Spectrum Brands, Inc.
Form 10-Q
August 07, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 1, 2012

OR

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

For the transition period from to

Commission File Number 001-13615

Spectrum Brands, Inc.
(Exact name of registrant as specified in its charter)

Delaware	22-2423556
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
601 Rayovac Drive Madison, Wisconsin	53711
(Address of principal executive offices)	(Zip Code)

(608) 275-3340
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report.)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ý No ¨

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
SPECTRUM BRANDS, INC.
Condensed Consolidated Statements of Financial Position
July 1, 2012 and September 30, 2011
(Unaudited)
(Amounts in thousands, except per share figures)

	July 1, 2012	September 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	$62,299	$142,414
Receivables:		
Trade accounts receivable, net of allowances of $14,288 and $14,128, respectively	342,350	356,605
Other	46,960	33,235
Inventories	552,515	434,630
Deferred income taxes	26,359	28,170
Prepaid expenses and other	55,487	48,792
Total current assets	1,085,970	1,043,846
Property, plant and equipment, net of accumulated depreciation of $127,271 and $107,357, respectively	208,551	206,389
Deferred charges and other	34,510	36,824
Goodwill	688,045	610,338
Intangible assets, net	1,716,977	1,683,909
Debt issuance costs	43,901	40,957
Total assets	$3,777,954	$3,622,263
Liabilities and Shareholders' Equity		
Current liabilities:		
Current maturities of long-term debt	$28,251	$41,090
Accounts payable	251,135	323,171
Accrued liabilities:		
Wages and benefits	67,175	70,945
Income taxes payable	26,102	31,606
Accrued interest	12,546	30,467
Other	104,624	134,565
Total current liabilities	489,833	631,844
Long-term debt, net of current maturities	1,798,814	1,535,522
Employee benefit obligations, net of current portion	74,433	83,802
Deferred income taxes	368,100	337,336
Other	29,887	44,637
Total liabilities	2,761,067	2,633,141
Commitments and contingencies		
Shareholders' equity:		
Other capital	1,350,174	1,338,734
Accumulated deficit	(291,597)	(335,166)
Accumulated other comprehensive loss	(41,690)	(14,446)
Total shareholders' equity	1,016,887	989,122
Total liabilities and shareholders' equity	$3,777,954	$3,622,263

See accompanying notes which are an integral part of these condensed consolidated financial statements (Unaudited).

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SPECTRUM BRANDS, INC.
Condensed Consolidated Statements of Operations
For the three and nine month periods ended July 1, 2012 and July 3, 2011
(Unaudited)
(Amounts in thousands, except per share figures)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	2012	2011	2012	2011
Net sales	$824,803	$804,635	$2,419,859	$2,359,586
Cost of goods sold	531,069	508,656	1,575,803	1,506,283
Restructuring and related charges	2,038	2,285	8,303	4,932
Gross profit	291,696	293,694	835,753	848,371
Selling	129,851	133,187	391,522	403,768
General and administrative	50,726	60,006	157,493	179,099
Research and development	8,597	9,192	23,790	25,557
Acquisition and integration related charges	5,274	7,444	20,625	31,487
Restructuring and related charges	1,858	4,781	7,587	12,846
Total operating expenses	196,306	214,610	601,017	652,757
Operating income	95,390	79,084	234,736	195,614
Interest expense	39,686	40,398	150,169	165,923
Other expense, net	2,224	770	2,225	1,372
Income from continuing operations before income taxes	53,480	37,916	82,342	28,319
Income tax (benefit) expense	(5,371)	8,995	38,772	69,169
Net income (loss)	$58,851	$28,921	$43,570	$(40,850)

See accompanying notes which are an integral part of these condensed consolidated financial statements (Unaudited).

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SPECTRUM BRANDS, INC.
Condensed Consolidated Statements of Cash Flows
For the nine month periods ended July 1, 2012 and July 3, 2011
(Unaudited)
(Amounts in thousands)

	NINE MONTHS ENDED	
	July 1, 2012	July 3, 2011
Cash flows from operating activities:		
Net income (loss)	$43,570	$(40,850)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation	28,708	34,719
Amortization of intangibles	46,550	43,073
Amortization of unearned restricted stock compensation	15,436	22,515
Amortization of debt issuance costs	5,273	8,745
Payments of acquisition related expenses for Russell Hobbs	—	(3,637)
Non-cash debt accretion	169	3,622
Write off of unamortized (premium) / discount on retired debt	(466)	8,950
Write off of debt issuance costs	2,945	15,420
Other non-cash adjustments	3,021	8,312
Net changes in assets and liabilities	(217,070)	(102,226)
Net cash used by operating activities	(71,864)	(1,357)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(33,117)	(27,433)
Acquisition of Black Flag	(43,750)	—
Acquisition of FURminator, net of cash acquired	(139,390)	—
Acquisition Seed Resources, net of cash acquired	—	(11,053)
Proceeds from sale of property, plant and equipment	418	188
Proceeds from sale of assets previously held for sale	—	6,997
Other investing activities	(2,045)	(1,530)
Net cash used by investing activities	(217,884)	(32,831)
Cash flows from financing activities:		
Proceeds from issuance of 6.75% Notes	300,000	—
Payment of 12% Notes, including tender and call premium	(270,431)	—
Proceeds from issuance of 9.5% Notes, including premium	217,000	—
Payment of senior credit facilities, excluding ABL revolving credit facility	(4,091)	(93,400)
Prepayment penalty of term loan facility	—	(7,500)
Debt issuance costs	(11,163)	(10,769)
Other debt financing, net	6,192	15,349
Reduction of other debt	(27,992)	(905)
ABL revolving credit facility, net	2,500	55,000
Treasury stock purchases	—	(3,409)
Other financing activities	(953)	—
Net cash provided (used) by financing activities	211,062	(45,634)
Effect of exchange rate changes on cash and cash equivalents	(1,429)	(2,414)
Net decrease in cash and cash equivalents	(80,115)	(82,236)
Cash and cash equivalents, beginning of period	142,414	170,614
Cash and cash equivalents, end of period	$62,299	$88,378

See accompanying notes which are an integral part of these condensed consolidated financial statements (Unaudited).

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SPECTRUM BRANDS, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Amounts in thousands, except per share figures)

1 DESCRIPTION OF BUSINESS

Spectrum Brands, Inc., a Delaware corporation ("Spectrum Brands" or the "Company"), is a global branded consumer products company. Spectrum Brands Holdings, Inc. ("SB Holdings") was created in connection with the combination of Spectrum Brands and Russell Hobbs, Inc. ("Russell Hobbs"), a global branded small appliance company, to form a new combined company (the "Merger"). The Merger was consummated on June 16, 2010. As a result of the Merger, both Spectrum Brands and Russell Hobbs became wholly-owned subsidiaries of SB Holdings. Russell Hobbs was subsequently merged into Spectrum Brands. SB Holdings trades on the New York Stock Exchange under the symbol "SPB."

Unless the context indicates otherwise, the term "Company" is used to refer to both Spectrum Brands and its subsidiaries prior to the Merger and subsequent to the Merger.

The Company's operations include the worldwide manufacturing and marketing of alkaline, zinc carbon and hearing aid batteries, as well as aquariums and aquatic health supplies and the designing and marketing of rechargeable batteries, battery-powered lighting products, electric shavers and accessories, grooming products and hair care appliances. The Company's operations also include the manufacturing and marketing of specialty pet supplies. The Company also manufactures and markets herbicides, insecticides and insect repellents in North America. The Company also designs, markets and distributes a broad range of branded small appliances and personal care products. The Company's operations utilize manufacturing and product development facilities located in the United States ("U.S."), Europe, Latin America and Asia.

The Company sells its products in approximately 120 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and original equipment manufacturers and enjoys name recognition in its markets under the Rayovac, VARTA and Remington brands, each of which has been in existence for more than 80 years, and under the Tetra, 8-in-1, Spectracide, Cutter, Black & Decker, George Foreman, Russell Hobbs, Farberware, Black Flag, FURminator and various other brands.

The Company's global branded consumer products have positions in seven major product categories: consumer batteries; small appliances; pet supplies; electric shaving and grooming; electric personal care; portable lighting; and home and garden controls. The Company's chief operating decision-maker manages the businesses of the Company in three vertically integrated, product-focused reporting segments: (i) Global Batteries & Appliances, which consists of the Company's worldwide battery, electric shaving and grooming, electric personal care, portable lighting and small appliances, primarily in the kitchen and home product categories ("Global Batteries & Appliances"); (ii) Global Pet Supplies, which consists of the Company's worldwide pet supplies business ("Global Pet Supplies"); and (iii) Home and Garden Business, which consists of the Company's home and garden and insect control business (the "Home and Garden Business"). Management reviews the performance of the Company based on these segments. For information pertaining to our business segments, see Note 11, "Segment Results".

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The condensed consolidated financial statements include the accounts of SB Holdings and its subsidiaries and are prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). All intercompany transactions have been eliminated.

These condensed consolidated financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of the Company, include all adjustments (which are normal and recurring in nature) necessary to present fairly the financial position of the Company at July 1, 2012, the results of operations for the three and nine month periods ended July 1, 2012 and July 3, 2011 and the cash flows for the nine month periods ended July 1, 2012 and July 3, 2011. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such SEC rules and regulations. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included

in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2011.
Use of Estimates: The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Intangible Assets: Intangible assets are recorded at cost or at fair value if acquired in a purchase business combination.

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SPECTRUM BRANDS, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited) – (Continued)
(Amounts in thousands, except per share figures)

Customer relationships and proprietary technology intangibles are amortized, using the straight-line method, over their estimated useful lives of approximately 4 to 20 years. Excess of cost over fair value of net assets acquired (goodwill) and trade name intangibles are not amortized. Goodwill is tested for impairment at least annually at the reporting unit level, with such groupings being consistent with the Company's reportable segments. If an impairment is indicated, a write-down to fair value (normally measured by discounting estimated future cash flows) is recorded. Trade name intangibles are tested for impairment at least annually by comparing the fair value with the carrying value. Any excess of carrying value over fair value is recognized as an impairment loss in income from operations. Accounting Standards Codification ("ASC") Topic 350: "Intangibles-Goodwill and Other," requires that goodwill and indefinite-lived intangible assets be tested for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have been incurred.

The Company's annual impairment testing is completed at the August financial period end. Management uses its judgment in assessing whether assets may have become impaired between annual impairment tests. Indicators such as unexpected adverse business conditions, economic factors, unanticipated technological change or competitive activities, loss of key personnel, and acts by governments and courts may signal that an asset has become impaired.

Shipping and Handling Costs: The Company incurred shipping and handling costs of $48,797 and $148,383 for the three and nine month periods ended July 1, 2012, respectively, and $51,172 and $150,140 for the three and nine month periods ended July 3, 2011, respectively. These costs are included in Selling expenses in the accompanying Condensed Consolidated Statements of Operations (Unaudited). Shipping and handling costs include costs incurred with third-party carriers to transport products to customers as well as salaries and overhead costs related to activities to prepare the Company's products for shipment from its distribution facilities.

