

PLAYTEX PRODUCTS INC  
Form 10-Q  
November 02, 2004

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**ý** **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES**  
**EXCHANGE ACT OF 1934**

**or**

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

**For the Quarter Ended September 25, 2004**

**Commission File No. 1 12620**

**PLAYTEX PRODUCTS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**51 0312772**  
(I.R.S. Employer  
Identification No.)

**300 Nyala Farms Road**

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**Westport, Connecticut 06880**

(Address of principal executive offices)

**Telephone number: (203) 341 4000**

(Registrant's telephone number, including area code)

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 ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes ☐ No ☒

At October 28, 2004, 61,215,856 shares of Playtex Products, Inc. common stock, par value \$.01 per share, were outstanding.

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**PLAYTEX PRODUCTS, INC.**

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**PLAYTEX PRODUCTS, INC.****CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data)

	September 25, 2004	December 27, 2003
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 84,158	\$ 27,453
Receivables, less allowance for doubtful accounts	101,061	23,478
Retained interest in receivables		64,633
Inventories	56,393	78,413
Deferred income taxes, net	7,296	8,994
Income taxes receivable	2,415	3,826
Assets held for sale	3,582	
Other current assets	6,227	8,370
Total current assets	261,132	215,167
Net property, plant and equipment	120,354	125,425
Intangible assets, net:		
Goodwill	494,307	494,307
Trademarks, patents and other	145,340	138,271
Deferred financing costs, net	17,305	13,109
Other noncurrent assets	8,578	7,019
Total assets	\$ 1,047,016	\$ 993,298
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 30,593	\$ 39,306
Accrued expenses	81,182	53,242
Income taxes payable	1,782	4,169
Current maturities of long-term debt		4,500
Total current liabilities	113,557	101,217
Long-term debt	800,000	788,750
Other noncurrent liabilities	19,878	16,404
Deferred income taxes	67,698	59,139
Total liabilities	1,001,133	965,510
Stockholders' equity:		
Common stock, \$0.01 par value, authorized 100,000,000 shares, issued and outstanding 61,215,856 shares at September 25, 2004 and December 27, 2003	612	612
Additional paid-in capital	526,233	526,233
Retained earnings (accumulated deficit)	(480,528)	(498,539)
Accumulated other comprehensive earnings (loss)	(434)	(518)
Total stockholders' equity	45,883	27,788
Total liabilities and stockholders' equity	\$ 1,047,016	\$ 993,298

See accompanying notes to unaudited consolidated financial statements.



**PLAYTEX PRODUCTS, INC.****CONSOLIDATED STATEMENTS OF EARNINGS**

(In thousands, except per share data)

	<b>Three Months Ended</b>	
	<b>September 25, 2004</b>	<b>September 27, 2003</b>
Net sales	\$ 148,531	\$ 146,827
Cost of sales	71,534	72,047
Gross profit	76,997	74,780
Operating expenses:		
Selling, general and administrative	56,445	54,937
Amortization of intangibles	241	226
Total operating expenses	56,686	55,163
Operating earnings	20,311	19,617
Interest expense, net of interest income, including related party interest expense of \$3,037, net of related party interest income of \$3,001 for the three month period ended September 27, 2003	18,072	14,226
Other expenses		448
Earnings before income taxes	2,239	4,943
Income taxes	859	1,809
Net earnings	\$ 1,380	\$ 3,134
Earnings per share:		
Basic and diluted	\$ 0.02	\$ 0.05
Weighted average shares outstanding:		
Basic	61,216	61,216
Diluted	61,224	61,216

See accompanying notes to unaudited consolidated financial statements.

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	Nine Months Ended	
	September 25, 2004	September 27, 2003
Net sales	\$ 525,981	\$ 500,237
Cost of sales	251,481	243,016
Gross profit	274,500	257,221
Operating expenses:		
Selling, general and administrative	189,153	183,857
Restructuring	93	
Amortization of intangibles	692	677
Total operating expenses	189,938	184,534
Operating earnings	84,562	72,687
Interest expense, net of interest income, including related party interest expense of \$9,112, net of related party interest income of \$9,002 for the nine month period ended September 27, 2003	52,444	41,060
Expenses related to retirement of debt, net	6,432	
Other expenses	336	1,473
Earnings before income taxes	25,350	30,154
Income taxes	7,339	10,963
Net earnings	\$ 18,011	\$ 19,191
Earnings per share:		
Basic and diluted	\$ 0.29	\$ 0.31
Weighted average shares outstanding:		
Basic	61,216	61,216
Diluted	61,222	61,230

See accompanying notes to unaudited consolidated financial statements.

**PLAYTEX PRODUCTS, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**  
**AND COMPREHENSIVE EARNINGS**

(In thousands)

	<b>Common Shares Outstanding</b>		<b>Common Stock</b>		<b>Additional Paid-In Capital</b>		<b>Retained Earnings (Accumulated Deficit)</b>		<b>Accumulated Other Comprehensive Earnings (Loss)</b>		<b>Total</b>
Balance, December 27, 2003	61,216	\$	612	\$	526,233	\$	(498,539)	\$	(518)	\$	27,788
Net earnings							18,011				18,011
Foreign currency translation adjustment									(201)		(201)
Minimum pension liability adjustment, net of tax									285		285
Comprehensive earnings											18,095
Balance, September 25, 2004	61,216	\$	612	\$	526,233	\$	(480,528)	\$	(434)	\$	45,883

See accompanying notes to unaudited consolidated financial statements.



## PLAYTEX PRODUCTS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended	
	September 25, 2004	September 27, 2003
Cash flows from operations:		
Net earnings	\$ 18,011	\$ 19,191
Adjustments to reconcile net earnings to net cash flows from operations:		
Write-off of deferred fees related to retirement of debt	6,882	
Depreciation	11,117	10,566
Amortization of deferred financing costs	1,855	1,543
Amortization of intangibles	692	677
Deferred income taxes	10,601	5,745
Prepaid pension asset and postretirement benefits	399	1,807
Other, net	246	1,235
Net change in working capital accounts	22,721	17,576
Net cash flows from operations	72,524	58,340
Cash flows used for investing activities:		
Purchases of property, plant and equipment	(9,319)	(13,771)
Acquisition of intangibles	(1,000)	
Net cash flows used for investing activities	(10,319)	(13,771)
Cash flows used for financing activities:		
Borrowings under revolving credit facilities	115,800	268,450
Repayments under revolving credit facilities	(115,800)	(268,450)
Long-term debt borrowings	467,500	
Long-term debt repayments	(450,750)	(4,500)
Repayment of convertible notes		(30,000)
Repurchase of 9 <sup>3</sup> / <sub>8</sub> % Notes	(9,550)	
Payment of financing costs	(12,850)	(1,624)
Net cash flows used for financing activities	(5,650)	(36,124)
Effect of exchange rate changes on cash	150	1,341
Increase in cash and cash equivalents	56,705	9,786
Cash and cash equivalents at beginning of period	27,453	31,605
Cash and cash equivalents at end of period	\$ 84,158	\$ 41,391
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during the periods for:		
Interest	\$ 44,273	\$ 31,481
Income taxes, net of refunds	\$ (2,286)	\$ 1,997

See accompanying notes to unaudited consolidated financial statements.

**PLAYTEX PRODUCTS, INC.**

**PART I - FINANCIAL INFORMATION**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Consolidated Financial Statements**

The interim consolidated financial statements, which are a part of our Quarterly Report on Form 10-Q, are unaudited. In preparing our financial statements, we make certain adjustments (consisting of normal recurring adjustments) considered necessary in our opinion for a fair presentation of our financial position and results of operations. As part of a review of the classification of certain expenses, effective in the second quarter of 2004, we are reclassifying cash discount expense as a reduction of revenue. Previously, this expense was included in selling, general and administrative ( SG&A ). This reclass amounted to \$3.2 million for each of the three month periods ended September 25, 2004 and September 27, 2003. The reclass was \$11.4 million and \$10.8 million for the nine months ended September 25, 2004 and September 27, 2003, respectively. While this discount is a payment incentive, we are now including this with other trade incentives previously reported as a reduction to net sales by employing a broader definition of the Emerging Issues Task Force ( EITF ) No. 01-9, Accounting for Consideration Given By a Vendor to a Customer (Including a Reseller of the Vendor's Products). The results of operations for the three and nine month periods ended September 25, 2004 are not necessarily indicative of the results that you may expect for the full year.

We presume you have access to the audited consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 27, 2003. As a result, we have not included footnote and other disclosures that would substantially duplicate the disclosures contained in the Form 10-K. We file our annual, quarterly, and current reports, proxy statements, and other documents with the Securities and Exchange Commission (the SEC ) under the Securities Act of 1933 and Securities Exchange Act of 1934. You may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The SEC also maintains an internet website that contains our filed reports at [www.sec.gov](http://www.sec.gov). In addition, we make our filings with the SEC available at the Investor Relations section of our website [www.playtexproductsinc.com](http://www.playtexproductsinc.com). You can call our Investor Relations Department at (203) 341- 4017 or via email at [investorrelations@playtex.com](mailto:investorrelations@playtex.com) to request a copy of any of our reports filed with the SEC.

**2. Stock-Based Compensation**

We account for stock based compensation in accordance with Statement of Financial Accounting Standard ( SFAS ) No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. As permitted by SFAS No. 123 and SFAS No. 148, we follow the intrinsic value approach of Accounting Principles Board Opinion No. 25 ( APB No. 25 ), and Financial Accounting Standards Board ( FASB ) Interpretation No. 44, Accounting for Certain Transactions Involving Stock-Based Compensation, an Interpretation of APB No. 25 issued for determining compensation expense related to the issuance of stock options. Accordingly, no compensation expense related to our stock options is reflected in our statements of earnings as stock options granted under the stock option plan had an exercise price equal to or greater than the fair market value of the underlying common stock on the date of grant.

