHOLDERS' EQUITY

EARNINGS PER SHARE

Basic shares for the three-month period ended September 30, 2001 and 2000 were 23,218,715 and 23,035,355, respectively. Basic shares for the nine-month period ended September 30, 2001 and 2000 were 23,168,672 and 22,917,044, respectively. Included in diluted shares are common stock equivalents relating to options of 917,048 and 539,762 for the three month periods ended September 30, 2001 and 2000, respectively and 971,795 for the nine month period ended September 30, 2000. All common stock equivalents have been excluded from the diluted per share calculations in the nine-month period ended September 30, 2001 as their inclusion would have been anti-dilutive.

Stock options to purchase 1,685,926 shares of Applica's common stock at exercise prices ranging from $9.85 to $31.6875 were excluded from the diluted per share computation for the three month period ended September 30, 2001 as the exercise prices were greater than the average market price of Applica's common stock during such period.

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 September 30, 2001 and 2000 was as follows:

	Consumer Products North America	Consumer Products International	Manufacturing
	(In thousands)		
2001:			
Net sales..............................	$144,798	$26,497	$116,529
Intersegment net sales.................	--	--	92,157
Operating earnings	1,950	1,436	12,787
2000:			
Net sales..............................	$149,005	$24,852	$111,511
Intersegment net sales.................	1,620	--	95,695
Operating earnings	5,947	286	12,450

Reconciliation to consolidated amounts was as follows:

	2001	2000
	(In thousands)	
REVENUES:		
Total revenues for reportable segments.................	$287,824	$285,368
Other revenues...	7,534	11,344
Eliminations of intersegment revenues..................	(92,157)	(97,315)
Total consolidated revenues.......................	$203,201	$199,397
OPERATING EARNINGS:		
Total earnings for reportable segments............	$16,173	$18,683
Other income (loss)...............................	792	574
Interest expense..................................	(5,429)	(8,160)
Earnings before income taxes...............	$ 11,536	$ 11,097

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

	Consumer Products North America	Consumer Products International	Manufacturing
		(In thousands)	
2001:			
Net sales..............................	$379,170	$75,545	$274,131
Intersegment net sales.................	--	--	231,090
Operating earnings (loss)..............	(9,760)	2,249	26,711
2000:			
Net sales..............................	$378,764	$70,553	$307,975
Intersegment net sales.................	5,855	--	260,985
Operating earnings (loss)..............	(4,780)	(405)	32,335

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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................	$728,846	$757,292
Other revenues..	18,929	27,047
Eliminations of intersegment revenues.................	(231,090)	(266,840)
Total consolidated revenues......................	$516,685	$517,499
OPERATING EARNINGS:		
Total earnings for reportable segments...........	$19,200	$27,150
Other income (loss)..............................	(1,859)	1,802
Interest expense.................................	(17,801)	(22,225)
Earnings (loss) before income taxes......	$ (460)	$ 6,727

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.

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APPLICA INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

	Nine Months Ended September 30,		
	Applica Incorporated	Guarantors	Non-Guarantors
		(In thousands)	
STATEMENT OF OPERATIONS:			
Sales and other revenues	--	378,754	369,021
Cost of goods sold	--	271,549	326,080
Gross profit	--	107,205	42,941

Operating expenses	(1,142)	112,398	22,614
Operating profit (loss)	1,142	(5,193)	20,327
Other (income) expense, net	16,222	--	--
Earnings (loss) before income taxes .	(15,080)	(5,193)	20,327
Income taxes (benefit)	(12,488)	--	12,373
Net earnings (loss)	(2,592)	(5,193)	7,954
BALANCE SHEET:			
Cash	--	1,322	7,177
Accounts and other receivables	--	128,142	65,452
Receivables from affiliates	(51,742)	(8,081)	63,423
Inventories	--	89,474	52,499
Other current assets	--	7,958	19,048
Total current assets	(51,742)	218,815	207,599
Investment in joint venture	425,119	113,123	70,492
Property, plant and equipment, net	--	18,109	64,918
Other assets	2,207	240,721	23,065
Total assets	375,584	590,768	366,074
Accounts payable and accrued expenses ..	3	27,218	73,528
Current maturities of long-term debt ...	21,048	--	--
Deferred income	--	461	--
Income taxes payable	--	2,445	4,603
Total current liabilities	21,051	30,124	78,131
Long-term debt	244,422	6,477	23,425
Future income tax liabilities	--	28,230	2,448
Other long-term liabilities	--	75	--
Total liabilities	265,473	64,906	104,004
Shareholders' equity	110,111	525,862	262,070
Total liabilities and shareholders' equity	375,584	590,768	366,074
CASH FLOW INFORMATION:			
Net cash provided by (used in) operating activities	(4,797)	(10,422)	32,142
Net cash provided by (used in) investing activities	21,267	4,580	(40,412)
Net cash provided by (used in) financing activities	(16,478)	2,818	2,944
Cash at beginning	8	4,346	12,503
Cash at end	--	1,322	7,177

