

Alberto-Culver CO  
Form 10-Q  
August 08, 2008

**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, 2008**

**-OR-**

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

**Commission File No. 1-32970**

**ALBERTO-CULVER COMPANY**

(Exact name of registrant as specified in its charter)

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

**20-5196741**  
(I.R.S. Employer  
Identification No.)

**2525 Armitage Avenue**

**Melrose Park, Illinois**  
(Address of principal executive offices)

**60160**  
(Zip code)

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

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

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

At June 30, 2008, the company had 97,295,161 shares of common stock outstanding.

## PART I

ITEM 1. FINANCIAL STATEMENTS

## ALBERTO-CULVER COMPANY AND SUBSIDIARIES

## Consolidated Statements of Earnings

Three Months Ended June 30, 2008 and 2007

(in thousands, except per share data)

|   | (Unaudited) |         |
|---|-------------|---------|
|   | 2008        | 2007    |
| Net sales   | \$ 364,913  | 325,014 |
| Cost of products sold   | 167,297     | 153,421 |
| Gross profit  | 197,616     | 171,593 |
| Advertising, marketing, selling and administrative expenses                     | 153,685     | 138,613 |
| Restructuring and other (note 3)  | 2,726       | 1,422   |
| Operating earnings  | 41,205      | 31,558  |
| Interest income, net of interest expense of \$1,668 in 2008 and \$2,123 in 2007 | (1,460)     | (1,299) |
| Earnings from continuing operations before provision for income taxes           | 42,665      | 32,857  |
| Provision for income taxes  | 12,980      | 9,631   |
| Earnings from continuing operations   | 29,685      | 23,226  |
| Earnings (loss) from discontinued operations, net of income taxes (note 2)      | (8,552)     | 1,870   |
| Net earnings  | \$ 21,133   | 25,096  |
| Basic earnings (loss) per share:  |             |         |
| Continuing operations   | \$ .30      | .24     |
| Discontinued operations   | (.09)       | .02     |
| Total   | \$ .21      | .26     |
| Diluted earnings (loss) per share:  |             |         |
| Continuing operations   | \$ .29      | .23     |
| Discontinued operations   | (.08)       | .02     |
| Total   | \$ .21      | .25     |
| Weighted average shares outstanding:  |             |         |
| Basic   | 98,719      | 97,443  |
| Diluted   | 100,717     | 99,989  |
| Cash dividends paid per share   | \$ .065     | .055    |

See Notes to Consolidated Financial Statements.



ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Consolidated Statements of Earnings

Nine Months Ended June 30, 2008 and 2007

(in thousands, except per share data)

|   | (Unaudited)  |         |
|---|--------------|---------|
|   | 2008         | 2007    |
| Net sales   | \$ 1,057,469 | 955,732 |
| Cost of products sold   | 487,011      | 454,349 |
| Gross profit  | 570,458      | 501,383 |
| Advertising, marketing, selling and administrative expenses   | 441,974      | 408,407 |
| Restructuring and other (note 3)  | 9,585        | 32,032  |
| Operating earnings  | 118,899      | 60,944  |
| Interest income, net of interest expense of \$5,207 in 2008 and \$6,424 in 2007   | (6,476)      | (2,040) |
| Earnings from continuing operations before provision for income taxes   | 125,375      | 62,984  |
| Provision for income taxes  | 39,511       | 19,835  |
| Earnings from continuing operations   | 85,864       | 43,149  |
| Loss from discontinued operations, net of income taxes (note 2)   | (4,797)      | (1,375) |
| Net earnings  | \$ 81,067    | 41,774  |
| Basic earnings (loss) per share:  |              |         |
| Continuing operations   | \$ .87       | .45     |
| Discontinued operations   | (.05)        | (.01)   |
| Total   | \$ .82       | .44     |
| Diluted earnings (loss) per share:  |              |         |
| Continuing operations   | \$ .85       | .44     |
| Discontinued operations   | (.05)        | (.01)   |
| Total   | \$ .80       | .43     |
| Weighted average shares outstanding:  |              |         |
| Basic   | 98,807       | 95,371  |
| Diluted   | 101,127      | 97,846  |
| Cash dividends paid per share, including the \$25.00 special cash dividend paid in connection with the Separation in 2007 | \$ .185      | 25.11   |

See Notes to Consolidated Financial Statements.

## ALBERTO-CULVER COMPANY AND SUBSIDIARIES

## Consolidated Balance Sheets

June 30, 2008 and September 30, 2007

(in thousands, except share data)

|   | (Unaudited)         |                       |
|---|---------------------|-----------------------|
|   | June 30,<br>2008    | September 30,<br>2007 |
| <b>ASSETS</b>   |                     |                       |
| Current assets:   |                     |                       |
| Cash and cash equivalents   | \$ 155,145          | 73,066                |
| Short-term investments  |                     | 255,600               |
| Receivables, less allowance for doubtful accounts (\$3,150 at June 30, 2008 and September 30, 2007)                                   | 232,001             | 238,541               |
| Inventories:  |                     |                       |
| Raw materials   | 40,553              | 35,402                |
| Work-in-process   | 2,997               | 3,940                 |
| Finished goods  | 115,601             | 115,204               |
| Total inventories   | 159,151             | 154,546               |
| Other current assets  | 42,126              | 32,804                |
| Current assets of discontinued operations   | 129,413             | 108,355               |
| <b>Total current assets</b>   | <b>717,836</b>      | <b>862,912</b>        |
| Property, plant and equipment at cost, less accumulated depreciation (\$208,041 at June 30, 2008 and \$209,990 at September 30, 2007) | 213,258             | 198,341               |
| Goodwill  | 159,454             | 152,783               |
| Trade names   | 74,878              | 74,782                |
| Long-term investments   | 66,710              |                       |
| Other assets  | 68,345              | 73,683                |
| Non-current assets of discontinued operations   | 134,856             | 125,059               |
| <b>Total assets</b>   | <b>\$ 1,435,337</b> | <b>1,487,560</b>      |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                     |                       |
| Current liabilities:  |                     |                       |
| Current portion of long-term debt   | \$ 254              | 120,127               |
| Accounts payable  | 128,055             | 129,828               |
| Accrued expenses  | 123,526             | 121,669               |
| Income taxes  | 18,116              | 9,916                 |
| Current liabilities of discontinued operations  | 41,993              | 34,510                |
| <b>Total current liabilities</b>  | <b>311,944</b>      | <b>416,050</b>        |
| Long-term debt  | 869                 | 359                   |
| Income taxes  | 15,286              | 6,151                 |
| Other liabilities   | 46,637              | 48,568                |
| Non-current liabilities of discontinued operations  | 35,652              | 32,661                |
| <b>Total liabilities</b>  | <b>410,388</b>      | <b>503,789</b>        |
| Stock options subject to redemption   | 6,645               | 10,407                |

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|   |                  |                |
|---|------------------|----------------|
| Stockholders' equity:   |                  |                |
| Preferred stock, par value \$.01 per share, authorized 50,000,000 shares, none issued   |                  |                |
| Common stock, par value \$.01 per share, authorized 300,000,000 shares, issued 97,295,161 shares at June 30, 2008 and 98,057,020 shares at September 30, 2007 |                  |                |
|   | 973              | 981            |
| Additional paid-in capital  | 425,221          | 380,372        |
| Retained earnings   | 568,672          | 585,143        |
| Accumulated other comprehensive income  | 23,438           | 6,868          |
| <b>Total stockholders' equity</b>   | <b>1,018,304</b> | <b>973,364</b> |
| <br>  |                  |                |
| Total liabilities and stockholders' equity  | \$ 1,435,337     | 1,487,560      |

See Notes to Consolidated Financial Statements.

## ALBERTO-CULVER COMPANY AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

Nine Months Ended June 30, 2008 and 2007

(in thousands)

|  | (Unaudited) |           |
|--|-------------|-----------|
|  | 2008        | 2007      |
| <b>Cash Flows from Operating Activities:</b>   |             |           |
| Net earnings   | \$ 81,067   | 41,774    |
| Loss from discontinued operations  | (4,797)     | (1,375)   |
| Earnings from continuing operations  | 85,864      | 43,149    |
| Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities: |             |           |
| Depreciation   | 17,190      | 18,731    |
| Amortization of other assets and unearned compensation   | 2,658       | 2,129     |
| Restructuring and other non-cash charges (note 3)  | 5,987       | 12,911    |
| Restructuring and other gain on sale of assets (note 3)  | (1,808)     | (5,894)   |
| Stock option expense (note 8)  | 3,803       | 3,087     |
| Deferred income taxes  | (1,800)     | (23,029)  |
| Cash effects of changes in:  |             |           |
| Receivables, net   | 10,075      | 8,491     |
| Inventories  | (4,226)     | (4,254)   |
| Other current assets   | (3,596)     | (16)      |
| Accounts payable and accrued expenses  | (1,897)     | (13,495)  |
| Income taxes   | 12,001      | 9,934     |
| Other assets   | (3,558)     | (1,047)   |
| Other liabilities  | (2,059)     | (1,452)   |
| Net cash provided by operating activities  | 118,634     | 49,245    |
| <b>Cash Flows from Investing Activities:</b>   |             |           |
| Proceeds from sales of investments   | 409,555     | 508,591   |
| Payments for purchases of investments  | (223,755)   | (658,981) |
| Capital expenditures   | (47,063)    | (24,701)  |
| Proceeds from disposals of assets  | 10,771      | 27,752    |
| Net cash provided (used) by investing activities   | 149,508     | (147,339) |
| <b>Cash Flows from Financing Activities:</b>   |             |           |
| Proceeds from issuance of long-term debt   | 809         | 202       |
| Repayments of long-term debt   | (120,165)   | (251)     |
| Change in book cash overdraft  | (4,598)     | (3,774)   |
| Proceeds from exercises of stock options   | 44,540      | 68,269    |
| Excess tax benefit from stock option exercises   | 7,735       | 8,685     |
| Cash dividends paid  | (18,464)    | (10,663)  |
| Stock purchased (note 6)   | (98,492)    | (884)     |
| Net cash provided (used) by financing activities   | (188,635)   | 61,584    |
| Effect of foreign exchange rate changes on cash and cash equivalents                                       | 2,212       | 2,824     |



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|   |        |          |
|---|--------|----------|
| Net cash provided (used) by continuing operations | 81,719 | (33,686) |
|---|--------|----------|

(continued)

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows (continued)

Nine Months Ended June 30, 2008 and 2007

(in thousands)

|   | (Unaudited)   |                 |
|---|---------------|-----------------|
|   | 2008          | 2007            |
| <u>Discontinued Operations:</u>   |               |                 |
| Net cash provided (used) by operating activities of discontinued operations   | 12,445        | (2,017)         |
| Net cash used by investing activities of discontinued operations  | (1,741)       | (72,976)        |
| Net cash used by financing activities of discontinued operations special cash dividend paid in connection with the Separation |               | (2,342,188)     |
| Net cash provided by financing activities of discontinued operations other  | 7             | 2,324,940       |
| Effect of exchange rate changes on cash and cash equivalents of discontinued operations                                       | (265)         | (493)           |
| <b>Net cash provided (used) by discontinued operations</b>  | <b>10,446</b> | <b>(92,734)</b> |
| Net increase (decrease) in cash and cash equivalents  | 92,165        | (126,420)       |
| Cash and cash equivalents at beginning of period, including cash and cash equivalents of discontinued operations              | 93,062        | 206,465         |
| Cash and cash equivalents at end of period, including cash and cash equivalents of discontinued operations                    | \$ 185,227    | 80,045          |

See Notes to Consolidated Financial Statements.

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ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

As of June 30, 2008, Alberto-Culver Company and its subsidiaries (the company or New Alberto-Culver) operated two businesses: Consumer Packaged Goods and Cederroth International (Cederroth). The Consumer Packaged Goods business develops, manufactures, distributes and markets branded beauty care products as well as branded food and household products in the United States and more than 100 other countries. Cederroth manufactures, markets and distributes beauty and health care products throughout Scandinavia and in other parts of Europe.

As more fully described in note 2, on May 18, 2008 the company entered into an agreement to sell its Cederroth business to CapMan, a Nordic based private equity firm. Pursuant to the transaction agreement, on July 31, 2008 a company managed by CapMan purchased all of the issued and outstanding shares of Cederroth International AB, which owns the various Cederroth operating companies.

In accordance with the provisions of the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the results of operations and cash flows related to the Cederroth business are reported as discontinued operations for all periods presented. In addition, the assets and liabilities of Cederroth have been segregated from the assets and liabilities related to the company's continuing operations and presented separately on the consolidated balance sheets as of June 30, 2008 and September 30, 2007.

Prior to November 16, 2006, the company also operated a beauty supply distribution business which included two segments: (1) Sally Beauty Supply, a domestic and international chain of cash-and-carry stores offering professional beauty supplies to both salon professionals and retail consumers, and (2) Beauty Systems Group, a full-service beauty supply distributor offering professional brands directly to salons through its own sales force and professional-only stores in exclusive geographical territories in North America and Europe. These two segments comprised Sally Holdings, Inc. (Sally Holdings), a wholly-owned subsidiary of the company.

As more fully described in note 2, on November 16, 2006 the company separated into two publicly-traded companies: New Alberto-Culver, which owns and operates the consumer products business, and Sally Beauty Holdings, Inc. (New Sally) which owns and operates Sally Holdings beauty supply distribution business.

Notwithstanding the legal form of the transactions, because of the substance of the transactions, New Alberto-Culver was considered the divesting entity and treated as the accounting successor to the company, and New Sally was considered the accounting spinnee for financial reporting purposes in accordance with Emerging Issues Task Force Issue No. 02-11, Accounting for Reverse Spinoffs.