Concentrations of Credit Risk: Trade receivables subject the Company to credit risk. Trade accounts receivable are carried at net realizable value. The Company extends credit to its customers based upon an evaluation of the customer's financial condition and credit history, and generally does not require collateral. The Company monitors its customers' credit and financial condition based on changing economic conditions and makes adjustments to credit policies as required. Provision for losses on uncollectible trade receivables are determined based on ongoing evaluations of the Company's receivables, principally on the basis of historical collection experience and evaluations of the risks of nonpayment for a given customer.

The Company has a broad range of customers including many large retail outlet chains, one of which accounts for a significant percentage of its sales volume. This customer represented approximately 23% of the Company's Net sales during both the three and nine month periods ended July 1, 2012. This customer represented approximately 25% and 23% of the Company's Net sales during the three and nine month periods ended July 3, 2011, respectively. This customer also represented approximately 14% and 16% of the Company's Trade accounts receivable, net at July 1, 2012 and September 30, 2011, respectively.

Approximately 40% and 44% of the Company's Net sales during the three and nine month periods ended both July 1, 2012, and July 3, 2011, respectively, occurred outside the U.S. These sales and related receivables are subject to varying degrees of credit, currency, political and economic risk. The Company monitors these risks and makes appropriate provisions for collectibility based on an assessment of the risks present.

Stock-Based Compensation: The Company measures the cost of its stock-based compensation plans based on the fair value of its employee stock awards and recognizes these costs over the requisite service period of the awards.

In September 2009, the Company's board of directors (the "Board") adopted the 2009 Spectrum Brands Inc. Incentive Plan (the "2009 Plan"). In conjunction with the Merger, the 2009 Plan was assumed by SB Holdings. Up to 3,333 shares of common stock, net of forfeitures and cancellations, could have been issued under the 2009 Plan. After October 21, 2010, no further awards may be made under the 2009 Plan (as described in further detail below) as the Spectrum Brands Holdings, Inc. 2011 Omnibus Equity Award Plan (the "2011 Plan") was approved by the shareholders of the Company on March 1, 2011.

In conjunction with the Merger, the Company assumed the Spectrum Brands Holdings, Inc. 2007 Omnibus Equity Award Plan (formerly known as the Russell Hobbs, Inc. 2007 Omnibus Equity Award Plan, as amended on June 24, 2008) (the “2007 RH Plan”). Up to 600 shares of common stock, net of forfeitures and cancellations, could have been issued under the 2007 RH Plan. After October 21, 2010, no further awards may be made under the 2007 RH Plan (as described in further detail below) as the 2011 Plan was approved by the shareholders of the Company on March 1, 2011.

On October 21, 2010, the Board adopted the 2011 Plan, which received shareholder approval at the Annual Meeting of the shareholders of the Company held on March 1, 2011. After such shareholder approval, no further awards will be granted under the 2009 Plan and the 2007 RH Plan. Up to 4,626 shares of common stock of the Company, net of cancellations, may be issued under the 2011 Plan.

(Amounts in thousands, except per share figures)

Total stock compensation expense associated with restricted stock awards and restricted stock units recognized by the Company during the three and nine month periods ended July 1, 2012 was $4,361, or $2,834, net of taxes, and $15,436, or $10,034, net of taxes, respectively. Total stock compensation expense associated with restricted stock awards and restricted stock units recognized by the Company during the three and nine month periods ended July 3, 2011 was $8,408, or $5,465, net of taxes, and $22,515, or $14,635, net of taxes, respectively.

The Company granted approximately 42 and 741 restricted stock units during the three and nine month periods ended July 1, 2012, respectively. Of these grants, 42 restricted stock units are time-based and vest over a two year period and the remaining 699 restricted stock units are performance and time-based and vest over a two year period. The total market value of the restricted stock units on the dates of the grants was approximately $20,293.

The Company granted approximately 1,565 restricted stock units during the nine month period ended July 3, 2011. Of these 1,565 grants, 18 restricted stock units are time-based and vest over a three year period. The remaining 1,547 restricted stock units are performance and time-based with 665 units vesting over a two year period and 882 units vesting over a three year period. The total market value of the restricted stock units on the dates of the grants was approximately $45,614.

The fair value of restricted stock awards and restricted stock units is determined based on the market price of the Company's shares of common stock on the grant date. A summary of the status of the Company's non-vested restricted stock awards and restricted stock units as of July 1, 2012 is as follows:

Restricted Stock Awards	Shares	Weighted Average Grant Date Fair Value	Fair Value at Grant Date
Restricted stock awards at September 30, 2011	123	$24.20	$2,977
Vested	(110)	23.75	(2,613)
Restricted stock awards at July 1, 2012	13	$28.00	$364

Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value	Fair Value at Grant Date
Restricted stock units at September 30, 2011	1,629	$29.00	$47,236
Granted	741	27.39	20,293
Forfeited	(53)	28.08	(1,488)
Vested	(381)	28.75	(10,953)
Restricted stock units at July 1, 2012	1,936	$28.45	$55,088

Acquisition and Integration Related Charges: Acquisition and integration related charges reflected in Operating expenses in the accompanying Condensed Consolidated Statements of Operations (Unaudited) include, but are not limited to, transaction costs such as banking, legal, accounting and other professional fees directly related to acquisitions, termination and related costs for transitional and certain other employees, integration related professional fees and other post business combination expenses associated with mergers and acquisitions.

The following table summarizes acquisition and integration related charges incurred by the Company during the three and nine month periods ended July 1, 2012 and July 3, 2011:

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SPECTRUM BRANDS, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited) – (Continued)
(Amounts in thousands, except per share figures)

	Three Months		Nine Months	
	2012	2011	2012	2011
Russell Hobbs				
Integration costs	$1,573	$6,718	$6,766	$22,088
Employee termination charges	840	310	3,356	5,206
Legal and professional fees	587	360	1,508	3,949
Merger related Acquisition and integration related charges	$3,000	$7,388	$11,630	$31,243
FURminator	1,738	—	6,337	—
Black Flag	95	—	1,912	—
Other	441	56	746	244
Total Acquisition and integration related charges	$5,274	$7,444	$20,625	$31,487

3 COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) and the components of other comprehensive income (loss), net of tax, for the three and nine month periods ended July 1, 2012 and July 3, 2011 are as follows:

	Three Months		Nine Months	
	2012	2011	2012	2011
Net income (loss)	$58,851	$28,921	$43,570	$(40,850)
Other comprehensive (loss) income:				
Foreign currency translation	(34,148)	13,139	(30,538)	33,009
Valuation allowance adjustments	465	(216)	214	860
Pension liability adjustments	422	—	953	—
Net unrealized gain (loss) on derivative instruments	1,010	(653)	2,127	(3,718)
Net change to derive comprehensive (loss) income for the period	(32,251)	12,270	(27,244)	30,151
Comprehensive income (loss)	$26,600	$41,191	$16,326	$(10,699)

Net gains or losses resulting from the translation of assets and liabilities of foreign subsidiaries are accumulated in the Accumulated other comprehensive income (“AOCI”) section of Shareholders’ equity. Also included are the effects of exchange rate changes on intercompany balances of a long-term nature.

The changes in accumulated foreign currency translation for the three and nine month periods ended July 1, 2012 and July 3, 2011 were primarily attributable to the impact of translation of the net assets of the Company’s European and Latin American operations, which primarily have functional currencies in Euros, Pounds Sterling and Brazilian Real.

4 INVENTORIES

Inventories for the Company, which are stated at the lower of cost or market, consist of the following:

	July 1, 2012	September 30, 2011
Raw materials	$78,116	$59,928
Work-in-process	29,672	25,465
Finished goods	444,727	349,237
	$552,515	$434,630

5 GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets of the Company consist of the following:

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SPECTRUM BRANDS, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited) – (Continued)
(Amounts in thousands, except per share figures)

	Global Batteries & Appliances	Global Pet Supplies	Home and Garden Business	Total
Goodwill:				
Balance at September 30, 2011	$ 268,148	$170,285	$171,905	$610,338
Additions	—	70,023	15,852	85,875
Effect of translation	(4,089)	(4,079)	—	(8,168)
Balance at July 1, 2012	$ 264,059	$236,229	$187,757	$688,045
Intangible Assets:				
Trade names Not Subject to Amortization				
Balance at September 30, 2011	$ 545,804	$205,491	$75,500	$826,795
Additions	—	14,000	8,000	22,000
Effect of translation	(5,216)	(8,125)	—	(13,341)
Balance at July 1, 2012	$ 540,588	$211,366	$83,500	$835,454
Intangible Assets Subject to Amortization				
Balance at September 30, 2011, net	$ 481,473	$219,243	$156,398	$857,114
Additions	—	65,118	17,000	82,118
Amortization during period	(24,613)	(14,325)	(7,612)	(46,550)
Effect of translation	(6,500)	(4,659)	—	(11,159)
Balance at July 1, 2012, net	$ 450,360	$265,377	$165,786	$881,523
Total Intangible Assets, net at July 1, 2012	$ 990,948	$476,743	$249,286	$1,716,977

Intangible assets subject to amortization include proprietary technology, customer relationships and certain trade names, which were recognized as a result of fresh-start reporting upon the Company's emergence from bankruptcy during the fiscal year ended September 30, 2009 and through other acquisitions. The useful life of the Company's intangible assets subject to amortization are 4 to 9 years for technology assets related to the Global Pet Supplies segment, 9 to 17 years for technology assets associated with the Global Batteries & Appliances segment, 15 to 20 years for customer relationships of the Global Batteries & Appliances segment, 20 years for customer relationships of the Home and Garden Business and Global Pet Supplies segments, 12 years for a trade name within the Global Batteries & Appliances segment and 4 years for a trade name within the Home and Garden Business segment.

The carrying value and accumulated amortization for intangible assets subject to amortization are as follows:

	July 1, 2012	September 30, 2011
Technology Assets Subject to Amortization:		
Gross balance	$90,924	$71,805
Accumulated amortization	(20,356)	(13,635)
Carrying value, net	$70,568	$58,170
Trade Names Subject to Amortization:		
Gross balance	$149,700	$149,700
Accumulated amortization	(26,108)	(16,320)
Carrying value, net	$123,592	$133,380
Customer Relationships Subject to Amortization:		
Gross balance	$789,465	$738,937
Accumulated amortization	(102,102)	(73,373)
Carrying value, net	$687,363	$665,564

Amortization expense for the three and nine month periods ended July 1, 2012 and July 3, 2011 is as follows:

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SPECTRUM BRANDS, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited) – (Continued)
(Amounts in thousands, except per share figures)

	Three Months		Nine Months	
	2012	2011	2012	2011
Proprietary technology amortization	$2,411	$1,649	$6,721	$4,946
Customer relationships amortization	10,181	9,650	30,041	28,708
Trade names amortization	3,509	3,140	9,788	9,419
	$16,101	$14,439	$46,550	$43,073

The Company estimates annual amortization expense of intangible assets for the next five fiscal years will approximate $62,600 per year.