APPLICA INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

	Nine Months Ended September 30,		
	Applica Incorporated	Guarantors	Non-Guarantors
		(In thousands)	
STATEMENT OF OPERATIONS:			
Sales and other revenues	--	388,646	395,693
Cost of goods sold	--	283,296	337,700
Gross profit	--	105,350	57,993
Operating expenses	(557)	111,543	24,680
Operating profit (loss)	557	(6,193)	33,313
Other (income) expense, net	20,026	615	(89)
Earnings (loss) before income taxes .	(19,469)	(6,808)	33,402
Income taxes (benefit)	--	159	7,036
Equity in net loss of joint venture	128	--	--
Net earnings (loss)	(19,597)	(6,967)	26,366
BALANCE SHEET:			
Cash	10	(2,107)	11,881
Accounts and other receivables	--	134,648	59,776
Receivables from affiliates	21,286	(83,046)	64,597
Inventories	--	146,803	78,010
Other current assets	--	893	11,719
Total current assets	21,296	197,191	225,983
Investments in joint venture	425,900	113,122	70,503
Property, plant and equipment, net	--	17,800	63,390
Other assets	--	219,571	11,137
Total assets	447,196	547,684	371,013
Accounts payable and accrued expenses ..	3	27,957	66,100
Current maturities of long-term debt ...	18,342	--	--
Deferred income, current portion	--	292	--
Income taxes payable	--	991	2,724
Total current liabilities	18,345	29,240	68,824
Long-term debt	299,154	(18,476)	18,799
Deferred income taxes	--	5,514	2,843
Total liabilities	317,499	16,278	90,466
Shareholders' equity	129,697	531,406	280,547
Total liabilities and shareholders' equity	447,196	547,684	371,013
CASH FLOW INFORMATION:			
Net cash provided by (used in) operating activities	(19,595)	168,297	26,254

Net cash provided by (used in) investing activities	(42,710)	70,783	(41,016)
Net cash provided by (used in) financing activities	62,311	(245,126)	16,818
Cash at beginning	4	3,939	9,825
Cash at end	10	(2,107)	11,881

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

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

The following discussion and analysis and the related financial data present a review of the consolidated operating results and financial condition of Applica for the three-month and nine-month periods ended September 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 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 recent terrorist activities and the public's confidence in general.

- Our inability to renew the Black & Decker(R) 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.

- 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.
- 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.
- 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.
- The outcome of the class action lawsuit brought against us in connection with our acquisition of the Black & Decker Household Products Group.
- 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 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(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.

Due to the continuation of the economic slowdown, which was further compounded by the events of September 11th, Applica again lowered production at its Chinese and Mexican manufacturing facilities in the fourth quarter. The slowdown of production will result in unabsorbed overhead costs and an expected decrease in gross profit margins for the fourth quarter of 2001. Additionally, because management expects that the current weak retail environment will adversely effect consumer spending during the holiday season, we are considering other cost cutting measures which could result in charges of up to $15 million after-tax in the fourth quarter of 2001 and annual cost savings of $4 to $5 million. It is anticipated that approximately one-half of the charges would be non-cash.

RESULTS OF OPERATIONS

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

	Nine Months Ended September	
	2001	2000
Sales and other revenues	100.0%	100.0
Cost of goods sold	70.9	68.4
Gross profit	29.1	31.6
Selling, general and administrative expenses	26.0	26.3

Other expense - net	3.2	4.0
(Loss) earnings before income taxes	(0.1)	1.3
Income taxes (benefit)	--	0.3
Net (loss) earnings	(0.1)%	1.0

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

SALES AND OTHER REVENUES. Sales and other revenues for Applica increased by $3.8 million to $203.2 million, an increase of 1.9% over the third quarter of 2000. The change was primarily the result of an increase of $8.0 million in OEM sales, a $1.9 million increase in Littermaid sales, a $1.8 million increase in Black & Decker branded product sales and a $1.7 million increase in Windmere branded and other product sales. These increases were partially offset by a decrease of $8.0 million in sales of product categories that were exited in the fourth quarter of 2000 and a decrease of $1.7 million in sales of electronic products. Additionally, during October, shipments to one major retailer were significantly curtailed, which could adversely impact fourth quarter sales.