The separation of the company into New Alberto-Culver and New Sally involving Clayton, Dubilier & Rice (CD&R) is hereafter referred to as the Separation. For purposes of describing the events related to the Separation, as well as other events, transactions and financial results of Alberto-Culver Company and its subsidiaries related to periods prior to November 16, 2006, the term the company refers to New Alberto-Culver's accounting predecessor, or Old Alberto-Culver.

In accordance with the provisions of SFAS No. 144, effective with the closing of the Separation on November 16, 2006, the results of operations and cash flows related to Sally Holdings' beauty supply distribution business are reported as discontinued operations for all periods presented.

Unless otherwise noted, all disclosures in the notes accompanying the consolidated financial statements reflect only continuing operations.

The consolidated financial statements of the company contained in this report have not been audited by the company's independent registered public accounting firm; however, the balance sheet information presented at September 30, 2007 has been derived from the company's audited 2007 financial statements. In the opinion of the company, the consolidated financial statements reflect all adjustments, which include only normal recurring adjustments except as described in note 3 below, necessary to present fairly the data contained therein. The results of operations for the periods presented are not necessarily indicative of results for a full year. Certain amounts for the prior year have been reclassified to conform to the current year's presentation.



## ALBERTO-CULVER COMPANY AND SUBSIDIARIES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements. Actual results may differ from those estimates. Management believes these estimates and assumptions are reasonable.

These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended September 30, 2007.

## (2) DISCONTINUED OPERATIONS

The results of discontinued operations, including both Cederroth and Sally Holdings, for the three and nine months ended June 30, 2008 and 2007 were as follows (in thousands):

|   | Three months ended<br>June 30 |        | Nine months ended<br>June 30 |         |
|---|-------------------------------|--------|------------------------------|---------|
|   | 2008                          | 2007   | 2008                         | 2007    |
| Net sales   | \$ 76,155                     | 60,488 | 197,057                      | 475,063 |
| Pre-tax earnings from normal operations                           | \$ 8,169                      | 1,900  | 14,850                       | 36,158  |
| Transaction expenses, restructuring and other related costs       | 6,660                         | 128    | 8,550                        | 29,496  |
| Earnings before provision (benefit) for income taxes              | 1,509                         | 1,772  | 6,300                        | 6,662   |
| Provision (benefit) for income taxes                              | 10,061                        | (98)   | 11,097                       | 8,037   |
| Earnings (loss) from discontinued operations, net of income taxes | \$ (8,552)                    | 1,870  | (4,797)                      | (1,375) |

The earnings (loss) from discontinued operations, net of income taxes consists of the following amounts related to Cederroth and Sally Holdings:

|   | Three months ended<br>June 30 |       | Nine months ended<br>June 30 |         |
|---|-------------------------------|-------|------------------------------|---------|
|   | 2008                          | 2007  | 2008                         | 2007    |
| Cederroth (see page 9)  | \$ (10,085)                   | 940   | (8,379)                      | 2,781   |
| Sally Holdings (see page 11)  | 1,533                         | 930   | 3,582                        | (4,156) |
| Total earnings (loss) from discontinued operations, net of income taxes | \$ (8,552)                    | 1,870 | (4,797)                      | (1,375) |

*Cederroth International*

On May 18, 2008, the company entered into an agreement to sell its Cederroth business to CapMan, a Nordic based private equity firm. Pursuant to the transaction agreement, on July 31, 2008 Cederroth Intressenter AB, a company owned by two funds controlled by CapMan, purchased all of the issued and outstanding shares of Cederroth International AB in exchange for 159.5 million Euros, which were delivered to Alberto Culver AB, a wholly-owned Swedish subsidiary of the company. The Euros were immediately converted to \$243.8 million based on the deal contingent Euro forward contract entered into by the company in connection with the transaction. The purchase price is subject to adjustment to the extent actual balances of cash, debt and working capital on the July 31, 2008 closing date differ from estimates assumed in the transaction agreement.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

As noted above, the company entered into a deal contingent forward contract to sell the Euros it expected to receive in exchange for U.S. dollars. At June 30, 2008, the company recognized an unrealized pre-tax loss of \$5.0 million in discontinued operations to adjust the outstanding forward contract to fair value. In connection with the transaction, the company incurred transaction costs (primarily legal and other professional service fees) of \$3.6 million during the first nine months of fiscal year 2008, most of which are not expected to be deductible for income tax purposes. These costs were expensed in the periods incurred and are included in discontinued operations.

During the first nine months of fiscal year 2007, the Cederroth business recognized pre-tax charges of \$1.5 million that were previously classified as restructuring and other in the consolidated statement of earnings. These charges include \$706,000 of severance and other exit costs related to the company's reorganization following the Separation. In addition, Cederroth's discontinued operations results include an \$815,000 non-cash charge related to the acceleration of vesting of stock options and restricted shares that occurred in connection with the Separation (as more fully described in the *Sally Holdings, Inc.* section below). This charge reflects the amount of future compensation expense as of November 16, 2006, the closing date of the Separation, that would have been recognized in subsequent periods as the stock options and restricted shares for Cederroth employees vested over the original vesting periods.

The results of discontinued operations related to Cederroth for the three and nine months ended June 30, 2008 and 2007 were as follows (in thousands):

|   | Three months ended June 30 |        | Nine months ended June 30 |         |
|---|----------------------------|--------|---------------------------|---------|
|   | 2008                       | 2007   | 2008                      | 2007    |
| Net sales   | \$ 76,155                  | 60,488 | 197,057                   | 164,310 |
| Pre-tax earnings from normal operations                           | \$ 5,486                   | 1,486  | 8,915                     | 4,676   |
| Transaction expenses, restructuring and other related costs*      | 6,660                      | 128    | 8,550                     | 1,521   |
| Earnings (loss) before provision for income taxes                 | (1,174)                    | 1,358  | 365                       | 3,155   |
| Provision for income taxes**                                      | 8,911                      | 418    | 8,744                     | 374     |
| Earnings (loss) from discontinued operations, net of income taxes | \$ (10,085)                | 940    | (8,379)                   | 2,781   |

\* The amount for the three months ended June 30, 2008 includes \$1.7 million of legal and other transaction costs and the \$5.0 million unrealized loss on the Euro forward contract. The amount for the nine months ended June 30, 2008 includes \$3.6 million of legal and other transaction costs and the \$5.0 million unrealized loss on the Euro forward contract. The entire amounts for the three and nine months ended June 30, 2007 reflect restructuring and other expenses.

\*\* As a result of the expected sale of Cederroth, the tax provision for the three and nine months ended June 30, 2008 includes \$9.2 million of estimated tax expense on a portion of Cederroth's unremitted foreign earnings. The estimated tax expense may be adjusted in the fourth quarter of fiscal year 2008 upon the closing of the transaction and the final analysis of the valuation and tax status of Cederroth International AB and its various subsidiaries.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

The components of the assets and liabilities of discontinued operations, all of which relate to Cederroth, as of June 30, 2008 and September 30, 2007 were as follows (in thousands):

|                                    | June 30,<br>2008 | September 30,<br>2007 |
|------------------------------------|------------------|-----------------------|
| <b>Current assets:</b>             |                  |                       |
| Cash and cash equivalents          | \$ 30,082*       | 19,996                |
| Receivables, net                   | 52,980           | 50,536                |
| Inventories                        | 43,432           | 34,591                |
| Other current assets               | 2,919            | 3,232                 |
|                                    | \$ 129,413       | 108,355               |
| <b>Non-current assets:</b>         |                  |                       |
| Property, plant and equipment, net | \$ 27,933        | 26,153                |
| Goodwill                           | 66,160           | 60,884                |
| Trade names                        | 40,404           | 37,008                |
| Other assets                       | 359              | 1,014                 |
|                                    | \$ 134,856       | 125,059               |
| <b>Current liabilities:</b>        |                  |                       |
| Current portion of long-term debt  | \$ 781           | 509                   |
| Accounts payable                   | 22,980           | 20,560                |
| Accrued expenses and income taxes  | 18,232           | 13,441                |
|                                    | \$ 41,993        | 34,510                |
| <b>Non-current liabilities:</b>    |                  |                       |
| Long-term debt                     | \$ 1,864         | 1,718                 |
| Income taxes                       | 14,420           | 13,550                |
| Other liabilities                  | 19,368           | 17,393                |
|                                    | \$ 35,652        | 32,661                |

\* In July 2008 prior to the closing of the transaction, approximately \$25 million of the Cederroth cash balance was paid to the continuing operations business of the company in order to settle intercompany loans and other conditions of the closing.  
*Sally Holdings, Inc.*

On June 19, 2006, the company announced a plan to split Sally Holdings from the consumer products business. Pursuant to an Investment Agreement, on November 16, 2006:

The company separated into two publicly-traded companies: New Alberto-Culver, which owns and operates the consumer products business, and Sally Beauty Holdings, Inc. (New Sally), which owns and operates Sally Holdings beauty supply distribution business;

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CDRS Acquisition LLC (Investor), a limited liability company organized by Clayton, Dubilier & Rice Fund VII, L.P., invested \$575 million in New Sally in exchange for an equity interest representing approximately 47.55% of New Sally common stock on a fully diluted basis, and Sally Holdings incurred approximately \$1.85 billion of indebtedness; and

The company's shareholders received, for each share of common stock then owned, (i) one share of common stock of New Alberto-Culver, (ii) one share of common stock of New Sally and (iii) a \$25.00 per share special cash dividend.

To accomplish the results described above, the parties engaged in a number of transactions including:

A holding company merger, after which the company was a direct, wholly-owned subsidiary of New Sally and each share of the company's common stock converted into one share of New Sally common stock.

New Sally, using a substantial portion of the proceeds of the investment by Investor and the debt incurrence, paid a \$25.00 per share special cash dividend to New Sally shareholders (formerly the company's shareholders) other than Investor. New Sally then contributed the company to New Alberto-Culver and proceeded to spin off New Alberto-Culver by distributing one share of New Alberto-Culver common stock for each share of New Sally common stock.



## ALBERTO-CULVER COMPANY AND SUBSIDIARIES

In connection with the Separation, the company had to pay certain transaction costs, primarily legal and investment banking fees, which were expensed in the periods incurred and are included in discontinued operations. Approximately \$18.7 million of transaction costs were expensed by the company in the first nine months of fiscal year 2007.

In accordance with the Investment Agreement, upon the closing of the Separation, New Sally paid (i) all of Investor's transaction expenses and a transaction fee in the amount of \$30 million to CD&R, (ii) \$20 million to the company covering certain of the combined transaction expenses of Sally Holdings and the company and (iii) certain other expenses of the company. The transaction expenses that New Sally paid on behalf of Investor and the transaction fee paid to CD&R, along with other costs incurred by New Sally directly related to its issuance of new equity and debt in connection with the Separation, were capitalized as equity and debt issuance costs on New Sally's balance sheet. The transaction expenses of the company, including Sally Holdings' portion, were expensed by the company as incurred through the date of completion of the Separation and are included in discontinued operations.

The company has treated the Separation as though it constituted a change in control for purposes of the company's stock option and restricted stock plans. As a result, in accordance with the terms of these plans, all outstanding stock options and restricted shares of the company became fully vested upon completion of the Separation on November 16, 2006. Included in Sally Holdings' discontinued operations results in the first nine months of fiscal year 2007 is a \$5.3 million charge which reflects the amount of future compensation expense that would have been recognized in subsequent periods as the stock options and restricted shares for Sally Holdings employees vested over the original vesting periods.

In connection with the Separation, Michael H. Renzulli, the former Chairman of Sally Holdings, terminated his employment with the company and received certain contractual benefits totaling \$4.0 million, which is included in discontinued operations in the first nine months of fiscal year 2007.

The results of discontinued operations related to Sally Holdings for the three and nine months ended June 30, 2008 and 2007 were as follows (in thousands):

|   | Three months ended<br>June 30 |       | Nine months ended<br>June 30 |         |
|---|-------------------------------|-------|------------------------------|---------|
|   | 2008*                         | 2007* | 2008*                        | 2007**  |
| Net sales   | \$                            |       |                              | 310,753 |
| Pre-tax earnings from normal operations                           | \$ 2,683                      | 414   | 5,935                        | 31,482  |
| Transaction expenses and other related costs                      |                               |       |                              | 27,975  |
| Earnings before provision (benefit) for income taxes              | 2,683                         | 414   | 5,935                        | 3,507   |
| Provision (benefit) for income taxes                              | 1,150                         | (516) | 2,353                        | 7,663   |
| Earnings (loss) from discontinued operations, net of income taxes | \$ 1,533                      | 930   | 3,582                        | (4,156) |

\* Primarily reflects favorable adjustments to self-insurance reserves for pre-Separation Sally claims retained by the company.

\*\* Primarily includes results through November 16, 2006. The transaction expenses and other related costs includes \$18.7 million of transaction expenses, \$5.3 million related to the acceleration of vesting of stock options and restricted shares held by Sally Holdings employees and \$4.0 million of contractual benefits for the former Chairman of Sally Holdings.

The Sally Beauty Supply segment of Sally Holdings is a long-standing customer of the company's consumer products business. In the first nine months of fiscal year 2007, the company's consumer products business recorded \$4.2 million of sales to Sally Holdings prior to November 16, 2006, all of which were eliminated from the consolidated results of the company, because, at the time, the sales represented intercompany transactions. The company continues to have an ongoing customer relationship with New Sally following the Separation.



