

MANNKIND CORP
Form PRE 14A
April 11, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN

PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-12

MANNKIND CORPORATION

(Name of Registrant as Specified in its Charter)

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N/A

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

MANNKIND CORPORATION

25134 Rye Canyon Loop, Suite 300

Valencia, CA 91355

(661) 775-5300

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held On Thursday, May 19, 2016

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of MannKind Corporation, a Delaware corporation ("MannKind"). The meeting will be held on Thursday, May 19, 2016 at 10:00 a.m. U.S. Eastern time at the office of MannKind at 40 Taylor Street, Danbury, Connecticut 06810 for the following purposes:

1. To elect the seven nominees named herein as directors to serve for the ensuing year and until their successors are elected;
2. To approve an amendment to MannKind's Amended and Restated Certificate of Incorporation to increase the authorized number of shares of common stock from 550,000,000 to 700,000,000 shares;
3. To approve an amendment to MannKind's 2013 Equity Incentive Plan to increase the aggregate number of shares of common stock authorized for issuance under the 2013 Equity Incentive Plan by 15,000,000 shares;
4. To approve, on an advisory basis, the compensation of the named executive officers of MannKind, as disclosed in MannKind's proxy statement for the Annual Meeting;
5. To ratify the selection by the Audit Committee of the Board of Directors of Deloitte & Touche LLP as the independent registered public accounting firm of MannKind for its fiscal year ending December 31, 2016; and
6. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

These items of business are more fully described in the proxy statement accompanying this notice.

The record date for the Annual Meeting is March 21, 2016. Only stockholders of record on that date may vote at the meeting or any adjournment thereof.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders of MannKind Corporation to be Held on May 19, 2016 at 10:00 a.m. U.S. Eastern time at the office of MannKind Corporation located at 40 Taylor Street, Danbury, Connecticut 06810.

The proxy statement and annual report to stockholders are available at www.mannkindcorp.com.

By Order of the Board of Directors

David Thomson

Corporate Vice President, General Counsel and Secretary

Valencia, California

April 1, 2016

You are cordially invited to attend the meeting in person. Whether or not you expect to attend the meeting, please vote by proxy pursuant to the instructions set forth herein as promptly as possible in order to ensure your representation at the meeting. Even if you have voted by proxy, you may still vote in person if you attend the meeting. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must obtain a proxy issued in your name from that record holder.

All visitors to the MannKind Danbury site will be required to present a government-issued photo identification due to new regulations. Thank you, in advance, for your cooperation.

PRELIMINARY PROXY STATEMENT, SUBJECT TO COMPLETION

MANNKIND CORPORATION

25134 Rye Canyon Loop, Suite 300

Valencia, California 91355

PROXY STATEMENT

FOR THE 2016 ANNUAL MEETING OF STOCKHOLDERS

To be held on May 19, 2016

QUESTIONS AND ANSWERS ABOUT THESE PROXY MATERIALS AND VOTING

Why did I receive these proxy materials?

We have sent you these proxy materials because the Board of Directors (sometimes referred to as the Board) of MannKind Corporation (sometimes referred to as, we, us, the Company or MannKind) is soliciting your proxy to vote at the 2016 Annual Meeting of Stockholders (the Annual Meeting), including any adjournments or postponements of the Annual Meeting. You are invited to attend the annual meeting to vote on the proposals described in this proxy statement. However, you do not need to attend the meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card, or follow the instructions below to submit your proxy over the telephone or through the internet.

These proxy materials were first mailed to our stockholders of record entitled to vote at the Annual Meeting on or about April [20], 2016.

Who can vote at the Annual Meeting?

Only stockholders of record at the close of business on March 21, 2016 will be entitled to vote at the Annual Meeting. On this record date, there were 428,856,175 shares of common stock outstanding and entitled to vote.

Stockholder of Record: Shares Registered in Your Name

If on March 21, 2016 your shares were registered directly in your name with MannKind's transfer agent, Computershare, then you are a stockholder of record. As a stockholder of record, you may vote in person at the meeting or vote by proxy. Whether or not you plan to attend the Annual Meeting, we urge you to vote by proxy pursuant to the instructions set forth below to ensure your vote is counted.

Beneficial Owner: Shares Registered in the Name of a Broker or Bank

If on March 21, 2016 your shares were held, not in your name, but rather in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in street name and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered to be the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct your broker or other agent on how to vote the shares in your account. You are also invited to attend the Annual Meeting. However, because you are not the stockholder of record, you may not vote your shares in person at the Annual Meeting unless you request and obtain a valid proxy from your broker or other agent.

What am I voting on?

Management is presenting five proposals for stockholder vote.

Proposal 1. Election of Seven Directors

The first proposal to be voted on is the election of the seven nominees named herein as directors for a one-year term. The Board has nominated these seven people as directors. You may find information about these nominees, as well as information about MannKind's Board of Directors and its committees, director compensation and other related matters beginning on page [].

You may vote For all the nominees, Withhold your votes as to all nominees or Withhold your votes as to specific nominees.

The Board of Directors unanimously recommends a vote FOR all the director nominees named herein.

Proposal 2. Amendment of MannKind's Amended and Restated Certificate of Incorporation to Increase the Number of Authorized Shares of Common Stock.

The second proposal to be voted on is to approve an amendment to MannKind's Amended and Restated Certificate of Incorporation to increase the authorized number of shares of common stock from 550,000,000 to 700,000,000 shares. You may find information about this proposal beginning on page [].

You may vote For the proposal, Against the proposal or Abstain from voting on the proposal.

The Board of Directors unanimously recommends a vote FOR Proposal 2.

Proposal 3. Amendment of MannKind's 2013 Equity Incentive Plan to Increase the Number of Shares of Common Stock Authorized for Issuance under the 2013 Equity Incentive Plan.

The third proposal to be voted on is to approve an amendment to MannKind's 2013 Equity Incentive Plan (the 2013 Plan) to increase the number of shares of our common stock authorized for issuance under the 2013 Plan by 15,000,000 shares. You may find information about this proposal beginning on page [].

You may vote For the proposal, Against the proposal or Abstain from voting on the proposal.

The Board of Directors unanimously recommends a vote FOR Proposal 3.

Proposal 4. Advisory Vote on Executive Compensation

The fourth proposal to be voted on is an advisory vote by the stockholders of MannKind regarding the compensation of the Company's named executive officers as described in this proxy statement, including the disclosures under Compensation Discussion and Analysis, the compensation tables and the narrative discussion following the compensation tables. The Company is seeking the stockholders' approval, on an advisory basis, of the compensation of the named executive officers. You may find information about this proposal beginning on page [].

You may vote For or Against the proposal or Abstain from voting on the proposal.

The Board of Directors unanimously recommends a vote FOR Proposal 4.

Proposal 5. Ratification of Selection by the Audit Committee of the Board of Directors of Deloitte & Touche LLP as the Company's Independent Registered Public Accounting Firm for the Fiscal Year Ending December 31, 2016

The fifth proposal to be voted on is to ratify the selection by the Audit Committee of the Board of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2016. It is expected that representatives of Deloitte & Touche LLP will attend the Annual Meeting and be available to make a statement or respond to appropriate questions. You may find information about this proposal beginning on page [].

You may vote For or Against the proposal or Abstain from voting on the proposal.

The Board of Directors unanimously recommends a vote FOR Proposal 5.

What if another matter is properly brought before the Annual Meeting?

The Board of Directors knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the Annual Meeting, it is the intention of the persons named in the proxy to vote on those matters in accordance with their best judgment.

How do I vote?

The procedures for voting are fairly simple:

Stockholder of Record: Shares Registered in Your Name

If you are a stockholder of record, you may vote in person at the Annual Meeting or vote by proxy using the enclosed proxy card, vote by proxy over the telephone or vote by proxy through the internet. Whether or not you plan to attend the Annual Meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the Annual Meeting and vote in person if you have already voted by proxy.

To vote in person, come to the Annual Meeting and we will give you a ballot when you arrive.

To vote using the proxy card, simply complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. Your signed proxy card must be received by 5:00 PM U.S. Eastern time on May 18, 2016 to be counted.

To vote over the telephone, dial toll-free (866) 437-3716 using a touch-tone phone and follow the recorded instructions. You will be asked to provide the control number from the enclosed proxy card. Your vote must be received by 5:00 PM U.S. Eastern time on May 18, 2016 to be counted.

To vote through the internet, go to <http://www.proxypush.com/mnkd> to complete an electronic proxy card. You will be asked to provide the control number from the enclosed proxy card. Your vote must be received by 5:00 PM U.S. Eastern time on May 18, 2016 to be counted.

We provide internet proxy voting to allow you to vote your shares online, with procedures designed to ensure the authenticity and correctness of your proxy vote instructions. However, please be aware that you must bear any costs associated with your internet access, such as usage charges from internet access providers and telephone companies.

Beneficial Owner: Shares Registered in the Name of Broker or Bank

If you are a beneficial owner of shares registered in the name of your broker, bank, or other agent, you should have received a voting instruction form with these proxy materials from that organization rather than from MannKind. Simply complete and mail the voting instruction form to ensure that your vote is counted.

Alternatively, you may be able to vote by telephone or over the internet as instructed by your broker or bank. To vote in person at the Annual Meeting, you must obtain a valid proxy from your broker, bank, or other agent. Follow the instructions from your broker or bank included with these proxy materials, or contact your broker or bank to request a proxy form.

How many votes do I have?

On each matter to be voted upon, you have one vote for each share of common stock you owned as of March 21, 2016.

What if I return a proxy card or otherwise vote by proxy but do not make specific choices?

If you voted by proxy without marking any voting selections, your shares will be voted For the election of each of the seven nominees for director listed in Proposal 1, For the amendment of our restated certificate of incorporation as provided in Proposal 2, For the amendment of the 2013 Plan as provided in Proposal 3, For the advisory approval of the executive compensation of the Company's named executive officers as provided in Proposal 4 and For the ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2016 as provided in Proposal 5. If any other matter is properly presented at the Annual Meeting, your proxy (one of the individuals named on your proxy card) will vote your shares using his or her best judgment.

Who is paying for this proxy solicitation?

We will pay for the entire cost of soliciting proxies. In addition to these proxy materials, our directors and employees may also solicit proxies in person, by telephone, or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We will also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

What does it mean if I receive more than one set of proxy materials?

If you receive more than one set of proxy materials, your shares are registered in more than one name or are registered in different accounts. Please follow the voting instructions with respect to **each** proxy card in the proxy materials to ensure that all of your shares are voted. Similarly, if you are a stockholder of record and you receive more than one set of proxy materials, your shares are registered in more than one name. If you intend to vote by proxy using the proxy cards you receive, please complete, sign and return **each** proxy card to ensure that all of your shares are voted.

Can I change my vote after submitting my proxy?

Yes. You can revoke your proxy at any time before the final vote at the Annual Meeting. If you are a stockholder of record, you may revoke your proxy in any one of the following ways:

You may send a written notice that you are revoking your proxy to MannKind's Corporate Secretary at 25134 Rye Canyon Loop, Suite 300, Valencia, CA 91355.

You may grant another proxy by telephone or through the internet.

You may submit another properly completed proxy card with a later date.

