Spectrum Brands, Inc.
Form 10-Q
May 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 1, 2012

OR

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

For the transition period from to

Commission File Number 001-13615

Spectrum Brands, Inc.

(Exact name of registrant as specified in its charter)

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

(608) 275-3340

(Registrant s telephone number, including area code)

N/A

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

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

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

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

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

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

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

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SPECTRUM BRANDS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR QUARTER ENDED April 1, 2012

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SPECTRUM BRANDS, INC.

Condensed Consolidated Statements of Financial Position

April 1, 2012 and September 30, 2011

(Unaudited)

(Amounts in thousands, except per share figures)

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

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

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

(Unaudited).

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SPECTRUM BRANDS, INC.

Condensed Consolidated Statements of Operations

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

(Unaudited)

(Amounts in thousands, except per share figures)

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

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

(Unaudited).

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SPECTRUM BRANDS, INC.

Condensed Consolidated Statements of Cash Flows

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

(Unaudited)

(Amounts in thousands)

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

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

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

(Unaudited).

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SPECTRUM BRANDS, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

(Amounts in thousands, except per share figures)

1 DESCRIPTION OF BUSINESS

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

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

These condensed consolidated financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the SEC and, in the opinion of the Company, include all adjustments (which are normal and recurring in nature) necessary to present fairly the financial position of the Company at April 1, 2012, the results of operations for the three and six month periods ended April 1, 2012 and April 3, 2011 and the cash flows for the six month periods ended April 1, 2012 and April 3, 2011. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such SEC rules and regulations. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

Use of Estimates: The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

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

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

Shipping and Handling Costs: The Company incurred shipping and handling costs of $49,266 and $99,586 for the three and six month periods ended April 1, 2012, respectively, and $47,698 and $98,968 for the three and six month periods ended April 3, 2011, respectively. These costs are included in Selling expenses in the accompanying Condensed Consolidated Statements of Operations (Unaudited). Shipping and handling costs include costs incurred with third-party carriers to transport products to customers as well as salaries and overhead costs related to activities to prepare the Company s products for shipment from its distribution facilities.

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

The Company has a broad range of customers including many large retail outlet chains, one of which accounts for a significant percentage of its sales volume. This customer represented approximately 21% and 23% of the Company s Net sales during the three and six month periods ended April 1, 2012, respectively. This customer represented approximately 22% and 23% of the Company s Net sales during the three and six month periods ended April 3, 2011, respectively. This customer also represented approximately 14% and 16% of the Company s Trade accounts receivable, net at April 1, 2012 and September 30, 2011, respectively.

Approximately 42% and 46% of the Company s Net sales during the three and six month periods ended April 1, 2012, respectively, and 44% and 47% of the Company s Net sales during the three and six month periods ended April 3, 2011, respectively, occurred outside the United States. These sales and related receivables are subject to varying degrees of credit, currency, political and economic risk. The Company monitors these risks and makes appropriate provisions for collectibility based on an assessment of the risks present.

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

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

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

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

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SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

Total stock compensation expense associated with restricted stock awards and restricted stock units recognized by the Company during the three and six month periods ended April 1, 2012 was $6,768, or $4,399, net of taxes, and $11,076, or $7,199, net of taxes, respectively. Total stock compensation expense associated with restricted stock awards and restricted stock units recognized by the Company during the three and six month periods ended April 3, 2011 was $8,554, or $5,560, net of taxes, and $14,107, or $9,170, net of taxes, respectively.

The Company granted approximately 13 and 699 restricted stock units during the three and six month periods ended April 1, 2012, respectively. Of these grants, 699 restricted stock units are performance and time-based and vest over a two year period. The total market value of the restricted stock units on the dates of the grants was approximately $18,816.

The Company granted approximately 157 and 1,565 restricted stock units during the three and six month periods ended April 3, 2011. Of these grants, 18 restricted stock units are time-based and vest over a three year period. The remaining 1,547 restricted stock units are performance and time-based with 665 units vesting over a two year period and 882 units vesting over a three year period. The total market value of the restricted stock units on the dates of the grants was approximately $45,614.