6DEBT

Debt consists of the following:

	July 1, 2012			September 30, 2011		
	Amount	Rate		Amount	Rate	
Term Loan, U.S. Dollar, due June 17, 2016	$521,146	5.1	%	$525,237	5.1	%
9.5% Notes, due June 15, 2018	950,000	9.5	%	750,000	9.5	%
6.75% Notes, due March 15, 2020	300,000	6.8	%	—	—	
12% Notes, due August 28, 2019	—	—		245,031	12.0	%
ABL Revolving Credit Facility, expiring May 3, 2016	2,500	4.0	%	—	2.5	%
Other notes and obligations	24,275	11.0	%	44,333	6.5	%
Capitalized lease obligations	25,294	6.5	%	24,911	6.2	%
	$1,823,215			$1,589,512		
Original issuance premiums (discounts) on debt	3,850			(12,900	)	
Less: current maturities	28,251			41,090		
Long-term debt	$1,798,814			$1,535,522		

The Company has the following debt instruments outstanding at July 1, 2012: (i) a senior secured term loan (the “Term Loan”) pursuant to a senior credit agreement (the “Senior Credit Agreement”) ; (ii) 9.5% secured notes (the “9.5% Notes”); (iii) 6.75% unsecured notes (the “6.75% Notes”); and (iv) a $300,000 ABL revolving credit facility (the “ABL Revolving Credit Facility”).

Term Loan

On December 15, 2011 and June 14, 2012, the Company amended its Term Loan. As a result, the aggregate incremental amount by which the Company, subject to compliance with financial covenants and certain other conditions, may increase the amount of the commitment under the Term Loan has been increased from $100,000 to $250,000. Certain covenants in respect to indebtedness, liens and interest coverage were also amended to provide for dollar limits more favorable to the Company and, subject to compliance with financial covenants and certain other conditions, to allow for the incurrence of incremental unsecured indebtedness.

The Term Loan contains financial covenants with respect to debt, including, but not limited to, a maximum leverage ratio and a minimum interest coverage ratio, which covenants, pursuant to their terms, become more restrictive over time. In addition, the Term Loan contains customary restrictive covenants, including, but not limited to, restrictions on the Company’s ability to incur additional indebtedness, create liens, make investments or specified payments, give guarantees, pay dividends, make capital expenditures and merge or acquire or sell assets. Pursuant to a guarantee and collateral agreement, the Company and its domestic subsidiaries have guaranteed the respective obligations under the Term Loan and related loan documents and have pledged substantially all of their respective assets to secure such obligations. The Term Loan also provides for customary events of default, including payment defaults and cross-defaults on other material indebtedness.

In connection with the amendments, the Company recorded $236 and $792 of fees in connection with the Term Loan during the three and nine month periods ended July 1, 2012, respectively. The fees are classified as Debt issuance costs within the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) and are amortized as an adjustment to interest expense over the remaining life of the Term Loan. In connection with the amendments, the Company also recorded cash charges of $30 and $531 as an increase to interest expense during the three and nine month periods ended July 1, 2012, respectively.

9.5% Notes

On November 2, 2011, the Company offered $200,000 aggregate principal amount of 9.5% Notes at a price of 108.5% of the par value; these notes are in addition to the $750,000 aggregate principal amount of 9.5% Notes that were already outstanding. The additional notes are guaranteed by Spectrum Brands' parent company, SB/RH Holdings, LLC, as well as by existing and future domestic restricted subsidiaries and secured by liens on substantially all of the Company's and the guarantors assets. The additional notes will vote together with the existing 9.5% Notes.

The indenture governing the 9.5% Notes (the "2018 Indenture") contains customary covenants that limit, among other things, the incurrence of additional indebtedness, payment of dividends on or redemption or repurchase of equity interests, the making of certain investments, expansion into unrelated businesses, creation of liens on assets, merger or consolidation with another company, transfer or sale of all or substantially all assets, and transactions with affiliates. In addition, the 2018 Indenture provides for customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to make payments when due or on acceleration of certain other indebtedness, and certain events of bankruptcy and insolvency. Events of default under the 2018 Indenture arising from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the 9.5% Notes. If any other event of default under the 2018 Indenture occurs and is continuing, the trustee for the 2018 Indenture or the registered holders of at least 25% in the then aggregate outstanding principal amount of the 9.5% Notes may declare the acceleration of the amounts due under those notes.

The Company recorded $11 and $3,581 of fees in connection with the offering of the 9.5% Notes during the three and nine month periods ended July 1, 2012, respectively. The fees are classified as Debt issuance costs within the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) and are amortized as an adjustment to interest expense over the remaining life of the 9.5% Notes.

6.75% Notes

On March 15, 2012, the Company offered $300,000 aggregate principal amount of 6.75% Notes at a price of 100% of the par value. The 6.75% Notes are unsecured and guaranteed by Spectrum Brands' parent company, SB/RH Holdings, LLC, as well as by existing and future domestic restricted subsidiaries.

The indenture governing the 6.75% Notes (the "2020 Indenture") contains customary covenants that limit, among other things, the incurrence of additional indebtedness, payment of dividends on or redemption or repurchase of equity interests, the making of certain investments, expansion into unrelated businesses, creation of liens on assets, merger or consolidation with another company, transfer or sale of all or substantially all assets, and transactions with affiliates. In addition, the 2020 Indenture provides for customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to make payments when due or on acceleration of certain other indebtedness, and certain events of bankruptcy and insolvency. Events of default under the 2020 Indenture arising from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the 6.75% Notes. If any other event of default under the 2020 Indenture occurs and is continuing, the trustee for the 2020 Indenture or the registered holders of at least 25% in the then aggregate outstanding principal amount of the 6.75% Notes may declare the acceleration of the amounts due under those notes.

The Company recorded $450 and $6,265 of fees in connection with the offering of the 6.75% Notes during the three and nine month periods ended July 1, 2012, respectively. The fees are classified as Debt issuance costs within the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) and are amortized as an adjustment to interest expense over the remaining life of the 6.75% Notes.

12% Notes

On March 1, 2012, the Company launched a cash tender offer (the "Tender Offer") and consent solicitation (the "Consent Solicitation") with respect to any and all of its outstanding 12% Senior Subordinated Toggle Notes due 2019 (the "12% Notes"). Pursuant to the Consent Solicitation, the Company received consents to the adoption of certain amendments to the

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indenture governing the 12% Notes to, among other things, eliminate substantially all of the restrictive covenants, certain events of default and other related provisions. The terms of the Tender Offer provided that holders of the 12% Notes who tendered their 12% Notes prior to the expiration of a consent solicitation period, which ended March 14, 2012, would receive tender offer consideration and a consent payment. Holders tendering their 12% Notes subsequent to expiration of the consent solicitation period, but prior to the March 28, 2012 expiration of the Tender Offer period, would receive only tender offer consideration. As of the expiration of the consent solicitation period, holders of the 12% Notes had tendered approximately $231,421 of the 12% Notes. Following the expiration of the consent solicitation period and as of the expiration of the Tender Offer period, an additional $88 of the 12% Notes were tendered. Following expiration of the Tender Offer period, the Company paid the trustee principal, prepaid interest and a prepaid call premium sufficient to obtain a notice of satisfaction and discharge ("Satisfaction and Discharge") from the trustee for the remaining approximately $13,522 of the 12% Notes not tendered. The Company delivered funds sufficient to redeem the 12% Notes on the first redemption date, August 28, 2012 (the "Redemption Date"), and has irrevocably taken all steps on its part necessary to effect such redemption, The trustee under the indenture governing the 12% Notes (the "12% Trustee") has accepted those funds in trust for the benefit of the holders of the 12% Notes and has acknowledged the Satisfaction and Discharge of the 12% Notes and the indenture governing the 12% Notes.

In connection with the Tender Offer, the Company recorded $23,777 of fees and expenses as a cash charge to Interest expense in the Condensed Consolidated Statements of Operations (Unaudited) for the nine month period ended July 1, 2012. In connection with the Satisfaction and Discharge process, the Company recorded cash charges of $1,623 to Interest expense in the Condensed Consolidated Statements of Operations (Unaudited) for the nine month period ended July 1, 2012. In addition, $2,097 of debt issuance costs and unamortized premium related to the 12% Notes were written off as a non-cash charge to Interest expense in the Condensed Consolidated Statements of Operations (Unaudited) for the nine month period ended July 1, 2012.

ABL Revolving Credit Facility

On May 24, 2012, the Company amended its ABL Revolving Credit Facility. As a result, the maturity date was extended from April 21, 2016 to May 3, 2016.

The amended facility carries an interest rate at the option of the Company, which is subject to change based on availability under the facility, of either: (a) the base rate plus currently 0.75% per annum or (b) the reserve-adjusted LIBOR rate plus currently 1.75% per annum. No principal amortizations are required with respect to the ABL Revolving Credit Facility. Pursuant to the credit and security agreement, the obligations under the ABL credit agreement are secured by certain current assets of the guarantors, including, but not limited to, deposit accounts, trade receivables and inventory.

The ABL Revolving Credit Facility contains various representations and warranties and covenants, including, without limitation, enhanced collateral reporting and a maximum fixed charge coverage ratio. The ABL Revolving Credit Facility also provides for customary events of default, including payment defaults and cross-defaults on other material indebtedness.

In connection with the amendment of the ABL Revolving Credit Facility, the Company recorded $525 of fees during the three and nine month period ended July 1, 2012. The fees are classified as Debt issuance costs within the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) and are amortized as an adjustment to interest expense over the remaining life of the Term Loan. In connection with the amendment, the Company also recorded cash charges of $482 as an increase to interest expense during the three and nine month period ended July 1, 2012. In addition, $382 of debt issuance costs were written off in connection with the amendment as a non-cash charge to Interest expense in the Condensed Consolidated Statements of Operations (Unaudited) for the three and nine month period ended July 1, 2012.

As a result of borrowings and payments under the ABL Revolving Credit Facility, at July 1, 2012, the Company had aggregate borrowing availability of approximately $194,909, net of lender reserves of $27,471 and outstanding letters of credit of $26,730.

