Spectrum Brands, Inc.
Form 10-Q
February 10, 2010
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 January 3, 2010

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		**(I.R.S. Employer**
incorporation or organization)		**Identification Number)**
Six Concourse Parkway,		
Suite 3300, Atlanta, Georgia		**30328**
(Address of principal executive offices)		**(Zip Code)**

(770) 829-6200

(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 ¨ 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 ¨	Smaller reporting company x

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 ¨

The number of shares outstanding of the Registrant s common stock, $.01 par value, as of February 8, 2010, was 30,629,213.

Table of Contents

SPECTRUM BRANDS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR QUARTER ENDED January 3, 2010

INDEX

		Page
	Part I Financial Information	
Item 1.	Financial Statements	3
	Condensed Consolidated Statements of Financial Position (Unaudited) as of January 3, 2010 and September 30, 2009	3
	Condensed Consolidated Statements of Operations (Unaudited) for the three month periods ended January 3, 2010 and December 28, 2008	4
	Condensed Consolidated Statements of Cash Flows (Unaudited) for the three month periods ended January 3, 2010 and December 28, 2008	5
	Notes to Condensed Consolidated Financial Statements (Unaudited)	6
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	42
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	58
Item 4.	Controls and Procedures	59
	Part II Other Information	
Item 1.	Legal Proceedings	60
Item 1A.	Risk Factors	60
Item 2.	Issuer Purchases of Equity Securities	76
Item 5.	Other Information	76
Item 6.	Exhibits	77
Signatures		78

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SPECTRUM BRANDS, INC.

Condensed Consolidated Statements of Financial Position

January 3, 2010 and September 30, 2009

(Unaudited)

(Amounts in thousands, except per share figures)

	Successor Company	
	January 3, 2010	**September 30, 2009**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 62,665	$ 97,800
Receivables:		
Trade accounts receivable, net of allowances of $4,144 and $1,011, respectively	272,309	274,483
Other	29,124	24,968
Inventories	296,873	341,505
Deferred income taxes	24,551	28,137
Assets held for sale	12,079	11,870
Prepaid expenses and other	39,366	39,973
Total current assets	736,967	818,736
Property, plant and equipment, net	198,027	212,361
Deferred charges and other	36,409	34,934
Goodwill	481,393	483,348
Intangible assets, net	1,446,997	1,461,945
Debt issuance costs	8,302	9,422
Total assets	$ 2,908,095	$ 3,020,746
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Current maturities of long-term debt	$ 59,494	$ 53,578
Accounts payable	159,047	186,235
Accrued liabilities:		
Wages and benefits	53,324	88,443
Income taxes payable	30,426	21,950
Restructuring and related charges	26,066	26,203
Accrued interest	17,674	8,678
Other	96,668	109,981
Total current liabilities	442,699	495,068
Long-term debt, net of current maturities	1,524,719	1,529,957
Employee benefit obligations, net of current portion	58,690	55,855
Deferred income taxes	228,297	227,498
Other	53,282	51,489
Total liabilities	2,307,687	2,359,867
Commitments and contingencies		
Shareholders deficit:		
	306	300

Common stock, $.01 par value, authorized 150,000 shares; issued 30,629 and 30,000 shares, respectively; outstanding 30,629 and 30,000 shares, respectively		
Additional paid-in capital	727,987	724,796
Accumulated deficit	(131,034)	(70,785)
Accumulated other comprehensive income	3,149	6,568
Total shareholders equity	600,408	660,879
Total liabilities and shareholders equity	$ 2,908,095	$ 3,020,746

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 month periods ended January 3, 2010 and December 28, 2008

(Unaudited)

(Amounts in thousands, except per share figures)

	Successor Company	Predecessor Company
	THREE MONTHS	
	2010	2009
Net sales	$ 591,940	$ 548,503
Cost of goods sold	405,827	348,486
Restructuring and related charges	1,651	10,146
Gross profit	184,462	189,871
Selling	111,289	111,333
General and administrative	43,193	36,885
Research and development	6,445	5,566
Restructuring and related charges	4,776	10,882
Total operating expenses	165,703	164,666
Operating income	18,759	25,205
Interest expense	49,482	52,464
Other expense, net	646	3,677
Loss from continuing operations before reorganization items and income taxes	(31,369)	(30,936)
Reorganization items expense, net	3,646	
Loss from continuing operations before income taxes	(35,015)	(30,936)
Income tax expense	22,499	15,601
Loss from continuing operations	(57,514)	(46,537)
Loss from discontinued operations, net of tax	(2,735)	(66,120)
Net loss	$ (60,249)	$ (112,657)
Basic earnings per share:		
Weighted average shares of common stock outstanding	30,000	51,406
Loss from continuing operations	$ (1.92)	$ (0.90)
Loss from discontinued operations	(0.09)	(1.29)
Net loss	$ (2.01)	$ (2.19)
Diluted earnings per share:		
Weighted average shares and equivalents outstanding	30,000	51,406
Loss from continuing operations	$ (1.92)	$ (0.90)
Loss from discontinued operations	(0.09)	(1.29)

Net loss	$	(2.01)	$	(2.19)

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

(Unaudited).

4

Table of Contents

SPECTRUM BRANDS, INC.

Condensed Consolidated Statements of Cash Flows

For the three month periods ended January 3, 2010 and December 28, 2008

(Unaudited)

(Amounts in thousands)

	Successor Company	Predecessor Company
	THREE MONTHS	
	2010	2009
Cash flows from operating activities:		
Net loss	$ (60,249)	$ (112,657)
Loss from discontinuing operations	(2,735)	(66,120)
Loss from continuing operations	(57,514)	(46,537)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	11,412	11,846
Amortization of intangibles	10,367	5,081
Amortization of unearned restricted stock compensation	3,196	(20)
Amortization of debt issuance costs	916	1,958
Administrative related reorganization items	3,646	
Payments for administrative related reorganization items	(25,131)	
Non-cash increase to cost of goods sold due to fresh-start reporting inventory valuation	34,494	
Non-cash interest expense on 12% Notes	6,760	
Non-cash debt accretion	6,165	
Other non-cash adjustments	20,389	34,532
Net changes in assets and liabilities, net of discontinued operations	(37,826)	(74,778)
Net cash used by operating activities of continuing operations	(23,126)	(67,918)
Net cash used by operating activities of discontinued operations	(8,258)	(22,489)
Net cash used by operating activities	(31,384)	(90,407)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(4,934)	(1,300)
Proceeds from sale of equipment	4	18
Net cash used by investing activities of continuing operations	(4,930)	(1,282)
Net cash used by investing activities of discontinued operations		(580)
Net cash used by investing activities	(4,930)	(1,862)
Cash flows from financing activities:		
Reduction of debt	(4,804)	(7,703)
Proceeds from ABL Revolving Credit Facility	351,600	
Payments on ABL Revolving Credit Facility	(358,186)	
Proceeds from debt financing	12,605	100,656
Refund of debt issuance costs	204	
Treasury stock purchases		(56)

Net cash provided by financing activities	1,419	92,897
Effect of exchange rate changes on cash and cash equivalents	(240)	(4,709)
Net decrease in cash and cash equivalents	(35,135)	(4,081)
Cash and cash equivalents, beginning of period	97,800	104,773
Cash and cash equivalents, end of period	$ 62,665	$ 100,692

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

(Unaudited).

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited)

(Amounts in thousands, except per share figures)

1 DESCRIPTION OF BUSINESS

Spectrum Brands, Inc., at the time a Wisconsin corporation, and each of its wholly owned United States (U.S.) subsidiaries (collectively, the Debtors) filed voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code (the Bankruptcy Code), in the U.S. Bankruptcy Court for the Western District of Texas (the Bankruptcy Court) on February 3, 2009. On August 28, 2009 (the Effective Date), the Debtors emerged from Chapter 11 of the Bankruptcy Code. As of the Effective Date and pursuant to the Debtors confirmed plan of reorganization, Spectrum Brands, Inc. converted from a Wisconsin corporation to a Delaware corporation.

Unless the context indicates otherwise, Spectrum Brands, Inc. is used interchangeably in this Quarterly Report on Form 10-Q to refer both to the Delaware corporation and its Wisconsin predecessor, and the terms the Company, Spectrum, Spectrum Brands, are used to refer to Spectrum Brands, Inc. and its subsidiaries both before and after the Effective Date. The term Predecessor Company refers only to Spectrum Brands, Inc., the Company s Wisconsin predecessor, and its subsidiaries prior to the Effective Date and the term Successor Company refers only to Spectrum Brands, Inc., the Delaware successor, and its subsidiaries subsequent to the Effective Date.

Prior to and including August 30, 2009, all operations of the business resulted from the operations of the Predecessor Company. All conditions required for the adoption of fresh-start reporting were met upon emergence from Chapter 11 of the Bankruptcy Code on the Effective Date. However in light of the proximity of that date to the Company s August accounting period close, which was August 30, 2009, the Company elected to adopt a convenience date of August 30, 2009, (the Fresh-Start Adoption Date) for recording fresh-start reporting. As a result, the fair value of the Predecessor Company s assets became the new basis for the Successor Company s Consolidated Statement of Financial Position as of the Fresh-Start Adoption Date, and all operations beginning August 31, 2009, are related to the Successor Company. Financial information of the Company s financial statements prepared for the Predecessor Company will not be comparable to financial information for the Successor Company.

The Company is a global branded consumer products company with positions in six major product categories: consumer batteries; pet supplies; electric shaving and grooming; electric personal care; portable lighting; and home and garden control.

The Company manages its business in three reportable segments: (i) Global Batteries & Personal Care, which consists of the Company s worldwide battery, shaving and grooming, personal care and portable lighting business (Global Batteries & Personal Care); (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 lawn and garden and insect control businesses (the Home and Garden Business).

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 repellents in North America. The Company s operations utilize manufacturing and product development facilities located in the U.S., Europe, Asia and Latin America.

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

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

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, 8in1, Spectracide, Cutter and various other brands.

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification or ASC)

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162,* an accounting standard which established the Codification to become the single source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities, with the exception of guidance issued by the U.S. Securities and Exchange Commission (the SEC) and its staff. All guidance contained in the Codification carries an equal level of authority. The Codification is not intended to change GAAP, but rather is expected to simplify accounting research by reorganizing current GAAP into approximately 90 accounting topics. The Company adopted this accounting standard effective September 30, 2009. The adoption of this accounting standard, which was subsequently codified into ASC Topic 105: *Generally Accepted Accounting Principles,* had no impact on the Company s retained earnings and will have no impact on the Company s financial position, results of operations or cash flows.

2 VOLUNTARY REORGANIZATION UNDER CHAPTER 11

On February 3, 2009, the Predecessor Company announced that it had reached agreements with certain noteholders, representing, in the aggregate, approximately 70% of the face value of the Company s then outstanding senior subordinated notes, to pursue a refinancing that, if implemented as proposed, would significantly reduce the Predecessor Company s outstanding debt. On the same day, the Debtors filed voluntary petitions under Chapter 11 of the Bankruptcy Code, in the Bankruptcy Court (the Bankruptcy Filing) and filed with the Bankruptcy Court a proposed plan of reorganization (the Proposed Plan) that detailed the Debtors proposed terms for the refinancing. The Chapter 11 cases were jointly administered by the Bankruptcy Court as Case No. 09-50455 (the Bankruptcy Cases).