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

Restricted Stock Awards	Shares	Weighted Average Grant Date Fair Value	Fair Value at Grant Date
Restricted stock awards at September 30, 2011	123	$ 24.20	$ 2,977
Vested	(97)	23.19	(2,249)
Restricted stock awards at April 1, 2012	26	$ 28.00	$ 728

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

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

The following table summarizes acquisition and integration related charges incurred by the Company during the three and six month periods ended April 1, 2012 and April 3, 2011 associated with the Merger:

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

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SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

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

3 COMPREHENSIVE LOSS

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

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

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

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

4 INVENTORIES

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

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

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SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

5 GOODWILL AND INTANGIBLE ASSETS

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

	Global Batteries & Appliances	Global Pet Supplies	Home and Garden Business	Total
Goodwill:				
Balance at September 30, 2011	$ 268,148	$ 170,285	$ 171,905	$ 610,338
Additions		70,023	15,852	85,875
Effect of translation	1,869	(1,312)		557
Balance at April 1, 2012	$ 270,017	$ 238,996	$ 187,757	$ 696,770
Intangible Assets:				
Trade names Not Subject to Amortization				
Balance at September 30, 2011	$ 545,804	$ 205,491	$ 75,500	$ 826,795
Additions		14,000	8,000	22,000
Effect of translation	610	(2,082)		(1,472)
Balance at April 1, 2012	$ 546,414	$ 217,409	$ 83,500	$ 847,323
Intangible Assets Subject to Amortization				
Balance at September 30, 2011, net	$ 481,473	$ 219,243	$ 156,398	$ 857,114
Additions		65,118	17,000	82,118
Amortization during period	(16,437)	(9,207)	(4,805)	(30,449)
Effect of translation	402	(1,504)		(1,102)
Balance at April 1, 2012, net	$ 465,438	$ 273,650	$ 168,593	$ 907,681
Total Intangible Assets, net at April 1, 2012	$ 1,011,852	$ 491,059	$ 252,093	$ 1,755,004

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

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

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

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

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

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SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

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

6 DEBT

Debt consists of the following:

	April 1, 2012		September 30, 2011	
	Amount	Rate	Amount	Rate
Term Loan, U.S. Dollar, due June 17, 2016	$ 522,510	5.1%	$ 525,237	5.1%
9.5% Notes, due June 15, 2018	950,000	9.5%	750,000	9.5%
6.75% Notes, due March 15, 2020	300,000	6.75%		
12% Notes, due August 28, 2019			245,031	12.0%
ABL Revolving Credit Facility, expiring April 21, 2016	50,000	2.7%		2.5%
Other notes and obligations	30,340	10.3%	44,333	6.5%
Capitalized lease obligations	25,427	6.6%	24,911	6.2%
	$ 1,878,277		$ 1,589,512	
Original issuance premiums (discounts) on debt	3,794		(12,900)	
Less: current maturities	33,906		41,090	
Long-term debt	$ 1,848,165		$ 1,535,522	

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

Term Loan

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

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

In connection with the amendment, the Company recorded $557 of fees in connection with the Term Loan during the six month period ended April 1, 2012. The fees are classified as Debt issuance costs within the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) and are amortized as an adjustment to interest expense over the remaining life of the Term Loan. In connection with the amendment, the Company also recorded cash charges of $501 as an increase to interest expense during the six month period ended April 1, 2012.

9.5% Notes

On November 2, 2011, the Company offered $200,000 aggregate principal amount of 9.5% Notes at a price of 108.50% of the par value; these notes are in addition to the $750,000 aggregate principal amount of 9.5% Notes that were already outstanding. The additional notes are guaranteed by Spectrum Brands parent company, SB/RH Holdings, LLC, as well as by existing and future domestic restricted subsidiaries and secured by liens on substantially all of the Company s and the guarantors assets. The additional notes will vote together with the existing 9.5% Notes.

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

The indenture governing the 9.5% Notes (the 2018 Indenture) contains customary covenants that limit, among other things, the incurrence of additional indebtedness, payment of dividends on or redemption or repurchase of equity interests, the making of certain investments, expansion into unrelated businesses, creation of liens on assets, merger or consolidation with another company, transfer or sale of all or substantially all assets, and transactions with affiliates.