7 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used by the Company principally in the management of its interest rate, foreign currency exchange rate and raw material price exposures. The Company does not hold or issue derivative financial instruments for trading purposes. Derivative instruments are reported at fair value in the Condensed Consolidated Statements of Financial Position (unaudited). When hedge accounting is elected at inception, the Company formally designates the financial instrument as a hedge of a specific underlying exposure and documents both the risk management objectives and strategies for undertaking the hedge. The Company formally assesses both at the inception and at least quarterly thereafter, whether the financial

SPECTRUM BRANDS, INC.
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(Amounts in thousands, except per share figures)

instruments that are used in hedging transactions are effective at offsetting changes in the forecasted cash flows of the related underlying exposure. Because of the high degree of effectiveness between the hedging instrument and the underlying exposure being hedged, fluctuations in the value of the derivative instruments are generally offset by changes in the forecasted cash flows of the underlying exposures being hedged. Any ineffective portion of a financial instrument's change in fair value is immediately recognized in earnings. For derivatives that are not designated as cash flow hedges, or do not qualify for hedge accounting treatment, the change in the fair value is also immediately recognized in earnings.

Fair Value of Derivative Instruments

The Company discloses its derivative instruments and hedging activities in accordance with ASC Topic 815: "Derivatives and Hedging," ("ASC 815").

The fair value of the Company's outstanding derivative contracts recorded as assets in the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) are as follows:

Asset Derivatives		July 1, 2012	September 30, 2011
Derivatives designated as hedging instruments under ASC 815:			
Commodity contracts	Receivables—Other	$—	$274
Foreign exchange contracts	Receivables—Other	4,959	3,189
Foreign exchange contracts	Deferred charges and other	326	—
Total asset derivatives designated as hedging instruments under ASC 815		$5,285	$3,463
Derivatives not designated as hedging instruments under ASC 815:			
Foreign exchange contracts	Receivables—Other	271	—
Total asset derivatives		$5,556	$3,463

The fair value of the Company's outstanding derivative contracts recorded as liabilities in the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) are as follows:

Liability Derivatives		July 1, 2012	September 30, 2011
Derivatives designated as hedging instruments under ASC 815:			
Interest rate contracts	Accounts payable	$—	$1,246
Interest rate contracts	Accrued interest	—	708
Commodity contracts	Accounts payable	1,801	1,228
Commodity contracts	Other long term liabilities	892	4
Foreign exchange contracts	Accounts payable	753	2,698
Total liability derivatives designated as hedging instruments under ASC 815		$3,446	$5,884
Derivatives not designated as hedging instruments under ASC 815:			
Foreign exchange contracts	Accounts payable	1,780	10,945
Foreign exchange contracts	Other long term liabilities	1,504	12,036
Total liability derivatives		$6,730	$28,865

Changes in AOCI from Derivative Instruments

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of AOCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness, are recognized in current earnings.

The following table summarizes the impact of derivative instruments on the accompanying Condensed Consolidated

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SPECTRUM BRANDS, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited) – (Continued)
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Statement of Operations (Unaudited) for the three month period ended July 1, 2012, pretax:

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Commodity contracts	$(2,368)	Cost of goods sold	$(120)	Cost of goods sold	$ (6)
Interest rate contracts	—	Interest expense	—	Interest expense	—
Foreign exchange contracts	(395)	Net sales	(129)	Net sales	—
Foreign exchange contracts	5,973	Cost of goods sold	558	Cost of goods sold	—
Total	$3,210		$309		$ (6)

The following table summarizes the impact of derivative instruments on the accompanying Condensed Consolidated Statement of Operations (Unaudited) for the nine month period ended July 1, 2012, pretax:

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Commodity contracts	$(1,989)	Cost of goods sold	$(675)	Cost of goods sold	$ 8
Interest rate contracts	15	Interest expense	(864)	Interest expense	—
Foreign exchange contracts	(61)	Net sales	(339)	Net sales	—
Foreign exchange contracts	2,426	Cost of goods sold	(1,336)	Cost of goods sold	—
Total	$391		$(3,214)		$ 8

The following table summarizes the impact of derivative instruments on the accompanying Condensed Consolidated Statement of Operations (Unaudited) for the three month period ended July 3, 2011, pretax:

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in	Location of Gain (Loss) Reclassified from	Amount of Gain (Loss)	Location of Gain (Loss) Recognized in	Amount of Gain (Loss) Recognized in

	AOCI on Derivatives (Effective Portion)	AOCI into Income (Effective Portion)	Reclassified from AOCI into Income (Effective Portion)	Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Commodity contracts	$(109)	Cost of goods sold	$ 587	Cost of goods sold	$ 16
Interest rate contracts	(42)	Interest expense	(839)	Interest expense	(44)
Foreign exchange contracts	(11)	Net sales	105	Net sales	—
Foreign exchange contracts	(5,011)	Cost of goods sold	(4,346)	Cost of goods sold	—
Total	$(5,173)		$(4,493)		$ (28)

The following table summarizes the impact of derivative instruments on the accompanying Condensed Consolidated Statement of Operations (Unaudited) for the nine month period ended July 3, 2011, pretax:

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SPECTRUM BRANDS, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited) – (Continued)
(Amounts in thousands, except per share figures)

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Commodity contracts	$1,764	Cost of goods sold	$1,921	Cost of goods sold	$ 17
Interest rate contracts	(102)	Interest expense	(2,527)	Interest expense	(294)
Foreign exchange contracts	216	Net sales	(102)	Net sales	—
Foreign exchange contracts	(15,801)	Cost of goods sold	(8,438)	Cost of goods sold	—
Total	$(13,923)		$(9,146)		$ (277)

Other Changes in Fair Value of Derivative Contracts
For derivative instruments that are used to economically hedge the fair value of the Company's third party and intercompany foreign currency payments, commodity purchases and interest rate payments, the gain (loss) associated with the derivative contract is recognized in earnings in the period of change. During the three month periods ended July 1, 2012 and July 3, 2011, the Company recognized the following gains (losses) on these derivative contracts:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Amount of Gain (Loss) Recognized in Income on Derivatives 2012	2011	Location of Gain or (Loss) Recognized in Income on Derivatives
Foreign exchange contracts	7,941	(7,578)	Other expense, net

During the nine month periods ended July 1, 2012 and July 3, 2011, the Company recognized the following gains (losses) on these derivative contracts:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Amount of Gain (Loss) Recognized in Income on Derivatives 2012	2011	Location of Gain or (Loss) Recognized in Income on Derivatives
Foreign exchange contracts	11,734	(17,468)	Other expense, net

Credit Risk
The Company is exposed to the risk of default by the counterparties with which it transacts and generally does not require collateral or other security to support financial instruments subject to credit risk. The Company monitors counterparty credit risk on an individual basis by periodically assessing each such counterparty's credit rating exposure. The maximum loss due to credit risk equals the fair value of the gross asset derivatives that are concentrated with certain domestic and foreign financial institution counterparties. The Company considers these exposures when measuring its credit reserve on its derivative assets, which was $26 and $18 at July 1, 2012 and September 30, 2011, respectively.

The Company’s standard contracts do not contain credit risk related contingent features whereby the Company would be required to post additional cash collateral as a result of a credit event. However, the Company is typically required to post collateral in the normal course of business to offset its liability positions. At July 1, 2012 and September 30, 2011, the Company had posted cash collateral of $1,717 and $418, respectively, related to such liability positions. In addition, at July 1, 2012 and September 30, 2011, the Company had posted standby letters of credit of $0 and $2,000, respectively, related to such liability positions. The cash collateral is included in Current Assets—Receivables-Other within the accompanying Condensed Consolidated Statements of Financial Position (Unaudited).

Derivative Financial Instruments

Cash Flow Hedges

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Notes to Condensed Consolidated Financial Statements (Unaudited) – (Continued)
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The Company uses interest rate swaps to manage its interest rate risk. The swaps are designated as cash flow hedges with the changes in fair value recorded in AOCI and as a derivative hedge asset or liability, as applicable. The swaps settle periodically in arrears with the related amounts for the current settlement period payable to, or receivable from, the counter-parties included in accrued liabilities or receivables, respectively, and recognized in earnings as an adjustment to interest expense from the underlying debt to which the swap is designated. At July 1, 2012 the Company did not have any of such interest rate swaps outstanding.

The Company periodically enters into forward foreign exchange contracts to hedge the risk from forecasted foreign currency denominated third party and intercompany sales or payments. These obligations generally require the Company to exchange foreign currencies for U.S. Dollars, Euros, Pounds Sterling, Australian Dollars, Brazilian Reals, Canadian Dollars or Japanese Yen. These foreign exchange contracts are cash flow hedges of fluctuating foreign exchange related to sales of product or raw material purchases. Until the sale or purchase is recognized, the fair value of the related hedge is recorded in AOCI and as a derivative hedge asset or liability, as applicable. At the time the sale or purchase is recognized, the fair value of the related hedge is reclassified as an adjustment to Net sales or purchase price variance in Cost of goods sold. At July 1, 2012 the Company had a series of foreign exchange derivative contracts outstanding through June 2013 with a contract value of $120,804. The derivative net gain on these contracts recorded in AOCI by the Company at July 1, 2012 was $3,269, net of tax expense of $1,262. At July 1, 2012, the portion of derivative net loss estimated to be reclassified from AOCI into earnings by the Company over the next 12 months is $3,065, net of tax.

The Company is exposed to risk from fluctuating prices for raw materials, specifically zinc used in its manufacturing processes. The Company hedges a portion of the risk associated with these materials through the use of commodity swaps. The hedge contracts are designated as cash flow hedges with the fair value changes recorded in AOCI and as a hedge asset or liability, as applicable. The unrecognized changes in fair value of the hedge contracts are reclassified from AOCI into earnings when the hedged purchase of raw materials also affects earnings. The swaps effectively fix the floating price on a specified quantity of raw materials through a specified date. At July 1, 2012 the Company had a series of such swap contracts outstanding through July 2014 for 16 tons with a contract value of $31,665. The derivative net loss on these contracts recorded in AOCI by the Company at July 1, 2012 was $2,225, net of tax benefit of $428. At July 1, 2012, the portion of derivative net losses estimated to be reclassified from AOCI into earnings by the Company over the next 12 months is $1,479, net of tax.

Derivative Contracts

The Company periodically enters into forward and swap foreign exchange contracts to economically hedge the risk from third party and intercompany payments resulting from existing obligations. These obligations generally require the Company to exchange foreign currencies for U.S. Dollars, Euros or Australian Dollars. These foreign exchange contracts are fair value hedges of a related liability or asset recorded in the accompanying Condensed Consolidated Statements of Financial Position (Unaudited). The gain or loss on the derivative hedge contracts is recorded in earnings as an offset to the change in value of the related liability or asset at each period end. At July 1, 2012 and September 30, 2011, the Company had $189,538 and $265,974, respectively, of notional value for such foreign exchange derivative contracts outstanding.

The Company is exposed to economic risk from foreign currencies, including firm commitments for purchases of materials denominated in South African Rand. Periodically the Company economically hedges a portion of the risk associated with these purchases through forward and swap foreign exchange contracts. The contracts are designated as fair value hedges. The hedges effectively fix the foreign exchange in U.S. Dollars on a specified amount of Rand to a future payment date. The unrealized change in fair value of the hedge contracts is recorded in earnings and as a hedge asset or liability, as applicable. Derivative gains or losses are realized as the hedged purchases of materials affects earnings. At July 1, 2012 and September 30, 2011, the Company had $2,249 and $0, respectively, of such foreign exchange derivative contracts outstanding.

