

Alberto-Culver CO
Form 10-Q
February 07, 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:**
December 31, 2007

-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 December 31, 2007, the company had 98,722,366 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, 2007 and 2006

(in thousands, except per share data)

| | (Unaudited) | |
|---|-------------|---------|
| | 2007 | 2006 |
| Net sales | \$ 400,675 | 351,128 |
| Cost of products sold | 189,946 | 170,140 |
| Gross profit | 210,729 | 180,988 |
| Advertising, marketing, selling and administrative expenses | 165,334 | 151,222 |
| Restructuring and other (note 3) | 4,789 | 31,410 |
| Operating earnings (loss) | 40,606 | (1,644) |
| Interest income, net of interest expense of \$1,780 in 2007 and \$2,210 in 2006 | (2,880) | (309) |
| Earnings (loss) from continuing operations before provision for income taxes | 43,486 | (1,335) |
| Provision (benefit) for income taxes | 13,982 | (1,338) |
| Earnings from continuing operations | 29,504 | 3 |
| Earnings (loss) from discontinued operations, net of income taxes (note 2) | 1,403 | (5,883) |
| Net earnings (loss) | \$ 30,907 | (5,880) |
| Basic earnings (loss) per share: | | |
| Continuing operations | \$.30 | |
| Discontinued operations | .02 | (.06) |
| Total | \$.32 | (.06) |
| Diluted earnings (loss) per share: | | |
| Continuing operations | \$.29 | |
| Discontinued operations | .02 | (.06) |
| Total | \$.31 | (.06) |
| Weighted average shares outstanding: | | |
| Basic | 98,091 | 93,630 |
| Diluted | 100,608 | 95,673 |
| Cash dividends paid per share, including special cash dividend paid in connection with the Separation in 2006 | \$.055 | 25.00 |

See Notes to Consolidated Financial Statements.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2007 and September 30, 2007

(in thousands, except share data)

| | (Unaudited) | |
|---|----------------------|-----------------------|
| | December 31, 2007 | September 30, 2007 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 124,771 | 93,062 |
| Short-term investments | 258,950 | 255,600 |
| Receivables, less allowance for doubtful accounts (\$4,875 at December 31, 2007 and \$4,710 at September 30, 2007) | 265,978 | 289,077 |
| Inventories: | | |
| Raw materials | 46,825 | 45,199 |
| Work-in-process | 9,892 | 8,435 |
| Finished goods | 140,793 | 135,503 |
| Total inventories | 197,510 | 189,137 |
| Other current assets | 38,476 | 30,662 |
| Total current assets | 885,685 | 857,538 |
| Property, plant and equipment at cost, less accumulated depreciation (\$253,911 at December 31, 2007 and \$254,046 at September 30, 2007) | 228,571 | 224,494 |
| Goodwill | 216,449 | 213,667 |
| Trade names | 112,476 | 111,790 |
| Other assets | 76,681 | 80,071 |
| Total assets | \$ 1,519,862 | 1,487,560 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 120,832 | 120,636 |
| Accounts payable | 137,696 | 150,388 |
| Accrued expenses | 126,681 | 137,109 |
| Income taxes | 11,059 | 7,917 |
| Total current liabilities | 396,268 | 416,050 |
| Long-term debt | 2,743 | 2,077 |
| Income taxes | 26,372 | 19,701 |
| Other liabilities | 67,383 | 65,961 |
| Total liabilities | 492,766 | 503,789 |
| Stock options subject to redemption | 9,883 | 10,407 |
| Stockholders' equity: | | |
| Preferred stock, par value \$.01 per share, authorized 50,000,000 shares, none issued | 987 | 981 |

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Common stock, par value \$.01 per share, authorized 300,000,000 shares, issued 98,722,366 shares at December 31, 2007 and 98,057,020 shares at September 30, 2007

| | | |
|--|--------------|-----------|
| Additional paid-in capital | 393,087 | 380,372 |
| Retained earnings | 612,885 | 585,143 |
| Accumulated other comprehensive income | 10,254 | 6,868 |
| Total stockholders' equity | 1,017,213 | 973,364 |
| Total liabilities and stockholders' equity | \$ 1,519,862 | 1,487,560 |

See Notes to Consolidated Financial Statements.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Three Months Ended December 31, 2007 and 2006