In addition, the 2018 Indenture provides for customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to make payments when due or on acceleration of certain other indebtedness, and certain events of bankruptcy and insolvency. Events of default under the 2018 Indenture arising from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the 9.5% Notes. If any other event of default under the 2018 Indenture occurs and is continuing, the trustee for the 2018 Indenture or the registered holders of at least 25% in the then aggregate outstanding principal amount of the 9.5% Notes may declare the acceleration of the amounts due under those notes.

The Company recorded $106 and $3,570 of fees in connection with the offering of the 9.5% Notes during the three and six month periods ended April 1, 2012. The fees are classified as Debt issuance costs within the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) and are amortized as an adjustment to interest expense over the remaining life of the 9.5% Notes.

6.75% Notes

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

The indenture governing the 6.75% Notes (the 2020 Indenture) contains customary covenants that limit, among other things, the incurrence of additional indebtedness, payment of dividends on or redemption or repurchase of equity interests, the making of certain investments, expansion into unrelated businesses, creation of liens on assets, merger or consolidation with another company, transfer or sale of all or substantially all assets, and transactions with affiliates.

In addition, the 2020 Indenture provides for customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to make payments when due or on acceleration of certain other indebtedness, and certain events of bankruptcy and insolvency. Events of default under the 2020 Indenture arising from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the 6.75% Notes. If any other event of default under the 2020 Indenture occurs and is continuing, the trustee for the 2020 Indenture or the registered holders of at least 25% in the then aggregate outstanding principal amount of the 6.75% Notes may declare the acceleration of the amounts due under those notes.

The Company recorded $5,814 of fees in connection with the offering of the 6.75% Notes during the three and six month periods ended April 1, 2012. The fees are classified as Debt issuance costs within the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) and are amortized as an adjustment to interest expense over the remaining life of the 6.75% Notes.

12% Notes

On March 1, 2012, the Company launched a cash tender offer (the Tender Offer) and consent solicitation (the Consent Solicitation) with respect to any and all of its outstanding 12% Senior Subordinated Toggle Notes due 2019 (the 12% Notes). Pursuant to the Consent Solicitation, the Company received consents to the adoption of certain amendments to the indenture governing the 12% Notes to, among other things, eliminate substantially all of the restrictive covenants, certain events of default and other related provisions. The terms of the Tender Offer provided that holders of the 12% Notes who tendered their 12% Notes prior to the expiration of a consent solicitation period, which ended March 14, 2012, would receive tender offer consideration and a consent payment. Holders tendering their 12% Notes subsequent to expiration of the consent solicitation period, but prior to the March 28, 2012 expiration of the Tender Offer period, would receive only tender offer consideration. As of the expiration of the consent solicitation period, holders of the 12% Notes had tendered approximately $231,421 of the 12% Notes. Following the expiration of the consent solicitation period and as of the expiration of the Tender Offer period, an additional $88 of the 12% Notes were tendered. Following expiration of the Tender Offer period, the Company paid the trustee principal, prepaid interest and a prepaid call premium sufficient to obtain a notice of satisfaction and discharge (Satisfaction and Discharge) from the trustee for the remaining approximately $13,522 of the 12% Notes not tendered. The Company delivered funds sufficient to redeem the 12% Notes on the first redemption date, August 28, 2012 (the Redemption Date), and has irrevocably taken all steps on its part necessary to effect such redemption, The trustee under the indenture governing the 12% Notes (the 12% Trustee) has accepted those funds in trust for the benefit of the holders of the 12% Notes and has acknowledged the Satisfaction and Discharge of the 12% Notes and the indenture governing the 12% Notes.

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

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

ABL Revolving Credit Facility

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

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

The ABL Revolving Credit Facility carries an interest rate, at our option, which is subject to change based on availability under the facility, of either: (a) the base rate plus currently 1.25% per annum or (b) the reserve-adjusted LIBOR rate plus currently 2.25% per annum. No principal amortizations are required with respect to the ABL Revolving Credit Facility. The ABL Revolving Credit Facility will mature on June 16, 2014. Pursuant to the credit and security agreement, the obligations under the ABL credit agreement are secured by certain current assets of the guarantors, including, but not limited to, deposit accounts, trade receivables and inventory.