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The following table illustrates the pro forma effect of stock-based compensation on net earnings and earnings per share as if we had applied the fair value recognition provisions of SFAS No. 123 (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	Sept. 25, 2004	Sept. 27, 2003	Sept. 25, 2004	Sept. 27, 2003
Net earnings:				
As reported	\$ 1,380	\$ 3,134	\$ 18,011	\$ 19,191
Deduct: Total stock-based employee compensation expense determined under the fair value method for stock option awards, net of tax	(486)	(695)	(1,515)	(2,550)
Pro forma Basic and diluted	\$ 894	\$ 2,439	\$ 16,496	\$ 16,641
Earnings per share:				
As reported				
Basic and diluted	\$ 0.02	\$ 0.05	\$ 0.29	\$ 0.31
Pro forma				
Basic and diluted	\$ 0.01	\$ 0.04	\$ 0.27	\$ 0.27
Weighted average common shares and common equivalent shares outstanding:				
Basic	61,216	61,216	61,216	61,216
Diluted	61,224	61,216	61,222	61,230

The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option-pricing model, which uses a number of assumptions to estimate the value of stock option grants. Assumptions used in the Black-Scholes option-pricing model include: risk-free interest rates, dividend yield if applicable, expected option life and the volatility of the underlying stock price.

## 3. Impact of Recently Issued Accounting Pronouncements

In December 2003, the FASB issued SFAS No. 132 R, Employer's Disclosures about Pensions and Other Postretirement Benefits. SFAS No. 132 R requires new annual disclosures about the types of plan assets, investment strategy, measurement date, plan obligations, and cash flows as well as the components of the net periodic benefit cost

recognized in interim periods. The new annual disclosure requirements apply to fiscal years ending after December 15, 2003, except for the disclosure of expected future benefit payments, which must be disclosed for fiscal years ending after June 15, 2004. Interim period disclosures are generally effective for interim periods beginning after December 15, 2003. We have included the disclosures required by SFAS No. 132 R for the quarter ended September 25, 2004 (see Note 9).

In March 2004, the FASB indicated that they will require stock-based employee compensation to be recorded as a charge to earnings pursuant to an exposure draft they have published for comment. The FASB announced a decision to delay the effective date for its proposed standard to periods beginning after June 15, 2005. We will continue to monitor their progress on the issuance of this standard and the impact it may have on our consolidated financial statements.

In May 2004, the FASB issued FASB Staff Position ( FSP ) SFAS No. 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ( the Act ). The Act was signed into law on December 8, 2003 and expanded Medicare to include prescription drugs. We sponsor retiree medical programs and this legislation includes a federal subsidy for qualifying companies. FSP SFAS 106-2 requires that the effects of the federal subsidy be considered an actuarial gain and treated like similar gains and losses if it is determined that the prescription drug benefits of the retiree medical program are determined to be actuarially equivalent to those offered under Medicare Part D. We have adopted FSP SFAS 106-2 during our third quarter ended September 25, 2004 and concluded that we are unable to determine whether the benefits under our plan are actuarially equivalent to Medicare Part D under the Act because the guidance provided thus far is unclear. We will monitor our plan and assess actuarial equivalence as new information becomes available.

#### **4. Restructuring and Asset Impairment**

In the fourth quarter of 2003, with the assistance of an outside operations consultant, we launched a comprehensive program of operational improvements to increase effectiveness and profitability. As part of this program, we incurred \$3.9 million in restructuring charges in the fourth quarter of 2003 and another \$0.1 million in the first nine months of 2004, primarily for severance costs for employee terminations and costs associated with a voluntary early retirement program. The total number of positions impacted by the restructuring will be approximately 100, most of which are in manufacturing operations and supporting functions. At September 25, 2004, approximately 90% of these positions have been eliminated. During the first nine months of 2004, we paid \$1.5 million in severance and related expenses associated with the 2003 restructuring. In addition, through September 25, 2004, we incurred \$3.1 million of other related expenses (primarily consulting) which are included in our SG&A expenses. We expect the remaining \$1.1 million of restructuring liabilities at September 25, 2004 to be paid in cash by the end of the first half of 2005. At the beginning of the first quarter 2003, our restructuring balance was solely related to our March 2002 decision to close our Watervliet, New York plastic molding facility. The closure of the plant was complete as of December 27, 2003 and no further restructuring liabilities remain.

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The following tables summarize the restructuring activities beginning in fiscal 2003 (in thousands):

	Balance at December 28, 2002	Charge to Earnings 2003	Adjustments and Changes to Estimates	Cash	Utilized, Net Non-Cash	Balance at December 27, 2003
Asset write-downs	\$ 349	\$	\$ (349)	\$	\$	\$
Severance and related expenses	870	2,650	391	(1,433)		2,478
Accelerated pension obligations	80	1,223	(80)		(1,223)	
Excess purchase commitments	51		(33)	(18)		
Other exit costs	814		71	(885)		
Total	\$ 2,164	\$ 3,873	\$	\$ (2,336)	\$ (1,223)	\$ 2,478

	Balance at December 27, 2003	Charge to Earnings 2004	Adjustments and Changes to Estimates	Cash	Utilized, Net Non-Cash	Balance at September 25, 2004
Asset write-downs	\$	\$	\$	\$	\$	\$
Severance and related expenses	2,478	93		(1,498)		1,073
Accelerated pension obligations						
Excess purchase commitments						
Other exit costs						
Total	\$ 2,478	\$ 93	\$	\$ (1,498)	\$	\$ 1,073

## 5. Accumulated Other Comprehensive Earnings (Loss)

The accumulated balances for each classification of other comprehensive earnings (loss) are as follows (in thousands):

	Foreign Currency Translation Adjustment	Minimum Pension Liability Adjustment, net of tax	Accumulated Other Comprehensive Earnings (Loss)
Balance, December 27, 2003	\$ 297	\$ (815)	\$ (518)
Change in period	(201)	285	84
Balance, September 25, 2004	\$ 96	\$ (530)(1)	\$ (434)

## 6. Balance Sheet Components

The components of certain balance sheet accounts are as follows (in thousands):

September 25,  
2004

December 27,  
2003

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Cash and cash equivalents	\$	84,158	\$	19,502
Cash lock box (2)				7,951
Total	\$	84,158	\$	27,453
Receivables	\$	102,344	\$	23,887
Allowance for doubtful accounts		(1,283)		(409)
Net	\$	101,061	\$	23,478

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(1) Net of tax effect of \$0.3 million at September 25, 2004.

(2) Cash held in lock box pending weekly settlement procedure for our then outstanding receivables facility (see Note 8).

	September 25, 2004	December 27, 2003
Inventories:		
Raw materials	\$ 12,625	\$ 15,076
Work in process	1,871	1,884
Finished goods	41,897	61,453
Total	\$ 56,393	\$ 78,413
Net property, plant and equipment:		
Land	\$ 2,376	\$ 2,376
Buildings	43,561	42,852
Information technology	16,170	16,642
Machinery and equipment	183,175	179,275
	245,282	241,145
Less accumulated depreciation	(124,928)	(115,720)
Net	\$ 120,354	\$ 125,425
Goodwill	\$ 667,151	\$ 667,151
Less accumulated amortization	(172,844)	(172,844)
Net	\$ 494,307	\$ 494,307
Trademarks	\$ 150,680	\$ 151,680
Less accumulated amortization	(19,181)	(19,442)
Net	\$ 131,499	\$ 132,238
Patents and other(1)	\$ 20,120	\$ 11,620
Less accumulated amortization	(6,279)	(5,587)
Net	\$ 13,841	\$ 6,033
Deferred financing costs	\$ 21,542	\$ 17,930
Less accumulated amortization	(4,237)	(4,821)
Net	\$ 17,305	\$ 13,109
Accrued expenses:		
Advertising and sales promotion	\$ 23,816	\$ 17,423
Sun Care returns reserve	18,906	5,961
Employee compensation and benefits	15,027	12,284
Interest	13,961	7,645
Other	9,472	9,929
Total	\$ 81,182	\$ 53,242

(1) The balance at September 25, 2004 includes a \$7.5 million obligation under Mr. Gallagher's retirement agreement, as previously announced, which amount will be amortized to expense commencing upon Mr. Gallagher's retirement, which was on October 4, 2004, over the five year period of the non-competition and non-solicitation period.

## 7. Long-Term Debt

Long term debt consists of the following (in thousands):

	September 25, 2004	December 27, 2003
Variable rate indebtedness:		
Term C Loan	\$	\$ 443,250
Fixed rate indebtedness:		
8% Senior Secured Notes due 2011	460,000	
9 <sup>3</sup> / <sub>8</sub> % Senior Subordinated Notes due 2011	340,000	350,000
	800,000	793,250
Less current maturities		(4,500)
Total long-term debt	\$ 800,000	\$ 788,750

### 2004 Refinancing

On February 19, 2004, we completed a refinancing (the 2004 Refinancing Transaction) of our then outstanding credit facility ( Senior Debt ) and receivables facility (see Note 8). As part of the 2004 Refinancing Transaction, we entered into:

\$460.0 million principal amount of 8% Senior Secured Notes due 2011 (the 8% Notes ), and

a five-year \$150.0 million variable rate credit facility (the New Credit Facility ), comprised of:

a \$7.5 million Term Loan (the New Term Loan ), which we subsequently repaid in the third quarter 2004, and

a \$142.5 million Revolving Credit Facility (the New Revolver ).

The net proceeds from the 2004 Refinancing Transaction and the borrowings under the New Credit Facility were used to repay and/or terminate commitments under our Senior Debt and our receivables facility (see Note 8).

Also on February 19, 2004, we repurchased on the open market \$10.0 million principal of our 9 <sup>3</sup>/<sub>8</sub> % Senior Subordinated Notes due 2011 (the 9 <sup>3</sup>/<sub>8</sub> % Notes ), at a discount, which resulted in a net gain, including a \$0.2 million write-off of unamortized deferred financing fees associated with the repurchased notes, of \$0.3 million.

As a result of the 2004 Refinancing Transaction, we incurred approximately \$12.9 million in fees and expenses, which have been deferred and are being amortized over the term of the related indebtedness. Additionally, approximately \$6.7 million in unamortized deferred financing fees associated with our Senior Debt were written off in February 2004 and are referred to as Expenses related to retirement of debt in the



consolidated statement of earnings.

