PLAYTEX PRODUCTS INC
Form 10-Q
May 13, 2003

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# 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 March 29, 2003**
**Commission File No. 1-12620**

# PLAYTEX PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

| **Delaware** | **51-0312772** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**300 Nyala Farms Road**
**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 ý No o

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

Yes ý No o

At May 9, 2003 61,215,856 shares of Playtex Products, Inc. common stock, par value $.01 per share, were outstanding.

**PLAYTEX PRODUCTS, INC.**
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**PLAYTEX PRODUCTS, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(In thousands, except share data)**

| | March 29, 2003 | December 28, 2002 |
|---|---|---|
| | (Unaudited) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash | $ 53,575 | $ 31,605 |
| Receivables, less allowance for doubtful accounts | 36,984 | 27,735 |
| Retained interest in receivables | 64,337 | 59,774 |
| Inventories | 84,519 | 85,160 |
| Due from related party | 80,017 | 80,017 |
| Deferred income taxes | 7,730 | 8,130 |
| Other current assets | 7,059 | 7,782 |
| Total current assets | 334,221 | 300,203 |

| | March 29, 2003 | December 28, 2002 |
|---|---|---|
| Net property, plant and equipment | 121,427 | 121,199 |
| Intangible assets, net: | | |
| Goodwill | 494,307 | 494,307 |
| Trademarks, patents and other | 138,948 | 139,174 |
| Deferred financing costs | 13,103 | 13,592 |
| Other noncurrent assets | 9,324 | 9,712 |
| Total assets | $ 1,111,330 | $ 1,078,187 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 37,597 | $ 47,088 |
| Accrued expenses | 50,845 | 54,217 |
| Due to related party | 78,386 | 78,386 |
| Income taxes payable | 6,481 | 1,086 |
| Current maturities of long-term debt | 34,500 | 4,500 |
| Total current liabilities | 207,809 | 185,277 |
| Long-term debt | 821,250 | 823,250 |
| Other noncurrent liabilities | 14,919 | 14,526 |
| Deferred income taxes, net | 49,578 | 49,601 |
| Total liabilities | 1,093,556 | 1,072,654 |
| Stockholders' equity: | | |
| Common stock, $0.01 par value, authorized 100,000,000 shares, issued 61,215,856 shares at March 29, 2003 and December 28, 2002 | 612 | 612 |
| Additional paid-in capital | 526,233 | 526,233 |
| Retained earnings (deficit) | (505,368) | (516,771) |
| Accumulated other comprehensive earnings | (3,703) | (4,541) |
| Total stockholders' equity | 17,774 | 5,533 |
| Total liabilities and stockholders' equity | $ 1,111,330 | $ 1,078,187 |

See the accompanying notes to condensed consolidated financial statements.



**PLAYTEX PRODUCTS, INC.**
**CONSOLIDATED STATEMENTS OF EARNINGS**
**(Unaudited, in thousands, except per share data)**

| | Three Months Ended | |
|---|---|---|
| | March 29, 2003 | March 30, 2002 |

| | Three Months Ended | |
|---|---|---|
| Net sales | $ 180,933 | $ 196,751 |
| Cost of sales | 84,183 | 85,711 |
| Gross profit | 96,750 | 111,040 |
| Operating expenses: | | |
| Selling, general and administrative | 64,721 | 63,734 |
| Restructuring and asset impairment | | 7,599 |
| Amortization of intangibles | 226 | 226 |
| Total operating expenses | 64,947 | 71,559 |
| Operating earnings | 31,803 | 39,481 |
| Interest expense including related party interest expense of $3,037 for both periods presented, net of related party interest income of $3,001 for both periods presented | 13,447 | 16,106 |
| Other expense | 453 | 890 |
| Earnings before income taxes and cumulative effect of change in accounting principle | 17,903 | 22,485 |
| Income tax expense (benefit) | 6,500 | (6,055) |
| Earnings before cumulative effect of change in accounting principle | 11,403 | 28,540 |
| Cumulative effect of change in accounting principle, net of $7,141 tax benefit | | (12,423) |
| Net earnings | $ 11,403 | $ 16,117 |
| Earnings per share Basic: | | |
| Earnings before cumulative effect of change in accounting principle | $ 0.19 | $ 0.47 |
| Cumulative effect of change in accounting principle | | (0.20) |
| Earnings per share Basic | $ 0.19 | $ 0.26 |
| Earnings per share Diluted: | | |
| Earnings before cumulative effect of change in accounting principle | $ 0.19 | $ 0.45 |
| Cumulative effect of change in accounting principle | | (0.20) |
| Earnings per share Diluted | $ 0.19 | $ 0.26 |
| Weighted average shares outstanding: | | |
| Basic | 61,216 | 61,049 |

| | Three Months Ended | |
|---|---|---|
| Diluted | 62,805 | 63,849 |

See the accompanying notes to condensed consolidated financial statements.



**PLAYTEX PRODUCTS, INC.**
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**
**AND COMPREHENSIVE EARNINGS**
**(Unaudited, in thousands)**

| | Common Shares Outstanding | Common Stock | Additional Paid Capital | Retained Earnings (Deficit) | Accumulated Other Comprehensive Earnings | Total |
|---|---|---|---|---|---|---|
| Balance, December 28, 2002 | 61,216 | $ 612 | $ 526,233 | $ (516,771) | $ (4,541) | $ 5,533 |
| Net earnings | | | | 11,403 | | 11,403 |
| Foreign currency translation adjustment | | | | | 838 | 838 |
| Comprehensive earnings | | | | | | 12,241 |
| Balance, March 29, 2003 | 61,216 | $ 612 | $ 526,233 | $ (505,368) | $ (3,703) | $ 17,774 |

See the accompanying notes to condensed consolidated financial statements.



**PLAYTEX PRODUCTS, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited, in thousands)**

| | Three Months Ended | |
|---|---|---|
| | March 29, 2003 | March 30, 2002 |
| Cash flows from operations: | | |
| Net earnings | $ 11,403 | $ 16,117 |
| Non-cash items included in earnings: | | |
| Asset impairment charge | | 4,222 |
| Cumulative effect of change in accounting principle | | 12,423 |
| Depreciation | 3,471 | 3,495 |
| Amortization of deferred financing costs | 489 | 588 |
| Amortization of intangibles | 226 | 226 |
| Deferred income taxes | 396 | (10,388) |

| | Three Months Ended | |
|---|---|---|
| Other, net | 1,631 | 567 |
| Net increase in working capital accounts | (19,973) | (17,594) |
| Net cash flows (used for) from operations | (2,357) | 9,656 |
| Cash flows used for investing activities: | | |
| Purchases of property, plant and equipment | (3,673) | (2,974) |
| Net cash flows used for investing activities | (3,673) | (2,974) |
| Cash flows provided by (used for) financing activities: | | |
| Net borrowings (repayments) under credit facilities | 28,000 | (12,000) |
| Issuance of shares of common stock | | 116 |
| Net cash flows provided by (used for) financing activities | 28,000 | (11,884) |
| Increase (decrease) in cash | 21,970 | (5,202) |
| Cash at beginning of period | 31,605 | 34,006 |
| Cash at end of period | $ 53,575 | $ 28,804 |
| **Supplemental disclosures of cash flow information** | | |
| Cash paid (received) during the periods for: | | |
| Interest | $ 5,674 | $ 8,171 |
| Income taxes, net of refunds | $ 707 | $ (4,761) |

See the accompanying notes to condensed consolidated financial statements.



