ALBERTO CULVER CO
Form 10-Q
May 11, 2001

UNITED STATES
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:

March 31, 2001

-OR-

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

Commission File No. 1-5050

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

Delaware	36-2257936
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2525 Armitage Avenue Melrose Park, Illinois	60160
(Address of principal executive offices)	(Zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES X NO_____

At March 31, 2001, the company had 23,648,011 shares of Class A common stock and 32,957,471 shares of Class B common stock outstanding.

PART I

ITEM 1. FINANCIAL STATEMENTS

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Consolidated Statements of Earnings
Three Months Ended March 31, 2001 and 2000
(in thousands, except per share data)

	(Unaudited)	
	2001	2000
Net sales	$622,558	553,813
Cost of products sold	299,270	271,520
Gross profit	323,288	282,293
Advertising, promotion, selling and administrative	277,853	244,069
Operating earnings	45,435	38,224
Interest expense, net of interest income of $1,307 in 2001 and $620 in 2000	5,670	4,259
Earnings before provision for income taxes	39,765	33,965
Provision for income taxes	13,873	11,208
Net earnings	$ 25,892	22,757
Net earnings per share		
Basic	$ 0.46	0.41
Diluted	$ 0.45	0.40
Cash dividends paid per share	$ .0825	.0750

See notes to consolidated financial statements.

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ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Consolidated Statements of Earnings
Six Months Ended March 31, 2001 and 2000
(in thousands, except per share data)

	(Unaudited)	
	2001	2
Net sales	$1,216,118	1,0
Cost of products sold	591,453	5
Gross profit	624,665	5
Advertising, promotion, selling and administrative	538,215	4
Non-recurring gain (Note 5)	--	
Operating earnings (Note 5)	86,450	
Interest expense, net of interest income of $2,509 in 2001 and $1,365 in 2000	11,422	
Earnings before provision for income taxes (Note 5)	75,028	
Provision for income taxes (Note 5)	25,510	
Net earnings (Note 5)	$ 49,518	
Net earnings per share (Note 5)		
Basic	$ 0.88	
Diluted	$ 0.86	
Cash dividends paid per share	$ .1575	

See notes to consolidated financial statements.

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ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets
March 31, 2001 and September 30, 2000
(dollars in thousands, except share data)

ASSETS	(Unaudited March 31, 2001
Current assets:	
Cash and cash equivalents	$ 140,456
Short-term investments	995
Receivables, less allowance for doubtful accounts ($10,926 at 3/31/01 and $10,135 at 9/30/00)	158,227
Inventories:	
Raw materials	43,664
Work-in-process	4,423
Finished goods	426,723
Total inventories	474,810
Other current assets	26,848
Total current assets	801,336
Property, plant and equipment at cost, less accumulated depreciation ($223,087 at 3/31/01 and $211,337 at 9/30/00)	232,047
Goodwill, net	263,277
Trade names, net	81,262
Other assets	57,650
Total assets	$1,435,572

LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Short-term borrowings and current maturities of long-term debt	$ 5,746
Accounts payable	193,736
Accrued expenses	141,990
Income taxes	14,307
Total current liabilities	355,779
Long-term debt	332,305
Deferred income taxes	39,274
Other liabilities	29,715
Stockholders' equity:	
Common stock, par value $.22 per share:	
Class A authorized 75,000,000 shares; issued 30,612,798 shares	6,735
Class B authorized 75,000,000 shares; issued 37,710,655 shares	8,296
Additional paid-in capital	188,476
Retained earnings	728,291
Deferred compensation	(5,544
Accumulated other comprehensive income - foreign currency translation	(59,858
	866,396
Less treasury stock at cost (Class A common shares: 6,964,787 at 3/31/01 and 7,630,930 at 9/30/00; Class B common shares: 4,753,184 at 3/31/01 and 9/30/00)	(187,897
Total stockholders' equity	678,499

Total liabilities and stockholders' equity	$1,435,572

See notes to consolidated financial statements.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Six Months Ended March 31, 2001 and 2000
(dollar amounts in thousands)