8 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company’s net derivative portfolio as of July 1, 2012, contains Level 2 instruments and consists of commodity and foreign exchange contracts. The fair values of these instruments as of July 1, 2012 were as follows:

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	Level 1	Level 2	Level 3	Total
Assets:				
Foreign exchange contracts, net	$—	$1,519	$—	$1,519
Total Assets, net	$—	$1,519	$—	$1,519
Liabilities:				
Commodity contracts, net	$—	$(2,693)	$—	$(2,693)
Total Liabilities, net	$—	$(2,693)	$—	$(2,693)

The Company's net derivative portfolio as of September 30, 2011, contains Level 2 instruments and consists of commodity, interest rate and foreign exchange contracts. The fair values of these instruments as of September 30, 2011 were as follows:

	Level 1	Level 2	Level 3	Total
Total Assets	$—	$—	$—	$—
Liabilities:				
Interest rate contracts	$—	$(1,954)	$—	$(1,954)
Commodity contracts	—	(958)	—	(958)
Foreign exchange contracts, net	—	(22,490)	—	(22,490)
Total Liabilities, net	$—	$(25,402)	$—	$(25,402)

The carrying values of cash and cash equivalents, accounts and notes receivable, accounts payable and non-publicly traded debt approximate fair value. The fair values of long-term publicly traded debt are based off unadjusted quoted market prices (level 1) and derivative financial instruments are generally based on quoted or observed market prices (level 2).
The carrying values of goodwill, intangible assets and other long-lived assets are tested annually, or more frequently if an event occurs that indicates an impairment loss may have been incurred, using fair value measurements with unobservable inputs (Level 3).

The carrying amounts and fair values of the Company's financial instruments are summarized as follows ((liability)/asset):

	July 1, 2012		September 30, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Total debt	$(1,827,065)	$(1,957,870)	$(1,576,612)	$(1,660,528)
Interest rate swap agreements	—	—	(1,954)	(1,954)
Commodity swap and option agreements	(2,693)	(2,693)	(958)	(958)
Foreign exchange forward agreements	1,519	1,519	(22,490)	(22,490)

9 EMPLOYEE BENEFIT PLANS
Pension Benefits
The Company has various defined benefit pension plans covering some of its employees in the U.S. and certain employees in other countries, primarily the United Kingdom and Germany. These pension plans generally provide benefits of stated amounts for each year of service.
The Company's results of operations for the three and nine month periods ended July 1, 2012 and July 3, 2011 reflect the following pension and deferred compensation benefit costs:

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Notes to Condensed Consolidated Financial Statements (Unaudited) – (Continued)

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	Three Months		Nine Months	
Components of net periodic pension benefit and deferred compensation benefit cost	2012	2011	2012	2011
Service cost	$578	$781	$1,700	$2,344
Interest cost	2,552	2,557	7,030	7,670
Expected return on assets	(2,051)	(1,965)	(5,378)	(5,896)
Recognized net actuarial loss	242	97	508	291
Employee contributions	(46)	(129)	(139)	(386)
Net periodic benefit cost	$1,275	$1,341	$3,721	$4,023

The Company funds its U.S. pension plans in accordance with the Internal Revenue Service ("IRS") defined guidelines and, where applicable, in amounts sufficient to satisfy the minimum funding requirements of applicable laws. Additionally, in compliance with the Company's funding policy, annual contributions to non-U.S. defined benefit plans are equal to the actuarial recommendations or statutory requirements in the respective countries. The Company's contributions to its pension and deferred compensation plans for the three and nine month periods ended July 1, 2012 and July 3, 2011 were as follows:

	Three Months		Nine Months	
Pension and deferred compensation contributions	2012	2011	2012	2011
Contributions made during period	$1,289	$3,189	$3,767	$6,145

The Company sponsors a defined contribution pension plan for its domestic salaried employees, which allows participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. The Company also sponsors defined contribution pension plans for employees of certain foreign subsidiaries. Company contributions charged to operations, including discretionary amounts, for the three and nine month periods ended July 1, 2012 were $545 and $1,694, respectively. Company contributions charged to operations, including discretionary amounts, for the three and nine month periods ended July 3, 2011 were $1,439 and $4,192, respectively.

10 INCOME TAXES

The Company files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions and is subject to ongoing examination by the various taxing authorities. The Company's major taxing jurisdictions are the U.S., United Kingdom and Germany. In the U.S., federal tax filings for years prior to and including the Company's fiscal years ended September 30, 2008 are closed. However, the federal net operating loss carryforwards from the Company's fiscal years ended September 30, 2008 and prior are subject to IRS examination until the year that such net operating loss carryforwards are utilized and that year is closed for audit. The Company's fiscal years ended September 30, 2009, 2010 and 2011 remain open to examination by the IRS. Filings in various U.S. state and local jurisdictions are also subject to audit and to date no significant audit matters have arisen.

11 SEGMENT RESULTS

The Company manages its business in three vertically integrated, product-focused reporting segments: (i) Global Batteries & Appliances; (ii) Global Pet Supplies; and (iii) the Home and Garden Business.

Global strategic initiatives and financial objectives for each reportable segment are determined at the corporate level. Each reportable segment is responsible for implementing defined strategic initiatives and achieving certain financial objectives and has a general manager responsible for the sales and marketing initiatives and financial results for product lines within that segment.

Net sales and Cost of goods sold to other business segments have been eliminated. The gross contribution of intersegment sales is included in the segment selling the product to the external customer. Segment net sales are based upon the segment from which the product is shipped.

The operating segment profits do not include restructuring and related charges, acquisition and integration related charges, interest expense, interest income and income tax expense. Corporate expenses primarily include general and administrative expenses and global long-term incentive compensation plan costs which are evaluated on a consolidated basis and not allocated to the Company's operating segments. All depreciation and amortization included in income from operations is related to operating segments or corporate expense. Costs are identified to operating segments or corporate expense according to the function of each cost center.

(Amounts in thousands, except per share figures)

All capital expenditures are related to operating segments. Variable allocations of assets are not made for segment reporting.

Segment information for the three and nine month periods ended July 1, 2012 and July 3, 2011 is as follows:

	Three Months		Nine Months	
	2012	2011	2012	2011
Net sales from external customers				
Global Batteries & Appliances	$500,724	$505,213	$1,669,973	$1,661,177
Global Pet Supplies	157,495	143,839	448,962	425,106
Home and Garden Business	166,584	155,583	300,924	273,303
Total segments	$824,803	$804,635	$2,419,859	$2,359,586

	Three Months		Nine Months	
	2012	2011	2012	2011
Segment profit				
Global Batteries & Appliances	$47,093	$45,480	$185,726	$180,460
Global Pet Supplies	22,470	19,240	57,778	53,951
Home and Garden Business	44,224	42,921	60,509	51,008
Total segments	113,787	107,641	304,013	285,419
Corporate expense	9,227	14,047	32,762	40,540
Acquisition and integration related charges	5,274	7,444	20,625	31,487
Restructuring and related charges	3,896	7,066	15,890	17,778
Interest expense	39,686	40,398	150,169	165,923
Other expense, net	2,224	770	2,225	1,372
Income from continuing operations before income taxes	$53,480	$37,916	$82,342	$28,319

	July 1, 2012	September 30, 2011
Segment total assets		
Global Batteries & Appliances	$2,183,331	$2,275,076
Global Pet Supplies	973,559	828,202
Home and Garden Business	567,718	476,381
Total segment assets	3,724,608	3,579,659
Corporate	53,346	42,604
Total assets at period end	$3,777,954	$3,622,263

12 RESTRUCTURING AND RELATED CHARGES

The Company reports restructuring and related charges associated with manufacturing and related initiatives in Cost of goods sold. Restructuring and related charges reflected in Cost of goods sold include, but are not limited to, termination, compensation and related costs associated with manufacturing employees, asset impairments relating to manufacturing initiatives, and other costs directly related to the restructuring or integration initiatives implemented.

The Company reports restructuring and related charges relating to administrative functions in Operating expenses, such as initiatives impacting sales, marketing, distribution, or other non-manufacturing functions. Restructuring and related charges reflected in Operating expenses include, but are not limited to, termination and related costs, any asset impairments relating to the functional areas described above, and other costs directly related to the initiatives.

The following table summarizes restructuring and related charges incurred by segment for the three and nine month periods ended July 1, 2012 and July 3, 2011:

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SPECTRUM BRANDS, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited) – (Continued)
(Amounts in thousands, except per share figures)

	Three Months		Nine Months	
	2012	2011	2012	2011
Cost of goods sold:				
Global Batteries & Appliances	$1,205	$408	$4,679	$508
Global Pet Supplies	833	1,877	3,624	4,424
Total restructuring and related charges in cost of goods sold	2,038	2,285	8,303	4,932
Operating expenses:				
Global Batteries & Appliances	640	1,678	2,283	2,295
Global Pet Supplies	883	1,855	3,276	5,435
Home and Garden Business	192	747	1,163	2,082
Corporate	143	501	865	3,034
Total restructuring and related charges in operating expenses	1,858	4,781	7,587	12,846
Total restructuring and related charges	$3,896	$7,066	$15,890	$17,778

Global Cost Reduction Initiatives Summary

During the fiscal year ended September 30, 2009, the Company implemented a series of initiatives within the Global Batteries & Appliances segment, the Global Pet Supplies segment and the Home and Garden Business segment to reduce operating costs, and to evaluate opportunities to improve the Company's capital structure (the "Global Cost Reduction Initiatives"). These initiatives included headcount reductions and the exit of certain facilities within each of the Company's segments. These initiatives also included consultation, legal and accounting fees related to the evaluation of the Company's capital structure. Costs associated with these initiatives, which are expected to be incurred through January 31, 2015, are projected to total approximately $87,000.

The Company recorded $3,768 and $15,070 of pretax restructuring and related charges during the three and nine month periods ended July 1, 2012, respectively, and the Company recorded $6,462 and $14,569 of pretax restructuring and related charges during the three and nine month periods ended July 3, 2011, respectively, related to the Global Cost Reduction Initiatives.

The following table summarizes the remaining accrual balance associated with the 2009 initiatives and the activity during the nine month period ended July 1, 2012:

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2011	$8,795	$3,021	$11,816
Provisions	1,051	267	1,318
Cash expenditures	(6,897)	(1,102)	(7,999)
Non-cash items	(108)	(436)	(544)
Accrual balance at July 1, 2012	$2,841	$1,750	$4,591
Expensed as incurred (A)	$3,556	$10,196	$13,752

(A) Consists of amounts not impacting the accrual for restructuring and related charges.