The Bankruptcy Court entered a written order (the Confirmation Order) on July 15, 2009 confirming the Proposed Plan (as so confirmed, the Plan).

Plan Effective Date

On the Effective Date the Plan became effective, and the Debtors emerged from Chapter 11 of the Bankruptcy Code. Pursuant to and by operation of the Plan, on the Effective Date, all of Predecessor Company s existing equity securities, including the existing common stock and stock options, were extinguished and deemed cancelled. Spectrum Brands filed a certificate of incorporation authorizing new shares of the common stock. Pursuant to and in accordance with the Plan, on the Effective Date, Successor Company issued a total of 27,030 shares of common stock and $218,076 of 12% Senior Subordinated Toggle Notes due 2019 (the 12% Notes) to holders of allowed claims with respect to Predecessor Company s 81/2% Senior Subordinated Notes due 2013 (the 81/2 Notes), 77/8% Senior Subordinated Notes due 2015 (the 77/8 Notes) and Variable Rate Toggle Senior Subordinated Notes due 2013 (the Variable Rate Notes) (collectively, the Senior Subordinated Notes) (See also Note 8, Debt, for a more complete discussion of the 12% Notes.) Also on the Effective Date, Successor Company issued a total of 2,970 shares of common stock to supplemental and sub-supplemental debtor-in-possession facility participants in respect

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

of the equity fee earned under the Debtors debtor-in-possession credit facility. The common stock is currently quoted on the over-the-counter (OTC) Bulletin Board and the Pink Sheet Electronic Quotation Service.

On the Effective Date, pursuant to the Plan, the Company entered into Amendment No. 1 to the senior secured term credit facility agreement reflecting the terms of the Confirmation Order, including a new covenant restricting the Company from paying cash interest on the 12% Notes until the date that is 18 months from the Effective Date, or February 28, 2011. In addition, on the Effective Date, the Company entered into Amendment No. 2 to the senior secured term credit facility agreement to give effect to certain technical amendments to the senior secured term credit facility agreement. (See also Note 8, Debt, for a more complete discussion of the amendments.)

In order to consummate the Plan, the Debtors obtained a $242,000 asset-based exit loan facility pursuant to a credit agreement among the Debtors, General Electric Capital Corporation, as the administrative agent, co-collateral agent, swingline lender and supplemental loan lender, Bank of America, N.A., as co-collateral agent and L/C Issuer, RBS Asset Finance, Inc., through its division RBS Business Capital, as syndication agent and the lenders party thereto. (See also Note 8, Debt, for a more complete discussion of the facility.)

Reorganization Items

In accordance with ASC Topic 852: *Reorganizations,* reorganization items are presented separately in the accompanying Condensed Consolidated Statements of Operations (Unaudited) and represent expenses, income, gains and losses that the Company has identified as directly relating to the Bankruptcy Cases. Reorganization items expense, net for the three month period ended January 3, 2010 are summarized as follows:

	Successor Company 2010
Legal and professional fees	$ 3,536
Provision for rejected leases	110
Reorganization items expense, net	$ 3,646

3 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: These condensed consolidated financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the U.S. 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 January 3, 2010 and September 30, 2009, and the results of operations and cash flows for the three month periods ended January 3, 2010 and December 28, 2008. 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, 2009. Certain prior period amounts have been reclassified to conform to the current period presentation.

Significant Accounting Policies and Practices: The condensed consolidated financial statements include the condensed consolidated financial statements of Spectrum Brands, Inc. and its subsidiaries and are prepared in accordance with GAAP. All intercompany transactions have been eliminated. The Company s fiscal year ends

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

September 30. References herein to Fiscal 2010 and Fiscal 2009 refer to the fiscal years ended September 30, 2010 and 2009, respectively.

The preparation of condensed consolidated financial statements in conformity with generally accepted accounting principles in the United States of America 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.

Discontinued Operations: On November 11, 2008, the Predecessor Company board of directors (the Predecessor Board) approved the shutdown of the growing products portion of the Home and Garden Business, which included the manufacturing and marketing of fertilizers, enriched soils, mulch and grass seed. The decision to shutdown the growing products portion of the Home and Garden Business was made only after the Predecessor Company was unable to successfully sell this business, in whole or in part. The shutdown of the growing products portion of the Home and Garden Business was completed during the second quarter of Fiscal 2009.

The presentation herein of the results of continuing operations has been changed to exclude the growing products portion of the Home and Garden Business for all periods presented. The following amounts have been segregated from continuing operations and are reflected as discontinued operations for the three month periods ended January 3, 2010 and December 28, 2008, respectively:

	Successor Company	Predecessor Company
	2010	2009
Net sales	$	$ 15,686
Loss from discontinued operations before income taxes	$ (2,512)	$ (67,784)
Provision for income tax expense (benefit)	223	(1,664)
Loss from discontinued operations, net of tax	$ (2,735)	$ (66,120)

Assets Held for Sale: At January 3, 2010 and September 30, 2009, the Company had $12,079 and $11,870, respectively, included in Assets held for sale in its Condensed Consolidated Statements of Financial Position (Unaudited) consisting of certain assets related to the Ningbo, China battery manufacturing facility and a manufacturing facility in Brazil.

Intangible Assets: Intangible assets are recorded at cost or at fair value if acquired in a purchase business combination. Customer lists 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. The Company s annual impairment testing is completed at the August financial period end.

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

ASC Topic 350: *Intangibles-Goodwill and Other,* (ASC 350) 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. 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. The fair values of the Company s goodwill and indefinite-lived intangible assets were not tested for impairment during the three month period ended January 3, 2010 and December 28, 2008, respectively, as no event or circumstance arose which indicated that an impairment loss may have been incurred.

Shipping and Handling Costs: The Successor Company incurred shipping and handling costs of $36,461 for the three month period ended January 3, 2010. The Predecessor Company incurred shipping and handling costs of $39,348 for the three month period ended December 28, 2008. 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 principally on the basis of past collection experience applied to ongoing evaluations of the Company s receivables 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 22% of the Company s Net sales during the three month periods ended January 3, 2010 (Successor Company) and December 28, 2008 (Predecessor Company), respectively. This customer also represented approximately 10% and 14% of the Successor Company s Trade accounts receivable, net at January 3, 2010 and September 30, 2009, respectively.

Approximately 51% and 48% of the Company s Net sales during the three month periods ended January 3, 2010 (Successor Company) and December 28, 2008 (Predecessor Company), 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: In 1996, the Predecessor Board approved the Rayovac Corporation 1996 Stock Option Plan (1996 Plan). Under the 1996 Plan, stock options to acquire up to 2,318 shares of common stock, in the aggregate, could be granted to select employees and non-employee directors of the Predecessor Company under either or both a time-vesting or a performance-vesting formula at an exercise price equal to the market price of the common stock on the date of grant. The 1996 Plan expired on September 12, 2006.

In 1997, the Predecessor Board adopted the 1997 Rayovac Incentive Plan (1997 Plan). Under the 1997 Plan, the Predecessor Company could grant to employees and non-employee director s stock options, stock

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

appreciation rights (SARs), restricted stock, and other stock-based awards, as well as cash-based annual and long-term incentive awards. Accelerated vesting would have occurred in the event of a change in control, as defined in the 1997 Plan. Up to 5,000 shares of common stock could have been issued under the 1997 Plan. The 1997 Plan expired in August 31, 2007.

In 2004, the Predecessor Board adopted the 2004 Rayovac Incentive Plan (2004 Plan). The 2004 Plan supplemented the 1997 Plan. Under the 2004 Plan, the Predecessor Company could have granted to employees and non-employee directors stock options, SARs, restricted stock, and other stock-based awards, as well as cash-based annual and long-term incentive awards. Accelerated vesting would occur in the event of a change in control, as defined in the 2004 Plan. Up to 3,500 shares of common stock, net of forfeitures and cancellations, could have been issued under the 2004 Plan. The 2004 Plan would have expired on July 31, 2014.

Upon the Effective Date, however, by operation of the Plan all the existing common stock of the Predecessor Company was extinguished and deemed cancelled and, in connection with the cancellation of the Predecessor s common stock, any and all equity awards granted under, and understandings with respect to participation in the 2004 Plan in effect prior to the Effective Date became null and void as of the Effective Date.

In September 2009, the Successor Company s board of directors (the Board) adopted the 2009 Spectrum Brands Inc. Incentive Plan (the 2009 Plan). Up to 3,333 shares of common stock, net of forfeitures and cancellations, may be issued under the 2009 Plan.

The Successor Company granted approximately 629 shares of restricted stock during the three month period ended January 3, 2010. Of these grants, 18 are time-based and vest after a one year period and 611 shares are time-based and vest over a two year period. All vesting dates were subject to the recipient s continued employment with the Company, except as otherwise permitted by the Board or in certain cases if the employee is terminated without cause. The total market value of the restricted shares on the date of grant is approximately $14,555.

The Predecessor Company granted approximately 229 shares of restricted stock during the three month period ended December 28, 2008. All shares granted were purely performance based and would have vested only upon achievement of certain performance goals which consisted of reportable segment and consolidated company earnings before interest, taxes, depreciation and amortization and cash flow components, each as defined by the Company for purposes of such awards. All vesting dates were subject to the recipient s continued employment with the Company, except as otherwise permitted by the Predecessor Board. The total market value of the restricted shares on the date of grant was approximately $150.

In connection with the adoption of ASC Topic 718: Compensation-Stock Compensation, (ASC 718), the Company is required to recognize expense related to the fair value of its employee stock awards. Total stock compensation expense associated with restricted stock awards recognized by the Successor Company during the three months ended January 3, 2010 was $3,196, or $2,078, net of taxes. Total stock compensation expense associated with both stock options and restricted stock awards recognized by the Predecessor Company during the three months ended December 28, 2008 was $(20), or $(13), net of taxes.

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

The fair value of restricted stock is determined based on the market price of the Company s shares on the grant date. A summary of the status of the Successor Company s non-vested restricted stock at January 3, 2010 is as follows:

Restricted Stock	Shares	Weighted Average Grant Date Fair Value	Fair Value
Restricted stock at September 30, 2009		$	$
Granted	629	23.13	14,555
Restricted stock at January 3, 2010	629	$ 23.13	$ 14,555

Derivative Financial Instruments: Derivative financial instruments are used by the Company principally in the management of its interest rate, foreign currency and raw material price exposures. The Company does not hold or issue derivative financial instruments for trading purposes. When hedge accounting is elected at inception, the Company formally designates the financial instrument as a hedge of a specific underlying exposure if such criteria are met, 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.

Effective December 29, 2008, the Company adopted ASC Topic 815: *Derivatives and Hedging,* (ASC 815). ASC 815 amends the disclosure requirements for derivative instruments and hedging activities. Under the revised guidance entities are required to provide enhanced disclosures for derivative and hedging activities.