	(Unaudited)	
	2001	2000
Cash Flows from Operating Activities:		
Net earnings	$ 49,518	49,590
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	25,784	23,248
Non-recurring gain (Note 5)	--	(9,257)
Cash effects of changes in (exclusive of acquisitions):		
Receivables, net	(5,143)	(5,700)
Inventories	(27,524)	(18,563)
Other current assets	(966)	(2,918)
Accounts payable and accrued expenses	17,259	(10,683)
Income taxes	(5,209)	3,721
Other assets	10,052	11,925
Other liabilities	(4,951)	(10,670)
Net cash provided by operating activities	58,820	30,693
Cash Flows from Investing Activities:		
Short-term investments	(700)	1,257
Capital expenditures	(13,735)	(19,097)
Payments for purchased businesses, net of acquired companies' cash	(12,646)	(113,036)
Proceeds from sale of trademark (Note 5)	--	10,000
Other, net	(541)	4,224
Net cash used by investing activities	(27,622)	(116,652)
Cash Flows from Financing Activities:		
Short-term borrowings	2,228	2,933
Proceeds from long-term debt	27	108,215

Repayments of long-term debt	(8,657)	(16,435)
Proceeds from sale of receivables	--	5,000
Cash dividends paid	(8,858)	(7,804)
Cash proceeds from exercise of stock options	11,365	1,177
Stock purchased for treasury	(1,348)	(3,460)
Net cash provided (used) by financing activities	(5,243)	89,626
Effect of foreign exchange rate changes on cash	(136)	(1,029)
Net increase in cash and cash equivalents	25,819	2,638
Cash and cash equivalents at beginning of period	114,637	55,931
Cash and cash equivalents at end of period	$140,456	58,569

See notes to consolidated financial statements.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) The consolidated financial statements contained in this report have not been audited by independent public accountants, except for balance sheet information presented at September 30, 2000. However, in the opinion of the company, the consolidated financial statements reflect all adjustments, which include only normal adjustments, necessary to present fairly the data contained therein. The results of operations for the periods covered are not necessarily indicative of results for a full year. Certain amounts for the prior year have been reclassified to conform to the current year's presentation.

(2) Basic earnings per share is calculated using the weighted average of actual shares outstanding of 56,134,000 and 55,743,000 for the three months ended March 31, 2001 and 2000, respectively, and 55,978,000 and 55,725,000 for the six months ended March 31, 2001 and 2000, respectively.

Diluted earnings per share is determined by dividing net earnings by the weighted average shares outstanding, including common stock equivalents. Diluted weighted average shares outstanding were 57,897,000 and 56,405,000 for the three months ended March 31, 2001 and 2000, respectively, and 57,592,000 and 56,415,000 for the six months ended March 31, 2001 and 2000, respectively.

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

	Three Months Ended March 31	Six Months Ended March 31

	2001	2000	2001	2000
Basic weighted average shares outstanding	56,134	55,743	55,978	55,725
Effect of dilutive securities:				
Assumed exercise of stock options	1,391	587	1,242	615
Assumed vesting of restricted stock	372	--	372	--
Other	--	75	--	75
Diluted weighted average shares outstanding	57,897	56,405	57,592	56,415

Stock options for 1,845,000 shares were excluded from the computation of diluted earnings per share for the three months and six months ended March 31, 2000 as the options' exercise prices were greater than the average market price and, therefore, were anti-dilutive. No stock options were anti-dilutive in fiscal year 2001.

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

	Three Months Ended March 31		Six Mon Ended Mar
	2001	2000	2001
Net earnings	$25,892	22,757	49,518
Other comprehensive income adjustments-foreign currency translation	(8,518)	(2,787)	(5,458)
Comprehensive income	$17,374	19,970	44,060

(4) During fiscal year 1998, the Board of Directors authorized the company to purchase up to 6.0 million shares of its Class A common stock. This authorization was increased to 9.0 million shares in fiscal year 1999. As of March 31, 2001, the company had purchased 7,290,400 Class A common shares under this program at a total cost of $162.9 million. No Class A shares have been purchased under this program since October, 1999.

(5) In the first quarter of fiscal year 2000, the company sold a European trademark with a nominal carrying value for $10.0 million. The transaction resulted in a non-recurring pre-tax gain of $9.3 million and an increase in net earnings of $6.0 million. The non-recurring gain added 11 cents to the

company's basic and diluted earnings per share.