You may attend the Annual Meeting and vote in person. Simply attending the Annual Meeting will not, by itself, revoke your proxy. Your most current proxy, whether submitted by proxy card, telephone or internet, is the one that is counted.

If your shares are held by your broker or bank as a nominee or agent, you should follow the instructions provided by your broker or bank.

How are votes counted?

Votes will be counted by the inspector of election appointed for the meeting, who will separately count, with respect to the proposal to elect directors, votes For, Withhold and broker non-votes; and with respect to other proposals, For and Against votes, abstentions and, if applicable, broker non-votes. Abstentions will be counted towards the vote total for each proposal, except with respect to the election of directors, and will have the same effect as Against votes. Broker non-votes will have no effect.

What are broker non-votes ?

Broker non-votes occur when a beneficial owner of shares held in street name does not give instructions to the broker or nominee holding the shares as to how to vote on matters deemed non-routine. Generally, if shares are held in street name (shares are held by your broker as your nominee), the beneficial owner of the shares is entitled to give voting instructions to the broker or nominee holding the shares. If you do not give instructions to your broker, your broker can vote your shares with respect to matters that are considered to be routine, but not with respect to non-routine matters. Under the rules and interpretations of the New York Stock Exchange, non-routine matters are generally those involving a matter that may substantially affect the rights or privileges of stockholders, such as mergers or stockholder proposals, election of directors (even if not contested) and executive compensation, including the stockholder advisory votes on executive compensation. Proposals 1, 2, 3 and 4 regarding the election of directors, the amendment of our Amended and Restated Certificate of Incorporation, the amendment of the 2013 Plan and the advisory vote regarding executive compensation are non-routine matters. Proposal 5 to ratify Deloitte & Touche LLP as our independent registered public accounting firm is a routine matter.

How many votes are needed to approve each proposal?

For the election of directors, the seven nominees receiving the most For votes (among votes properly cast in person or by proxy) will be elected. Only votes For or Withhold will affect the outcome. Only the seven nominees named herein have been properly nominated for election as directors.

To be approved, Proposal 2, regarding the amendment of our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of common stock, must receive a For vote from a majority of the shares outstanding and entitled to vote on the record date. Abstentions and broker non-votes will have the same effect as Against votes.

Proposal 3, regarding, the amendment of the 2013 Plan, must receive a For vote from the majority of shares present and entitled to vote either in person or by proxy in order to be approved. If you Abstain from voting, it will have the same effect as an Against vote. Broker non-votes will have no effect.

Proposals 4 and 5 regarding, respectively, approval on an advisory basis of the compensation of the Company's named executive officers and ratification of the Audit Committee's selection of the independent registered public accounting firm must receive a For vote from the majority of shares present and entitled to vote either in person or by proxy in order to be approved. If you Abstain from voting, it will have the same effect as an Against vote. Broker non-votes will have no effect.

What is the quorum requirement?

A quorum of stockholders is necessary to hold a valid Annual Meeting. A quorum will be present if at least a majority of the outstanding shares entitled to vote are represented by stockholders present at the Annual Meeting or by proxy. On the record date, there were 428,856,175 shares outstanding and entitled to vote. Thus, 214,428,088 shares must be represented by stockholders present at the Annual Meeting or by proxy to have a quorum.

Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker, bank or other nominee) or if you vote in person at the Annual Meeting. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, the chairman of the Annual Meeting or a majority of the votes present at the Annual Meeting may adjourn the meeting to another date.

How can I find out the results of the voting at the Annual Meeting?

Preliminary voting results will be announced at the Annual Meeting. Final voting results will be published in a current report on Form 8-K that we expect to file no later than four business days following the date of the Annual Meeting. If final voting results are not available to us in time to file a Form 8-K on or before such date, we intend to file a Form 8-K to publish preliminary results and, within four business days after the final results are known to us, file an additional Form 8-K to publish the final results.

When are stockholder proposals due for next year's annual meeting?

To be considered for inclusion in MannKind's proxy material for next year's annual meeting, your proposal must be submitted in writing by December [21], 2016 to Attn: Corporate Secretary, MannKind Corporation, 25134 Rye Canyon Loop, Suite 300, Valencia, CA 91355. If you wish to submit a proposal that is not to be included in MannKind's proxy materials or nominate a director, you must do so not later than February 18, 2017 and not earlier than January 19, 2017. You are also advised to review the Company's Amended and Restated Bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations.

PROPOSAL 1

ELECTION OF DIRECTORS

MannKind's Board of Directors consists of seven directors. There are seven nominees for director this year, all of whom were nominated by our Board of Directors. Each director to be elected will hold office until the next annual meeting of stockholders and until his successor is elected, or until the director's earlier death, resignation or removal. All nominees listed below are currently our directors and were previously elected by our stockholders at the 2015 Annual Meeting of Stockholders, other than Mr. Pfeffer who was appointed to our Board of Directors in January 2016 in connection with his appointment as our Chief Executive Officer. It is our policy that directors are invited and expected to attend annual meetings. All directors attended the 2015 Annual Meeting of Stockholders.

Directors are elected by a plurality of the votes properly cast in person or by proxy. The seven nominees receiving the highest number of affirmative votes will be elected. Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the seven nominees named below. If any nominee becomes unavailable for election as a result of an unexpected occurrence, your shares may be voted for the election of a substitute nominee proposed by our Nominating and Corporate Governance Committee. Each person nominated for election has agreed to serve if elected. Our management has no reason to believe that any nominee will be unable to serve.

NOMINEES

The following is a brief biography of each nominee for director and a discussion of the specific experience, qualifications, attributes or skills of each nominee that led our Board of Directors to conclude that each nominee should serve as a member of the Board.

Name	Age	Position Held With the Company
Kent Kresa(1)(2)	78	Chairman of the Board of Directors
Matthew J. Pfeffer	58	Chief Executive Officer, Chief Financial Officer and Director
Ronald J. Consiglio(2)(3)	72	Director
Michael A. Friedman, M.D.(1)(2)	72	Director
David H. MacCallum(3)	78	Director
Henry L. Nordhoff(3)	74	Director
James S. Shannon, M.D., MRCP (UK)(1)	59	Director

- (1) Member of the Compensation Committee.
- (2) Member of the Nominating and Corporate Governance Committee.
- (3) Member of the Audit Committee.

Kent Kresa has been a member of our Board of Directors since June 2004 and has served as Chairman of the Board since February 2016. From November 2011 until his appointment as our Chairman, Mr. Kresa served on our Board of Directors as our lead independent director. Mr. Kresa is Chairman Emeritus of Northrop Grumman Corporation, a defense company and from September 1990 until October 2003, he was also its Chairman. He also served as Chief Executive Officer of Northrop Grumman Corporation from January 1990 until March 2003 and as its President from 1987 until September 2001. From 2003 to August 2010, Mr. Kresa served as a director of General Motors Company (or its predecessor). From December 2005 to April 2010, Mr. Kresa served as a director of Avery Dennison Corporation. Mr. Kresa has been a member of the Caltech Board of Trustees since 1994. Mr. Kresa has served on the board of Fluor Corporation since 2003, and he also serves on the boards of several non-profit organizations and universities. As a graduate of Massachusetts Institute of Technology, he received a B.S. in 1959, an M.S. in 1961, and an E.A.A. in 1966, all in aeronautics and astronautics. The Board

believes that Mr. Kresa's business experience, including his experience as a director and executive officer of Northrop Grumman, and his service on other public company boards, combined with his business acumen and judgment provide our Board with valuable operational expertise and leadership and qualifies him to serve on our Board of Directors.

Matthew J. Pfeffer has served as our Chief Executive Officer and as one of our directors since January 2016, and as our Chief Financial Officer since April 2008. Previously, Mr. Pfeffer served as Chief Financial Officer and Senior Vice President of Finance and Administration of VaxGen, Inc. from March 2006 until April 2008, with responsibility for finance, tax, treasury, human resources, IT, purchasing and facilities functions. Prior to VaxGen, Mr. Pfeffer served as Chief Financial Officer of Cell Genesys, Inc. During his nine year tenure at Cell Genesys, Mr. Pfeffer served as Director of Finance before being named Chief Financial Officer in 1998. Prior to that, Mr. Pfeffer served in a variety of financial management positions at other companies, including roles as Corporate Controller, Manager of Internal Audit and Manager of Financial Reporting. Mr. Pfeffer began his career at Price Waterhouse. Mr. Pfeffer graduated from the University of California, Berkeley and is a Certified Public Accountant. The Board believes that Mr. Pfeffer's knowledge and understanding of accounting and finance and his extensive experience with our company, combined with his business acumen and judgment, provide our Board with valuable accounting, financial and operational expertise and leadership and qualifies him to serve on our Board of Directors.

Ronald J. Consiglio has been one of our directors since October 2003. Since 1999, Mr. Consiglio has been the managing director of Synergy Trading, a securities-trading partnership. From 1999 to 2001, Mr. Consiglio was Executive Vice President and Chief Financial Officer of Trading Edge, Inc., a national automated bond-trading firm. From January 1993 to 1998 Mr. Consiglio served as Chief Executive Officer of Angeles Mortgage Investment Trust, a publicly traded Real Estate Investment Trust. His prior experience includes serving as Senior Vice President and Chief Financial Officer of Cantor Fitzgerald & Co. and as a member of its board of directors. Mr. Consiglio has served as a member of the board of trustees for the Metropolitan West Funds since 2003. Mr. Consiglio is a certified public accountant and holds a bachelor's degree in accounting from California State University at Northridge. The Board believes that Mr. Consiglio's knowledge and understanding of accounting and finance, his experience as a board member and executive officer at financial services firms, combined with his business acumen and judgment provide our Board with valuable accounting, financial and operational expertise and leadership and qualifies him to serve on our Board of Directors.

Michael A. Friedman, M.D. has been one of our directors since December 2003. In 2014, Dr. Friedman completed a decade of service as the President and Chief Executive Officer of the City of Hope National Medical Center. Previously, from September 2001 until April 2003, Dr. Friedman held the position of Senior Vice President of Research and Development, Medical and Public Policy, for Pharmacia Corporation and, from July 1999 until September 2001, was a senior vice president of Searle, a subsidiary of Monsanto Company. From 1995 until June 1999, Dr. Friedman served as Deputy Commissioner for Operations for the Food and Drug Administration, and was Acting Commissioner and Lead Deputy Commissioner from 1997 to 1998. He joined the board of Celgene Corporation in February 2011 and the board of Smith & Nephew plc in April 2013. Dr. Friedman received a bachelor of arts degree, magna cum laude, from Tulane University, New Orleans, Louisiana, and a doctorate in medicine from the University of Texas, Southwestern Medical School. The Board believes Dr. Friedman's business experience, including his experience as an executive officer at biopharmaceutical companies and a leading clinical and research center specializing in cancer and diabetes, and his service at the Food and Drug Administration, combined with his business acumen and judgment provide our Board with valuable scientific and operational expertise and leadership and qualifies him to serve on our Board of Directors.