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

Asset Derivatives		January 3, 2010	September 30, 2009
Derivatives designated as hedging instruments under ASC 815:			
Commodity contracts	Receivables Other	$ 5,352	$ 2,861
Commodity contracts	Deferred charges and other	647	554
Foreign exchange contracts	Receivables Other	221	295
Total asset derivatives designated as hedging instruments under ASC 815		$ 6,220	$ 3,710
Derivatives not designated as hedging instruments under ASC 815:			
Commodity contracts	Receivables Other	42	
Foreign exchange contracts	Receivables Other	116	75

Total asset derivatives	$ 6,378	$ 3,785

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

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

Liability Derivatives		**January 3, 2010**	**September 30, 2009**
Derivatives designated as hedging instruments under ASC 815:			
Interest rate contracts	Accounts payable	$ 4,134	$
Interest rate contracts	Accrued interest	1,238	
Interest rate contracts	Other long term liabilities	381	
Foreign exchange contracts	Accounts payable	577	1,036
Total liability derivatives designated as hedging instruments under ASC 815		$ 6,330	$ 1,036
Derivatives not designated as hedging instruments under ASC 815:			
Foreign exchange contracts	Accounts payable	144	131
Total liability derivatives		$ 6,474	$ 1,167

Cash Flow Hedges

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 accumulated other comprehensive income (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 Statements of Operations (Unaudited) for the three month period ended January 3, 2010 pretax (Successor Company):

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 Accumulated OCI 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	$ 3,656	Cost of goods sold	$ 331	Cost of goods sold	$ 71
Interest rate contracts	(5,753)		(1,238)		

			Interest expense			Interest expense		
Foreign exchange contracts		(119)	Net sales		(94)	Net sales		
Foreign exchange contracts		(421)	Cost of goods sold		(728)	Cost of goods sold		
Total	$	(2,637)		$	(1,729)		$	71

13

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

The following table summarizes the impact of derivative instruments designated as cash flow hedges on the accompanying Condensed Consolidated Statements of Operations (Unaudited) for the three month period ended December 28, 2008, pretax (Predecessor Company):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in Accumulated OCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI 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	$ (6,697)	Cost of goods sold	$ (3,558)	Cost of goods sold	$ 282
Interest rate contracts	(4,093)	Interest expense	(822)	Interest expense	
Foreign exchange contracts	899	Net sales	(37)	Net sales	
Foreign exchange contracts	8,915	Cost of goods sold	3,344	Cost of goods sold	
Commodity contracts	(1,313)	Discontinued operations	(2,116)	Discontinued operations	(12,729)
Total	$ (2,289)		$ (3,189)		$ (12,447)

Derivative Contracts

For derivative instruments that are used to economically hedge the fair value of the Company s third party and intercompany foreign exchange payments, commodity purchases and interest rate payments, the gain (loss) is recognized in earnings in the period of change associated with the derivative contract. During the three month period ended January 3, 2010 (Successor Company) and the three month period ended December 28, 2008 (Predecessor Company), the Company recognized the following respective gains (losses) on derivative contracts:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Amount of Gain (Loss) Recognized in Income on Derivatives Successor Company 2010	Predecessor Company 2009	Location of Gain or (Loss) Recognized in Income on Derivatives
Commodity contracts	42	$	Cost of goods sold
Foreign exchange contracts	(1,830)	1,495	Other (income) expense, net

Total	$ (1,788)	$ 1,495

Credit Risk

The Company is exposed to the default risk of the counterparties with which the Company transacts. 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 which are primarily concentrated with a foreign financial institution counterparty. The Company considers these exposures when measuring its credit reserve on its derivative assets, which was $49 and $32,

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

respectively, at January 3, 2010 and September 30, 2009. Additionally, the Company does not require collateral or other security to support financial instruments subject to credit risk.

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, as a result of the Company s current credit profile, the Company is typically required to post collateral in the normal course of business to offset its liability positions. At January 3, 2010 and September 30, 2009, the Successor Company had posted cash collateral of $2,274 and $1,943, respectively, related to such liability positions. In addition, at January 3, 2010 and September 30, 2009, the Successor Company had posted standby letters of credit of $12,580 and $0, 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 January 3, 2010, the Successor Company had a portfolio of USD-denominated interest rate swaps outstanding which effectively fixes the interest on floating rate debt, exclusive of lender spreads as follows: 2.25% for a notional principal amount of $300,000 through December 2011 and 2.29% for a notional principal amount of $300,000 through January 2012. In addition, at January 3, 2010, the Successor Company had a portfolio of EUR-denominated interest rate swaps outstanding which effectively fixes the interest on floating rate debt, exclusive of lender spreads as follows: 2.31% for a notional principal amount of 100,000 through January 2012 and 2.37% for a notional principal amount of 100,000 through February 2012. The Successor Company had no interest rate swap financial instruments at September 30, 2009. The derivative net loss on these contracts recorded in AOCI by the Successor Company at January 3, 2010 and September 30, 2009 was $2,799 net of tax benefit of $1,716 and $0, respectively.

The Company periodically enters into forward foreign exchange contracts to hedge the risk from forecasted foreign 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 or 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 January 3, 2010 the Successor Company had a series of foreign exchange derivative contracts outstanding through December 2010 with a contract value of $92,436. At September 30, 2009 the Successor Company had a series of foreign exchange derivative contracts outstanding through September 2010 with a contract value of $92,963. The derivative net loss on these contracts recorded in AOCI by the Successor Company at January 3, 2010 was $164, net of tax benefit of $99. The derivative net loss on these contracts recorded in AOCI by the Successor Company at September 30, 2009 was $378, net of tax benefit of $167. At January 3, 2010, the portion of derivative net losses estimated to be reclassified from AOCI into earnings by the Successor Company over the next 12 months is $164, net of tax.

Table of Contents

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

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 January 3, 2010 the Successor Company had a series of such swap contracts outstanding through September 2011 for 7 tons with a contract value of $11,010. At September 30, 2009 the Successor Company had a series of such swap contracts outstanding through September 2011 for 8 tons with a contract value of $11,830. The derivative net gain on these contracts recorded in AOCI by the Successor Company at January 3, 2010 was $2,515, net of tax expense of $1,340. The derivative net gain on these contracts recorded in AOCI by the Successor Company at September 30, 2009 was $347, net of tax expense of $183. At January 3, 2010, the portion of derivative net gains estimated to be reclassified from AOCI into earnings by the Successor Company over the next 12 months is $2,213, net of tax.

The Company was also exposed to fluctuating prices of raw materials, specifically urea and di-ammonium phosphates (DAP), used in its manufacturing processes in the growing products portion of the Home and Garden Business. The Company did not have any contracts outstanding and did not record any activity for these raw materials during the three month period ended January 3, 2010 as the Company completed the shutdown of the growing products portion of the Home and Garden Business during the second quarter of Fiscal 2009. See Note 3, Significant Accounting Policies Discontinued Operations, for further information on the shutdown of the growing products portion of the Home and Garden Business.

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 Statement 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 January 3, 2010 and September 30, 2009 the Successor Company had $45,280 and $37,478, respectively, of such foreign exchange derivative contracts outstanding.

The Company is indirectly exposed to economic risk from fluctuating prices for underlying raw materials, including nickel, through its purchases of processed parts used in its manufacturing processes. Periodically the Company economically hedges a portion of the risk associated with these parts through swap agreements with the supplier of the parts. The swap agreements are designated as fair value hedges. The swaps effectively fix the floating price on a specified quantity of underlying raw materials through the life of the purchase contract with the supplier. 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 processed parts also effects earnings. At January 3, 2010 and September 30, 2009 the Successor Company had $624 and $0, respectively, of such commodity derivative contracts outstanding.

Fair Value of Financial Instruments: Effective October 1, 2008, the Company adopted ASC Topic 820: *Fair Value Measurements and Disclosures,* (ASC 820), for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis. ASC 820 establishes a new framework for measuring

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

fair value and expands related disclosures. Broadly, the ASC 820 framework 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 Company utilizes valuation techniques that attempt to maximize the use of observable inputs and minimize the use of unobservable inputs. The determination of the fair values considers various factors, including closing exchange or over-the-counter market pricing quotations, time value and credit quality factors underlying options and contracts. The fair value of certain derivative financial instruments is estimated using pricing models based on contracts with similar terms and risks. Modeling techniques assume market correlation and volatility, such as using prices of one delivery point to calculate the price of the contract s different delivery point. The nominal value of interest rate transactions is discounted using applicable forward interest rate curves. In addition, by applying a credit reserve which is calculated based on credit default swaps or published default probabilities for the actual and potential asset value, the fair value of the Company s derivative financial instruments assets reflects the risk that the counterparties to these contracts may default on the obligations. Likewise, by assessing the requirements of a reserve for non-performance which is calculated based on the probability of default by the Company, the Company adjusts its derivative contract liabilities to reflect the price at which a potential market participant would be willing to assume the Company s liabilities. The adoption of ASC 820 did not have a material effect on the Company s statements of operations, financial position or cash flows.

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 maintains policies and procedures to value instruments using the best and most relevant data available. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls must be determined based on the lowest level input that is significant to the fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. In addition, the Company has risk management teams that review valuation, including independent price validation for certain instruments. Further, in other instances, the Company retains independent pricing vendors to assist in valuing certain instruments.

The Company s derivatives are valued using internal models, which are based on market observable inputs including interest rate curves and both forward and spot prices for currencies and commodities.

Table of Contents

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

The Successor Company s net derivative portfolio at January 3, 2010, contains Level 2 instruments and represents, commodity and foreign exchange contracts.

	Level 1	Level 2	Level 3	Total
Assets:				
Commodity contracts	$	$ 6,041	$	$ 6,041
Total Assets	$	$ 6,041	$	$ 6,041
Liabilities:				
Interest rate contracts	$	$ (5,753)	$	$ (5,753)
Foreign exchange contracts, net		(384)		(384)
Total Liabilities	$	$ (6,137)	$	$ (6,137)

The Successor Company s net derivative portfolio at September 30, 2009, contains Level 2 instruments and represents, commodity and foreign exchange contracts.

	Level 1	Level 2	Level 3	Total
Assets:				
Commodity contracts	$	$ 3,415	$	$ 3,415
Total Assets	$	$ 3,415	$	$ 3,415
Liabilities:				
Foreign exchange contracts, net	$	$ (797)	$	$ (797)
Total Liabilities	$	$ (797)	$	$ (797)

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 and derivative financial instruments are generally based on quoted or observed market prices.

The carrying value of financial instruments approximate the fair value of those instruments due to the applicable interest rates being substantially at market (floating), except for a $1,000,000 senior secured U.S. Dollar Term B Loan ($969,712 at January 3, 2010 and $973,125 at September 30, 2009) due June 30, 2012 with interest payable periodically but not less than quarterly (with such interest rate at LIBOR, subject to a floor of 1.50%, plus 6.5%), a 262,000 senior secured Euro Term Loan ($364,269 at January 3, 2010 and $371,874 at September 30, 2009) due June 30, 2012 with interest payable periodically but not less than quarterly (with such interest rate at EURIBOR, subject to a floor of 1.5%, plus 7.0%). In addition, at January 3, 2010 and September 30, 2009 the Successor Company had $218,076 outstanding of 12% Notes due August 28, 2019 with interest payable semiannually. The Successor Company total fair value of the Term Loans at January 3, 2010 and September 30, 2009 was approximately $1,317,221 and $1,284,030, respectively. The total fair value of the Successor Company s 12% Notes at January 3, 2010 and September 30, 2009 approximated $203,356 and $207,718, respectively. See Note 3, Significant Accounting Policies Derivative Financial Instruments and Note 8, Debt, for further details of the Company s financial instruments.