**PLAYTEX PRODUCTS, INC.**
**PART I FINANCIAL INFORMATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Consolidated Financial Statements**

The quarterly condensed 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. The results of operations for the thirteen-week period ended March 29, 2003 are not necessarily indicative of the results that you may expect for the full year.

We presume you have access to the audited financial statements contained in our Annual Report on Form 10-K for the year ended December 28, 2002. As a result, we have not included footnote disclosures that would substantially duplicate the disclosures contained in the 10-K. We file our annual, quarterly, current reports, proxy statements, and other documents with the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1933 and 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. In addition, we make our filings with the SEC available at the Investors Relations section of our website www.playtexproductsinc.com. You can call our Investor Relations Department at (203) 341-4017 or via email at invrel@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 Standards ("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, we do not recognize compensation expense related to our stock option program. Had we recognized compensation expense under the fair value approach permitted by SFAS No. 123, which measures and expenses the fair value of each stock option on the date of grant, our earnings and earnings per share would have been reduced to the pro forma amounts listed below (unaudited, in thousands, except per share data):

| | Three Months Ended | |
|---|---|---|
| | **March 29, 2003** | **March 30, 2002** |
| Net Earnings: | | |
| As reported | $ 11,403 | $ 16,117 |
| Pro forma | $ 10,840 | $ 15,609 |
| Earnings Per share: | | |
| As reported | | |
| Basic | $ 0.19 | $ 0.26 |
| Diluted | $ 0.19 | $ 0.26 |
| Pro forma | | |
| Basic | $ 0.17 | $ 0.25 |
| Diluted | $ 0.17 | $ 0.24 |
| Weighted average common shares and common equivalent shares outstanding: | | |
| Basic | 61,216 | 61,049 |
| Diluted | 62,805 | 63,849 |



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 Adopting New Accounting Pronouncements**

Effective December 30, 2001, the beginning of our 2002 fiscal year, we adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), which changed our accounting for goodwill and other intangible assets with indefinite lives from an amortization method to an impairment only approach. In accordance with the requirements of SFAS No. 142, we tested the goodwill attributable to each of our reporting units for impairment as of December 30, 2001, the first day of fiscal 2002, and determined that none of our goodwill was impaired. Also, in accordance with the requirements of SFAS No. 142, we tested each of our trademarks for impairment by comparing the fair value of each trademark to its carrying value at December 30, 2001. Fair value was estimated using the relief from royalty method (a discounted cash flow methodology). Based on these impairment tests, we recorded a charge, reported as a cumulative effect of change in accounting principle, of $19.6 million ($12.4 million or $0.20 per diluted share, net of tax benefits) in the first quarter of 2002. This charge reduced the trademark carrying value of certain non-core brands, primarily *Chubs* and *Diaparene*, to their estimated fair value. We are required to test our goodwill and trademarks for impairment, based on the methodologies as outlined in SFAS No. 142, on an annual basis and more frequently if events or circumstances indicate a likelihood of impairment. We performed additional tests, as part of the required annual goodwill impairment testing, during the second quarter of 2002 and no reduction in goodwill or trademark balances were required.

In April 2002, the FASB issued SFAS No. 145 ("SFAS No. 145"), "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." We adopted this statement effective December 29, 2002, the first day of fiscal 2003. This statement updates, clarifies and simplifies existing accounting pronouncements and requires that gains and losses on extinguishments of debt be classified as income or loss from continuing operations rather than as extraordinary items as previously required under the old accounting rules. Any gain or loss on extinguishment of debt previously classified as an extraordinary item in prior periods that does not meet the criteria of APB 30 for such classification has been reclassified to conform to the provisions of SFAS No. 145. In accordance with SFAS No. 145, we have

reclassified our historical results and there was no impact on our previously reported net earnings.

**4. Restructuring and Impairment Costs**

In the first quarter of 2002, we recorded a pre-tax restructuring and asset impairment charge of $7.6 million, or $0.08 per diluted share, as a result of our decision to close our Watervliet, New York plastic molding facility. The write-off of assets associated with the closure of the facility was approximately $4.2 million and severance and other exit costs related to the termination of employees were estimated at $3.4 million. As of March 29, 2003, we spent $2.6 million related to severance and other exit costs since we announced our intent to close the facility in the first quarter of 2002. The Watervliet facility manufactured component parts primarily for our infant feeding category and employed approximately 160 people at the time of the announcement.



**5. Impact of New Tax Regulations**

In the first quarter of 2002, the U.S. Treasury issued new regulations that replaced the loss disallowance rules applicable to the sale of stock of a subsidiary member of a consolidated tax group. These regulations permit us to utilize a previously disallowed $135.1 million tax capital loss that resulted from the sale of Playtex Beauty Care Inc. during fiscal 1999. We can utilize the tax capital loss associated with the sale of Playtex Beauty Care Inc. to offset capital gains during the statutory five-year carry forward period. We anticipate utilizing $40.0 million of the capital loss to offset a capital gain, in fiscal 2003, related to the retirement of our related party notes, which come due on December 15, 2003. Accordingly, we recorded a tax benefit of $14.3 million, or $0.22 per diluted share, in the first quarter of 2002. The remaining capital loss carryover will expire on December 25, 2004, if not utilized. The remaining tax benefit associated with the capital loss carryforward has been reduced by a valuation allowance, as we do not currently expect to realize it. The tax benefit related to the new regulations, recorded in the first quarter of 2002, does not impact our effective tax rate during fiscal 2003. We expect our effective tax rate during fiscal 2003 to be between 36% - 37% of earnings before income taxes.

**6. Accumulated Other Comprehensive Earnings**

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

| | Foreign Currency Translation Adjustment | Minimum Pension Liability Adjustment | Accumulated Other Comprehensive Earnings |
|---|---|---|---|
| Balance, December 28, 2002 | $ (3,778) | $ (763) | $ (4,541) |
| Change in period | 838 | | 838 |
| Balance, March 29, 2003 | $ (2,940) | $ (763) | $ (3,703) |

**7. Balance Sheet Components**

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

| | March 29, 2003 | December 28, 2002 |
|---|---|---|
| | (Unaudited) | |
| Cash | $ 25,145 | $ 23,105 |
| Cash lock box[a] | 9,330 | 8,500 |
| Cash restricted[b] | 19,100 | |
| Net | $ 53,575 | $ 31,605 |

| | March 29, 2003 | December 28, 2002 |
|---|---|---|
| Receivables | $ 37,883 | $ 28,707 |
| Less allowance for doubtful accounts | (899) | (972) |
| Net | $ 36,984 | $ 27,735 |

(a) Cash held in lock box pending weekly settlement procedure for Receivables Facility (see Note 9).