(in thousands)

| | (Unaudited) | |
|--|-------------|-----------|
| | 2007 | 2006 |
| Cash Flows from Operating Activities: | | |
| Net earnings (loss) | \$ 30,907 | (5,880) |
| Less: Earnings (loss) from discontinued operations | 1,403 | (5,883) |
| Earnings from continuing operations | 29,504 | 3 |
| Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities: | | |
| Depreciation | 7,049 | 6,817 |
| Amortization of other assets and unearned compensation | 847 | 769 |
| Restructuring and other non-cash charges (note 3) | 2,375 | 12,198 |
| Restructuring and other gain on sale of assets (note 3) | | (386) |
| Stock option expense (note 7) | 2,194 | 2,067 |
| Deferred income taxes | (1,130) | (17,327) |
| Cash effects of changes in: | | |
| Receivables, net | 27,068 | 13,408 |
| Inventories | (6,871) | (13,382) |
| Other current assets | (3,801) | (2,189) |
| Accounts payable and accrued expenses | (29,951) | (1,640) |
| Income taxes | 11,505 | 13,838 |
| Other assets | (2,320) | (835) |
| Other liabilities | 1,219 | 865 |
| Net cash provided by operating activities | 37,688 | 14,206 |
| Cash Flows from Investing Activities: | | |
| Proceeds from sales of short-term investments | 174,705 | 211,660 |
| Payments for purchases of short-term investments | (178,055) | (228,025) |
| Capital expenditures | (12,705) | (9,703) |
| Proceeds from disposals of assets | 114 | 1,476 |
| Net cash used by investing activities | (15,941) | (24,592) |
| Cash Flows from Financing Activities: | | |
| Proceeds from issuance of long-term debt | 863 | 453 |
| Repayments of long-term debt | (99) | (129) |
| Change in book cash overdraft | 6,167 | (3,452) |
| Proceeds from exercises of stock options | 7,848 | 25,033 |
| Excess tax benefit from stock option exercises | 1,341 | 1,174 |
| Cash dividends paid | (5,402) | |
| Stock purchased (note 5) | (7) | (876) |
| Net cash provided by financing activities | 10,711 | 22,203 |
| Effect of foreign exchange rate changes on cash and cash equivalents | (749) | 174 |

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| | | |
|--|-----------|--------|
| Net cash provided by continuing operations | \$ 31,709 | 11,991 |
|--|-----------|--------|

(continued)

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows (continued)

Three Months Ended December 31, 2007 and 2006

(in thousands)

| | (Unaudited) | |
|--|---|-------------|
| | 2007 | 2006 |
| <u>Discontinued Operations:</u> | | |
| Net cash used by operating activities of discontinued operations | | (3,832) |
| Net cash used by investing activities of discontinued operations | | (67,958) |
| 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 | 2,324,395 |
| Effect of exchange rate changes on cash and cash equivalents of discontinued operations | | (212) |
| Net cash used by discontinued operations | | (89,795) |
| Net increase (decrease) in cash and cash equivalents | 31,709 | (77,804) |
| 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 | \$ 124,771 | 128,661 |

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 and its subsidiaries (the company or New Alberto-Culver) operate two businesses: Consumer Packaged Goods and Cederroth International. 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 International manufactures, markets and distributes beauty and health care products throughout Scandinavia and in other parts of Europe.

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 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, 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.

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.

Alberto-Culver LLC, the wholly-owned operating subsidiary of the company, has \$120 million of 6.375% debentures outstanding due June 15, 2028. In connection with the Separation, on November 16, 2006 a supplemental indenture was executed which added the company as a guarantor of the debentures. In accordance with Regulation S-X, condensed consolidating financial information is not included herein because the parent company guarantor has no independent assets or operations, the guarantee is full and unconditional and Alberto-Culver LLC is the only subsidiary of the parent company.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

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

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.

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 quarter of fiscal year 2007. Most expenses related to the Separation are not expected to be deductible for income tax purposes.

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 discontinued operations in the first quarter 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.

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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 quarter of fiscal year 2007.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

The results of discontinued operations for the three months ended December 31, 2007 and 2006 were as follows (in thousands):

| | Three months ended December 31 | |
|---|-----------------------------------|---------|
| | 2007* | 2006** |
| Net sales | \$ | 310,753 |
| Transaction expenses and other related costs | \$ | 27,975 |
| Earnings before provision for income taxes | \$ 2,158 | 1,867 |
| Provision for income taxes | 755 | 7,750 |
| Earnings (loss) from discontinued operations, net of income taxes | \$ 1,403 | (5,883) |

* 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 quarter 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.