North America sales decreased by $4.2 million, or 2.8%, to $144.8 million in the third quarter of 2001. The change is primarily attributable to a $8.0 million decrease in sales of product categories that were exited in the fourth quarter of 2000 and a $1.1 million decrease in sales of Windmere branded and other branded products. This decrease was partially offset by a $3.0 million increase in sales of Black & Decker branded products and a $1.9 million increase in sales of Littermaid products.

Sales for the international segment increased by $1.6 million, or 6.6%, to $26.5 million, from the 2000 period. The change primarily resulted from a $2.8 million increase in Windmere branded and other product sales, offset by a decrease of $1.2 million in sales of Black & Decker products.

Sales at Applica's manufacturing subsidiaries increased by $5.0 million, or 4.5%, to $116.5 million from the third quarter of 2000. The increase in manufacturing sales was primarily the result of an increase in OEM sales of $8.0 million, or 50.7%, to $23.8 million. The increase in OEM sales was the result of sales to new customers.

GROSS PROFIT MARGIN. Applica's gross profit margin was 30.5% in the third quarter of 2001 as compared to 33.5% for the same period in 2000. The decrease in the gross profit margin was primarily the result of an increase in OEM sales, which are generally at lower margins, and a significantly less favorable product mix. Generally, consumers purchased fewer higher-priced, higher-margin products and more lower-priced, lower-margin products in the third quarter. Due to the continuation of the economic slowdown, which was further compounded by the events of September 11th, Applica again lowered production at its Chinese and Mexican manufacturing facilities in the fourth quarter. The slowdown of production will result in unabsorbed overhead costs and an expected decrease in gross profit margins for the fourth quarter of 2001.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. Selling, general and administrative expenses for Applica decreased by $2.4 million in the third quarter of 2001, or 4.9%, to $45.7 million. Such expenses decreased as a percentage of sales to 22.4% from 24.1% in the 2000 period. In the third quarter 2001, distribution and freight costs decreased by $3.2 million as the result of lower inventories, better space management and lower North American sales due to exited businesses.

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

INTEREST EXPENSE. Interest expense decreased by $2.7 million, or 33.5%, to $5.4 million for the three months ended September 30, 2001, as compared to $8.2 million for the 2000 period. Such decrease was the result of the reduction of debt by $58.7 million to $268.7 million, as compared to $327.4 million as of September 30, 2000, 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. 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 third quarter of 2001, Applica used an effective tax rate of 26%, as compared to 25% for the third quarter of 2000.

EARNINGS PER SHARE. Basic shares for the three month periods ended September 30, 2001 and 2000 were 23,218,715 and 23,035,355, respectively. Included in diluted shares are common stock equivalents relating to options of 971,048 and 539,762 for the three month periods ended September 30, 2001 and 2000, respectively.

NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2000

SALES AND OTHER REVENUES. Sales and other revenues for Applica decreased slightly to $516.7 million from $517.5 million in the 2000 period. The change was primarily the result of a decrease of $35.1 million in sales of product categories that were exited in the fourth quarter of 2000, a decrease of $3.4 million in OEM sales and a decrease of $2.8 million in sales of electronic products. The decrease was primarily offset by a $22.6 million increase in sales of Black & Decker branded products, a $12.8 million increase in Windmere branded and other product sales, and a $5.0 million increase in sales of Littermaid pet products.

North America sales increased slightly to $379.2 million in the first nine months of 2001 from $378.8 million. The change was primarily the result of a $26.6 million increase in sales of Black & Decker branded products, a $5.0 million increase in sales of Littermaid pet products and a $3.9 million increase in Windmere and other product sales. The increase was primarily offset by a decrease of $35.1 million in sales of product categories that were exited in the fourth quarter of 2000.

Sales for the international segment increased by $5.0 million, or 7.1%, to $75.5 million from the 2000 period. The change resulted from a $8.9 million increase in Windmere branded and other products partially offset by a $3.9 million decrease in sales of Black & Decker branded products.

Sales at Applica's manufacturing subsidiaries decreased by $33.8 million, or 11.0%, to $274.1 million from the first nine 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 $3.4 million, or 7.2%, in the 2001 period to $43.6 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 result in an increase in OEM sales for the year.