18

Table of Contents

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

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

	January 3, 2010		September 30, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Total debt	$ (1,584,213)	$ (1,626,903)	$ (1,583,535)	$ (1,592,987)
Interest rate swap agreements	(5,753)	(5,753)		
Commodity swap and option agreements	6,041	6,041	3,415	3,415
Foreign exchange forward agreements	(384)	(384)	(797)	(797)

Effective October 1, 2008, the Company also adopted ASC Topic 825: *Financial Instruments,* (ASC 825), which permits an entity to measure many financial instruments and certain other items at fair value by electing a fair value option. Once elected, the fair value option may be applied on an instrument by instrument basis, is irrevocable and is applied only to entire instruments. ASC 825 also requires companies with trading and available-for-sale securities to report the unrealized gains and losses for which the fair value option has been elected. The adoption of ASC 825 did not have an effect the Company s results of operations, financial position or cash flows as the Company did not elect the fair value option for any of its financial instruments.

Subsequent Events: During Fiscal 2009, the Company adopted ASC 855, Subsequent Events, (ASC 855). ASC 855 establishes general standards of accounting and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption of ASC 855 requires the Company to evaluate all subsequent events that occur after the balance sheet date through the date and time the Company s financial statements are issued. The Company has evaluated subsequent events through February 10, 2010, which is the date these financial statements were issued. (See also Note 15, Subsequent Events, for additional information.)

4 OTHER COMPREHENSIVE LOSS

Comprehensive loss and the components of other comprehensive loss, net of tax, for the three month periods ended January 3, 2010 and December 28, 2008 are as follows:

	Successor Company	Predecessor Company
	Three Months	
	2010	2009
Net loss	$ (60,249)	$ (112,657)
Other comprehensive loss:		
Foreign currency translation	(1,115)	(24,299)
Valuation allowance adjustments	(1,100)	(472)
Pension liability adjustments		
Net unrealized (loss) gain on derivative instruments	(1,204)	2,340
Net change to derive comprehensive loss for the period	(3,419)	(22,431)
Comprehensive loss	$ (63,668)	$ (135,088)

Net exchange gains or losses resulting from the translation of assets and liabilities of foreign subsidiaries are accumulated in the AOCI section of Shareholders deficit. Also included are the effects of exchange rate changes on intercompany balances of a long-term nature and transactions designated as hedges of net foreign investments.

Table of Contents

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

The changes in accumulated foreign currency translation for the three month periods ended January 3, 2010 and December 28, 2008 were primarily attributable to the impact of translation of the net assets of the Company s European operations, primarily denominated in Euros and Pounds Sterling.

5 NET LOSS PER COMMON SHARE

Net loss per common share for the three month periods ended January 3, 2010 and December 28, 2008 is calculated based upon the following number of shares:

	Successor Company	Predecessor Company
	Three Months	
	2010	2009
Basic	30,000	51,406
Effect of restricted stock and assumed conversion of options		
Diluted	30,000	51,406

For the three month periods ended January 3, 2010 and December 28, 2008, the Company has not assumed the exercise of common stock equivalents as the impact would be antidilutive.

6 INVENTORIES

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

	January 3, 2010	September 30, 2009
Raw materials	$ 68,704	$ 64,314
Work-in-process	18,810	27,364
Finished goods	209,359	249,827
	$ 296,873	$ 341,505

Table of Contents

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

7 GOODWILL AND INTANGIBLE ASSETS

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

	Global Batteries & Personal Care	Home and Garden	Global Pet Supplies	Total
Goodwill:				
Balance at September 30, 2009	$ 152,293	$ 170,807	$ 160,248	$ 483,348
Effect of translation	(1,077)		(878)	(1,955)
Balance at January 3, 2010	$ 151,216	$ 170,807	$ 159,370	$ 481,393
Intangible Assets:				
Trade names Not Subject to Amortization				
Balance at September 30, 2009	$ 401,983	$ 76,000	$ 212,253	$ 690,236
Effect of translation	(1,003)		(1,790)	(2,793)
Balance at January 3, 2010	$ 400,980	$ 76,000	$ 210,463	$ 687,443
Intangible Assets Subject to Amortization				
Balance at September 30, 2009, net	$ 354,433	$ 172,271	$ 245,005	$ 771,709
Additions	375			375
Amortization during period	(4,452)	(2,188)	(3,727)	(10,367)
Effect of translation	(918)		(1,245)	(2,163)
Balance at January 3, 2010, net	$ 349,438	$ 170,083	$ 240,033	$ 759,554
Total Intangible Assets, net at January 3, 2010	$ 750,418	$ 246,083	$ 450,496	$ 1,446,997

Intangible assets subject to amortization include proprietary technology, customer relationships and certain trade names. The carrying value of technology assets was $61,814, net of accumulated amortization of $1,545 at January 3, 2010 and $62,985, net of accumulated amortization of $515 at September 30, 2009. The Successor Company trade names subject to amortization relate to the valuation under fresh-start reporting. The carrying value of these trade names was $459, net of accumulated amortization of $31 at January 3, 2010 and $490, net of accumulated amortization of $10 at September 30, 2009. Remaining intangible assets subject to amortization include customer relationship intangibles. The carrying value of customer relationships was $697,281, net of accumulated amortization of $8,791 at January 3, 2010 and $708,234, net of accumulated amortization of $2,988 at September 30, 2009. The useful life of the Successor Company s intangible assets subject to amortization are 8 years for technology assets related to the Global Pet Supplies segment, 17 years for technology assets associated with the Global Batteries and Personal Care segment, 20 years for customer relationships and 4 years for trade names.

Amortization expense for the three month periods ended January 3, 2010 and December 28, 2008 is as follows:

	Successor Company	Predecessor Company

	Three Months	
	2010	2009
Proprietary technology amortization	$ 1,545	$ 936
Customer relationships amortization	8,791	4,045
Trade names amortization	31	100
	$ 10,367	$ 5,081

Table of Contents

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

The Company estimates annual amortization expense for the next five fiscal years will approximate $40,000 per year.

8 DEBT

Debt of the Successor Company consists of the following:

	January 3, 2010		September 30, 2009	
	Amount	Rate[(A)]	Amount	Rate[(A)]
Term Loan B, U.S. Dollar, expiring June 30, 2012	969,712	8.1%	973,125	8.1%
Term Loan, Euro, expiring June 30, 2012	364,269	8.6%	371,874	8.6%
Senior Subordinated Notes, due August 28, 2019	218,076	12.0%	218,076	12.0%
ABL Revolving Credit Facility, expiring March 31, 2012	26,639	6.6%	33,225	6.6%
Supplemental Loan, expiring March 31, 2012	45,000	17.7%	45,000	17.7%
Other notes and obligations	18,306	5.4%	5,919	6.2%
Capitalized lease obligations	12,631	4.9%	12,924	4.9%
	1,654,633		1,660,143	
Adjustments resulting from fresh-start reporting valuation	(70,420)		(76,608)	
Less current maturities	59,494		53,578	
Long-term debt, net of current maturities	$ 1,524,719		$ 1,529,957	

(A) Interest rates on senior credit facilities represent the period-end weighted average rates on balances outstanding exclusive of the effects of any interest rate swaps. Although the ABL Revolving Credit Facility does not mature until March 31, 2012, the balance is included in current maturities in accordance with GAAP as a result of a lock-box arrangement required under the ABL Revolving Credit Facility.

Senior Term Credit Facility

During the second quarter of Fiscal 2007, the Predecessor Company refinanced its then outstanding senior credit facility with a new senior secured credit facility pursuant to a new senior credit agreement (the Senior Credit Agreement) consisting of a $1,000,000 U.S. Dollar Term B Loan facility (the U.S. Dollar Term B Loan), a $200,000 U.S. Dollar Term B II Loan facility (the U.S. Dollar Term B II Loan), a 262,000 Term Loan facility (the Euro Facility), and a $50,000 synthetic letter of credit facility (the L/C Facility and together with the U.S. Dollar Term B Loan, the U.S. Dollar Term B II Loan and the Euro Facility, collectively, the Senior Term Facility). The proceeds of borrowings under the Senior Credit Agreement were used to repay all outstanding obligations under the Predecessor Company s Fourth Amended and Restated Credit Agreement, dated as of February 7, 2005, to pay fees and expenses in connection with the refinancing and the exchange offer completed on March 30, 2007 relating to certain of the Predecessor Company s senior subordinated notes and for general corporate purposes. Subject to certain mandatory prepayment events, the term loan facilities under the Senior Credit Agreement are subject to repayment according to a scheduled amortization, with the final payment of all amounts outstanding, plus accrued and unpaid interest, due at maturity. Letters of credit issued pursuant to the L/C Facility are required to expire, at the latest, upon the day that is five business days prior to maturity of the Senior Credit Agreement. In connection with the Company s emergence from voluntary reorganization under Chapter 11 of the Bankruptcy Code and pursuant to the Plan, the Successor Company entered into certain amendments to the Senior Credit Agreement (the Term Credit Amendments). Among other things, the Term Credit Amendments provide for a minimum Eurodollar interest rate floor of 1.50%, interest spreads over market rates of 6.5% for the U.S. Dollar Term B Loan and 7.00% for the Euro Facility, increases to the maximum Senior Secured Leverage Ratio and a shortened maturity date of June 30, 2012.

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

The Senior Credit Agreement contains financial covenants with respect to debt, including, but not limited to, a maximum senior secured leverage ratio, which covenants, pursuant to their terms, become more restrictive over time. In addition, the Senior Credit Agreement 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 their respective obligations under the Senior Credit Agreement and related loan documents and have pledged substantially all of their respective assets to secure such obligations. The Senior Credit Agreement also provides for customary events of default, including payment defaults and cross-defaults on other material indebtedness.

During the three month period ended January 3, 2010, the Company made scheduled, and in connection with asset sales, mandatory, prepayments of term loan indebtedness totaling $4,705 under the Senior Credit Agreement.

At January 3, 2010, the aggregate amount outstanding under the Successor Company s senior secured term credit facility totaled a U.S. Dollar equivalent of $1,379,940, consisting of principal amounts of $969,712 under the U.S. Dollar Term B Loan, 254,076 under the Euro Facility (USD $364,269 at January 3, 2010) as well as letters of credit outstanding under the L/C Facility totaling $45,959.

At September 30, 2009, the aggregate amount outstanding under the Successor Company s senior secured term credit facility totaled a U.S. Dollar equivalent of $1,391,459, consisting of principal amounts of $973,125 under the U.S. Dollar Term B Loan, 254,970 under the Euro Facility (USD $371,874 at September 30, 2009) as well as letters of credit outstanding under the L/C Facility totaling $46,460.

At January 3, 2010, the Successor Company was in compliance with all covenants under the Senior Credit Agreement.

ABL Revolving Credit Facility

On August 28, 2009, in connection with the Company s emergence from voluntary reorganization under Chapter 11 of the Bankruptcy Code, the Successor Company entered into a $242,000 U.S. Dollar asset based revolving loan facility (the ABL Revolving Credit Facility and together with the Senior Term Credit Facility, the Senior Credit Facilities) pursuant to a credit agreement (the ABL Credit Agreement) with General Electric Capital Corporation as administrative and co-collateral agent (the Agent) with a participating interest from the Significant Noteholders and certain of their affiliates. The ABL Revolving Credit Facility replaced the Company s debtor-in-possession credit facility, which was simultaneously repaid using cash on hand generated from the Company s operations and available cash from prior borrowings under the ABL Revolving Credit Facility. The ABL Revolving Credit Facility consists of (a) 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, and (b) a supplemental loan (the Supplemental Loan), in the form of an asset based revolving loan, in an amount up to $45,000.