ALBERTO-CULVER COMPANY AND SUBSIDIARIES

(3) RESTRUCTURING AND OTHER

Restructuring and other expenses during the three and nine months ended June 30, 2008 and 2007 consist of the following (in thousands):

|  | Three months ended<br>June 30 |       | Nine months ended<br>June 30 |         |
|--|-------------------------------|-------|------------------------------|---------|
|  | 2008                          | 2007  | 2008                         | 2007    |
| Severance and other exit costs   | \$ 2,003                      | 1,164 | 5,283                        | 15,127  |
| Impairment and other property, plant and equipment charges   | 2,688                         | 249   | 5,762                        | 249     |
| Gain on sale of assets   | (2,034)                       |       | (1,808)                      | (5,894) |
| Non-cash charges related to the acceleration of vesting of stock options and restricted shares in connection with the Separation             |                               |       |                              | 11,383  |
| Contractual termination benefits for the former President and Chief Executive Officer in connection with the Separation                      |                               |       |                              | 9,888   |
| Non-cash charge for the recognition of foreign currency translation loss (gain) in connection with the liquidation of a foreign legal entity | (2)                           | 9     | 225                          | 1,279   |
| Legal fees and other expenses incurred to assign the company's trademarks following the closing of the Separation                            | 71                            |       | 123                          |         |
|  | \$ 2,726                      | 1,422 | 9,585                        | 32,032  |

*Severance and Other Exit Costs*

On November 27, 2006, the company committed to a plan to terminate employees as part of a reorganization following the Separation. In connection with this reorganization plan, on December 1, 2006 the company announced that it was going to close its manufacturing facility in Dallas, Texas. The company's worldwide workforce has been reduced by approximately 215 employees as a result of the reorganization plan, including 125 employees from the Dallas, Texas manufacturing facility.

Through June 30, 2008, the company has recorded cumulative charges related to this plan of \$15.0 million for severance, \$241,000 for contract termination costs and \$1.3 million for other exit costs. The following table reflects the activity related to this restructuring plan during the nine months ended June 30, 2008 (in thousands):

|                            | Liability at<br>September 30,<br>2007 | New<br>Charges | Cash<br>Payments<br>& Other<br>Settlements | Liability at<br>June 30,<br>2008 |
|----------------------------|---------------------------------------|----------------|--|----------------------------------|
| Severance                  | \$ 2,487                              | 353            | (2,285)                                    | 555                              |
| Contract termination costs |                                       | 4              | (4)  |                                  |
| Other                      | 93                                    | 406            | (328)                                      | 171                              |
|                            | \$ 2,580                              | 763*           | (2,617)                                    | 726                              |

On October 25, 2007, the company committed to a plan primarily related to the closure of its manufacturing facility in Toronto, Canada. As part of the plan, the company's workforce has been reduced by approximately 125 employees.

The following table reflects the activity related to this restructuring plan during the nine months ended June 30, 2008 (in thousands):

| Initial<br>Charges | Cash<br>Payments | Liability at |
|--------------------|------------------|--------------|
|--------------------|------------------|--------------|

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|           |           | <b>&amp; Other<br/>Settlements</b> | <b>June 30,<br/>2008</b> |
|-----------|-----------|------------------------------------|--------------------------|
| Severance | \$ 2,539  | (1,702)                            | 837                      |
| Other     | 404       | (404)                              |                          |
|           | \$ 2,943* | (2,106)                            | 837                      |

On May 29, 2008, the company committed to a plan to close its manufacturing facility, reduce its headcount and relocate to a smaller commercial office in Puerto Rico. As part of the plan, the company's workforce will be reduced by approximately 100 employees.

## ALBERTO-CULVER COMPANY AND SUBSIDIARIES

The following table reflects the activity related to this restructuring plan during the nine months ended June 30, 2008 (in thousands):

|           | Initial<br>Charges | Cash<br>Payments<br>& Other<br>Settlements | Liability at<br>June 30,<br>2008 |
|-----------|--------------------|--|----------------------------------|
| Severance | \$ 1,527           |  | 1,527                            |
| Other     | 50                 | (22)                                       | 28                               |
|           | \$ 1,577*          | (22)                                       | 1,555                            |

\* The sum of these three amounts from the tables above represents the \$5.3 million of total charges for severance and other exit costs recorded during the first nine months of fiscal year 2008.

Cash payments related to these plans are expected to be substantially completed by the second quarter of fiscal year 2009.

#### *Impairment and Other Property, Plant and Equipment Charges*

During the first nine months of fiscal year 2008, the company recorded total impairment and other fixed asset charges of \$5.8 million. This amount includes impairments of \$648,000 related to the building and certain manufacturing equipment in connection with the closure of the Dallas, Texas manufacturing facility, \$1.3 million related to manufacturing equipment in connection with the closure of the Toronto, Canada manufacturing facility and \$1.6 million related to the building and certain manufacturing equipment in connection with the closure of the Puerto Rico manufacturing facility.

In each case, the fair value of the assets was determined using prices for similar assets in the respective markets, as determined by management using data from external sources. All asset groups subject to impairment were included as identifiable assets of the Consumer Packaged Goods business segment in the company's Annual Report on Form 10-K for the fiscal year ended September 30, 2007. In addition to the impairments, the company recognized \$2.2 million of other fixed asset charges related to the closure of the Dallas, Texas and Toronto, Canada manufacturing facilities during the first nine months of fiscal year 2008.

#### *Gain on Sale of Assets Including Related Party Transactions*

The company closed on the sale of its manufacturing facility in Toronto, Canada on May 30, 2008. The company received net cash proceeds of \$7.5 million and recognized a pre-tax gain of \$2.0 million in the third quarter of fiscal year 2008 as a result of the sale. The company closed on the sale of its manufacturing facility in Dallas, Texas on March 26, 2008. The company received net cash proceeds of \$3.1 million and recognized a pre-tax loss of \$226,000 in the second quarter of fiscal year 2008 as a result of the sale.

On December 21, 2006, the company entered into an agreement with 18000 LLC, a limited liability company controlled by Howard B. Bernick, NJI Sales, Inc., NetJets International, Inc. and NetJets Services, Inc. to assign 50% of the company's 1/8 interest in a fractional-ownership airplane to 18000 LLC in exchange for \$1.2 million. Mr. Bernick, a former director and the former President and Chief Executive Officer of the company, was the husband of Carol Lavin Bernick, Executive Chairman of the Board of Directors of the company. The company recognized a pre-tax gain of \$386,000 as a result of the sale, which closed on December 22, 2006. This transaction was approved by the audit committee of the board of directors of the company, consisting solely of independent directors.

On January 10, 2007, the Leonard H. Lavin Trust u/a/d 12/18/87, a trust for the benefit of Leonard H. Lavin (the Lavin Trust), purchased all of the membership units of Eighteen, LLC, an Oregon limited liability company and subsidiary of the company, pursuant to a Membership Interest Purchase Agreement dated January 10, 2007 among the Lavin Trust, Eighteen, LLC and the company. The trustees of the Lavin Trust are Leonard H. Lavin, a director of the company, and Ms. Bernick. The primary asset of Eighteen, LLC was a Gulfstream IV-SP airplane. The purchase price for the membership interests of Eighteen, LLC was \$25.0 million and was paid on January 10, 2007. The company recognized a pre-tax gain of \$5.1 million as a result of the sale. This transaction was approved by the audit committee of the board of directors of the company, consisting solely of independent directors.

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On January 30, 2007, the company entered into an agreement with NJI Sales, Inc., NetJets International, Inc. and NetJets Services, Inc. to sell the remaining 50% of its 1/8<sup>th</sup> interest in a fractional-ownership airplane back to NetJets for \$1.2 million. The company recognized a pre-tax gain of \$389,000 as a result of the sale.

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ALBERTO-CULVER COMPANY AND SUBSIDIARIES

*Acceleration of Vesting of Stock Options and Restricted Shares*

As previously discussed, the company has treated the Separation as though it constituted a change in control for purposes of the company's stock option and restricted stock plans. As a result, in accordance with the terms of these plans, all outstanding stock options and restricted shares of the company became fully vested upon completion of the Separation on November 16, 2006. The \$11.4 million charge recorded by the company in the first nine months of fiscal year 2007 is equal to the amount of future compensation expense that would have been recognized in subsequent periods as the stock options and restricted shares vested over the original vesting periods.

*Contractual Termination Benefits*

In connection with the Separation, Howard B. Bernick, the former President and Chief Executive Officer of the company, terminated his employment with the company and received certain contractual benefits primarily consisting of a lump sum cash payment of \$9.7 million plus applicable employer payroll taxes.

*Foreign Currency Translation Loss (Gain)*

The company substantially completed the liquidation of a foreign legal entity in connection with its reorganization plan and is therefore recognizing in restructuring and other expenses the accumulated foreign currency translation loss related to the entity, which resulted in a \$225,000 charge during the first nine months of fiscal year 2008.

*Trademark Legal Fees and Other Expenses*

Due to the series of transactions affecting the company's legal structure as part of the closing of the Separation (as described in note 2), the company has initiated a process to assign many of its existing trademarks in various countries around the world. In connection with this effort, the company incurred legal fees and other expenses of \$123,000 in the first nine months of fiscal year 2008 and expects to incur additional costs of up to \$300,000 during the fourth quarter of fiscal year 2008 and the first half of fiscal year 2009.

(4) INCOME TAXES

The company adopted the provisions of FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*—an Interpretation of FASB Statement No. 109, effective October 1, 2007. FIN No. 48 clarifies the recognition threshold and measurement requirements for tax positions taken or expected to be taken in tax returns and provides guidance on the related classification and disclosure. The adoption of FIN No. 48 resulted in a \$2.2 million increase to the October 1, 2007 retained earnings balance and the reclassification of the company's \$6.5 million tax liability for unrecognized tax benefits from current to long-term.

At October 1, 2007, the company's total liability for unrecognized tax benefits, after the adoption of FIN No. 48, was \$6.5 million, of which \$4.8 million represented tax benefits that, if recognized, would favorably impact the effective tax rate. The company's liability for unrecognized tax benefits increased to \$9.4 million at June 30, 2008.

The company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of the income tax provision in the consolidated statements of earnings. At October 1, 2007, the company's total liability for unrecognized tax benefits included accrued interest and penalties of \$1.4 million.

The company files a consolidated U.S. federal income tax return, as well as income tax returns in various states and foreign jurisdictions. With some exceptions, the company is no longer subject to examinations by tax authorities in the U.S. for years prior to fiscal 2004 and in its major international markets for years prior to fiscal 2001.

In the next 12 months, the company's effective tax rate and the amount of unrecognized tax benefits could be affected positively or negatively by the resolution of ongoing tax audits and the expiration of certain statutes of limitations. The company is unable to project the potential range of tax impacts at this time.

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### (5) AUCTION RATE SECURITIES

Prior to the second quarter of fiscal year 2008, the company regularly invested in auction rate securities (ARS) which typically are bonds with long-term maturities that have interest rates which reset at intervals of up to 35 days through an auction process. These investments are considered available for sale in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. All of the company's remaining investments in ARS at June 30, 2008 represent interests in pools of student loans and have AAA/Aaa credit ratings. In addition, all of these securities carry an indirect guarantee by the U.S. federal government of at least 97% of the par value through the Federal Family Education Loan Program (FFELP). Based on these factors and the credit worthiness of the underlying assets, the company does not believe that it has significant principal risk with regard to these investments.



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ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Historically, the periodic auctions for these ARS investments have provided a liquid market for these securities. As a result, the company carried its investments at par value, which approximated fair value, and classified them as short-term in the consolidated balance sheets. During the second and third quarters of fiscal year 2008, each of the company's remaining ARS investments has experienced multiple failed auctions, meaning that there have been insufficient bidders to match the supply of securities submitted for sale. The company continues to earn interest on these investments at the maximum contractual rate and continues to collect the interest in accordance with the stated terms of the securities. Given the company's inability to estimate when its ARS will settle, the investments have been classified as long-term consistent with the terms of the underlying securities. During the third quarter of fiscal year 2008, one security was called by the issuer and the company received the full par value of \$7.5 million.

At June 30, 2008, the company has auction rate securities with a total par value of \$69.8 million. The company has recorded these investments on its consolidated balance sheet at an estimated fair value of \$66.7 million and recorded an unrealized loss of \$3.1 million in other comprehensive income in the first nine months of fiscal year 2008, reflecting the decline in the estimated fair value. The fair value of these securities has been estimated by management using data from external sources. Because there is no active market for these securities, management utilized a discounted cash flow valuation model to estimate fair value, with the key assumptions in the model being the expected holding period for the ARS, the expected coupon rate over the holding period and the required rate of return by market participants (discount rate), adjusted to reflect the current illiquidity in the market. As of June 30, 2008, the company has concluded that no other-than-temporary impairment losses have occurred because its investments continue to be of high credit quality and the company has the intent and ability to hold these investments until the anticipated recovery in market value occurs. The company will continue to analyze its ARS in future periods for impairment and may be required to record a charge in its statement of earnings in future periods if the decline in fair value is determined to be other-than-temporary.

The company anticipates that its existing cash and cash equivalent balances, along with cash flows from operations and available credit, will be sufficient to fund its operating and other requirements.

#### (6) STOCKHOLDERS EQUITY

On November 12, 2006, the board of directors authorized the company to purchase up to 5 million shares of common stock. During the third quarter of fiscal year 2008, the company purchased 3,761,961 shares in the open market under this authorization for an aggregate purchase price of \$98.5 million. On July 24, 2008, the board of directors authorized the company to purchase an additional 5 million shares of common stock.

The company's \$300 million revolving credit facility, as amended, includes a covenant that limits the company's ability to purchase its common stock or pay dividends if the cumulative stock repurchases plus cash dividends exceeds \$250 million plus 50% of consolidated net income (as defined in the credit agreement) commencing January 1, 2007.

During the nine months ended June 30, 2008 and 2007, the company acquired \$40,000 and \$884,000, respectively, of common stock surrendered by employees in connection with the payment of withholding taxes as provided under the terms of certain incentive plans. In addition, during the nine months ended June 30, 2008 and 2007, the company acquired \$190,000 and \$79,000, respectively, of common stock surrendered by employees to pay the exercise price of stock options. All shares acquired under these plans are not subject to the company's stock repurchase program.

