Spectrum Brands, Inc.
Form 10-Q
May 09, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 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 x 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 x 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 x

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 x No ¨

Table of Contents

SPECTRUM BRANDS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR QUARTER ENDED April 1, 2012

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SPECTRUM BRANDS, INC.

Condensed Consolidated Statements of Financial Position

April 1, 2012 and September 30, 2011

(Unaudited)

(Amounts in thousands, except per share figures)

	April 1, 2012	September 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 51,688	$ 142,414
Receivables:		
Trade accounts receivable, net of allowances of $13,774 and $14,128, respectively	370,240	356,605
Other	46,735	33,235
Inventories	551,033	434,630
Deferred income taxes	25,796	28,170
Prepaid expenses and other	60,291	48,792
Total current assets	1,105,783	1,043,846
Property, plant and equipment, net of accumulated depreciation of $123,824 and $107,357, respectively	207,844	206,389
Deferred charges and other	40,079	36,824
Goodwill	696,770	610,338
Intangible assets, net	1,755,004	1,683,909
Debt issuance costs	44,901	40,957
Total assets	$ 3,850,381	$ 3,622,263
Liabilities and Shareholders Equity		
Current liabilities:		
Current maturities of long-term debt	$ 33,906	$ 41,090
Accounts payable	260,481	323,171
Accrued liabilities:		
Wages and benefits	55,401	70,945
Income taxes payable	28,186	31,606
Accrued interest	33,025	30,467
Other	110,472	134,565
Total current liabilities	521,471	631,844
Long-term debt, net of current maturities	1,848,165	1,535,522
Employee benefit obligations, net of current portion	79,993	83,802
Deferred income taxes	377,354	337,336
Other	37,441	44,637
Total liabilities	2,864,424	2,633,141
Commitments and contingencies		

Shareholders equity:		
Other capital	1,345,843	1,338,734
Accumulated deficit	(350,447)	(335,166)
Accumulated other comprehensive loss	(9,439)	(14,446)
Total shareholders equity	985,957	989,122
Total liabilities and shareholders equity	$ 3,850,381	$ 3,622,263

See accompanying notes which are an integral part of these condensed consolidated financial statements

(Unaudited).

3

Table of Contents

SPECTRUM BRANDS, INC.

Condensed Consolidated Statements of Operations

For the three and six month periods ended April 1, 2012 and April 3, 2011

(Unaudited)

(Amounts in thousands, except per share figures)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	2012	2011	2012	2011
Net sales	$ 746,285	$ 693,885	$ 1,595,056	$ 1,554,952
Cost of goods sold	484,594	436,393	1,044,734	997,627
Restructuring and related charges	1,660	2,053	6,265	2,647
Gross profit	260,031	255,439	544,057	554,678
Selling	129,912	130,361	261,671	270,581
General and administrative	56,338	58,348	106,767	119,093
Research and development	7,958	8,798	15,193	16,365
Acquisition and integration related charges	7,751	7,588	15,351	24,043
Restructuring and related charges	2,609	3,094	5,729	8,065
Total operating expenses	204,568	208,189	404,711	438,147
Operating income	55,463	47,250	139,346	116,531
Interest expense	69,273	72,431	110,483	125,525
Other (income) expense, net	(2,192)	(287)	1	602
(Loss) income from continuing operations before income taxes	(11,618)	(24,894)	28,862	(9,596)
Income tax expense	16,833	25,131	44,143	60,174
Net loss	$ (28,451)	$ (50,025)	$ (15,281)	$ (69,770)

See accompanying notes which are an integral part of these condensed consolidated financial statements

(Unaudited).

Table of Contents

SPECTRUM BRANDS, INC.

Condensed Consolidated Statements of Cash Flows

For the six month periods ended April 1, 2012 and April 3, 2011

(Unaudited)

(Amounts in thousands)

	SIX MONTHS ENDED 2012	SIX MONTHS ENDED 2011
Cash flows from operating activities:		
Net loss	$ (15,281)	$ (69,770)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	18,896	23,315
Amortization of intangibles	30,449	28,634
Amortization of unearned restricted stock compensation	11,076	14,107
Amortization of debt issuance costs	3,446	6,557
Non-cash debt accretion	146	3,001
Write off of unamortized (discount) / premium on retired debt	(466)	8,950
Write off of debt issuance costs	2,563	15,420
Other non-cash adjustments	1,340	5,630
Net changes in assets and liabilities	(206,973)	(158,119)
Net cash used by operating activities	(154,804)	(122,275)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(18,590)	(18,712)
Acquisition of Black Flag	(43,750)	
Acquisition of FURminator, net of cash acquired	(139,390)	
Acquisition Seed Resources, net of cash acquired		(10,278)
Proceeds from sale of property, plant and equipment	82	131
Proceeds from sale of assets previously held for sale		6,997
Other investing activities	(2,045)	(1,530)
Net cash used by investing activities	(203,693)	(23,392)
Cash flows from financing activities:		
Proceeds from 6.75% Notes	300,000	
Payment of 12% Notes, including tender and call premium	(270,431)	
Proceeds from 9.5% Notes, including premium	217,000	
Payment of senior credit facilities, excluding ABL revolving credit facility	(2,727)	(71,700)
Prepayment penalty of term loan facility		(7,500)
Debt issuance costs	(9,941)	(8,648)
Proceeds from other debt financing	11,866	22,496
Reduction of other debt	(26,371)	(367)
ABL revolving credit facility, net	50,000	118,000
Other financing activities	(954)	
Treasury stock purchases		(3,241)
Net cash provided by financing activities	268,442	49,040
Effect of exchange rate changes on cash and cash equivalents	(671)	(896)
Net decrease in cash and cash equivalents	(90,726)	(97,523)

Cash and cash equivalents, beginning of period	142,414	170,614
Cash and cash equivalents, end of period	$ 51,688	$ 73,091

See accompanying notes which are an integral part of these condensed consolidated financial statements

(Unaudited).

Table of Contents

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 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 April 1, 2012, the results of operations for the three and six month periods ended April 1, 2012 and April 3, 2011 and the cash flows for the six month periods ended April 1, 2012 and April 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.

6

Table of Contents

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

Intangible Assets: Intangible assets are recorded at cost or at fair value if acquired in a purchase business combination. 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 $49,266 and $99,586 for the three and six month periods ended April 1, 2012, respectively, and $47,698 and $98,968 for the three and six month periods ended April 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 21% and 23% of the Company s Net sales during the three and six month periods ended April 1, 2012, respectively. This customer represented approximately 22% and 23% of the Company s Net sales during the three and six month periods ended April 3, 2011, respectively. This customer also represented approximately 14% and 16% of the Company s Trade accounts receivable, net at April 1, 2012 and September 30, 2011, respectively.

Approximately 42% and 46% of the Company s Net sales during the three and six month periods ended April 1, 2012, respectively, and 44% and 47% of the Company s Net sales during the three and six month periods ended April 3, 2011, respectively, occurred outside the United States. 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.