GROSS PROFIT MARGIN. Applica's gross profit margin was 29.1% in the first nine months of 2001 as compared to 31.6% 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. Additionally, as a result of the slow economic environment, consumers purchased fewer higher-priced, higher-margin products and more lower-priced, lower-margin products during the nine-month period. Due to the economic slowdown, which was further compounded by the events of September 11th, Applica again lowered production at its Chinese and Mexican manufacturing facilities in the fourth quarter. The slowdown of production will result in unabsorbed overhead costs and an expected decrease in gross profit margins for the year ended December 31, 2001.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. Selling, general and administrative expenses for Applica decreased by $1.6 million, or 1.1%, in the first nine months of 2001 to $134.4 million. Such expenses decreased as a percentage of sales to 26.0% in 2001 from 26.3% in the 2000 period. In the first nine months of 2001, selling and other expenses decreased by $2.5 million as the result of the consolidation of our external and internal sales forces.

This was partially offset by an increase in promotional expenses of $0.8 million. Freight and distribution expenses remained relatively flat during the period.

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

INTEREST EXPENSE. Interest expense decreased by $4.4 million, or 19.9%, to $17.8 million for the nine months ended September 30, 2001, as compared to $22.2 million for the 2000 period. Such decrease was the result of the reduction of debt by $58.7 million to $268.7 million, as compared to $327.4 million as of September 30, 2000, 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. 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 nine months of 2001, Applica used an effective tax rate of 26%, as compared to 25% for the first nine months of 2000.

EARNINGS PER SHARE. Basic shares for the nine month periods ended

September 30, 2001 and 2000 were 23,168,672 and 22,917,044, respectively. Included in diluted shares are common stock equivalents relating to options of 971,795 for the nine-month period ended September 30, 2000. All common stock equivalents have been excluded from the diluted per share calculations in the first nine months of 2001 as Applica incurred a net loss in such period and inclusion would have been anti-dilutive.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2001, Applica's working capital was $270.7 million, as compared to $342.6 million at September 30, 2000. At September 30, 2001 and 2000, Applica's current ratio was 3.2 to 1 and 4.0 to 1, respectively, and its quick ratio was 1.9 to 1 and 2.0 to 1, respectively. The change in the current ratio is primarily the result of the inventory reduction program.

Cash balances decreased by $8.4 million to $8.5 million for the nine months ended September 30, 2001.

The net cash provided by operating activities, which totaled $34.2 million for the period, reflects a significant reduction in inventories.

Cash used in investing activities remained relatively flat at approximately $19.6 million for the nine-month periods in 2001 and 2000 and consisted primarily of capital expenditures at Applica's manufacturing facilities.

Cash used in financing activities totaled approximately $23.0 million in the period, as compared to $71.5 million of cash provided by financing activities in the 2000 period, and primarily reflected the change in debt levels in 2001 and 2000 as Applica reduced its debt by approximately $58.7 million year-over-year.

Certain of Applica's foreign subsidiaries have approximately $40.8 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 in both U.S. and Hong Kong 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 November 1, 2001, Applica was borrowing approximately $99.5 million under the term loan portion of its Senior Secured Credit Facilities. As of November 1, 2001, Applica was borrowing approximately $28.3 million under the Senior Secured Revolving Credit Facility and had approximately $122.7 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 September 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 4.38% as compared to 8.3675% at September 30, 2000. The interest rate applicable to the Tranche B Term Loan was 5.38% as compared to 9.3675% for the 2000 period. Swing Line Loans bore interest at 6.75% at September 30, 2001 as compared to 10.25% at September 30, 2000.

At September 30, 2001, debt as a percent of total capitalization was 45.5%, as compared to 48.3% at September 30, 2000.

Applica's aggregate capital expenditures for the nine months ended September 30, 2001 were $19.4 million as compared to $19.4 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 $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 September 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 September 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. Applica has not yet made an evaluation to comply with this standard.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Applica's major market risk exposure is to changing interest rates on debt obligations 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 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits:

10.1 Amendment No. 7 to Amended and Restated Credit Agreement by and among Applica Incorporated, each of its subsidiaries party thereto, each of the lenders party thereto and Bank of America, N.A., as agent for the lenders, dated August 24, 2001.

(b) Reports on Form 8-K:

None.

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SIGNATURES

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

APPLICA INCORPORATED
(Registrant)

November 6, 2001 By: /s/ Harry D. Schulman

Harry D. Schulman
President, Chief Operating Officer
and Secretary

November 6, 2001 By: /s/ Terry L. Polistina

Terry L. Polistina
Senior Vice President and
Chief Financial Officer

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