Fixed Rate Indebtedness

Our fixed rate indebtedness at September 25, 2004 of \$800.0 million consisted of \$460.0 million of 8% Notes and \$340.0 million of 9 <sup>3</sup>/<sub>8</sub>% Notes. We pay interest on the 8% Notes semi-annually on March 1 and September 1 of each year. At any time prior to March 1, 2007, we may redeem up to 35% of the principal amount of the 8% Notes with the proceeds of certain equity offerings and certain asset sales, at a redemption price of 100.000% of the principal amount of notes redeemed plus the Applicable Premium, plus accrued and unpaid interest to the redemption date. In addition, at any time prior to March 1, 2007, we may also redeem the 8% Notes, in whole but not in part, upon the occurrence of a change of control, at the redemption price of 100.000% of the principal amount of notes redeemed plus the Applicable Premium, plus accrued and unpaid interest to the redemption date.

Applicable Premium means (i) with respect to an equity offering redemption, 8% of the principal amount of the notes redeemed and (ii) with respect to an asset sale redemption or a change of control redemption, the percentage

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(expressed as percentages of principal amount of notes redeemed) set forth below if redeemed during the twelve-month period prior to March 1 of the years indicated below:

Year	Percentage
2005	12.000
2006	10.000
2007	8.000

The 8% Notes are secured by a first lien on intellectual property owned by us and the guarantors of the 8% Notes, and by a second lien on substantially all personal property and material owned real property, other than intellectual property, owned by us and the guarantors of the 8% Notes. We do not have the option to redeem the 8% Notes from March 1, 2007 through March 1, 2008. At our option, we may redeem the 8% Notes on or after March 1, 2008 at the redemption prices (expressed as percentages of principal amount) listed below plus accrued and unpaid interest to the redemption date:

Year	Percentage
2008	104.000
2009	102.000
2010 and thereafter	100.000

We pay interest on the 9 <sup>3</sup>/<sub>8</sub> % Notes semi-annually on June 1 and December 1 of each year. We do not have the option to redeem the 9 <sup>3</sup>/<sub>8</sub> % Notes from June 1, 2004 through May 31, 2006. At our option, we may redeem the 9 <sup>3</sup>/<sub>8</sub> % Notes on or after June 1, 2006 at the redemption prices (expressed as percentages of principal amount) listed below plus accrued and unpaid interest to the redemption date:

Year	Percentage
2006	104.688
2007	103.125
2008	101.563
2009 and thereafter	100.000

### Variable Rate Indebtedness

At September 25, 2004, there was no outstanding variable rate indebtedness. Our variable rate indebtedness at December 27, 2003 of \$443.3 million was comprised entirely of our Term C Loan. The rates of interest we pay under the New Credit Facility vary over time depending on short-term interest rates. We also pay fees on our New Revolver commitments, which vary depending on the average outstanding balance on the New Revolver, which amounts are expensed as incurred.

The New Revolver has a term of five years. The interest rate was the London Inter-Bank Offer Rate ( LIBOR ) plus 400 basis points for the New Term Loan and is LIBOR plus 250 basis points for the New Revolver.

The availability under our New Revolver is subject to a borrowing base calculation, which is dependent upon the level of certain assets including eligible receivables, eligible inventory and eligible equipment, as defined in the New Credit Facility. As of September 25, 2004, our availability

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under the New Revolver, based on the borrowing base calculation, was \$68.8 million, as reduced for the outstanding revolver balance and open letters of credit. We pay a quarterly commitment fee on the available but unused revolver balance ranging between 0.375% and 0.50% depending on the average outstanding revolver balance.

The rates of interest we have paid in the past, and will continue to pay in the future, on our variable rate debt are, at our option, a function of various alternative short term borrowing rates, such as the Prime Rate or LIBOR. It should be noted that the 2004 Refinancing Transaction substantially reduced our variable rate indebtedness. As discussed earlier, we have no outstanding variable rate debt at September 25, 2004. As a result, our comparable weighted average variable interest rates have decreased significantly and no longer provide a meaningful comparison. Our weighted average interest rate for all debt (fixed and variable) was 8.57% for the third quarter ended September 25, 2004, up 1.82 percentage points versus the same quarter in 2003. Our weighted average interest rate for all debt was 8.17% for the nine month period ended September 25, 2004, up 2.00 percentage points versus the same period in 2003.

We periodically use financial instruments, such as derivatives, to manage the impact of interest rate changes on our variable rate debt. At September 25, 2004, we were not a party to any derivative or other type of financial instrument that hedged the impact of interest rate changes on our variable rate debt.

Our exposure to changing interest rates has been dramatically reduced as a result of the reduction of our variable rate indebtedness through the 2004 Refinancing Transaction. A one percentage point change in our variable interest rate would not have a material impact on our consolidated interest expense due to the reduction of our variable rate indebtedness.

Our New Credit Facility is secured by a lien on all personal property and other assets owned by us and the guarantors, and contains various restrictions and limitations that may impact us. These restrictions and limitations relate to:

- limitations on indebtedness,
- contingent obligations,
- liens,
- capital expenditures,
- mergers and acquisitions,
- asset sales, dividends and distributions,
- redemption or repurchase of equity interests,
- subordinated debt payments and modifications,
- loans and investments,
- transactions with affiliates,
- changes of control,
- payment of consulting and management fees, and

compliance with laws and regulations.

On October 27, 2004, we amended our New Credit Facility. This amendment allows us to repurchase subordinated debt, provided we meet a certain minimum availability target under our Revolver over a forecasted twelve month period.

Our New Credit Facility and our 8% Notes also grant rights of inspection, access to management, the submission of certain financial reports, and requires us to make prepayments with the proceeds generated by us resulting from the disposition of assets, the receipt of condemnation settlements and insurance settlements from casualty losses and from the sale of equity securities.

The 9 <sup>3</sup>/<sub>8</sub>% Notes and the 8% Notes also contain certain restrictions and requirements. Under the terms of each of these agreements, payment of cash dividends on our common stock is restricted. Certain of our wholly owned subsidiaries are guarantors of the 9 <sup>3</sup>/<sub>8</sub>% Notes and the 8% Notes.

On September 27, 2004, we entered into an agreement to sell certain assets of the *Woolite* rug and upholstery brand to BISSELL Homecare, Inc. for a purchase price of approximately \$62 million in cash. The transaction is conditional on satisfying regulatory and other customary conditions. The use of these proceeds may include the repurchase of subordinated debt or reinvestment in our core businesses, including potential acquisitions. On October 27, 2004, we amended our New Credit Facility to allow us to sell the *Woolite* assets and use the proceeds from the *Woolite* sale to repurchase subordinated debt.

The only required principal repayments during the next five years is on our New Credit Facility, which requires us to pay all outstanding principal at the February 2009 termination date. No interim principal repayments are required.

## 8. Receivables Facility

On February 19, 2004, the receivables facility was terminated as part of the 2004 Refinancing Transaction (see Note 7). At the time of termination, our wholly owned subsidiary, Playtex A/R LLC, was merged into Playtex Products, Inc.

On May 22, 2001, we entered into a receivables purchase agreement (the "Receivables Facility") through our wholly owned subsidiary, Playtex A/R LLC. Through the Receivables Facility, we sold on a continuous basis to Playtex A/R LLC substantially all of our domestic customers trade invoices that we generated. Playtex A/R LLC sold to a third-party commercial paper conduit (the "Conduit") an undivided fractional ownership interest in these trade accounts receivable. The Conduit issued short-term commercial paper to finance the purchase of the undivided fractional interest in the receivables. The total funding available to us on a revolving basis under the Receivables Facility was up to \$100.0 million, depending primarily on: the amount of receivables generated by us and sold to Playtex A/R LLC, the rate of collection on those receivables, and other characteristics of the receivables pool which affected their eligibility. Our retained interest in receivables represented our subordinated fractional undivided interest in receivables sold to Playtex A/R LLC and the net unamortized securitization fee incurred by Playtex A/R LLC.

We sold receivables at a discount, which we included in other expenses in the consolidated statements of earnings. This discount, which was \$0.3 million for 2004, through the termination date of February 19, 2004 and \$1.5 million for the nine month period ended September 27, 2003, reflected the fees required by the Conduit to purchase a fractional undivided interest in the receivables. The fees were based on the payment characteristics of the receivables, most notably their average life, interest rates in the commercial paper market and historical credit losses. Also included in other expenses is the impact of the amortization of a securitization fee incurred by Playtex A/R LLC to establish the Receivables Facility. As a result of the termination of the Receivables Facility in February 2004, we wrote off the unamortized balance of \$0.1 million of this securitization fee.

The following paragraph summarizes the cash flows between Playtex A/R LLC and us for the nine month periods ended September 25, 2004 and September 27, 2003 (in thousands):

### Cash Flows from Playtex A/R LLC to Playtex Products, Inc.

	Nine Months Ended	
	September 25, 2004	September 27, 2003
Proceeds from collections used to purchase additional receivables from Playtex Products, Inc.	\$ 82,506	\$ 485,894
Decrease in fractional interest sold	(21,000)	(20,000)
Net cash flow to Playtex Products, Inc.	\$ 61,506	\$ 465,894

We accounted for the sale of accounts receivable to Playtex A/R LLC and related transactions with the Conduit in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." At the time the receivables were sold, the balances were removed from our balance sheet. Playtex A/R LLC paid fees on the value of the undivided interest of the receivables sold to the Conduit equal to the 30 day LIBOR rate, which was reset weekly. We retained the servicing responsibilities under the receivables facility. The servicing was valued at zero since fees from the servicing were just adequate to compensate us for our servicing responsibilities. In addition, under the terms of the December 2003 renewal of the Receivables Facility, Playtex A/R LLC paid a 0.75% per annum fee on the utilized portion of the Receivables Facility and a 1.00% per annum liquidity fee on the entire committed amount of the Receivables Facility. Because of the

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short-term nature, generally less than 60 days, of our trade accounts receivable sold to Playtex A/R LLC and the historically low credit risk associated with these receivables, the carrying value of our retained interest in receivables approximated the fair value.