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

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

7 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used by the Company principally in the management of its interest rate, foreign currency exchange rate and raw material price exposures. The Company does not hold or issue derivative financial instruments for trading purposes. Derivative instruments are reported at fair value in the Condensed Consolidated Statements of Financial Position (unaudited). When hedge accounting is elected at inception, the Company formally designates the financial instrument as a hedge of a specific underlying exposure and documents both the risk management objectives and strategies for undertaking the hedge. The Company formally assesses both at the inception and at least quarterly thereafter, whether the financial instruments that are used in hedging transactions are effective at offsetting changes in the forecasted cash flows of the related underlying exposure. Because of the high degree of effectiveness between the hedging instrument and the underlying exposure being hedged, fluctuations in the value of the derivative instruments are generally offset by changes in the forecasted cash flows of the underlying exposures being hedged. Any ineffective portion of a financial instrument s change in fair value is immediately recognized in earnings. For derivatives that are not designated as cash flow hedges, or do not qualify for hedge accounting treatment, the change in the fair value is also immediately recognized in earnings.

Fair Value of Derivative Instruments

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

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

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SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

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

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

Liability Derivatives		**April 1, 2012**	**September 30, 2011**
Derivatives designated as hedging instruments under ASC 815:			
Interest rate contracts	Accounts payable	$	$ 1,246
Interest rate contracts	Accrued interest		708
Commodity contracts	Accounts payable	414	1,228
Commodity contracts	Other long term liabilities	6	4
Foreign exchange contracts	Accounts payable	2,747	2,698
Foreign exchange contracts	Other long term liabilities	50	
Total liability derivatives designated as hedging instruments under ASC 815		$ 3,217	$ 5,884
Derivatives not designated as hedging instruments under ASC 815:			
Foreign exchange contracts	Accounts payable	6,648	10,945
Foreign exchange contracts	Other long term liabilities	7,445	12,036
Total liability derivatives		$ 17,310	$ 28,865

Changes in AOCI from Derivative Instruments

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

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

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SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Commodity contracts	$ 1,124	Cost of goods sold	$ (189)	Cost of goods sold	$ 33
Interest rate contracts	36	Interest expense	(205)	Interest expense	
Foreign exchange contracts	463	Net sales	(88)	Net sales	
Foreign exchange contracts	(4,855)	Cost of goods sold	(639)	Cost of goods sold	
Total	$ (3,232)		$ (1,121)		$ 33

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

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Commodity contracts	$ 379	Cost of goods sold	$ (555)	Cost of goods sold	$ 14
Interest rate contracts	15	Interest expense	(864)	Interest expense	
Foreign exchange contracts	334	Net sales	(210)	Net sales	
Foreign exchange contracts	(3,547)	Cost of goods sold	(1,894)	Cost of goods sold	
Total	$ (2,819)		$ (3,523)		$ 14

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

Derivatives in ASC 815 Cash Flow

Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Commodity contracts	$ (150)	Cost of goods sold	$ 784	Cost of goods sold	$ (6)
Interest rate contracts	(67)	Interest expense	(839)	Interest expense	(148)
Foreign exchange contracts	616	Net sales	(88)	Net sales	
Foreign exchange contracts	(12,732)	Cost of goods sold	(1,967)	Cost of goods sold	
Total	$ (12,333)		$ (2,110)		$ (154)

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SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

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

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Commodity contracts	$ 1,873	Cost of goods sold	$ 1,334	Cost of goods sold	$ (5)
Interest rate contracts	(60)	Interest expense	(1,688)	Interest expense	(250)
Foreign exchange contracts	227	Net sales	(207)	Net sales	
Foreign exchange contracts	(10,790)	Cost of goods sold	(4,092)	Cost of goods sold	
Total	$ (8,750)		$ (4,653)		$ (255)

Other Changes in Fair Value of Derivative Contracts

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

Derivatives Not Designated as Hedging Instruments Under ASC 815	Amount of Gain (Loss) Recognized in Income on Derivatives 2012	2011	Location of Gain or (Loss) Recognized in Income on Derivatives
Foreign exchange contracts	(3,452)	(18,948)	Other expense, net

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

Derivatives Not Designated as Hedging Instruments Under ASC 815	Amount of Gain (Loss) Recognized in Income on Derivatives	Location of Gain or (Loss) Recognized in Income on Derivatives