The following table summarizes the expenses incurred during the nine month period ended July 1, 2012, the cumulative amount incurred to date and the total future expected costs to be incurred associated with the Global Cost Reduction Initiatives by operating segment:

SPECTRUM BRANDS, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited) – (Continued)
(Amounts in thousands, except per share figures)

	Global Batteries & Appliances	Global Pet Supplies	Home and Garden Business	Corporate	Total
Restructuring and related charges during the nine month period ended July 1, 2012	$7,007	$6,900	$1,163	$—	$15,070
Restructuring and related charges since initiative inception	$20,174	$33,762	$17,871	$7,591	$79,398
Total future restructuring and related charges expected	$555	$5,300	$1,755	$—	$7,610

In connection with other restructuring efforts, the Company recorded $128 and $820 of pretax restructuring and related charges during the three and nine month periods ended July 1, 2012, respectively, and $604 and $3,209 of pretax restructuring and related charges during the three and nine month periods ended July 3, 2011, respectively.

13 COMMITMENTS AND CONTINGENCIES

The Company has provided for the estimated costs associated with environmental remediation activities at some of its current and former manufacturing sites. The Company believes that any additional liability which may result from resolution of these matters in excess of the amounts provided of approximately $5,490, will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

The Company is a defendant in various other matters of litigation generally arising out of the ordinary course of business.

The Company does not believe that the resolution of any other matters or proceedings presently pending will have a material adverse effect on its results of operations, financial condition, liquidity or cash flows.

14 ACQUISITIONS

In accordance with ASC Topic 805, “Business Combinations” (“ASC 805”), the Company accounts for acquisitions by applying the acquisition method of accounting. The acquisition method of accounting requires, among other things, that the assets acquired and liabilities assumed in a business combination be measured at their fair values as of the closing date of the acquisition.

Black Flag

On October 31, 2011, the Company completed the $43,750 cash acquisition of the Black Flag and TAT trade names from The Homax Group, Inc. ("Black Flag"), a portfolio company of Olympus Partners. The Black Flag and TAT product lines consist of liquids, aerosols, baits and traps that control ants, spiders, wasps, bedbugs, fleas, flies, roaches, yellow jackets and other insects. This acquisition was not significant individually.

The results of Black Flag’s operations since October 31, 2011 are included in the Company’s Condensed Consolidated Statements of Operations (Unaudited) and are reported as part of the Home and Garden Business segment.

Acquisition Accounting

The assets acquired and liabilities assumed in the Black Flag acquisition have been measured at their fair values at October 31, 2011 as set forth below. The excess of the purchase price over the fair values of the net tangible assets and identifiable intangible assets was recorded as goodwill. The amounts recorded in connection with the acquisition of Black Flag are as follows:

Inventory	$2,509
Property, plant and equipment	301
Intangible assets	25,000
Goodwill	15,852
Other assets	88

Total assets acquired	$43,750

The Company performed a valuation of the acquired assets of Black Flag at October 31, 2011. Significant matters related

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SPECTRUM BRANDS, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited) – (Continued)
(Amounts in thousands, except per share figures)

to the determination of the fair values of the acquired identifiable intangible assets are summarized as follows:

- Certain indefinite-lived intangible assets were valued using a relief from royalty methodology. Customer relationships and certain definite-lived intangible assets were valued using a multi-period excess earnings method. The total fair value of indefinite and definite lived intangibles was $25,000 as of October 31, 2011. A summary of the significant key inputs is as follows:
- The Company valued customer relationships using the income approach, specifically the multi-period excess earnings method. In determining the fair value of the customer relationship, the multi-period excess earnings approach values the intangible asset at the present value of the incremental after-tax cash flows attributable only to the customer relationship after deducting contributory asset charges. The incremental after-tax cash flows attributable to the subject intangible asset are then discounted to their present value. Only expected sales from current customers were used, which included an expected growth rate of 3%. The Company assumed a customer retention rate of approximately 95%, which was supported by historical retention rates. Income taxes were estimated at 40% and amounts were discounted using a rate of 13.5%. The customer relationships were valued at $17,000 under this approach and will be amortized over 20 years.
- The Company valued trade names using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the trade name was not owned. Royalty rates were selected based on consideration of several factors, including other similar trademark licensing and transaction agreements and the relative profitability and perceived contribution of the trademarks and trade names. Royalty rates used in the determination of the fair values of trade names were in the range of 2%-4% of expected net sales related to the respective trade name. The Company anticipates using the trade names for an indefinite period as demonstrated by the sustained use of each subject trademark. In estimating the fair value of the trade names, net sales for the trade names were estimated to grow at a rate of (15)%-8% annually with a terminal year growth rate of 3%. Income taxes were estimated at 40% and amounts were discounted using a rate of 13.5%. Trade names were valued at $8,000 under this approach.

The Company’s estimates and assumptions for Black Flag are subject to change as the Company obtains additional information for its estimates during the measurement period. The primary areas of acquisition accounting that are not yet finalized relate to certain legal matters and residual goodwill.

FURminator

On December 22, 2011, the Company completed the $141,745 cash acquisition of FURminator, Inc. from HKW Capital Partners III, L.P. ("FURminator"). FURminator is a leading worldwide provider of branded and patented pet deshedding products. This acquisition was not significant individually.

The results of FURminator operations since December 22, 2011 are included in the Company’s Condensed Consolidated Statements of Operations (Unaudited) and are reported as part of the Global Pet Supplies business segment.

Acquisition Accounting

The assets acquired and liabilities assumed in the FURminator acquisition have been measured at their fair values at December 22, 2011 as set forth below. The excess of the purchase price over the fair values of the net tangible assets and identifiable intangible assets was recorded as goodwill. The amounts recorded in connection with the acquisition of FURminator are as follows:

Current assets	$9,240
Property, plant and equipment	648
Intangible assets	79,000

Goodwill	68,531
Total assets acquired	$157,419
Current liabilities	758
Long-term liabilities	14,916
Total liabilities assumed	$15,674
Net assets acquired	$141,745

The Company performed a valuation of the assets and liabilities of FURminator at December 22, 2011. Significant matters related to the determination of the fair values of the acquired identifiable intangible assets are summarized as follows:

- Certain indefinite-lived intangible assets were valued using a relief from royalty methodology. Customer relationships and certain definite-lived intangible assets were valued using a multi-period excess earnings method. The total fair value of indefinite and definite lived intangibles was $79,000 as of December 22, 2011. A summary of the significant key inputs is as follows:
- The Company valued customer relationships using the income approach, specifically the multi-period excess earnings method. In determining the fair value of the customer relationship, the multi-period excess earnings approach values the intangible asset at the present value of the incremental after-tax cash flows attributable only to the customer relationship after deducting contributory asset charges. The incremental after-tax cash flows attributable to the subject intangible asset are then discounted to their present value. Only expected sales from current customers were used, which included an expected growth rate of 3%. The Company assumed a customer retention rate of approximately 95%, which was supported by historical retention rates. Income taxes were estimated at 40% and amounts were discounted using a rate of 14%. The customer relationships were valued at $46,000 under this approach and will be amortized over 20 years.
- The Company valued trade names using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the trade name was not owned. Royalty rates were selected based on consideration of several factors, including other similar trademark licensing and transaction agreements and the relative profitability and perceived contribution of the trademarks and trade names. Royalty rates used in the determination of the fair values of trade names were in the range of 4%-5% of expected net sales related to the respective trade name. The Company anticipates using the trade names for an indefinite period as demonstrated by the sustained use of each subject trade name. In estimating the fair value of the trade names, net sales for the trade names were estimated to grow at a rate of 2%-12% annually with a terminal year growth rate of 3%. Income taxes were estimated at 40% and amounts were discounted using a rate of 14%. Trade names were valued at $14,000 under this approach.
- The Company valued technology using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the technology was not owned. Royalty rates used in the determination of the fair values of technologies were 10%-12% of expected net sales related to the respective technology. The Company anticipates using these technologies through the legal life of the underlying patent and therefore the expected life of these technologies was equal to the remaining legal life of the underlying patents, which is approximately 9 years. In estimating the fair value of the technologies, net sales were estimated to grow at a rate of 2%-12% annually. Income taxes were estimated at 40% and amounts were discounted using the rate of 14%. The technology assets were valued at $19,000 under this approach.

The Company's estimates and assumptions for FURminator are subject to change as the Company obtains additional information for its estimates during the measurement period. The primary areas of acquisition accounting that are not yet finalized relate to certain legal matters, income and non-income based taxes and residual goodwill.

15 NEW ACCOUNTING PRONOUNCEMENTS

Fair Value Measurement

In May 2011, the Financial Accounting Standards Board (the "FASB") issued amended accounting guidance to achieve a consistent definition of and common requirements for measurement of and disclosure concerning fair value between GAAP and International Financial Reporting Standards. This amended guidance was effective for the Company beginning in the second quarter of its fiscal year ending September 30, 2012. The new accounting guidance did not have a material effect on the Company's Consolidated Financial Statements.

Presentation of Comprehensive Income

In June 2011, the FASB issued new accounting guidance which requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. This accounting guidance is effective for the Company for the fiscal year beginning October 1, 2012. Early adoption is permitted. The Company is currently evaluating the impact of this new accounting guidance on its Consolidated Financial Statements.

Impairment Testing

During September 2011, the FASB issued new accounting guidance intended to simplify how an entity tests goodwill for impairment. The guidance will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity will no longer be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This accounting guidance is effective for the Company for the annual and any interim goodwill impairment tests performed for the fiscal year beginning October 1, 2012. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a significant impact on its Consolidated Financial Statements.

Additionally, in July 2012, the FASB issued new accounting guidance intended to simplify how an entity tests indefinite-lived intangible assets for impairment. The guidance will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. An entity will no longer be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This accounting guidance is effective for the Company for the annual and any interim indefinite-lived intangible asset impairment tests performed for the fiscal year beginning October 1, 2012. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a significant impact on its Consolidated Financial Statements.

16 CONSOLIDATING FINANCIAL STATEMENTS

In connection with the combination with Russell Hobbs, Spectrum Brands, with its domestic subsidiaries and SB/RH Holdings, LLC as guarantors, issued the 9.5% Notes under the 2018 Indenture. (See Note 6, “Debt,” for further information on the the 9.5% Notes under the 2018 Indenture.)

The following consolidating financial statements illustrate the components of the consolidated financial statements of the Company. Investments in subsidiaries are accounted for using the equity method for purposes of illustrating the consolidating presentation. Earnings of subsidiaries are therefore reflected in the Company’s and Guarantor Subsidiaries’ investment accounts and earnings. The elimination entries presented herein eliminate investments in subsidiaries and intercompany balances and transactions. Separate consolidated financial statements of the Guarantor Subsidiaries are not presented because management has determined that such financial statements would not be material to investors.