## 9. Pension and Other Postretirement Benefits

The components of the net periodic pension expense for the three and nine month periods ended September 25, 2004 and September 27, 2003 are as follows (in thousands):

### Net Periodic Pension Expense

	Three Months Ended		Nine Months Ended	
	September 25, 2004	September 27, 2003	September 25, 2004	September 27, 2003
Service cost benefits earned during the period	\$ 303	\$ 345	\$ 1,033	\$ 1,037
Interest cost on projected benefit obligation	764	739	2,342	2,218
Expected return on plan assets	(1,068)	(928)	(3,196)	(2,784)
Amortization of unrecognized net loss		107	84	319
Amortization of transition loss	9	9	26	26
Net periodic pension expense	\$ 8	\$ 272	\$ 289	\$ 816

The components of the net periodic postretirement benefit expense for the three and nine month periods ended September 25, 2004 and September 27, 2003 are as follows (in thousands):

### Net Periodic Postretirement Benefit Expense

	Three Months Ended		Nine Months Ended	
	September 25, 2004	September 27, 2003	September 25, 2004	September 27, 2003
Service cost benefits earned during the period	\$ 97	\$ 269	\$ 455	\$ 807
Interest cost on accumulated benefit obligation	276	433	808	1,299
Amortization of prior service credit	(584)	(23)	(1,751)	(71)
Gain due to curtailment		(90)		(269)
Recognized actuarial loss	290	182	896	546
Net periodic postretirement benefit expense	\$ 79	\$ 771	\$ 408	\$ 2,312

## 10. Business Segments

Previously, we were organized in three divisions. As a result of our comprehensive program of operational improvements, we have reorganized and consolidated our business structure, effective April 2004. We are now organized in two divisions, which are categorized as business segments in accordance with accounting principles generally accepted in the United States ( GAAP ), as follows:

United States ( U.S. ) Division;



International Division.

Our **U.S. Division** includes products sold in the United States primarily to mass merchandisers, grocery, drug and specialty classes of trade. Specialty classes of trade include warehouse clubs, military, convenience stores, specialty stores and telemarketing. Our products are categorized as follows:

The Infant Care product category includes the following brands:

*Playtex* disposable nurser system, cups and reusable hard bottles,

*Wet Ones* hand and face towelettes,

*Diaper Genie* diaper disposal system,

*Baby Magic* infant toiletries,

*Mr. Bubble* children's bubble bath, and

*Baby Magic* baby wipes.

The Feminine Care product category includes a wide range of plastic and cardboard applicator tampons, as well as complementary products, marketed under such brand names as:

Tampons

*Playtex Gentle Glide,*

*Playtex Portables,*

*Playtex Slimfits,*

*Playtex Beyond,* and

Private label.

Complementary Products

*Playtex Personal Cleansing Cloths* for use in feminine hygiene, and

*Playtex Heat Therapy* patch to alleviate discomfort associated with menstrual pain.

Our Sun Care and Household/Personal Grooming products include a number of leading and well-recognized brands, including the following:

*Banana Boat* Sun Care products,

*Woolite* rug and upholstery cleaning products,

*Playtex* Gloves,

*Ogilvie* at-home permanents,

*Binaca* breath spray and drops,

*Tussy* deodorant,

*Dentax* oral care products, and

*Tek* toothbrushes.

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Our **International Division** includes the results from our Canadian and Australian subsidiaries, sales in Puerto Rico and export sales. The International Division sells substantially the same products as are available to our U.S. customers.

Our division results for the three and nine month periods ended September 25, 2004 and September 27, 2003 are as follows (in thousands):

	Three Months Ended			
	September 25, 2004		September 27, 2003	
	Net Sales	Operating Earnings	Net Sales	Operating Earnings
U.S.	\$ 131,249	\$ 50,643	\$ 128,305	\$ 49,591
International	17,282	7,187	18,522	7,270
Total segment operating earnings	\$ 148,531	57,830	\$ 146,827	56,861
<u>Less:</u>				
Corporate selling, general and administrative		37,151		36,852
Unallocated charges		127		166
Amortization of intangibles		241		226
Consolidated operating earnings, as reported		\$ 20,311		\$ 19,617

	Nine Months Ended			
	September 25, 2004		September 27, 2003	
	Net Sales	Operating Earnings	Net Sales	Operating Earnings
U.S.	\$ 472,476	\$ 179,227	\$ 447,274	\$ 163,121
International	53,505	20,477	52,963	20,503
Total segment operating earnings	\$ 525,981	199,704	\$ 500,237	183,624
<u>Less:</u>				
Corporate selling, general and administrative		113,980		109,894
Restructuring		93		
Unallocated charges		377		366
Amortization of intangibles		692		677
Consolidated operating earnings, as reported		\$ 84,562		\$ 72,687

## 11. Earnings Per Share

The following table explains how our basic and diluted Earnings Per Share ( EPS ) were calculated for the three and nine month periods ended September 25, 2004 and September 27, 2003 (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	September 25, 2004	September 27, 2003	September 25, 2004	September 27, 2003
<u>Numerator:</u>				
Net earnings	\$ 1,380	\$ 3,134	\$ 18,011	\$ 19,191
<u>Denominator:</u>				
Weighted average shares outstanding Basic	61,216	61,216	61,216	61,216
<u>Effect of Dilutive Securities:</u>				
Adjustment for dilutive effect of employee stock options	8		6	14
Weighted average shares outstanding Diluted	61,224	61,216	61,222	61,230
<u>Earnings per share:</u>				
Basic and diluted	\$ 0.02	\$ 0.05	\$ 0.29	\$ 0.31

Basic EPS excludes all potentially dilutive securities. Basic EPS is computed by dividing net earnings by the weighted average number of common shares outstanding for the period. Diluted EPS includes all dilutive securities. Potentially dilutive securities include stock options granted to our employees and shares that may have been exchanged for the 6% Convertible Notes, if determined to be dilutive. At September 25, 2004 and September 27, 2003, stock options to purchase Playtex Products, Inc. common stock totaling 7.9 million shares and 7.6 million shares, respectively, were not included in the diluted EPS calculation, except as noted in the table above, since their impact would have been anti-dilutive. In addition, at September 27, 2003, potentially dilutive shares totaling 0.5 million relating to our 6% Convertible Notes were not included in the diluted EPS calculation since their impact would have been anti-dilutive. Our last outstanding 6% Convertible Notes were redeemed in the third quarter 2003. Diluted EPS is computed by dividing net earnings, adjusted by the if-converted method for convertible securities, by the weighted average number of common shares outstanding for the period plus the number of additional common shares that would have been outstanding if the dilutive securities were issued. In the event the dilutive securities are anti-dilutive on net earnings (i.e., have the effect of increasing EPS), the impact of the dilutive securities is not included in the computation.



## 12. Commitments and Contingent Liabilities

On June 23, 2004, we announced that our Chief Executive Officer, Mr. Michael R. Gallagher, would retire during this fiscal year. Under the terms of Mr. Gallagher's retirement agreement, Mr. Gallagher agreed to certain non-competition and non-solicitation provisions for a five-year period following his retirement. Mr. Gallagher retired from the Company on October 4, 2004. He received a payment of \$2.5 million on October 12, 2004. In addition, \$5.0 million will be paid to him ratably over twenty-four months commencing in January 2005. In addition, Mr. Gallagher will receive certain other benefits, such as medical and life insurance coverage, in accordance with the retirement agreement. At September 25, 2004, the total obligation of \$7.5 million under this agreement has been recorded and reflected as an intangible asset, which amount will be amortized to expense commencing upon Mr. Gallagher's retirement over the five year period of the non-competition and non-solicitation period.

In our opinion, there are no claims, commitments, guarantees or litigation pending to which we or any of our subsidiaries is a party which would have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

## 13. Subsequent Event

On September 27, 2004, we entered into an agreement to sell certain assets of the *Woolite* rug and upholstery brand to BISSELL Homecare, Inc. for a purchase price of approximately \$62 million in cash. At September 25, 2004, the balance sheet details separately the assets held for sale relating to this pending sale and includes \$2.2 million of inventory, \$0.7 million for trademark license and \$0.6 million of fixed assets. The transaction is conditional on satisfying regulatory and other customary conditions. The use of these proceeds may include the repurchase of subordinated debt or reinvestment in our core businesses, including potential acquisitions. On October 27, 2004, we amended our New Credit Facility to allow us to sell the *Woolite* assets and use the proceeds from the *Woolite* sale to repurchase subordinated debt. We expect to generate a gain of approximately \$54 million at the closing of the transaction, expected in the fourth quarter of 2004.

The taxable gain from this transaction will be substantially offset by our remaining capital loss carryforward. We will record a tax benefit of approximately \$18 million resulting from an adjustment to the valuation allowance previously established for the portion of the capital loss carryforward that we did not expect to utilize prior to its expiration.

**PLAYTEX PRODUCTS, INC.**  
**PART I - FINANCIAL INFORMATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with:

the unaudited consolidated financial statements and notes included in this report; and

the audited consolidated financial statements and notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 27, 2003.

**Cautionary Statement for Purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995**

This document includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects, developments and business strategies. The statements contained in this document that are not statements of historical fact may include forward-looking statements that involve a number of risks and uncertainties.

We have used the words anticipate, believe, could, estimate, expect, intend, may, plan, predict, including references to assumptions, in this document to identify forward-looking statements. These forward-looking statements are made based on our management's expectations and beliefs concerning future events affecting us and are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed in or implied by these forward-looking statements. The following factors are among those that may cause actual results to differ materially from our forward-looking statements:

price and product changes,

new product introductions and promotional activity by competitors,

the loss or bankruptcy of a significant customer,

capacity limitations,

the difficulties of integrating acquisitions,

raw material and manufacturing costs,

adverse publicity and product liability claims,  
impact of weather conditions, especially on Sun Care product sales,  
our level of debt and related restrictions and limitations,  
interest rate fluctuations,  
future cash flows,  
dependence on key employees, and  
highly competitive nature of consumer products business.

You should keep in mind that any forward-looking statement made by us in this document, or elsewhere, speaks only as of the date on which we make it. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us. In light of these risks and uncertainties, you should keep in mind that any forward-looking statements made in this report or elsewhere might not occur.

In addition, the preparation of financial statements in accordance with accounting principles generally accepted in the United States ( GAAP ) requires us to make estimates and assumptions. These estimates and assumptions affect:

the reported amounts and timing of revenue and expenses,  
the reported amounts and classification of assets and liabilities, and  
the disclosure of contingent assets and liabilities.