(3) RESTRUCTURING AND OTHER

Restructuring and other expenses during the three months ended December 31, 2007 and 2006 consist of the following (in thousands):

| | Three months ended December 31 | |
|---|-----------------------------------|--------|
| | 2007 | 2006 |
| Severance and other exit costs | \$ 2,367 | 9,710 |
| Impairment and other property, plant and equipment charges | 2,300 | |
| Non-cash charges related to the acceleration of vesting of stock options and restricted shares in connection with the Separation | | 12,198 |
| 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 in connection with the liquidation of a foreign legal entity | 75 | |
| Legal fees and other expenses incurred to assign the company's trademarks following the closing of the Separation | 47 | |
| Gain on sale of assets | | (386) |
| | \$ 4,789 | 31,410 |

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 expects to close its manufacturing facility in Dallas, Texas. The company's worldwide workforce is being reduced by approximately 225 employees as a result of the reorganization plan,

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including 125 employees from the Dallas, Texas manufacturing facility. The changes primarily affect corporate functions or the Consumer Packaged Goods business segment.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Through December 31, 2007, the company has recorded cumulative charges related to this plan of \$15.6 million for severance, \$241,000 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, 2007 (in thousands):

| | Liability at September 30, 2007 | New Charges | Cash Payments & Other Settlements | Liability at December 31, 2007 |
|----------------------------|------------------------------------|----------------|--------------------------------------|-----------------------------------|
| Severance | \$ 2,631 | 186 | (1,486) | 1,331 |
| Contract termination costs | | 4 | (4) | |
| Other | 93 | 214 | (145) | 162 |
| | \$ 2,724 | 404 | (1,635) | 1,493 |

On October 25, 2007, the company committed to another restructuring plan primarily related to the closure of its manufacturing facility in Toronto, Canada. As part of the plan, the company's workforce will be reduced by approximately 125 employees. The changes affect the Consumer Packaged Goods business segment.

The following table reflects the activity related to this restructuring plan during the three months ended December 31, 2007 (in thousands):

| | Initial Charges | Cash Payments & Other Settlements | Liability at December 31, 2007 |
|-----------|--------------------|--------------------------------------|-----------------------------------|
| Severance | \$ 1,963 | (124) | 1,839 |

In total, the company expects to record additional severance and other exit costs of approximately \$2.0 million related to these two plans during the remainder of fiscal year 2008, primarily in the second and third quarters. Cash payments related to these plans are expected to be substantially completed by the end of fiscal year 2008.

Impairment and Other Property, Plant and Equipment Charges

During the first quarter of fiscal year 2008, the company recorded an impairment charge of \$648,000 related to the building and certain manufacturing equipment in connection with the planned closure of the Dallas, Texas manufacturing facility. The company also recorded an impairment charge of \$1.3 million during the first quarter of fiscal year 2008 related to manufacturing equipment in connection with the planned closure of the Toronto, Canada 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 \$381,000 of other fixed asset charges related to the closure of these two manufacturing facilities.

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 \$12.2 million charge recorded by the company in the first quarter 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.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Foreign Currency Translation Loss

In the second quarter of fiscal year 2007, 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 \$75,000 charge during the first quarter 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 \$47,000 in the first quarter of fiscal year 2008 and expects to incur additional costs of up to \$750,000 during the remainder of fiscal year 2008.

Gain on Sale of Assets Including Related Party Transaction

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. The gain was recorded as an offset to the restructuring and other charges in the first quarter of fiscal year 2007. This transaction was approved by the audit committee of the board of directors of the company, consisting solely of independent directors.

(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 \$6.9 million at December 31, 2007.

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 2003 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.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

(5) STOCKHOLDERS' EQUITY

On November 12, 2006, the board of directors authorized the company to purchase up to 5 million shares of common stock. This new authorization replaced the previous authorization to purchase Old Alberto-Culver common stock. No shares have been purchased under the authorization as of December 31, 2007.

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, 2007 and 2006, the company acquired \$7,000 and \$876,000, 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.