(b) In accordance with the terms of our senior secured credit facility, we deposited $19.1 million into an excess cash flow account in March of 2003. We used the $19.1 million in the excess cash flow account, together with $0.9 million of cash, to redeem $20.0 million of our 6% Convertible Subordinated Notes due 2004 (the "6% Convertible Notes") on April 24, 2003, subsequent to March 29, 2003, the balance sheet date (see Notes 8 and 13).



| | March 29, 2003 | December 28, 2002 |
|---|---|---|
| | (Unaudited) | |
| Inventories: | | |
| Raw materials | $ 17,130 | $ 18,780 |
| Work in process | 2,014 | 2,125 |
| Finished goods | 65,375 | 64,255 |
| Total | $ 84,519 | $ 85,160 |
| Net property, plant and equipment: | | |
| Land | $ 2,376 | $ 2,376 |
| Buildings | 39,941 | 39,694 |
| Machinery and equipment | 186,861 | 183,200 |
| | 229,178 | 225,270 |
| Less accumulated depreciation | (107,751) | (104,071) |
| Net | $ 121,427 | $ 121,199 |
| Accrued expenses: | | |
| Advertising and sales promotion | $ 11,336 | $ 16,665 |
| Employee compensation and benefits | 5,398 | 15,769 |
| Interest | 15,147 | 7,864 |
| Insurance | 1,512 | 1,501 |
| Other | 17,452 | 12,418 |
| Total | $ 50,845 | $ 54,217 |

| | March 29, 2003 | December 28, 2002 |
|---|---|---|

**8. Long-Term Debt**

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

| | March 29, 2003 | December 28, 2002 |
|---|---|---|
| | (Unaudited) | |
| Variable rate indebtedness: | | |
| Term C Loan | $ 447,750 | $ 447,750 |
| Revolving Credit Facility | 28,000 | |
| Fixed rate indebtedness: | | |
| $9^3/_8$% Senior Subordinated Notes due 2011 | 350,000 | 350,000 |
| 6% Convertible Subordinated Notes due 2004 | 30,000 | 30,000 |
| | 855,750 | 827,750 |
| Less current maturities | (34,500) | (4,500) |
| Total long-term debt | $ 821,250 | $ 823,250 |

At March 29, 2003, our borrowings under the Revolving Credit Facility increased by $28.0 million, to fund our working capital needs associated with our seasonal Sun Care business.



On May 22, 2001, we completed a refinancing of our senior indebtedness (the "Refinancing Transaction"). As part of the Refinancing Transaction we issued:

- $350.0 million principal amount of $9^3/_8$% Senior Subordinated Notes due June 1, 2011 (the "$9^3/_8$% Notes"), and
- a Credit Facility, at that time, consisting of:
  - a six-year $100.0 million Term A Loan, subsequently repaid on May 29, 2002,
  - an eight-year $400.0 million Term B Loan, subsequently repaid on May 29, 2002, and
  - a six-year $125.0 million Revolving Credit Facility.

In addition, we entered into a receivables purchase agreement (the "Receivables Facility") with a third party through a wholly-owned consolidated special purpose bankruptcy remote subsidiary of ours, Playtex A/R LLC. The net proceeds from the Refinancing Transaction and the Receivables Facility were used to pay-off all of our then outstanding indebtedness, except for the 6% Convertible Notes.

On May 29, 2002, we amended our senior secured credit facility (the "Credit Facility") and issued a new $450.0 million Term C Loan and, together with $21.8 million of cash, we repaid in full our outstanding obligations under our Term A Loan and Term B Loan, which collectively totaled $471.8 million. Borrowings under the Term C Loan are less costly to us than borrowings under either the Term A Loan or Term B Loan. Under the Term C Loan, at our option, we pay LIBOR plus 2.25% for borrowings compared to LIBOR plus 2.75% for the Term A Loan and LIBOR plus 3.0% for the Term B Loan.

*Fixed Rate Indebtedness*

Our fixed rate indebtedness at March 29, 2003 of $380.0 million consists of $350.0 million of our 9 3/8% Notes and $30.0 million of our 6% Convertible Notes. We pay interest on the 9 3/8% Notes semi-annually on June 1 and December 1 of each year. At any time prior to June 1, 2004, we may redeem up to 35% of the principal amount of the 9 3/8% Notes with the proceeds of one or more equity offerings at a redemption price of 109.375% of the principal amount, plus accrued and unpaid interest to the redemption date. We do not have the option to redeem the 9 3/8% Notes from June 1, 2004 through May 31, 2006. At our option, we may redeem the notes on or after June 1, 2006 at the redemption prices (expressed as a percentage 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 |

The 6% Convertible Notes are currently redeemable by us, in whole or in part, at our option at a redemption price equal to 100% of the principal amount, together with accrued and unpaid interest to the redemption date. As noted above, we redeemed $20.0 million principal amount of our 6% Convertible Notes on November 6, 2002, and an additional $20.0 million principal amount on April 24, 2003 subsequent to the balance sheet date (see Note 13). The remaining $10.0 million principal amount of 6% Convertible Notes are convertible into approximately 0.5 million shares of our common stock at a conversion price of approximately $19.15 per common share. The 6% Convertible Notes mature on January 31, 2004.



*Variable Rate Indebtedness*

Our variable rate indebtedness of $475.8 million at March 29, 2003 consists of the $447.8 million outstanding under the Term C Loan and the $28.0 million borrowed against the Revolving Credit Facility. The rates of interest we pay under the Term C Loan and Revolving Credit Facility vary over time depending on short-term interest rates. We also pay fees on our Revolving Credit Facility commitments, which vary depending on our credit rating. Loans made under the Revolving Credit Facility mature on May 22, 2007 and our final principal payment on the Term C Loan is due May 31, 2009. Scheduled principal payments on the Term C Loan are made semi-annually and amount to: $4.5 million per year in fiscal years 2003 through 2007, $213.7 million in 2008, and $211.5 million in 2009.

We paid one $2.3 million semi-annual payment on the Term C Loan during fiscal 2002. At March 29, 2003, we had $93.6 million of unused borrowings available to us under the Revolving Credit Facility, net of outstanding letters of credit.

We periodically use financial instruments, such as derivatives, to manage the impact of interest rate changes on our variable rate debt. At March 29, 2003, 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. Based on our interest rate exposure at March 29, 2003, a 1% increase in interest rates would result in an estimated $4.8 million of additional interest expense on an annualized basis.

The rates of interest we pay 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.

Our weighted average variable interest rate was 3.77% for the three months ended March 29, 2003 compared to 5.17% for the three months ended March 30, 2002.

At March 29, 2003, our variable interest rate was 3.77% compared to 5.14% at March 30, 2002.

The provisions of the credit agreement for our Credit Facility require us to meet certain financial covenants and ratios and include limitations and restrictions, including:

- indebtedness and liens,
- major acquisitions or mergers,
- capital expenditures and asset sales,
- certain dividends and other distributions,
- the application of excess cash flow, and
- prepayment and modification of all indebtedness or equity capitalization.

We anticipate that we may require greater flexibility under the leverage ratio test under the Credit Facility in the next few quarters. We have had discussions with our agent bank and expect that we will be able to obtain any necessary amendment.

The $9^{3}/_{8}$% 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 $9^{3}/_{8}$% Notes.

At March 29, 2003, our required principal repayments (excluding balances outstanding on our Revolving Credit Facility and amounts due to related party) were:

| | |
|---|---|
| $4.5 million in 2003, | $4.5 million in 2006, |
| $34.5 million in 2004, | $4.5 million in 2007, and |
| $4.5 million in 2005, | $775.3 million thereafter. |

On April 24, 2003, after the balance sheet date, we redeemed $20.0 million of our 6% Convertible Notes that were due in January 2004 (see Note 13).