Actual results may vary from our estimates and assumptions. These estimates and assumptions are based on historical results, assumptions that we make, as well as assumptions by third parties.



## Trademarks

We own rights to a number of United States, Canadian and foreign trademarks that are important to our business, including, but not limited to: *BABY MAGIC®*, *BANANA BOAT®*, *BEYOND* , *BIG SIPSTER®*, *BINACA®*, *BINKY®*, *BLASTERS®*, *DENTAX®*, *DIAPER GENIE®*, *DRINKUP®*, *DROP-INS®*, *FAST BLAST®*, *FIRST SIPSTER®*, *GENTLE GLIDE®*, *GET ON THE BOAT®*, *GRIPSTER®*, *HANSAVER®*, *HEAT THERAPY®*, *HEAVY TRAFFIC®*, *INSULATOR®*, *INSULATOR SPORT®*, *LIPPOPS®*, *MADE STRONG TO LAST LONG®*, *MAKES GETTING CLEAN ALMOST AS MUCH FUN AS GETTING DIRTY®*, *MOST LIKE MOTHER®*, *MR. BUBBLE®*, *NATURAL ACTION®*, *NATURALATCH* , *NATURALSHAPE* , *NOBODY BABIES YOUR BABY BETTER®*, *OGILVIE®*, *OXY DEEP®*, *PORTABLES®*, *POWER SHOT®*, *PRECISELY RIGHT®*, *QUICKSTRAW®*, *QUIK BLOK®*, *SAFE N SURE®*, *SILK GLIDE®*, *SIPEASE®*, *SLIMFITS®*, *SO COMFORTABLE YOU CAN T EVEN FEEL THEM®*, *SOFT COMFORT®*, *SOOTH-A-CAINE®*, *SPARKLIN SIPSTER* , *SUNTANICALS®*, *TEK®*, *TUSSY®*, *TWISTAWAY®*, *VENTAIRE®*, *VITASKIN®*, *WE GLOVE YOUR HANDS®* and *WET ONES®*.

In addition, we also own royalty-free licenses in perpetuity to the *PLAYTEX®* and *LIVING®* trademarks in the United States, Canada and many foreign jurisdictions related to certain of our feminine hygiene, baby care and other products, but excluding certain apparel related products. We also have exclusive rights to the *WOOLITE®* trademark for rug and upholstery cleaning products in the United States and Canada pursuant to a royalty-free perpetual license agreement.

## Items Affecting Comparability

Our results for the third quarter of 2004 are for the 13-week period ended September 25, 2004 and our results for the third quarter of 2003 are for the 13-week period ended September 27, 2003. All references to market share and market share data are for comparable 13 week periods and represent our percentage of the total U.S. dollar volume of products purchased by consumers in the applicable category (dollar market share or retail consumption). This information, which is based on measured market data, is provided to us from the ACNielsen Company and is subject to revisions. This market share data does not include scanner/consumption data from certain retailers, including Wal-Mart Stores, Inc., as they do not provide this information to third parties.

As part of a review of the classification of certain expenses, in the second quarter of 2004, we reclassified cash discount expense as a reduction of revenue. Previously, this expense was included in selling, general and administrative ( SG&A ). This reclass amounted to \$3.2 million for each of the three month periods ended September 25, 2004 and September 27, 2003. The reclass was \$11.4 million and \$10.8 million for the nine months ended September 25, 2004 and September 27, 2003, respectively. While this discount is a payment incentive, we are now including this with other trade incentives previously reported as a reduction to net sales by employing a broader definition of the Emerging Issues Task Force ( EITF ) No. 01-9, Accounting for Consideration Given By a Vendor to a Customer (Including a Reseller of the Vendor s Products).

## Overview

We are a leading manufacturer and marketer of a diversified portfolio of well-recognized branded consumer and personal products. For the nine months ended September 25, 2004, we generated approximately 98% of our sales from products in the number one or number two market share position in the United States. Our lines of business include Infant Care, Feminine Care, Sun Care and Household Products/Personal Grooming.

Worldwide brand net sales for the nine months ended September 25, 2004 and September 27, 2003 were as follows (in thousands):

	September 25, 2004	Nine Months Ended September 27, 2003	Change
Infant Care	\$ 199,022	\$ 193,435	\$ 5,587
Feminine Care	172,523	160,124	12,399
Sun Care	99,897	88,042	11,855
Household Products/Personal Grooming	54,539	58,636	(4,097)
Total	\$ 525,981	\$ 500,237	\$ 25,744

Infant Care net sales increased \$5.6 million due primarily to continued improvement in year over year shipment growth in *Wet Ones* and reusable bottles, partially offset by lower shipments in cups.

Feminine Care net sales, which increased \$12.4 million versus the same period in 2003 due to higher shipment volume, were positively impacted by the introduction of *Beyond*, our new flushable tampon, and an increase in shipments of *Gentle Glide*, our base plastic applicator tampon. *Gentle Glide* shipments in the first nine months of 2003 were negatively impacted by higher retail and consumer inventories brought about by the extensive marketing efforts utilized to defend against a competitive launch in the latter months of 2002.

The increase in Sun Care net sales of \$11.9 million was due to improved product consumption during the 2004 season versus the 2003 season as weather in the first half of the 2004 season was improved. Equally, we continue to see orders and shipments shifting closer to the consumption period. Thus, we estimate that \$5.0 million of shipments for the 2004 season shifted from the late stages of fiscal 2003 to the early part of fiscal 2004.

The decline in net sales of \$4.1 million for Household Products/Personal Grooming was due primarily to the continuation of the declining category trends in Personal Grooming and competition in the household category.

The increase in net sales was the primary driver in the increased level of operating earnings for the first nine months of 2004. Overall gross margin was up 0.8 percentage points for the first nine months of 2004 to 52.2% versus the first nine months of 2003 due, in part, to lower product costs as a result of our restructuring efforts. As a percentage of net sales, operating expenses were lower in the first nine months of 2004 versus the same period of 2003.

Our business strategy remains focused on increasing sales and gaining market share through consumer-focused product innovations, creative merchandising techniques, targeted consumer marketing programs and innovative category management tools to strengthen our relationship with our customer. We have remained committed to this strategy, and in the past, have shown an ability to grow sales and market share in our key categories. More recently, we have encountered a significant amount of competitive pressure, in particular in Feminine Care and Infant Care. The markets for our products are highly competitive and we expect this to continue in the future. Since we are a highly leveraged company, many of our competitors have greater financial resources than we do. To improve our ability to achieve our long-term business objectives, we refinanced our senior indebtedness in February 2004. The new financing provides improved liquidity and flexibility as well as eliminates maintenance covenants and near term principal amortization that were a part of our prior credit facility.

As a result of the refinancing, our debt structure is predominately fixed rate in nature and at a higher average interest rate. As a result, our interest expense for the first nine months of 2004 was higher than for the same period in 2003 due to this higher average rate, partially offset by lower average debt balances. In addition, we expensed

\$6.4 million of deferred fees and expenses related to our previous credit agreement, net of a \$0.3 million net gain from the repurchase, at a discount, on the open market of \$10.0 million principal of our 9 <sup>3</sup>/<sub>8</sub>% Notes.

#### *Operational Reorganization*

We continually focus on productivity and cost reduction initiatives to improve profitability. As part of this ongoing process, we have undertaken several initiatives to reduce SG&A expenses, improve effectiveness and reduce working capital requirements. In 2003, we engaged an outside operations consultant to perform a comprehensive review of our operations and internal functions. Based on that review and with the assistance of the consultant, we launched a comprehensive program of operational improvements that we expect will result in increased effectiveness and profitability. We believe these improvements will be implemented without a significant increase in capital expenditures. This process will continue in 2004 and is expected to be fully implemented in 2005. The major components of the restructuring include:

headcount reductions and more effective manufacturing facilities;

improvements in our supply chain process; and

significant inventory reduction.

We estimate that the operational restructuring will result in annualized operating expense savings between \$12 and \$14 million by 2005. We recorded \$3.9 million in restructuring costs and \$0.7 million in other related costs included in SG&A to implement the operational restructuring in 2003 and expect to incur approximately \$3.5 million of expenses in 2004, of which \$3.2 million were incurred in the first nine months of 2004. In 2004, the estimated partial year impact of the savings (prior to implementation costs) is approximately \$6 to \$7 million. Results for the first nine months of 2004 were in line with anticipated savings, net of implementation costs. In addition, we estimate that this restructuring will result in a decrease in working capital of approximately \$9 million over two years as a result of improved supply chain efficiency.

#### *Strategic Alternatives*

In late 2002, we announced that we would explore strategic alternatives in order to enhance shareholder value, including a possible sale or merger of the entire Company, a partial sale, a divestiture of assets and other potential transactions. After a thorough assessment of a number of options, it was concluded in early 2004 that, at this time, it is more beneficial to remain an independent, stand-alone company.

#### *Other*

On June 23, 2004, we announced that our Chief Executive Officer, Mr. Michael R. Gallagher, would retire during this fiscal year. Under the terms of Mr. Gallagher's retirement agreement, Mr. Gallagher agreed to certain non-competition and non-solicitation provisions for a five-year period following his retirement. Mr. Gallagher retired from the Company on October 4, 2004. He received a payment of \$2.5 million on October 12, 2004. In addition, \$5.0 million will be paid to him ratably over twenty-four months commencing in January 2005. In addition, Mr. Gallagher will receive certain other benefits, such as medical and life insurance coverage, in accordance with the retirement agreement. At

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September 25, 2004, the total obligation of \$7.5 million under this agreement has been recorded and reflected as an intangible asset, which amount will be amortized to expense commencing upon Mr. Gallagher's retirement over the five year period of the non-competition and non-solicitation period.

On September 27, 2004, we entered into an agreement to sell certain assets of the *Woolite* rug and upholstery brand to BISSELL Homecare, Inc. for a purchase price of approximately \$62 million in cash. The transaction is conditional on satisfying regulatory and other customary conditions. The use of these proceeds may include the repurchase of subordinated debt or reinvestment in our core businesses, including potential acquisitions. On October 27, 2004, we amended our new credit facility to allow us to sell the *Woolite* assets and use the proceeds from the *Woolite* sale to repurchase subordinated debt. We expect to generate a gain of approximately \$54 million at the closing of the transaction, expected in the fourth quarter of 2004.