The Revolving Loans may be drawn, repaid and reborrowed without premium or penalty. The Supplemental Loan shall be repaid after payment in full of the Revolving Loans and all other obligations due and payable under the ABL Revolving Credit Facility. The proceeds of borrowings under the ABL Revolving Credit Facility and Supplemental Loan are to be used for costs, expenses and fees in connection with the ABL Revolving Credit Facility, for working capital requirements of the Company and its subsidiaries , restructuring costs, and other general corporate purposes.

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

The ABL Revolving Credit Facility carries an interest rate, at the Company s option, of either (a) the base rate plus 3.00% per annum or (b) the reserve-adjusted LIBOR rate (the Eurodollar Rate) plus 4.00% per annum, except that the Supplemental Loan carries an interest rate, equal to the Eurodollar Rate plus 14.50% per annum. No amortization will be required with respect to the ABL Revolving Credit Facility. For purposes of the Revolving Loans, the Eurodollar Rate shall at no time be less than 2.50%. For purposes of the Supplemental Loan, the Eurodollar Rate shall at no time be less than 3.00%. The ABL Revolving Credit Facility will mature on March 31, 2012.

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 during the three month period ended January 3, 2010, the Successor Company had aggregate borrowing availability of approximately $73,679, net of lender reserves of $19,379 and outstanding letters of credit of $5,000 under the ABL Revolving Credit Facility.

At January 3, 2010, the Successor Company had an aggregate amount outstanding under the ABL Revolving Credit Facility of $76,639 which includes the Supplemental Loan of $45,000 and $5,000 in outstanding letters of credit.

At September 30, 2009, the Successor Company had an aggregate amount outstanding under the ABL Revolving Credit Facility of $84,225 which includes the Supplemental Loan of $45,000 and $6,000 in outstanding letters of credit.

At January 3, 2010, the Successor Company was in compliance with all covenants under the ABL Credit Agreement.

12% Notes

On August 28, 2009, in connection with emergence from the voluntary reorganization under Chapter 11 and pursuant to the Plan, the Successor Company issued $218,076 in aggregate principal amount of 12% Notes maturing August 28, 2019. Semiannually, at its option, the Successor Company may elect to pay interest on the 12% Notes in cash or as payment in kind, or PIK . PIK interest would be added to principal upon the relevant semi-annual interest payment date. Under the Term Credit Amendments, the Successor Company agreed to make interest payments on the 12% Notes through PIK for the first three semi-annual interest payment periods. At January 3, 2010, the Company had $9,159 of accrued interest included in Other long term liabilities in the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) that will be reclassified to principal upon the next semi-annual interest payment date of February 28, 2010.

The Company may redeem all or a part of the 12% Notes, upon not less than 30 or more than 60 days notice, beginning August 28, 2012 at specified redemption prices. Further, the indenture governing the 12% Notes require the Company to make an offer, in cash, to repurchase all or a portion of the applicable outstanding notes for a specified redemption price, including a redemption premium, upon the occurrence of a change of control of the Company, as defined in such indenture.

At both January 3, 2010 and September 30, 2009, the Successor Company had outstanding principal of $218,076 under the 12% Notes.

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

The indenture governing the 12% Notes (the 2019 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 2019 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 on or acceleration of certain other indebtedness, and certain events of bankruptcy and insolvency. Events of default under the indenture arising from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the 12% Notes. If any other event of default under the 2019 Indenture occurs and is continuing, the trustee for the indenture or the registered holders of at least 25% in the then aggregate outstanding principal amount of the 12% Notes, may declare the acceleration of the amounts due under those notes.

At January 3, 2010, the Successor Company was in compliance with all covenants under the 12% Notes. The Successor Company, however, is subject to certain limitations as a result of the Company s Fixed Charge Coverage Ratio under the 2019 Indenture being below 2:1. Until the test is satisfied, the Successor Company and certain of its subsidiaries are limited in their ability to make significant acquisitions or incur significant additional senior credit facility debt beyond the Senior Credit Facilities. The Successor Company does not expect its inability to satisfy the Fixed Charge Coverage Ratio test to impair its ability to provide adequate liquidity to meet the short-term and long-term liquidity requirements of its existing businesses, although no assurance can be given in this regard.

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. Plans generally provide benefits of stated amounts for each year of service. The Company funds its U.S. pension plans at a level to maintain, within established guidelines, the IRS-defined 94 percent current liability funded status. At January 1, 2009, the date of the most recent calculation, all U.S. funded defined benefit pension plans reflected a current liability funded status equal to or greater than 94 percent. 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 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.

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

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 after reaching age 45 over the next 10 succeeding years of service and remain eligible until reaching age 65. The plan is contributory; retiree contributions have been established as a flat dollar amount with contribution rates expected to increase at the active medical trend rate. The plan is unfunded. The Company is amortizing the transition obligation over a 20-year period.

The Company s results of operations for the three month periods ended January 3, 2010 and December 28, 2008 reflect the following pension and deferred compensation benefit costs:

	Successor Company	Predecessor Company
	Three Months	
Components of net periodic pension and other deferred compensation benefit costs	**2010**	**2009**
Service cost	$ 725	$ 601
Interest cost	1,813	1,726
Expected return on assets	(1,272)	(1,147)
Amortization of prior service cost	1	55
Recognized net actuarial loss	1	40
Employee contributions	(88)	(29)
Net periodic benefit cost	$ 1,180	$ 1,246

	Successor Company	Predecessor Company
	Three Months	
Pension and deferred compensation contributions	**2010**	**2009**
Contributions made during period	$ 359	$ 537

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. Prior to April 1, 2009 the Company contributed annually from 3% to 6% of participants compensation based on age or service, and had the ability to make additional discretionary contributions. The Company suspended all contributions to its U.S. subsidiaries defined contribution pension plans effective April 1, 2009 through December 31, 2009. Effective January 1, 2010 the Company reinstated its annual contribution as described above. 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 month periods ended January 3, 2010 (Successor Company) and December 28, 2008 (Predecessor Company) were $99 and $1,214, respectively.

The measurement date provisions of ASC 715: *Compensation-Retirement Benefits,* (ASC 715) became effective for the Company for the fiscal year ended September 30, 2009, and the Company now measures all of its defined benefit pension and postretirement plan assets and obligations at September 30, which is the Company s fiscal year end.

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

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. and Germany. In the U.S. federal tax filings for years prior to and including the Company s fiscal year ended September 30, 2005 are closed. However, the federal net operating loss carryforward from the Company s fiscal year ended September 30, 2005 is subject to Internal Revenue Service (IRS) examination until the year that such net operating loss carryforward is utilized and that year is closed for audit. The Company s fiscal years ended September 30, 2006, 2007, 2008, and 2009 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.

During Fiscal 2010, certain of the Company s German legal entities are undergoing audits for the fiscal years ended 2003 through 2006. The Company cannot predict the ultimate outcome of the examinations; however, it is reasonably possible that during the next 12 months some portion of previously unrecognized tax benefits could be recognized.

11 SEGMENT RESULTS

The Company manages its business in three vertically integrated, product-focused reporting segments; (i) Global Batteries & Personal Care; (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, interest expense, interest income, impairment charges and income tax expense. Accordingly, corporate expenses include primarily general and administrative expenses associated with corporate overhead and global long-term incentive compensation plans. 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.

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

Segment information for the three month periods ended January 3, 2010 and December 28, 2008 is as follows:

	Successor Company	Predecessor Company
	Three Months	
	2010	2009
Net sales from external customers		
Global Batteries & Personal Care	$ 428,671	$ 389,358
Global Pet Supplies	136,995	132,360
Home and Garden	26,274	26,785
Total segments	$ 591,940	$ 548,503

	Successor Company	Predecessor Company
	Three Months	
	2010	2009
Segment profit		
Global Batteries & Personal Care	$ 46,004	$ 53,261
Global Pet Supplies	1,136	12,056
Home and Garden	(9,580)	(10,667)
Total segments	37,560	54,650
Corporate expense	12,374	8,417
Restructuring and related charges	6,427	21,028
Interest expense	49,482	52,464
Other expense, net	646	3,677
Loss from continuing operations before reorganization items and income taxes	$ (31,369)	$ (30,936)

	Successor Company	
	January 3, 2010	September 30, 2009
Segment total assets		
Global Batteries & Personal Care	$ 1,558,214	$ 1,630,139
Global Pet Supplies	837,873	866,901
Home and Garden	492,597	505,586
Total segments	2,888,684	3,002,626
Corporate	19,411	18,120
Total assets at period end	$ 2,908,095	$ 3,020,746

The Global Batteries & Personal Care segment does business in Venezuela through a Venezuelan subsidiary. At January 4, 2010, the beginning of the Company s second quarter of Fiscal 2010, the Company has determined that Venezuela meets the definition of a highly inflationary economy under GAAP. As a result, beginning January 4, 2010, the U.S. dollar will be the functional currency for the Company s Venezuelan subsidiary. Accordingly, going forward, currency remeasurement adjustments for this subsidiary s financial statements and other transactional foreign exchange gains and losses will be reflected in earnings. Through January 3, 2010, prior to being designated as highly inflationary, translation adjustments related to our Venezuelan subsidiary were reflected in Shareholders equity as a component of other comprehensive income.

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

In addition, on January 8, 2010, the Venezuelan government announced its intention to devalue its currency, the Bolivar fuerte, relative to the U.S. dollar. The official exchange rate for imported goods classified as essential, such as food and medicine, will change from 2.15 to 2.6 to the U.S. dollar, while payments for other non-essential goods will move to an exchange rate of 4.3 to the U.S. dollar. Some of the Company s imported products are expected to fall into the essential classification and qualify for the 2.6 rate, however, our overall results in Venezuela will be reflected at the 4.3 rate expected to be applicable to dividend repatriations. As a result, the Company will need to remeasure the local statement of financial position of our Venezuela entity during the Company s second quarter of Fiscal 2010 to reflect the impact of the devaluation. There will also be an ongoing impact related to measuring the Company s Venezuelan statement of operations at the new exchange rate of 4.3 to the U.S. dollar.

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 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 implemented as well as consultation, legal and accounting fees related to the evaluation of the Predecessor Company s capital structure incurred prior to the Bankruptcy filing.

The following table summarizes restructuring and related charges incurred by segment for the three month periods ended January 3, 2010 and December 28, 2008:

	Successor Company	Predecessor Company
	Three Months	
	2010	2009
Cost of goods sold:		
Global Batteries & Personal Care	$ 847	$ 10,140
Home and Garden	38	
Global Pet Supplies	766	6
Total restructuring and related charges in cost of goods sold	1,651	10,146
Operating expense:		
Global Batteries & Personal Care	(938)	4,541
Home and Garden	6,343	1,548
Global Pet Supplies	528	2,485
Corporate	(1,157)	2,308
Total restructuring and related charges in operating expense	4,776	10,882
Total restructuring and related charges	$ 6,427	$ 21,028

Table of Contents

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

2009 Restructuring Initiatives

The Predecessor Company implemented a series of initiatives within the Global Batteries & Personal Care segment, the Global Pet Supplies segment and the Home and Garden Business segment to reduce operating costs as well as evaluate the Company s opportunities to improve its capital structure (the Global Cost Reduction Initiatives). These initiatives include headcount reductions within each of the Company s segments and the exit of certain facilities in the U.S. related to the Global Pet Supplies and Home and Garden Business segment. These initiatives also included consultation, legal and accounting fees related to the evaluation of the Predecessor Company s capital structure. The Successor Company recorded $7,721 of pretax restructuring and related charges during the three month period ended January 3, 2010 and the Predecessor Company recorded no pretax restructuring and related charges during the three month period ended December 28, 2008 related to the Global Cost Reduction Initiatives. Costs associated with these initiatives, which are expected to be incurred through September 30, 2013, are projected at approximately $57,500.