In the event that we have excess cash flow, as defined in our Credit Facility, we are, within 90 days of each year-end, required to: make either mandatory debt repayments on the Term C Loan equal to the amount of the excess cash flow, as defined, or make deposits into the excess cash flow account equal to the amount of the excess cash flow. At the end of fiscal 2002, we determined that we had excess cash flow as defined in our Credit Facility and we deposited, in March of 2003, $19.1 million into the excess cash flow account. This $19.1 million along with $0.9 million of cash was used to redeem $20.0 million of our 6% Convertible Notes as allowed under our Credit Agreement (see Note 13).

**9. Receivables Facility**

On May 22, 2001, we entered into the Receivables Facility through a wholly-owned, special purpose bankruptcy remote subsidiary of ours; Playtex A/R LLC. Through the Receivables Facility, we sell on a continuous basis to Playtex A/R LLC substantially all of our domestic customers' trade invoices that we generate. Playtex A/R LLC sells to a third-party commercial paper conduit (the "Conduit") an undivided fractional ownership interest in these trade accounts receivable. The Conduit issues 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 is 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 affects their eligibility. Our Retained Interest in Receivables represents our subordinated fractional undivided interest in receivables sold to Playtex A/R LLC and the net unamortized deferred financing costs incurred by Playtex A/R LLC.

We have agreed to continue servicing the sold receivables at market rates; accordingly, no servicing asset or liability has been recorded. Playtex A/R LLC shares credit risk with the Conduit as the undivided fractional interest in the receivables are sold without recourse. We believe, however, that Playtex A/R LLC has most of the credit risk associated with customers that do not pay, as the Conduit has preferential treatment with regard to cash settlement procedures and other conditions that limit its credit exposure. Our retained interest in receivables will be negatively impacted if Playtex A/R LLC writes-off any receivable balances as uncollectible. We believe the Receivables Facility is beneficial to us as: (1) we convert trade receivables to cash faster, and (2) although we sell our invoices to Playtex A/R LLC at a discount and pay fees to the Conduit, these expenses are lower than our borrowing costs under our Credit Facility.

At March 29, 2003, Playtex A/R LLC had approximately $117.0 million of receivables, of which $52.8 million of undivided fractional interest therein was sold to the Conduit. For the three months ended March 29, 2003, we sold in aggregate approximately $160.2 million of accounts receivable to Playtex A/R LLC. In return, we've received from Playtex A/R LLC approximately $153.5 million of cash.

We sell receivables at a discount, which is included in Other Expenses in the Consolidated Statements of Earnings. This discount, which was $0.5 million in the three month period ended March 29, 2003, reflects the estimated fees required by the Conduit to purchase a fractional undivided interest in the receivables. The fees are 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 deferred financing costs incurred by Playtex A/R LLC to establish the Receivables Facility.

We account 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 are sold, the balances are removed from our balance sheet. Playtex A/R LLC pays fees on the value of the undivided interest of the receivables sold to the Conduit equal to the 30 day LIBOR rate, which is reset weekly. In addition, Playtex A/R LLC pays a 0.25% per annum fee on the utilized portion of the Receivables Facility and a 0.45% per annum liquidity fee on the entire committed amount of the Receivables Facility.

Because of the 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 approximates the fair value.

The Receivables Facility reaches the end of its current term on May 20, 2003. We anticipate that the Receivables Facility will be renewed prior to this date. The Receivables Facility may be terminated prior to its term in the event of:

nonpayment of fees or other amounts when due,
violation of covenants,
failure of any representation or warranty to be true in all material respects when made,
bankruptcy events,
material judgments,
defaults under the Receivables Facility,
a servicing default, and
a downgrade in the Senior Secured Credit Facility to less than B- by S&P and less than B3 by Moody's.

**10. Business Segments**

We are organized in three divisions:

Our **Personal Products Division** includes Infant Care and Feminine Care products sold in the United States primarily to mass merchandisers, grocery and drug classes of trade. The Infant Care product category includes the following brands:

*Playtex* disposable nurser system, cups and reusable hard bottles
*Wet Ones* pre-moistened towelettes
*Diaper Genie* diaper disposal system
*Baby Magic* infant toiletries
*Mr. Bubble* children's bubble bath
*Baby Magic* baby wipes, and
*Binky* pacifiers.

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** | **Complementary Products** |
|---|---|
| *Playtex Gentle Glide*, | *Playtex* Personal Cleansing Cloths for use in |
| *Playtex Portables*, | feminine hygiene, and |
| *Playtex Slimfits*, | *Playtex Heat Therapy* patch to alleviate |
| *Playtex Silk Glide*, | discomfort associated with menstrual pain. |

Our **Consumer Products Division** includes a number of leading and well-recognized brands sold in the United States primarily to mass merchandisers, grocery and drug classes of trade. The Consumer Products Division includes the following brands:

*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/Corporate Sales Division** includes:

Sales to specialty classes of trade in the United States including: warehouse clubs, military, convenience stores, specialty stores, and telemarketing
Export sales
Sales in Puerto Rico
Results from our Canadian and Australian subsidiaries
Sales of private label tampons.

The International/Corporate Sales Division sells many of the same products as are available to our U.S. customers.

We evaluate division performance based on their product contribution excluding general corporate allocations. Product contribution is defined as gross profit less advertising and sales promotion expenses. All other operating expenses are managed at a corporate level and are not used by us to evaluate division results. We do not segregate assets, amortization, capital expenditures, or interest income and interest expense to divisions.

The results of our divisions for the three months ended March 29, 2003 and March 30, 2002 are as follows (dollars in thousands):

**Three Months Ended**

| | March 29, 2003 | | March 30, 2002 | |
|---|---|---|---|---|
| | Net Sales | Product Contrib. | Net Sales | Product Contrib. |
| Personal Products | $ 86,156 | $ 32,593 | $ 103,462 | $ 49,425 |
| Consumer Products | 65,419 | 25,357 | 58,529 | 20,614 |
| International and Other | 29,358 | 12,898 | 34,760 | 16,431 |
| Unallocated Charges | | (146) | | (131) |
| Total Consolidated | $ 180,933 | 70,702 | $ 196,751 | 86,339 |
| *Reconciliation to operating earnings:* | | | | |
| Selling, distribution, research and administrative | | 38,673 | | 39,033 |
| Restructuring and asset impairment | | | | 7,599 |
| Amortization of intangibles | | 226 | | 226 |
| Operating earnings | | $ 31,803 | | $ 39,481 |

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### 11. Earnings Per Share

The following table explains how our basic and diluted Earnings Per Share ("EPS") were calculated for the three months ended March 29, 2003 and March 30, 2002 (unaudited, in thousands, except per share amounts):

| | Three Months Ended | |
|---|---|---|
| | March 29, 2003 | March 30, 2002 |
| Numerator: | | |
| Earnings before cumulative effect of change in accounting principle as reported | $ 11,403 | $ 28,540 |
| Adjustment for interest on Convertible Note | 284 | 473 |
| Earnings before cumulative effect of change in accounting principle as adjusted | $ 11,687 | $ 29,013 |
| Net earnings as reported | $ 11,403 | $ 16,117 |
| Adjustment for interest on Convertible Note | 284 | 473 |
| Net earnings as adjusted | $ 11,687 | $ 16,590 |
| Denominator: | | |
| Weighted average shares outstanding as reported | 61,216 | 61,049 |
| Adjustment for dilutive effect of employee stock options | 22 | 189 |
| Adjustment for dilutive effect of Convertible Notes | 1,567 | 2,611 |
| Weighted average shares outstanding as adjusted | 62,805 | 63,849 |

| | Three Months Ended | |
|---|---|---|
| Earnings per share Basic: | | |
| Earnings before cumulative effect of change in accounting principle | $ 0.19 | $ 0.47 |
| Net earnings | $ 0.19 | $ 0.26 |
| | | |
| Earnings per share Diluted: | | |
| Earnings before cumulative effect of change in accounting principle | $ 0.19 | $ 0.45 |
| Net earnings | $ 0.19 | $ 0.26 |

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 potentially dilutive securities. Diluted securities include stock options granted to our employees and shares that may be exchanged for the 6% Convertible Notes, if determined to be dilutive. 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 (have the affect of increasing EPS), the impact of the dilutive securities is not included in the computation.