(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 | |
|--|---|-------------|
| | 2007 | 2006 |
| Basic weighted average shares outstanding | 98,091 | 93,630 |
| Effect of dilutive securities: | | |
| Assumed exercise of stock options | 2,628 | 2,151 |
| Assumed vesting of restricted stock | 381 | 154 |
| Effect of unrecognized stock-based compensation related to future services | (492) | (262) |
| Diluted weighted average shares outstanding | 100,608 | 95,673 |

The computations of diluted weighted average shares outstanding for the three months ended December 31, 2007 and 2006 exclude stock options for 1.3 million shares and 561,000 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 2008, there were no significant changes to the assumptions used in calculating the fair value of stock options.

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 \$2.2 million, provision for income taxes by \$768,000, earnings from continuing operations by \$1.4 million and basic and diluted earnings per share from continuing operations by two cents. In the first quarter 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 (loss) from continuing operations before provision (benefit) for income taxes by \$2.1 million, provision (benefit) for income taxes by \$728,000, earnings from continuing operations by \$1.3 million, basic earnings per share from continuing operations by one cent 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.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

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 2008 was \$420,000, compared to \$220,000 during the first quarter 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.

During the first quarter of fiscal year 2008, the company granted 1.6 million stock options and 116,000 restricted shares 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.

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 \$9.9 million as stock options subject to redemption outside of stockholders' equity on its consolidated balance sheet as of December 31, 2007. 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 (loss), foreign currency translation adjustments and minimum pension liability adjustments as follows (in thousands):

| | Three Months Ended December 31 | |
|--|-----------------------------------|---------|
| | 2007 | 2006 |
| Net earnings (loss) | \$ 30,907 | (5,880) |
| Other comprehensive income adjustments: | | |
| Foreign currency translation during the period | 3,311 | 5,211 |
| Reclassification adjustment due to the recognition in net earnings of foreign currency translation loss in connection with the liquidation of a foreign legal entity | 75 | |
| Minimum pension liability | | (2,477) |
| Comprehensive income (loss) | \$ 34,293 | (3,146) |

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

(9) BUSINESS SEGMENT INFORMATION

Segment information for the three months ended December 31, 2007 and 2006 is as follows (in thousands):

| | Three Months Ended December 31 | |
|--|---|----------------|
| | 2007 | 2006 |
| <u>Net sales:</u> | | |
| Consumer Packaged Goods | \$ 343,187 | 303,703 |
| Cederroth International | 57,488 | 51,790 |
| Eliminations | | (4,365) |
| | \$ 400,675 | 351,128 |
| <u>Earnings (loss) from continuing operations before provision for income taxes:</u> | | |
| Consumer Packaged Goods | \$ 48,774 | 31,904 |
| Cederroth International | (1,185) | (71) |
| Segment operating profit | 47,589 | 31,833 |
| Stock option expense (note 7) | (2,194) | (2,067) |
| Restructuring and other (note 3) | (4,789) | (31,410) |
| Interest income, net | 2,880 | 309 |
| | \$ 43,486 | (1,335) |

(10) GOODWILL AND TRADE NAMES

The change in the carrying amount of goodwill by operating segment for the three months ended December 31, 2007 is as follows (in thousands):

| | Consumer Packaged Goods | Cederroth International | Total |
|----------------------------------|--|------------------------------------|--------------|
| Balance as of September 30, 2007 | \$ 152,783 | 60,884 | 213,667 |
| Additions | 1,776 | | 1,776 |
| Foreign currency translation | 153 | 853 | 1,006 |
| Balance as of December 31, 2007 | \$ 154,712 | 61,737 | 216,449 |

The increase for Consumer Packaged Goods was attributable to the accrual of additional consideration related to the acquisition of Nexxus Products Company (Nexxus).

Indefinite-lived trade names by operating segment at December 31, 2007 and September 30, 2007 were as follows (in thousands):

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| | December 31, 2007 | September 30, 2007 |
|-------------------------|----------------------|-----------------------|
| Consumer Packaged Goods | \$ 74,780 | 74,782 |
| Cederroth International | 37,696 | 37,008 |
| | \$ 112,476 | 111,790 |

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

(11) LONG-TERM DEBT

Long-term debt at December 31, 2007 and September 30, 2007 consists of the following (in thousands):

| | December 31, 2007 | September 30, 2007 |
|-------------------------------------|----------------------|-----------------------|
| 6.375% debentures due June, 2028 | \$ 120,000 | 120,000 |
| Other | 3,575 | 2,713 |
| | 123,575 | 122,713 |
| Less: Amounts classified as current | 120,832 | 120,636 |
| | \$ 2,743 | 2,077 |

