

Alberto-Culver CO
Form 10-Q
February 05, 2009

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:**
December 31, 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, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes No

At December 31, 2008, the company had 98,059,133 shares of common stock outstanding.

PART I

ITEM 1. FINANCIAL STATEMENTS

ALBERTO CULVER COMPANY AND SUBSIDIARIES

Consolidated Statements of Earnings

Three Months Ended December 31, 2008 and 2007

(in thousands, except per share data)

	(Unaudited)	
	2008	2007
Net sales	\$ 352,834	343,187
Cost of products sold	170,824	164,720
Gross profit	182,010	178,467
Advertising, marketing, selling and administrative expenses	122,394	132,261
Restructuring and other (note 3)	292	4,789
Operating earnings	59,324	41,417
Interest income, net of interest expense of \$188 in 2008 and \$1,713 in 2007	(1,292)	(2,718)
Earnings from continuing operations before provision for income taxes	60,616	44,135
Provision for income taxes	29,319	14,593
Earnings from continuing operations	31,297	29,542
Earnings from discontinued operations, net of income taxes (note 2)	357	1,365
Net earnings	\$ 31,654	30,907
Basic earnings per share:		
Continuing operations	\$.32	.30
Discontinued operations		.02
Total	\$.32	.32
Diluted earnings per share:		
Continuing operations	\$.32	.29
Discontinued operations		.02
Total	\$.32	.31
Weighted average shares outstanding:		
Basic	97,525	98,091
Diluted	98,889	100,608
Cash dividends paid per share	\$.065	.055

See Notes to Consolidated Financial Statements.

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ALBERTO CULVER COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2008 and September 30, 2008

(in thousands, except share data)

	(Unaudited)	
	December 31, 2008	September 30, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 325,914	445,332
Short-term investments	8,440	8,398
Receivables, less allowance for doubtful accounts (\$2,459 at December 31, 2008 and \$2,770 at September 30, 2008)	233,607	244,316
Inventories:		
Raw materials	46,517	42,119
Work-in-process	3,676	3,434
Finished goods	108,924	103,959
Total inventories	159,117	149,512
Other current assets	37,566	32,822
Total current assets	764,644	880,380
Property, plant and equipment at cost, less accumulated depreciation (\$197,817 at December 31, 2008 and \$202,302 at September 30, 2008)	220,842	221,667
Goodwill	220,490	159,218
Trade names	89,936	74,797
Long-term investments	56,697	57,443
Other assets	75,904	70,685
Total assets	\$ 1,428,513	1,464,190
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 151	184
Accounts payable	134,930	147,467
Accrued expenses	92,524	119,574
Income taxes	22,493	14,775
Total current liabilities	250,098	282,000
Long-term debt	512	683
Income taxes	19,897	19,084
Other liabilities	45,850	46,092
Total liabilities	316,357	347,859
Stock options subject to redemption	5,488	5,725
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 98,059,133 shares at December 31, 2008 and 97,862,634 shares at September 30, 2008	981	979

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Additional paid-in capital	450,604	444,272
Retained earnings	727,660	702,375
Accumulated other comprehensive loss	(72,577)	(37,020)
Total stockholders' equity	1,106,668	1,110,606
Total liabilities and stockholders' equity	\$ 1,428,513	1,464,190

See Notes to Consolidated Financial Statements.

ALBERTO CULVER COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Three Months Ended December 31, 2008 and 2007

(in thousands)