SPECTRUM BRANDS, INC.

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

(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 six month periods ended April 1, 2012 was $6,768, or $4,399, net of taxes, and $11,076, or $7,199, 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 six month periods ended April 3, 2011 was $8,554, or $5,560, net of taxes, and $14,107, or $9,170, net of taxes, respectively.

The Company granted approximately 13 and 699 restricted stock units during the three and six month periods ended April 1, 2012, respectively. Of these grants, 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 $18,816.

The Company granted approximately 157 and 1,565 restricted stock units during the three and six month periods ended April 3, 2011. Of these 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 April 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	(97)	23.19	(2,249)
Restricted stock awards at April 1, 2012	26	$ 28.00	$ 728

Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value	Fair Value at Grant Date
Restricted stock units at September 30, 2011	1,629	$ 28.97	$ 47,236
Granted	699	26.92	18,816
Forfeited	(45)	28.27	(1,272)
Vested	(378)	28.79	(10,881)
Restricted stock units at April 1, 2012	1,905	$ 28.29	$ 53,899

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 six month periods ended April 1, 2012 and April 3, 2011 associated with the Merger:

	Three Months		Six Months	
	2012	2011	2012	2011
Integration costs	$ 2,785	$ 5,241	$ 5,193	$ 15,370
Employee termination charges	1,907	1,144	2,516	4,896
Legal and professional fees	309	1,193	921	3,589
Total Acquisition and integration related charges	$ 5,001	$ 7,578	$ 8,630	$ 23,855

Table of Contents

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

Additionally, the Company incurred $532 and $1,817 of legal, professional and integration costs associated with the acquisition of the Black Flag and TAT trade names from Homax Group, Inc. (Black Flag) during the three and six month periods ended April 1, 2012, respectively, and $2,114 and $4,599 of legal, professional and integration costs associated with the acquisition of FURminator, Inc. (FURminator), during the three and six month periods ended April 1, 2012, respectively. The Company also incurred $104 and $305 of other acquisition and integration related costs during the three and six month periods ended April 1, 2012, respectively. The Company incurred $10 and $188 of legal and professional fees associated with the acquisition of Seed Resources, LLC during the three and six month periods ended April 3, 2011, respectively. (See Note 14, Acquisitions, for information on the Black Flag and FURminator acquisitions.)

3 COMPREHENSIVE LOSS

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

	Three Months		Six Months	
	2012	**2011**	**2012**	**2011**
Net loss	$ (28,451)	$ (50,025)	$ (15,281)	$ (69,770)
Other comprehensive income (loss):				
Foreign currency translation	18,539	23,944	3,610	19,870
Valuation allowance adjustments	(554)	433	(251)	1,076
Pension liability adjustments	228		531	
Net unrealized (loss) gain on derivative instruments	(701)	(7,244)	1,117	(3,065)
Net change to derive comprehensive loss for the period	17,512	17,133	5,007	17,881
Comprehensive loss	$ (10,939)	$ (32,892)	$ (10,274)	$ (51,889)

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 six month periods ended April 1, 2012 and April 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:

	April 1, 2012	September 30, 2011
Raw materials	$ 76,350	$ 59,928
Work-in-process	28,222	25,465
Finished goods	446,461	349,237
	$ 551,033	$ 434,630

Table of Contents

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

5 GOODWILL AND INTANGIBLE ASSETS

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

	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	1,869	(1,312)		557
Balance at April 1, 2012	$ 270,017	$ 238,996	$ 187,757	$ 696,770
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	610	(2,082)		(1,472)
Balance at April 1, 2012	$ 546,414	$ 217,409	$ 83,500	$ 847,323
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	(16,437)	(9,207)	(4,805)	(30,449)
Effect of translation	402	(1,504)		(1,102)
Balance at April 1, 2012, net	$ 465,438	$ 273,650	$ 168,593	$ 907,681
Total Intangible Assets, net at April 1, 2012	$ 1,011,852	$ 491,059	$ 252,093	$ 1,755,004

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, the Merger and other acquisitions. The useful life of the Company s intangible assets subject to amortization are 4-9 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:

	April 1, 2012	September 30, 2011
Technology Assets Subject to Amortization:		
Gross balance	$ 90,924	$ 71,805
Accumulated amortization	(17,945)	(13,635)
Carrying value, net	$ 72,979	$ 58,170
Trade Names Subject to Amortization:		
Gross balance	$ 149,700	$ 149,700
Accumulated amortization	(22,599)	(16,320)
Carrying value, net	$ 127,101	$ 133,380
Customer Relationships Subject to Amortization:		
Gross balance	$ 800,612	$ 738,937
Accumulated amortization	(93,011)	(73,373)
Carrying value, net	$ 707,601	$ 665,564

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

	Three Months		Six Months	
	2012	2011	2012	2011
Proprietary technology amortization	$ 2,412	$ 1,649	$ 4,310	$ 3,297
Customer relationships amortization	10,269	9,526	19,860	19,058
Trade names amortization	3,140	3,140	6,279	6,279
	$ 15,821	$ 14,315	$ 30,449	$ 28,634

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

The Company estimates annual amortization expense of intangible assets for the next five fiscal years will approximate $63,000 per year.

6 DEBT

Debt consists of the following:

	April 1, 2012		September 30, 2011	
	Amount	Rate	Amount	Rate
Term Loan, U.S. Dollar, due June 17, 2016	$ 522,510	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	6.75%		
12% Notes, due August 28, 2019			245,031	12.0%
ABL Revolving Credit Facility, expiring April 21, 2016	50,000	2.7%		2.5%
Other notes and obligations	30,340	10.3%	44,333	6.5%
Capitalized lease obligations	25,427	6.6%	24,911	6.2%
	$ 1,878,277		$ 1,589,512	
Original issuance premiums (discounts) on debt	3,794		(12,900)	
Less: current maturities	33,906		41,090	
Long-term debt	$ 1,848,165		$ 1,535,522	

The Company has the following debt instruments outstanding at April 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, 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 and liens 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 amendment, the Company recorded $557 of fees in connection with the Term Loan during the six month period ended April 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 $501 as an increase to interest expense during the six month period ended April 1, 2012.

9.5% Notes

On November 2, 2011, the Company offered $200,000 aggregate principal amount of 9.5% Notes at a price of 108.50% 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.

Table of Contents

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

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 $106 and $3,570 of fees in connection with the offering of the 9.5% Notes during the three and six month periods ended April 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 9.5% Notes.

6.75% Notes

On March 15, 2012, the Company offered $300,000 aggregate principal amount of 6.75% Notes (the 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 $5,814 of fees in connection with the offering of the 6.75% Notes during the three and six month periods ended April 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 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 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.

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

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 three and six month periods ended April 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 three and six month periods ended April 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 three and six month periods ended April 1, 2012.

ABL Revolving Credit Facility

The ABL Revolving Credit Facility is governed by a credit agreement (the ABL Credit Agreement) with Bank of America as administrative agent. The ABL Revolving Credit Facility consists of revolving loans (the Revolving Loans), with a portion available for letters of credit and a portion available as swing line loans, in each case subject to the terms and limits described therein.

