

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-03-31**
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FILER

ST IVES LABORATORIES INC

CIK: **814248** | IRS No.: **954106202** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-16060** | Film No.: **95536114**
SIC: **2844** Perfumes, cosmetics & other toilet preparations

Mailing Address
9201 OAKDALE AVENUE
CHATSWORTH CA 91311

Business Address
9201 OAKDALE AVENUE
CHATSWORTH CA 91311
8187095500

=====

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
March 31, 1995

Commission file number
0-16060

ST. IVES LABORATORIES, INC.

(Exact name of registrant as specified
in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

95-4106202
(IRS Employer
Identification No.)

9201 Oakdale Avenue
Chatsworth, California
(Address of principal executive offices)

91311-6521
(Zip Code)

Registrant's telephone number,
including area code

(818) 709-5500

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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Outstanding at April 30, 1995

ST. IVES LABORATORIES, INC.

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PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

ST. IVES LABORATORIES, INC.
CONSOLIDATED BALANCE SHEETS

<TABLE>

<CAPTION>

March 31,	December 31,
1995	1994

<S>	ASSETS	(Unaudited)	<C>
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Current assets:			
Cash and cash equivalents		\$ 2,885,337	\$ 3,465,709
Short term investments		1,249,865	1,249,603
Accounts receivable - trade, less allowance for doubtful accounts (\$410,000 at March 31, 1995 and December 31, 1994)		20,417,824	20,284,639
Accounts receivable - related party		804,639	382,829
Accounts receivable - other		1,542,266	1,566,553
Inventories		28,522,049	30,045,445
Prepaid and other assets		2,069,384	1,591,065
Deferred income taxes		1,999,349	1,999,208
		-----	-----
Total current assets		59,490,713	60,585,051
Plant and equipment, net		7,632,422	8,043,491
Other assets		476,868	483,426
		-----	-----
Total assets		\$67,600,003	\$69,111,968
		=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable		\$ 9,941,859	\$11,337,817
Accrued expenses		9,216,978	9,691,945
Income taxes payable		442,373	610,560
Deferred income taxes		196,530	196,530
Short term debt		3,131,000	3,500,000
		-----	-----
Total current liabilities		22,928,740	25,336,852
		-----	-----
Stockholders' equity:			
Preferred stock, \$.01 par value per share, 5,000,000 shares authorized; no shares issued or outstanding			
Common stock, \$.01 par value per share, 30,000,000 shares authorized; 7,019,399 shares issued and outstanding at March 31, 1995 and December 31, 1994		70,194	70,194
Paid-in capital		12,382,018	12,382,018
Retained earnings		32,485,575	32,373,433
Cumulative translation adjustments		(266,524)	(1,050,529)
		-----	-----
Total stockholders' equity		44,671,263	43,775,116
		-----	-----
Total liabilities and stockholders' equity		\$67,600,003	\$69,111,968
		=====	=====

</TABLE>

The accompanying notes are an integral part of these consolidated financial

statements.

ST. IVES LABORATORIES, INC.
CONSOLIDATED INCOME STATEMENTS
(Unaudited)

<TABLE>

<CAPTION>

	Three Months Ended March 31,	
	1995	1994
<S>	<C>	<C>
Net sales (includes related party sales of \$4,536,130 and \$4,410,920 for the three months ended March 31, 1995 and 1994, respectively)	\$38,973,008	\$38,348,903
Cost of products sold	22,082,179	21,153,466
Selling, marketing and administrative expenses	16,440,791	16,193,760
Operating costs and expenses	38,522,970	37,347,226
Income from operations	450,038	1,001,677
Interest expense	125,032	86,671
Other (income), net	(96,903)	(58,514)
Income before income taxes	421,909	973,520
Provision for income taxes	99,185	485,452
Net income	\$ 322,724	\$ 488,068
Net income per share	\$ 0.05	0.07
Dividends per share	\$ 0.03	\$ 0.03
Weighted average shares outstanding	7,019,399	7,004,232