	(Unaudited)	
	2008	2007
Cash Flows from Operating Activities:		
Net earnings	\$ 31,654	30,907
Less: Earnings from discontinued operations	357	1,365
Earnings from continuing operations	31,297	29,542
Adjustments to reconcile earnings from continuing operations to net cash provided (used) by operating activities:		
Depreciation	5,553	6,017
Amortization of other assets and unearned compensation	1,013	832
Restructuring and other non-cash charges (note 3)	61	2,375
Restructuring and other gain on sale of assets (note 3)	(125)	
Stock option expense (note 7)	3,060	2,135
Deferred income taxes	(1,965)	(1,165)
Cash effects of changes in:		
Receivables, net	(9,510)	18,637
Inventories	(19,366)	(3,740)
Other current assets	(3,864)	(4,486)
Accounts payable and accrued expenses	(33,709)	(29,543)
Income taxes	10,079	10,320
Other assets	(405)	(2,246)
Other liabilities	1,264	983
Net cash provided (used) by operating activities	(16,617)	29,661
Cash Flows from Investing Activities:		
Proceeds from sales of investments		174,705
Payments for purchases of investments		(178,055)
Capital expenditures	(14,550)	(12,049)
Payments for purchased business (note 10)	(83,562)	
Payments related to the sale of Cederroth (note 2)	(1,454)	(87)
Proceeds from disposals of assets	754	64
Net cash used by investing activities	(98,812)	(15,422)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt		641
Repayments of long-term debt	(42)	(54)
Change in book cash overdraft	10,888	6,167
Proceeds from exercises of stock options	472	7,848
Excess tax benefit from stock option exercises	19	1,341
Cash dividends paid	(6,369)	(5,402)
Stock purchased (note 5)	(334)	(7)
Net cash provided by financing activities	4,634	10,534
Effect of foreign exchange rate changes on cash and cash equivalents	(8,623)	(539)

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Net cash provided (used) by continuing operations	(119,418)	24,234
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ALBERTO CULVER COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows (continued)

Three Months Ended December 31, 2008 and 2007

(in thousands)

	(Unaudited)	
	2008	2007
<u>Discontinued Operations:</u>		
Net cash provided by operating activities of discontinued operations		8,114
Net cash used by investing activities of discontinued operations		(606)
Net cash provided by financing activities of discontinued operations		177
Effect of exchange rate changes on cash and cash equivalents of discontinued operations		(210)
Net cash provided by discontinued operations		7,475
Net increase (decrease) in cash and cash equivalents	(119,418)	31,709
Cash and cash equivalents at beginning of period, including cash and cash equivalents of discontinued operations	445,332	93,062
Cash and cash equivalents at end of period, including cash and cash equivalents of discontinued operations	\$ 325,914	124,771

See Notes to Consolidated Financial Statements.

ALBERTO CULVER COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Alberto Culver Company (the company or New Alberto Culver) develops, manufactures, distributes and markets beauty care products as well as food and household products in the United States and more than 100 other countries. The company is organized into two reportable business segments - United States and International.

Prior to July 31, 2008, the company also owned and operated the Cederroth International (Cederroth) business which manufactured, marketed and distributed beauty, health care and household products throughout Scandinavia and in other parts of Europe. As more fully described in note 2, on July 31, 2008 the company sold its Cederroth business to CapMan, a Nordic based private equity firm. Pursuant to the transaction agreement, 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.

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 and Sally Beauty Holdings, Inc. (New Sally). This separation of the company into New Alberto Culver and New Sally involving Clayton, Dubilier & Rice (CD&R) is hereafter referred to as the Separation.

In accordance with the provisions of SFAS No. 144, the results of operations 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, 2008 has been derived from the company's audited 2008 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.

During the fourth quarter of fiscal year 2008, the company determined that certain costs previously classified in the consolidated statements of earnings as components of advertising, marketing, selling and administrative expenses should be classified as cost of products sold to be consistent with the company's policy of capitalizing these costs in inventory. As a result, for the first quarter of fiscal year 2008 the company has reclassified \$4.1 million of these costs, which are associated with the transfer of finished goods from manufacturing plants to distribution centers. The reclassification had no effect on earnings or cash flows.

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.

The 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, 2008.