David H. MacCallum has been one of our directors since June 2004. Since 2002, Mr. MacCallum has served as the Managing Partner of Outer Islands Capital, a hedge fund specializing in health care investments. From June 1999 until November 2001, he was Global Head of Health Care investment banking for Salomon Smith Barney, part of Citigroup, a financial institution. Prior to joining Salomon Smith Barney, he was Executive Vice President and Head of the Health Care group at ING Barings Furman Selz LLC, an investment banking firm and

subsidiary of ING Group, a Dutch financial institution, from April 1998 to June 1999. Prior to that, Mr. MacCallum formed the Life Sciences group at UBS Securities, an investment banking firm, where he was Managing Director and Global Head of Life Sciences from May 1994 to April 1998. Before joining UBS Securities, he built the health care practice at Hambrecht & Quist, an investment banking firm, where he was Head of Health Care and Co-Head of Investment Banking. From 2005 to October 2010, Mr. MacCallum served as a director of Zymogenetics, Inc. From 2002 to 2008, he served as a director of Vital Signs, Inc. Mr. MacCallum received an A.B. degree from Brown University and an M.B.A. degree from New York University. He is a Chartered Financial Analyst. The Board believes that Mr. MacCallum's knowledge and understanding of accounting and finance, his business experience in the investment banking industry, combined with his business acumen and judgment provide our Board with valuable accounting, financial and operational expertise and leadership and qualifies him to serve on our Board of Directors.

Henry L. Nordhoff has been one of our directors since March 2005. He has served as a director of BioTime, Inc. since June 2013 and as a director of Asterias Biotherapeutics, Inc. since October 2013. Mr. Nordhoff retired as Chairman of the Board of Gen-Probe Incorporated, a clinical diagnostic and blood screening company, at the end of 2011, after serving as its Chairman since September 2002. He also served as Chief Executive Officer and President of Gen-Probe from July 1994 until May 2009. Prior to joining Gen-Probe, he was President and Chief Executive Officer of TargeTech, Inc., a gene therapy company that was merged into Immune Response Corporation. Prior to that, Mr. Nordhoff was at Pfizer, Inc. in senior positions in Brussels, Seoul, Tokyo and New York. He received a B.A. in international relations and political economy from Johns Hopkins University and an M.B.A. from Columbia University. The Board believes that Mr. Nordhoff's business experience, including his experience as a director and executive officer at pharmaceutical and biotech companies, combined with his business acumen and judgment provide our Board with valuable operational expertise and leadership and qualifies him to serve on our Board of Directors.

James S. Shannon, M.D., MRCP (UK) rejoined our board in May 2015 after previously serving as a director from February 2010 until April 2012. From May 2012 until his retirement in April 2015, Dr. Shannon was the Chief Medical Officer of GlaxoSmithKline. He formerly held the position of Global Head of Pharma Development at Novartis AG, based in Basel, Switzerland from 2005 until 2008. After joining Sandoz in 1994 as Head of Drug Regulatory Affairs, Dr. Shannon led of the Integration Office for R&D overseeing the creation of the Novartis R&D groups from those of Ciba-Geigy Ltd and Sandoz. Following the merger he was appointed Head of the Cardiovascular Strategic Team and subsequently became Global Head of Project Management before being appointed Global Head of Clinical Development and Medical Affairs in 1999, a position that he held until 2005 when he was appointed to Head Pharma Development. Between 2008 and joining GSK, Dr. Shannon served on the boards of a number of companies, including Biotie, Circassia, Crucell, Endocyte and MannKind. He also sat on the board of Cerimon Pharmaceuticals where he held the position of interim Chief Executive Officer and President from January 2009 until April 2010. He first entered the pharmaceutical industry in 1987 joining Sterling Winthrop Inc., working initially in Europe and subsequently in the USA, where he held positions of increasing responsibility in the management of research and development ultimately serving as Senior Vice-President, Clinical Development. Dr. Shannon is trained in Medicine and Cardiology. He received his undergraduate and postgraduate degrees at Queen's University of Belfast and is a Member of the Royal College of Physicians (UK). The Board believes that Dr. Shannon's business experience and his extensive experience in drug development, combined with his business acumen and judgment provide our Board with valuable scientific and operational expertise and leadership and qualifies him to serve on our Board of Directors.

THE BOARD OF DIRECTORS RECOMMENDS

A VOTE FOR THE ELECTION OF ALL DIRECTOR NOMINEES NAMED ABOVE

CORPORATE GOVERNANCE PRINCIPLES AND BOARD AND COMMITTEE MATTERS

INDEPENDENCE OF THE BOARD OF DIRECTORS

As required under the Nasdaq Stock Market (Nasdaq) listing standards, a majority of the members of a listed company s board of directors must qualify as independent, as affirmatively determined by the board of directors. Our Board of Directors consults with the Company s counsel to ensure that the Board s determinations are consistent with all relevant securities and other laws and regulations regarding the definition of independent, including those set forth in pertinent listing standards of Nasdaq, as in effect time to time.

Consistent with these considerations, after review of all relevant transactions or relationships between each director or any of his family members and the Company, its senior management and its independent auditors, the Board of Directors affirmatively has determined that all of the Company s directors other than Mr. Pfeffer is independent within the meaning of the applicable Nasdaq listing standards. In making this determination, the Board found that none of the directors has a material or other disqualifying relationship with the Company.

INFORMATION REGARDING THE BOARD OF DIRECTORS AND ITS COMMITTEES

We are committed to maintaining the highest standards of business conduct and ethics. Our Board of Directors has adopted a Code of Business Conduct and Ethics and adheres to corporate governance guidelines to assure that the Board will have the necessary authority and practices in place to review and evaluate our business operations as needed and to make decisions that are independent of our management. The guidelines are also intended to align the interests of directors and management with those of our stockholders. The charters for various Board committees set forth the practices the Board will follow with respect to board composition and selection, board meetings and involvement of senior management, Chief Executive Officer performance evaluation and succession planning, and board committees and compensation. Our Board of Directors adopted these measures to, among other things, reflect changes to the Nasdaq listing standards and SEC rules adopted to implement provisions of the Sarbanes-Oxley Act of 2002, as amended. Our Code of Business Conduct and Ethics, as well as the charters for each committee of the Board, may be viewed on our website at www.mannkindcorp.com.

BOARD LEADERSHIP STRUCTURE

Our Board of Directors is currently chaired by Mr. Kresa. As a general policy, our Board of Directors believes that separation of the positions of Chairman and Chief Executive Officer reinforces the independence of the Board of Directors from management, creates an environment that encourages objective oversight of management s performance and enhances the effectiveness of the Board of Directors as a whole. As such, Mr. Pfeffer serves as our Chief Executive Officer while Mr. Kresa serves as our Chairman of the Board of Directors but is not an officer. We expect and intend the positions of Chairman of the Board of Directors and Chief Executive Officer to continue to be held by separate individuals in the future. If in the future we conclude there is a compelling reason for the positions of Chairman of the Board and Chief Executive Officer to be occupied by the same individual, we would except to appoint one of our other directors to the position of lead independent director to help reinforce the independence of the Board from management.

ROLE OF THE BOARD IN RISK OVERSIGHT

One of the key functions of our Board of Directors is informed oversight of the Company s risk management process. The Board of Directors does not have a standing risk management committee, but rather administers this oversight function directly through the Board as a whole, as well as through various standing committees that address risks inherent in their respective areas of oversight. In particular, our Board is responsible for monitoring and assessing strategic risk exposure, including a determination of the nature and

level of risk appropriate for the Company. Our Audit Committee has the responsibility to consider and discuss our major financial risk exposures and the steps our management has taken to monitor and control these exposures, including guidelines and policies to govern the process by which risk assessment and management is undertaken. Our Compensation Committee reviews and approves individual and corporate performance goals, advises the Board regarding the adoption, modification, or termination of compensation plans and policies and assesses and monitors whether any of our compensation policies and programs has the potential to encourage excessive risk-taking.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has three standing committees: an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee. All three committees operate under written charters adopted by our Board, all of which are available on our website at www.mannkindcorp.com.

Each of the committees has authority to engage legal counsel or other experts or consultants, as it deems appropriate to carry out its responsibilities. The Board of Directors has determined that each member of each committee meets the applicable rules and regulations regarding independence and that each member is free of any relationship that would interfere with his or her individual exercise of independent judgment with regard to the Company. Below is a description of each committee.

Audit Committee

Our Audit Committee consists of Mr. Consiglio (chair), Mr. MacCallum and Mr. Nordhoff, each of whom is an independent member of our Board of Directors (as determined by our Board based on its annual review of the independence requirement of Audit Committee members provided in Rule 5605(c)(2)(A)(i) and (ii) of the Nasdaq listing standards). The functions of this committee include, among others:

evaluating the independent registered public accounting firm's qualifications, independence and performance;

determining the engagement of the independent registered public accounting firm;

approving the retention of the independent registered public accounting firm to perform any proposed permissible non-audit services;

monitoring the rotation of partners of the independent registered public accounting firm on our engagement team as required by law;

reviewing our financial statements;

reviewing our critical accounting policies and estimates;

discussing with management and the independent registered public accounting firm the results of the annual audit and the review of our quarterly financial statements; and

reviewing and evaluating, at least annually, the performance of the Audit Committee and its members, including compliance of the Audit Committee with its charter.

The Board of Directors has determined that Mr. Consiglio qualifies as an audit committee financial expert, as that term is defined in applicable SEC rules. In making such determinations, the Board of Directors made a qualitative assessment of Mr. Consiglio's level of knowledge and experience based on a number of factors, including his formal education and experience. Both our independent registered public accounting firm and internal financial personnel regularly meet privately with our Audit Committee and have unrestricted access to this committee. Our Audit Committee charter can be found on our corporate website at www.mannkindcorp.com. The Audit Committee met four times during 2015. The report of the Audit Committee is included herein on page [].

Compensation Committee

Our Compensation Committee consists of Mr. Kresa (chair), Dr. Friedman and Dr. Shannon, each of whom is an independent member of our Board of Directors (as independence is currently defined in Rule 5605(a)(2) of the Nasdaq listing standards). The functions of this committee include, among others:

reviewing and recommending policy relating to compensation and benefits of our officers and employees, including reviewing and approving corporate goals and objectives relevant to compensation of our Chief Executive Officer and other senior officers, evaluating the performance of these officers in light of those goals and objectives, and recommending compensation of these officers based on such evaluations;

administering our benefit plans and the issuance of stock options and other awards under our stock plans;

recommending the type and amount of compensation to be paid or awarded to members of our Board of Directors, including consulting, retainer, meeting, committee and committee chair fees and stock option grants or awards;

reviewing and approving the terms of any employment agreements, severance arrangements, change-of-control protections and any other compensatory arrangements for our executive officers; and

reviewing and evaluating, at least annually, the performance of the Compensation Committee and its members, including compliance of the Compensation Committee with its charter.

Typically, the Compensation Committee meets at least quarterly and with greater frequency if necessary. The Compensation Committee met four times during 2015.

The processes and procedures of the Compensation Committee with respect to executive compensation are described in greater detail in the Compensation Discussion and Analysis section of this proxy statement. Our Compensation Committee charter can be found on our corporate website at www.mannkindcorp.com. The report of the Compensation Committee is included herein on page [].

Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee consists of Dr. Friedman (chair), Mr. Consiglio and Mr. Kresa, each of whom is an independent member of our Board of Directors (as independence is currently defined in Rule 5605(a)(2) of the Nasdaq listing standards). The functions of this committee include, among others:

planning for succession with respect to the position of Chief Executive Officer and other senior officers;

reviewing and recommending nominees for election as directors;

assessing the performance of the Board of Directors and monitoring committee evaluations;

suggesting, as appropriate, ad-hoc committees of the Board of Directors;

developing guidelines for board composition; and

reviewing and evaluating, at least annually, the performance of the Nominating and Corporate Governance Committee and its members, including compliance of the Nominating and Corporate Governance Committee with its charter.

Our Nominating and Corporate Governance Committee charter can be found on our corporate website at www.mannkindcorp.com. The Nominating and Corporate Governance Committee met once during 2015.

CONSIDERATION OF DIRECTOR NOMINEES

Director Qualifications

The Nominating and Corporate Governance Committee believes that candidates for director should have certain minimum qualifications, including being able to read and understand basic financial statements, being over 21 years of age and having the highest personal integrity and ethics. The Nominating and Corporate Governance Committee also intends to consider such factors as possessing relevant expertise upon which to be able to offer advice and guidance to management, having sufficient time to devote to the affairs of the Company, demonstrated excellence in his or her field, having the ability to exercise sound business judgment and having the commitment to rigorously represent the long-term interests of the Company's stockholders. However, the Nominating and Corporate Governance Committee retains the discretion to modify these qualifications from time to time.

Evaluating Nominees for Director

The Nominating and Corporate Governance Committee review candidates for director nominees in the context of the current composition of the Board of Directors, the operating requirements of the Company and the long-term interests of the Company's stockholders. In conducting this assessment, the Nominating and Corporate Governance Committee considers age, skills, and such other factors as it deems appropriate given the current needs of the Board of Directors and the Company, to maintain a balance of knowledge, experience and capability. In the case of incumbent directors, the Nominating and Corporate Governance Committee reviews such directors' overall service to the Company during their term, including the number of meetings attended, level of participation, quality of performance, and any other relationships and transactions that might impair such directors' independence. In the case of new director candidates, the Nominating and Corporate Governance Committee also determines whether the nominee would be independent for Nasdaq purposes, which determination is based upon applicable Nasdaq listing standards, applicable SEC rules and regulations and the advice of counsel, if necessary. The Nominating and Corporate Governance Committee also focuses on issues of diversity, such as diversity of gender, race and national origin, education, professional experience and differences in viewpoints and skills. The Nominating and Corporate Governance Committee does not have a formal policy with respect to diversity; however, the Board of Directors and the Nominating and Corporate Governance Committee believe that it is important that directors represent diverse viewpoints.

The Nominating and Corporate Governance Committee uses its network of contacts to compile a list of potential candidates, but may also engage, if it deems appropriate, a professional search firm. The Nominating and Corporate Governance Committee conducts any appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of the Board. The Nominating and Corporate Governance Committee meets to discuss and consider such candidates' qualifications and then selects a nominee for recommendation to the Board by majority vote. To date, the Nominating and Corporate Governance Committee has not paid a fee to any third party to assist in the process of identifying or evaluating director candidates.

Stockholder Nominations

The Nominating and Corporate Governance Committee will consider director candidates recommended by stockholders. The Nominating and Corporate Governance Committee does not intend to alter the manner in which it evaluates candidates, including the minimum criteria set forth above, based on whether a candidate was recommended by a stockholder or not. Stockholders who wish to recommend individuals for consideration by the Nominating and Corporate Governance Committee to become nominees for election to the Board of Directors must do so by delivering at least 120 days prior to the anniversary date of the mailing of MannKind's proxy statement for its last annual meeting of stockholders a written recommendation to the Nominating and Corporate Governance Committee, c/o MannKind Corporation, 25134 Rye Canyon Loop, Suite 300, Valencia, California 91355, Attn: Corporate Secretary. Each submission must set forth:

the name and address of the MannKind stockholder on whose behalf the submission is made;

the number of MannKind shares that are owned beneficially by such stockholder as of the date of the submission;

the full name of the proposed candidate;

a description of the proposed candidate's business experience for at least the previous five years;

complete biographical information for the proposed candidate; and

a description of the proposed candidate's qualifications as a director.

Each submission must be accompanied by the written consent of the proposed candidate to be named as a nominee and to serve as a director if elected. To date, the Nominating and Corporate Governance Committee has not received a timely nomination of a candidate for election as a director at any annual meeting from a stockholder or group of stockholders holding more than 5% of our voting stock.

MEETINGS OF THE BOARD OF DIRECTORS

The Board of Directors met four times during the last fiscal year. Each director attended 75% or more of the aggregate number of the meetings of the Board and of the committees on which he served, held during the period for which he was a director or committee member.

EXECUTIVE SESSIONS

As required under applicable Nasdaq listing standards, our independent directors meet in regularly scheduled executive sessions at which only independent directors are present.

STOCKHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS

The Company's Board of Directors has adopted a formal process by which stockholders may communicate with the Board or any of its directors. Stockholders who wish to communicate with the Board or an individual director may send a written communication to the Board or such director c/o MannKind Corporation, 25134 Rye Canyon Loop, Suite 300, Valencia, California 91355, Attn: Corporate Secretary. Communications also may be sent by e-mail to the following address: board@mannkindcorp.com. Each communication must set forth the name and address of the MannKind stockholder on whose behalf the communication is sent. Each communication will be screened by MannKind's Corporate Secretary to determine whether it is appropriate for presentation to the Board of Directors or such director. Examples of inappropriate communications include junk mail, mass mailings, product complaints, product inquiries, new product suggestions, resumes, job inquiries, surveys, business solicitations and advertisements, as well as unduly hostile, threatening, illegal, unsuitable, frivolous, patently offensive or otherwise inappropriate material. Communications determined by the Corporate Secretary to be appropriate for presentation to the Board of Directors or such director will be submitted to the Board of Directors or such director on a periodic basis.

The screening procedures have been approved by a majority of the independent directors of the Board. All communications directed to the Audit Committee in accordance with the Company's Code of Business Conduct and Ethics that relate to questionable accounting or auditing matters involving the Company will be promptly and directly forwarded to the Audit Committee.

CODE OF BUSINESS CONDUCT AND ETHICS

We have adopted a Code of Business Conduct and Ethics Policy that applies to our directors and employees (including our principal executive officer, principal financial officer, principal accounting officer and controller), and have posted the text of the policy on our website (www.mannkindcorp.com) in connection with Investors' materials. In addition, we intend to promptly disclose on our website (i) the nature of any amendment to the

policy that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and (ii) the nature of any waiver, including an implicit waiver, from a provision of the policy that is granted to one of these specified individuals, the name of such person who is granted the waiver and the date of the waiver.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During the fiscal year ended December 31, 2015, Messrs. Kresa and Nordhoff and Drs. Friedman and Shannon served on our Compensation Committee. Dr. Shannon was appointed to our Compensation Committee concurrently with his appointment to our Board of Directors in May 2015. Concurrently with Dr. Shannon's appointment, Mr. Nordhoff resigned from the Compensation Committee. None of Messrs. Kresa or Nordhoff or Drs. Friedman or Shannon has ever been one of our officers or employees. During 2015, none of our executive officers served as a member of the Board of Directors or Compensation Committee of any other entity that had one or more executive officers who served on our Board of Directors or Compensation Committee.

PROPOSAL 2

APPROVAL OF INCREASE IN NUMBER OF AUTHORIZED SHARES OF COMMON STOCK

MannKind's Board of Directors is requesting stockholder approval of an amendment to the Company's Amended and Restated Certificate of Incorporation to increase the Company's authorized number of shares of common stock from 550,000,000 shares to 700,000,000 shares. The form of amended and restated certificate of incorporation is attached to this proxy statement as Appendix A.

The additional common stock to be authorized by adoption of the amendment would have rights identical to the currently outstanding common stock of the Company. Adoption of the proposed amendment and issuance of the common stock would not affect the rights of the holders of currently outstanding common stock of the Company, except for effects incidental to increasing the number of shares of the Company's common stock outstanding, such as dilution of the earnings per share and voting rights of current holders of common stock. If the amendment is adopted, it will become effective upon filing of an Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware.

In addition to the 429,138,685 shares of common stock outstanding on March 31, 2016, the Board has reserved 44,898,849 shares of common stock for issuance under our equity incentive plans. Of this number, 24,102,471 shares are reserved for issuance upon exercise of stock options that are currently outstanding, 3,946,007 shares are reserved for issuance upon vesting of outstanding restricted stock units and 8,193,554 shares are reserved for future issuances and grants made under our equity incentive plans and 2,752,703 reserved for future issuances under the employee stock purchase plan. In addition, the Board has reserved 5,744,811 shares of common stock which may be issued upon the conversion of our outstanding 5.75% senior convertible notes due 2018 and reserved 159,303 shares that may be issued upon the exercise of restricted warrants issued to Sunrise Securities for services provided.

The Board of Directors currently has no other plans to issue the additional shares of common stock. The Board desires to have the shares available to provide additional flexibility to use its capital stock for business and financial purposes in the future. The additional shares may be used for various purposes without further stockholder approval. These purposes may include: raising capital; providing equity incentives to employees, officers and directors; establishing strategic relationships with other companies; expanding the Company's business or product lines through the acquisition of other businesses or products; and other purposes. In addition, as described below in Proposal 3, we are seeking approval for an additional 15,000,000 shares of common stock to be reserved for future grants and issuances pursuant to the 2013 Plan.

If our stockholders do not approve the proposal, the Company may not be able to access the capital markets, complete acquisition transactions, corporate collaborations or partnerships or attract, retain and motivate employees or pursue other business opportunities integral to its growth and success.

The additional shares of common stock that would become available for issuance if the proposal is adopted could also be used by the Company to oppose a hostile takeover attempt or to delay or prevent changes in control or management of the Company. For example, without further stockholder approval, the Board could strategically sell shares of common stock in a private transaction to purchasers who would oppose a takeover or favor the current Board. Although this proposal to increase the authorized common stock has been prompted by business and financial considerations and not by the threat of any hostile takeover attempt (nor is the Board currently aware of any such attempts directed at the Company), stockholders should be aware that approval of the proposal could facilitate future efforts by the Company to deter or prevent changes in control of the Company, including transactions in which the stockholders might otherwise receive a premium for their shares over then current market prices.

The affirmative vote of the holders of a majority of the outstanding shares of our common stock will be required to approve this amendment to the Company's Amended and Restated Certificate of Incorporation. As a result, abstentions and broker non-votes will have the same effect as negative votes.

THE BOARD OF DIRECTORS RECOMMENDS

A VOTE FOR PROPOSAL 2

PROPOSAL 3**APPROVAL OF AN AMENDMENT TO THE 2013 EQUITY INCENTIVE PLAN****Overview**

On April 4, 2016, our Board of Directors amended the MannKind Corporation 2013 Equity Incentive Plan (the 2013 Plan), subject to stockholder approval, to (i) increase the number of shares of common stock authorized for issuance under the 2013 Plan by 15,000,000 shares, (ii) increase the number of share that may be issued upon the exercise of incentive stock options from 45,000,000 shares to 60,000,000 shares, and (iii) for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code) (a) confirm the applicable award limits for purposes of compliance with Section 162(m) of the Code, (b) confirm existing performance criteria upon which performance goals may be based with respect to performance awards under the 2013 Plan, and (c) confirm existing permitted means of adjustment when calculating the attainment of performance goals for performance awards granted under the 2013 Plan. We refer to the 2013 Plan, as amended on April 4, 2016, as the Amended 2013 Plan throughout this proxy statement. References in this proposal to our Board of Directors include the Compensation Committee of the Board, where applicable.