**12. Contingent Liabilities**

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 April 24, 2003, we redeemed $20.0 million principal amount of our 6% Convertible Notes for an aggregate consideration of approximately $20.3 million, including accrued and unpaid interest to the redemption date. The remaining $10.0 million principal of 6% Convertible Notes mature on January 31, 2004 and are convertible into approximately 0.5 million shares of our common stock. The conversion price is approximately $19.15 per common share (see Note 8).



**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 condensed financial statements and notes included in this report and
- audited consolidated financial statements and notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 28, 2002.

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

This document includes forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future results. When we use words in this document such as "anticipates," "intends," "plans," "believes," "estimates," "expects," and similar expressions we do so to identify forward-looking statements. Our actual results may differ materially from those

anticipated in these forward-looking statements. These forward-looking statements are affected by risks, uncertainties, and assumptions that we make, including, among other things, the Risk Factors that are listed in Item I. of our Annual Report on Form 10-K for the year ended December 28, 2002 and:

- price and product changes,
- 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 its restrictive covenants,
- 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's 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.

On November 13, 2002, we announced our intent to undertake a process to evaluate strategic alternatives for maximizing shareholder value. The strategic alternatives to be considered include, but are not limited to, business combinations with one or more parties to form a larger personal care and household products company, selling the entire company, divesting one or more lines of business, and acquiring strategic lines of business. We cannot assure you that this process will result in a transaction.

In addition, the preparation of financial statements in accordance with accounting principles generally accepted in the United States 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 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. The level of reserves for Sun Care product returns, bad debts and advertising and promotional costs are three areas of which you should be aware (see Management's Discussion and Analysis Critical Accounting Policies).

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**Trademarks**

We have proprietary rights to a number of trademarks important to our business, such as: *Active Sport, Baby Magic* (in United States and Canada), *Banana Boat, Binaca, Binky, Blasters, Big Sipster, CoolStraw, Diaper Genie, Dentax, DrinkUp, Drop-Ins, Fast Blast, Gentle Glide, Get On The Boat, Gripster, HandSaver, Heat Therapy, Heavy Traffic, Insulator, LipPops, Most Like Mother, Mr. Bubble, Natural Action, Ogilvie, Oxy Deep, Power Blasts, Power Shot, Precisely Right, QuickStraw, Quik Blok, Safe'N Sure, Silk Glide, SipEase, Slimfits, Soft Comfort, Sooth-A-Caine, Suntanicals*, *Tub Mate, Tek, Tussy, VentAire, VitaSkin,* and *Wet Ones.* We also own a royalty free license in perpetuity to the *Playtex* and *Living* trademarks, and to the *Woolite* trademark for rug and upholstery cleaning products in the United States and Canada.

**Items Affecting Comparability**

Our results for the first quarter of 2003 and 2002 are for the 13-week periods ended March 29, 2003 and March 30, 2002, respectively. 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 is provided to us from the ACNielsen Company and is subject to revisions. The market share data does not include scanner/consumption data from Wal-Mart Stores, Inc., as they ceased providing this information to third parties.

**Results of Operations**

***Three Months Ended March 29, 2003 Compared To***
***Three Months Ended March 30, 2002***

**Consolidated Net Sales** Our consolidated net sales decreased $15.8 million, or 8%, to $180.9 million in the first quarter of 2003.

**Personal Products Division** Net sales decreased $17.3 million, or 17%, to $86.2 million in the first quarter of 2003.

Net sales of **Infant Care** products decreased $6.0 million, or 11%, to $49.9 million in the first quarter of 2003. This decrease was due primarily to the timing of promotions in Cups and *Diaper Genie* and lower net sales of our non-core baby wipes business. Overall, market share and consumption across our core Infant Care categories are relatively stable. Infant Feeding market share has been stable in the 34-35% range over the past five quarters. We gained dollar market share in: *Baby Magic* infant toiletries (0.4 percentage points) aided by our recently introduced Calming Milk product line; *Wet Ones* pre-moistened towelettes (2.1 percentage points) and *Mr. Bubble* (4.4 percentage points). Our dollar market share in *Diaper Genie* diaper pails decreased 1.1 percentage points to 92.7%. We expect our market share trends to be positively impacted by our on-going new product introductions. In recent periods, the Infant Care category has been characterized by heavy competition. We expect this competitive environment to continue.

Net sales of **Feminine Care** products decreased $11.4 million, or 24%, to $36.3 million in the first quarter of 2003. Our dollar market share decreased 2.5 percentage points in the plastic applicator segment in the first quarter of 2003 compared to the same period in 2002. The decline in our net sales and our dollar market share reflects the impact of extensive competitive spending in the tampon category behind the launch of a new entry in the plastic applicator segment and our long-term defensive strategy. While our tampon consumption lagged year ago, shipments were further impacted as retailers were able to maintain sufficient inventory levels. It was our plan to keep our consumers loaded-up and the trade pipeline filled with promotional offerings during the competitive launch. We expect there may be more inventory de-stocking in the second quarter of 2003, as consumers and the trade work-down inventory levels. We believe our tampon franchise held up well under the competitive launch environment as our sequential consumption trends improved during the quarter. We have introduced improved products, which started to ship in March 2003.



The improvements to our tampon products include: a new deodorant fragrance and an improved soft pearlized plastic applicator, which we expect will enable us to gradually gain back share in the plastic applicator segment. Additionally, we launched a new advertising program, which started to run in April of 2003. We continue to see slow but steady growth of our new complimentary Feminine Care products the *Playtex Heat Therapy* patch and Personal Cleansing Cloths.

**Consumer Products Division** Net sales increased $6.9 million, or 12%, to $65.4 million in the first quarter of 2003.

Net sales of **Sun Care** products increased $6.1 million, to $48.1 million in the first quarter of 2003. Our dollar market share of the Sun Care category increased slightly in the first quarter of 2003, to 18.8%, from 18.6% in the first quarter of 2002. The first quarter has not been a historically high consumption period for Sun Care products. The increase in net sales was the result of an expected shift in Sun Care shipments from the fourth quarter of 2002 to the first quarter of 2003. As part of our initiative to reduce Sun Care returns, we expect shipments to our customers to be reduced for the 2003 season. This step, coupled with the historical consumption growth of the category, will drive lower returns and lower overall return costs. We are working closely with our customers to monitor orders and consumption to ensure appropriate inventory levels. Our new products for the 2003 season, especially *Suntanicals* and *Baby Magic* sun block, have been well received and have strengthened our overall Sun Care product offerings. As always, the category growth rate in Sun Care is dependent on weather patterns, especially during the peak Sun Care season.

