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

FORM 10-Q

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

For the quarterly period ended July 1, 2012

OR

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

For the transition period from to

Commission File Number 001-34757

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

Delaware (State or other jurisdiction of incorporation or organization)	27-2166630 (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	x
Non-accelerated filer	o	Smaller reporting company	o

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

The number of shares outstanding of the Registrant's common stock, $.01 par value, as of August 3, 2012, was 51,462,645.

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FOR QUARTER ENDED July 1, 2012
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	July 1, 2012	September 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	$62,389	$142,414
Receivables:		
Trade accounts receivable, net of allowances of $14,288 and $14,128, respectively	342,350	356,605
Other	45,090	37,678
Inventories	552,515	434,630
Deferred income taxes	26,359	28,170
Prepaid expenses and other	55,487	48,792
Total current assets	1,084,190	1,048,289
Property, plant and equipment, net of accumulated depreciation of $127,271 and $107,357, respectively	208,551	206,389
Deferred charges and other	34,510	36,824
Goodwill	688,045	610,338
Intangible assets, net	1,716,977	1,683,909
Debt issuance costs	43,901	40,957
Total assets	$3,776,174	$3,626,706
Liabilities and Shareholders' Equity		
Current liabilities:		
Current maturities of long-term debt	$28,251	$16,090
Accounts payable	251,135	323,171
Accrued liabilities:		
Wages and benefits	67,175	70,945
Income taxes payable	26,102	31,606
Accrued interest	12,546	30,467
Other	104,642	134,633
Total current liabilities	489,851	606,912
Long-term debt, net of current maturities	1,798,814	1,535,522
Employee benefit obligations, net of current portion	74,433	83,802
Deferred income taxes	368,100	337,336
Other	29,887	44,637
Total liabilities	2,761,085	2,608,209
Commitments and contingencies		
Shareholders' equity:		
Common stock, $.01 par value, authorized 200,000 shares; issued 52,678 and 52,431 shares, respectively; outstanding 51,363 and 52,226 shares	527	525

Additional paid-in capital	1,385,868	1,374,097
Accumulated deficit	(293,004)	(336,063)
Accumulated other comprehensive loss	(41,690)	(14,446)
	1,051,701	1,024,113
Less treasury stock, at cost, 1,316 and 205 shares, respectively	(36,612)	(5,616)
Total shareholders’ equity	1,015,089	1,018,497
Total liabilities and shareholders’ equity	$3,776,174	$3,626,706

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

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	2012	2011	2012	2011
Net sales	$824,803	$804,635	$2,419,859	$2,359,586
Cost of goods sold	531,069	508,656	1,575,803	1,506,283
Restructuring and related charges	2,038	2,285	8,303	4,932
Gross profit	291,696	293,694	835,753	848,371
Selling	129,851	133,187	391,522	403,768
General and administrative	50,928	60,323	158,091	179,588
Research and development	8,597	9,192	23,790	25,557
Acquisition and integration related charges	5,274	7,444	20,625	31,487
Restructuring and related charges	1,858	4,781	7,587	12,846
Total operating expenses	196,508	214,927	601,615	653,246
Operating income	95,188	78,767	234,138	195,125
Interest expense	39,686	40,398	150,082	165,923
Other expense, net	2,224	770	2,225	1,372
Income from continuing operations before income taxes	53,278	37,599	81,831	27,830
Income tax (benefit) expense	(5,371)	8,995	38,772	69,169
Net income (loss)	$58,649	$28,604	$43,059	$(41,339)
Basic earnings per share:				
Weighted average shares of common stock outstanding	51,342	50,863	51,669	50,832
Net income (loss)	$1.14	$0.56	$0.83	$(0.81)
Diluted earnings per share:				
Weighted average shares and equivalents outstanding	51,819	51,005	52,145	50,832
Net income (loss)	$1.13	$0.56	$0.83	$(0.81)