Global Cost Reduction Initiatives Summary

The following table summarizes the remaining accrual balance associated with the 2009 initiatives and the activity during the three month period ended January 3, 2010:

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2009	$ 4,180	$ 84	$ 4,264
Provisions	771	4,607	5,378
Cash expenditures	(1,294)	(150)	(1,444)
Non-cash items	138	(192)	(54)
Accrual balance at January 3, 2010	$ 3,795	$ 4,349	$ 8,144
Expensed as incurred[(A)]	$ 109	$ 2,234	$ 2,343

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

The following table summarizes the expenses as incurred during the three month period ending January 3, 2010, the cumulative amount incurred to date and the total future expected costs incurred associated with the Global Cost Reduction Initiatives by operating segment:

	Global Batteries and Personal Care	Global Pet Supplies	Home and Garden	Corporate	Total
Restructuring and related charges during the three month period ended January 3, 2010	$ 46	$ 1,294	$ 6,381	$	$ 7,721
Restructuring and related charges since initiative inception	$ 4,648	$ 4,750	$ 11,133	$ 7,591	$ 28,122
Total future restructuring and related charges expected	$ 2,900	$ 25,700	$ 800	$	$ 29,400

2008 Restructuring Initiatives

The Company implemented an initiative within the Global Batteries & Personal Care segment in China to reduce operating costs and rationalize the Company s manufacturing structure. These initiatives include the plan to exit the Company s Ningbo, China battery manufacturing facility (the Ningbo Exit Plan). The Successor

Table of Contents

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

Company recorded $696 of pretax restructuring and related charges during the three month period ended January 3, 2010 and the Predecessor Company recorded $10,395 of pretax restructuring and related charges during the three month period ended December 28, 2008 in connection with the Ningbo Exit Plan. The Company has recorded pretax restructuring and related charges of $27,912 since the inception of the Ningbo Exit Plan, which are now substantially complete.

Ningbo Exit Plan Summary

The following table summarizes the remaining accrual balance associated with the 2008 initiatives and the activity during the three month period ended January 3, 2010:

	Other Costs
Accrual balance at September 30, 2009	$ 308
Provisions	220
Cash expenditures	(86)
Non-cash items	(10)
Accrual balance at January 3, 2010	$ 432
Expensed as incurred[(A)]	$ 476

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

2007 Restructuring Initiatives

The Company has implemented a series of initiatives within the Global Batteries & Personal Care segment in Latin America to reduce operating costs (the Latin American Initiatives). These initiatives, which are substantially complete, include the reduction of certain manufacturing operations in Brazil and the restructuring of management, sales, marketing and support functions. The Successor Company recorded $187 of pretax restructuring and related charges during the three month period ended January 3, 2010 and the Predecessor Company recorded $86 of pretax restructuring and related charges during the three month period ended December 28, 2008 in connection with the Latin American Initiatives. The Company has recorded pretax restructuring and related charges of $11,634 since the inception of the Latin American Initiatives.

The following table summarizes the remaining accrual balance associated with the Latin American Initiatives and the activity during the three month period ended January 3, 2010:

Latin American Initiatives Summary

	Other Costs
Accrual balance at September 30, 2009	$ 331
Non-cash items	8

Accrual balance at January 3, 2010	$ 339
Expensed as incurred[(A)]	$ 187

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

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

In Fiscal 2007, the Company began managing its business in three vertically integrated, product-focused reporting segments; Global Batteries & Personal Care, Global Pet Supplies and the Home and Garden Business. As part of this realignment, the Company s Global Operations organization, previously included in corporate expense, consisting of research and development, manufacturing management, global purchasing, quality operations and inbound supply chain, is now included in each of the operating segments. In connection with these changes the Company undertook a number of cost reduction initiatives, primarily headcount reductions, at the corporate and operating segment levels (the Global Realignment Initiatives). The Successor Company recorded $(2,177) of pretax restructuring and related charges during the three month period ended January 3, 2010 and the Predecessor Company recorded $6,941 of pretax restructuring and related charges during the three month period ended December 28, 2008 in connection with the Global Realignment Initiatives. Costs associated with these initiatives, which are expected to be incurred through December 31, 2010, relate primarily to severance and are projected at approximately $85,405, the majority of which will be cash costs.

The following table summarizes the remaining accrual balance associated with the Global Realignment Initiatives and the activity during the three month period ended January 3, 2010:

Global Realignment Initiatives Summary

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2009	$ 14,581	$ 3,678	$ 18,259
Provisions	(1,157)	(1,085)	(2,242)
Cash expenditures	(1,371)	(106)	(1,477)
Non-cash items	(68)	44	(24)
Accrual balance at January 3, 2010	$ 11,985	$ 2,531	$ 14,516
Expensed as incurred[(A)]	$	$ 65	$ 65

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

The following table summarizes the expenses as incurred during the three month period ended January 3, 2010, the cumulative amount incurred to date and the total future expected costs incurred associated with the Global Realignment Initiatives by operating segment:

	Global Batteries and Personal Care	Home and Garden	Corporate	Total
Restructuring and related charges during the three month period ended January 3, 2010	$ (1,020)	$	$ (1,157)	$ (2,177)
Restructuring and related charges since initiative inception	$ 46,630	$ 7,558	$ 28,617	$ 82,805
Total future restructuring and related charges expected	$	$	$ 2,600	$ 2,600

2006 Restructuring Initiatives

The Company implemented a series of initiatives within the Global Batteries & Personal Care segment in Europe to reduce operating costs and rationalize the Company s manufacturing structure (the European Initiatives). These initiatives, which are substantially complete, include the

relocation of certain operations at the Ellwangen, Germany packaging center to the Dischingen, Germany battery plant and restructuring its sales,

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

marketing and support functions. The Successor Company recorded no pretax restructuring and related charges during the three month period ended January 3, 2010 and the Predecessor Company recorded no pretax restructuring and related charges during the three month period ended December 28, 2008 in connection with the European Initiatives. The Company has recorded pretax restructuring and related charges of $27,057 since the inception of the European Initiatives.

The following table summarizes the remaining accrual balance associated with the 2006 initiatives and the activity during the three month period ended January 3, 2010:

European Initiatives Summary

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2009	$ 2,623	$ 319	$ 2,942
Cash expenditures	(216)	(41)	(257)
Non-cash items	(45)	(5)	(50)
Accrual balance at January 3, 2010	$ 2,362	$ 273	$ 2,635

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 in excess of the amounts provided of approximately $4,463, which may result from resolution of these matters, will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

Included in long-term liabilities assumed in connection with the acquisition of Microlite S.A. (Microlite) is a provision for presumed credits applied to the Brazilian excise tax on Manufactured Products, or IPI taxes. Although a previous ruling by the Brazilian Federal Supreme Court has been issued in favor of a specific Brazilian taxpayer with similar tax credits, on February 15, 2007 the Brazilian Federal Supreme Court ruled against certain Brazilian taxpayers with respect to the legality and constitutionality of the IPI presumed credits. This decision is applicable to all similarly-situated taxpayers. At January 3, 2010 and September 30, 2009, these amounts totaled approximately $0 and $4,661, respectively, and are included in Other long-term liabilities in the Condensed Consolidated Statements of Financial Position (Unaudited).

On February 3, 2009, the Company and all of the Company s U.S. subsidiaries filed voluntary petitions for reorganization relief under Chapter 11 of the Bankruptcy Code. The Company and such subsidiaries emerged from bankruptcy on August 28, 2009. With the exception of Spectrum Jungle Labs Corporation, the related cases of the reorganized Debtors were closed at September 30, 2009. The Company continues to analyze proofs of claim filed with the Bankruptcy Court with respect to lease rejection damages and other unsecured claims generally, and the Company may, in its discretion and in accordance with the Plan, file objections with the Bankruptcy Court to certain of such claims. This process will continue until those claims that the Company determines to address in the Bankruptcy Court are resolved. See Note 2, Voluntary Reorganization Under Chapter 11, for a further description of the Bankruptcy Cases.

In December 2009, San Francisco Technology, Inc. filed an action in the Federal District Court for the Northern District of California against the Company, as well as a number of unaffiliated defendants, claiming that each of the defendants had falsely marked patents on certain of its products in violation of Article 35,

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

Section 292 of the U.S. Code and seeking to have civil fines imposed on each of the defendants for such claimed violations. The Company is reviewing the claims but is unable to estimate any possible losses at this time.

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 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 NEW ACCOUNTING PRONOUNCEMENTS

Employers Disclosures About Postretirement Benefit Plan Assets

In December 2008, the FASB issued new accounting guidance on employers disclosures about assets of a defined benefit pension or other postretirement plan. It requires employers to disclose information about fair value measurements of plan assets. The objectives of the disclosures are to provide an understanding of: (a) how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies, (b) the major categories of plan assets, (c) the inputs and valuation techniques used to measure the fair value of plan assets, (d) the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period and (e) significant concentrations of risk within plan assets. The disclosures required are effective for the Company s interim and annual financial statements for the period that began after December 15, 2009. The adoption of this guidance is not expected to have a material effect on the Company s financial position, results of operations or cash flows.

Accounting for Transfers of Financial Assets

In June 2009, the FASB issued new accounting guidance to improve the information provided in financial statements concerning transfers of financial assets, including the effects of transfers on financial position, financial performance and cash flows, and any continuing involvement of the transferor with the transferred financial assets. The provisions are effective for the Company s financial statements for the fiscal year beginning October 1, 2010. The Company is in the process of evaluating the impact that the guidance may have on its financial statements and related disclosures.

Variable Interest Entities

In June 2009, the FASB issued new accounting guidance requiring an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity. It also requires enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise s involvement in a variable interest entity. The provisions are effective for the Company s financial statements for the fiscal year beginning October 1, 2010. The Company is in the process of evaluating the impact that the guidance may have on its financial statements and related disclosures.

15 SUBSEQUENT EVENTS

Russell Hobbs Combination

On February 9, 2010 the Company signed a definitive agreement with Russell Hobbs, Inc. (Russell Hobbs), a small appliance brand company, to form a new combined company. Investment funds managed by Harbinger Capital Partners (Harbinger) currently owns approximately 40% of the Company s shares and 100% of Russell Hobbs shares. As part of this transaction, the combined companies have received commitments for

34

Table of Contents

SPECTRUM BRANDS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)

(Amounts in thousands, except per share figures)

approximately $1,800,000 in financing in order to refinance the Company s existing Senior Credit Facilities and a portion of Russell Hobbs existing senior debt through a combination of new term loans, new senior notes and a new $300,000 ABL revolving facility.

The proposed all stock transaction is expected to close in the third or fourth quarter of the Company s Fiscal 2010 and is subject to approval by holders of a majority of the Company s common stock not owned by Harbinger, a 45-day period in which the Company may solicit alternative proposals, closing of the new financing and other customary closing conditions.