(2) DISCONTINUED OPERATIONS

The results of discontinued operations, including both Cederroth and Sally Holdings, for the three months ended December 31, 2008 and 2007 were as follows (in thousands):

	Three months ended December 31	
	2008	2007
Net sales	\$	57,488
Earnings before provision for income taxes	\$ 438	2,461
Provision for income taxes	162	144
Earnings from discontinued businesses, net of income taxes	276	2,317
Gain (loss) on the sale of Cederroth	81	(952)
Earnings from discontinued operations, net of income taxes	\$ 357	1,365

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

	Three months ended December 31	
	2008	2007
Cederroth (see below)	\$ 81	(38)
Sally Holdings (see page 8)	276	1,403
Total earnings from discontinued operations, net of income taxes	\$ 357	1,365

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, from 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 was adjusted in the first quarter of fiscal year 2009, resulting in a cash payment of \$1.2 million from Alberto Culver AB to CapMan, and is subject to further adjustment to the extent the final, agreed-upon balances of cash, debt and working capital as of the July 31, 2008 closing date differ from estimates assumed in the transaction agreement.

ALBERTO CULVER COMPANY AND SUBSIDIARIES

During the first quarter of fiscal year 2008, the company incurred transaction costs (primarily investment banking, legal and other professional service fees) of \$952,000 which were recorded as part of the gain (loss) on the sale of Cederroth.

The results of discontinued operations related to Cederroth for the three months ended December 31, 2008 and 2007 were as follows (in thousands):

	Three months ended December 31	
	2008	2007
Net sales	\$	57,488
Earnings before benefit for income taxes	\$	303
Benefit for income taxes		(611)
Earnings from discontinued businesses, net of income taxes		914
Gain (loss) on the sale of Cederroth	81	(952)
Earnings from discontinued operations, net of income taxes	\$ 81	(38)

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 and New Sally;

CDRS Acquisition LLC, 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.

The results of discontinued operations related to Sally Holdings for the three months ended December 31, 2008 and 2007 were as follows (in thousands):

	Three months ended December 31	
	2008	2007
Earnings before provision for income taxes*	\$ 438	2,158
Provision for income taxes	162	755
Earnings from discontinued operations, net of income taxes	\$ 276	1,403

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

ALBERTO CULVER COMPANY AND SUBSIDIARIES

(3) RESTRUCTURING AND OTHER

Restructuring and other expenses during the three months ended December 31, 2008 and 2007 consist of the following (in thousands):

	Three months ended December 31	
	2008	2007
Severance and other exit costs	\$ 342	2,367
Impairment and other property, plant and equipment charges	125	2,300
Gain on sale of assets	(125)	
Non-cash charges for the recognition of foreign currency translation losses (gains) in connection with the liquidation of foreign legal entities	(64)	75
Legal fees and other expenses incurred to assign the company's trademarks following the closing of the Separation	14	47
	\$ 292	4,789

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 December 31, 2008, the company has recorded cumulative charges related to this plan of \$15.1 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 three months ended December 31, 2008 (in thousands):

	Liability at September 30, 2008	New Charges	Cash Payments & Other Settlements	Liability at December 31, 2008
Severance	\$ 466	4	(57)	413
Other	124	11	(76)	59
	\$ 590	15*	(133)	472

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.

Through December 31, 2008, the company has recorded cumulative charges related to this plan of \$2.5 million for severance and \$425,000 for other exit costs. The following table reflects the activity related to this restructuring plan during the three months ended December 31, 2008 (in thousands):

	Liability at September 30, 2008	New Charges	Cash Payments & Other Settlements	Liability at December 31, 2008
Severance	\$ 330		(178)	152
Other		16	(16)	

\$	330	16*	(194)	152
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ALBERTO CULVER COMPANY AND SUBSIDIARIES

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 has been reduced by approximately 100 employees.

Through December 31, 2008, the company has recorded cumulative charges related to this plan of \$1.7 million for severance, \$8,000 for contract termination costs and \$1.1 million for other exit costs. The following table reflects the activity related to this restructuring plan during the three months ended December 31, 2008 (in thousands):

	Liability at September 30, 2008	New Charges	Cash Payments & Other Settlements	Liability at December 31, 2008
Severance	\$ 212	29	(201)	40
Other	427	282	(667)	42
	\$ 639	311*	(868)	82

* The sum of these three amounts from the tables above represents the \$342,000 of total charges for severance and other exit costs recorded during the first quarter of fiscal year 2009.