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

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

	NINE MONTHS ENDED	
	2012	2011
Cash flows from operating activities:		
Net income (loss)	$43,059	$(41,339)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation	28,708	34,719
Amortization of intangibles	46,550	43,073
Amortization of unearned restricted stock compensation	15,771	22,815
Amortization of debt issuance costs	5,273	8,745
Payments of acquisition related expenses for Russell Hobbs	—	(3,637)
Non-cash debt accretion	169	3,622
Write off of unamortized (premium) / discount on retired debt	(466)	8,950
Write off of debt issuance costs	2,945	15,420
Other non-cash adjustments	3,021	8,312
Net changes in assets and liabilities	(210,808)	(102,037)
Net cash used by operating activities	(65,778)	(1,357)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(33,117)	(27,433)
Acquisition of Black Flag	(43,750)	—
Acquisition of FURminator, net of cash acquired	(139,390)	—
Acquisition Seed Resources, net of cash acquired	—	(11,053)
Proceeds from sale of property, plant and equipment	418	188
Proceeds from sale of assets previously held for sale	—	6,997
Other investing activities	(2,045)	(1,530)
Net cash used by investing activities	(217,884)	(32,831)
Cash flows from financing activities:		
Proceeds from issuance of 6.75% Notes	300,000	—
Payment of 12% Notes, including tender and call premium	(270,431)	—
Proceeds from issuance of 9.5% Notes, including premium	217,000	—
Payment of senior credit facilities, excluding ABL revolving credit facility	(4,091)	(93,400)
Prepayment penalty of term loan facility	—	(7,500)
Debt issuance costs	(11,163)	(10,769)
Other debt financing, net	6,192	15,349
Reduction of other debt	(2,992)	(905)
ABL revolving credit facility, net	2,500	55,000
Treasury stock purchases	(30,996)	(3,409)
Other financing activities	(953)	—
Net cash provided (used) by financing activities	205,066	(45,634)
Effect of exchange rate changes on cash and cash equivalents	(1,429)	(2,414)
Net decrease in cash and cash equivalents	(80,025)	(82,236)
Cash and cash equivalents, beginning of period	142,414	170,614
Cash and cash equivalents, end of period	$62,389	$88,378

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

(Unaudited)

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

1 DESCRIPTION OF BUSINESS

Spectrum Brands Holdings, Inc., a Delaware corporation ("SB Holdings" or the "Company"), is a global branded consumer products company and was created in connection with the combination of Spectrum Brands, Inc. ("Spectrum Brands"), a global branded consumer products company, 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 SB Holdings and its subsidiaries 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 12, "Segment Results".

2 SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

Total stock compensation expense associated with restricted stock awards and restricted stock units recognized by the Company during the three and nine month periods ended July 1, 2012 was $4,490, or $2,918, net of taxes, and $15,771, or $10,251, net of taxes, respectively. Total stock compensation expense associated with restricted stock awards and restricted stock units recognized by the Company during the three and nine month periods ended July 3, 2011 was $8,528, or $5,543, net of taxes, and $22,815, or $14,830, net of taxes, respectively.

The Company granted approximately 42 and 759 restricted stock units during the three and nine month periods ended July 1, 2012, respectively. Of these 759 grants, 18 restricted stock units are time-based and vest over a one year period and 42 restricted stock units are time-based and vest over a two year period. The remaining 699 restricted stock units are performance and time-based and vest over a two year period. The total market value of the restricted stock units on the dates of the grants was approximately $20,756.

The Company granted approximately 1,580 restricted stock units during the nine month period ended July 3, 2011. Of these 1,580 grants, 15 restricted stock units are time-based and vest over a one year period and 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 $46,034.

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

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

Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value	Fair Value at Grant Date
Restricted stock units at September 30, 2011	1,645	$28.97	$47,656
Granted	759	27.35	20,756
Forfeited	(53)	28.08	(1,488)
Vested	(396)	28.72	(11,373)
Restricted stock units at July 1, 2012	1,955	$28.41	$55,551

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

fees and other post business combination expenses associated with mergers and acquisitions.
The following table summarizes acquisition and integration related charges incurred by the Company during the three and nine month periods ended July 1, 2012 and July 3, 2011:

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

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

3 COMPREHENSIVE INCOME (LOSS)

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

	Three Months		Nine Months	
	2012	2011	2012	2011
Net income (loss)	$58,649	$28,604	$43,059	$(41,339)
Other comprehensive (loss) income:				
Foreign currency translation	(34,148)	13,139	(30,538)	33,009
Valuation allowance adjustments	465	(216)	214	860
Pension liability adjustments	422	—	953	—
Net unrealized gain (loss) on derivative instruments	1,010	(653)	2,127	(3,718)
Net change to derive comprehensive (loss) income for the period	(32,251)	12,270	(27,244)	30,151
Comprehensive income (loss)	$26,398	$40,874	$15,815	$(11,188)

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

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

4 NET INCOME (LOSS) PER COMMON SHARE

Net income (loss) per common share of the Company for the three and nine month periods ended July 1, 2012 and July 3, 2011 is calculated based upon the following number of shares:

	Three Months	Nine Months

	2012	2011	2012	2011
Basic	51,342	50,863	51,669	50,832
Effect of common stock equivalents	477	142	476	—
Diluted	51,819	51,005	52,145	50,832

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

For the nine months ended July 3, 2011, the Company has not assumed the exercise of common stock equivalents as the impact would be antidilutive due to the loss reported.