Upon closing, current shareholders of Spectrum Brands, Inc. will receive one share in the new combined company for each share they hold in Spectrum Brands Inc. Furthermore, as part of the transaction, Harbinger has agreed to convert its existing approximately $158,000 aggregate principal amount of Russell Hobbs term debt and approximately $207,000 of Russell Hobbs preferred stock into common stock of the new combined company at a price of $31.50 per share. Following the closing of the transaction Harbinger is expected to own approximately 63.7% of the new combined company.

16 CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

In connection with the acquisitions of Remington Products Company, L.L.C., United Industries Corporation and Tetra Holding GmbH and its affiliates and subsidiaries in the aquatics business, the Predecessor Company completed debt offerings of Senior Subordinated Notes. Payment obligations of such Senior Subordinated Notes were fully and unconditionally guaranteed on a joint and several basis by all of the Predecessor Company s domestic subsidiaries. Pursuant to and in accordance with the Plan, the Company refinanced its Senior Subordinated Notes. On the Effective Date, pursuant to the Plan, the Successor Company and its domestic subsidiaries, as guarantors, issued the 12% Notes under the 2019 Indenture for the benefit of holders of allowed claims with respect to the Predecessor Company s Senior Subordinated Notes. See Note 2, Voluntary Reorganization Under Chapter 11, for further details of the Bankruptcy Cases and See Note 8, Debt, for further information on the 12% Notes and the 2019 Indenture.

The following consolidating financial data illustrates the components of the consolidated financial statements of the Successor Company and the Predecessor 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

Successor Company

Condensed Consolidating Statement of Financial Position

January 3, 2010

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 1,786	$ 5,498	$ 55,381	$	$ 62,665
Receivables, net	497,382	557,275	173,672	(926,896)	301,433
Inventories	51,038	122,821	125,775	(2,761)	296,873
Deferred income taxes	11,509	7,509	5,105	428	24,551
Assets held for sale		322	11,757		12,079
Prepaid expenses and other	15,599	6,739	17,028		39,366
Total current assets	577,314	700,164	388,718	(929,229)	736,967
Property, plant and equipment, net	56,596	40,297	101,134		198,027
Long term intercompany receivables	391,080	349,486	(730,209)	(10,357)	
Deferred charges and other	8,457	2,024	25,928		36,409
Goodwill	67,722	277,691	135,980		481,393
Intangible assets, net	544,057	525,723	377,217		1,446,997
Debt issuance costs	8,302				8,302
Investments in subsidiaries	4,203,395	3,384,261	3,441,380	(11,029,036)	
Total assets	$ 5,856,923	$ 5,279,646	$ 3,740,148	$ (11,968,622)	$ 2,908,095
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities:					
Current maturities of long-term debt	$ 276,967	$ 11	$ 18,238	$ (235,722)	$ 59,494
Accounts payable	553,802	577,695	107,610	(1,080,060)	159,047
Accrued liabilities	79,460	33,143	111,555		224,158
Total current liabilities	910,229	610,849	237,403	(1,315,782)	442,699
Long-term debt, net of current maturities	1,513,984	296,003	8,548	(293,816)	1,524,719
Employee benefit obligations, net of current portion	11,683	945	46,062		58,690
Deferred income taxes	27,425	168,454	32,419	(1)	228,297
Other	20,742		31,455	1,085	53,282
Total liabilities	2,484,063	1,076,251	355,887	(1,608,514)	2,307,687
Shareholders equity:					
Common stock	306	451	611,835	(612,286)	306
Additional paid-in capital	727,872	2,166,070	3,301,481	(5,467,436)	727,987
(Accumulated deficit) retained earnings	(2,365)	110,315	(528,809)	289,825	(131,034)

Accumulated other comprehensive income (loss)	2,647,047	1,926,559	(246)	(4,570,211)	3,149
Total shareholders equity	3,372,860	4,203,395	3,384,261	(10,360,108)	600,408
Total liabilities and shareholders equity	$ 5,856,923	$ 5,279,646	$ 3,740,148	$ (11,968,622)	$ 2,908,095

Table of Contents

SPECTRUM BRANDS, INC. AND SUBSIDIARIES

Successor Company

Condensed Consolidating Statement of Financial Position

September 30, 2009

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 1,450	$ 3,364	$ 92,986	$	$ 97,800
Receivables, net	472,616	559,802	111,618	(844,585)	299,451
Inventories	84,267	116,291	143,701	(2,754)	341,505
Deferred income taxes	16,407	9,149	2,153	428	28,137
Assets held for sale		321	11,549		11,870
Prepaid expenses and other	15,530	6,062	18,381		39,973
Total current assets	590,270	694,989	380,388	(846,911)	818,736
Property, plant and equipment, net	59,229	42,888	110,244		212,361
Long term intercompany receivables	379,000	488,077	(861,730)	(5,347)	
Deferred charges and other	7,462	2,463	25,009		34,934
Goodwill	67,722	277,691	137,935		483,348
Intangible assets, net	546,480	530,807	384,846	(188)	1,461,945
Debt issuance costs	9,422				9,422
Investments in subsidiaries	4,196,025	3,359,913	3,440,646	(10,996,584)	
Total assets	$ 5,855,610	$ 5,396,828	$ 3,617,338	$ (11,849,030)	$ 3,020,746
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities:					
Current maturities of long-term debt	$ 248,787	$ 11	$ 4,382	$ (199,602)	$ 53,578
Accounts payable	510,608	577,291	136,787	(1,038,451)	186,235
Accrued liabilities	111,803	37,441	106,011		255,255
Total current liabilities	871,198	614,743	247,180	(1,238,053)	495,068
Long-term debt, net of current maturities	1,518,790	402,980	(106,686)	(285,127)	1,529,957
Employee benefit obligations, net of current portion	11,667	953	43,235		55,855
Deferred income taxes	12,506	179,049	35,943		227,498
Other	11,892	3,078	37,754	(1,235)	51,489
Total liabilities	2,426,053	1,200,803	257,426	(1,524,415)	2,359,867
Shareholders equity:					
Common stock	300	451	613,335	(613,786)	300
Additional paid-in capital	724,679	2,166,066	3,300,215	(5,466,164)	724,796
Retained earnings (accumulated deficit)	54,073	101,822	(630,365)	403,685	(70,785)
Accumulated other comprehensive income (loss)	2,650,505	1,927,686	(1,649)	(4,569,974)	6,568

	3,429,557	4,196,025	3,281,536	(10,246,239)	660,879
Less treasury stock, at cost			78,376	(78,376)	
Total shareholders equity	3,429,557	4,196,025	3,359,912	(10,324,615)	660,879
Total liabilities and shareholders equity	$ 5,855,610	$ 5,396,828	$ 3,617,338	$ (11,849,030)	$ 3,020,746

37

Table of Contents

SPECTRUM BRANDS, INC. AND SUBSIDIARIES

Successor Company

Condensed Consolidating Statement of Operations

Three Month Period Ended January 3, 2010

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$ 105,078	$ 207,863	$ 309,847	$ (30,848)	$ 591,940
Cost of goods sold	64,892	178,491	192,396	(29,952)	405,827
Restructuring and related charges	2,869	804	(2,022)		1,651
Gross profit	37,317	28,568	119,473	(896)	184,462
Operating expenses:					
Selling	20,079	26,249	65,025	(64)	111,289
General and administrative	25,570	6,077	11,546		43,193
Research and development	4,045	1,445	955		6,445
Restructuring and related charges	(2,164)	6,872	68		4,776
	47,530	40,643	77,594	(64)	165,703
Operating (loss) income	(10,213)	(12,075)	41,879	(832)	18,759
Interest expense	35,999	7,437	6,026	20	49,482
Other expense (income), net	(28,487)	(17,901)	633	46,401	646
(Loss) income from continuing operations before reorganization items, net and income taxes	(17,725)	(1,611)	35,220	(47,253)	(31,369)
Reorganization items expense	3,536	110			3,646
(Loss) income from continuing operations before income taxes	(21,261)	(1,721)	35,220	(47,253)	(35,015)
Income tax expense (benefit)	20,962	(9,689)	11,324	(98)	22,499
(Loss) income from continuing operations	(42,223)	7,968	23,896	(47,155)	(57,514)
Loss from discontinued operations, net of tax		(2,735)			(2,735)
Net (loss) income	$ (42,223)	$ 5,233	$ 23,896	$ (47,155)	$ (60,249)

38

Table of Contents

SPECTRUM BRANDS, INC. AND SUBSIDIARIES

Predecessor Company

Condensed Consolidating Statement of Operations

Three Month Period Ended December 28, 2008

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$ 108,411	$ 202,899	$ 262,078	$ (24,885)	$ 548,503
Cost of goods sold	61,231	164,395	146,231	(23,371)	348,486
Restructuring and related charges	6,452	6	3,688		10,146
Gross profit	40,728	38,498	112,159	(1,514)	189,871
Operating expenses:					
Selling	24,034	29,571	57,684	44	111,333
General and administrative	16,581	7,747	12,557		36,885
Research and development	3,362	1,399	805		5,566
Restructuring and related charges	4,690	3,901	2,291		10,882
	48,667	42,618	73,337	44	164,666
Operating (loss) income	(7,939)	(4,120)	38,822	(1,558)	25,205
Interest expense	41,043	6,387	5,128	(94)	52,464
Other expense (income), net	20,802	(3,982)	2,604	(15,747)	3,677
(Loss) income from continuing operations before income taxes	(69,784)	(6,525)	31,090	14,283	(30,936)
Income tax expense (benefit)	39,901	(35,568)	11,268		15,601
Net (loss) income from continuing operations	(109,685)	29,043	19,822	14,283	(46,537)
Loss from discontinued operations		(66,120)			(66,120)
Net (loss) income	$ (109,685)	$ (37,077)	$ 19,822	$ 14,283	$ (112,657)

39

Table of Contents

SPECTRUM BRANDS, INC. AND SUBSIDIARIES

Successor Company

Condensed Consolidating Statement of Cash Flows

Three Month Period Ended January 3, 2010

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net cash (used) provided by operating activities of continuing operations	$ (15,263)	$ 5,818	$ 23,617	$ (37,298)	$ (23,126)
Net cash used by operating activities of continuing operations		(8,258)			(8,258)
Net cash (used) provided by operating activities	(15,263)	(2,440)	23,617	(37,298)	(31,384)
Cash flows from investing activities:					
Purchases of property, plant and equipment	(2,006)	(533)	(2,395)		(4,934)
Proceeds from sale of property, plant and equipment and investments			4		4
Net cash used by investing activities	(2,006)	(533)	(2,391)		(4,930)
Cash flows from financing activities:					
Reduction of debt	(4,705)		(99)		(4,804)
Proceeds from ABL Revolving Credit Facility	351,600				351,600
Payments of ABL Revolving Credit Facility	(358,186)				(358,186)
Proceeds from debt financing	(1,290)		13,895		12,605
Refund of debt issuance costs	204				204
Proceeds from (advances related to) intercompany transactions	29,982	5,107	(72,387)	37,298	
Net cash provided (used) by financing activities	17,605	5,107	(58,591)	37,298	1,419
Effect of exchange rate changes on cash and cash equivalents			(240)		(240)
Net increase in cash and cash equivalents	336	2,134	(37,605)		(35,135)
Cash and cash equivalents, beginning of period	1,450	3,364	92,986		97,800
Cash and cash equivalents, end of period	$ 1,786	$ 5,498	$ 55,381	$	$ 62,665

