

Spectrum Brands, Inc.  
Form 10-K  
December 08, 2011  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

**For the Fiscal Year Ended September 30, 2011.**

**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 No. 001-13615**

**SPECTRUM BRANDS, INC.**

**(Exact name of registrant as specified in its charter)**

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**22-2423556**  
(I.R.S. Employer  
Identification Number)

**601 Rayovac Drive, Madison, Wisconsin**  
(Address of principal executive offices)

**53711**  
(Zip Code)

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

**Securities registered pursuant to Section 12(b) of the Act:**

None

**Securities registered pursuant to Section 12(g) of the Act:**

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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  (Do not check if a smaller reporting company) 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

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  No

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement to be filed within 120 days of September 30, 2011 are incorporated by reference in this Annual Report on Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14.

**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
<b>PART I</b>	
ITEM 1. <u>BUSINESS</u>	1
ITEM 1A. <u>RISK FACTORS</u>	10
ITEM 1B. <u>UNRESOLVED STAFF COMMENTS</u>	24
ITEM 2. <u>PROPERTIES</u>	24
ITEM 3. <u>LEGAL PROCEEDINGS</u>	25
ITEM 4. <u>(REMOVED AND RESERVED)</u>	25
<b>PART II</b>	
ITEM 5. <u>MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	26
ITEM 6. <u>SELECTED FINANCIAL DATA</u>	27
ITEM 7. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	29
ITEM 7A. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	62
ITEM 8. <u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	63
ITEM 9. <u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	63
ITEM 9A. <u>CONTROLS AND PROCEDURES</u>	63
ITEM 9B. <u>OTHER INFORMATION</u>	63
<b>PART III</b>	
ITEM 10. <u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	64
ITEM 11. <u>EXECUTIVE COMPENSATION</u>	64
ITEM 12. <u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	65
ITEM 13. <u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE</u>	65
ITEM 14. <u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	65
<b>PART IV</b>	
ITEM 15. <u>EXHIBITS, FINANCIAL STATEMENTS AND SCHEDULES</u>	66
<u>INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE</u>	67
<u>SIGNATURES</u>	132
<u>EXHIBIT INDEX</u>	133

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**Table of Contents**

**PART I**

**ITEM 1. BUSINESS**

**General**

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' common stock trades on the New York Stock Exchange under the symbol *SPB*.

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

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

Unless the context indicates otherwise, the terms the *Company*, *Spectrum*, *we*, *our* or *us* are used to refer to Spectrum Brands and its subsidiaries subsequent to the Merger and Spectrum Brands prior to the Merger, as well as before, on and after the Effective Date. The term *Old Spectrum* refers only to Spectrum Brands, our Wisconsin predecessor, and its subsidiaries prior to the Effective Date.

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

We sell our products in approximately 130 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and original equipment manufacturers ( *OEMs* ) and enjoy strong name recognition in our markets under the Rayovac, VARTA and Remington brands, each of which has been in existence for more than 80 years, and under the Tetra, 8-in-1, Spectracide, Cutter, Black & Decker, George Foreman, Russell Hobbs, Farberware and various other brands.

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

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

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



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## **Table of Contents**

On November 2, 2011, we offered \$200 million aggregate principal amount of 9.5% Notes; these notes are in addition to the \$750 million aggregate principal amount of 9.5% Notes 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 Spectrum Brands' and the guarantors' assets. The additional notes will vote together with the existing 9.5% Notes.

### **Chapter 11 Proceedings**

On February 2, 2009, we did not make a \$25.8 million interest payment due February 2, 2009 on our then existing 7<sup>3</sup>/<sub>8</sub>% Senior Subordinated Notes due 2015 (the 7<sup>3</sup>/<sub>8</sub> Notes), triggering a default with respect to the notes. On February 3, 2009, we announced that we had reached agreements with certain noteholders, representing, in the aggregate, approximately 70% of the face value of our then outstanding senior subordinated notes, to pursue a refinancing that, if implemented as proposed, would significantly reduce our outstanding debt. As a result of our substantial leverage, we determined that, absent a financial restructuring, we would be unable to achieve future profitability or positive cash flows on a consolidated basis solely from cash generated from operating activities or to satisfy certain of our payment obligations as they became due, and could be at risk of not satisfying the leverage ratios to which we were subject under its then existing senior secured term loan facility, which ratios became more restrictive in future periods. Accordingly, the Debtors filed voluntary petitions under Chapter 11 of the Bankruptcy Code, in the Bankruptcy Court (the Bankruptcy Filing) and filed with the Bankruptcy Court a proposed plan of reorganization (the Proposed Plan) that detailed the Debtors' proposed terms for the refinancing. The Chapter 11 cases were jointly administered by the Bankruptcy Court as Case No. 09-50455 (the Bankruptcy Cases). The Bankruptcy Court entered a written order (the Confirmation Order) on July 15, 2009 confirming the Proposed Plan (as so confirmed, the Plan).