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 quarter of fiscal year 2009, the company recorded fixed asset charges of \$125,000 related to the closure of the Puerto Rico manufacturing facility. During the first quarter of fiscal year 2008, the company recorded total impairment and other fixed asset charges of \$2.3 million, including \$1.0 million in connection with the closure of the Dallas, Texas manufacturing facility and \$1.3 million related to the closure of the Toronto, Canada manufacturing facility.

Gain on Sale of Assets

The company closed on the sale of its manufacturing facility in Puerto Rico on December 19, 2008. The company received net cash proceeds of \$722,000 and recognized a pre-tax gain of \$125,000 in the first quarter of fiscal year 2009 as a result of the sale.

Foreign Currency Translation Loss (Gain)

The company substantially completed the liquidation of two foreign legal entities in connection with its reorganization plan and is therefore recognizing in restructuring and other expenses the accumulated foreign currency translation losses (gains) related to the entities, which resulted in a \$64,000 benefit during the first quarter of fiscal year 2009.

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 \$14,000 and \$47,000 in the first quarter of fiscal year 2009 and 2008, respectively.

ALBERTO CULVER COMPANY AND SUBSIDIARIES

(4) FAIR VALUE MEASUREMENTS

The company adopted the provisions of SFAS No. 157, Fair Value Measurements, effective October 1, 2008 for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed on a recurring basis (at least annually). 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 adoption of SFAS No. 157 did not have a material effect on the company's consolidated financial statements. As allowed by FASB Staff Position (FSP) FAS157-2, Effective Date for FASB Statement No. 157, the company has elected to defer the adoption for certain non-financial assets and liabilities until the first quarter of fiscal year 2010.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 classifies the inputs used to measure fair value into the following hierarchy:

Level 1 Quoted prices for identical instruments in active markets;

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets; and

Level 3 Valuations based on inputs that are unobservable, generally utilizing pricing models or other valuation techniques that reflect management's judgment and estimates.

The following table summarizes the company's financial assets measured at fair value on a recurring basis in accordance with SFAS No. 157 as of December 31, 2008 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 258,846			258,846
Auction rate securities			65,137	65,137
Other	352			352
	\$ 259,198		65,137	324,335

Cash Equivalents This amount represents the portion of the company's cash equivalents invested in institutional money market funds, which are actively traded and have quoted market prices.

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 December 31, 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. Starting in the second quarter 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.

ALBERTO CULVER COMPANY AND SUBSIDIARIES

At December 31, 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 \$65.1 million and recorded an unrealized loss of \$4.7 million in accumulated other comprehensive income, reflecting the decline in the estimated fair value. The unrealized loss has been recorded in accumulated other comprehensive income and not the statement of earnings as the company has concluded at December 31, 2008 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 fair value of these securities has been estimated by management using unobservable input 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.

One of the company's outstanding ARS investments with an estimated \$8.4 million fair value is scheduled to mature on September 1, 2009 and is therefore classified as short-term on the December 31, 2008 balance sheet. The remainder of the investments have been classified as long-term as the company cannot be certain that they will settle within the next twelve months.

The following table provides a reconciliation between the beginning and ending balances of the company's ARS, which are measured at fair value using significant unobservable inputs (Level 3) (in thousands):

	Auction Rate Securities
Balance at September 30, 2008	\$ 65,841
Unrealized loss included in other comprehensive income	(704)
Balance at December 31, 2008	\$ 65,137

(5) STOCKHOLDERS' EQUITY

The company did not purchase any shares of its common stock during the first quarter of fiscal year 2009. At December 31, 2008, the company has authorization remaining to purchase a total of 5,834,218 shares. On November 12, 2006, the Board of Directors authorized the company to purchase up to 5 million shares of common stock. During the third and fourth quarters of fiscal year 2008, the company purchased 4,165,782 common shares in the open market under the authorization for an aggregate purchase price of \$109.5 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 three months ended December 31, 2008 and 2007, the company acquired \$334,000 and \$7,000, 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 three months ended December 31, 2007, the company acquired \$31,000 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.