Net sales of **Household Products/Personal Grooming** increased $0.8 million, or 5%, to $17.4 million in the first quarter of 2003. The sales increase was driven by strong results from our *Woolite* rug and upholstery cleaning products. Retail consumption and market share results are at historical high levels. Retail consumption for *Woolite* increased 42.1% in the first quarter of 2003 while consumption in the rug and upholstery category decreased 2.4% in the same period. Our dollar market share increased 9.8 percentage points to 31.2% of the rug and upholstery category compared to 21.4% in the first quarter of 2002. Our *Woolite* results benefited from the introduction of *Woolite Oxy Deep*, an oxygenated deep cleaning spot and stain product introduced in the third quarter of 2002. The household gloves category has been very price sensitive and we had lost market share to private label and other lower cost products as consumers placed more value on cost versus quality during the tighter economic times. Over the past four consecutive quarters, our Glove market share has stabilized and shown some modest growth. Our Glove dollar market share bottomed-out at 28.8% in the second quarter of 2002 and grew to 29.5% of the household gloves category in the first quarter of 2003. *Ogilvie* increased its dollar

market share 2.0 percentage points in the first quarter of 2003, to 73.6%, of the home perms/straighteners category while *Binaca* increased its dollar market share 2.6 percentage points, to 40.4%, of the breath freshener (spray and drops) category. Both of these categories, the home perms/straighteners category and the breath freshener (spray and drops) category have been declining in recent periods.

**International/Corporate Sales Division** Net sales decreased $5.4 million, or 16%, to $29.4 million in the first quarter of 2003. The decrease was due primarily to lower net sales to the specialty classes of trade. Net sales to the specialty classes of trade were impacted by higher participation across the warehouse club channel in the 2002 sun care season.

**Consolidated Gross Profit** Our consolidated gross profit decreased $14.3 million, to $96.8 million in the first quarter of 2003. As a percent of net sales, gross profit decreased 3.0 percentage points, to 53.5% in the first quarter of 2003. The decrease in gross profit and gross profit as a percent of net sales was due primarily to lower net sales, the mix of products sold and the impact of fixed manufacturing costs on lower production volumes.

**Consolidated Product Contribution** Product contribution is defined as gross profit less advertising and sales promotion expenses. See Note 10 for a reconciliation of product contribution to operating earnings. Our consolidated product contribution decreased $15.6 million, or 18%, to $70.7 million in the first quarter of 2003. As a percent of net sales, product contribution decreased 4.8 percentage points to 39.1% in the first quarter of 2003. The decrease in product contribution and product contribution as a percent of net sales



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was due primarily to lower gross profit, as discussed, combined with higher overall advertising and sales promotion expenses. Our overall advertising and sales promotion expenses increased in absolute dollars as well as a percent of net sales. We increased our advertising and promotional expenses to defend our tampon franchise as discussed previously.

**Personal Products Division** Product contribution decreased $16.8 million, or 34%, to $32.6 million in the first quarter of 2003. As a percent of net sales, product contribution decreased 10.0 percentage points to 37.8% in the first quarter of 2003. The decrease in product contribution and product contribution as a percent of net sales was due to lower net sales, the mix of products sold, the impact of fixed manufacturing costs on lower production volumes, and higher advertising and sales promotion expenses.

**Consumer Products Division** Product contribution increased $4.7 million, or 23%, to $25.4 million in the first quarter of 2003. As a percent of net sales, product contribution increased 3.6 percentage points to 38.8% in the first quarter of 2003. The increase in product contribution and product contribution as a percent of net sales was due primarily to higher net sales, favorable product mix, higher gross profit and lower advertising and sales promotion expenses.

**International/Corporate Sales Division** Product contribution decreased $3.5 million, or 22%, to $12.9 million in the first quarter of 2003. As a percent of net sales, product contribution decreased 3.4 percentage points to 43.9% in the first quarter of 2003. The decrease in product contribution and product contribution as a percent of net sales was due to lower net sales, lower gross profit, and higher advertising and sales promotion expenses as a percent of net sales.

**Consolidated Operating Earnings** Our consolidated operating earnings decreased $7.7 million, or 19%, to $31.8 million in the first quarter of 2003. The decrease in operating earnings was the result of lower consolidated product contribution as discussed, and higher selling, general and administrative expenses reflecting normal salary and wage increases. In the first quarter of 2002, we recorded a pre-tax restructuring and asset impairment charge of $7.6 million, or $0.08 per diluted share, as a result of our decision to close our Watervliet, New York plastic molding facility (see Note 4). Excluding the impact of the restructuring and asset impairment charge in the first quarter of 2002, our consolidated operating earnings would have decreased $15.3 million, or 32%, in the first quarter of 2003.

**Consolidated Interest Expense** Our consolidated interest expense decreased $2.7 million, or 17%, to $13.4 million in the first quarter of 2003. The decrease in interest expense was due to the combined impact of:

Lower average debt balances. Our average debt for the first quarter of 2003 was less than the comparable period by $45.3 million, due primarily to our plan to reduce our indebtedness. We reduced our indebtedness by more than $160.0 million in our last three fiscal years. Highlights of this strategy, in fiscal 2002, include:

we redeemed $20.0 million principal amount of 6% Convertible Notes on November 6, 2002;

paid down $21.8 million of our variable rate indebtedness as part of the May 29, 2002 amendment to our Credit Facility;

made one $2.3 million scheduled payment on our Term C Loan.

Lower interest rates when compared to the prior year. Our weighted average variable interest rate in the first quarter of 2003 was 3.77% compared to 5.17% in the first quarter of 2002.

**Consolidated Other Expenses** Our consolidated other expenses decreased $0.4 million, or 49%, to $0.5 million in the first quarter of 2003. On May 22, 2001, we entered into a receivables purchase agreement with a third party as part of the refinancing transaction (see Notes 8 and 9). The amount charged to other expenses represents the discount offered to the third party on the sale of receivables and the amortization of deferred financing costs associated with the formation of the Receivables Facility. The decrease, in the first quarter of 2003, was due primarily to a lower utilization rate of the Receivables Facility compared to the first quarter of 2002 and lower costs associated with the Receivables Facility as market interest rates have declined.



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**Consolidated Income Taxes** Our consolidated income taxes were $6.5 million in the first quarter of 2003 compared to an income tax benefit of $6.1 million in the first quarter of 2002. In the first quarter of 2002, we recorded a tax benefit of $14.3 million, or $0.22 per diluted share, due to new regulations issued by the U.S. Treasury on March 7, 2002 (see Note 5). The new regulations permit us to partially utilize a previously disallowed capital loss on the sale of Playtex Beauty Care Inc., which we sold during fiscal 1999. We expect our effective tax rate during fiscal 2003 to be between 36% - 37% of earnings before income taxes.