The Plan became effective on the Effective Date, and the Debtors emerged from Chapter 11 of the Bankruptcy Code. Pursuant to and by operation of the Plan, on the Effective Date, all of Old Spectrum's existing equity securities, including the existing common stock and stock options, were extinguished and deemed cancelled. Reorganized Spectrum Brands, Inc. filed a certificate of incorporation authorizing new shares of common stock. Pursuant to and in accordance with the Plan, on the Effective Date, reorganized Spectrum Brands, Inc. issued a total of 27,030,000 shares of common stock and approximately \$218 million in aggregate principal amount of the 12% Notes to holders of allowed claims with respect to Old Spectrum's 8<sup>1</sup>/<sub>2</sub>% Senior Subordinated Notes due 2013 (the 8<sup>1</sup>/<sub>2</sub> Notes), the 7<sup>3</sup>/<sub>8</sub>% Notes and Variable Rate Toggle Senior Subordinated Notes due 2013 (the Variable Rate Notes) (collectively, the Senior Subordinated Notes). For a further discussion of the 12% Notes see *Debt Financing Activities - 12% Notes*. Also on the Effective Date, reorganized Spectrum Brands, Inc. issued a total of 2,970,000 shares of common stock to supplemental and sub-supplemental debtor-in-possession credit facility participants in respect of the equity fee earned under the Debtors' debtor-in-possession credit facility.

### **Our Products**

We compete in seven major product categories: consumer batteries; pet supplies; electric shaving and grooming; electric personal care products; home and garden control products; small appliances and portable lighting. Our broad line of products includes:

consumer batteries, including alkaline and zinc carbon batteries, rechargeable batteries and chargers and hearing aid batteries and other specialty batteries;

pet supplies, including aquatic equipment and supplies, dog and cat treats, small animal foods, clean up and training aids, health and grooming products and bedding;

home and garden control products including household insect controls, insect repellents and herbicides;

electric shaving and grooming devices;

small appliances, including small kitchen appliances and home product appliances;

electric personal care and styling devices; and

portable lighting.



**Table of Contents**

Net sales of each product category sold, as a percentage of net sales of our consolidated operations, is set forth below.

	Percentage of Total Company Net Sales for the Fiscal Year Ended September 30,		
	2011	2010	2009
Consumer batteries	27%	34%	37%
Small appliances	24	9	
Pet supplies	18	22	26
Home and garden control products	11	13	14
Electric shaving and grooming	9	10	10
Electric personal care products	8	8	9
Portable lighting	3	4	4
	100%	100%	100%

*Consumer Batteries*

We market and sell a full line of alkaline batteries (AA, AAA, C, D and 9-volt sizes) to both retail and industrial customers. Our alkaline batteries are marketed and sold primarily under the Rayovac and VARTA brands. We also manufacture alkaline batteries for third parties who sell the batteries under their own private labels. Our zinc carbon batteries are also marketed and sold primarily under the Rayovac and VARTA brands and are designed for low- and medium-drain battery-powered devices.

We believe that we are currently the largest worldwide marketer and distributor of hearing aid batteries. We sell our hearing aid batteries through retail trade channels and directly to professional audiologists under several brand names and private labels, including Beltone, Miracle Ear and Starkey.

We also sell Nickel Metal Hydride (NiMH) rechargeable batteries and a variety of battery chargers under the Rayovac and VARTA brands.

Our other specialty battery products include camera batteries, lithium batteries, silver oxide batteries, keyless entry batteries and coin cells for use in watches, cameras, calculators, communications equipment and medical instruments.

*Pet Supplies*

In the pet supplies product category we market and sell a variety of leading branded pet supplies for fish, dogs, cats, birds and other small domestic animals. We have a broad line of consumer and commercial aquatics products, including integrated aquarium kits, standalone tanks and stands, filtration systems, heaters, pumps, and other equipment, fish food and water treatment products. Our largest aquatics brands are Tetra, Marineland, Whisper, Jungle and Instant Ocean. We also sell a variety of specialty pet products, including dog and cat treats, small animal food and treats, clean up and training aid products, health and grooming aids, bedding products, and consumable accessories including privacy tents, litter carpets, crystal litter cartridges, charcoal filters, corn-based litter and replaceable waste receptacles. Our largest specialty pet brands include 8-in-1, Dingo, Firstrax, Nature's Miracle, Wild Harvest and Littermaid.