The company has \$120 million of 6.375% debentures outstanding due June 15, 2028. The company has the option to redeem the debentures at any time, in whole or in part, at a price equal to 100% of the principal amount plus accrued interest and, if applicable, a make-whole premium. In addition, the debentures are subject to repayment, in whole or in part, on June 15, 2008 at the option of the holders. In accordance with SFAS No. 78, Classification of Obligations That Are Callable by the Creditor an amendment of ARB No. 43, Chapter 3A, the \$120 million has been classified as a current liability on the company's December 31, 2007 and September 30, 2007 consolidated balance sheets. If the holders do not demand repayment of the debentures on June 15, 2008, the \$120 million will be reclassified back to long-term debt on the company's June 30, 2008 consolidated balance sheet.

(12) ACQUISITION

On May 18, 2005, the company acquired substantially all the assets of Nexxus. The total amount paid for the acquisition in fiscal year 2005 was \$46.5 million. In accordance with the purchase agreement, 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 will be accrued in the period the company becomes obligated to pay the amounts and will increase 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 December 31, 2007, the company owed \$2.5 million of additional consideration which is expected to be paid in the fourth quarter of fiscal year 2008. Nexxus is included in the company's Consumer Packaged Goods segment.

(13) 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.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

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

DESCRIPTION OF BUSINESS

Alberto-Culver Company and its subsidiaries (the company or New Alberto-Culver) operate two businesses: Consumer Packaged Goods and Cederroth International. 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 International manufactures, markets and distributes beauty and health care products throughout Scandinavia and in other parts of Europe.

OVERVIEW

DISCONTINUED OPERATIONS

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, 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.

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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.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

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, 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 financial information in the accompanying consolidated financial statements and related notes, as well as all discussion in Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), reflects only continuing operations.

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 quarter of fiscal year 2007. Most expenses related to the Separation are not expected to be deductible for income tax purposes.

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 discontinued operations in the first quarter 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 quarter 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.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

RESTRUCTURING AND OTHER

Restructuring and other expenses during the three months ended December 31, 2007 and 2006 consist of the following (in thousands):

| | Three months ended December 31 | |
|---|---|-------------|
| | 2007 | 2006 |
| Severance and other exit costs | \$ 2,367 | 9,710 |
| Impairment and other property, plant and equipment charges | 2,300 | |
| Non-cash charges related to the acceleration of vesting of stock options and restricted shares in connection with the Separation | | 12,198 |
| 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 in connection with the liquidation of a foreign legal entity | 75 | |
| Legal fees and other expenses incurred to assign the company's trademarks following the closing of the Separation | 47 | |
| Gain on sale of assets | | (386) |
| | \$ 4,789 | 31,410 |

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 expects to close its manufacturing facility in Dallas, Texas. The company's worldwide workforce is being reduced by approximately 225 employees as a result of the reorganization plan, including 125 employees from the Dallas, Texas manufacturing facility. The changes primarily affect corporate functions or the Consumer Packaged Goods business segment.

Through December 31, 2007, the company has recorded cumulative charges related to this plan of \$15.6 million for severance, \$241,000 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, 2007 (in thousands):

| | Liability at September 30, 2007 | New Charges | Cash Payments & Other Settlements | Liability at December 31, 2007 |
|----------------------------|--|------------------------|--|---|
| Severance | \$ 2,631 | 186 | (1,486) | 1,331 |
| Contract termination costs | | 4 | (4) | |
| Other | 93 | 214 | (145) | 162 |
| | \$ 2,724 | 404 | (1,635) | 1,493 |

On October 25, 2007, the company committed to another restructuring plan primarily related to the closure of its manufacturing facility in Toronto, Canada. As part of the plan, the company's workforce will be reduced by approximately 125 employees. The changes affect the Consumer Packaged Goods business segment.