The Revolving Loans may be drawn, repaid and re-borrowed without premium or penalty. The proceeds of borrowings under the ABL Revolving Credit Facility are to be used for costs, expenses and fees in connection with the ABL Revolving Credit Facility, for our working capital requirements, restructuring costs, and other general corporate purposes.

The ABL Revolving Credit Facility carries an interest rate, at our option, which is subject to change based on availability under the facility, of either: (a) the base rate plus currently 1.25% per annum or (b) the reserve-adjusted LIBOR rate plus currently 2.25% per annum. No principal amortizations are required with respect to the ABL Revolving Credit Facility. The ABL Revolving Credit Facility will mature on June 16, 2014. 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 Credit Agreement contains various representations and warranties and covenants, including, without limitation, enhanced collateral reporting and a maximum fixed charge coverage ratio. The ABL Credit Agreement also provides for customary events of default, including payment defaults and cross-defaults on other material indebtedness.

As a result of borrowings and payments under the ABL Revolving Credit Facility, at April 1, 2012, the Company had aggregate borrowing availability of approximately $125,337, net of lender reserves of $27,471 and outstanding letters of credit of $28,488.

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 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) were as follows:

Table of Contents

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

Asset Derivatives		**April 1, 2012**	**September 30, 2011**
Derivatives designated as hedging instruments under ASC 815:			
Commodity contracts	Receivables Other	$ 356	$ 274
Commodity contracts	Deferred charges and other	52	
Foreign exchange contracts	Receivables Other	2,131	3,189
Foreign exchange contracts	Deferred charges and other	48	
Total asset derivatives designated as hedging instruments under ASC 815		$ 2,587	$ 3,463
Derivatives not designated as hedging instruments under ASC 815:			
Foreign exchange contracts	Receivables Other	329	
Total asset derivatives		$ 2,916	$ 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) were as follows:

Liability Derivatives		**April 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	414	1,228
Commodity contracts	Other long term liabilities	6	4
Foreign exchange contracts	Accounts payable	2,747	2,698
Foreign exchange contracts	Other long term liabilities	50	
Total liability derivatives designated as hedging instruments under ASC 815		$ 3,217	$ 5,884
Derivatives not designated as hedging instruments under ASC 815:			
Foreign exchange contracts	Accounts payable	6,648	10,945
Foreign exchange contracts	Other long term liabilities	7,445	12,036
Total liability derivatives		$ 17,310	$ 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 Statement of Operations (Unaudited) for the three month period ended April 1, 2012, pretax:

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	$ 1,124	Cost of goods sold	$ (189)	Cost of goods sold	$ 33
Interest rate contracts	36	Interest expense	(205)	Interest expense	
Foreign exchange contracts	463	Net sales	(88)	Net sales	
Foreign exchange contracts	(4,855)	Cost of goods sold	(639)	Cost of goods sold	
Total	$ (3,232)		$ (1,121)		$ 33

The following table summarizes the impact of derivative instruments on the accompanying Condensed Consolidated Statement of Operations (Unaudited) for the six month period ended April 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	$ 379	Cost of goods sold	$ (555)	Cost of goods sold	$ 14
Interest rate contracts	15	Interest expense	(864)	Interest expense	
Foreign exchange contracts	334	Net sales	(210)	Net sales	
Foreign exchange contracts	(3,547)	Cost of goods sold	(1,894)	Cost of goods sold	
Total	$ (2,819)		$ (3,523)		$ 14

The following table summarizes the impact of derivative instruments on the accompanying Condensed Consolidated Statement of Operations (Unaudited) for the three month period ended April 3, 2011, 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	$ (150)	Cost of goods sold	$ 784	Cost of goods sold	$ (6)
Interest rate contracts	(67)	Interest expense	(839)	Interest expense	(148)
Foreign exchange contracts	616	Net sales	(88)	Net sales	
Foreign exchange contracts	(12,732)	Cost of goods sold	(1,967)	Cost of goods sold	
Total	$ (12,333)		$ (2,110)		$ (154)

15

Table of Contents

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

The following table summarizes the impact of derivative instruments on the accompanying Condensed Consolidated Statement of Operations (Unaudited) for the six month period ended April 3, 2011, 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	$ 1,873	Cost of goods sold	$ 1,334	Cost of goods sold	$ (5)
Interest rate contracts	(60)	Interest expense	(1,688)	Interest expense	(250)
Foreign exchange contracts	227	Net sales	(207)	Net sales	
Foreign exchange contracts	(10,790)	Cost of goods sold	(4,092)	Cost of goods sold	
Total	$ (8,750)		$ (4,653)		$ (255)

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 April 1, 2012 and April 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	(3,452)	(18,948)	Other expense, net

During the six month periods ended April 1, 2012 and April 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	3,793	(9,890)	Other expense, net

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

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 $11 and $18 at April 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 April 1, 2012 and September 30, 2011, the Company had posted cash collateral of $1,692 and $418, respectively, related to such liability positions. In addition, at April 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

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 April 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 April 1, 2012 the Company had a series of foreign exchange derivative contracts outstanding through June 2013 with a contract value of $174,255. The derivative net loss on these contracts recorded in AOCI by the Company at April 1, 2012 was $(453), net of tax benefit of $166. At April 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 $(396), 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 April 1, 2012 the Company had a series of such swap contracts outstanding through July 2014 for 13 tons with a contract value of $26,039. The derivative net gain on these contracts recorded in AOCI by the Company at April 1, 2012 was $21, net of tax expense of $2. At April 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 $(17), 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 April 1, 2012 and September 30, 2011, the Company had $194,490 and $265,974, respectively, of notional value for such foreign exchange derivative contracts outstanding.

Table of Contents

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

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. The unrealized gains or losses are reversed from earnings as the hedged purchases of materials affects earnings. At April 1, 2012 and September 30, 2011, the Company had $2,088 and $0 of such foreign exchange derivative contracts outstanding.

8 FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC Topic 820: *Fair Value Measurements and Disclosures,* (ASC 820) establishes a framework for measuring fair value that requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. ASC 820 establishes market or observable inputs as the preferred source of values, followed by assumptions based on hypothetical transactions in the absence of market inputs.

The valuation techniques required by ASC 820 are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions made by the Company. These two types of inputs create the following fair value hierarchy:

Level 1	Unadjusted quoted prices for identical instruments in active markets.
Level 2	Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
Level 3	Significant inputs to the valuation model are unobservable.

The Company has not changed its valuation techniques in measuring the fair value of any financial assets and liabilities during the periods presented.

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

	Level 1	Level 2	Level 3	Total
Total Assets	$	$	$	$
Liabilities:				
Interest rate contracts	$	$	$	$
Commodity contracts, net		(12)		(12)
Foreign exchange contracts, net		(14,382)		(14,382)
Total Liabilities, net	$	$ (14,394)	$	$ (14,394)

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 short-term debt approximate fair value. The fair values of long-term 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).