(6) Segment data for the three and six months ended March 31, 2001 and 2000 is as follows (in thousands):

	Three Months Ended March 31		S En
	2001	2000	200
Net sales:			
Consumer products:			
Alberto-Culver North America	$ 155,473	132,725	302
Alberto-Culver International	109,261	110,463	214
Total consumer products	264,734	243,188	516
Specialty distribution - Sally	364,144	315,570	712
Eliminations	(6,320)	(4,945)	(13
	$ 622,558	553,813	1,216
Earnings before provision for income taxes:			
Consumer products:			
Alberto-Culver North America	$ 11,723	7,100	24
Alberto-Culver International	2,195	1,246	2
Total consumer products	13,918	8,346	27
Specialty distribution - Sally	36,655	31,685	71
Segment operating profit	50,573	40,031	98
Non-recurring gain (Note 5)	--	--	
Unallocated expenses, net	(5,138)	(1,807)	(12
Interest expense, net of interest income	(5,670)	(4,259)	(11
	$ 39,765	33,965	75

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

RESULTS OF OPERATIONS

Second Quarter and Six Months Ended March 31, 2001 versus Second Quarter and Six Months Ended March 31, 2000

The company achieved record second quarter net sales of $622.6 million in fiscal year 2001, up $68.7 million or 12.4% over the comparable period of fiscal year 2000. For the six month period ending March 31, 2001, net sales reached a new high of $1.22 billion, representing a 12.6% increase compared to last year's six month period.

Net earnings for the three months ended March 31, 2001 were $25.9 million or 13.8% higher than the same period of the prior year. Basic earnings per share were 46 cents in fiscal year 2001 and 41 cents in 2000. Diluted earnings per share increased 12.5% to 45 cents in fiscal year 2001 from 40 cents in 2000.

Net earnings were $49.5 million for the six months ended March 31, 2001 or 13.6% higher than the prior year's first half net earnings of $43.6 million before the non-recurring gain described below. Excluding the fiscal 2000 non-recurring gain, basic earnings per share of 88 cents in fiscal year 2001 were 10 cents or 12.8% higher than the same period of fiscal year 2000. Diluted earnings per share before the non-recurring gain increased 11.7% to 86 cents in fiscal year 2001 from 77 cents in fiscal year 2000.

As described in Note 5, the company sold a European trademark in the first quarter of fiscal year 2000. As a result, the company recognized a non-recurring pre-tax gain of $9.3 million and an increase in net earnings of $6.0 million. Accordingly, basic and diluted earnings per share increased 11 cents as a result of the gain. Fiscal year 2001 first half net earnings decreased $72,000 or 0.1% compared to fiscal year 2000 net earnings including the non-recurring gain.

Compared to the same periods of the prior year, sales of Alberto-Culver North America consumer products increased 17.1% and 17.4% for the second quarter and first six months of fiscal year 2001, respectively. The increases were primarily due to sales related to the acquired Pro-Line business, the introduction of TRESemme Hydrology and higher sales of the St. Ives Swiss Formula facial products, the Alberto VO5 Herbals line of shampoos and conditioners and the Motions line of hair care products.

Sales of Alberto-Culver International consumer products ("International") decreased 1.1% in the second quarter and 2.7% in the first six months of fiscal 2001 compared to last year. Fiscal year 2001 results were negatively affected by foreign exchange rates. Had foreign exchange rates this year been the same as the second quarter and first six months of fiscal 2000, International sales would have increased 7.4% and 7.6%, respectively.

The "Specialty distribution-Sally" business segment achieved sales increases of 15.4% for the second quarter and 16.6% for the first six months of fiscal 2001. The increases were mainly attributable to the expansion of Sally's full service operations, higher sales for established Sally Beauty Company outlets and the addition of stores during the year. At March 31, 2001, Sally Beauty Company had 2,350 stores offering a full range of professional beauty supplies.

Cost of products sold as a percentage of net sales was 48.1% for the second quarter and 48.6% for the first six months of fiscal year 2001 compared to 49.0% for the second quarter and first six months of the prior year. The lower cost of products sold percentages in fiscal year 2001 were primarily due to the introduction of higher margin new products, product mix and lower manufacturing costs.

Compared to the prior year, advertising, promotion, selling and administrative expenses in fiscal year 2001 increased $33.8 million or 13.8% for the second quarter and $60.2 million or 12.6% for the first six months. The increases primarily resulted from the selling and administration costs associated with the expansion of the Sally Beauty Company business and the growth of the North America business, including the acquisition of Pro-Line.

Net interest expense in fiscal year 2001 increased $1.4 million for the second quarter and $3.7 million for the first six months compared to the same periods of the prior year. The increases were primarily attributable to additional interest expense related to the $200 million of 8.25% senior notes issued in April, 2000. The higher interest expense was partially offset by lower interest expense related to the repayment of borrowings under the revolving credit facility, the payoff of the $20 million of notes payable which matured in September, 2000, lower borrowings under the Swedish Krona revolving credit facility and higher interest income from investing the net senior note proceeds.