The following table reflects the activity related to this restructuring plan during the three months ended December 31, 2007 (in thousands):

| Initial Charges | Cash Payments & Other Settlements | Liability at December 31, 2007 |
|----------------------------|--|---|
|----------------------------|--|---|

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| | | | |
|-----------|----------|-------|-------|
| Severance | \$ 1,963 | (124) | 1,839 |
|-----------|----------|-------|-------|

In total, the company expects to record additional severance and other exit costs of approximately \$2.0 million related to these two plans during the remainder of fiscal year 2008, primarily in the second and third quarters. Cash payments related to these plans are expected to be substantially completed by the end of fiscal year 2008.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Impairment and Other Property, Plant and Equipment Charges

During the first quarter of fiscal year 2008, the company recorded an impairment charge of \$648,000 related to the building and certain manufacturing equipment in connection with the planned closure of the Dallas, Texas manufacturing facility. The company also recorded an impairment charge of \$1.3 million during the first quarter of fiscal year 2008 related to manufacturing equipment in connection with the planned closure of the Toronto, Canada 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 \$381,000 of other fixed asset charges related to the closure of these two manufacturing facilities.

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 \$12.2 million charge recorded by the company in the first quarter 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

In the second quarter of fiscal year 2007, 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 \$75,000 charge during the first quarter 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, 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 \$47,000 in the first quarter of fiscal year 2008 and expects to incur additional costs of up to \$750,000 during the remainder of fiscal year 2008.

Gain on Sale of Assets Including Related Party Transaction

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. The gain was recorded as an offset to the restructuring and other charges in the first quarter of fiscal year 2007. This transaction was approved by the audit committee of the board of directors of the company, consisting solely of independent directors.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Expected Savings

As a result of the reorganization plan and other restructuring activities, the company expects to recognize cost savings of approximately \$24 million on an annualized basis. A vast 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 and Toronto, Canada 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 Sally Holdings business.

RESULTS OF OPERATIONS

Comparison of the Quarters Ended December 31, 2007 and 2006

The company recorded first quarter net sales of \$400.7 million in fiscal year 2008, up \$49.5 million or 14.1% over the comparable period of the prior year. The effect of foreign exchange rates increased sales by 4.6% in the first quarter of fiscal year 2008. Organic sales, which exclude the effects of foreign exchange rates, grew 9.5% during the first quarter 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 (1.4%). In the first quarter 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 were \$29.5 million for the three months ended December 31, 2007 versus \$3,000 for the same period of the prior year. Basic earnings per share from continuing operations were 30 cents in the first quarter of fiscal year 2008 compared to zero in the same period of fiscal year 2007. Diluted earnings per share from continuing operations were 29 cents in the current quarter compared to zero in the same period of the prior year. In the first quarter of fiscal year 2008, restructuring and other expenses reduced earnings from continuing operations by \$3.2 million and basic and diluted earnings per share from continuing operations by 3 cents. In the first quarter of fiscal year 2007, restructuring and other expenses reduced earnings from continuing operations by \$20.3 million, basic earnings per share from continuing operations by 22 cents and diluted earnings per share from continuing operations by 21 cents.

Sales of Consumer Packaged Goods in the first quarter of fiscal year 2008 increased 13.0% to \$343.2 million from \$303.7 million in fiscal year 2007. The first quarter increase was primarily due to higher sales of TRESemmé shampoos, conditioners and styling products (8.4%) in all markets around the world and the effect of foreign exchange rates (3.1%). In addition, sales increased for Nexxus products (1.1%) due to continued strong performance in retail channels following its launch in January, 2006.

Sales of Cederroth International increased to \$57.5 million in the first quarter of fiscal year 2008 compared to \$51.8 million for the prior year period. The sales increase of 11.0% for the quarter was primarily attributable to the positive effect of foreign exchange rates.

Gross profit increased \$29.7 million or 16.4% for the first quarter of fiscal year 2008 versus the comparable quarter in fiscal year 2007. Gross profit, as a percentage of net sales, was 52.6% during the first quarter of fiscal year 2008 compared to 51.5% for continuing operations in the prior year period. The gross margin improvement is primarily attributable to favorable product mix and more efficient inventory management.

Compared to the prior year, advertising, marketing, selling and administrative expenses in fiscal year 2008 increased \$14.1 million or 9.3% for the first quarter. This increase includes higher selling and administrative expenses (4.9%) primarily due to higher incentive costs in 2008 and the effect of foreign exchange rates, partially offset by cost savings realized as a result of the company's reorganization plan and other restructuring activities. Selling and administrative expenses, as a percentage of net sales, decreased to 24.4% in the first quarter of fiscal year 2008 from 25.7% in the comparative quarter last year. In addition, the overall increase in advertising, marketing, selling and administrative expenses in fiscal year 2008 reflects higher expenditures for advertising and marketing (4.4%) which is discussed further below.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Advertising and marketing expenditures were \$67.5 million in the first quarter of fiscal year 2008, an increase of 10.8% from \$61.0 million in the prior year. The increase was primarily due to higher advertising and marketing expenditures for TRESemmé (5.3%), Alberto VO5 (3.8%) and Nexxus (2.7%), along with the effect of foreign exchange rates (4.1%). These increases were partially offset by lower spending for St. Ives (3.1%). Advertising and marketing expenditures, as a percentage of net sales, decreased to 16.9% in the first quarter of fiscal year 2008 from 17.4% in the comparative quarter last year.