All common stock purchased in the open market during fiscal year 2008 and all shares acquired through incentive plans are being accounted for using the constructive retirement method, as the company has no intent to reissue the shares. For the common stock purchased in the open market, the excess of the aggregate purchase price over the par value of the shares acquired was allocated between paid-in capital (\$17.1 million) and retained earnings (\$81.3 million).

## ALBERTO-CULVER COMPANY AND SUBSIDIARIES

## (7) WEIGHTED AVERAGE SHARES OUTSTANDING

The following table provides information on basic and diluted weighted average shares outstanding (in thousands):

|  | Three Months<br>Ended<br>June 30 |        | Nine Months Ended<br>June 30 |        |
|--|----------------------------------|--------|------------------------------|--------|
|  | 2008                             | 2007   | 2008                         | 2007   |
| Basic weighted average shares outstanding                                  | 98,719                           | 97,443 | 98,807                       | 95,371 |
| Effect of dilutive securities:   |                                  |        |                              |        |
| Assumed exercise of stock options  | 2,025                            | 2,760  | 2,384                        | 2,479  |
| Assumed vesting of restricted stock  | 413                              | 289    | 394                          | 233    |
| Effect of unrecognized stock-based compensation related to future services | (440)                            | (503)  | (458)                        | (237)  |
| Diluted weighted average shares outstanding                                | 100,717                          | 99,989 | 101,127                      | 97,846 |

The computations of diluted weighted average shares outstanding for the three and nine months ended June 30, 2008 exclude stock options for 1.4 million shares since the options were anti-dilutive. Stock options for 109,000 shares and 1.3 million shares were anti-dilutive for the three and nine months ended June 30, 2007, respectively.

## (8) ACCOUNTING FOR STOCK-BASED COMPENSATION

In accordance with SFAS No. 123 (R), Share-Based Payment, the company recognizes compensation expense for stock options on a straight-line basis over the vesting period or to the date a participant becomes eligible for retirement, if earlier. The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model. During the first nine months of fiscal year 2008, there were no significant changes to the assumptions used in calculating the fair value of stock options.

In the third quarter of fiscal year 2008, the company recorded stock option expense that reduced earnings from continuing operations before provision for income taxes by \$832,000, provision for income taxes by \$291,000, earnings from continuing operations by \$541,000 and basic and diluted earnings per share from continuing operations by one cent. In the first nine months of fiscal year 2008, the company recorded stock option expense that reduced earnings from continuing operations before provision for income taxes by \$3.8 million, provision for income taxes by \$1.3 million, earnings from continuing operations by \$2.5 million and basic and diluted earnings per share from continuing operations by two cents. In the third quarter of fiscal year 2007, the company recorded stock option expense that reduced earnings from continuing operations before provision for income taxes by \$546,000, provision for income taxes by \$197,000, earnings from continuing operations by \$349,000 and diluted earnings per share from continuing operations by one cent. Stock option expense in the quarter had no effect on basic earnings per share from continuing operations. In the first nine months of fiscal year 2007, the company recorded stock option expense, excluding the one-time charge related to the acceleration of vesting of all outstanding options in connection with the Separation, that reduced earnings from continuing operations before provision for income taxes by \$3.1 million, provision for income taxes by \$1.1 million, earnings from continuing operations by \$2.0 million and basic and diluted earnings per share from continuing operations by two cents. The expense amounts in the first quarter of each fiscal year included the immediate expensing of the fair value of stock options granted during the quarter to participants who had already met the definition of retirement under the stock option plans. Stock option expense is included in advertising, marketing, selling and administrative expenses in the consolidated statements of earnings.

Also in accordance with SFAS No. 123 (R), the company amortizes the total fair market value of restricted shares on the date of grant to expense on a straight-line basis over the vesting period. The amortization expense related to restricted shares during the third quarter of fiscal year 2008 was \$382,000, compared to \$250,000 during the third quarter of fiscal year 2007. The amortization expense related to restricted shares during the first nine months of fiscal year 2008 was \$1.5 million, compared to \$719,000 during the first nine months of fiscal year 2007, excluding the one-time charge related to the acceleration of vesting of all outstanding restricted shares in connection with the Separation. The amortization expense amount in the first nine months of fiscal year 2008 included the immediate expensing of the fair value of restricted shares granted during the second quarter to certain non-employee directors who had already met the service requirement under the current restricted stock plan.



ALBERTO-CULVER COMPANY AND SUBSIDIARIES

During the first nine months of fiscal year 2008, the company granted 1.7 million stock options and 152,000 restricted shares to employees of both continuing and discontinued operations under its existing stock-based compensation plans. In January 2008, the company's stockholders approved an amendment to the restricted stock plan which included a reduction in the number of authorized shares under the plan from 2.5 million to 1.5 million and added a provision to make automatic grants of restricted shares with a value of approximately \$65,000 to each non-employee director on the date of each regular annual meeting of shareholders. The first such grant occurred on January 24, 2008. In addition, in connection with the amendment to the restricted stock plan, the company's non-employee director stock option plan was amended to discontinue any future stock option grants to non-employee directors.

Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 107, Share-Based Payment, requires public companies to apply the rules of Accounting Series Release No. 268 (ASR 268), Presentation in Financial Statements of Redeemable Preferred Stocks, to stock options with contingent cash settlement provisions. ASR 268 requires securities with contingent cash settlement provisions which are not solely in the control of the issuer, without regard to probability of occurrence, to be classified outside of stockholders' equity. The company's stock option plans have a contingent cash settlement provision upon the occurrence of certain change in control events. While the company believes the possibility of occurrence of any change in control event which would trigger such cash settlement provision is remote, the contingent cash settlement of the stock options as a result of such event would not be solely in the control of the company. In accordance with ASR 268, the company has classified \$6.6 million as stock options subject to redemption outside of stockholders' equity on its consolidated balance sheet as of June 30, 2008. This amount represents the intrinsic value as of November 5, 2003 of currently outstanding stock options which were modified on that date as a result of the company's conversion to one class of common stock. This amount will be reclassified into additional paid-in capital in future periods as the related stock options are exercised or canceled.

(9) COMPREHENSIVE INCOME

Comprehensive income consists of net earnings, foreign currency translation adjustments, the unrealized loss on ARS investments and minimum pension liability adjustments as follows (in thousands):

|   | Three Months Ended |               | Nine Months Ended |               |
|---|--------------------|---------------|-------------------|---------------|
|   | June 30            | June 30       | June 30           | June 30       |
|   | 2008               | 2007          | 2008              | 2007          |
| Net earnings  | \$ 21,133          | 25,096        | 81,067            | 41,774        |
| Other comprehensive income adjustments:   |                    |               |                   |               |
| Foreign currency translation during the period  | 1,455              | 8,070         | 19,788            | 11,474        |
| Reclassification adjustment due to the recognition in net earnings of foreign currency translation loss (gain) in connection with the liquidation of foreign legal entities | (2)                | 9             | (128)             | 1,279         |
| Unrealized loss on ARS investments  | (123)              |               | (3,090)           |               |
| Minimum pension liability   |                    |               |                   | (1,669)       |
| <b>Comprehensive income</b>   | <b>\$ 22,463</b>   | <b>33,175</b> | <b>97,637</b>     | <b>52,858</b> |

(10) BUSINESS SEGMENT INFORMATION

Segment information for the three and nine months ended June 30, 2008 and 2007 is as follows (in thousands):

|                         | Three Months Ended |         | Nine Months Ended |         |
|-------------------------|--------------------|---------|-------------------|---------|
|                         | June 30            | June 30 | June 30           | June 30 |
|                         | 2008               | 2007    | 2008              | 2007    |
| <u>Net sales:</u>       |                    |         |                   |         |
| Consumer Packaged Goods | \$ 364,913         | 325,014 | 1,057,469         | 959,940 |

Eliminations

(4,208)

\$ 364,913 325,014 1,057,469 955,732

## ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Earnings from continuing operations before provision for income taxes:

|                                  | Three Months  |         | Nine Months   |          |
|----------------------------------|---------------|---------|---------------|----------|
|                                  | Ended June 30 |         | Ended June 30 |          |
|                                  | 2008          | 2007    | 2008          | 2007     |
| Consumer Packaged Goods          | \$ 44,763     | 33,526  | 132,287       | 96,063   |
| Stock option expense (note 8)    | (832)         | (546)   | (3,803)       | (3,087)  |
| Restructuring and other (note 3) | (2,726)       | (1,422) | (9,585)       | (32,032) |
| Interest income, net             | 1,460         | 1,299   | 6,476         | 2,040    |
|                                  | \$ 42,665     | 32,857  | 125,375       | 62,984   |

## (11) GOODWILL

The change in the carrying amount of goodwill for the nine months ended June 30, 2008 is as follows (in thousands):

|                                  |            |
|----------------------------------|------------|
| Balance as of September 30, 2007 | \$ 152,783 |
| Additions                        | 6,325      |
| Foreign currency translation     | 346        |
| Balance as of June 30, 2008      | \$ 159,454 |

The increase was attributable to the accrual of additional consideration related to the acquisition of Nexxus Products Company (Nexxus). In accordance with the purchase agreement dated May 18, 2005, additional consideration of up to \$55.0 million may be paid over the ten years following the closing of the acquisition based on a percentage of sales of Nexxus branded products. Such additional consideration is being accrued in the period the company becomes obligated to pay the amounts and is increasing the amount of goodwill resulting from the acquisition. Through fiscal year 2007, the company has paid \$10.9 million of additional consideration based on sales of Nexxus branded products through June 30, 2007. At June 30, 2008, the company owed \$7.1 million of additional consideration which is expected to be paid in the fourth quarter of fiscal year 2008.

## (12) LONG-TERM DEBT

Long-term debt at June 30, 2008 and September 30, 2007 consists of the following (in thousands):

|                                     | June 30,<br>2008 | September 30,<br>2007 |
|-------------------------------------|------------------|-----------------------|
| 6.375% debentures                   | \$               | 120,000               |
| Other                               | 1,123            | 486                   |
|                                     | 1,123            | 120,486               |
| Less: Amounts classified as current | 254              | 120,127               |
|                                     | \$ 869           | 359                   |

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The company previously had \$120 million of 6.375% debentures with a June 15, 2028 due date. The debentures were subject to repayment, in whole or in part, on June 15, 2008 at the option of the holders. All of the holders exercised their right to sell the debentures back to the company at par. Accordingly, the company repaid the entire outstanding balance in June 2008.

### (13) NEW ACCOUNTING PRONOUNCEMENTS

In September, 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measures required under other accounting pronouncements. The provisions of SFAS No. 157 are generally effective for fiscal years beginning after November 15, 2007. For certain non-financial assets and liabilities, the effective date can be deferred until fiscal years beginning after November 15, 2008. Accordingly, the company will adopt SFAS No. 157 in the first quarter of fiscal year 2009 for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed on a recurring basis (at least annually), but may elect to defer the adoption for other non-financial assets and liabilities until the first quarter of fiscal year 2010. The adoption of SFAS No. 157 is not expected to have a material effect on the company's consolidated financial statements.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

In December, 2007, the FASB issued SFAS No. 141 (R), Business Combinations. SFAS No. 141 (R) significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, preacquisition contingencies and transaction costs. In addition, SFAS No. 141 (R) requires certain financial statement disclosures to enable users to evaluate and understand the nature and financial effects of the business combination. The provisions of SFAS No. 141 (R) are effective for fiscal years beginning after December 15, 2008 and earlier application is prohibited. Accordingly, the company will apply SFAS No. 141 (R) prospectively to business combinations that are consummated beginning in the first quarter of fiscal year 2010.



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ALBERTO-CULVER COMPANY AND SUBSIDIARIES

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

DESCRIPTION OF BUSINESS

As of June 30, 2008, Alberto-Culver Company and its subsidiaries (the company or New Alberto-Culver) operated two businesses: Consumer Packaged Goods (CPG) and Cederroth International (Cederroth). The CPG business develops, manufactures, distributes and markets branded beauty care products as well as branded food and household products in the United States and more than 100 other countries. Cederroth manufactures, markets and distributes beauty and health care products throughout Scandinavia and in other parts of Europe.

OVERVIEW

*DISCONTINUED OPERATIONS*

*Cederroth International*

On May 18, 2008, the company entered into an agreement to sell its Cederroth business to CapMan, a Nordic based private equity firm. Pursuant to the transaction agreement, on July 31, 2008 Cederroth Intressenter AB, a company owned by two funds controlled by CapMan, purchased all of the issued and outstanding shares of Cederroth International AB in exchange for 159.5 million Euros, which were delivered to Alberto Culver AB, a wholly-owned Swedish subsidiary of the company. The Euros were immediately converted to \$243.8 million based on the deal contingent Euro forward contract entered into by the company in connection with the transaction. The purchase price is subject to adjustment to the extent actual balances of cash, debt and working capital on the July 31, 2008 closing date differ from estimates assumed in the transaction agreement.

In accordance with the provisions of the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the results of operations and cash flows related to the Cederroth business are reported as discontinued operations for all periods presented. In addition, the assets and liabilities of Cederroth have been segregated from the assets and liabilities related to the company's continuing operations and presented separately on the consolidated balance sheets as of June 30, 2008 and September 30, 2007.

As noted above, the company entered into a deal contingent forward contract to sell the Euros it expected to receive in exchange for U.S. dollars. At June 30, 2008, the company recognized an unrealized pre-tax loss of \$5.0 million in discontinued operations to adjust the outstanding forward contract to fair value. In connection with the transaction, the company incurred transaction costs (primarily legal and other professional service fees) of \$3.6 million during the first nine months of fiscal year 2008, most of which are not expected to be deductible for tax purposes. These costs were expensed in the periods incurred and are included in discontinued operations.