Table of Contents

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

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

	April 1, 2012		September 30, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Total debt	$ (1,882,071)	$ (2,006,738)	$ (1,576,612)	$ (1,660,528)
Interest rate swap agreements			(1,954)	(1,954)
Commodity swap and option agreements	(12)	(12)	(958)	(958)
Foreign exchange forward agreements	(14,382)	(14,382)	(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 also sponsors or participates in a number of other non-U.S. pension arrangements, including various retirement and termination benefit plans, some of which are covered by local law or coordinated with government-sponsored plans, which are not significant in the aggregate and therefore are not included in the information presented below.

The Company also has various nonqualified deferred compensation agreements with certain of its employees. Under certain of these agreements, the Company has agreed to pay certain amounts annually for the first 15 years subsequent to retirement or to a designated beneficiary upon death. It is management s intent that life insurance contracts owned by the Company will fund these agreements. Under the remaining agreements, the Company has agreed to pay such deferred amounts in up to 15 annual installments beginning on a date specified by the employee, subsequent to retirement or disability, or to a designated beneficiary upon death.

Other Benefits

Under the Rayovac postretirement plan, the Company provides certain health care and life insurance benefits to eligible retired employees. Participants earn retiree health care benefits over the next 10 succeeding years of service after reaching age 45 and remain eligible until reaching age 65. The plan is contributory and, accordingly, retiree contributions have been established as a flat dollar amount with contribution rates expected to increase at the active medical trend rate. This plan is unfunded.

Under the Tetra U.S. postretirement plan, the Company provides postretirement medical benefits to full-time employees who meet minimum age and service requirements. The plan is contributory with retiree contributions adjusted annually and contains other cost-sharing features such as deductibles, coinsurance and copayments.

The Company s results of operations for the three and six month periods ended April 1, 2012 and April 3, 2011 reflect the following pension and deferred compensation benefit costs:

	Three Months		Six Months	
Components of net periodic pension benefit and deferred compensation benefit cost	**2012**	**2011**	**2012**	**2011**
Service cost	$ 578	$ 781	$ 1,122	$ 1,563
Interest cost	2,552	2,557	4,478	5,113

Expected return on assets	(2,051)	(1,965)	(3,327)	(3,931)
Recognized net actuarial loss	242	97	265	194
Employee contributions	(46)	(129)	(92)	(257)
Net periodic benefit cost	$ 1,275	$ 1,341	$ 2,446	$ 2,682

Table of Contents

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

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 six month periods ended April 1, 2012 and April 3, 2011 were as follows:

	Three Months		Six Months	
Pension and deferred compensation contributions	**2012**	**2011**	**2012**	**2011**
Contributions made during period	$ 1,655	$ 1,925	$ 2,479	$ 2,956

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 six month periods ended April 1, 2012 were $573 and $1,149, respectively. Company contributions charged to operations, including discretionary amounts, for the three and six month periods ended April 3, 2011 were $1,342 and $2,753, 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, 2007 are closed. However, the federal net operating loss carryforwards from the Company s fiscal years ended September 30, 2007 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, 2008, 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.

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

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

	Three Months		Six Months	
	2012	**2011**	**2012**	**2011**
Net sales from external customers				
Global Batteries & Appliances	$ 480,069	$ 459,392	$ 1,169,249	$ 1,155,964
Global Pet Supplies	156,529	144,222	291,467	281,267
Home and Garden Business	109,687	90,271	134,340	117,721
Total segments	$ 746,285	$ 693,885	$ 1,595,056	$ 1,554,952

Table of Contents

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

	Three Months		Six Months	
	2012	**2011**	**2012**	**2011**
Segment profit				
Global Batteries & Appliances	$ 40,427	$ 41,682	$ 138,632	$ 134,982
Global Pet Supplies	19,248	18,472	35,309	34,711
Home and Garden Business	22,204	14,917	16,285	8,087
Total segments	81,879	75,071	190,226	177,780
Corporate expense	14,396	15,086	23,535	26,494
Acquisition and integration related charges	7,751	7,588	15,351	24,043
Restructuring and related charges	4,269	5,147	11,994	10,712
Interest expense	69,273	72,431	110,483	125,525
Other (income) expense, net	(2,192)	(287)	1	602
(Loss) income from continuing operations before income taxes	$ (11,618)	$ (24,894)	$ 28,862	$ (9,596)

Table of Contents

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

	April 1, 2012	September 30, 2011
Segment total assets		
Global Batteries & Appliances	$ 2,215,887	$ 2,275,076
Global Pet Supplies	986,099	828,202
Home and Garden Business	595,771	476,381
Total segment assets	3,797,757	3,579,659
Corporate	52,624	42,604
Total assets at period end	$ 3,850,381	$ 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 related 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 six month periods ended April 1, 2012 and April 3, 2011:

	Three Months		Six Months	
	2012	2011	2012	2011
Cost of goods sold:				
Global Batteries & Appliances	$ 454	$ 250	$ 3,474	$ 100
Global Pet Supplies	1,206	1,803	2,791	2,547
Total restructuring and related charges in cost of goods sold	1,660	2,053	6,265	2,647
Operating expenses:				
Global Batteries & Appliances	767	592	1,644	617
Global Pet Supplies	1,103	1,278	2,393	3,580
Home and Garden Business	627	686	971	1,336

Corporate	112	538	721	2,532
Total restructuring and related charges in operating expenses	2,609	3,094	5,729	8,065
Total restructuring and related charges	$ 4,269	$ 5,147	$ 11,994	$ 10,712

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 $83,600.

The Company recorded $4,173 and $11,302 of pretax restructuring and related charges during the three and six month periods ended April 1, 2012, respectively, and the Company recorded $4,378 and $8,107 of pretax restructuring and related charges during the three and six month periods ended April 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 six month period ended April 1, 2012:

Table of Contents

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2011	$ 8,795	$ 3,021	$ 11,816
Provisions	269	201	470
Cash expenditures	(5,733)	(767)	(6,500)
Non-cash items	182	(454)	(272)
Accrual balance at April 1, 2012	$ 3,513	$ 2,001	$ 5,514
Expensed as incurred (A)	$ 3,518	$ 7,314	$ 10,832

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

The following table summarizes the expenses incurred during the six month period ended April 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:

	Global Batteries & Appliances	Global Pet Supplies	Home and Garden Business	Corporate	Total
Restructuring and related charges during the six month period ended April 1, 2012	$ 5,147	$ 5,184	$ 971	$	$ 11,302
Restructuring and related charges since initiative inception	$ 18,314	$ 32,046	$ 17,679	$ 7,591	$ 75,630
Total future restructuring and related charges expected	$ 705	$ 5,200	$ 2,016	$	$ 7,921

In connection with other restructuring efforts, the Company recorded $96 and $692 of pretax restructuring and related charges during the three and six month periods ended April 1, 2012, respectively, and $769 and $2,605 of pretax restructuring and related charges during the three and six month periods ended April 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 $8,062, 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

Black Flag

On October 31, 2011, the Company completed the $43,750 cash acquisition of Black Flag from The Homax Group, Inc., 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. In accordance with ASC Topic 805, *Business Combinations* (ASC 805), the Company accounted for the acquisition by applying the acquisition method of accounting. The acquisition method of accounting requires that the consideration transferred in a business combination be measured at fair value as of the closing date of the acquisition.