**Cumulative Effect of Change in Accounting Principle** In connection with the adoption of SFAS No. 142 (see Note 3), we performed impairment tests on our indefinite-lived intangible assets based on a fair value concept as prescribed by SFAS No. 142. We recorded an after-tax impairment charge of $12.4 million, or $0.20 per diluted share, as a cumulative effect of change in accounting principle as a result of the adoption of SFAS No. 142. The impairment related to certain trademarks acquired in our acquisition of Personal Care Holdings, Inc., which we acquired on January 28, 1998. We determined the fair values of all of our trademarks at December 29, 2001 and compared them with their carrying values. The trademarks impact by this write-off included our non-core brands of: *Chubs*, *Diaparene*, *Tussy*, *Dorothy Gray*, and *Better Off*.

**Liquidity and Capital Resources**

On November 13, 2002, we announced our intent to undertake a process to evaluate certain strategic alternatives including, but not limited to, business combinations, selling the entire company, divesting one or more lines of business, and acquiring strategic lines of business. We cannot assure you that this process will result in a transaction. Also certain scenarios may require us to seek additional debt or equity financing, in certain situations, in connection with some of the strategic alternatives available to us. As we cannot assure you that such financing will be available to us, our ability to execute certain strategic alternatives may be restricted.

At March 29, 2003, long-term debt (including current portion but excluding obligations due to related party) was $855.8 million compared to $827.8 million at December 28, 2002. We increased our short-term borrowings by $28.0 million at March 29, 2003, to fund our working capital needs associated with our seasonal Sun Care business. One of our major corporate objectives has been to reduce our indebtedness. We reduced our indebtedness by $61.0 million in fiscal 2002, $42.8 million in fiscal 2001, and $56.3 million in fiscal 2000. Highlights of this strategy include:

On November 6, 2002, we redeemed $20.0 million principal amount of our 6% Convertible Notes and as noted above, we redeemed an additional $20.0 million of 6% Convertible Notes subsequent to March 29, 2003 the balance sheet date. The remaining $10.0 million principal amount of 6% Convertible Notes mature on January 31, 2004 and are currently redeemable by us, in whole or in part, at our option at a redemption price equal to 100% of the principal amount, together with accrued and unpaid interest to the redemption date.

On May 29, 2002, we amended our credit facility and issued a new $450.0 million Term C Loan and, together with $21.8 million of cash, we repaid in full our outstanding obligations under our Term A Loan and Term B Loan, which collectively totaled $471.8 million. Borrowings under the Term C Loan are less costly to us than borrowings under either the Term A Loan or Term B Loan. The interest rate, at our option, is LIBOR plus 2.25% for the Term C Loan compared to LIBOR plus 2.75% for the Term A Loan and LIBOR plus 3.00% for the Term B Loan. The Term C Loan matures May 31, 2009.

On May 22, 2001, we completed a refinancing of our senior indebtedness (the "Refinancing Transaction"). We issued $350.0 million principal amount of $9^3/_8$% Notes, entered into a new senior secured credit facility (the "Credit Facility") consisting of a six-year $100.0 million Term A Loan, a eight-year $400.0 million Term B Loan, and a six-year $125.0 million Revolving Credit Facility. Also, as part of the Refinancing Transaction, we entered into a Receivables Facility through a newly formed special purpose bankruptcy remote subsidiary, Playtex A/R LLC. The net proceeds from the Refinancing Transaction and the Receivables Facility were used to pay-off all outstanding balances under our prior credit agreement. In addition, we extinguished our 9% Notes and our $8^7/_8$% Notes. As mentioned above, on May 29, 2002 we paid-off the Term A Loan and Term B Loan by amending the Credit Facility and issuing a new $450.0 million Term C Loan.

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As of the balance sheet date, our remaining scheduled principal repayment obligations were (excluding balances outstanding under our Revolving Credit Facility and amounts due to related party):

- $4.5 million in 2003,
- $34.5 million in 2004,
- $4.5 million in 2005,
- $4.5 million in 2006,
- $4.5 million in 2007, and
- $775.3 million thereafter.

On April 24, 2003, subsequent to March 29, 2003 the balance sheet date, we redeemed $20.0 million of our 6% Convertible Notes that were due in January of 2004.

In the event that we have excess cash flow, as defined in our Credit Facility, we are, within 90 days of each year-end, required to: make either mandatory debt repayments on the Term C Loan equal to the amount of the excess cash flow, as defined, or make deposits into the excess cash flow account equal to the amount of the excess cash flow. At the end of fiscal 2002, we determined that we had excess cash flow as defined in our Credit Facility and we deposited, in March of 2003, $19.1 million into the excess cash flow account. This $19.1 million along with $0.9 million of cash was used to redeem $20.0 million of our 6% Convertible Notes as allowed under our Credit Agreement.

Our Revolving Credit Facility provides for borrowings of up to $125.0 million and matures on May 22, 2007. At March 29, 2003, we had $93.6 million available to borrow under the Revolving Credit Facility, net of outstanding letters of credit. At March 29, 2003, the undivided fractional interest sold by Playtex A/R LLC to a third party commercial paper conduit under the Receivables Facility was $52.8 million. The Receivables Facility reaches the end of its current term on May 20, 2003. We anticipate that the Receivables Facility will be renewed prior to this date.

The terms of the Credit Facility require us to meet certain financial tests and also include conditions or restrictions on:

- indebtedness and liens,
- major acquisitions or mergers,
- capital expenditures and asset sales,
- certain dividends and other distributions,
- the application of excess cash flow, and
- prepayment and modification of all indebtedness or equity capitalization.

We anticipate that we may require greater flexibility under the leverage ratio test under the Credit Facility in the next few quarters. We have had discussions with our agent bank and expect that we will be able to obtain any necessary amendment.

At March 29, 2003, our working capital (current assets net of current liabilities) increased $11.5 million to $126.4 million compared to $114.9 million at December 28, 2002.

Total current assets increased approximately $34.0 million at March 29, 2003 compared to December 28, 2002. Our cash balances increased $22.0 million at March 29, 2003 primarily as a result of our required deposit of $19.1 million into the excess cash flow account. Our receivables including our retained interest in receivables increased $13.8 million compared to December 28, 2002, due to higher net sales in the first quarter of 2003 compared to the fourth quarter of 2002 and the seasonal dating on a portion of our Sun Care net sales. All other current assets decreased $1.8 million at March 29, 2003 compared to December 28, 2002.

Total current liabilities increased approximately $22.5 million at March 29, 2003 compared to December 28, 2002. The increase was due to $30.0 million of 6% Convertible Notes, which were reclassified as a current debt obligation, as the 6% Convertible Notes come due on January 31, 2004. In addition, our estimated income tax liability increased $5.4 million at March 29, 2003 compared to December 28, 2002. The growth in these current liabilities was offset, in part, by a decrease of

$9.5 million in accounts payable and $3.3 million in accrued expenses. The reduction in accounts payables and accrued expenses were due primarily to the timing of payments.



Our net cash flows used for operations were $2.4 million. The use of cash by operations was driven primarily by Sun Care working capital needs and lower operating earnings as previously discussed. Our capital expenditures for equipment and facility improvements were $3.7 million for the three months ended March 29, 2003. Our capital expenditures were used primarily to support new products and product improvements, expand capacity in key product areas, upgrade production equipment, invest in new technologies, and improve our facilities. We anticipate 2003 capital expenditures to be approximately $25.0 million.