The taxable gain from this transaction will be substantially offset by our remaining capital loss carryforward. We will record a tax benefit of approximately \$18 million resulting from an adjustment to the valuation allowance previously established for the portion of the capital loss carryforward that we did not expect to utilize prior to its expiration.

On October 4, 2004, we announced Mr. Neil P. DeFeo was named President, Chief Executive Officer and a director, replacing Mr. Gallagher. In addition, Glenn A. Forbes, Executive Vice President and Chief Financial Officer has announced his intention to retire at the end of the current fiscal year. In anticipation of Mr. Forbes' retirement, we announced the hiring of Mr. Kris J. Kelley as Senior Vice President-Finance. Mr. Kelley is expected to become Chief Financial Officer upon Mr. Forbes' retirement.

**Results of Operations***Three Months Ended September 25, 2004 Compared To Three Months Ended September 27, 2003*

**Consolidated Net Sales** Our consolidated net sales, by segment, for the three months ended September 25, 2004 and September 27, 2003 were as follows (in thousands):

Product Line	Principal Brand Names	September 25, 2004	September 27, 2003	Change
U.S. Division				
Infant Care	<i>Playtex, Wet Ones, Mr. Bubble, Diaper Genie, and Baby Magic</i>	\$ 58,090	\$ 56,564	\$ 1,526
Feminine Care	<i>Playtex</i>	51,978	52,204	(226)
Sun Care	<i>Banana Boat</i>	2,354	(348)	2,702
Household Products/Personal Grooming	<i>Playtex, Woolite, Ogilvie, Binaca Tussy, Tek, and Dentax</i>	18,827	19,885	(1,058)
Total U.S. Division		131,249	128,305	2,944
International Division		17,282	18,522	(1,240)
Total		\$ 148,531	\$ 146,827	\$ 1,704

**U.S. Division** Net sales increased \$2.9 million, or 2%, to \$131.2 million in the third quarter of 2004.

Net sales of **Infant Care** products increased \$1.5 million, or 3%, to \$58.1 million in the third quarter of 2004 due to higher shipment volume versus the comparable period, primarily due to *Wet Ones* hand and face towelettes and reusable bottles. The gains in these areas were partially offset by lower shipments in cups as competitive activity continues in this category.

Net sales of **Feminine Care** products were essentially flat at \$52.0 million in the third quarter of 2004. Our market share in tampons was 25.7% for the third quarter of 2004, down versus the same quarter of 2003, which was 26.8%. Our market share has remained relatively stable since the fourth quarter 2003.

Net sales of **Sun Care** products increased \$2.7 million to \$2.3 million in the third quarter of 2004. The sun care business is highly seasonal and the third quarter is typically the lowest quarterly period for net sales. The negative sales reported in the third quarter of 2003 were the result of lower shipments, which is typical of the third quarter, offset by the timing of certain trade promotion programs. For the third quarter, our dollar market share of the sun care category was essentially flat at 22.1 percentage points versus the same period in 2003.

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Net sales of **Household Products/Personal Grooming** decreased \$1.1 million, or 5%, to \$18.8 million in the third quarter of 2004. This decrease is primarily the result of lower volume shipments due to a continuation of the declining trend in our Personal Grooming categories and lower glove shipments due to competitive activity.

**International Division** Net sales decreased \$1.2 million, or 7%, to \$17.3 million in the third quarter of 2004. The decrease was due primarily to timing of net sales, as the nine month period ended September 25, 2004 was slightly above the same period in 2003.

**Consolidated Gross Profit** Our consolidated gross profit increased \$2.2 million, or 3%, to \$77.0 million in the third quarter of 2004. As a percent of net sales, gross profit increased 0.9 percentage points to 51.8% in the third quarter of 2004. The increase in gross profit as a percent of net sales was due primarily to lower trade spending in the third quarter of 2004 as a result of the timing of programs.



**Consolidated Operating Earnings** Our consolidated operating earnings increased \$0.7 million, or 4%, to \$20.3 million in the third quarter of 2004. The increase in consolidated operating earnings was the result of our higher net sales and related gross profit. In addition, the third quarter of 2004 included \$0.6 million (included in SG&A) of other related expenses associated with our operational restructuring. The third quarter of 2003 included \$1.2 million of litigation costs associated with the defense of our tampon business.

	September 25, 2004	Three Months Ended September 27, 2003	Change
U.S.	\$ 50,643	\$ 49,591	\$ 1,052
International	7,187	7,270	(83)
Subtotal segment operating earnings	57,830	56,861	969
<i>Less:</i>			
Corporate selling, general and administrative	37,151	36,852	299
Unallocated charges	127	166	(39)
Amortization of intangibles	241	226	15
Total consolidated operating earnings	\$ 20,311	\$ 19,617	\$ 694

**Segment Operating Earnings** We review operating earnings by business segment as this provides a strong basis for understanding business results.

Segment operating earnings for the **U.S Division** increased \$1.1 million, or 2%, to \$50.6 million in the third quarter of 2004. As a percent of net sales, segment operating earnings were flat at approximately 38.6% in the third quarter of 2004 versus the comparable quarter of 2003. The increase in segment operating earnings was due primarily to higher net sales, which resulted in higher gross profit.

Segment operating earnings for the **International Division** decreased \$0.1 million, or 1%, to \$7.2 million in the third quarter of 2004. As a percent of net sales, segment operating earnings increased 2.3 percentage points to 41.6% in the third quarter of 2004. The increase in operating earnings as a percent of net sales was due, in part to favorable currency translation.

**Corporate Selling, General and Administrative** Our corporate selling, general and administrative expenses increased \$0.3 million, or 1%, to \$37.2 million in the third quarter of 2004. The increase in corporate SG&A expenses was due to normal increases in salaries and benefits. In addition, the third quarter of 2004 included \$0.6 million of other related expenses associated with our operational restructuring. The third quarter of 2003 included \$1.2 million of litigation costs associated with the defense of our tampon business.

**Consolidated Interest Expense** Our consolidated interest expense increased \$3.8 million to \$18.1 million in the third quarter of 2004. The increase in interest expense is the result of higher interest rates on total outstanding debt driven by our refinancing in the first quarter of 2004. The refinancing changed the composition of our debt such that we have considerably less variable rate indebtedness, although at higher interest rates, and more fixed rate debt. For the third quarter of 2004, our weighted average interest rate for all debt (fixed and variable) was 8.57%, up 1.82 percentage points versus the same quarter of 2003. Our average debt balances were flat at approximately \$802 million

in the third quarter of 2004 versus the comparable period in 2003, despite the termination of our prior A/R facility in February 2004, which increased our reported debt balance.

**Consolidated Other Expenses** Our consolidated other expenses represented primarily the costs associated with our receivables facility. Since this facility was terminated as a result of our refinancing, there were no costs associated with this facility in the third quarter of 2004 versus costs of \$0.4 million during the same period in 2003.

**Consolidated Income Taxes** Our consolidated income taxes were \$0.9 million in the third quarter of 2004. Our effective tax rate, as a percent of pretax earnings was 38.4% of earnings before income taxes. This was up versus an effective tax rate of 36.6% for the third quarter of 2003 due primarily to higher provisions for state taxes.

*Nine Months Ended September 25, 2004 Compared To Nine Months Ended September 27, 2003*

**Consolidated Net Sales** Our consolidated net sales, by segment, for the nine months ended September 25, 2004 and September 27, 2003 were as follows (in thousands):

Product Line	Principal Brand Names	September 25, 2004	September 27, 2003	Change
U.S. Division				
Infant Care	<i>Playtex, Wet Ones, Mr. Bubble, Diaper Genie, and Baby Magic</i>	\$ 177,846	\$ 172,029	\$ 5,817
Feminine Care	<i>Playtex</i>	154,685	140,351	14,334
Sun Care	<i>Banana Boat</i>	87,333	78,319	9,014
Household Products/Personal Grooming	<i>Playtex, Woolite, Ogilvie, Binaca Tussy, Tek, and Dentax</i>	52,612	56,575	(3,963)
Total U.S. Division		472,476	447,274	25,202
International Division				
Total		\$ 525,981	\$ 500,237	\$ 25,744

**U.S. Division** Net sales increased \$25.2 million, or 6%, to \$472.5 million for the nine months ended September 25, 2004.

Net sales of **Infant Care** products increased \$5.8 million, or 3%, to \$177.9 million for the nine months ended September 25, 2004. This increase was due primarily to higher shipments of reusable hard bottles and *Wet Ones* hand and face towelettes. These gains were partially offset by lower cup shipments as competitive activity in this category remains intense. Overall market shares for the first nine months of 2004 versus year ago were up in *Wet Ones*, increasing 5.8 percentage points to 70.7%, stable in *Diaper Genie*, down in Infant Feeding and down in *Baby Magic* Toiletries. Market share in Infant Feeding was down due to the competitive activities in cups. Market share for *Baby Magic* Toiletries lagged the year ago period due to promotional activity in this highly competitive category. We believe our core Infant Care categories are highly competitive and we will continue to defend our market share positions.

Net sales of **Feminine Care** products increased \$14.3 million, or 10%, to \$154.7 million for the nine months ended September 25, 2004 due to higher shipment volume driven by the launch, in January 2004, of *Beyond*, our new flushable applicator tampon and an increase in *Gentle Glide* shipments. In the comparable period of 2003, *Gentle Glide* shipments were negatively impacted by a build-up in retail and consumer inventories resulting from heavy promotional activities in late 2002 to defend against a competitive launch.

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We will continue to focus on our core strategy converting pad users to tampons and targeting young teens as they enter the feminine care market.

Net sales of **Sun Care** products increased \$9.0 million, or 12%, to \$87.3 million for the nine months ended September 25, 2004. As noted in the Overview section, this year over year increase is due to improved weather patterns in the first half of 2004 and the shift of 2004 season shipments from the latter stages of fiscal 2003 to early fiscal 2004 as shipments continue to move closer to consumption.

Net sales of **Household Products/Personal Grooming** decreased \$4.0 million, or 7%, to \$52.6 million for the nine months ended September 25, 2004. This decrease is primarily the result of lower volume shipments due to a continuation of the declining trend in our Personal Grooming category. In addition, Household Products shipments were down year over year due to increased competition.