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SPECTRUM BRANDS, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Financial Position
July 1, 2012
(Unaudited)
(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS					
Current assets:					
Cash and cash equivalents	$464	$2,160	$59,675	$—	$62,299
Receivables:					
Trade accounts receivables, net of allowances	34,397	108,652	199,301	—	342,350
Intercompany receivables	282,970	896,404	342,561	(1,520,065)	1,870
Other	3,943	6,377	34,770	—	45,090
Inventories	108,155	228,523	223,884	(8,047)	552,515
Deferred income taxes	(5,845)	23,775	6,430	1,999	26,359
Prepaid expenses and other	19,023	9,333	27,131	—	55,487
Total current assets	443,107	1,275,224	893,752	(1,526,113)	1,085,970
Property, plant and equipment, net	62,003	48,043	98,505	—	208,551
Long-term intercompany receivables	143,713	117,040	64,755	(325,508)	—
Deferred charges and other	14,419	3,767	16,324	—	34,510
Goodwill	67,722	438,864	181,459	—	688,045
Intangible assets, net	517,577	788,789	410,611	—	1,716,977
Debt issuance costs	43,901	—	—	—	43,901
Investments in subsidiaries	2,636,602	1,098,104	445	(3,735,151)	—
Total assets	$3,929,044	$3,769,831	$1,665,851	$(5,586,772)	$3,777,954
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current maturities of long-term debt	$5,531	$1,667	$21,053	$—	$28,251
Accounts payable	61,883	97,761	91,491	—	251,135
Intercompany accounts payable	901,236	336,869	49,463	(1,287,568)	—
Accrued liabilities:					
Wages and benefits	17,256	14,335	35,584	—	67,175
Income taxes payable	436	(11)	25,677	—	26,102
Accrued interest	12,503	—	43	—	12,546
Other	14,909	33,931	55,784	—	104,624
Total current liabilities	1,013,754	484,552	279,095	(1,287,568)	489,833
Long-term debt, net of current maturities	1,773,564	3,412	21,838	—	1,798,814
Intercompany long-term debt	—	439,734	118,270	(558,004)	—
Employee benefit obligations, net of current portion	24,148	1	50,284	—	74,433
Deferred income taxes	79,763	205,235	83,102	—	368,100
Other	14,434	295	15,158	—	29,887
Total liabilities	2,905,663	1,133,229	567,747	(1,845,572)	2,761,067
Shareholders' equity:					
Other capital	1,356,668	2,082,468	1,071,818	(3,160,780)	1,350,174
Accumulated (deficit) retained earnings	(291,597)	580,400	49,096	(629,496)	(291,597)

Accumulated other comprehensive loss	(41,690)	(26,266)	(22,810)	49,076	(41,690)
Total shareholders' equity	1,023,381	2,636,602	1,098,104	(3,741,200)	1,016,887
Total liabilities and shareholders' equity	$3,929,044	$3,769,831	$1,665,851	$(5,586,772)	$3,777,954

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Condensed Consolidating Statement of Financial Position
September 30, 2011
(Unaudited)
(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS					
Current assets:					
Cash and cash equivalents	$49	$8,789	$133,576	$—	$142,414
Receivables:					
Trade accounts receivables, net of allowances	64,832	115,440	176,333	—	356,605
Intercompany receivables	550,640	907,730	392,044	(1,854,857)	(4,443)
Other	2,144	5,527	30,007	—	37,678
Inventories	75,652	179,506	183,640	(4,168)	434,630
Deferred income taxes	(7,285)	26,436	8,037	982	28,170
Prepaid expenses and other	18,286	4,538	25,968	—	48,792
Total current assets	704,318	1,247,966	949,605	(1,858,043)	1,043,846
Property, plant and equipment, net	57,669	43,808	104,912	—	206,389
Long term intercompany receivables	136,709	134,313	127,175	(398,197)	—
Deferred charges and other	11,364	4,725	20,735	—	36,824
Goodwill	67,722	354,481	188,135	—	610,338
Intangible assets, net	525,409	714,710	443,790	—	1,683,909
Debt issuance costs	40,957	—	—	—	40,957
Investments in subsidiaries	2,330,632	1,022,634	—	(3,353,266)	—
Total assets	$3,874,780	$3,522,637	$1,834,352	$(5,609,506)	$3,622,263
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current maturities of long-term debt	$30,585	$1,036	$9,469	$—	$41,090
Accounts payable	1,338,536	455,696	283,669	(1,754,730)	323,171
Accrued liabilities:					
Wages and benefits	20,377	13,396	37,172	—	70,945
Income taxes payable	366	(21)	31,261	—	31,606
Accrued interest	30,361	—	106	—	30,467
Other	20,661	45,827	68,077	—	134,565
Total current liabilities	1,440,886	515,934	429,754	(1,754,730)	631,844
Long-term debt, net of current maturities	1,503,990	307,087	222,753	(498,308)	1,535,522
Employee benefit obligations, net of current portion	17,408	7,301	59,093	—	83,802
Deferred income taxes	86,248	169,838	81,250	—	337,336
Other	22,205	3,564	18,868	—	44,637
Total liabilities	3,070,737	1,003,724	811,718	(2,253,038)	2,633,141
Shareholders' equity:					
Other equity	1,338,735	1,693,632	980,167	(2,673,800)	1,338,734
Accumulated (deficit) retained earnings	(426,165)	922,638	37,719	(869,358)	(335,166)
	(108,527)	(97,357)	4,748	186,690	(14,446)

Accumulated other comprehensive (deficit) income					
Total shareholders' equity (deficit)	804,043	2,518,913	1,022,634	(3,356,468)	989,122
Total liabilities and shareholders' equity	$3,874,780	$3,522,637	$1,834,352	$(5,609,506)	$3,622,263

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SPECTRUM BRANDS, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Operations
Three Month Period Ended July 1, 2012
(Unaudited)
(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$149,130	$357,363	$433,024	$(114,714)	$824,803
Cost of goods sold	109,719	239,647	296,558	(114,855)	531,069
Restructuring and related charges	—	804	1,234	—	2,038
Gross profit	39,411	116,912	135,232	141	291,696
Operating expenses:					
Selling	18,348	40,096	71,552	(145)	129,851
General and administrative	5,131	21,435	23,532	628	50,726
Research and development	5,000	2,713	884	—	8,597
Acquisition and integration related charges	1,055	3,003	1,216	—	5,274
Restructuring and related charges	140	659	1,059	—	1,858
	29,674	67,906	98,243	483	196,306
Operating income	9,737	49,006	36,989	(342)	95,390
Interest expense	35,204	1,401	3,078	3	39,686
Other (income) expense, net	(66,677)	(16,711)	2,035	83,577	2,224
Income from continuing operations before income taxes	41,210	64,316	31,876	(83,922)	53,480
Income tax (benefit) expense	(17,641)	5,814	6,333	123	(5,371)
Net income	$58,851	$58,502	$25,543	$(84,045)	$58,851

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SPECTRUM BRANDS, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Operations
Three Month Period Ended July 3, 2011
(Unaudited)
(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$148,415	$351,078	$334,300	$(29,158)	$804,635
Cost of goods sold	102,603	231,020	204,438	(29,405)	508,656
Restructuring and related charges	124	1,877	313	(29)	2,285
Gross profit	45,688	118,181	129,549	276	293,694
Operating expenses:					
Selling	18,274	46,433	68,623	(143)	133,187
General and administrative	18,504	21,670	19,832	—	60,006
Research and development	5,628	2,529	1,035	—	9,192
Acquisition and integration related charges	2,517	2,995	1,932	—	7,444
Restructuring and related charges	1,389	2,780	612	—	4,781
	46,312	76,407	92,034	(143)	214,610
Operating (loss) income	(624)	41,774	37,515	419	79,084
Interest expense	35,188	452	4,756	2	40,398
Other (income) expense, net	(59,459)	(28,897)	288	88,838	770
Income from continuing operations before income taxes	23,647	70,219	32,471	(88,421)	37,916
Income tax (benefit) expense	(33,533)	32,997	9,479	52	8,995
Net income	$57,180	$37,222	$22,992	$(88,473)	$28,921

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SPECTRUM BRANDS, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Operations
Nine Month Period Ended July 1, 2012
(Unaudited)
(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$489,068	$915,117	$1,411,931	$(396,257)	$2,419,859
Cost of goods sold	354,725	638,757	977,269	(394,948)	1,575,803
Restructuring and related charges	—	3,595	4,708	—	8,303
Gross profit	134,343	272,765	429,954	(1,309)	835,753
Operating expenses:					
Selling	56,103	115,730	220,385	(696)	391,522
General and administrative	36,322	58,881	60,550	1,740	157,493
Research and development	13,600	7,412	2,778	—	23,790
Acquisition and integration related charges	7,364	8,931	4,330	—	20,625
Restructuring and related charges	1,596	3,819	2,172	—	7,587
	114,985	194,773	290,215	1,044	601,017
Operating income	19,358	77,992	139,739	(2,353)	234,736
Interest expense	136,257	3,760	10,150	2	150,169
Other (income) expense, net	(150,859)	(86,912)	3,153	236,843	2,225
(Loss) income from continuing operations before income taxes	33,960	161,144	126,436	(239,198)	82,342
Income tax expense	(9,610)	21,735	26,690	(43)	38,772
Net (loss) income	$43,570	$139,409	$99,746	$(239,155)	$43,570

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SPECTRUM BRANDS, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Operations
Nine Month Period Ended July 3, 2011
(Unaudited)
(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$358,931	$1,008,198	$1,116,250	$(123,793)	$2,359,586
Cost of goods sold	214,537	725,437	688,962	(122,653)	1,506,283
Restructuring and related charges	124	4,424	413	(29)	4,932
Gross profit	144,270	278,337	426,875	(1,111)	848,371
Operating expenses:					
Selling	54,662	130,577	218,955	(426)	403,768
General and administrative	54,387	60,182	64,530	—	179,099
Research and development	14,379	8,508	2,670	—	25,557
Acquisition and integration related charges	6,857	15,912	8,718	—	31,487
Restructuring and related charges	4,022	7,696	1,128	—	12,846
	134,307	222,875	296,001	(426)	652,757
Operating income	9,963	55,462	130,874	(685)	195,614
Interest expense	149,126	1,219	15,561	17	165,923
Other (income) expense, net	(187,735)	(101,461)	504	290,064	1,372
Income from continuing operations before income taxes	48,572	155,704	114,809	(290,766)	28,319
Income tax expense	(12,384)	52,682	28,833	38	69,169
Net income (loss)	$60,956	$103,022	$85,976	$(290,804)	$(40,850)