A description of the material terms of the Amended 2013 Plan are summarized below. The key differences between the terms of the 2013 Plan and the Amended 2013 Plan are as follows:

The Amended 2013 Plan provides that an additional 15,000,000 shares may be issued pursuant to stock awards granted under the Amended 2013 Plan.

The Amended 2013 Plan increases the number of shares that may be issued pursuant to the exercise of incentive stock options from 45,000,000 shares to 60,000,000 shares.

The Amended 2013 Plan eliminates the	Net cash (used in) provided by financing	(5,069)	(43,882)
gcolor="#e0e0e0">	activities		
Decrease in cash and cash equivalents	(8,058)		(6,490)
Cash and cash equivalents at beginning of period	15,743		16,857
Cash and cash equivalents at end of period	\$ 7,685		\$ 10,367
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the six-month period ended June 30:			
Interest	\$ 8,097		\$ 11,434
Income taxes	\$ 9,099		\$ 3,254

Non-cash investing and financing activities:

On May 31, 2002, Applica Consumer Products, Inc., the U.S. operating subsidiary, purchased all of the outstanding shares of Weitech, Inc. in exchange for \$17,002,094 in cash and \$3,000,000 of notes payable.

The accompanying notes are an integral part of these statements.

Table of Contents**Applica Incorporated and Subsidiaries****Notes to Consolidated Financial Statements****1. SUMMARY OF ACCOUNTING POLICIES****Interim Reporting**

The accompanying unaudited consolidated financial statements include the accounts of Applica Incorporated and its subsidiaries (Applica). All significant intercompany transactions and balances have been eliminated. The unaudited consolidated financial statements have been prepared in conformity with Rule 10-01 of Regulation S-X of the Securities and Exchange Commission and therefore do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments (consisting of normal recurring accruals), which, in the opinion of management, are necessary for a fair presentation of the financial statements, have been included. Operating results for the period ended June 30, 2002 are not necessarily indicative of the results that may be expected for the remaining quarters or the year ending December 31, 2002 due to seasonal fluctuations in Applica s business, changes in economic conditions and other factors. For further information, please refer to the Consolidated Financial Statements and Notes thereto contained in Applica s Annual Report on Form 10-K for the year ended December 31, 2001.

Reclassifications

Certain prior period amounts have been reclassified for comparability.

Receivables from Affiliates

Receivables from affiliates include the current portion of receivables due from Applica s joint ventures partners and certain executive officers of Applica. These receivables are due upon demand or upon termination of the applicable employment contract and bear interest at prevailing market interest rates. Receivables due from Applica s executive officers are unsecured.

Foreign Currency Reporting Argentina

Effective January 1, 2002, the functional currency of the Argentinean operation was changed from the Argentinean peso to the US dollar. Accordingly, Applica recognized a \$0.3 million translation loss during the second quarter of 2002 and a \$2.0 million translation loss during the six months ended June 30, 2002.

Inventories

Inventories are stated at the lower of cost or market; cost is determined by the first-in, first-out method. Inventories are comprised of the following:

	June 30, 2002	December 31, 2001
	(In thousands)	
Raw materials	\$ 4,007	\$ 4,264
Work in process	3,782	4,039
Finished goods	112,997	95,413
	<u>\$ 120,786</u>	<u>\$ 103,716</u>

2. SHAREHOLDERS EQUITY**Earnings Per Share**

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Basic shares for the three-month periods ended June 30, 2002 and 2001 were 23,386,144 and 23,093,291, respectively. Basic shares for the six-month periods ended June 30, 2002 and 2001 were 23,362,988 and 23,085,231,

Table of Contents**Applica Incorporated and Subsidiaries
Notes to Consolidated Financial Statements Continued**

respectively. All common stock equivalents have been excluded from the diluted per share calculations in the three-month and six-month periods ended June 30, 2002 and 2001 as their inclusion would have been anti-dilutive.

3. COMMITMENTS AND CONTINGENCIES

Shareholder Litigation and Related Matters. Applica is a defendant in Sherleigh Associates LLC and Sherleigh Associates Inc. Profit Sharing Plan, on their own behalf and on behalf of all others similarly situated v. Windmere-Durable Holdings, Inc., David M. Friedson and Nationsbanc Montgomery Securities LLC, 98-2273-CIV-LENARD which was filed in the United States District Court, Southern District of Florida in October 1998.

In January 2002, Applica reached an agreement in principle to settle the securities class action litigation and the related derivative claims for approximately \$11.0 million in cash. Applica took a charge of approximately \$1.0 million in the fourth quarter of 2001 for expenses related to the litigation, \$550,000 of which was paid in the first quarter of 2002. Applica expects to pay the remaining \$450,000 in the third quarter of 2002. All other amounts related to the settlement of the litigation were covered under Applica's insurance policies. Under the terms of the settlement, all claims against Applica and all other defendants will be dismissed without any admission of liability or wrongdoing. Settlement is subject to final documentation and court approval. Failure of the court to approve the settlement could result in significant changes in estimated exposures. The settlements in the derivative action and the securities class action are expected to be approved by the applicable court in the third or fourth quarter of 2002.

Salton Litigation. Applica is also a defendant in Salton, Inc. v Windmere-Durable Holdings, Inc. and Windmere Corporation, which was filed in the United States District Court, Northern District of Illinois in January 2001. Discovery procedures have been initiated and are ongoing. The parties are currently engaging in settlement discussions.

Toaster Recall. In February 2002, Applica Consumer Products, Inc., in cooperation with the U.S. Consumer Products Safety Commission, voluntarily recalled approximately 2.1 million Black & Decker® two-slice and four-slice toasters. Applica's Canadian operating subsidiary, Applica Canada Corporation, also recalled approximately 180,000 of these toasters in Canada. In connection therewith, Applica took a charge of \$13.4 million in the fourth quarter of 2001 relating to the estimated expenses of such recalls. Management does not believe the ultimate liability will be materially different.

Currently, one product liability lawsuit has been filed relating to the recalled toasters; however, several claims of property damage or bodily injury have been made. We believe that the amount of ultimate liability of these matters, if any, is not likely to have a material effect on our business, financial condition or results of operations. However, as the outcome of litigation is difficult to predict, significant changes in the estimated exposures could occur.

Other Matters. Applica is subject to other legal proceedings, product liability claims and other claims that arise in the ordinary course of our business. In the opinion of management, the amount of ultimate liability with respect to such matters, if any, in excess of applicable insurance coverage, is not likely to have a material effect on the financial condition, results of operations or liquidity of Applica. However, as the outcome of litigation or other claims is difficult to predict, significant changes in the estimated exposures could occur.

4. REPOSITIONING AND OTHER CHARGES

In the fourth quarter of 2001, Applica recorded charges relating to several events in the aggregate amount of \$14.8 million. These charges included \$6.8 million relating to Applica's decision to consolidate its Shelton, Connecticut office with the headquarters located in Miami Lakes, Florida, as well as certain back-office and supply chain functions in Canada and Latin America. In addition, \$5.2 million of charges related to Applica's execution of a new four-year senior secured revolving credit facility and write-off of fees and expenses associated with the prior credit facility. Also included in the charge was \$1.5 million relating to the devaluation of the Argentinean peso and \$1.0 million related to the settlement of the shareholder class action litigation.

Additionally, Applica Consumer Products, Inc., Applica's U.S. operating subsidiary, in cooperation with the U.S. Consumer Products Safety Commission, voluntarily recalled approximately 2.1 million Black & Decker® two-slice and four-slice toasters. Applica's Canadian operating subsidiary, Applica Canada Corporation, also

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Applica Incorporated and Subsidiaries
Notes to Consolidated Financial Statements Continued

recalled approximately 180,000 of these toasters in Canada. In connection therewith, Applica took a charge of \$13.4 million in the fourth quarter of 2001 relating to the estimated expenses of such recalls.

Accrued liabilities relating to the 2001 repositioning and other charges were as follows:

Activity	Amount Accrued at Dec. 31, 2001	Amount Paid	Amount Accrued at June 30, 2002
		(In thousands)	
Recall	\$ 13,418	\$ 7,246	6,172
Back-office consolidation	5,179	348	4,831
Shareholder litigation settlement	1,000	550	450
	<u>\$ 19,597</u>	<u>\$ 8,144</u>	<u>\$ 11,453</u>

In addition, during third and fourth quarters of 2002, Applica expects to incur an additional \$4.8 million in expenses relating to the consolidation of facilities and functions that did not qualify for accrual at December 31, 2001. These expenses will primarily consist of recruitment, severance and moving costs. During the first half of 2002, Applica incurred an expense of \$5.2 million related to the consolidation.

5. ACQUISITION OF WEITECH, INC.

On May 31, 2002, Applica Consumer Products, Inc., the Company's U.S. operating subsidiary, purchased all of the outstanding stock of Weitech, Inc., an electronic pest control company, for approximately \$17.0 million in cash and the issuance of \$3.0 million of notes payable.

The acquisition was accounted for as a purchase in accordance with SFAS 141 and accordingly, the purchase price was allocated based on the estimated fair market values of the identifiable assets and liabilities obtained, resulting in goodwill of approximately \$9.6 million. Goodwill will not be amortized in the future but will be tested for impairment in accordance with the provisions of SFAS 142.

The results of operations of Weitech, Inc. were included in the accompanying consolidated statement of operations since the date of the acquisition. Applica has omitted the unaudited pro forma results of operations showing the business combination as if it had occurred at the beginning of each period presented because the results are not significant to the June 30, 2002 consolidated financial statements.

6. GOODWILL AND INTANGIBLE ASSETS

In June 2001, the Financial Accounting Standards Board approved the issuance of SFAS 142, Goodwill and Other Intangible Assets, which establishes new accounting and reporting requirements for goodwill and other intangible assets. The new standards require that all intangible assets acquired that are obtained through contractual or legal right, or are capable of being separately sold, transferred, licensed, rented or exchanged must be recognized as an asset apart from goodwill. Goodwill and intangibles with indefinite lives are no longer amortized, but are subject to an annual assessment for impairment by applying a fair value based test.

Applica applied the provisions of SFAS 142 beginning on January 1, 2002 and performed a transitional fair value based impairment test. Based on the initial impairment test, Applica recognized a non-cash adjustment of \$121.3 million (\$78.8 million, or \$3.37 per share, net of tax) in the first quarter of 2002 to reduce the carrying value of goodwill to its implied fair value, which was estimated using a combination of market-multiples, comparable transactions and discounted cash flow methodologies. Under SFAS 142, the impairment adjustment was reflected as a cumulative effect of change in accounting principle in the first quarter of 2002. Per the provisions of SFAS 142, Applica will no longer record annual amortization of \$5.0 million per year. In connection with adopting SFAS 142, Applica also reassessed the useful lives and the classifications of its identifiable intangible assets and determined that they continue to be appropriate.