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

ST. IVES LABORATORIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	1995	1994
	<C>	<C>
Cash flow from operating activities:		
Net income	\$ 322,724	\$ 488,068
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	735,822	594,300
Deferred income taxes	(141)	-
Changes in assets and liabilities:		
Accounts receivable - trade	180,815	276,716
Accounts receivable - related party	(421,810)	(872,825)
Accounts receivable - other	52,287	(390,120)
Inventories	2,023,396	3,002,245
Prepaid and other assets	(414,319)	(528,996)
Accounts payable	(1,489,958)	176,215
Accrued expenses	(576,967)	(104,076)
Income taxes payable	(195,187)	483,725
	216,662	3,125,252
Cash flow from investing activities:		
Purchase of plant and equipment	(260,753)	(377,948)
Other assets	19,558	(3,349)
Short term investments	(262)	(262)
	(241,457)	(381,559)
Cash flow from financing activities:		
Common stock options exercised	-	162,500
Cash dividends paid	(210,582)	(210,282)
Short term debt borrowings	8,773,000	15,851,000
Short term debt repayments	(9,142,000)	(20,025,000)
	(579,582)	(4,221,782)

Effect of exchange rate changes on cash	24,005	(22,265)
	-----	-----
Net decrease in cash and cash equivalents	(580,372)	(1,500,354)
Cash and cash equivalents at beginning of period	3,465,709	3,024,607
	-----	-----
Cash and cash equivalents at end of period	\$ 2,885,337	\$ 1,524,253
	=====	=====

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

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ST. IVES LABORATORIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. General - The consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. The interim financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. All adjustments are of a normal recurring nature. These consolidated financial statements should be read in conjunction with the financial statements and the notes thereto included in the St. Ives Laboratories, Inc.'s annual report on Form 10-K for the year ended December 31, 1994.

Note 2. Inventories - The components of inventories were:

<TABLE>

<CAPTION>

	March 31, 1995	December 31, 1994
	-----	-----
<S>	<C>	<C>
Raw and packaging materials	\$ 7,656,934	\$ 7,027,459
Work in-process	494,728	521,744
Finished goods	20,370,387	22,496,242
	-----	-----
	\$28,522,049	\$30,045,445
	=====	=====

</TABLE>

Finished goods inventories include the cost of materials, direct labor and manufacturing overhead.

Note 3. Income taxes - The provision for income taxes differs from the amount obtained by applying the federal statutory income tax rate to income before provision for income taxes due to the effect of foreign operations, state income taxes net of federal tax benefit and other factors.

Note 4. Net income per share amounts have been computed using the weighted average number of shares outstanding. For the periods presented, stock options have an immaterial dilutive effect.

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ST. IVES LABORATORIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONCLUDED)

(Unaudited)

Note 5. Reclassifications - Historically, the Company has recorded an expense for certain promotional and marketing allowances that were shown on the face of a customer invoice as a deduction from the list price (herein referred to as the "off-invoice allowances"). Following a recent industrywide trend, the Company changed its invoicing methodology in 1995 by substantially eliminating off-invoice allowances in North America. Simultaneously, the Company reduced its list prices which are used to record net sales when products are shipped. In order to provide consistency and allow for the comparison of results between periods, \$4,297,000 of costs relating to off-invoice allowances that were previously included as a selling expense (Selling, marketing, and administrative expenses) were reclassified against net sales for the three-month period ended March 31, 1994.

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ST. IVES LABORATORIES, INC.

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Net Sales

Net sales for the first quarter of calendar year 1995 were \$38,973,000, an increase of \$624,000 (1.6%) over the comparable period of 1994. See Note 5 "Reclassifications" in the Notes to Consolidated Financial Statements for a discussion of a reclassification that affects net sales. Personal Care Products sales in the United States increased \$1,482,000 (7.0%) during this period while international sales increased \$1,101,000 (11.6%). As compared to the first quarter of 1994, net sales of the Company's Custom Label Products decreased

\$1,959,000 (25.1%).

The increase in United States Personal Care Products sales was primarily due to the incremental sales volume generated from certain new SWISS FORMULA(R) products that have been introduced over the past twelve months. A slight decline in unit volume on existing products was partially offset by a modest price increase. Also, and as previously reported, the Company believes that Personal Care Products sales in the United States during the first quarter of 1994 were adversely affected by lost shipping and selling days due to severe winter weather in the East. Accordingly, the Company believes that the current period net sales increase in the United States is higher than would otherwise be the case. The decrease in Custom Label Products sales in the period was due to decreased unit sales to customers other than the Company's largest custom label account. International sales increased principally due to higher unit sales in existing geographical markets.

Cost of Products Sold

For the three-month period ended March 31, 1995, cost of products sold increased by \$929,000, and as a percent of net sales to 56.7% from 55.2% in the first quarter of 1994. The increase in absolute dollars related, in part, to higher sales volume in the quarter. The increase in the cost of products sold percentage was primarily related to a lower gross margin within the Company's Custom Label Products business that resulted from customer purchase decisions.