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SPECTRUM BRANDS, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Cash Flows
Nine Month Period Ended July 1, 2012
(Unaudited)
(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net cash (used) provided by operating activities	$(49,985)	$188,635	$125,730	$(336,244)	$(71,864)
Cash flows from investing activities:					
Purchases of property, plant and equipment	(14,321)	(9,719)	(9,077)	—	(33,117)
Proceeds from sale of property, plant and equipment	135	26	257	—	418
Acquisition of Black Flag	—	(43,750)	—	—	(43,750)
Acquisition of FURminator, net of cash	—	(139,390)	—	—	(139,390)
Other investing activities	—	(118)	(1,927)	—	(2,045)
Net cash used by investing activities	(14,186)	(192,951)	(10,747)	—	(217,884)
Cash flows from financing activities:					
Proceeds from issuance of 6.75% Notes	300,000	—	—	—	300,000
Payment of 12% Notes, including tender and call premium	(270,431)	—	—	—	(270,431)
Proceeds from issuance of 9.5% Notes, including premium	217,000	—	—	—	217,000
Payment of senior credit facilities, excluding ABL revolving credit facility	(4,091)	—	—	—	(4,091)
ABL revolving credit facility, net	2,500	—	—	—	2,500
Reduction of other debt	(25,000)	—	(2,992)	—	(27,992)
Other debt financing, net		—	6,192	—	6,192
Debt issuance costs	(11,163)	—	—	—	(11,163)
Other financing activities	—	(953)	—	—	(953)
Advances related to intercompany transactions	(144,229)	(1,360)	(190,655)	336,244	—
Net cash provided (used) by financing activities	64,586	(2,313)	(187,455)	336,244	211,062
Effect of exchange rate changes on cash and cash equivalents	—	—	(1,429)	—	(1,429)
Net increase (decrease) in cash and cash equivalents	415	(6,629)	(73,901)	—	(80,115)
Cash and cash equivalents, beginning of period	49	8,789	133,576	—	142,414
Cash and cash equivalents, end of period	$464	$2,160	$59,675	$—	$62,299

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SPECTRUM BRANDS, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Cash Flows
Nine Month Period Ended July 3, 2011
(Unaudited)
(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net cash (used) provided by operating activities	269,638	(85,052)	732,612	(918,555)	(1,357)
Cash flows from investing activities:					
Purchases of property, plant and equipment	(11,544)	(7,555)	(8,334)	—	(27,433)
Proceeds from sale of property, plant and equipment	—	95	93	—	188
Acquisition of Seed Resources, net of cash	—	(11,053)	—	—	(11,053)
Proceeds from sale of assets—Ningbo	—	—	6,997	—	6,997
Other investing	—	(1,530)	—	—	(1,530)
Net cash used by investing activities	(11,544)	(20,043)	(1,244)	—	(32,831)
Cash flows from financing activities:					
Payment of senior credit facilities, excluding ABL revolving credit facility	(93,400)	—	—	—	(93,400)
Prepayment penalty of term loan facility	(7,500)	—	—	—	(7,500)
ABL revolving credit facility, net	55,000	—	—	—	55,000
Reduction of other debt	—	—	(905)	—	(905)
Proceeds from debt financing	15,349	—	—	—	15,349
Debt issuance costs	(10,769)	—	—	—	(10,769)
Treasury stock purchases	(3,409)	—	—	—	(3,409)
Proceeds from (advances related to) intercompany transactions	(248,518)	106,371	(776,408)	918,555	—
Net cash provided (used) by financing activities	(293,247)	106,371	(777,313)	918,555	(45,634)
Effect of exchange rate changes on cash and cash equivalents	—	—	(2,414)	—	(2,414)
Net (decrease) increase in cash and cash equivalents	(35,153)	1,276	(48,359)	—	(82,236)
Cash and cash equivalents, beginning of period	52,580	2,723	115,311	—	170,614
Cash and cash equivalents, end of period	$17,427	$3,999	$66,952	$—	$88,378

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

Introduction

Spectrum Brands, Inc., a Delaware corporation ("Spectrum Brands" or the "Company"), is a global branded consumer products company. Spectrum Brands Holdings, Inc. ("SB Holdings") was created in connection with the combination of Spectrum Brands and Russell Hobbs, Inc. ("Russell Hobbs"), a global branded small appliance company, to form a new combined company (the "Merger"). The Merger was consummated on June 16, 2010. As a result of the Merger, both Spectrum Brands and Russell Hobbs became wholly-owned subsidiaries of SB Holdings. Russell Hobbs was subsequently merged into Spectrum Brands. SB Holdings trades on the New York Stock Exchange under the symbol "SPB."

Unless the context indicates otherwise, the terms the "Company," "Spectrum," "we," "our" or "us" are used to refer to Spectrum Brands and its subsidiaries subsequent to the Merger and Spectrum Brands prior to the Merger.

Business Overview

We manufacture and market alkaline, zinc carbon and hearing aid batteries, herbicides, insecticides and repellants and specialty pet supplies. We design and market rechargeable batteries, battery-powered lighting products, electric shavers and accessories, grooming products and hair care appliances. With the addition of Russell Hobbs we design, market and distribute a broad range of branded small household appliances and personal care products. Our manufacturing and product development facilities are located in the United States ("U.S."), Europe, Latin America and Asia. Substantially all of our rechargeable batteries and chargers, shaving and grooming products, small household appliances, personal care products and portable lighting products are manufactured by third-party suppliers, primarily located in Asia.

We sell our products in approximately 120 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and original equipment manufacturers ("OEMs") and enjoy strong name recognition in our markets under the Rayovac, VARTA and Remington brands, each of which has been in existence for more than 80 years, and under the Tetra, 8-in-1, Spectracide, Cutter, Black & Decker, George Foreman, Russell Hobbs, Farberware, Black Flag, FURminator and various other brands.

Our diversified global branded consumer products have positions in seven major product categories: consumer batteries; pet supplies; home and garden control products; electric shaving and grooming products; small appliances; electric personal care products; and portable lighting. Our chief operating decision-maker manages the businesses in three vertically integrated, product-focused reporting segments: (i) Global Batteries & Appliances, which consists of our worldwide battery, electric shaving and grooming, electric personal care, portable lighting and small appliances, primarily in the kitchen and home product categories ("Global Batteries & Appliances"); (ii) Global Pet Supplies, which consists of our worldwide pet supplies business ("Global Pet Supplies"); and (iii) Home and Garden Business, which consists of our home and garden and insect control business (the "Home and Garden Business"). Management reviews our performance based on these segments. For information pertaining to our business segments, see Note 11, "Segment Results" of Notes to Condensed Consolidated Financial Statements (Unaudited), included in this Quarterly Report on Form 10-Q.

Global and geographic strategic initiatives and financial objectives are determined at the corporate level. Each business segment is responsible for implementing defined strategic initiatives and achieving certain financial objectives and has a general manager responsible for sales and marketing initiatives and the financial results for all product lines within that business segment.

Our operating performance is influenced by a number of factors including: general economic conditions; foreign exchange fluctuations; trends in consumer markets; consumer confidence and preferences; our overall product line mix, including pricing and gross margin, which vary by product line and geographic market; pricing of certain raw materials and commodities; energy and fuel prices; and our general competitive position, especially as impacted by our competitors' advertising and promotional activities and pricing strategies.

Results of Operations

Fiscal Quarter and Fiscal Nine Month Period Ended July 1, 2012 Compared to Fiscal Quarter and Fiscal Nine Month Period Ended July 3, 2011

In this Quarterly Report on Form 10-Q we refer to the three months ended July 1, 2012 as the “Fiscal 2012 Quarter,” the nine month period ended July 1, 2012 as the “Fiscal 2012 Nine Months,” the three month period ended July 3, 2011 as the “Fiscal 2011 Quarter” and the nine month period ended July 3, 2011 as the “Fiscal 2011 Nine Months.”

Net Sales. Net sales for the Fiscal 2012 Quarter increased $20 million to $825 million from $805 million in the Fiscal 2011 Quarter, a 3% increase. The following table details the principal components of the change in net sales from the Fiscal

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2011 Quarter to the Fiscal 2012 Quarter (in millions):

	Net Sales
Fiscal 2011 Quarter Net Sales	$805
Increase in pet supplies	17
Increase in home and garden control products	12
Increase in small appliances	9
Increase in electric shaving and grooming products	4
Increase in consumer batteries	4
Increase in electric personal care products	4
Decrease in portable lighting products	(1)
Foreign currency impact, net	(29)
Fiscal 2012 Quarter Net Sales	$825

Net sales for the Fiscal 2012 Nine Months increased $60 million to $2,420 million from $2,360 million in the Fiscal 2011 Nine Months, a 3% increase. The following table details the principal components of the change in net sales from the Fiscal 2011 Nine Months to the Fiscal 2012 Nine Months (in millions):

	Net Sales
Fiscal 2011 Nine Months Net Sales	$2,360
Increase in pet supplies	28
Increase in home and garden control products	27
Increase in small appliances	18
Increase in consumer batteries	15
Increase in electric personal care products	10
Increase in electric shaving and grooming products	9
Decrease in portable lighting products	(3)
Foreign currency impact, net	(44)
Fiscal 2012 Nine Months Net Sales	$2,420

Consolidated net sales by product line for the Fiscal 2012 Quarter, the Fiscal 2011 Quarter, the Fiscal 2012 Nine Months, and the Fiscal 2011 Nine Months are as follows (in millions):

	Fiscal Quarter		Fiscal Nine Months	
	2012	2011	2012	2011
Product line net sales				
Consumer batteries	$190	$198	$623	$627
Small appliances	173	170	576	567
Pet supplies	157	144	449	425
Home and garden control products	167	155	300	273
Electric personal care products	54	53	195	191
Electric shaving and grooming products	63	62	215	211
Portable lighting products	21	23	62	66
Total net sales to external customers	$825	$805	$2,420	$2,360

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Global consumer battery sales decreased $8 million, or 4%, during the Fiscal 2012 Quarter versus the Fiscal 2011 Quarter. Excluding the impact of negative foreign exchange of $12 million global consumer battery sales increased $4 million, or 2%. The growth of global consumer battery sales on a constant currency basis was driven by new customer listings as well as increased shelf space at existing customers, coupled with price increases, primarily in Latin America, and geographic expansion. Global consumer battery sales decreased $4 million, or 1% for the Fiscal 2012 Nine Months versus the Fiscal 2011 Nine Months. Excluding negative foreign exchange impacts of $19 million, global consumer battery sales increased $15 million, or 2% due to the factors discussed above for the Fiscal 2012 Quarter.

Small appliance sales increased $3 million, or 2%, during the Fiscal 2012 Quarter compared to the Fiscal 2011 Quarter, driven by increases in Latin America and Europe of $8 million and $6 million, respectively, tempered by decreased North American sales of $5 million. Foreign exchange negatively affected small appliance sales by $6 million. Latin American sales gains resulted from distribution gains with existing customers as well as price increases. European sales increases were attributable to market share gains in the United Kingdom and expansion of the Russell Hobbs brand throughout Europe. Decreased North American sales resulted from the nonrecurrence of Fiscal 2011 Quarter low margin promotions. For the Fiscal 2012 Nine Months, small appliance sales increased $9 million, or 2%, driven by the factors discussed for the Fiscal 2012 Quarter, coupled with increased North American sales in the first six months of the fiscal year ending September 30, 2012 ("Fiscal 2012") attributable to successful new product introductions and increased placement at a major customer.