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.

Table of Contents

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

Purchase Price Allocation

The total purchase price for Black Flag was allocated to the net tangible and identifiable intangible assets based upon their fair values at October 31, 2011 as set forth below. The excess of the purchase price over the net tangible assets and identifiable intangible assets was recorded as goodwill. The preliminary purchase price allocation for Black Flag is 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

ASC 805 requires, among other things, that most assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. Accordingly, the Company performed a valuation of the acquired assets of Black Flag at October 31, 2011. Significant adjustments as a result of the purchase price allocation 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 the purchase price allocation 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 from HKW Capital Partners III, L.P. FURminator is a leading worldwide provider of branded and patented pet deshedding products. This acquisition was not significant individually. In accordance with ASC 805, the Company accounted for the acquisition by applying the acquisition method of accounting.

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.

Table of Contents

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

Purchase Price Allocation

The total purchase price for FURminator was allocated to the net tangible and identifiable intangible assets based upon their fair values at December 22, 2011 as set forth below. The excess of the purchase price over the net tangible assets and identifiable intangible assets was recorded as goodwill. The preliminary purchase price allocation for FURminator is 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

ASC 805 requires, among other things, that most assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. Accordingly, the Company performed a valuation of the assets and liabilities of FURminator at December 22, 2011. Significant adjustments as a result of the purchase price allocation 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.

Table of Contents

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

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 the purchase price allocation 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 is 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.

Testing for Goodwill Impairment

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.

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.

Table of Contents

SPECTRUM BRANDS, INC. AND SUBSIDIARIES

Condensed Consolidating Statement of Financial Position

April 1, 2012

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 464	$ 2,316	$ 48,908	$	$ 51,688
Receivables:					
Trade accounts receivables, net of allowances	39,827	126,714	203,699		370,240
Intercompany receivables	824,090	902,397	440,731	(2,165,609)	1,609
Other	4,453	6,119	34,554		45,126
Inventories	96,768	228,185	231,377	(5,297)	551,033
Deferred income taxes	(8,290)	25,135	7,653	1,298	25,796
Prepaid expenses and other	19,098	11,959	29,175	59	60,291
Total current assets	976,410	1,302,825	996,097	(2,169,549)	1,105,783
Property, plant and equipment, net	58,121	46,068	103,655		207,844
Long term intercompany receivables	141,395	134,859	114,995	(391,249)	
Deferred charges and other	15,043	4,532	20,504		40,079
Goodwill	67,722	438,864	190,184		696,770
Intangible assets, net	520,188	799,434	435,382		1,755,004
Debt issuance costs	44,901				44,901
Investments in subsidiaries	2,606,720	1,109,336		(3,716,056)	
Total assets	$ 4,430,500	$ 3,835,918	$ 1,860,817	$ (6,276,854)	$ 3,850,381
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities:					
Current maturities of long-term debt	$ 5,574	$ 1,667	$ 26,665	$	$ 33,906
Accounts payable	1,412,955	511,227	258,602	(1,922,303)	260,481
Accrued liabilities:					
Wages and benefits	13,758	9,435	32,208		55,401
Income taxes payable	611	304	27,271		28,186
Accrued interest	32,961		64		33,025
Other	16,590	36,353	57,529		110,472
Total current liabilities	1,482,449	558,986	402,339	(1,922,303)	521,471
Long-term debt, net of current maturities	1,822,569	468,607	191,483	(634,494)	1,848,165
Employee benefit obligations, net of current portion	24,012		55,981		79,993
Deferred income taxes	93,235	201,250	82,869		377,354
Other	18,277	355	18,809		37,441
Total liabilities	3,440,542	1,229,198	751,481	(2,556,797)	2,864,424
Shareholders equity:					
Other equity	1,345,846	1,215,858	985,194	(2,201,055)	1,345,843
Accumulated (deficit) retained earnings	(266,166)	1,466,190	115,002	(1,665,473)	(350,447)

Accumulated other comprehensive (deficit) income	(89,722)	(75,328)	9,140	146,471	(9,439)
Total shareholders equity (deficit)	989,958	2,606,720	1,109,336	(3,720,057)	985,957
Total liabilities and shareholders equity	$ 4,430,500	$ 3,835,918	$ 1,860,817	$ (6,276,854)	$ 3,850,381

Table of Contents

SPECTRUM BRANDS, INC. AND SUBSIDIARIES

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)

Accumulated other comprehensive (deficit) income	(108,527)	(97,357)	4,748	186,690	(14,446)
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

28

Table of Contents

SPECTRUM BRANDS, INC. AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

Three Month Period Ended April 1, 2012

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$ 137,940	$ 298,347	$ 354,108	$ (44,110)	$ 746,285
Cost of goods sold	101,967	203,319	222,646	(43,338)	484,594
Restructuring and related charges		1,206	454		1,660
Gross profit	35,973	93,822	131,008	(772)	260,031
Operating expenses:					
Selling	17,675	41,291	71,185	(239)	129,912
General and administrative	16,751	21,361	18,222	4	56,338
Research and development	4,609	2,439	910		7,958
Acquisition and integration related charges	987	4,275	2,489		7,751
Restructuring and related charges	660	1,716	233		2,609
	40,682	71,082	93,039	(235)	204,568
Operating (loss) income	(4,709)	22,740	37,969	(537)	55,463
Interest expense	64,582	1,162	3,524	5	69,273
Other (income) expense, net	(37,456)	(31,849)	(1,274)	68,387	(2,192)
(Loss) income from continuing operations before income taxes	(31,835)	53,427	35,719	(68,929)	(11,618)
Income tax (benefit)expense	(3,460)	13,448	7,400	(555)	16,833
Net (loss) income	$ (28,375)	$ 39,979	$ 28,319	$ (68,374)	$ (28,451)

Table of Contents

SPECTRUM BRANDS, INC. AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

Three Month Period Ended April 3, 2011

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$ 91,588	$ 317,344	$ 315,655	$ (30,702)	$ 693,885
Cost of goods sold	49,800	226,669	190,210	(30,286)	436,393
Restructuring and related charges		1,803	250		2,053
Gross profit	41,788	88,872	125,195	(416)	255,439
Operating expenses:					
Selling	15,916	43,567	71,041	(163)	130,361
General and administrative	19,405	18,482	20,461		58,348
Research and development	4,775	3,215	808		8,798
Acquisition and integration related charges	1,959	2,855	2,774		7,588
Restructuring and related charges	638	1,964	492		3,094
	42,693	70,083	95,576	(163)	208,189
Operating (loss)income	(905)	18,789	29,619	(253)	47,250
Interest expense	67,385	399	4,648	(1)	72,431
Other (income) expense, net	(61,951)	(40,774)	428	102,010	(287)
(Loss) income from continuing operations before income taxes	(6,339)	59,164	24,543	(102,262)	(24,894)
Income tax expense	3,000	20,603	1,515	13	25,131
Net (loss) income	$ (9,339)	$ 38,561	$ 23,028	$ (102,275)	$ (50,025)