During the first nine months of fiscal year 2007, the Cederroth business recognized pre-tax charges of \$1.5 million that were previously classified as restructuring and other in the consolidated statement of earnings. These charges include \$706,000 of severance and other exit costs related to the company's reorganization following the Separation. In addition, Cederroth's discontinued operations results include an \$815,000 non-cash charge related to the acceleration of vesting of stock options and restricted shares that occurred in connection with the Separation (as more fully described in the *Sally Holdings, Inc.* section below). This charge reflects the amount of future compensation expense as of November 16, 2006, the closing date of the Separation, that would have been recognized in subsequent periods as the stock options and restricted shares for Cederroth employees vested over the original vesting periods.

*Sally Holdings, Inc.*

Prior to November 16, 2006, the company also operated a beauty supply distribution business which included two segments: (1) Sally Beauty Supply, a domestic and international chain of cash-and-carry stores offering professional beauty supplies to both salon professionals and retail consumers, and (2) Beauty Systems Group, a full-service beauty supply distributor offering professional brands directly to salons through its own sales force and professional-only stores in exclusive geographical territories in North America and Europe. These two segments comprised Sally Holdings, Inc. (Sally Holdings), a wholly-owned subsidiary of the company.

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ALBERTO-CULVER COMPANY AND SUBSIDIARIES

On June 19, 2006, the company announced a plan to split Sally Holdings from the consumer products business. Pursuant to an Investment Agreement, on November 16, 2006:

The company separated into two publicly-traded companies: New Alberto-Culver, which owns and operates the consumer products business, and Sally Beauty Holdings, Inc. (New Sally), which owns and operates Sally Holdings' beauty supply distribution business;

CDRS Acquisition LLC (Investor), a limited liability company organized by Clayton, Dubilier & Rice Fund VII, L.P., invested \$575 million in New Sally in exchange for an equity interest representing approximately 47.55% of New Sally common stock on a fully diluted basis, and Sally Holdings incurred approximately \$1.85 billion of indebtedness; and

The company's shareholders received, for each share of common stock then owned, (i) one share of common stock of New Alberto-Culver, (ii) one share of common stock of New Sally and (iii) a \$25.00 per share special cash dividend.

To accomplish the results described above, the parties engaged in a number of transactions including:

A holding company merger, after which the company was a direct, wholly-owned subsidiary of New Sally and each share of the company's common stock converted into one share of New Sally common stock.

New Sally, using a substantial portion of the proceeds of the investment by Investor and the debt incurrence, paid a \$25.00 per share special cash dividend to New Sally shareholders (formerly the company's shareholders) other than Investor. New Sally then contributed the company to New Alberto-Culver and proceeded to spin off New Alberto-Culver by distributing one share of New Alberto-Culver common stock for each share of New Sally common stock.

Notwithstanding the legal form of the transactions, because of the substance of the transactions, New Alberto-Culver was considered the divesting entity and treated as the accounting successor to the company, and New Sally was considered the accounting spinnee for financial reporting purposes in accordance with Emerging Issues Task Force Issue No. 02-11, Accounting for Reverse Spinoffs.

The separation of the company into New Alberto-Culver and New Sally involving Clayton, Dubilier & Rice (CD&R) is hereafter referred to as the Separation. For purposes of describing the events related to the Separation, as well as other events, transactions and financial results of Alberto-Culver Company and its subsidiaries related to periods prior to November 16, 2006, the term the company refers to New Alberto-Culver's accounting predecessor, or Old Alberto-Culver.

In accordance with the provisions of SFAS No. 144, effective with the closing of the Separation on November 16, 2006, the results of operations and cash flows related to Sally Holdings' beauty supply distribution business are reported as discontinued operations for all periods presented.

In connection with the Separation, the company had to pay certain transaction costs, primarily legal and investment banking fees, which were expensed in the periods incurred and are included in discontinued operations. Approximately \$18.7 million of transaction costs were expensed by the company in the first nine months of fiscal year 2007.

In accordance with the Investment Agreement, upon the closing of the Separation, New Sally paid (i) all of Investor's transaction expenses and a transaction fee in the amount of \$30 million to CD&R, (ii) \$20 million to the company covering certain of the combined transaction expenses of Sally Holdings and the company and (iii) certain other expenses of the company. The transaction expenses that New Sally paid on behalf of Investor and the transaction fee paid to CD&R, along with other costs incurred by New Sally directly related to its issuance of new equity and debt in connection with the Separation, were capitalized as equity and debt issuance costs on New Sally's balance sheet. The transaction expenses of the company, including Sally Holdings' portion, were expensed by the company as incurred through the date of completion of the Separation and are included in discontinued operations.



## ALBERTO-CULVER COMPANY AND SUBSIDIARIES

The company has treated the Separation as though it constituted a change in control for purposes of the company's stock option and restricted stock plans. As a result, in accordance with the terms of these plans, all outstanding stock options and restricted shares of the company became fully vested upon completion of the Separation on November 16, 2006. Included in Sally Holdings' discontinued operations results in the first nine months of fiscal year 2007 is a \$5.3 million charge which reflects the amount of future compensation expense that would have been recognized in subsequent periods as the stock options and restricted shares for Sally Holdings employees vested over the original vesting periods.

In connection with the Separation, Michael H. Renzulli, the former Chairman of Sally Holdings, terminated his employment with the company and received certain contractual benefits totaling \$4.0 million, which is included in discontinued operations in the first nine months of fiscal year 2007.

*NON-GAAP FINANCIAL MEASURE*

To supplement the company's financial results presented in accordance with U.S. generally accepted accounting principles (GAAP), the company discloses organic sales growth which measures the growth in net sales excluding the effects of foreign exchange rates, acquisitions and divestitures. This measure is a non-GAAP financial measure as defined by Regulation G of the Securities and Exchange Commission (SEC). This non-GAAP financial measure is not intended to be, and should not be, considered separately from or as an alternative to the most directly comparable GAAP financial measure of net sales growth. This specific non-GAAP financial measure is presented in MD&A with the intent of providing greater transparency to supplemental financial information used by management and the company's board of directors in their financial and operational decision-making. This non-GAAP financial measure is among the primary indicators that management and the board of directors use as a basis for budgeting, making operating and strategic decisions and evaluating performance of the company and management as it provides meaningful supplemental information regarding the normal ongoing operations of the company and its core businesses. This amount is disclosed so that the reader has the same financial data that management uses with the belief that it will assist investors and other readers in making comparisons to the company's historical operating results and analyzing the underlying performance of the company's normal ongoing operations for the periods presented. Management believes that the presentation of this non-GAAP financial measure, when considered along with the company's GAAP financial measure and the reconciliation to the corresponding GAAP financial measure, provides the reader with a more complete understanding of the factors and trends affecting the company than could be obtained absent this disclosure. It is important for the reader to note that the non-GAAP financial measure used by the company may be calculated differently from, and therefore may not be comparable to, a similarly titled measure used by other companies. A reconciliation of this measure to its most directly comparable GAAP financial measure is provided in the Reconciliation of Non-GAAP Financial Measure section of MD&A and should be carefully evaluated by the reader.

*RESTRUCTURING AND OTHER*

Restructuring and other expenses during the three and nine months ended June 30, 2008 and 2007 consist of the following (in thousands):

|  | Three Months<br>ended June 30 |       | Nine Months<br>ended June 30 |         |
|--|-------------------------------|-------|------------------------------|---------|
|  | 2008                          | 2007  | 2008                         | 2007    |
| Severance and other exit costs   | \$ 2,003                      | 1,164 | 5,283                        | 15,127  |
| Impairment and other property, plan and equipment charges  | 2,688                         | 249   | 5,762                        | 249     |
| Gain on sale of assets   | (2,034)                       |       | (1,808)                      | (5,894) |
| Non-cash charges related to the acceleration of vesting of stock options and restricted shares in connection with the Separation             |                               |       |                              | 11,383  |
| Contractual termination benefits for the former President and Chief Executive Officer in connection with the Separation                      |                               |       |                              | 9,888   |
| Non-cash charge for the recognition of foreign currency translation loss (gain) in connection with the liquidation of a foreign legal entity | (2)                           | 9     | 225                          | 1,279   |
| Legal fees and other expenses incurred to assign the company's trademarks following the closing of the Separation                            | 71                            |       | 123                          |         |
|  | \$ 2,726                      | 1,422 | 9,585                        | 32,032  |



ALBERTO-CULVER COMPANY AND SUBSIDIARIES

*Severance and Other Exit Costs*

On November 27, 2006, the company committed to a plan to terminate employees as part of a reorganization following the Separation. In connection with this reorganization plan, on December 1, 2006 the company announced that it was going to close its manufacturing facility in Dallas, Texas. The company's worldwide workforce has been reduced by approximately 215 employees as a result of the reorganization plan, including 125 employees from the Dallas, Texas manufacturing facility.

Through June 30, 2008, the company has recorded cumulative charges related to this plan of \$15.0 million for severance, \$241,000 for contract termination costs and \$1.3 million for other exit costs. The following table reflects the activity related to this restructuring plan during the nine months ended June 30, 2008 (in thousands):

|                            | Liability at<br>September 30, 2007 | New<br>Charges | Cash Payments &<br>Other Settlements | Liability at<br>June 30, 2008 |
|----------------------------|------------------------------------|----------------|--------------------------------------|-------------------------------|
| Severance                  | \$ 2,487                           | 353            | (2,285)                              | 555                           |
| Contract termination costs |                                    | 4              | (4)                                  |                               |
| Other                      | 93                                 | 406            | (328)                                | 171                           |
|                            | \$ 2,580                           | 763*           | (2,617)                              | 726                           |

On October 25, 2007, the company committed to a plan primarily related to the closure of its manufacturing facility in Toronto, Canada. As part of the plan, the company's workforce has been reduced by approximately 125 employees.

The following table reflects the activity related to this restructuring plan during the nine months ended June 30, 2008 (in thousands):

|           | Initial<br>Charges | Cash Payments &<br>Other Settlements | Liability at<br>June 30, 2008 |
|-----------|--------------------|--------------------------------------|-------------------------------|
| Severance | \$ 2,539           | (1,702)                              | 837                           |
| Other     | 404                | (404)                                |                               |
|           | \$ 2,943*          | (2,106)                              | 837                           |

On May 29, 2008, the company committed to a plan to close its manufacturing facility, reduce its headcount and relocate to a smaller commercial office in Puerto Rico. As part of the plan, the company's workforce will be reduced by approximately 100 employees.

The following table reflects the activity related to this restructuring plan during the nine months ended June 30, 2008 (in thousands):

|           | Initial<br>Charges | Cash Payments &<br>Other Settlements | Liability at<br>June 30, 2008 |
|-----------|--------------------|--------------------------------------|-------------------------------|
| Severance | \$ 1,527           |                                      | 1,527                         |
| Other     | 50                 | (22)                                 | 28                            |
|           | \$ 1,577*          | (22)                                 | 1,555                         |

\*

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The sum of these three amounts from the tables above represents the \$5.3 million of total charges for severance and other exit costs recorded during the first nine months of fiscal year 2008. Cash payments related to these plans are expected to be substantially completed by the second quarter of fiscal year 2009.

### *Impairment and Other Property, Plant and Equipment Charges*

During the first nine months of fiscal year 2008, the company recorded total impairment and other fixed asset charges of \$5.8 million. This amount includes impairments of \$648,000 related to the building and certain manufacturing equipment in connection with the closure of the Dallas, Texas manufacturing facility, \$1.3 million related to manufacturing equipment in connection with the closure of the Toronto, Canada manufacturing facility and \$1.6 million related to the building and certain manufacturing equipment in connection with the closure of the Puerto Rico manufacturing facility.

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ALBERTO-CULVER COMPANY AND SUBSIDIARIES

In each case, the fair value of the assets was determined using prices for similar assets in the respective markets, as determined by management using data from external sources. All asset groups subject to impairment were included as identifiable assets of the Consumer Packaged Goods business segment in the company's Annual Report on Form 10-K for the fiscal year ended September 30, 2007. In addition to the impairments, the company recognized \$2.2 million of other fixed asset charges related to the closure of the Dallas, Texas and Toronto, Canada manufacturing facilities during the first nine months of fiscal year 2008.

*Gain on Sale of Assets Including Related Party Transactions*

The company closed on the sale of its manufacturing facility in Toronto, Canada on May 30, 2008. The company received net cash proceeds of \$7.5 million and recognized a pre-tax gain of \$2.0 million in the third quarter of fiscal year 2008 as a result of the sale. The company closed on the sale of its manufacturing facility in Dallas, Texas on March 26, 2008. The company received net cash proceeds of \$3.1 million and recognized a pre-tax loss of \$226,000 in the second quarter of fiscal year 2008 as a result of the sale.

On December 21, 2006, the company entered into an agreement with 18000 LLC, a limited liability company controlled by Howard B. Bernick, NJI Sales, Inc., NetJets International, Inc. and NetJets Services, Inc. to assign 50% of the company's 1/8 interest in a fractional-ownership airplane to 18000 LLC in exchange for \$1.2 million. Mr. Bernick, a former director and the former President and Chief Executive Officer of the company, was the husband of Carol Lavin Bernick, Executive Chairman of the Board of Directors of the company. The company recognized a pre-tax gain of \$386,000 as a result of the sale, which closed on December 22, 2006. This transaction was approved by the audit committee of the board of directors of the company, consisting solely of independent directors.