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Applica Incorporated and Subsidiaries
Notes to Consolidated Financial Statements Continued

The carrying amount of goodwill attributable to Applica is as follows:

	(In thousands)
Goodwill, net of accumulated amortization, at December 31, 2001	\$ 170,764
Impairment Adjustment	(121,276)
Addition resulting from Weitech acquisition	9,645
	<hr/>
Balance at June 30, 2002	\$ 59,133
	<hr/>

Components of other intangible assets not subject to amortization consists of \$4.1 million allocated to trademarks acquired in the Weitech acquisition. The components of Applica's intangible assets subject to amortization are as follows:

	Average Life (Years)	June 30, 2002		December 31, 2001	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
		(In thousands)			
Licenses	6.5	\$49,200	\$(29,155)	\$48,200	\$(25,525)
Contract-Based	3.3	19,722	(15,247)	16,651	(14,678)
		<hr/>	<hr/>	<hr/>	<hr/>
		\$68,922	\$(44,402)	\$64,851	\$(40,203)
		<hr/>	<hr/>	<hr/>	<hr/>

Amortization expense for intangible assets during the first half of 2002 was \$4.2 million. The following table provides information regarding estimated amortization expense for each of the following years ended December 31:

	(In thousands)
2002	\$8,420
2003	8,704
2004	8,595
2005	1,442
2006	776
2007	469

The following table adjusts earnings and earnings per share for the adoption of SFAS 142 for the three months ended June 30, 2002 and 2001:

	Three Months Ended June 30,	
	2002	2001
	(In thousands, except per share amounts)	
Net earnings (loss):		
Reported net earnings (loss)	\$(2,057)	\$(2,599)

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Add: Goodwill amortization, net of tax		925
	_____	_____
Adjusted net earnings (loss)	\$ (2,057)	\$ (1,674)
	_____	_____
Basic and diluted earnings per share:		
Reported net earnings (loss)	\$ (0.09)	\$ (0.11)
Add: Goodwill amortization, net of tax		0.04
	_____	_____
Adjusted net earnings (loss)	\$ (0.09)	\$ (0.07)
	_____	_____

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Applica Incorporated and Subsidiaries
Notes to Consolidated Financial Statements Continued

The following table adjusts earnings and earnings per share for the adoption of SFAS 142 for the six months ended June 30, 2002 and 2001:

	Six Months Ended June 30,	
	2002	2001
	(In thousands, except per share amounts)	
Net earnings (loss):		
Reported net earnings (loss)	\$(84,067)	\$(8,882)
Add: Goodwill amortization, net of tax		1,849
	_____	_____
Adjusted net earnings (loss)	(84,067)	(7,033)
Add: cumulative effect of change in accounting principle, net of tax	78,829	
	_____	_____
Adjusted net earnings (loss) before cumulative effect of change in accounting principle	\$ (5,238)	\$ (7,033)
	_____	_____
Basic and diluted earnings per share:		
Reported net earnings (loss)	\$ (3.59)	\$ (0.38)
Add: Goodwill amortization, net of tax		0.08
	_____	_____
Adjusted net earnings (loss)	(3.59)	(0.30)
Add: cumulative effect of change in accounting principle	3.37	
	_____	_____
Adjusted net earnings (loss) before cumulative effect of change in accounting principle	\$ (0.22)	\$ (0.30)
	_____	_____

7. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Applica Incorporated's domestic subsidiaries are guarantors of its 10% Senior Subordinated Notes due 2008. The following condensed consolidating financial information presents the results of operations, financial position and cash flows of Applica Incorporated (on a stand alone basis), the guarantor subsidiaries (on a combined basis), the non-guarantor subsidiaries (on a combined basis) and the eliminations necessary to arrive at the consolidated results of Applica. The results of operations and cash flows presented below assume that the guarantor subsidiaries were in place for all periods presented. Applica Incorporated and the Subsidiary Guarantors have accounted for investments in their respective subsidiaries on an unconsolidated basis using the equity method of accounting. The Subsidiary Guarantors are wholly-owned subsidiaries of Applica and have fully and unconditionally guaranteed the Notes on a joint and several basis. The Notes contain certain covenants that, among other things, restrict the ability of the Subsidiary Guarantors to make distributions to Applica Incorporated.

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Applica Incorporated and Subsidiaries
Notes to Consolidated Financial Statements **Continued**

Six Months Ended June 30, 2002

	Applica Incorporated	Guarantors	Non- Guarantors	Eliminations	Consolidated
(In thousands)					
Statement of Operations:					
Net sales	\$	\$ 233,018	\$ 240,323	\$ (162,244)	\$ 311,097
Cost of goods sold		157,219	221,344	(162,244)	216,319
Gross profit		75,799	18,979		94,778
Operating (income) expenses	(467)	73,863	17,099		90,495
Repositioning charge		5,246			5,246
Operating earnings (loss)	467	(3,310)	1,880		(963)
Other (income) expense, net	(48)	7,605	(346)	(300)	6,911
Earnings (loss) before equity in net earnings (loss) of joint ventures and income taxes and cumulative effect of change in accounting principle	515	(10,915)	2,226	300	(7,874)
Equity in net earnings (loss) of joint ventures		(185)			(185)
Income tax expense (benefit)		2	6,694	(9,517)	(2,821)
Earnings (loss) before cumulative effect of change in accounting principle	515	(11,102)	(4,468)	9,817	(5,238)
Cumulative effect of change in accounting principle		(118,141)		39,312	(78,829)
Net earnings (loss)	\$ 515	\$ (129,243)	\$ (4,468)	\$ 49,129	\$ (84,067)
Balance Sheet:					
Cash and cash equivalents	\$	\$ 701	\$ 6,984	\$	\$ 7,685
Accounts and other receivables, net		104,115	45,956		150,071
Receivables from affiliates	(108,459)	48,506	64,077		4,124
Inventories		81,756	39,030		120,786
Other current assets		7,971	15,294	28,891	52,156
Total current assets	(108,459)	243,049	171,341	28,891	334,822
Investment in joint ventures	425,120	113,552	70,476	(607,752)	1,396
Property, plant and equipment, net		15,806	65,326		81,132
Other assets	2,418	147,862	24,815	(32,026)	143,069
Total assets	\$ 319,079	\$ 520,269	\$ 331,958	\$ (610,887)	\$ 560,419
Notes and acceptance payable	\$	\$ 3,000	\$ 2,453	\$	\$ 5,453
Accounts payable and accrued expenses	2	45,383	79,708		125,093
Current maturities of long-term debt		574			574
Deferred income		408			408
Current taxes payable		(176)	2,922	959	3,705
Total current liabilities	2	49,189	85,083	959	135,233
Long-term debt	211,292	39,734	18,866	(53,196)	216,696

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Deferred income taxes		22,432	2,771	(25,203)	
Other long-term liabilities		896		42	938
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	211,294	112,251	106,720	(77,398)	352,867
Shareholders' equity	107,785	408,018	225,238	(533,489)	207,552
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and shareholders' equity	\$ 319,079	\$ 520,269	\$ 331,958	\$ (610,887)	\$ 560,419
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Cash Flow Information:

Net cash provided by (used in) operating activities	\$ 358	\$ (27,527)	\$ 45,800	\$ 4,609	\$ 23,240
Net cash provided by (used in) investing activities	8,040	3,759	(41,290)	3,262	(26,229)
Net cash provided by (used in) financing activities	(8,398)	23,713	(12,513)	(7,871)	(5,069)
Cash at beginning		756	14,987		15,743
Cash at end		701	6,984		7,685

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Applica Incorporated
Notes to Consolidated Financial Statements Continued

Six Months Ended June 30, 2001

	Applica Incorporated	Guarantors	Non-Guarantors	Eliminations	Consolidated
(In thousands)					
Statement of Operations:					
Net sales	\$	\$236,613	\$215,805	\$(138,933)	\$313,485
Cost of goods sold		175,737	188,590	(138,933)	225,394
Gross profit		60,876	27,215		88,091
Operating (income) expenses	(696)	73,713	15,244	424	88,685
Operating earnings (loss)	696	(12,837)	11,971	(424)	(594)
Other (income) expense, net	11,152	(40)	289		11,401
Earnings (loss) before income taxes	(10,456)	(12,797)	11,682	(424)	(11,995)
Income tax expense (benefit)		(9,574)	6,461		(3,113)
Net earnings (loss)	\$ (10,456)	\$ (3,223)	\$ 5,221	\$ (424)	\$ (8,882)
Balance Sheet:					
Cash and cash equivalents	\$ 6	\$ 962	\$ 9,399	\$	\$ 10,367
Accounts and other receivables, net		107,505	49,386		156,891
Receivables from affiliates	(72,058)	7,770	67,693		3,405
Inventories		83,606	50,043		133,649
Other current assets		7,762	17,901	14,996	40,659
Total current assets	(72,052)	207,605	194,422	14,996	344,971
Investments in joint ventures	425,121	113,124	70,492	(607,342)	1,395
Property, plant and equipment, net		19,182	64,170		83,352
Other assets	2,175	245,030	19,047	(45,345)	220,907
Total assets	\$355,244	\$584,941	\$348,131	\$(637,691)	\$650,625
Notes and acceptances payable	\$	\$	\$ 2,255	\$	\$ 2,255
Accounts payable and accrued expenses	3	24,580	60,542		85,125
Current maturities of long-term debt	19,569				19,569
Deferred income		478			478
Current taxes payable		4,899	2,567	(7,466)	
Total current liabilities	19,572	29,957	65,364	(7,466)	107,427
Long-term debt	221,812	7,975	24,093	(27,564)	226,316
Future income tax liabilities		25,749	2,445	(28,194)	
Other long-term liabilities		2,495			2,495
Total liabilities	241,384	66,176	91,902	(63,224)	336,238
Shareholders' equity	113,860	518,765	256,229	(574,467)	314,387
Total liabilities and shareholders' equity	\$355,244	\$584,941	\$348,131	\$(637,691)	\$650,625

Cash Flow Information:

Net cash provided by (used in) operating activities	\$ (12,629)	\$ 14,187	\$ 37,951	\$ 12,782	\$ 52,291
Net cash provided by (used in) investing activities	41,581	(11,382)	(41,559)	(3,539)	(14,899)
Net cash provided by (used in) financing activities	(28,954)	(6,189)	504	(9,243)	(43,882)
Cash at beginning	8	4,346	12,503		16,857
Cash at end	6	962	9,399		10,367

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

As used in this Quarterly Report on Form 10-Q, we, our, us, the Company and Applica refer to Applica Incorporated and its subsidiaries, unless the context otherwise requires.

The following discussion and analysis and the related financial data present a review of the consolidated operating results and financial condition of Applica for the three-month and six-month periods ended June 30, 2002 and 2001. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes thereto contained in Applica's Annual Report on Form 10-K for the year ended December 31, 2001.

Forward Looking Statement Disclosure

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Such statements are indicated by words or phrases such as anticipate, projects, management believes, Applica believes, intends, expects, and similar words or phrases. Such forward-looking statements are subject to certain risks, uncertainties or assumptions and may be affected by certain other factors. These factors include, but are not limited to:

Uncertainties regarding the impact of the terrorist activities and the public's confidence in general.