**International Division** Net sales increased \$0.5 million, or 1%, to \$53.5 million for the nine months ended September 25, 2004. The increase was due primarily to higher Sun Care shipments, partially offset by lower shipments of *Gentle Glide* and in the infant feeding category.

**Consolidated Gross Profit** Our consolidated gross profit increased \$17.3 million, or 7%, to \$274.5 million for the nine months ended September 25, 2004. As a percent of net sales, gross profit was up 0.8 percentage points to 52.2% in the nine months ended September 27, 2003. The increase in gross profit was due primarily to the increase in net sales, which accounted for approximately \$13 million, and, to a lesser extent, improved product costs due, in part, to our restructuring efforts.

**Consolidated Operating Earnings** Our consolidated operating earnings increased \$11.9 million, or 16%, to \$84.6 million in the first nine months of 2004. The increase in consolidated operating earnings was the result of our higher net sales and related gross profit. In addition, the first nine months of 2004 included \$0.1 million of restructuring charges and \$3.2 million (included in SG&A) of other related expenses associated with our operational restructuring. The nine months ended September 27, 2003 included \$3.4 million of litigation costs associated with the defense of our tampon business.

	September 25, 2004	Nine Months Ended September 27, 2003	Change
U.S.	\$ 179,227	\$ 163,121	\$ 16,106
International	20,477	20,503	(26)
Subtotal segment operating earnings	199,704	183,624	16,080
Less:			
Corporate selling, general and administrative	113,980	109,894	4,086
Restructuring	93		93
Unallocated charges	377	366	11
Amortization of intangibles	692	677	15
Total consolidated operating earnings	\$ 84,562	\$ 72,687	\$ 11,875

**Segment Operating Earnings** We review operating earnings by business segment as this provides a strong basis for understanding business results.

Segment operating earnings for the **U.S. Division** increased \$16.1 million, or 10%, to \$179.2 million for the nine months ended September 25, 2004. As a percent of net sales, segment operating earnings increased 1.4 percentage points to 37.9% in the nine months ended September 25, 2004. The increase in segment operating earnings and segment operating earnings as a percent of net sales was due primarily to higher net sales, which resulted in higher gross profit.

Segment operating earnings for the **International Division** were essentially flat at \$20.5 million in the nine months ended September 25, 2004. As a percent of net sales, segment operating earnings decreased 0.4 percentage points to 38.3% in the nine months ended September 25, 2004.

**Corporate, Selling, General and Administrative** Our corporate selling, general and administrative expenses increased \$4.1 million, or 4%, to \$114.0 million for the nine months ended September 25, 2004. The increase in corporate SG&A expenses was the result of \$3.2 million of other related expenses associated with our operational restructuring, normal and customary increases in salaries and benefits of \$3.1 million and higher advertising and

sales promotion expenses of \$1.2 million. The first nine months of 2003 includes \$3.4 million of litigation costs associated with the defense of our tampon business.

**Consolidated Interest Expense** Our consolidated interest expense increased \$11.4 million to \$52.4 million for the nine months ended September 25, 2004. The increase in interest expense is the result of higher interest rates on outstanding debt driven by the refinancing of our then existing senior debt in February 2004. The refinancing changed the composition of our debt such that we have considerably less variable rate indebtedness, although at higher interest rates, and more fixed rate debt. For the nine months ended September 25, 2004, our weighted average interest rate for all debt (fixed and variable) was 8.17%, up 2.00 percentage points versus the same period of 2003. Our average debt balances decreased by \$4.1 million for the nine months ended September 25, 2004 versus the comparable period in 2003 despite the termination of our previous receivables facility which resulted in high reported debt as this off-balance sheet financing vehicle was terminated.

**Expenses Related to Retirement of Debt** On February 19, 2004, we refinanced our then outstanding credit facility and terminated our receivables facility. We wrote off approximately \$6.6 million in unamortized deferred financing costs relating to our then outstanding Term C Loan, revolver, credit agreement and related amendments and \$0.1 million of an unamortized fee paid to originate the receivables facility in 2001. In addition, we recorded a net gain of \$0.3 million, which included a write-off of \$0.2 million of unamortized deferred financing fees, as the result of the repurchase on the open market of the \$10.0 million principal of our 9 <sup>3</sup>/<sub>8</sub> % Notes (see Notes 7 and 8 to our unaudited consolidated financial statements).

**Consolidated Other Expenses** Our consolidated other expenses were primarily the costs associated with our receivables facility. Since this facility was terminated as a result of our refinancing, costs associated with this facility decreased for the nine months ended September 25, 2004, versus the same period in the prior year, by \$1.1 million.

**Consolidated Income Taxes** Our consolidated income taxes were \$7.3 million for the nine months ended September 25, 2004. This includes a \$2.8 million tax benefit as a result of the favorable settlement of tax audits during the second quarter of 2004. Excluding this benefit, our effective tax rate, as a percent of pretax earnings was 40.0% of earnings before income taxes. This was up versus an effective tax rate of 36.4% for the comparable period of 2003 due primarily to higher provisions for state taxes.

## **Liquidity and Capital Resources**

### *Cash*

At September 25, 2004, we had \$84.2 million in cash. The end of the third quarter has historically been our lowest working capital period driven by the timing of the sun care season. The refinancing in early 2004 has resulted in a larger portion of long-term, fixed rate debt. As a result, cash generated from the collection of sun care receivables remains on hand as we have no balance outstanding on our revolving credit facility. This cash will be used to finance the seasonal inventory build for sun care and to make our early December interest payment on our

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9 <sup>3</sup>/<sub>8</sub> % Notes. In addition, we may consider using excess cash and revolver availability to repurchase subordinated debt in the open market from time to time in the future. On October 27, 2004, we amended our new credit facility. This amendment allows us to repurchase subordinated debt, provided we meet a certain minimum availability target under our revolver over a forecasted twelve month period. We expect to use the proceeds of the *Woolite* sale and excess cash to reduce debt by at least \$100 million in the next year.

As previously noted, on September 27, 2004, we entered into an agreement to sell certain assets of the *Woolite* rug and upholstery brand to BISSELL Homecare, Inc. for a purchase price of approximately \$62 million in cash. The transaction is conditional on satisfying regulatory and other customary conditions. The use of these proceeds may include the repurchase of subordinated debt or reinvestment in our core businesses, including potential acquisitions. On October 27, 2004, we amended our new credit facility to allow us to sell the *Woolite* assets and use the proceeds from the *Woolite* sale to repurchase subordinated debt. We expect to generate a gain of approximately \$54 million at the closing of the transaction, expected in the fourth quarter of 2004.



The taxable gain from this transaction will be substantially offset by our remaining capital loss carryforward. We will record a tax benefit of approximately \$18 million resulting from an adjustment to the valuation allowance previously established for the portion of the capital loss carryforward that we did not expect to utilize prior to its expiration.

#### *2004 Refinancing*

As fully described in Notes 7 and 8 of our unaudited consolidated financial statements, on February 19, 2004, we refinanced our indebtedness under our then existing credit facility (the 2004 Refinancing Transaction). This refinancing provides greater flexibility and liquidity to pursue our stated strategy. Additionally, it eliminates the maintenance covenants and near term principal amortization requirements that were part of our prior credit facility. Proceeds from this refinancing transaction were used to pay-off our outstanding indebtedness under our existing credit agreement (see Note 7 to our unaudited consolidated financial statements) and to terminate the receivables facility (see Note 8 to our unaudited consolidated financial statements).

The 2004 Refinancing Transaction consisted of:

- \$460.0 million principal amount of 8% Senior Secured Notes due 2011 (the 8% Notes), and
- a five-year \$150.0 million variable rate credit facility (the New Credit Facility), comprised of:
  - a \$7.5 million Term Loan (the New Term Loan), which we subsequently repaid in the third quarter 2004, and
  - a \$142.5 million Revolving Credit Facility (the New Revolver).

The availability under the New Revolver is subject to a borrowing base calculation, which is dependent upon the level of certain assets including eligible receivables, eligible inventory and eligible equipment, as defined in the New Credit Facility. As of September 25, 2004, our availability under the New Revolver, based on our borrowing base calculation, is \$68.8 million, as reduced for our current outstanding New Revolver and outstanding letters of credit, as defined in the New Credit Facility.

Pricing for the New Credit Facility was the London Inter-Bank Offer Rate (LIBOR) plus 400 basis points for the New Term Loan and is LIBOR plus 250 basis points for the New Revolver. As a result of the 2004 Refinancing Transaction, we incurred an estimated \$12.9 million in fees and expenses, which have been deferred and are being amortized over the term of the 8% Notes and the New Credit Facility. Additionally, on February 19, 2004, we repurchased on the open market \$10.0 million principal of our 9 <sup>3</sup>/<sub>8</sub>% Senior Subordinated Notes due June 1, 2011 (the 9 <sup>3</sup>/<sub>8</sub>% Notes) at a discount. In conjunction with this refinancing, we wrote off approximately \$6.9 million in unamortized fees associated with the 2001 refinancing transaction and related amendments.

As a result of the 2004 Refinancing Transaction, our debt portfolio and interest rate profile has changed substantially. All of our indebtedness at September 25, 2004 is comprised of fixed rate notes, as the 2004 Refinancing Transaction substantially reduced our exposure to variable rate indebtedness. As a result, our exposure to changing interest rates is dramatically reduced. A one percentage point change in our variable interest rate would not have a material impact on our consolidated interest expense due to the reduction of our variable rate indebtedness.



Our New Credit Facility contains various restrictions and limitations that may impact us. These restrictions and limitations relate to:

limitations on indebtedness,  
contingent obligations,  
liens,  
capital expenditures,  
mergers and acquisitions,  
asset sales, dividends and distributions,  
redemption or repurchase of equity interests,  
subordinated debt payments and modifications,  
loans and investments,  
transactions with affiliates,  
changes of control,  
payment of consulting and management fees, and  
compliance with laws and regulations.