On January 10, 2007, the Leonard H. Lavin Trust u/a/d 12/18/87, a trust for the benefit of Leonard H. Lavin (the Lavin Trust), purchased all of the membership units of Eighteen, LLC, an Oregon limited liability company and subsidiary of the company, pursuant to a Membership Interest Purchase Agreement dated January 10, 2007 among the Lavin Trust, Eighteen, LLC and the company. The trustees of the Lavin Trust are Leonard H. Lavin, a director of the company, and Ms. Bernick. The primary asset of Eighteen, LLC was a Gulfstream IV-SP airplane. The purchase price for the membership interests of Eighteen, LLC was \$25.0 million and was paid on January 10, 2007. The company recognized a pre-tax gain of \$5.1 million as a result of the sale. This transaction was approved by the audit committee of the board of directors of the company, consisting solely of independent directors.

On January 30, 2007, the company entered into an agreement with NJI Sales, Inc., NetJets International, Inc. and NetJets Services, Inc. to sell the remaining 50% of its 1/8<sup>th</sup> interest in a fractional-ownership airplane back to NetJets for \$1.2 million. The company recognized a pre-tax gain of \$389,000 as a result of the sale.

*Acceleration of Vesting of Stock Options and Restricted Shares*

As previously discussed, the company has treated the Separation as though it constituted a change in control for purposes of the company's stock option and restricted stock plans. As a result, in accordance with the terms of these plans, all outstanding stock options and restricted shares of the company became fully vested upon completion of the Separation on November 16, 2006. The \$11.4 million charge recorded by the company in the first nine months of fiscal year 2007 is equal to the amount of future compensation expense that would have been recognized in subsequent periods as the stock options and restricted shares vested over the original vesting periods.

*Contractual Termination Benefits*

In connection with the Separation, Howard B. Bernick, the former President and Chief Executive Officer of the company, terminated his employment with the company and received certain contractual benefits primarily consisting of a lump sum cash payment of \$9.7 million plus applicable employer payroll taxes.

*Foreign Currency Translation Loss (Gain)*

The company substantially completed the liquidation of a foreign legal entity in connection with its reorganization plan and is therefore recognizing in restructuring and other expenses the accumulated foreign currency translation loss related to the entity, which resulted in a \$225,000 charge during the first nine months of fiscal year 2008.





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ALBERTO-CULVER COMPANY AND SUBSIDIARIES

*Trademark Legal Fees and Other Expenses*

Due to the series of transactions affecting the company's legal structure as part of the closing of the Separation, the company has initiated a process to assign many of its existing trademarks in various countries around the world. In connection with this effort, the company incurred legal fees and other expenses of \$123,000 in the first nine months of fiscal year 2008 and expects to incur additional costs of up to \$300,000 during the fourth quarter of fiscal year 2008 and the first half of fiscal year 2009.

*Expected Savings*

As a result of the reorganization plan and other restructuring activities, the company expects to recognize cost savings of approximately \$27 million on an annualized basis. A majority of the cost savings amounts will affect the advertising, marketing, selling and administrative expenses line item on the consolidated statement of earnings, with certain savings amounts related to the closures of the Dallas, Texas, Toronto, Canada and Puerto Rico manufacturing facilities expected to affect gross profit. These savings will partially offset certain corporate costs that were previously unallocated and certain other expenses that were previously allocated to the discontinued Cederroth and Sally Holdings businesses.

*AUCTION RATE SECURITIES*

Prior to the second quarter of fiscal year 2008, the company regularly invested in auction rate securities (ARS) which typically are bonds with long-term maturities that have interest rates which reset at intervals of up to 35 days through an auction process. These investments are considered available for sale in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. All of the company's remaining investments in ARS at June 30, 2008 represent interests in pools of student loans and have AAA/Aaa credit ratings. In addition, all of these securities carry an indirect guarantee by the U.S. federal government of at least 97% of the par value through the Federal Family Education Loan Program (FFELP). Based on these factors and the credit worthiness of the underlying assets, the company does not believe that it has significant principal risk with regard to these investments.

Historically, the periodic auctions for these ARS investments have provided a liquid market for these securities. As a result, the company carried its investments at par value, which approximated fair value, and classified them as short-term in the consolidated balance sheets. During the second and third quarters of fiscal year 2008, each of the company's remaining ARS investments has experienced multiple failed auctions, meaning that there have been insufficient bidders to match the supply of securities submitted for sale. The company continues to earn interest on these investments at the maximum contractual rate and continues to collect the interest in accordance with the stated terms of the securities. Given the company's inability to estimate when its ARS will settle, the investments have been classified as long-term consistent with the terms of the underlying securities. During the third quarter of fiscal year 2008, one security was called by the issuer and the company received the full par value of \$7.5 million.

At June 30, 2008, the company has auction rate securities with a total par value of \$69.8 million. The company has recorded these investments on its consolidated balance sheet at an estimated fair value of \$66.7 million and recorded an unrealized loss of \$3.1 million in other comprehensive income in the first nine months of fiscal year 2008, reflecting the decline in the estimated fair value. The fair value of these securities has been estimated by management using data from external sources. Because there is no active market for these securities, management utilized a discounted cash flow valuation model to estimate fair value, with the key assumptions in the model being the expected holding period for the ARS, the expected coupon rate over the holding period and the required rate of return by market participants (discount rate), adjusted to reflect the current illiquidity in the market. As of June 30, 2008, the company has concluded that no other-than-temporary impairment losses have occurred because its investments continue to be of high credit quality and the company has the intent and ability to hold these investments until the anticipated recovery in market value occurs. The company will continue to analyze its ARS in future periods for impairment and may be required to record a charge in its statement of earnings in future periods if the decline in fair value is determined to be other-than-temporary.

The company anticipates that its existing cash and cash equivalent balances, along with cash flows from operations and available credit, will be sufficient to fund its operating and other requirements.

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ALBERTO-CULVER COMPANY AND SUBSIDIARIES

RESULTS OF OPERATIONS

*Comparison of the Quarters Ended June 30, 2008 and 2007*

The company recorded third quarter net sales of \$364.9 million in fiscal year 2008, up \$39.9 million or 12.3% over the comparable period of the prior year. The effect of foreign exchange rates increased sales by 1.0% in the third quarter of fiscal year 2008. Organic sales, which exclude the effects of foreign exchange rates, grew 11.3% during the third quarter of fiscal year 2008.

Earnings from continuing operations were \$29.7 million for the three months ended June 30, 2008 versus \$23.2 million for the same period of the prior year. Basic earnings per share from continuing operations were 30 cents in the third quarter of fiscal year 2008 compared to 24 cents in the same period of fiscal year 2007. Diluted earnings per share from continuing operations were 29 cents in the current quarter compared to 23 cents in the same period of the prior year. In the third quarter of fiscal year 2008, restructuring and other expenses reduced earnings from continuing operations by \$1.5 million and basic and diluted earnings per share from continuing operations by 2 cents. In the third quarter of fiscal year 2007, restructuring and other expenses reduced earnings from continuing operations by \$1.0 million and basic and diluted earnings per share from continuing operations by 1 cent.

Sales of CPG in the third quarter of fiscal year 2008 increased 12.3% to \$364.9 million from \$325.0 million in fiscal year 2007. The third quarter increase was due to higher sales of all of the company's major brands, with the most significant increases for TRESemmé shampoos, conditioners and styling products (6.7%), partially due to the launch of TRESemmé in Spain, and St. Ives products (0.8%). In addition, sales increased for the custom label filling operations (1.4%) and due to the effect of foreign exchange rates (1.0%).

Gross profit increased \$26.0 million or 15.2% for the third quarter of fiscal year 2008 versus the comparable quarter in fiscal year 2007. Gross profit, as a percentage of net sales, was 54.2% during the third quarter of fiscal year 2008 compared to 52.8% in the prior year period. The gross margin improvement is primarily attributable to more effective inventory management and manufacturing efficiencies, partially offset by higher input costs.

Compared to the prior year, advertising, marketing, selling and administrative expenses in fiscal year 2008 increased \$15.1 million or 10.9% for the third quarter. This overall increase consists of higher expenditures for advertising and marketing (6.4%) and higher selling and administrative expenditures (4.5%).

Advertising and marketing expenditures were \$70.7 million in the third quarter of fiscal year 2008, an increase of 14.3% from \$61.8 million in the prior year. The company continued to invest behind all of its major brands during the third quarter of fiscal year 2008. The increase in 2008 was primarily due to higher advertising and marketing expenditures for TRESemmé (9.5%) and Alberto European (4.0%), along with the effect of foreign exchange rates (1.3%). Advertising and marketing expenditures, as a percentage of net sales, increased to 19.4% in 2008 from 19.0% in the same period of in fiscal year 2007.

Selling and administrative expenses increased \$6.2 million or 8.1% for the third quarter of fiscal year 2008 compared to 2007 primarily due to higher stock option and other incentive compensation costs, higher expenditures related to the implementation of a new worldwide ERP system, costs associated with the start-up of the company's Jonesboro, Arkansas manufacturing facility and the effect of foreign exchange rates. These increases were partially offset by the reversal of a \$3.9 million contingent liability that was favorably settled in 2008. Selling and administrative expenses, as a percentage of net sales, decreased to 22.7% in the third quarter of fiscal year 2008 from 23.6% in the comparative quarter last year.

The company recorded net interest income of \$1.5 million in the third quarter of fiscal year 2008 and \$1.3 million for the third quarter of the prior year. Interest expense was \$1.6 million in the third quarter of fiscal year 2008 and \$2.1 million for the prior year period. Interest income was \$3.1 million in the third quarter of fiscal year 2008 compared to \$3.4 million for the third quarter of the prior year. The decrease in interest expense is primarily due to the repayment of the company's \$120 million of debentures in June 2008.

The provision for income taxes as a percentage of earnings from continuing operations before income taxes was 30.4% for the third quarter of fiscal year 2008 compared to 29.3% for the third quarter of fiscal year 2007. The effective tax rate in 2008 reflects a reduction in tax contingency reserves for certain foreign entities due to the expiration of the statute of limitations and a benefit from changes in certain estimates related to the 2007 tax provision. These tax benefits were partially offset by the tax effect of the company's expected repatriation of cash from Sweden following the sale of Cederroth and other discrete tax items recognized in the quarter. The effective tax rate in 2007 reflects a benefit from changes in certain estimates related to the 2006 tax provision. For both fiscal year periods, the effective tax rates were also affected by the

varying tax rates in the jurisdictions in which the company's restructuring charges were recorded.

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ALBERTO-CULVER COMPANY AND SUBSIDIARIES

*Comparison of the Nine Months Ended June 30, 2008 and 2007*

For the nine months ended June 30, 2008, net sales increased \$101.7 million to \$1.1 billion, representing a 10.6% increase compared to last year's nine-month period. The effect of foreign exchange rates increased sales in the first nine months of fiscal year 2008 by 1.9%. Organic sales, which exclude the effects of foreign exchange rates, grew 8.7% during the first nine months of fiscal year 2008. Organic sales growth includes the effect of net sales to Sally Holdings after the November 16, 2006 closing of the Separation (0.4%). In the first nine months of fiscal year 2007, all transactions with Sally Holdings prior to November 16, 2006 were considered intercompany and the elimination of these intercompany sales is classified as part of continuing operations.

Earnings from continuing operations for the nine months ended June 30, 2008 were \$85.9 million versus \$43.1 million in the prior year. Basic earnings per share from continuing operations were 87 cents in the first nine months of fiscal year 2008 versus 45 cents in the same period of fiscal year 2007. Diluted earnings per share from continuing operations were 85 cents for the first nine months of fiscal year 2008 compared to 44 cents in the prior year. In the first nine months of fiscal year 2008, restructuring and other expenses reduced earnings from continuing operations by \$6.1 million and basic and diluted earnings per share from continuing operations by 6 cents. In the first nine months of fiscal year 2007, restructuring and other expenses reduced earnings from continuing operations by \$21.4 million and basic and diluted earnings per share from continuing operations by 23 cents and 22 cents, respectively.

Sales of CPG in the first nine months of fiscal year 2008 increased 10.2% to \$1.1 billion from \$959.9 million in fiscal year 2007. The first nine months' increase was primarily due to higher sales of TRESemmé shampoos, conditioners and styling products (6.3%) and the effect of foreign exchange rates (1.9%).

Gross profit increased \$69.1 million or 13.8% for the first nine months of fiscal year 2008 versus the comparable period in fiscal year 2007. Gross profit, as a percentage of net sales, was 53.9% for the first nine months of fiscal year 2008 compared to 52.5% for continuing operations in the prior year period. The gross margin improvement is primarily attributable to more effective inventory management and manufacturing efficiencies, partially offset by higher input costs.

Advertising, marketing, selling and administrative expenses in the first nine months of fiscal year 2008 increased \$33.6 million or 8.2%. This overall increase consists of higher expenditures for advertising and marketing (4.3%) and higher selling and administrative expenses (3.9%).

Advertising and marketing expenditures were \$194.6 million in the first nine months of fiscal year 2008, compared to \$177.0 million for the first nine months of fiscal year 2007. The company continued to invest behind all of its major brands during the first nine months of fiscal year 2008. The 9.9% increase in 2008 was primarily due to higher advertising and marketing expenditures for TRESemmé (6.2%) and Alberto European (1.4%), along with the effect of foreign exchange rates (1.7%). Advertising and marketing expenditures, as a percentage of net sales, decreased to 18.4% in 2008 from 18.5% in the same period of in fiscal year 2007.

Selling and administrative expenses increased \$16.0 million or 6.9% for the first nine months of fiscal year 2008 compared to 2007 primarily due to higher stock option and other incentive compensation costs, higher expenditures related to the implementation of a new worldwide ERP system, costs associated with the start-up of the company's Jonesboro, Arkansas manufacturing facility and the effect of foreign exchange rates. These increases were partially offset by the reversal of a \$3.9 million contingent liability that was favorably settled in 2008. Selling and administrative expenses, as a percentage of net sales, decreased to 23.4% in the first nine months of fiscal year 2008 from 24.2% in the comparative period last year.