30

Table of Contents

SPECTRUM BRANDS, INC. AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

Six Month Period Ended April 1, 2012

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$ 339,938	$ 553,892	$ 785,565	$ (84,339)	$ 1,595,056
Cost of goods sold	245,005	394,329	488,195	(82,795)	1,044,734
Restructuring and related charges		2,791	3,474		6,265
Gross profit	94,933	156,772	293,896	(1,544)	544,057
Operating expenses:					
Selling	37,755	75,634	148,753	(471)	261,671
General and administrative	31,191	37,447	38,125	4	106,767
Research and development	8,600	4,699	1,894		15,193
Acquisition and integration related charges	6,309	5,928	3,114		15,351
Restructuring and related charges	1,456	3,161	1,112		5,729
	85,311	126,869	192,998	(467)	404,711
Operating income	9,622	29,903	100,898	(1,077)	139,346
Interest expense	101,053	2,359	7,070	1	110,483
Other (income) expense, net	(84,981)	(69,672)	(45)	154,699	1
(Loss) income from continuing operations before income taxes	(6,450)	97,216	93,873	(155,777)	28,862
Income tax expense	8,031	16,185	20,242	(315)	44,143
Net (loss) income	$ (14,481)	$ 81,031	$ 73,631	$ (155,462)	$ (15,281)

31

SPECTRUM BRANDS, INC. AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

Six Month Period Ended April 3, 2011

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$ 210,517	$ 657,120	$ 781,950	$ (94,635)	$ 1,554,952
Cost of goods sold	111,935	494,417	484,524	(93,249)	997,627
Restructuring and related charges		2,547	100		2,647
Gross profit	98,582	160,156	297,326	(1,386)	554,678
Operating expenses:					
Selling	36,388	84,145	150,331	(283)	270,581
General and administrative	35,883	38,511	44,699		119,093
Research and development	8,751	5,979	1,635		16,365
Acquisition and integration related charges	4,340	12,917	6,786		24,043
Restructuring and related charges	2,633	4,916	516		8,065
	87,995	146,468	203,967	(283)	438,147
Operating income	10,587	13,688	93,359	(1,103)	116,531
Interest expense	113,940	766	10,805	14	125,525
Other (income) expense, net	(128,131)	(72,491)	250	200,974	602
Income from continuing operations before income taxes	24,778	85,413	82,304	(202,091)	(9,596)
Income tax expense	21,148	19,685	19,355	(14)	60,174
Net income (loss)	$ 3,630	$ 65,728	$ 62,949	$ (202,077)	$ (69,770)

Table of Contents

SPECTRUM BRANDS, INC. AND SUBSIDIARIES

Condensed Consolidating Statement of Cash Flows

Six Month Period Ended April 1, 2012

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net cash (used) provided by operating activities	$ (27,616)	$ 236,366	$ 53,143	$ (416,697)	$ (154,804)
Cash flows from investing activities:					
Purchases of property, plant and equipment	(6,982)	(5,597)	(6,011)		(18,590)
Proceeds from sale of property, plant and equipment		7	75		82
Acquisition of Black Flag		(43,750)			(43,750)
Acquisition of FURminator, net of cash		(139,390)			(139,390)
Other investing		(118)	(1,927)		(2,045)
Net cash used by investing activities	(6,982)	(188,848)	(7,863)		(203,693)
Cash flows from financing activities:					
Proceeds from 6.75% Notes	300,000				300,000
Payment of 12% Notes, including tender and call premium	(270,431)				(270,431)
Proceeds from 9.5% Notes, including premium	217,000				217,000
Payment of senior credit facilities, excluding ABL revolving credit facility	(2,727)				(2,727)
ABL revolving credit facility, net	50,000				50,000
Reduction of other debt	(25,000)		(1,371)		(26,371)
Proceeds from other debt financing			11,866		11,866
Debt issuance costs	(9,941)				(9,941)
Other financing activities		(954)			(954)
Advances related to intercompany transactions	(223,888)	(53,037)	(139,772)	416,697	
Net cash provided (used) by financing activities	35,013	(53,991)	(129,277)	416,697	268,442
Effect of exchange rate changes on cash and cash equivalents			(671)		(671)
Net increase (decrease) in cash and cash equivalents	415	(6,473)	(84,668)		(90,726)
Cash and cash equivalents, beginning of period	49	8,789	133,576		142,414
Cash and cash equivalents, end of period	$ 464	$ 2,316	$ 48,908	$	$ 51,688

SPECTRUM BRANDS, INC. AND SUBSIDIARIES

Condensed Consolidating Statement of Cash Flows

Six Month Period Ended April 3, 2011

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net cash provided (used) by operating activities	72,118	(28,312)	660,823	(826,904)	(122,275)
Cash flows from investing activities:					
Purchases of property, plant and equipment	(8,132)	(5,638)	(4,942)		(18,712)
Proceeds from sale of property, plant and equipment		82	49		131
Acquisition, net of cash		(10,278)			(10,278)
Proceeds from sale of assets Ningbo			6,997		6,997
Other investing		(1,530)			(1,530)
Net cash (used) provided by investing activities	(8,132)	(17,364)	2,104		(23,392)
Cash flows from financing activities:					
Payment of senior credit facilities, excluding ABL revolving credit facility	(71,700)				(71,700)
ABL revolving credit facility, net	118,000				118,000
Reduction of other debt			(367)		(367)
Proceeds from other debt financing	22,496				22,496
Debt issuance costs	(8,648)				(8,648)
Prepayment penalty of term loan facility	(7,500)				(7,500)
Treasury stock purchases	(3,241)				(3,241)
(Advances related to) proceeds from intercompany transactions	(165,634)	48,471	(709,741)	826,904	
Net cash (used) provided by financing activities	(116,227)	48,471	(710,108)	826,904	49,040
Effect of exchange rate changes on cash and cash equivalents			(896)		(896)
Net (decrease) increase in cash and cash equivalents	(52,241)	2,795	(48,077)		(97,523)
Cash and cash equivalents, beginning of period	52,580	2,723	115,311		170,614
Cash and cash equivalents, end of period	$ 339	$ 5,518	$ 67,234	$	$ 73,091

Table of Contents

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 subsidi 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, included in this Quarterly Report on Form 10-Q (Unaudited).

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 Six month Period Ended April 1, 2012 Compared to Fiscal Quarter and Fiscal Six month Period Ended April 3, 2011

In this Quarterly Report on Form 10-Q we refer to the three months ended April 1, 2012 as the Fiscal 2012 Quarter, the six month period ended April 1, 2012 as the Fiscal 2012 Six Months, the three month period ended April 3, 2011 as the Fiscal 2011 Quarter and the six month period ended April 3, 2011 as the Fiscal 2011 Six Months.