We intend to fund our operations, capital expenditures and debt service requirements through cash flow generated from operations, including proceeds from the Receivables Facility, and borrowings under the Revolving Credit Facility through fiscal 2007. However, we do not expect to generate sufficient cash flow from operations to pay in full the 2008 and 2009 scheduled principal payments on the Term C Loan, which collectively total $425.3 million. In addition, we do not expect to generate sufficient cash flow from operations to fund the $350.0 million scheduled principal payment on the 9 3/8% Notes 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 and Other Commitments**

On occasion, we enter into certain off-balance sheet arrangements and other commitments with unaffiliated third parties. At March 29, 2003, we had two-off balance sheet arrangements.

On May 22, 2001, we entered into the Receivables Facility through a wholly owned, special purpose bankruptcy remote subsidiary of ours, Playtex A/R LLC (see Note 9). Through the Receivables Facility, we sell on a continuous basis to Playtex A/R LLC substantially all of our domestic customers' trade invoices that we generate. Playtex A/R LLC sells to a third-party commercial paper conduit (the "Conduit") an undivided fractional ownership interest in these trade accounts receivable. We believe the Receivables Facility is beneficial to us as: (1) we convert trade receivables to cash faster, and (2) although we sell our invoices to Playtex A/R LLC at a discount and pay fees to the Conduit, these expenses are lower than our borrowing costs under the Credit Facility. We sold $52.8 million of undivided fractional interest in our receivables, at March 29, 2003 and $39.0 million of undivided fractional interest in our receivables, at December 28, 2002, to the Conduit.

We also enter into operating leases with unaffiliated third parties. These leases are primarily for buildings, manufacturing equipment, automobiles and information technology equipment. At March 29, 2003 and December 28, 2002, we had in aggregate approximately $32.0 million of committed expenses associated with operating leases that are not reflected on our Condensed Consolidated Balance Sheet as a liability, in accordance with generally accepted accounting principles. We believe operating leases are beneficial as they allow us to better match cash flows associated with the asset and 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.

**Critical Accounting Policies**

The preparation of financial statements in accordance with generally accepted accounting principles 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 liabilities.

Actual results could 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.

The level of reserves for Sun Care product returns, bad debts and advertising and promotional costs are three areas of which you should be aware.

In accordance with industry practice, we allow our customers to return unsold Sun Care products at the end of the sun care season. We record sales at the time the products are shipped and title transfers. Simultaneously, we reduce sales and cost of sales, and reserve amounts on our balance sheet for anticipated returns based upon an estimated return level, in accordance with generally accepted accounting principles. In conjunction with our initiative to reduce sun care returns, we have enhanced our approach in 2003 to estimate potential returns based on the seasonal shipment pattern, expected consumption rates, and customer inventory levels. In the first quarter, this approach resulted in a provision that was approximately $1 million lower than it would have been by applying an annual returns estimate to each quarter as was done historically. The level of returns may fluctuate from our estimates due to several factors including weather conditions, customer inventory levels, and competitive conditions. There are, however, a number of uncertainties associated with Sun Care returns as noted above. Based on our 2002 Sun Care season results, each percentage point change in our return rates would have impacted our reported net sales by $1.4 million and our reported operating earnings by $1.2 million.

The extension of trade credit carries with it the chance that the customer may not pay for the goods when payment is due. We review our receivables portfolio and provide reserves for potential bad debts including those we know about and those that have not been identified but may exist due to the risk associated with the granting of credit. The estimated reserves required to cover potential losses, which are unknown as of the balance sheet date, are developed using historical experience. The adequacy of the estimated reserve may be impacted by the deterioration of a large customer and/or significant weakness in the economic environment resulting in a higher level of customer bankruptcy filings.

The nature of our advertising and promotional activities requires the use of estimates to record certain expenses and liabilities. These expenditures are primarily for television, radio and print advertising and production as well as consumer and trade incentives such as coupons and other price promotional activities. Actual costs associated with the redemption of coupons and other price promotional activities are not always known as of the balance sheet date and are estimated based on historical statistics and experience.

**Recently Issued Accounting Standards**

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation  Transition and Disclosure" ("SFAS No. 148"). SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation as originally provided by SFAS No. 123 "Accounting for Stock-Based Compensation". Additionally, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosure in both the annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The transitional requirements of SFAS No. 148 are effective for all financial statements for fiscal years ending after December 15, 2002. We adopted the disclosure portion of this statement for the current fiscal quarter ended March 29, 2003. The application of the disclosure portion of this standard will have no impact on our consolidated financial position or results of operations. The FASB recently indicated that they will likely require stock-based employee compensation to be recorded as a charge to earnings pursuant to a standard they are currently deliberating, which they believe will become effective on January 1, 2004. We will continue to monitor their progress on the issuance of this standard and the impact it may have on our financial statements.



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**PLAYTEX PRODUCTS, INC.**
**PART I  FINANCIAL INFORMATION**
**QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK AND**
**QUALITY OF CONTROLS AND PROCEDURES**

**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 March 29, 2003, our total indebtedness consisted of $380.0 million in fixed rate debt and $475.8 million in variable rate debt. We currently are not a party to any financial

instruments, such as derivatives, to manage the impact of interest rate changes on our variable rate debt. Based on our interest rate exposure at March 29, 2003, a 1% increase in interest rates would result in an estimated $4.8 million of additional interest expense on an annualized basis.

**Item 4. Controls and Procedures**

(a)

Evaluation of disclosure controls and procedures. Within 90 days prior to the date of this report (the "Evaluation Date"), our 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-14(c) and 15d-14(c). Based on that evaluation, these officers have concluded that as of the Evaluation Date, our disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company would be made to known to them, particularly during the period in which this report was being prepared.

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 are 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 can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

(b)

Changes in internal controls. There have been no significant changes in our internal controls or in other factors that could significantly affect our internal controls after the date of their evaluation, nor any significant deficiencies or material weaknesses in such internal controls requiring corrective actions. As a result, no corrective actions were taken.

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 are 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 can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.



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**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 28, 2002.

As of the end of April 2003, there were approximately 6 pending toxic shock syndrome claims relating to Playtex tampons, although additional claims may be made in the future.

**Item 6. Exhibits and Reports on Form 8-K**

a.

Exhibits:

99.1

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.

99.2

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.

b. Reports on Form 8-K

None.



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**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:** May 13, 2003 By: **/s/ MICHAEL R. GALLAGHER**

Michael R. Gallagher
*Chief Executive Officer*
*(Principal Executive Officer)*

**Date:** May 13, 2003 By: **/s/ GLENN A. FORBES**

Glenn A. Forbes
*Executive Vice President and*
*Chief Financial Officer*
*(Principal Financial and Accounting Officer)*



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**PLAYTEX PRODUCTS, INC.**
**CERTIFICATIONS**

I, Michael R. Gallagher, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Playtex Products, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this

quarterly report is being prepared;

b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

**Date:** May 13, 2003

By: **/s/ MICHAEL R. GALLAGHER**

Michael R. Gallagher
*Chief Executive Officer*
*(Principal Executive Officer)*

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**PLAYTEX PRODUCTS, INC.**
**CERTIFICATIONS**

I, Glenn A. Forbes, Executive Vice President and Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Playtex Products, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4.

The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

**Date:** May 13, 2003

By: **/s/ GLENN A. FORBES**

Glenn A. Forbes
*Executive Vice President and*
*Chief Financial Officer*
*(Principal Financial and Accounting Officer)*

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