The company recorded net interest income of \$6.5 million for the first nine months of fiscal year 2008 and \$2.0 million for the same period of the prior year. Interest expense was \$5.2 million for the first nine months of fiscal year 2008 and \$6.4 million for the first nine months of fiscal year 2007. Interest income was \$11.7 million for the first nine months of fiscal year 2008 compared to \$8.4 million for the comparable period in the prior year. The decrease in interest expense is primarily due to the repayment of the company's \$120 million of debentures in June 2008 and higher interest capitalization in 2008. The increase in interest income was primarily due to higher interest rates and higher cash and investment balances in the current year.

## ALBERTO-CULVER COMPANY AND SUBSIDIARIES

The provision for income taxes as a percentage of earnings from continuing operations before income taxes was 31.5% for the first nine months of fiscal years 2008 and 2007. The effective tax rate in 2008 reflects a reduction in tax contingency reserves for certain foreign entities due to the expiration of the statute of limitations and a benefit from changes in certain estimates related to the 2007 tax provision. These tax benefits were partially offset by other discrete tax items recognized in the period. The effective tax rate in 2007 reflects a benefit from changes in certain estimates related to the 2006 tax provision. For both fiscal year periods, the effective tax rates were also affected by the varying tax rates in the jurisdictions in which the company's restructuring charges were recorded.

FINANCIAL CONDITIONJune 30, 2008 versus September 30, 2007

Working capital at June 30, 2008 was \$318.4 million, a decrease of \$54.6 million from working capital of \$373.0 million at September 30, 2007, excluding current assets and liabilities of discontinued operations. The decrease in working capital was primarily due to cash outlays for the repayment of the \$120 million of debentures in June 2008, the purchase of shares of the company's common stock during the third quarter, capital expenditures and cash dividends. These working capital decreases were partially offset by the working capital generated from operations and cash received from exercises of employee stock options. The June 30, 2008 ratio of current assets to current liabilities of 2.18 to 1.00 increased from last year end's ratio of 1.98 to 1.00. Working capital as of June 30, 2008 was also reduced by the reclassification of the company's investments in ARS from short-term to long-term, as discussed in the Overview Auction Rate Securities section of MD&A.

Cash, cash equivalents and investments, including short-term and long-term, decreased \$106.8 million to \$221.9 million during the first nine months of fiscal year 2008 primarily due to the repayment of the \$120 million of debentures in June 2008, the purchase of shares of the company's common stock during the third quarter (\$98.5 million), capital expenditures (\$47.1 million) and cash dividends (\$18.5 million). These cash outflows were partially offset by cash flows provided by operating activities (\$118.6 million) and cash received from exercises of employee stock options (\$44.5 million). During the second quarter of fiscal year 2008, the company liquidated at par value approximately 70% of its ARS investments and transferred the cash to institutional money market funds and other cash equivalents. In the third quarter of fiscal year 2008, one additional ARS investment was settled at its par value of \$7.5 million. As a result, despite the net cash outflows discussed above, cash and cash equivalents increased to \$155.1 million from \$73.1 million last fiscal year end. Total investments, including short-term and long-term, were \$66.7 million at June 30, 2008 compared to \$255.6 million at September 30, 2007. As further discussed in the Overview Auction Rate Securities section of MD&A, during the first nine months of fiscal year 2008 the company recorded a \$3.1 million unrealized loss on its remaining ARS investments and classified them as long-term on its consolidated balance sheet.

Other current assets increased \$9.3 million to \$42.1 million during the first nine months of fiscal year 2008 primarily due to increases in deferred tax assets, prepaid insurance and prepaid advertising and marketing.

Net property, plant and equipment increased \$14.9 million during the first nine months of fiscal year 2008 to \$213.3 million at June 30, 2008. The increase resulted primarily from expenditures for the new Jonesboro, Arkansas manufacturing facility and the implementation of a new worldwide ERP system, partially offset by depreciation during the nine-month period, the sales of the manufacturing facilities in Toronto, Canada and Dallas, Texas and the impairments of manufacturing facilities and equipment as part of the company's restructuring plans.

Goodwill increased \$6.7 million to \$159.5 million at June 30, 2008 due to additional purchase price recorded related to the Nexxus acquisition and the effect of foreign exchange rates.

Other assets decreased \$5.3 million to \$68.3 million at June 30, 2008 primarily due to a decrease in deferred tax assets.

The current portion of long-term debt decreased \$119.9 million during the first nine months of fiscal year 2008. The company previously had \$120 million of 6.375% debentures with a June 15, 2028 due date. The debentures were subject to repayment, in whole or in part, on June 15, 2008 at the option of the holders. All of the holders exercised their right to sell the debentures back to the company at par. Accordingly, the company repaid the entire outstanding balance in June 2008.

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ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Current and long-term income taxes, which include both income taxes payable amounts and deferred income taxes, increased \$17.3 million to \$33.4 million at June 30, 2008, primarily due to the company's earnings in the first nine months of fiscal year 2008 and the timing of tax payments. In addition, the company's current income taxes payable balance at June 30, 2008 includes a net \$7.4 million obligation related to tax matters in connection with the sale of Cederroth.

Additional paid-in capital increased \$44.8 million to \$425.2 million at June 30, 2008 primarily as a result of paid-in capital recorded for stock option expense and restricted shares and the issuance of common stock related to the exercise of stock options and other employee incentive plans, partially offset by the company's purchase of common stock for constructive retirement during the third quarter of fiscal year 2008.

Retained earnings decreased from \$585.1 million at September 30, 2007 to \$568.7 million at June 30, 2008 due to the company's purchase of common stock for constructive retirement during the third quarter of fiscal year 2008 and the payment of \$18.5 million of regular quarterly cash dividends, partially offset by net earnings for the first nine months of fiscal year 2008.

Accumulated other comprehensive income was \$23.4 million at June 30, 2008 compared to \$6.9 million at September 30, 2007. This change was primarily a result of the strengthening of certain foreign currencies versus the U.S. dollar, particularly the Swedish krona, partially offset by the \$3.1 million unrealized loss on ARS investments recorded during the second and third quarters of fiscal year 2008.

LIQUIDITY AND CAPITAL RESOURCES

*Cash Provided by Operating Activities* Net cash provided by operating activities was \$118.6 million and \$49.2 million for the first nine months of fiscal years 2008 and 2007, respectively. Cash flows from operating activities increased in 2008 due to significantly higher cash flows resulting from increased earnings, as well as a significant improvement in cash generated from overall working capital. In addition, operating cash flows in the first nine months of fiscal year 2007 were negatively impacted by deferred taxes.

*Cash Provided (Used) by Investing Activities* Net cash provided by investing activities for the first nine months of fiscal year 2008 was \$149.5 million compared to net cash used by investing activities of \$147.3 million for the first nine months of fiscal year 2007. In the first nine months of fiscal year 2008, the company generated cash of \$185.8 million from net sales of investments as the company liquidated a significant portion of its ARS investments and transferred the cash to institutional money market funds and other cash equivalents. In the first nine months of fiscal year 2007, the company had net purchases of investments of \$150.4 million. Capital expenditures were \$47.1 million in the first nine months of fiscal year 2008 compared to \$24.7 million in the same period of the prior year. Proceeds from disposals of assets in the first nine months of fiscal year 2008 includes \$10.6 million related to the sales of the company's manufacturing facilities in Toronto, Canada and Dallas, Texas. In the first nine months of fiscal year 2007, proceeds from disposal of assets includes \$27.4 million related to the sales of the corporate airplane and the company's 1/8 interest in a fractional-ownership NetJets airplane.

*Cash Provided (Used) by Financing Activities* Net cash used by financing activities for the first nine months of fiscal year 2008 was \$188.6 million compared to net cash provided by financing activities of \$61.6 million for the first nine months of fiscal year 2007. The company repaid its \$120 million of debentures in June 2008 because all the holders exercised their one-time put option. In addition, the company purchased shares of its common stock for an aggregate purchase price of \$98.5 million during the third quarter of fiscal year 2008. The company paid cash dividends of \$18.5 million and \$10.7 million in the first nine months of fiscal years 2008 and 2007, respectively. Proceeds from the exercise of employee stock options were \$44.5 million in fiscal year 2008, compared to \$68.3 million in the same period of the prior year. Net cash provided (used) by financing activities was also affected by the excess tax benefit from stock option exercises and changes in the book cash overdraft balance in each period.

Cash dividends paid on common stock were \$.185 and \$.11 per share in the first nine months of fiscal years 2008 and 2007, respectively. In connection with the Separation, during the first quarter of fiscal year 2007 the company's shareholders received a \$25.00 per share special cash dividend for each share of common stock owned as of November 16, 2006. This special cash dividend in 2007 is included in net cash used by financing activities of discontinued operations.

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ALBERTO-CULVER COMPANY AND SUBSIDIARIES

At June 30, 2008, the company has ARS investments with a total par value of \$69.8 million. All of these investments represent interests in pools of student loans and have AAA/Aaa credit ratings. In addition, all of these securities carry an indirect guarantee by the U.S. federal government of at least 97% of the par value through the Federal Family Education Loan Program (FFELP). However, during the second and third quarters of fiscal year 2008, each of the company's remaining ARS investments has experienced multiple failed auctions. Given the company's inability to estimate when its ARS will settle, the investments have been classified as long-term consistent with the terms of the underlying securities. During the third quarter of fiscal year 2008, one security was called by the issuer and the company received the full par value of \$7.5 million. The company anticipates that its cash and cash equivalent balance of \$155.1 million as of June 30, 2008, along with cash flows from operations and available credit, will be sufficient to fund operating requirements in future years. In addition, in connection with the closing of the Cederroth transaction, the company received approximately \$25 million in cash in July 2008 related to the settlement of intercompany loans and other conditions of the closing and the \$243.8 million initial purchase price on July 31, 2008. During the remainder of fiscal year 2008, the company expects that cash will continue to be used for capital expenditures, new product development, market expansion, dividend payments, payments related to the restructuring plans and, if applicable, acquisitions. The company may also continue to purchase shares of its common stock depending on market conditions and subject to certain restrictions related to the New Alberto-Culver share distribution in connection with the Separation.

On November 12, 2006, the board of directors authorized the company to purchase up to 5 million shares of common stock. During the third quarter of fiscal year 2008, the company purchased 3,761,961 shares in the open market under this authorization for an aggregate purchase price of \$98.5 million. On July 24, 2008, the Board of Directors authorized the company to purchase an additional 5 million shares of common stock.

The company has obtained long-term financing as needed to fund acquisitions and other growth opportunities. Funds also may be obtained prior to their actual need in order to take advantage of opportunities in the debt markets. The company has a \$300 million revolving credit facility which expires November 13, 2011. There were no borrowings outstanding on the revolving credit facility at June 30, 2008 or September 30, 2007. The facility may be drawn in U.S. dollars or certain foreign currencies. Under debt covenants, the company has sufficient flexibility to incur additional borrowings as needed. The current facility includes a covenant that limits the company's ability to purchase its common stock or pay dividends if the cumulative stock repurchases plus cash dividends exceeds \$250 million plus 50% of consolidated net income (as defined in the credit agreement) commencing January 1, 2007.

The company previously had \$120 million of 6.375% debentures with a June 15, 2028 due date. The debentures were subject to repayment, in whole or in part, on June 15, 2008 at the options of the holders. All of the holders exercised their right to sell the debentures back to the company at par. Accordingly, the company repaid the entire outstanding balance in June 2008.

The company is in compliance with the covenants and other requirements of its revolving credit agreement. Additionally, the revolving credit agreement does not include credit rating triggers or subjective clauses that would accelerate maturity dates.

#### NEW ACCOUNTING PRONOUNCEMENTS

In September, 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measures required under other accounting pronouncements. The provisions of SFAS No. 157 are generally effective for fiscal years beginning after November 15, 2007. For certain non-financial assets and liabilities, the effective date can be deferred until fiscal years beginning after November 15, 2008. Accordingly, the company will adopt SFAS No. 157 in the first quarter of fiscal year 2009 for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed on a recurring basis (at least annually), but may elect to defer the adoption for other non-financial assets and liabilities until the first quarter of fiscal year 2010. The adoption of SFAS No. 157 is not expected to have a material effect on the company's consolidated financial statements.



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ALBERTO-CULVER COMPANY AND SUBSIDIARIES

In December, 2007, the FASB issued SFAS No. 141 (R), Business Combinations. SFAS No. 141 (R) significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, preacquisition contingencies and transaction costs. In addition, SFAS No. 141 (R) requires certain financial statement disclosures to enable users to evaluate and understand the nature and financial effects of the business combination. The provisions of SFAS No. 141 (R) are effective for fiscal years beginning after December 15, 2008 and earlier application is prohibited. Accordingly, the company will apply SFAS No. 141 (R) prospectively to business combinations that are consummated beginning in the first quarter of fiscal year 2010.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements. Actual results may differ from these estimates. Management believes these estimates and assumptions are reasonable.

Accounting policies are considered critical when they require management to make assumptions about matters that are highly uncertain at the time the accounting estimate is made and when different estimates that management reasonably could have used have a material impact on the presentation of the company's financial condition, changes in financial condition or results of operations.

The company's critical accounting policies relate to the calculation and treatment of sales incentives, allowance for doubtful accounts, valuation of inventories, income taxes, stock-based compensation and goodwill impairment.

*Sales Incentives* Sales incentives primarily include consumer coupons and trade promotion activities such as advertising allowances, off-shelf displays, customer specific coupons, new item distribution allowances and temporary price reductions. The company records accruals for sales incentives based on estimates of the ultimate cost of each program. The company tracks its commitments for sales incentive programs and, using historical experience, records an accrual at the end of each period for the estimated incurred, but unpaid costs of these programs. Actual costs differing from estimated costs could significantly affect these estimates and the related accruals. For example, if the company's estimate of incurred, but unpaid costs was to change by 10%, the impact to the sales incentive accrual related to continuing operations as of June 30, 2008 would be approximately \$3.5 million.