The failure of our growth strategy.

Our inability to renew the Black & Decker® Trademark License Agreement beyond December 2006.

The infringement or loss of our proprietary rights.

Any significant decline in purchases by our larger customers or pressure from these customers to reduce prices.

The bankruptcy or loss of any major retail customer or supplier.

Weakness in the U.S. retail market and changes in product mix.

Uncertainties in Latin America.

The financial condition of the retail industry.

Fluctuations in cost and availability of raw materials and components.

Product recalls and product liability claims against us or other regulatory actions.

Changing conditions in foreign countries.

Changes in trade relations with China.

Currency fluctuations in our international operations.

Changes in retailer inventory management or failure of our logistical systems.

Our ability to develop new and innovative products and customer acceptance of such products.

An extended interruption in the operation of our manufacturing facilities.

Production-related risks that could jeopardize our ability to realize anticipated sales and profits.

Seasonality of our operating results.

Competition with other large companies that produce similar products.

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The success of our advertising, marketing and promotional programs.

Adverse effects of newly acquired businesses or product lines.

Our debt agreements contain covenants that restrict our ability to take certain actions.

Government regulations.

Should one or more of these risks, uncertainties or other factors materialize, or should underlying assumptions prove incorrect, actual results, performance, or achievements of Applica may vary materially from any future results, performance or achievements expressed or implied by the forward-looking statements. All subsequent written and oral forward-looking statements attributable to Applica or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements in this paragraph. Readers are cautioned not to place undue reliance on forward-looking statements. Applica undertakes no obligation to publicly revise any forward-looking statements to reflect events or circumstances that arise after the filing of this Quarterly Report on Form 10-Q.

General

Applica is a manufacturer, marketer and distributor of a broad range of branded and private-label small electric consumer goods. In 1998, Applica acquired the Black & Decker Household Products Group and became a leading supplier of brand name small household appliances in the United States. We also manufacture and distribute professional personal care products, home environment products and pet care products, including the LitterMaid® self-cleaning cat litter box. We manufacture and market products under licensed brand names, such as Black & Decker®, our own brand names, such as Windmere®, and other private-label brand names. Our customers include mass merchandisers, specialty retailers and appliance distributors primarily in North America, Latin America and the Caribbean.

We operate manufacturing facilities in China and Mexico. In 2001, approximately 80% of the products sold by Applica were manufactured in such facilities. In addition, we manufacture products for other consumer products companies, which we refer to as contract manufacturing.

During the fourth quarter of 2001, Applica began reporting its operations as one business segment. Previously, we had reported three business segments. The change to one business segment was made to conform to organizational changes we made in the management of our business to more effectively utilize and deploy our assets on a world-wide basis.

On May 31, 2002, Applica Consumer Products, Inc., the Company's U.S. operating subsidiary, acquired the outstanding shares of Weitech, Inc. for a total of \$20 million, including cash and notes and the repayment or assumption of certain of Weitech's outstanding debt. Weitech is a leading provider of electronic pest control products and recorded sales of \$24.9 million for the year ended December 31, 2001 with earnings before interest, taxes, depreciation and amortization of \$4.2 million. Weitech designs, manufactures and distributes products that emit high frequency sound waves to repel a variety of pests. Weitech sells its products through mass market retailers, specialty retailers and mail order catalogs, primarily in the United States. The results of operations of Weitech, Inc. were included in the accompanying consolidated statement of operations since the date of the acquisition.

Table of Contents**Results of Operations**

The operating results of Applica expressed as a percentage of sales are set forth below:

	Six Months Ended June 30,	
	2002	2001
Net sales	100.0%	100.0%
Cost of goods sold	69.5	71.9
Gross profit	30.5	28.1
Selling, general and administrative expenses:		
Operating expenses	29.1	28.3
Repositioning charge	1.7	
Operating earnings (loss)	(0.3)	(0.2)
Other expense (income)	2.2	3.6
Equity in net earnings (loss) of joint ventures	(0.1)	
Earnings (loss) before income taxes and cumulative effect of change in accounting principle	(2.6)	(3.8)
Income tax expense (benefit)	(0.9)	(1.0)
Earnings (loss) before cumulative effect of change in accounting principle	(1.7)	(2.8)
Cumulative effect of change in accounting principle, net of tax benefit	(25.3)	
Net earnings (loss)	(27.0)%	(2.8)%

Three Months Ended June 30, 2002 Compared To Three Months Ended June 30, 2001

Net Sales. Sales for Applica increased by \$6.4 million to \$168.0 million, an increase of 3.9% over the second quarter of 2001. The increase was primarily the result of increases of \$9.8 million in contract manufacturing sales and \$0.8 million in sales of Windmere branded and other products, primarily in the United States. The increase was partially off set by decreases of \$4.2 million in sales of Black & Decker branded products, primarily in Latin America.

Gross Profit Margin. Applica's gross profit margin was 31.8% in the second quarter of 2002 as compared to 29.5% for the same period in 2001. The gross profit margins increased in the second quarter as Applica returned to normal production levels at its manufacturing facilities during 2002 and experienced an improved product mix.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for Applica increased \$2.2 million for the second quarter of 2002 to \$48.2 million as compared to the second quarter of 2001. Such expenses increased as a percentage of sales to 28.7% from 28.5% in the 2001 period. In the second quarter of 2002, advertising and promotion expenses increased \$4.6 million as the result of increased promotion to support new product introductions. Additionally, payroll expense increased \$1.5 million and we experienced an \$0.8 million exchange loss primarily related to the continued devaluation of Latin American currencies. These increases were offset by decreases in amortization expense of \$2.8 million primarily as the result of the adoption of SFAS 142, Goodwill and Other Intangible Assets. Additionally, distribution and freight costs decreased by \$2.0 million during the quarter as the result of our supply chain management program.

In the second quarter of 2002, Applica incurred expenses of \$4.9 million relating to its decision to consolidate its Shelton, Connecticut office with the headquarters located in Miami Lakes, Florida, as well as certain back-office and supply chain functions in Canada and Latin America. These expenses did not qualify for accrual at December 31, 2001. Such consolidation will be completed in the third quarter of 2002. Applica expects to incur an additional \$4.8 million in expenses relating to the consolidation during the remainder of 2002.

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Interest Expense. Interest expense decreased by \$1.8 million, or 32.5%, to \$3.8 million for the three months ended June 30, 2002. Such decrease was largely the result of the reduction of debt by \$25.4 million to \$222.7 million, as compared to \$248.1 million as of June 30, 2001, and lower interest rates.

Taxes. Applica's tax expense is based on an estimated annual aggregation of the taxes on earnings of each of its foreign and domestic operations. In the second quarter of 2002, Applica used an effective tax rate of 35%, as compared to 26% for the second quarter of 2001. The higher rate results from Applica's intent to repatriate earnings from certain of its foreign subsidiaries in 2002.

The earnings of subsidiaries in Canada, Mexico and Latin America (other than Chile) are generally taxed at rates comparable to or higher than 35%, the United States statutory rate. Income tax rates in Hong Kong and Chile range between 8% and 16%. Applica does not make tax provisions for the undistributed earnings of its foreign subsidiaries that it expects will be permanently invested out of the United States.

Earnings Per Share. All common stock equivalents were excluded from the per share calculations in the second quarter of 2002 and 2001 as Applica incurred a net loss in the periods and such inclusion would have been anti-dilutive.

Six Months Ended June 30, 2002 Compared To Six Months Ended June 30, 2001

Net Sales. Sales for Applica decreased by \$2.4 million to \$311.1 million, a decrease of 0.8% over the first half of 2001. The decrease were primarily the result of decreases of \$12.4 million in sales of Windmere branded and other products and \$4.2 million in sales of Black & Decker branded products. The decrease was partially offset by increases of \$14.2 million in contract manufacturing sales.

Gross Profit Margin. Applica's gross profit margin was 30.5% in the first half of 2002 as compared to 28.1% for the same period in 2001. The gross profit margins increased in the first half as Applica returned to normal production levels at its manufacturing facilities. Additionally, Applica experienced an improved product mix in the first six months of 2002.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for Applica increased \$1.8 million for the first six months of 2002 to \$90.5 million as compared to 2001. Such expenses increased as a percentage of sales to 29.1% from 28.3% in the 2001 period. In the first six months of 2002, advertising and promotion expenses increased \$5.4 million as the result of increased promotion to support new product introductions. Additionally, payroll expense increased \$2.0 million and we experienced a \$2.2 million exchange loss primarily related to the continued devaluation of Latin American currencies. These increases were offset by decreases in amortization expense of \$4.8 million primarily as the result of the adoption of SFAS 142, *Goodwill and Other Intangible Assets*. Additionally, distribution and freight costs decreased by \$3.2 million during the quarter as the result of our supply chain management program.

In the first six months of 2002, Applica incurred expenses of \$5.2 million relating to its decision to consolidate its Shelton, Connecticut office with the headquarters located in Miami Lakes, Florida, as well as certain back-office and supply chain functions in Canada and Latin America. These expenses did not qualify for accrual at December 31, 2001. Such consolidation will be completed in the third quarter of 2002. Applica expects to incur an additional \$4.8 million in expenses relating to the consolidation during the remainder of 2002.

In June 2001, the Financial Accounting Standards Board approved the issuance of SFAS 142, *Goodwill and Other Intangible Assets*, which establishes new accounting and reporting requirements for goodwill and other intangible assets. The new standard requires that all intangible assets acquired that are obtained through contractual or legal right, or are capable of being separately sold, transferred, licensed, rented or exchanged must be recognized as an asset apart from goodwill. Goodwill and intangibles with indefinite lives are no longer amortized, but are subject to an annual assessment for impairment by applying a fair value based test.

Applica applied the provisions of SFAS 142 beginning on January 1, 2002 and performed a transitional fair valued based impairment test. Based on its initial impairment tests, Applica recognized an adjustment of \$121.3 million (\$78.8 million, or \$3.37 per share, net of tax) in the first quarter of 2002 to reduce the carrying value of goodwill to its implied fair value. Under SFAS 142, the impairment adjustment was reflected as a cumulative effect of change in accounting principle in the first quarter of 2002. Additionally, Applica will no longer record annual amortization of \$5.0 million per year.

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For additional information regarding SFAS 142, see Note 6 of the Notes to Consolidated Financial Statements included in Part I of this Form 10-Q.

Interest Expense. Interest expense decreased by \$4.7 million, or 38.1%, to \$7.7 million for the six months ended June 30, 2002, as compared to \$12.4 million for the 2001 period. Such decrease was largely the result of the reduction of debt and lower interest rates.

Taxes. Applica's tax expense is based on an estimated annual aggregation of the taxes on earnings of each of its foreign and domestic operations. In the first six months of 2002, Applica used an effective tax rate of 35%, as compared to 26% for 2001. The higher rate results from Applica's intent to repatriate earnings from certain of its foreign subsidiaries in 2002.

The earnings of subsidiaries in Canada, Mexico and Latin America (other than Chile) are generally taxed at rates comparable to or higher than 35%, the United States statutory rate. Income tax rates in Hong Kong and Chile range between 8% and 16%. Applica does not make tax provisions for the undistributed earnings of its foreign subsidiaries that it expects will be permanently invested out of the United States.