*Contractual Obligations*

The following table summarizes our contractual obligations at September 25, 2004 (in thousands):

			Payments Due by Period			
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	
Long-term debt, including current portion	\$ 800,000	\$	\$	\$	\$ 800,000	
Operating lease obligations	20,825	7,852	7,730	1,859	3,384	
Purchase and other obligations(1)	54,696	42,315	10,405	445	1,531	
Total	\$ 875,521	\$ 50,167	\$ 18,135	\$ 2,304	\$ 804,915	

*Cash Flows Analysis*

(In thousands)	Nine Months Ended			
	September 25, 2004		September 27, 2003	
Net cash flows from operations	\$	72,524	\$	58,340
Net cash flows used for investing activities		(10,319)		(13,771)
Net cash flows used for financing activities		(5,650)		(36,124)
Effect of exchange rate changes on cash		150		1,341

**Cash Flows from Operations** Our net cash flows from operations were \$72.5 million for the first nine months of 2004. Compared to the first nine months of 2003, our cash flows from operations increased \$14.2 million, driven by several factors, most notably an increase in net earnings prior to a non-cash write-off of deferred fees from debt retirement of \$6.9 million and improved working capital of \$5.1 million due primarily to lower inventory.

At September 25, 2004, our working capital (current assets net of current liabilities) increased \$38.0 million to \$146.8 million compared to \$108.8 million at September 27, 2003.

Total current assets decreased \$33.8 million at September 25, 2004 as compared to September 27, 2003. This decrease was due to the maturity and settlement of the \$80.0 million related party notes in December 2003. There is a corresponding reduction in current liabilities for the offsetting related party liability as noted below. Excluding the impact of the related party notes, current assets increased \$46.2 million. Cash increased \$42.8 million as a result of the seasonal nature of our Sun Care business and related customer payments. The elimination of current debt as a result of the Refinancing Transaction has also contributed to the increase in cash levels. The termination of the receivables facility resulted in an increase in accounts receivable, net of retained interest in receivables, of \$13.4 million. At September 27, 2003, the Company had sold an undivided fractional interest in its receivable portfolio of \$19.0 million as part of its now terminated receivables facility. Inventory was lower at September 25, 2004 by \$8.8 million as compared to September 27, 2003 due to stronger

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(1) Includes open purchase orders primarily for the procurement of raw materials, packaging and supplies for use in the production process.

sales and improvements related to our operational restructuring efforts. All other current assets decreased by \$1.2 million at September 25, 2004 as compared to September 27, 2003.

Total current liabilities decreased \$71.8 million due primarily to the maturity and settlement of the related party notes payable of \$78.4 million. As noted above, there was a corresponding reduction in current assets for related party note receivable. Exclusive of the related party notes, current liabilities increased \$6.6 million due primarily to an increase in accrued liabilities resulting from the timing of sales promotions and interest payments. The increase in accrued liabilities was partially offset by lower accounts payable due primarily to lower inventory and the elimination of the current portion of long term debt due to the refinancing.

**Cash Flows Used for Investing Activities** Our cash flows used for investing activities were driven by capital expenditures for equipment and facility improvements of \$9.3 million for the first nine months of 2004, compared to \$13.8 million for the same period in 2003. These expenditures were used primarily to support new products, upgrade production equipment, invest in new technologies, and improve our facilities. Capital expenditures for 2004 are expected to be in the \$15.0 million range.

**Cash Flows Used for Financing Activities** Our cash flows used for financing activities of \$5.7 million for the first nine months of 2004 was due primarily to payment of fees associated with our 2004 Refinancing. Our cash flows used for financing activities for the first nine months of 2003 was comprised of repayment of \$20.0 million of convertible notes, payment of \$1.6 million of financing fees and repayments of current debt obligations under our then existing credit facility.

We intend to fund our operating activities, capital expenditures and debt service requirements through cash flows generated from operations and borrowings under the New Revolver through fiscal 2009. However, we do not expect to generate sufficient cash flows from operations to make the \$460.0 million scheduled principal payment on the 8% Notes nor the principal payment on the \$340.0 million 9 <sup>3</sup>/<sub>8</sub> % Notes both due in fiscal 2011. Accordingly, we will have to refinance our obligations, sell assets or raise equity capital to repay the principal amounts of these obligations. Historically, our cash flows from operations and refinancing activities have enabled us to meet all of our obligations. However, we cannot guarantee that our operating results will continue to be sufficient or that future borrowing facilities will be available for the payment or refinancing of our debt on economically attractive terms.

#### *Off-Balance Sheet Arrangements*

On occasion we enter into certain off-balance sheet arrangements and other commitments with unaffiliated third parties. At September 25, 2004, we have operating leases, which are considered off-balance sheet.

We enter into operating leases with unaffiliated third parties. These leases are primarily for buildings, manufacturing equipment, automobiles and information technology equipment. At September 25, 2004 we had, in aggregate, approximately \$20.8 million of committed expenses associated with operating leases that are not reflected on our consolidated balance sheet as a liability, in accordance with GAAP. We believe operating leases are beneficial to us by allowing us to match the cost of the asset with the benefits derived from it. Operating leases also provide us with greater flexibility in regards to technological change, minimizing the risk of our productive assets becoming obsolete.

**Recently Issued Accounting Standards**

In December 2003, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standard ( SFAS ) No. 132 R, Employer s Disclosures about Pensions and Other Postretirement Benefits. SFAS No. 132 R requires new annual disclosures about the types of plan assets, investment strategy, measurement date, plan obligations, and cash flows as well as the components of the net periodic benefit cost recognized in interim periods. The new annual disclosure requirements apply to fiscal years ending after December 15, 2003, except for the disclosure of expected future benefit payments, which must be disclosed for fiscal years ending after June 15, 2004. Interim period disclosures are generally effective for interim periods beginning after December 15, 2003. We have included the disclosures required by SFAS No. 132 R in our consolidated financial statements for the quarter ended September 25, 2004.

In March 2004, the FASB indicated that they will require stock-based employee compensation to be recorded as a charge to earnings pursuant to an exposure draft they have published for comment. The FASB announced a decision to delay the effective date for its proposed standard to periods beginning after June 15, 2005. We will continue to monitor their progress on the issuance of this standard and the impact it may have on our consolidated financial statements.

In May 2004, the FASB issued FASB Staff Position ( FSP ) SFAS No. 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ( the Act ). The Act was signed into law on December 8, 2003 and expanded Medicare to include prescription drugs. We sponsor retiree medical programs and this legislation includes a federal subsidy for qualifying companies. FSP SFAS 106-2 requires that the effects of the federal subsidy be considered an actuarial gain and treated like similar gains and losses if it is determined that the prescription drug benefits of the retiree medical program are determined to be actuarially equivalent to those offered under Medicare Part D. We have adopted FSP SFAS 106-2 during our third quarter ended September 25, 2004 and concluded that we are unable to determine whether the benefits under our plan are actuarially equivalent to Medicare Part D under the Act because the guidance provided thus far is unclear. We will monitor our plan and assess actuarial equivalence as new information becomes available.

**PLAYTEX PRODUCTS, INC.**  
**PART I - FINANCIAL INFORMATION**  
**QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

**Item 3. Quantitative and Qualitative Disclosure about Market Risk**

We periodically use financial instruments, such as derivatives, to manage the impact of interest rate changes on our variable rate debt and its effect on our earnings and cash flows. Our policies prohibit the use of derivative instruments for the sole purpose of trading for profit on price fluctuations or to enter into contracts, which intentionally increase our underlying interest rate exposure. At September 25, 2004, we were not a party to any such financial instruments and our total indebtedness consisted of \$800.0 million in fixed rate debt. Based on our interest rate exposure at September 25, 2004, a 1% increase in interest rates for our variable rate debt would not have a material impact on our consolidated interest expense.

For the nine month period ended September 25, 2004, we derived approximately 8% of net sales in currencies denominated other than the U.S. dollar, of which approximately 6% was from our Canadian subsidiary. We conduct our international operations in a variety of countries and derive our sales in currencies including: the Euro, British pound, Canadian dollar and Australian dollar, as well as the U.S. dollar. Our operations may be subject to volatility because of currency changes, inflation changes and changes in political and economic conditions in the countries in which we operate. In these countries, our sales and expenses are typically denominated in local currency, while costs of goods sold are denominated in a combination of local currency and the U.S. dollar. Our results of operations are reported in U.S. dollars. Fluctuations in currency rates can adversely affect our product prices, margins and operating costs as well as our reported results. The vast majority of our products are manufactured in the U.S. although we do source some finished goods, componentry and raw materials from overseas. A weakening of the foreign currencies in which we generate sales relative to the currencies in which our costs are denominated, which is primarily the U.S. dollar, may decrease our reported cash flow and operating profits. Our competitors may or may not be subject to the same fluctuations in currency rates, and our competitive position could be affected by these changes.

**Item 4. Controls and Procedures**

(a) Disclosure controls and procedures. Our President and Chief Executive Officer and our Executive Vice President and Chief Financial Officer carried out an evaluation of the effectiveness of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)). Based on that evaluation, these officers have concluded that as of the end of the period covered by this report, our disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company would be made known to them, particularly during the period in which this report was being prepared.

(b) Internal control over financial reporting. There has been no change in our internal control over financial reporting (as defined in the Securities Exchange Act of 1934 Rules 13a-15(f) and 15d-15(f)) that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



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It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there is only reasonable assurance that our controls will succeed in achieving their stated goals under all potential future conditions.

**PLAYTEX PRODUCTS, INC.**

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

The following should be read in conjunction with Part 1, Item 3., Legal Proceedings in our Annual Report on Form 10-K for the year ended December 27, 2003.

As of the end of October 2004, there were two pending toxic shock syndrome claims relating to Playtex tampons, although additional claims may be made in the future.

**Item 6. Exhibits**

10.1 Amendment No. 1 to the Credit Agreement, dated October 27, 2004, amongst Playtex Products, Inc., the guarantors named therein and General Electric Capital Corporation, as agent and a lender.

31.1 Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**PLAYTEX PRODUCTS, INC.**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

**PLAYTEX PRODUCTS, INC.**

**Date:** November 2, 2004

**By:** **/S/ NEIL P. DEFEO**  
Neil P. DeFeo  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

**Date:** November 2, 2004

**By:** **/S/ GLENN A. FORBES**  
Glenn A. Forbes  
*Executive Vice President and*  
*Chief Financial Officer*  
*(Principal Financial and Accounting Officer)*