

TEMPUR PEDIC INTERNATIONAL INC
Form 10-Q
August 08, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2006

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

For the transition period from to

Commission file number 001-31922

TEMPUR-PEDIC INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

Delaware

33-1022198

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(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

1713 Jaggie Fox Way

Lexington, Kentucky 40511

(Address, including zip code, of registrant's principal executive offices)

Registrant's telephone number, including area code: (800) 878-8889

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes No

The number of shares outstanding of the registrant's common stock as of July 31, 2006 was 82,869,227 shares.

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Special Note Regarding Forward-Looking Statements

This quarterly report on Form 10-Q, including the information incorporated by reference herein, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which include information concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, the impact of the adoption of recently issued accounting pronouncements, the putative securities class action lawsuits and related lawsuits recently filed, the rollout and market acceptance of new products, our investments to increase our global brand awareness, the Company's expectations regarding its gross margin over the second half of 2006, the Company's expectations regarding additional opportunities for growth, plans to increase sales and reduce costs, the impact of increases in raw materials costs, the construction of our new manufacturing facility in New Mexico, and other information that is not historical information. Many of these statements appear, in particular, under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in ITEM 2 of Part I of this report. When used in this report, the words estimates, expects, anticipates, projects, plans, intends, believes and variations of such words or similar expressions are intended to identify forward-looking statements. These forward-looking statements are based upon our current expectations and various assumptions. There can be no assurance that we will realize our expectations or that our beliefs will prove correct.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this report. Important factors that could cause our actual results to differ materially from those expressed as forward-looking statements are set forth in this report, including under the heading "Risk Factors" under ITEM 1A of Part II. There may be other factors that may cause our actual results to differ materially from the forward-looking statements.

All forward-looking statements attributable to us apply only as of the date of this report and are expressly qualified in their entirety by the cautionary statements included in this report. Except as may be required by law, we undertake no obligation to publicly update or revise any of the forward-looking statements, whether as a result of new information, future events, or otherwise.

When used in this report, except as specifically noted otherwise, the term "Tempur-Pedic International" refers to Tempur-Pedic International Inc. only, and the terms "Company," "we," "our," "ours" and "us" refer to Tempur-Pedic International Inc. and its consolidated subsidiaries.

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	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net sales	\$ 218,962	\$ 192,615	\$ 447,548	\$ 414,994
Cost of sales	112,446	94,080	229,778	202,216
Gross profit	106,516	98,535	217,770	212,778
Selling and marketing expenses	40,353	38,149	85,095	83,118
General and administrative expenses	17,950	15,276	36,405	34,366
Research and development expenses	951	513	1,791	1,317
Operating income	47,262	44,597	94,479	93,977
Other income (expense), net:				
Interest expense, net	(6,217)	(4,864)	(10,674)	(10,227)
Loss on extinguishment of debt				(717)
Other income (expense), net	(55)	412	(148)	327
Total other expense	(6,272)	(4,452)	(10,822)	(10,617)
Income before income taxes	40,990	40,145	83,657	83,360
Income tax provision	14,878	15,295	30,652	31,760
Net income	\$ 26,112	\$ 24,850	\$ 53,005	\$ 51,600
Earnings per share:				
Basic	\$ 0.31	\$ 0.25	\$ 0.61	\$ 0.52
Diluted	\$ 0.30	\$ 0.24	\$ 0.59	\$ 0.50
Weighted average shares outstanding:				
Basic	84,377	98,792	86,848	98,607
Diluted	87,460	103,431	90,246	103,315

See accompanying Notes to Condensed Consolidated Financial Statements.

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	June 30, 2006	December 31, 2005
	<u>2006</u>	<u>2005</u>
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 15,812	\$ 17,855
Accounts receivable, net	123,916	111,726
Inventories	71,773	81,064
Prepaid expenses and other current assets	11,336	11,072
Income taxes receivable		19
Deferred income taxes	7,819	6,532
	<u>230,656</u>	<u>228,268</u>
Total Current Assets	230,656	228,268
Property, plant and equipment, net	206,519	193,224
Goodwill	200,045	199,962
Other intangible assets, net	72,414	73,908
Deferred financing and other non-current assets, net	6,969	6,949
	<u>716,603</u>	<u>702,311</u>
Total Assets	\$ 716,603	\$ 702,311
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 37,590	\$ 33,639
Accrued expenses and other	63,276	56,570
Income taxes payable	12,410	
Current portion of long-term debt	22,673	30,770
	<u>135,949</u>	<u>120,979</u>
Total Current Liabilities	135,949	120,979
Long-term debt	394,461	313,711
Deferred income taxes	39,262	40,386
Other non-current liabilities	720	906
	<u>570,392</u>	<u>475,982</u>
Total Liabilities	570,392	475,982
Commitments and contingencies see Note 8		
Stockholders Equity:		
Common stock \$.01 par value; 300,000 shares authorized; 99,215 shares issued as of June 30, 2006 and December 31, 2005	992	992
Additional paid in capital	259,803	255,369
Deferred stock compensation net of amortization of \$12,312 as of December 31, 2005		(2,196)
Retained earnings	84,179	46,245
Accumulated other comprehensive income	2,293	1,137
Treasury stock, at cost; 16,362 and 6,767 shares as of June 30, 2006 and December 31, 2005, respectively	(201,056)	(75,218)

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Total Stockholders' Equity	<u>146,211</u>	<u>226,329</u>
Total Liabilities and Stockholders' Equity	<u>\$ 716,603</u>	<u>\$ 702,311</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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	Six Months Ended	
	June 30,	
	2006	2005
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 53,005	\$ 51,600
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,373	12,590
Amortization of deferred financing costs	820	1,303
Loss on extinguishment of debt		717
Amortization of stock-based compensation	1,504	1,649
Allowance for doubtful accounts	1,491	1,310
Deferred income taxes	(2,411)	(1,561)
Foreign currency adjustments	274	194
Loss on sale of equipment and other	288	575
Changes in operating assets and liabilities:		
Accounts receivable	(9,516)	(9,114)
Inventories	10,871	(18,057)
Prepaid expenses and other current assets	72	1,133
Accounts payable	2,231	(1,597)
Accrued expenses and other	3,575	(4,983)
Income taxes	11,933	13,365
Net cash provided by operating activities	86,510	49,124
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for trademarks and other intellectual property	(503)	(1,138)
Purchases of property, plant and equipment	(18,561)	(48,726)
Proceeds from sale of equipment	31	182
Net cash used by investing activities	(19,033)	(49,682)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term revolving credit facility	133,500	53,000
Repayments of long-term revolving credit facility	(13,000)	(17,000)
Repayments of long-term debt	(52,873)	