Selling, Marketing and Administrative Expenses

Selling, marketing and administrative expenses increased by \$247,000 (1.5%) in the first quarter of 1995 and represented the same percentage of net sales in both quarterly periods. Selling and distribution expenses increased both in absolute dollars and as a percent of sales during the period. The increase in selling expenses was primarily the result of additional selling and promotional activities incurred in connection with the Company's ongoing efforts to penetrate

Selling, Marketing and Administrative Expenses (Continued)

foreign markets. The higher level of distribution expenses was due to the incurrence of costs designed to improve the overall efficiency of the Company's warehouse operations. Total marketing expenditures for the first quarter were \$4,116,000, representing a decrease of 8.8% from the comparable period of 1994. This decrease was due to reduced marketing activities within the Company's Personal Care Products category worldwide, including lower levels of advertising and decreased sales of bonus pack merchandise. Administrative expenses decreased both in absolute dollars and as a percent of sales in the first quarter of 1995 as compared to the prior year. The Company benefited from net foreign currency transaction gains of \$157,000 during the first quarter of 1995 primarily due to U.S. Dollar exchange fluctuations relative to the Danish Kroner. Also, and as previously reported, during the first quarter of 1994, the Company recorded a \$175,000 after-tax charge, or \$0.03 per share, to reflect the estimated costs of repair and refurbishment of its facilities after the January 17, 1994 Northridge earthquake. Absent this earthquake charge, administrative expenses increased during the first quarter of 1995 as compared to the prior year.

Interest Expense

For the first quarter of 1995, interest expense increased to \$125,000 from \$87,000 in the same period last year. The increase is due to higher interest rates and other factors, partially offset by lower daily average borrowings during the first quarter of 1995.

Other income, net

For the first quarters of 1995 and 1994, other income, net primarily reflects earnings from invested cash and short term investments.

Provision for Income Taxes

During the first quarters of 1995 and 1994, taxes on income were \$99,000 and \$485,000, respectively, or 23.5% and 49.9%, respectively, of income before income taxes. The decrease in the effective tax rate in the first quarter of 1995 was primarily due to the effect of foreign subsidiary operating income which was shielded from current period income taxes through the use of historical net operating losses.

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Net Income

Net income for the first quarter of 1995 was \$323,000 or \$0.05 per share versus \$488,000 or \$0.07 per share in the comparable quarter of 1994. As a percent of net sales, net income declined to 0.8% in the first quarter of 1995 from 1.3% in the comparable period of 1994. The decrease in net income was primarily due to a lower gross margin, higher selling and distribution expenses, and increased interest expense.

Financial Condition

The Company had cash, cash equivalents and short term investments of \$4,135,000 and \$4,715,000 at March 31, 1995 and December 31, 1994, respectively.

Net cash provided by operating activities in the first quarter of 1995 was \$217,000 due primarily to lower inventory levels which were partially offset by reductions in various current liabilities. As compared to December 31, 1994, the Company lowered total inventories by \$1,523,000 almost exclusively in finished goods. The decrease in accounts payable was related to the timing of purchases and the resulting timing of payments to vendors. Depreciation and amortization was a \$736,000 noncash charge in the period. At March 31, 1995, the Company's working capital level and current ratio increased when compared to December 31, 1994.

Capital spending in the first quarter of 1995 represented normal purchases of plant and equipment that are designed to maintain capacity and efficiencies in the Company's manufacturing and distribution facilities.

Net cash used for financing activities in the first quarter of 1995 was \$580,000 resulting from a reduction in short term borrowing levels and the payment of cash dividends. During the first quarter of 1995, the Company reduced its short term borrowing levels by \$369,000 primarily by lowering inventory levels and reducing cash and cash equivalents. Cash dividends paid during the first quarter of 1995 were \$211,000.

The Company believes that funds generated from operations, cash, cash equivalents, short term investments and its bank line of credit will be sufficient to satisfy its anticipated cash requirements for current operations and the foreseeable future.

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PART II - OTHER INFORMATION

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

(27) Financial Data Schedule

(b) Reports

No event has occurred during the quarter for which this report is filed that would require the filing of a report on Form 8-K and, therefore, no such report has been filed.

SIGNATURES

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.

ST. IVES LABORATORIES, INC.
(Registrant)

Date: May 10, 1995

/s/ JOHN L. BOYLE

JOHN L. BOYLE
CHIEF FINANCIAL OFFICER

Date: May 10, 1995

/s/ MAC ALLEN CULVER III

MAC ALLEN CULVER III
PRESIDENT

11

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