ALBERTO CULVER COMPANY AND SUBSIDIARIES

(6) WEIGHTED AVERAGE SHARES OUTSTANDING

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

	Three Months Ended December 31	
	2008	2007
Basic weighted average shares outstanding	97,525	98,091
Effect of dilutive securities:		
Assumed exercise of stock options	1,346	2,628
Assumed vesting of restricted stock	476	381
Effect of unrecognized stock-based compensation related to future services	(458)	(492)
Diluted weighted average shares outstanding	98,889	100,608

The computations of diluted weighted average shares outstanding for the three months ended December 31, 2008 and 2007 exclude stock options for 3.2 million shares and 1.3 million shares, respectively, since the options were anti-dilutive.

(7) 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 quarter of fiscal year 2009, there were no significant changes to the assumptions used in calculating the fair value of stock options.

In the first quarter of fiscal year 2009, the company recorded stock option expense 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 diluted earnings per share from continuing operations by 2 cents. In the first quarter of fiscal year 2008, the company recorded stock option expense that reduced earnings from continuing operations before provision for income taxes by \$2.1 million, provision for income taxes by \$747,000, earnings from continuing operations by \$1.4 million and diluted earnings per share from continuing operations by 1 cent. The expense amounts in the first quarter of each fiscal year include 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 first quarter of fiscal year 2009 was \$614,000, compared to \$405,000 during the first quarter of fiscal year 2008.

During the first quarter of fiscal year 2009, the company granted 1.7 million stock options and 100,000 restricted shares under its existing stock-based compensation plans.

ALBERTO CULVER COMPANY AND SUBSIDIARIES

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 \$5.5 million as stock options subject to redemption outside of stockholders' equity on its consolidated balance sheet as of December 31, 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.

(8) COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended December 31	
	2008	2007
Net earnings	\$ 31,654	30,907
Other comprehensive income (loss) adjustments:		
Foreign currency translation during the period	(34,789)	3,311
Reclassification adjustment due to the recognition in net earnings of foreign currency translation losses (gains) in connection with the liquidation of foreign legal entities	(64)	75
Unrealized loss on ARS investments	(704)	
Comprehensive income (loss)	\$ (3,903)	34,293

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(9) BUSINESS SEGMENT INFORMATION

Segment information for the three months ended December 31, 2008 and 2007 is as follows (in thousands):

	Three Months Ended December 31	
	2008	2007
<u>Net sales:</u>		
United States	\$ 224,465	207,853
International	128,369	135,334
	\$ 352,834	343,187
<u>Earnings from continuing operations before provision for income taxes:</u>		
United States	\$ 43,738	28,210
International	18,938	20,131
Segment operating profit	62,676	48,341
Stock option expense (note 7)	(3,060)	(2,135)
Restructuring and other (note 3)	(292)	(4,789)
Interest income, net	1,292	2,718
	\$ 60,616	44,135

International's net sales were negatively impacted by \$32.1 million from foreign exchange rates during the first quarter of fiscal year 2009.

(10) ACQUISITION

On October 1, 2008, the company acquired the Noxzema skin care business in the United States, Canada and portions of Latin America, as well as the worldwide rights and trademarks to the Noxzema brand. The company believes that the Noxzema line of products will provide opportunities for growth in the skin care category. The total purchase price was \$83.6 million, with \$81 million paid at closing. In addition to the amount paid at closing, the company also incurred \$2.6 million of legal and professional service fees in connection with this acquisition. Goodwill of \$60.6 million, a trade name of \$15.4 million and other intangible assets of \$7.6 million have been recorded as a result of the preliminary purchase price allocation and are expected to be deductible for tax purposes. The acquisition was accounted for using the purchase method and, accordingly, the results of operations of Noxzema have been included in the consolidated financial statements from the date of acquisition. Pro-forma information for Noxzema is not provided since the Noxzema business acquired is not material to the company's consolidated results of operations.