Earnings Per Share. All common stock equivalents were excluded from the per share calculations in the six months ended June 30, 2002 and 2001 as Applica incurred a net loss in the periods and such inclusion would have been anti-dilutive.

Liquidity and Capital Resources

At June 30, 2002, Applica's working capital was \$199.6 million, as compared to \$237.5 million at June 30, 2001. At June 30, 2002 and 2001, Applica's current ratio was 2.5 to 1 and 3.2 to 1, respectively, and its quick ratio was 1.2 to 1 and 1.6 to 1. Changes in working capital reflect several factors including execution of the new banking facility, decreases in inventory and accounts receivable, and increased expenses due to the toaster recall and closing of the Shelton office.

Cash balances decreased to \$7.7 million for the quarter ended June 30, 2002 from \$10.4 million in 2001.

The net cash provided by operating activities totaled \$23.2 million in the first half of 2002, as compared to cash provided by operating activities of \$52.3 million in 2001. Both periods reflect continued improvements in working capital.

Cash used in investing activities totaled approximately \$26.2 million for the period, as compared to \$14.9 million for 2001, and reflected the acquisition of Weitech, Inc., as well as equipment at Applica's manufacturing facilities and tooling for new products.

Cash used in financing activities totaled approximately \$5.1 million in the period, as compared to \$43.9 million provided by financing activities in 2001, reflecting a net reduction in long-term borrowings.

Applica's primary sources of liquidity are its cash flow from operations and borrowings under its \$205 million four-year asset-based senior secured revolving credit facility. As of July 31, 2002, Applica was borrowing approximately \$99.7 million under the facility and had approximately \$22.7 million available for future cash borrowings. Advances under the facility are primarily based upon percentages of outstanding eligible accounts receivable and inventories. The credit facility includes a \$10,000,000 sublimit for the issuance of letters of credit. All amounts outstanding under the credit facility are payable on December 28, 2005.

At Applica's option, interest accrues on the loans made under the credit facility at either:

LIBOR (adjusted for any reserves), plus a specified margin which is determined by Applica's leverage ratio and is currently set at 2.35% (4.21% at June 30, 2002); or

the Base Rate (which is Bank of America's prime rate), plus a specified margin, currently 0.35% (5.10% at June 30, 2002).

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Swing loans up to \$15.0 million bear interest at the Base Rate plus a specified margin, currently 0.35% (5.10% at June 30, 2002).

In April 2002, Applica Consumer Products, Inc., Applica's U.S. operating subsidiary, entered into a five-year \$6.0 million mortgage on its headquarters building located in Miami Lakes, Florida. The mortgage loan bears interest at an annual rate of 7.25%, with monthly principal and interest payments based on a 20-year amortization. A final balloon payment is due at the end of the term. The mortgage is secured by the property and the building located thereon.

Certain of Applica's foreign subsidiaries have approximately \$35.4 million in trade finance lines of credit, payable on demand, which are secured by the subsidiaries' tangible and intangible property, and in some cases, a guarantee by the parent company, Applica Incorporated. Outstanding borrowings by Applica's Hong Kong subsidiaries are primarily in Hong Kong dollars.

Applica's aggregate capital expenditures for the six months ended June 30, 2002 totaled \$8.5 million, as compared to \$14.9 million for 2001. Applica anticipates that the total capital expenditures for 2002 will be approximately \$24.0 million, which includes the cost of equipment at our manufacturing facilities and tooling for new products. Applica plans to fund such capital expenditures from cash flow from operations and, if necessary, borrowings under its credit facility.

At June 30, 2002, debt as a percent of total capitalization was 51.8%, as compared to 44.1% at June 30, 2001. The increase was primarily due to the reduction in shareholders' equity as the result of the non-cash goodwill write-down required by SFAS 142.

Applica's ability to make scheduled payments of principal of, or to pay the interest on, or to refinance, its indebtedness, or to fund planned capital expenditures, product research and development expenses and marketing expenses will depend on its future performance, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory, and international and United States domestic political factors and other factors that are beyond its control. Based upon the current level of operations and anticipated cost savings and revenue growth, management believes that cash flow from operations and available cash, together with available borrowings under its credit facility and other facilities, will be adequate to meet Applica's future liquidity needs for at least the next several years. There can be no assurance that Applica's business will generate sufficient cash flow from operations, that anticipated revenue growth and operating improvements will be realized or that future borrowings will be available under the credit facility in an amount sufficient to enable Applica to service its indebtedness, including the outstanding 10% notes, or to fund its other liquidity needs. In addition, there can be no assurance that Applica will be able to effect any needed refinancing on commercially reasonable terms or at all.

Applica is also involved in certain ongoing litigation. See Part II, Item 1 - Legal Proceedings.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk Management

Applica is exposed to the impact of interest rate changes. Applica's objective is to manage the impact of interest rate changes on earnings and cash flows and on the market value of its borrowings. Applica maintains fixed rate debt as a percentage of its net debt between a minimum and maximum percentage, which is set by policy.

It is Applica's policy to enter into interest rate risk management transactions only to the extent considered necessary to meet its objectives as set forth above. Applica does not enter into interest rate risk management transactions for speculative purposes.

Outstanding as of June 30, 2002 were interest rate management contracts on approximately \$81.0 million notional principal amount with a negative fair value of \$0.3 million. In addition, Applica had an \$80.0 million forward starting interest rate cap with a positive fair value of \$0.3 million. The negative/positive market value represents the amount Applica would pay/receive upon exiting the contracts at June 30, 2002 and was determined based on quotes obtained from Applica's financial institutions. The net negative market value related to interest rate risk management contracts is included as other long-term liabilities as of June 30, 2002. Applica does not intend to exit these contracts at this time.

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Significant interest rate risk management instruments held by Applica as of June 30, 2002 included pay-floating swaps, pay-fixed swaps and interest rate caps. The pay-floating swap effectively converts medium term obligations to LIBOR-rate indexed variable-rate instruments. Pay-fixed swaps effectively convert floating-rate obligations to fixed-rate instruments. Interest rate caps provide protection against rising interest rates. All swaps have maturity dates that mirror the maturity date of the underlying hedged transaction. For the period ending June 30, 2002, Applica did not discontinue any hedges due to the probability that the original underlying forecasted transaction would not occur.

The impact of interest rate risk management activities on income during the quarter and six months ending June 30, 2002 was not material.

Foreign Exchange Risk Management

Applica transacts business globally and is subject to risks associated with changing foreign exchange rates. Applica's objective is to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus attention on core business issues and challenges. By policy, Applica maintains hedge coverage between minimum and maximum percentages of its forecasted foreign exchange exposures for periods not to exceed twenty-four months. The gains and losses on these contracts offset changes in the value of the related exposures.

It is Applica's policy to enter into foreign currency transactions only to the extent considered necessary to meet its objectives as set forth above. Applica does not enter into foreign currency transactions for speculative purposes.

Outstanding as of June 30, 2002 were \$84.1 million notional of contracts to purchase and/or sell foreign currency forward with a negative fair market value of approximately \$2.1 million. The market value represents the amount Applica would pay upon exiting the contracts at June 30, 2002 and was determined based on quotes obtained from Applica's financial institutions. This amount is included in prepaid expenses and other assets as of June 30, 2002. Applica does not intend to exit these contracts at this time.

Applica enters into various contracts that change in value as foreign exchange rates change to protect the value of its existing foreign currency assets and liabilities, commitments and forecasted foreign currency revenues. Applica uses option strategies and forward contracts that provide for the sale of foreign currencies to hedge forecasted revenues and expenses. Applica also uses forward contracts to hedge foreign currency assets and liabilities. While these hedging instruments are subject to fluctuations in value, such fluctuations are offset by changes in the value of the underlying exposures being hedged. The principal currencies hedged are the Mexican peso, Chinese renminbi, Hong Kong dollar and Canadian dollar.

The impact of foreign exchange risk management activities on operating income during the quarter and six months ending June 30, 2002 was not material.

Additional Information

For additional information, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk in Applica's Annual Report on Form 10-K for the year ended December 31, 2001.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Shareholder Litigation and Related Matters. Applica is a defendant in Sherleigh Associates LLC and Sherleigh Associates Inc. Profit Sharing Plan, on their own behalf and on behalf of all others similarly situated v. Windmere-Durable Holdings, Inc., David M. Friedson and Nationsbanc Montgomery Securities LLC, 98-2273-CIV-LENARD which was filed in the United States District Court, Southern District of Florida in October 1998.

In January 2002, Applica reached an agreement in principle to settle the securities class action litigation and the related derivative claims for approximately \$11.0 million in cash. Applica took a charge of approximately \$1.0 million in the fourth quarter of 2001 for expenses related to the litigation, \$550,000 of which was paid in the first quarter of 2002. Applica expects to pay the remaining \$450,000 in the third quarter of 2002. All other amounts related to the settlement of the litigation were covered under Applica's insurance policies. Under the terms of the settlement, all claims against Applica and all other defendants will be dismissed without any admission of liability or wrongdoing. Settlement is subject to final documentation and court approval. Failure of the court to approve the settlement could result in significant changes in estimated exposures. The settlements in the derivative action and the securities class action are expected to be approved by the applicable court in the third or fourth quarter of 2002.

Salton Litigation. Applica is also a defendant in Salton, Inc. v Windmere-Durable Holdings, Inc. and Windmere Corporation, which was filed in the United States District Court, Northern District of Illinois in January 2001. Discovery procedures have been initiated and are ongoing. The parties are currently engaging in settlement discussions.

Toaster Recall. In February 2002, Applica Consumer Products, Inc., in cooperation with the U.S. Consumer Products Safety Commission, voluntarily recalled approximately 2.1 million Black & Decker® two-slice and four-slice toasters. Applica's Canadian operating subsidiary, Applica Canada Corporation, also recalled approximately 180,000 of these toasters in Canada. In connection therewith, Applica took a charge of \$13.4 million in the fourth quarter of 2001 relating to the estimated expenses of such recalls. Management does not believe the ultimate liability will be materially different.

Currently, one product liability lawsuit has been filed relating to the recalled toasters; however, several claims of property damage or bodily injury have been made. We believe that the amount of ultimate liability of these matters, if any, is not likely to have a material effect on our business, financial condition or results of operations. However, as the outcome of litigation is difficult to predict, significant changes in the estimated exposures could occur.

Other Matters. Applica is subject to other legal proceedings, product liability claims and other claims that arise in the ordinary course of our business. In the opinion of management, the amount of ultimate liability with respect to such matters, if any, in excess of applicable insurance coverage, is not likely to have a material effect on the financial condition, results of operations or liquidity of Applica. However, as the outcome of litigation or other claims is difficult to predict, significant changes in the estimated exposures could occur.

Item 6. Exhibits and Reports on Form 8-K.

- (a) Exhibits:
 - 99.1 Certifications of Principal Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350
- (b) Reports on Form 8-K:
 - None.

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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.

APPLICA INCORPORATED
(Registrant)

August 5, 2002

By: /s/ Harry D. Schulman

Harry D. Schulman
President, Chief Operating Officer and Secretary

August 5, 2002

By: /s/ Terry L. Polistina

Terry L. Polistina
Senior Vice President and Chief Financial Officer (Chief
Financial and Accounting Officer)