

TEMPUR PEDIC INTERNATIONAL INC
Form 10-Q
October 25, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

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

For the transition period from

to

Commission file number 001-31922

TEMPUR-PEDIC INTERNATIONAL INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

33-1022198
(I.R.S. Employer
Identification No.)

1713 Jaggie Fox Way
Lexington, Kentucky 40511
(Address, including zip code, of principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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

Edgar Filing: TEMPUR PEDIC INTERNATIONAL INC - Form 10-Q

company” in Rule 12b-2 of the Exchange Act. (Check one):

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

The number of shares outstanding of the registrant’s common stock as of October 24, 2011 was 65,930,898 shares.

TABLE OF CONTENTS

	Page
<u>Special Note Regarding Forward-Looking Statements</u>	3
<u>PART I. FINANCIAL INFORMATION</u>	
<u>ITEM 1.</u>	
<u>Financial Statements</u>	
<u>Condensed Consolidated Statements of Income</u>	4
<u>Condensed Consolidated Balance Sheets</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>ITEM 2.</u>	
<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>ITEM 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	34
<u>ITEM 4.</u>	
<u>Controls and Procedures</u>	35
<u>PART II. OTHER INFORMATION</u>	
<u>ITEM 1.</u>	
<u>Legal Proceedings</u>	35
<u>ITEM 1A.</u>	
<u>Risk Factors</u>	36
<u>ITEM 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
<u>ITEM 3.</u>	
<u>Defaults upon Senior Securities</u>	37
<u>ITEM 5.</u>	
<u>Other Information</u>	37
<u>ITEM 6.</u>	
<u>Exhibits</u>	37
<u>Signatures</u>	38

Table of Contents

Special Note Regarding Forward-Looking Statements

This quarterly report on Form 10-Q, including the information incorporated by reference herein, contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which includes information concerning our plans; objectives; goals; strategies; future events; future revenues or performance; the impact of the macroeconomic environment in both the U.S. and internationally on sales and our business segments; strategic long-term investments; changes in capital expenditures; the impact of consumer confidence; litigation and similar issues; pending tax assessments; financial flexibility; the impact of initiatives to accelerate growth, expand market share and attract sales from the standard mattress market; the improvements in our Net sales; efforts to expand business within established accounts, improve account productivity, reduce costs and operating expenses and improve manufacturing productivity; initiatives to improve gross margin; the vertical integration of our business; the development, rollout and market acceptance of new products; our ability to further invest in the business and in brand awareness; our ability to meet financial obligations and continue to comply with the terms of our credit facility, including its financial ratio covenants; effects of changes in foreign exchange rates on our reported earnings; our expected sources of cash flow; our ability to effectively manage cash; our ability to align costs with sales expectations; and other information that is not historical information. Many of these statements appear, in particular, under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in ITEM 2 of Part I of this report. When used in this report, the words “estimates,” “expects,” “anticipates,” “projects,” “plans,” “intends,” “believes” and variations of such words and similar expressions are intended to identify forward-looking statements. These forward-looking statements are based upon our current expectations and various assumptions. There can be no assurance that we will realize our expectations or that our beliefs will prove correct.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this report. Important factors that could cause our actual results to differ materially from those expressed as forward-looking statements are set forth in this report, including under the heading “Risk Factors” under ITEM IA of Part II of this report and under the heading “Risk Factors” under ITEM 1A of Part 1 of our Annual Report on Form 10-K for the year ending December 31, 2010. There may be other factors that may cause our actual results to differ materially from the forward-looking statements.

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

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

Table of Contents

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per common share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net sales	\$ 383,085	\$ 295,785	\$ 1,051,135	\$ 812,718
Cost of sales	182,491	145,031	499,213	409,114
Gross profit	200,594	150,754	551,922	403,604
Selling and marketing expenses	72,439	53,215	204,789	146,273
General, administrative and other expenses	31,548	29,385	92,416	83,037
Operating income	96,607	68,154	254,717	174,294
Other expense, net:				
Interest expense, net	(3,265)	(4,068)	(8,450)	(11,043)
Other expense, net	(229)	(564)	(950)	(569)
Total other expense	(3,494)	(4,632)	(9,400)	(11,612)
Income before income taxes	93,113	63,522	245,317	162,682
Income tax provision	31,164	19,324	82,024	51,830
Net income	\$ 61,949	\$ 44,198	\$ 163,293	\$ 110,852
Earnings per common share:				
Basic	\$ 0.93	\$ 0.64	\$ 2.41	\$ 1.56
Diluted	\$ 0.90	\$ 0.62	\$ 2.34	\$ 1.51
Weighted average common shares outstanding:				
Basic	66,655	69,199	67,722	71,065
Diluted	68,571	71,433	69,847	73,450

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 103,015	\$ 53,623
Accounts receivable, net	151,419	115,630
Inventories	91,046	69,856
Prepaid expenses and other current assets	23,456	18,646
Deferred income taxes	11,522	13,725
Total Current Assets	380,458	271,480
Property, plant and equipment, net	158,567	159,807
Goodwill	212,768	212,468
Other intangible assets, net	67,715	68,745
Other non-current assets	9,128	3,503
Total Assets	\$ 828,636	\$ 716,003

LIABILITIES AND STOCKHOLDERS' EQUITY