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(11) GOODWILL

The changes in the carrying amounts of goodwill by reportable segment for the three months ended December 31, 2008 are as follows (in thousands):

	United States	International	Total
Balance at September 30, 2008	\$ 134,180	25,038	159,218
Additions	55,434	7,058	62,492
Foreign currency translation		(1,220)	(1,220)
Balance at December 31, 2008	\$ 189,614	30,876	220,490

The additions to goodwill primarily relate to the acquisition of Noxzema in October 2008 which resulted in the recognition of \$60.6 million of goodwill in total, allocated between the United States and International reportable segments. In addition, goodwill in the United States increased \$1.9 million for additional consideration related to the acquisition of Nexxus Products Company (Nexxus). In accordance with the Nexxus purchase agreement dated May 18, 2005, additional consideration of up to \$55 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 2008, the company has paid \$17.9 million of additional consideration based on sales of Nexxus products through June 30, 2008. As of December 31, 2008, the company owed \$2.5 million of additional consideration for the period from July 1, 2008 to December 31, 2008 which is expected to be paid in the fourth quarter of fiscal year 2009.

Indefinite-lived trade names by reportable segment at December 31, 2008 and September 30, 2008 are as follows (in thousands):

	December 31, 2008	September 30, 2008
United States	\$ 72,385	58,679
International	17,551	16,118
	\$ 89,936	74,797

The change in trade names is primarily due to the acquisition of Noxzema in October 2008 which resulted in the recognition of a new \$15.4 million trade name, allocated between the United States and International reportable segments.

(12) NEW ACCOUNTING PRONOUNCEMENT

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

Alberto Culver Company (the company or New Alberto Culver) develops, manufactures, distributes and markets beauty care products as well as food and household products in the United States and more than 100 other countries. The company is organized into two reportable business segments United States and International.

OVERVIEW

DISCONTINUED OPERATIONS

Cederroth International

Prior to July 31, 2008, the company also owned and operated the Cederroth International (Cederroth) business which manufactured, marketed and distributed beauty, health care and household products throughout Scandinavia and in other parts of Europe. 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, from Alberto Culver AB, a wholly-owned Swedish subsidiary of the company. The Euros were immediately converted into \$243.8 million based on the deal contingent Euro forward contract entered into by the company in connection with the transaction. The purchase price was adjusted in the first quarter of fiscal year 2009, resulting in a cash payment of \$1.2 million from Alberto Culver AB to CapMan, and is subject to further adjustment to the extent the final, agreed-upon balances of cash, debt and working capital as of 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.

During the first quarter of fiscal year 2008, the company incurred transaction costs (primarily investment banking, legal and other professional service fees) of \$952,000 which were recorded as part of the gain (loss) on the sale of Cederroth.

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.

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 and Sally Beauty Holdings, Inc. (New Sally);

CDRS Acquisition LLC, 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

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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.

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. In accordance with the provisions of SFAS No. 144, the results of operations related to Sally Holdings' beauty supply distribution business are reported as discontinued operations for all periods presented.

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.

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RESTRUCTURING AND OTHER

Restructuring and other expenses during the three months ended December 31, 2008 and 2007 consist of the following (in thousands):

	Three months ended December 31	
	2008	2007
Severance and other exit costs	\$ 342	2,367
Impairment and other property, plant and equipment charges	125	2,300
Gain on sale of assets	(125)	
Non-cash charges for the recognition of foreign currency translation losses (gains) in connection with the liquidation of foreign legal entities	(64)	75
Legal fees and other expenses incurred to assign the company's trademarks following the closing of the Separation	14	47
	\$ 292	4,789

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 December 31, 2008, the company has recorded cumulative charges related to this plan of \$15.1 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 three months ended December 31, 2008 (in thousands):

	Liability at September 30, 2008	New Changes	Cash Payments & Other Settlements	Liability at December 31, 2008
Severance	\$ 466			