The company recorded net interest income of \$2.9 million in the first quarter of fiscal year 2008 and \$309,000 for the first quarter of the prior year. Interest expense was \$1.8 million in the first quarter of fiscal year 2008 and \$2.2 million for the prior year period. Interest income was \$4.7 million in the first quarter of fiscal year 2008 compared to \$2.5 million for the first quarter of the prior year. The increase in interest income was primarily due to higher interest rates and higher cash and short-term investment balances in the current year.

The provision (benefit) for income taxes as a percentage of earnings (loss) from continuing operations before income taxes was 32.2% for the first quarter of fiscal year 2008 compared to approximately 100% for the first quarter of fiscal year 2007. The effective tax rate in 2007 is not meaningful due to the near break-even pre-tax results from continuing operations during the quarter. The benefit for income taxes and the effective rate were affected by the varying tax rates in the jurisdictions in which the company's restructuring charges were recorded.

FINANCIAL CONDITION

December 31, 2007 versus September 30, 2007

Working capital at December 31, 2007 was \$489.4 million, an increase of \$47.9 million from working capital of \$441.5 million at September 30, 2007. The increase in working capital was primarily generated from operations and cash received from exercises of employee stock options, partially offset by cash outlays for capital expenditures and cash dividends. The December 31, 2007 ratio of current assets to current liabilities of 2.24 to 1.00 increased from last year's ratio of 2.06 to 1.00.

Cash, cash equivalents and short-term investments increased \$35.0 million to \$383.7 million during the first three months of fiscal year 2008 primarily due to cash flows provided by operating activities (\$37.7 million) and cash received from exercises of employee stock options (\$7.8 million), partially offset by cash outlays for capital expenditures (\$12.7 million) and dividends (\$5.4 million).

Receivables, less allowance for doubtful accounts, decreased 8.0% to \$266.0 million from \$289.1 million at September 30, 2007. Trade receivables decreased \$27.3 million in the first three months of fiscal year 2008 primarily due to lower sales in the first quarter as compared to the fourth quarter of fiscal year 2007. Other receivables increased \$4.2 million during fiscal year 2008 principally due to a receivable for a life insurance claim expected to be collected in the second quarter.

Other current assets increased \$7.8 million to \$38.5 million during the first three months of fiscal year 2008 primarily due to increases in deferred tax assets, prepaid advertising and marketing and prepaid insurance.

Accounts payable decreased \$12.7 million to \$137.7 million during the first three months of fiscal year 2008 mainly due to higher payables at the end of the prior fiscal year related to advertising expenditures.

Accrued expenses declined \$10.4 million to \$126.7 million at December 31, 2007 primarily due to payments in the quarter under various incentive plans and lower insurance accruals.

Current and long-term income taxes, which include both income taxes payable amounts and deferred income taxes, increased \$9.8 million to \$37.4 million at December 31, 2007, primarily due to the company's earnings in the first quarter of fiscal year 2008 and the timing of tax payments.

Additional paid-in capital increased \$12.7 million to \$393.1 million at December 31, 2007 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.

Retained earnings increased from \$585.1 million at September 30, 2007 to \$612.9 million at December 31, 2007 due to net earnings for the first three months of fiscal year 2008 along with \$2.2 million resulting from the adoption of FASB Interpretation No. 48, Accounting for Uncertainty

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in Income Taxes an Interpretation of FASB Statement No. 109, partially offset by the payment of \$5.4 million of regular quarterly cash dividends.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

Accumulated other comprehensive income was \$10.3 million at December 31, 2007 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.

LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operating Activities Net cash provided by operating activities was \$37.7 million and \$14.2 million for the first three months of fiscal year 2008 and 2007, respectively. Cash flows from operating activities increased in 2008 due to significantly higher cash flows related to increased sales and earnings. This improvement was partially offset by an increase in amounts paid for overall working capital.