Table of Contents

SPECTRUM BRANDS, INC. AND SUBSIDIARIES

Predecessor Company

Condensed Consolidating Statement of Cash Flows

Three Month Period Ended December 28, 2008

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net cash (used) provided by operating activities of continuing operations	$ (151,963)	$ 147,318	$ 91,438	$ (154,711)	$ (67,918)
Net cash used by operating activities of continuing operations		(22,489)			(22,489)
Net cash (used) provided by operating activities	(151,963)	124,829	91,438	(154,711)	(90,407)
Cash flows from investing activities:					
Purchases of property, plant and equipment	(441)	(350)	(509)		(1,300)
Proceeds from sale of property, plant and equipment and investments			18		18
Net cash used by investing activities of continuing operations	(441)	(350)	(491)		(1,282)
Net cash used by investing activities of discontinued operations		(580)			(580)
Net cash used by investing activities	(441)	(930)	(491)		(1,862)
Cash flows from financing activities:					
Reduction of debt	(7,431)		(272)		(7,703)
Proceeds from debt financing	100,656				100,656
Treasury stock purchases	(56)				(56)
Proceeds from (advances related to) intercompany transactions	84,906	(123,761)	(115,856)	154,711	
Net cash provided (used) by financing activities	178,075	(123,761)	(116,128)	154,711	92,897
Effect of exchange rate changes on cash and cash equivalents			(4,709)		(4,709)
Net increase in cash and cash equivalents	25,671	138	(29,890)		(4,081)
Cash and cash equivalents, beginning of period	9,786	3,667	91,320		104,773
Cash and cash equivalents, end of period	$ 35,457	$ 3,805	$ 61,430	$	$ 100,692

Table of Contents

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

As further described below, on February 3, 2009, we and our wholly owned United States (U.S.) subsidiaries (collectively, the Debtors) filed voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code (the Bankruptcy Code), in the U.S. Bankruptcy Court for the Western District of Texas (the Bankruptcy Court). On August 28, 2009 (the Effective Date), the Debtors emerged from Chapter 11 of the Bankruptcy Code. Effective as of the Effective Date and pursuant to the Debtors confirmed plan of reorganization, we converted from a Wisconsin corporation to a Delaware corporation.

Unless the context indicates otherwise, Spectrum Brands, Inc. is used interchangeably in this Quarterly Report on Form 10-Q to refer both to the Delaware corporation and its Wisconsin predecessor, and the terms the Company, Spectrum, Spectrum Brands, we, our or us are used to r Spectrum Brands, Inc. and its subsidiaries both before and on and after the Effective Date. The term New Spectrum, however, refers only to Spectrum Brands, Inc., our Delaware successor, and its subsidiaries, after the Effective Date, and the term Old Spectrum, refers only to Spectrum Brands, Inc., our Wisconsin predecessor, and its subsidiaries prior to the Effective Date.

Financial information included in our financial statements prepared after August 30, 2009 will not be comparable to financial information from prior periods. See Item 1A. Risk Factors *Risks Related To Our Emergence From Bankruptcy* for more information.

Introduction

We are a global branded consumer products company with positions in six major product categories: consumer batteries; pet supplies; electric shaving and grooming; electric personal care; portable lighting; and home and garden control products.

We manage our business in three reportable segments: (i) Global Batteries & Personal Care, which consists of our worldwide battery, shaving and grooming, personal care and portable lighting business (Global Batteries & Personal Care); (ii) Global Pet Supplies, which consists of our worldwide pet supplies business (Global Pet Supplies); and (iii) the Home and Garden Business, which consists of our home and garden control product offerings, including household insecticides, repellants and herbicides (the Home and Garden Business).

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. Our manufacturing and product development facilities are located in the U.S., Europe, Latin America and Asia. Substantially all of our rechargeable batteries and chargers, shaving and grooming products, 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 and various other brands.

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.

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification or ASC)

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162,* an accounting standard which established the Codification to become the single source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities, with the exception of guidance issued by the U.S. Securities and Exchange Commission (the SEC) and its staff. All guidance contained in the Codification carries an equal level of authority. The Codification is not intended to change GAAP, but rather is expected to simplify accounting research by reorganizing current GAAP into approximately 90 accounting topics. We adopted this accounting standard effective September 30, 2009. The adoption of this accounting standard, which was subsequently codified into ASC Topic 105: *Generally Accepted Accounting Principles,* had no impact on our retained earnings and will have no impact on our financial position, results of operations or cash flows.

Chapter 11 Proceedings

On February 3, 2009, we announced that we had reached agreements with certain noteholders, representing, in the aggregate, approximately 70% of the face value of our then outstanding senior subordinated notes, to pursue a refinancing that, if implemented as proposed, would significantly reduce our outstanding debt. On the same day, the Debtors filed the Bankruptcy Filing and filed with the Bankruptcy Court a proposed plan of reorganization (the Proposed Plan) that detailed the Debtors proposed terms for the refinancing. The Chapter 11 cases were jointly administered by the Bankruptcy Court as Case No. 09-50455 (the Bankruptcy Cases). The Bankruptcy Court entered a written order (the Confirmation Order) on July 15, 2009 confirming the Proposed Plan (as so confirmed, the Plan). For more details regarding the Chapter 11 Proceedings, as well as the events leading to our voluntary filing for Chapter 11 bankruptcy, see Item 1. Business in our Annual Report on Form 10-K for our fiscal year ended September 30, 2009.

Plan Effective Date

On the Effective Date the Plan became effective, and the Debtors emerged from Chapter 11 of the Bankruptcy Code. Pursuant to and by operation of the Plan, on the Effective Date, all of Old Spectrum s existing equity securities, including the existing common stock and stock options, were extinguished and deemed cancelled. Reorganized Spectrum Brands, Inc. filed a certificate of incorporation authorizing new shares of common stock. Pursuant to and in accordance with the Plan, on the Effective Date, reorganized Spectrum Brands, Inc. issued a total of 27,030,000 shares of common stock and approximately $218 million in aggregate principal amount of 12% Senior Subordinated Toggle Notes due 2019 (the 12% Notes) to holders of allowed claims with respect to Old Spectrum 8 1/2% Senior Subordinated Notes due 2013 (the 8 1/2 Notes), 7 7/8% Senior Subordinated Notes due 2015 (the 7 7/8 Notes) and Variable Rate Toggle Senior Subordinated Notes due 2013 (the Variable Rate Notes) (collectively, the Senior Subordinated Notes). For a further discussion of the 12% Notes see *Debt Financing Activities 12% Notes.* Also on the Effective Date, reorganized Spectrum Brands, Inc. issued a total of 2,970,000 shares of common stock to supplemental and sub-supplemental debtor-in-possession credit facility participants in respect of the equity fee earned under the Debtors debtor-in-possession credit facility. The common stock is currently quoted on the OTC Bulletin Board and the Pink Sheet Electronic Quotation Service. However, there can be no assurances that a broker-dealer will make a market in the common stock.

On the Effective Date, pursuant to the Plan (as amended pursuant to the Settlement), we entered into Amendment No. 1 to the senior secured term credit facility agreement reflecting the terms of the Settlement as authorized by the Confirmation Order, including a new covenant restricting us from paying cash interest on the 12% Notes until the date that is 18 months from the Effective Date, or February 28, 2011. In addition, on the Effective Date, we entered into Amendment No. 2 to the senior secured term credit facility agreement to give effect to certain technical amendments to the senior secured term credit facility agreement. For a further discussion of the amendments see *Debt Financing Activities Senior Term Credit Facility.*

In order to consummate the Plan, the Debtors also obtained a $242 million asset-based exit loan facility pursuant to a credit agreement among the Debtors, General Electric Capital Corporation, as the administrative agent, co-collateral agent, swingline lender and supplemental loan lender, Bank of America, N.A., as co-collateral agent and L/C Issuer, RBS Asset Finance, Inc., through its division RBS Business Capital, as syndication agent and the lenders party thereto. For a further discussion of the asset-based loan facility see *Debt Financing Activities ABL Revolving Credit Facility.*

With the exception of Spectrum Jungle Labs Corporation, the related cases of the reorganized Debtors were closed at September 30, 2009. As a result of our Bankruptcy Filing, we were able to significantly reduce our indebtedness. However, we continue to have a significant amount of indebtedness relative to our competitors and continue to explore potential strategies that may be available to us to restructure this indebtedness.

Russell Hobbs Combination

On February 9, 2010 we signed a definitive agreement with Russell Hobbs, Inc. (Russell Hobbs), a small appliance brand company, to form a new combined company. Investment funds managed by Harbinger Capital Partners (Harbinger) currently owns approximately 40% of our shares and 100% of Russell Hobbs shares. As part of this transaction, the combined companies have received commitments for approximately $1,800 million in financing in order to refinance the Company s existing senior debt and a portion of Russell Hobbs existing senior debt through a combination of new term loans, new senior notes and a new $300 million ABL revolving facility.

The proposed all stock transaction is expected to close in the third or fourth quarter of our Fiscal 2010 and is subject to approval by holders of a majority of our common stock not owned by Harbinger, a 45-day period in which we may solicit alternative proposals, closing of the new financing and other customary closing conditions.

Upon closing, current shareholders of Spectrum Brands, Inc. will receive one share in the new combined company for each share they hold in Spectrum Brands Inc. Furthermore, as part of the transaction, Harbinger has agreed to convert its existing approximately $158 million aggregate principal amount of Russell Hobbs term debt and approximately $207 million of Russell Hobbs preferred stock into common stock of the new combined company at a price of $31.50 per share. Following the closing of the transaction Harbinger is expected to own approximately 63.7% of the new combined company.

Results of Operations

Fiscal Quarter Ended January 3, 2010 Compared to Fiscal Quarter Ended December 28, 2008

In this Quarterly Report on Form 10-Q we refer to the three months ended January 3, 2010 as the Fiscal 2010 Quarter and the three months ended December 28, 2008 as the Fiscal 2009 Quarter.

For the Fiscal 2010 Quarter and the Fiscal 2009 Quarter we have presented the growing products portion of our Home and Garden Business as discontinued operations. The board of directors of Old Spectrum committed to the shutdown of the growing products portion of the Home and Garden Business in November 2008 and the shutdown was completed during the second quarter of our Fiscal 2009. See Note 3, Significant Accounting Policies Discontinued Operations, to our Condensed Consolidated Financial Statements (Unaudited) included in this Quarterly Report on Form 10-Q for additional information on the shutdown of the growing products portion of our Home and Garden Business. As a result, and unless specifically stated, all discussions regarding the Fiscal 2010 Quarter and the Fiscal 2009 Quarter only reflect results from our continuing operations.

Table of Contents

Net Sales. Net sales for the Fiscal 2010 Quarter increased to $592 million from $549 million in the Fiscal 2009 Quarter, a 7.9% increase. The following table details the principal components of the change in net sales from the Fiscal 2009 Quarter to the Fiscal 2010 Quarter (in millions):

	Net Sales
Fiscal 2009 Quarter Net Sales	$ 549
Increase in Global Batteries & Personal Care consumer battery sales	9
Increase in Global Batteries & Personal Care Remington branded product sales	8
Increase in Pet supplies sales	1