35

Table of Contents

Net Sales. Net sales for the Fiscal 2012 Quarter increased $52 million to $746 million from $694 million in the Fiscal 2011 Quarter, an 8% increase. The following table details the principal components of the change in net sales from the Fiscal 2011 Quarter to the Fiscal 2012 Quarter (in millions):

	Net Sales
Fiscal 2011 Quarter Net Sales	$ 694
Increase in home and garden control products	19
Increase in pet supplies	13
Increase in consumer batteries	12
Increase in small appliances	7
Increase in electric personal care products	5
Increase in electric shaving and grooming products	5
Foreign currency impact, net	(9)
Fiscal 2012 Quarter Net Sales	$ 746

Net sales for the Fiscal 2012 Six Months increased $40 million to $1,595 million from $1,555 million in the Fiscal 2011 Six Months, a 3% increase. The following table details the principal components of the change in net sales from the Fiscal 2011 Six Months to the Fiscal 2012 Six Months (in millions):

	Net Sales
Fiscal 2011 Six Months Net Sales	$ 1,555
Increase in home and garden control products	17
Increase in pet supplies	11
Increase in consumer batteries	10
Increase in small appliances	10
Increase in electric personal care products	5
Increase in electric shaving and grooming products	4
Decrease in portable lighting products	(2)
Foreign currency impact, net	(15)
Fiscal 2012 Six Months Net Sales	$ 1,595

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

	Fiscal Quarter		Fiscal Six Months	
	2012	2011	2012	2011
Product line net sales				
Consumer batteries	$ 187	$ 180	$ 432	$ 429
Small appliances	159	154	403	397
Pet supplies	156	144	291	281
Home and garden control products	110	90	134	118
Electric personal care products	60	56	142	138
Electric shaving and grooming products	56	52	152	149
Portable lighting products	18	18	41	43

Total net sales to external customers	$ 746	$ 694	$ 1,595	$ 1,555

Global consumer battery sales increased $7 million, or 4%, during the Fiscal 2012 Quarter, primarily driven by increases in European, North American and Latin American sales of $8 million, $2 million and $2 million, respectively, which were tempered by negative foreign exchange impacts of $5 million. Strong European sales were driven by customer gains across the region, whereas increases within North America resulted from distribution gains and new promotional activities at key customers. Latin American gains were attributable to improved volume and price increases in the region. Global consumer battery sales increased $3 million for the Fiscal 2012 Six Months versus the Fiscal 2011 Six Months, driven by increased European sales of $16 million due to the reasons discussed above for the Fiscal 2012 Quarter, tempered by decreases in Latin America and North America of $5 million and $1 million, respectively, and negative foreign currency impacts of $7 million. The decreases in Latin America and North America were driven by decreased promotional activities in the first quarter of the fiscal year ended September 30, 2012 (Fiscal 2012) and the timing of holiday shipments, which were slightly offset by the gains discussed in the Fiscal 2012 Quarter.

Small appliance sales increased $5 million, or 3%, during the Fiscal 2012 Quarter compared to the Fiscal 2011 Quarter, driven by increases in both Europe and Latin America of $3 million each, coupled with a $1 million increase in North American sales. Foreign exchange negatively affected small appliance sales by $2 million. European sales increases were attributable to regional expansion in Eastern Europe, and timing of shipments which negatively impacted the Fiscal 2011 Quarter sales. Improved Latin American sales resulted from distribution and customer gains. North American gains were driven by increased placement at major customers. For the Fiscal 2012 Six Months, small appliance sales increased $6 million, or 2%, driven by the factors discussed for the Fiscal 2012 Quarter.

Pet supply sales increased $12 million, or 8%, during the Fiscal 2012 Quarter, led by increases in companion animal and aquatics sales of $7 million and $6 million, respectively, tempered by $1 million in negative foreign currency impacts. Gains in companion animal sales were due to the FURminator acquisition, whereas gains in aquatics sales resulted from increases in North American aquarium starter kits and pond related sales. For the Fiscal 2012 Six Months, pet supply sales increased $10 million compared to the Fiscal 2011 Six Months, driven by the strong Fiscal 2012 Quarter sales discussed above, which were tempered by lower European aquatics sales in the first quarter of Fiscal 2012.

Home and garden control product sales increased $20 million, or 22%, during the Fiscal 2012 Quarter compared to the Fiscal 2011 Quarter. The increase in sales was driven by increases in lawn and garden and household insect control sales of $9 million and $11 million, respectively, resulting from the early spring weather in the United States, the Black Flag acquisition and retail distribution gains. Sales for the Fiscal 2012 Six Months increased $16 million due to the factors discussed for the Fiscal 2012 Quarter tempered by sales declines in the first quarter of Fiscal 2012 resulting from customers inventory management.

Electric personal care sales increased $4 million, or 7%, for the Fiscal 2012 Quarter compared to the Fiscal 2011 Quarter, driven by increased North American and Latin American sales of $4 million and $1 million, respectively. These increases were attributable to continued success in new product categories and distribution gains in Latin America. The sales increases were tempered by $1 million of negative foreign currency exchange. For the Fiscal 2012 Six Months, electric personal care sales increased $4 million, or 3%, compared to the Fiscal 2011 Six Months due to the same factors discussed for the Fiscal 2012 Quarter.

During the Fiscal 2012 Quarter, electric shaving and grooming product sales increased $4 million, or 8%, led by a $3 million increase in European sales and $1 million increases in sales in both North America and Latin America. Foreign exchange negatively impacted electric shaving and grooming sales by $1 million. The gains across all regions were driven by successful new product launches. Electric shaving and grooming sales for the Fiscal 2012 Six Months increased $3 million, or 2%, driven by the gains discussed for the Fiscal 2012 Quarter, tempered by the elimination of lower margin North American promotions in the first quarter of Fiscal 2012.

Portable lighting sales were flat for the Fiscal 2012 Quarter compared to the Fiscal 2011 Quarter. Portable lighting sales for the Fiscal 2012 Six Months decreased $2 million compared to the Fiscal 2011 Six Months, due to decreased European sales of $1 million resulting from the non-recurrence of successful promotions during the first quarter of the fiscal year ended September 30, 2011 (Fiscal 2011), coupled with a slight decrease in Latin American sales and negative foreign currency exchange.

Gross Profit. Gross profit for the Fiscal 2012 Quarter was $260 million versus $255 million for the Fiscal 2011 Quarter. Our gross profit margin for the Fiscal 2012 Quarter decreased to 34.8% from 36.8% in the Fiscal 2011 Quarter. The increase in gross profit resulted from increased sales, contributing an additional $16 million in gross profit; this increase was tempered by a $14 million increase in commodity prices, Asian supply chain costs and changes in product mix, which negatively affected the gross profit margin.