The fiscal year 2001 provision for income taxes as a percentage of earnings before income taxes was 34.9% for the second quarter and 34.0% for the first six months, compared to 33% for the second quarter and first six months of fiscal year 2000. The higher 2001 tax rates are mainly due to the mix of foreign taxable earnings.

FINANCIAL CONDITION

March 31, 2001 versus September 30, 2000

The ratio of current assets to current liabilities was 2.25 to 1.00 at March 31, 2001 and 2.17 to 1.00 at September 30, 2000. Working capital of $445.6 million was $45.9 million higher than the September 30, 2000 balance of $399.7 million.

Inventories increased $29.6 million to $474.8 million during the first six months of fiscal year 2001. The increase primarily resulted from the growth of Sally Beauty Company and the increase in North America's business, including the launch of new or improved products.

Accounts payable increased $10.0 million to $193.7 million during the first six months of fiscal year 2001 primarily due to the timing of inventory purchases and vendor payments.

Long-term debt decreased $8.6 million to $332.3 million primarily due to reduced borrowing under the company's Swedish Krona revolving credit facility.

NEW ACCOUNTING STANDARDS

In December, 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition." SAB No. 101 provides guidance in applying generally accepted accounting principles to revenue recognition. The company implemented SAB No. 101 in the first quarter of fiscal year 2001 and its adoption did not have a material effect on the consolidated financial statements.

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

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

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

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FORWARD - LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and the documents incorporated by reference herein, if any, may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based on management's current expectations and assessments of risks and uncertainties and reflect various assumptions concerning anticipated results, which may or may not prove to be correct. Some of the factors that could cause actual results to differ materially from estimates or projections contained in such forward-looking statements include the pattern of brand sales, including variations in sales volume within periods; competition within the relevant product markets, including pricing, promotional activities, continuing customer acceptance of existing products, loss of distributorship rights and the ability to develop and successfully introduce new products; risks inherent in acquisitions and strategic alliances; changes in costs, including changes in labor costs, raw material prices or promotional expenses; the costs and effects of unanticipated legal or administrative proceedings; variations in political, economic or other factors such as currency exchange rates, inflation rates, recessionary or expansive trends, tax changes, legal and regulatory changes or other external factors over which Alberto-Culver Company has no control. Alberto-Culver Company has no obligation to update any forward-looking statement in this Quarterly Report on Form 10-Q or any incorporated document.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the company's market risk during the three months ended March 31, 2001.

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PART II

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

At the annual meeting of stockholders on January 25, 2001, A.G. Atwater, Jr., Sam J. Susser and William W. Wirtz were elected as directors of the Company. Mr. Atwater received a Class A and Class B common stockholder vote of 20,277,990 and 31,158,913 shares "for" and 51,530 and 264,384 shares "withheld", respectively. Mr. Susser received a Class A and Class B common stockholder vote of 19,182,400 and 29,385,770 shares "for" and 1,147,120 and 2,037,527 shares "withheld" respectively. Mr. Wirtz received a Class A and Class B common stockholder vote of 20,274,500 and 31,154,856 shares "for" and 55,020 and 268,441 shares "withheld" respectively.

Stockholders at the annual meeting also voted on whether to re-approve the company's Employee Stock Option Plan of 1988, as amended. The amended plan was approved by a Class A and Class B stockholder vote of 16,226,940 and 27,279,016 shares "for"; 1,094,710 and 3,056,471 shares "against"; and 13,830 and 283,039 shares "abstaining", respectively.

In addition, stockholders at the annual meeting voted on whether to re-approve the company's 1994 Restricted Stock Plan, as amended. The amended plan was approved by a Class A and Class B stockholder vote of 16,928,470 and 28,244,359 shares "for"; 392,670 and 2,091,151 shares "against"; and 14,350 and 283,017 shares "abstaining", respectively.

Class A common stock has a one-tenth vote per share and Class B common stock has one vote per share.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

10 (a) Copy of Alberto-Culver Company Management Incentive Plan dated November 1, 2000, as amended.*

*This exhibit is a management contract or compensatory plan or arrangement of the registrant.

(b) Reports on Form 8-K:

No report on Form 8-K was filed by the registrant during the quarter ended March 31, 2001.

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SIGNATURE

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

ALBERTO-CULVER COMPANY
(Registrant)

By: /s/ William J. Cernugel

William J. Cernugel
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

May 11, 2001