Cash Used by Investing Activities Net cash used by investing activities was \$15.9 million and \$24.6 million for the first three months of fiscal year 2008 and 2007, respectively. Capital expenditures were \$12.7 million in the first three months of fiscal year 2008, which included \$7.2 million related to the company's new manufacturing facility in Jonesboro, Arkansas, compared to \$9.7 million in the same period of the prior year. Net cash used by investing activities also included net purchases of short-term investments of \$3.4 million and \$16.4 million in the first quarter of fiscal year 2008 and 2007, respectively.

Cash Provided by Financing Activities Net cash provided by financing activities was \$10.7 million and \$22.2 million for the first three months of fiscal year 2008 and 2007, respectively. Proceeds from the exercise of employee stock options were \$7.8 million in fiscal year 2008, compared to \$25.0 million in the first quarter last year. The company paid cash dividends of \$5.4 million in the first quarter of fiscal year 2008. Net cash used by financing activities was also affected by changes in the book cash overdraft balance in each period.

Cash dividends paid on common stock were \$.055 per share in the first quarter of fiscal year 2008. 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.

The company anticipates that its existing cash and investment balances, along with cash flows from operations and available credit, will be sufficient to fund the possible put of the \$120 million debentures, as discussed below, and operating requirements in future years. 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 and, if applicable, acquisitions. The company may also 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. This new authorization replaced the previous authorization to purchase Old Alberto-Culver common stock. No shares have been purchased under the authorization as of December 31, 2007.

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 December 31, 2007 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's \$120 million of 6.375% debentures are due June 15, 2028. The company has the option to redeem the debentures at any time, in whole or in part, at a price equal to 100% of the principal amount plus accrued interest and, if applicable, a make-whole premium. In addition, the debentures are subject to repayment, in whole or in part, on June 15, 2008 at the option of the holders. In accordance with SFAS No. 78,

Classification of Obligations That Are Callable by the Creditor an amendment of ARB No. 43, Chapter 3A, the \$120 million has been classified as a current liability on the company's December 31, 2007 consolidated balance sheet. If the holders do not demand repayment of the debentures on June 15, 2008, the \$120 million will be reclassified back to long-term debt on the company's June 30, 2008 consolidated balance sheet.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

The company is in compliance with the covenants and other requirements of its revolving credit agreement and 6.375% debentures. Additionally, the revolving credit agreement and the 6.375% debentures do not include credit rating triggers or subjective clauses that would accelerate maturity dates.

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.

CRITICAL ACCOUNTING POLICIES

The company's significant accounting policies are described in note 2 of the Notes to the Consolidated Financial Statements included in the Annual Report on Form 10-K for the fiscal year ended September 30, 2007. A discussion of critical accounting policies is included in MD&A in the company's Annual Report on Form 10-K for the fiscal year ended September 30, 2007. Other than the item discussed below, there were no significant changes in the company's critical accounting policies during the three months ended December 31, 2007.

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 \$6.9 million at December 31, 2007.

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 2003 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.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

RECONCILIATION OF NON-GAAP FINANCIAL MEASURE

A reconciliation of organic sales growth to its most directly comparable financial measure under GAAP for the three months ended December 31, 2007 and 2006 is as follows:

| | Three Months Ended December 31 | |
|----------------------------------|-----------------------------------|-------|
| | 2007 | 2006 |
| Net sales growth, as reported | 14.1% | 12.6% |
| Effect of foreign exchange rates | (4.6) | (2.8) |
| Organic sales growth * | 9.5% | 9.8% |

* 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.

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; 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; increases in costs of raw materials and inflation 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 three months ended December 31, 2007.

ALBERTO-CULVER COMPANY AND SUBSIDIARIES

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 to ensure that information required to be disclosed by the company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.
- (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.

PART II

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. This new authorization replaced the previous authorization to purchase Old Alberto-Culver common stock. No shares have been purchased under the authorization as of December 31, 2007.

During the three months ended December 31, 2007, the company acquired 1,219 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 December 31, 2007:

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs |
|-----------------------|--|--|---|---|
| October 1 - 31, 2007 | | | | 5,000,000 |
| November 1 - 30, 2007 | 1,219 | \$ 25.25 | | 5,000,000 |
| December 1 - 31, 2007 | | | | 5,000,000 |
| Total | 1,219 | | | |

ITEM 6. EXHIBITS

- 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.

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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)

February 7, 2008