*Allowance for Doubtful Accounts* The allowance for doubtful accounts requires management to estimate future collections of trade accounts receivable. Management records allowances for doubtful accounts based on historical collection statistics and current customer credit information. These estimates could be significantly affected as a result of actual collections differing from historical statistics or changes in a customer's credit status. As of June 30, 2008, the company's allowance for doubtful accounts related to continuing operations was \$3.2 million.

*Valuation of Inventories* When necessary, the company provides allowances to adjust the carrying value of inventories to the lower of cost or market, including costs to sell or dispose. Estimates of the future demand for the company's products, anticipated product re-launches, changes in formulas and packaging and reductions in stock-keeping units are among the factors used by management in assessing the net realizable value of inventories. Actual results differing from these estimates could significantly affect the company's inventories and cost of products sold. As of June 30, 2008, the company's inventory allowance related to continuing operations was \$9.8 million.

*Income Taxes* The company records tax provisions in its consolidated financial statements based on an estimation of current income tax liabilities. The development of these provisions requires judgments about tax issues, potential outcomes and timing. The company adopted the provisions of FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109, effective October 1, 2007. FIN No. 48 clarifies the recognition threshold and measurement requirements for tax positions taken or expected to be taken in tax returns and provides guidance on the related classification and disclosure. The adoption of FIN No. 48 resulted in a \$2.2 million increase to the October 1, 2007 retained earnings balance and the reclassification of the company's \$6.5 million tax liability for unrecognized tax benefits from current to long-term.

At October 1, 2007, the company's total liability for unrecognized tax benefits, after the adoption of FIN No. 48, was \$6.5 million, of which \$4.8 million represented tax benefits that, if recognized, would favorably impact the effective tax rate. The company's liability for unrecognized tax benefits increased to \$9.4 million at June 30, 2008.

## ALBERTO-CULVER COMPANY AND SUBSIDIARIES

The company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of the income tax provision in the consolidated statements of earnings. At October 1, 2007, the company's total liability for unrecognized tax benefits included accrued interest and penalties of \$1.4 million.

The company files a consolidated U.S. federal income tax return, as well as income tax returns in various states and foreign jurisdictions. With some exceptions, the company is no longer subject to examinations by tax authorities in the U.S. for years prior to fiscal 2004 and in its major international markets for years prior to fiscal 2001.

In the next 12 months, the company's effective tax rate and the amount of unrecognized tax benefits could be affected positively or negatively by the resolution of ongoing tax audits and the expiration of certain statutes of limitations. The company is unable to project the potential range of tax impacts at this time.

Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are estimated to be recovered or settled. Management believes that it is more likely than not that results of future operations will generate sufficient taxable income to realize the company's deferred tax assets, net of the valuation allowance currently recorded. In the future, if the company determines that certain deferred tax assets will not be realizable, the related adjustments could significantly affect the company's effective tax rate at that time.

*Stock-Based Compensation* In accordance with SFAS No. 123 (R), Share-Based Payment, the company recognizes compensation expense for stock options on a straight-line basis over the vesting period or to the date a participant becomes eligible for retirement, if earlier. The company recorded stock option expense in the first nine months of fiscal year 2008 of \$3.8 million related to continuing operations. As of June 30, 2008, the company had \$9.0 million of unrecognized compensation cost related to stock options that will be recorded over a weighted average period of 2.8 years. The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

|                         | <b>Nine Months Ended<br/>June 30, 2008</b> |
|-------------------------|--|
| Expected life           | 3.5 - 4 years                              |
| Expected volatility     | 23.1%                                      |
| Risk-free interest rate | 2.2% - 4.2%                                |
| Dividend yield          | 1.0%                                       |

The expected life of stock options represents the period of time that the stock options granted are expected to be outstanding. The company estimates the expected life based on historical exercise trends. The company estimates expected volatility based primarily on the historical volatility of the company's common stock. For stock option grants following the Separation, the company's estimate of expected volatility also takes into consideration the company's implied volatility and the historical volatility of a group of peer companies. The estimate of the risk-free interest rate is based on the U.S. Treasury bill rate for the expected life of the stock options. The dividend yield represents the company's anticipated cash dividend over the expected life of the stock options. The amount of stock option expense recorded is significantly affected by these estimates. Changes in the company's estimates and assumptions used in the option pricing model would impact the fair value of future stock option grants but not those previously issued.

The weighted average grant date fair value of stock options granted to continuing operations employees during the first nine months of fiscal year 2008 was \$5.62. A one year increase in the expected life assumption would result in a higher weighted average fair value by approximately 13% for the first nine months of fiscal year 2008. A 1% increase in the expected volatility assumption would result in a higher weighted average fair value by approximately 3% for the first nine months of fiscal year 2008.

In addition, the company records stock option expense based on an estimate of the total number of stock options expected to vest, which requires the company to estimate future forfeitures. The company uses historical forfeiture experience as a basis for this estimate. Actual forfeitures differing from these estimates could significantly affect the timing of the recognition of stock option expense. During the first nine months of fiscal year 2008, the company has not recorded significant adjustments to stock option expense as a result of adjustments to estimated forfeiture rates.



## ALBERTO-CULVER COMPANY AND SUBSIDIARIES

*Goodwill Impairment* In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, the company's goodwill is tested for impairment annually or more frequently if significant events or changes indicate possible impairment. The company's policy is to perform the annual goodwill impairment analysis during the second quarter of each fiscal year. Goodwill is evaluated using a two-step impairment test for each of the company's reporting units, as defined in SFAS No. 142. The first step compares the carrying value of a reporting unit, including goodwill, with its fair value, which is generally estimated based on the company's best estimate of the present value of expected future cash flows. If the carrying value of a reporting unit exceeds its estimated fair value, the company would be required to complete the second step of the analysis. This step requires management to allocate the estimated fair value of the reporting unit to all of the assets and liabilities other than goodwill in order to determine an implied fair value of the reporting unit's goodwill. The amount of impairment loss to be recorded would be equal to the excess of the carrying value of the goodwill over its implied fair value.

The determination of the fair value of the company's reporting units requires management to consider changes in economic conditions and other factors to make assumptions regarding estimated future cash flows and long-term growth rates. These assumptions are highly subjective judgments based on the company's experience and knowledge of its operations, are based on the best available market information and are consistent with the company's internal forecasts and operating plans. These estimates can be significantly impacted by many factors including competition, changes in United States or global economic conditions, increasing operating costs and inflation rates and other factors discussed in the Forward Looking Statements section of MD&A. If the company's estimates or underlying assumptions change in the future, the company may be required to record goodwill impairment charges.

The company's annual goodwill impairment analysis completed in the second quarter of fiscal year 2008 resulted in no impairment. As of June 30, 2008, the company's total goodwill balance related to continuing operations was \$159.5 million.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURE

A reconciliation of organic sales growth to its most directly comparable financial measure under GAAP for the three and nine months ended June 30, 2008 and 2007 is as follows:

|                                  | Three Months Ended<br>June 30 |       | Nine Months Ended<br>June 30 |       |
|----------------------------------|-------------------------------|-------|------------------------------|-------|
|                                  | 2008                          | 2007  | 2008                         | 2007  |
| Net sales growth, as reported    | 12.3%                         | 10.4% | 10.6%                        | 9.3%  |
| Effect of foreign exchange rates | (1.0)                         | (2.1) | (1.9)                        | (1.6) |
| Organic sales growth *           | 11.3%                         | 8.3%  | 8.7%                         | 7.7%  |

\* Organic sales growth includes the effect of net sales to Sally Holdings after the November 16, 2006 closing of the Separation. All transactions with Sally Holdings prior to November 16, 2006, including a portion of the first quarter of fiscal year 2007 and all of fiscal year 2006, were considered intercompany and the elimination of these intercompany sales is classified as part of continuing operations.

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ALBERTO-CULVER COMPANY AND SUBSIDIARIES

FORWARD - LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and the documents incorporated by reference herein, if any, may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based on management's current expectations and assessments of risks and uncertainties and reflect various assumptions concerning anticipated results, which may or may not prove to be correct. Some of the factors that could cause actual results to differ materially from estimates or projections contained in such forward-looking statements include: the pattern of brand sales; competition within the relevant product markets; loss of one or more key customers; loss of one or more key employees; inability of efficiency initiatives to improve the company's margins, such as the decision to close the manufacturing facility and relocate the commercial office in Puerto Rico; increases in costs of raw materials and inflation rates; risks inherent in expanding in existing geographic locations and entering new geographic locations; risks inherent in acquisitions, divestitures and strategic alliances; adverse changes in currency exchange rates; events that negatively affect the intended tax free nature of the distribution of shares of Alberto-Culver Company in connection with the Separation; the effects of a prolonged United States or global economic downturn or recession; changes in costs; the costs and effects of unanticipated legal or administrative proceedings; the risk that the expected cost savings related to the reorganizations and restructurings may not be realized; health epidemics; adverse weather conditions; loss of distributorship rights; sales by unauthorized distributors in the company's exclusive markets; and variations in political, economic or other factors such as interest rates, tax changes, legal and regulatory changes or other external factors over which the company has no control. Alberto-Culver Company has no obligation to update any forward-looking statement in this Quarterly Report on Form 10-Q or any incorporated document.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the company's market risk during the nine months ended June 30, 2008. In May 2008, in connection with entering into an agreement to sell its Cederroth business, the company entered into a deal contingent forward contract to sell the Euros it expected to receive in exchange for U.S. dollars. At June 30, 2008, the company recognized a \$5.0 million unrealized loss in discontinued operations to adjust the outstanding forward contract to fair value. The forward contract was settled on July 31, 2008 as part of the closing of the Cederroth transaction.

ITEM 4. CONTROLS AND PROCEDURES

- (a) As of the end of the period covered by this Quarterly Report on Form 10-Q, the company carried out an evaluation, under the supervision and with the participation of the company's management, including the chief executive officer and the chief financial officer, of the effectiveness of the design and operation of the disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act). Based upon that evaluation, the chief executive officer and the chief financial officer of the company have concluded that Alberto-Culver Company's disclosure controls and procedures are effective.
- (b) There were no changes in the company's internal control over financial reporting that occurred during the company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

## ALBERTO-CULVER COMPANY AND SUBSIDIARIES

## PART II

ITEM 1. LEGAL PROCEEDINGS

On June 11, 2008, the company entered into a deferred prosecution agreement with the United States Attorney's Office for the Central District of California. Under this agreement, the company acknowledged and accepted responsibility for the transportation from its manufacturing facility in Chatsworth, California (Facility) of numerous hazardous material containers containing excess amounts of residue without the appropriate shipping papers required by the federal hazardous material transportation regulations. These actions occurred in 2003. As part of the deferred prosecution agreement, the company paid a penalty of \$100,000; agreed to ensure proper management, transportation, and disposal of containers with hazardous materials residues at the Facility; and agreed to two separate inspections of the Facility, the first of which the company passed. The deferred prosecution agreement expires on December 11, 2008.

On May 29, 2008, the company entered into a settlement with the State of California Department of Toxic Substances Control in connection with the matters described above. Under the settlement, the company paid \$20,000 and agreed to send a representative to a compliance class on environmental matters.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On November 12, 2006, the board of directors authorized the company to purchase up to 5 million shares of common stock. During the third quarter of fiscal year 2008, the company purchased 3,761,961 shares in the open market under this authorization for an aggregate purchase price of \$98.5 million. On July 24, 2008, the Board of Directors authorized the company to purchase an additional 5 million shares of common stock.

During the three months ended June 30, 2008, the company acquired 1,011 shares of common stock that were surrendered by employees in connection with the exercise of stock options.

The following table summarizes information with respect to the above referenced purchases made by or on behalf of the company of shares of its common stock during the three months ended June 30, 2008:

| Period           | (a)<br>Total<br>Number<br>of Shares<br>Purchased | (b)<br>Average<br>Price<br>Paid per<br>Share | (c)<br>Total Number of<br>Shares Purchased<br>as Part of Publicly<br>Announced Plans<br>or Programs | (d)<br>Maximum Number<br>of Shares That May<br>Yet Be Purchased<br>Under the Plans or<br>Programs |
|------------------|--|--|---|---|
| April 1 30, 2008 |  |  |   | 5,000,000   |
| May 1 31, 2008   | 2,712,774  | \$ 25.86                                     | 2,712,774   | 2,287,226   |
| June 1 30, 2008  | 1,050,198  | \$ 26.97                                     | 1,049,187   | 1,238,039   |
| Total            | 3,762,972  |  | 3,761,961   |   |

After the July 24, 2008 increase to the authorization, the company has 6,238,039 shares that may yet be purchased under the authorizations.

All common stock purchased in the open market during fiscal year 2008 and all shares acquired in connection with the exercise of stock options are being accounted for using the constructive retirement method, as the company has no intent to reissue the shares.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

ITEM 6. EXHIBITS

- 2(a) Copy of Share Sale and Purchase Agreement, dated as of May 18, 2008, between Alberto Culver Aktiebolag and Cederroth Intressenter AB (filed as Exhibit 2 and incorporated herein by reference to the company's Form 8-K Current Report filed on August 6, 2008).
- 31(a) Certification pursuant to Rules 13a-14(a) and 15d-14(a) of the Exchange Act.
- 31(b) Certification pursuant to Rules 13a-14(a) and 15d-14(a) of the Exchange Act.
- 32(a) Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32(b) Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

SIGNATURE

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

ALBERTO-CULVER COMPANY  
(Registrant)

By: /s/ Ralph J. Nicoletti  
Ralph J. Nicoletti  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)

August 8, 2008