5 INVENTORIES

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

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

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

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

Batteries & Appliances segment and 4 years for a trade name within the Home and Garden Business segment.

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

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

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

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

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

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

7 DEBT

Debt consists of the following:

	July 1, 2012		September 30, 2011	
	Amount	Rate	Amount	Rate
Term Loan, U.S. Dollar, due June 17, 2016	$521,146	5.1 %	$525,237	5.1 %
9.5% Notes, due June 15, 2018	950,000	9.5 %	750,000	9.5 %
6.75% Notes, due March 15, 2020	300,000	6.8 %	—	— %
12% Notes, due August 28, 2019	—	—	245,031	12.0 %
ABL Revolving Credit Facility, expiring May 3, 2016	2,500	4.0 %	—	2.5 %
Other notes and obligations	24,275	11.0 %	19,333	10.5 %
Capitalized lease obligations	25,294	6.5 %	24,911	6.2 %
	$1,823,215		$1,564,512	
Original issuance premiums (discounts) on debt	3,850		(12,900)	
Less: current maturities	28,251		16,090	
Long-term debt	$1,798,814		$1,535,522	

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

Term Loan

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

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

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

9.5% Notes

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

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

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

The Company recorded $11 and $3,581 of fees in connection with the offering of the 9.5% Notes during the three and nine month periods ended July 1, 2012, respectively. The fees are classified as Debt issuance costs within the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) and are amortized as an adjustment to interest expense over the remaining life of the 9.5% Notes.
6.75% Notes

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

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

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

12% Notes

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

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

(Unaudited) for the nine month period ended July 1, 2012.

ABL Revolving Credit Facility

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

The amended facility carries an interest rate at the option of the Company, which is subject to change based on availability under the facility, of either: (a) the base rate plus currently 0.75% per annum or (b) the reserve-adjusted LIBOR rate plus currently 1.75% per annum. No principal amortizations are required with respect to the ABL Revolving Credit Facility.

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

Pursuant to the credit and security agreement, the obligations under the ABL credit agreement are secured by certain current assets of the guarantors, including, but not limited to, deposit accounts, trade receivables and inventory.
The ABL Revolving Credit Facility contains various representations and warranties and covenants, including, without limitation, enhanced collateral reporting and a maximum fixed charge coverage ratio. The ABL Revolving Credit Facility also provides for customary events of default, including payment defaults and cross-defaults on other material indebtedness.
In connection with the amendment of the ABL Revolving Credit Facility, the Company recorded $525 of fees during the three and nine month period ended July 1, 2012. The fees are classified as Debt issuance costs within the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) and are amortized as an adjustment to interest expense over the remaining life of the Term Loan. In connection with the amendment, the Company also recorded cash charges of $482 as an increase to interest expense during the three and nine month period ended July 1, 2012. In addition, $382 of debt issuance costs were written off in connection with the amendment as a non-cash charge to Interest expense in the Condensed Consolidated Statements of Operations (Unaudited) for the three and nine month period ended July 1, 2012.
As a result of borrowings and payments under the ABL Revolving Credit Facility, at July 1, 2012, the Company had aggregate borrowing availability of approximately $194,909, net of lender reserves of $27,471 and outstanding letters of credit of $26,730.

8 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) are as follows:

Asset Derivatives		July 1, 2012	September 30, 2011
Derivatives designated as hedging instruments under ASC 815:			
Commodity contracts	Receivables—Other	$—	$274
Foreign exchange contracts	Receivables—Other	4,959	3,189
Foreign exchange contracts	Deferred charges and other	326	—

Total asset derivatives designated as hedging instruments under ASC 815		$5,285	$3,463
Derivatives not designated as hedging instruments under ASC 815:			
Foreign exchange contracts	Receivables—Other	271	—
Total asset derivatives		$5,556	$3,463

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

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

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

Changes in AOCI from Derivative Instruments
For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of AOCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness, are recognized in current earnings.
The following table summarizes the impact of derivative instruments on the accompanying Condensed Consolidated Statement of Operations (Unaudited) for the three month period ended July 1, 2012, pretax:

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

Total	$3,210	$ 309	$ (6)

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

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

Statement of Operations (Unaudited) for the nine month period ended July 1, 2012, pretax:

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

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

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in 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	$(109)	Cost of goods sold	$ 587	Cost of goods sold	$ 16
Interest rate contracts	(42)	Interest expense	(839)	Interest expense	(44)
Foreign exchange contracts	(11)	Net sales	105	Net sales	—