Gross profit for the Fiscal 2012 Six Months was $544 million versus $555 million for the Fiscal 2011 Six Months. Our gross profit margin decreased to 34.1% from 35.7% in the Fiscal 2012 Six Months. The decrease in gross profit and gross profit margin for the Fiscal 2012 Six Months was driven by a $25 million increase in commodity prices, Asian supply chain costs and changes in product mix discussed for the Fiscal 2012 Quarter, coupled with a $4 million increase in restructuring and related charges included in cost of goods sold due to our announced closure of a zinc carbon battery manufacturing facility in Colombia. These decreases in gross profit were tempered by increased sales which contributed $14 million in gross profit.

Operating Expense. Operating expenses for the Fiscal 2012 Quarter totaled $205 million versus $208 million for the Fiscal 2011 Quarter, representing a decrease of $3 million. The decrease in operating expenses during the Fiscal 2012 Quarter is primarily attributable to decreased stock compensation expense of $2 million, coupled with synergies being recognized subsequent to the Merger and savings from our global cost reduction initiatives.

Operating expenses for the Fiscal 2012 Six Months totaled $405 million versus $438 million for the Fiscal 2011 Six Months, for a decrease of $33 million. The decrease in operating expenses during the Fiscal 2012 Six Months was driven by synergies being recognized subsequent to the Merger of $17 million, decreased Acquisition and integration charges of $9 million, positive foreign exchange impacts of $4 million and decreased stock compensation expense of $3 million. See *Acquisition and Integration Related Charges* below, as well as Note 2, Significant Accounting Policies Acquisition and Integration Related Charges, to our Condensed Consolidated Financial Statements (Unaudited) included in this Quarterly Report on Form 10-Q for additional information regarding our acquisition and integration related charges.

Table of Contents

Segment Results. As discussed above, we manage our business in three reportable segments: (i) Global Batteries & Appliances; (ii) Global Pet Supplies; and (iii) our Home and Garden Business.

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 plans which are evaluated on a consolidated basis and not allocated to our operating segments.

All depreciation and amortization included in income from operations is related to operating segments or corporate expense. Costs are allocated to operating segments or corporate expense according to the function of each cost center. All capital expenditures are related to operating segments. Variable allocations of assets are not made for segment reporting.

Financial information pertaining to our reportable segments is contained in Note 11, Segment Results, to our Condensed Consolidated Financial Statements (Unaudited) included in this Quarterly Report on Form 10-Q.

Adjusted EBITDA is a metric used by management and frequently used by the financial community which provides insight into an organization s operating trends and facilitates comparisons between peer companies, since interest, taxes, depreciation and amortization can differ greatly between organizations as a result of differing capital structures and tax strategies. Adjusted EBITDA can also be a useful measure of a company s ability to service debt and is one of the measures used for determining our debt covenant compliance. Adjusted EBITDA excludes certain items that are unusual in nature or not comparable from period to period. While we believe that Adjusted EBITDA is useful supplemental information, such adjusted results are not intended to replace our Generally Accepted Accounting Principles (GAAP) financial results and should be read in conjunction with those GAAP results.

Table of Contents

Below are reconciliations of GAAP Net income (loss) to Adjusted EBIT and to Adjusted EBITDA for each segment and for Consolidated Spectrum Brands for the Fiscal 2012 Quarter, Fiscal 2012 Six Months, the Fiscal 2011 Quarter and Fiscal 2011 Six Months:

Fiscal 2012 Quarter	Global Batteries & Appliances	Global Pet Supplies	Home and Garden Business (in millions)	Corporate / Unallocated Items(a)	Consolidated Spectrum Brands
Net income (loss), as adjusted (a)	$ 35	$ 15	$ 21	$ (100)	$ (29)
Income tax expense				17	17
Interest expense				69	69
Restructuring and related charges	1	2	1		4
Acquisition and integration related charges	5	2		1	8
Adjusted EBIT	$ 41	$ 19	$ 22	$ (13)	$ 69
Depreciation and amortization (b)	16	7	3	7	33
Adjusted EBITDA	$ 57	$ 26	$ 25	$ (6)	$ 102

Fiscal 2012 Six Months	Global Batteries & Appliances	Global Pet Supplies	Home and Garden Business (in millions)	Corporate / Unallocated Items(a)	Consolidated Spectrum Brands
Net income (loss), as adjusted (a)	$ 126	$ 28	$ 14	$ (184)	$ (16)
Income tax expense				44	44
Interest expense				110	110
Restructuring and related charges	5	5	1	1	12
Acquisition and integration related charges	8	2	1	5	16
Adjusted EBIT	$ 139	$ 35	$ 16	$ (24)	$ 166
Depreciation and amortization (b)	31	13	6	11	61
Adjusted EBITDA	$ 170	$ 48	$ 22	$ (13)	$ 227

Fiscal 2011 Quarter	Global Batteries & Appliances	Global Pet Supplies	Home and Garden Business (in millions)	Corporate / Unallocated Items(a)	Consolidated Spectrum Brands
Net income (loss), as adjusted (a)	$ 36	$ 14	$ 14	$ (114)	$ (50)
Income tax expense				25	25
Interest expense				72	72
Restructuring and related charges		3	1	1	5
Acquisition and integration related charges	5	1		2	8
Other	(1)				(1)
Adjusted EBIT	$ 40	$ 18	$ 15	$ (14)	$ 59
Depreciation and amortization (b)	17	6	3	8	34

Adjusted EBITDA	$ 57	$ 24	$ 18	$ (6)	$ 93

Fiscal 2011 Six Months	Global Batteries & Appliances	Global Pet Supplies	Home and Garden Business	Corporate / Unallocated Items[(a)]	Consolidated Spectrum Brands
			(in millions)		
Net income (loss), as adjusted (a)	$ 115	$ 28	$ 7	$ (220)	$ (70)
Income tax expense				60	60
Interest expense				126	126
Restructuring and related charges	1	6	1	3	11
Acquisition and integration related charges	19	1		4	24
Other	(1)				(1)
Adjusted EBIT	$ 134	$ 35	$ 8	$ (27)	$ 150
Depreciation and amortization [(b)]	34	11	6	15	66
Adjusted EBITDA	$ 168	$ 46	$ 14	$ (12)	$ 216

(a) It is our policy to record Income tax expense and interest expense on a consolidated basis. Accordingly, such amounts are not reflected in the operating results of the operating segments.

(b) Included within depreciation and amortization is amortization of unearned restricted stock compensation.

Global Batteries & Appliances

	Fiscal Quarter		Fiscal Six Months	
	2012	2011	2012	2011
	(in millions)			
Net sales to external customers	$ 480	$ 459	$ 1,169	$ 1,156
Segment profit	$ 40	$ 42	$ 139	$ 135
Segment profit as a % of net sales	8.4%	9.1%	11.9%	11.7%
Segment Adjusted EBITDA	57	57	170	168
Assets as of April 1, 2012 and September 30, 2011	$ 2,216	$ 2,275		