*Home and Garden Control Products*

In the home and garden control products category we currently sell and market several leading home and garden care products, including household insecticides, insect repellent, herbicides, garden and indoor plant foods and plant care treatments. We offer a broad array of household insecticides such as spider, roach and ant killer, flying insect killer, insect foggers, wasp and hornet killer, flea and tick control products and roach and ant baits. We also manufacture and market a complete line of insect repellent products that provide protection from insects, especially mosquitoes. These products include both personal repellents, such as aerosols, pump sprays and wipes as well as area repellents, such as yard sprays, citronella candles and torches. Our largest brands in the insect control category include Hot Shot, Cutter and Repel. Our herbicides, garden and indoor plant foods and plant care treatment brands include Spectracide, Real-Kill and Garden Safe. We have positioned ourselves as the value alternative for consumers who want products that are comparable to, but sold at lower prices than, premium-priced brands.

*Electric Shaving and Grooming*

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We market and sell a broad line of electric shaving and grooming products under the Remington brand name, including men's rotary and foil shavers, beard and mustache trimmers, body trimmers and nose and ear trimmers, women's shavers and haircut kits.

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## **Table of Contents**

### *Small Appliances*

We market and sell a broad range of products in the branded small household appliances category under the George Foreman, Black & Decker, Russell Hobbs, Farberware, Juiceman, Breadman and Toastmaster brands, including grills, bread makers, sandwich makers, kettles, toaster ovens, toasters, blenders, juicers, can openers, coffee grinders, coffeemakers, electric knives, deep fryers, food choppers, food processors, hand mixers, rice cookers and steamers. We also market small home product appliances, including hand-held irons, vacuum cleaners, air purifiers, clothes shavers and heaters, primarily under the Black & Decker and Russell Hobbs brands. Russell Hobbs personal care products in the small appliances category include hand-held dryers, curling irons, straightening irons, brush irons, air brushes, hair setters, facial brushes, skin appliances and electric toothbrushes, which are primarily marketed under the Russell Hobbs, Carmen and Andrew Collinge brands.

### *Electric Personal Care Products*

Our electric personal care products, marketed and sold under the Remington, Russell Hobbs, Carmen and Andrew Collinge brand names, include hair dryers, straightening irons, styling irons and hair setters.

### *Portable Lighting*

We offer a broad line of battery-powered, portable lighting products, including flashlights and lanterns for both retail and industrial markets. We sell our portable lighting products under the Rayovac and VARTA brand names, under other proprietary brand names and pursuant to licensing arrangements with third parties.

## **Sales and Distribution**

We sell our products through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and OEMs. Our sales generally are made through the use of individual purchase orders, consistent with industry practice. Retail sales of the consumer products we market have been increasingly consolidated into a small number of regional and national mass merchandisers. This trend towards consolidation is occurring on a worldwide basis. As a result of this consolidation, a significant percentage of our sales are attributable to a very limited group of retailer customers, including Wal-Mart, The Home Depot, Carrefour, Target, Lowe's, PetSmart, Canadian Tire, PetCo and Gigante. Our sales to Wal-Mart represented approximately 24% of our consolidated net sales for the fiscal year ended September 30, 2011. No other customer accounted for more than 10% of our consolidated net sales in the fiscal year ended September 30, 2011.

Segment information as to revenues, profit and total assets as well as information concerning our revenues and long-lived assets by geographic location for the last three fiscal years is set forth in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 11, Segment Results, in Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Sales and distribution practices in each of our reportable segments are as set forth below.

### *Global Batteries & Appliances*

We manage our Global Batteries & Appliances sales force by geographic region and product group. Our sales team is divided into three major geographic territories, North America, Latin America and Europe and the rest of the world ( Europe/ROW ). Within each major geographic territory, we have additional subdivisions designed to meet our customers' needs.

We manage our sales force in North America by distribution channel. We maintain separate sales groups to service (i) our retail sales and distribution channel, (ii) our hearing aid professionals channel and (iii) our industrial distributors and OEM sales and distribution channel. In addition, we utilize a network of independent brokers to service participants in selected distribution channels.

We manage our sales force in Latin America by distribution channel and geographic territory. We sell primarily to large retailers, wholesalers, distributors, food and drug chains and retail outlets. In countries where we do not maintain a sales force, we sell to distributors who market our products through all channels in the market.

The sales force serving our customers in Europe/ROW is supplemented by an international network of distributors to promote the sale of our products. Our sales operations throughout Europe/ROW are organized by geographic territory and the following sales channels: (i) food/retail, which includes mass merchandisers, discounters and drug and food stores; (ii) specialty trade, which includes clubs, consumer electronics stores,

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department stores, photography stores and wholesalers/distributors; and (iii) industrial, government, hearing aid professionals and OEMs.

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## **Table of Contents**

### *Global Pet Supplies*

Our Global Pet Supplies sales force is aligned by customer, geographic region and product group. We sell pet supply products to mass merchandisers, grocery and drug chains, pet superstores, independent pet stores and other retailers.

### *Home and Garden Business*

The sales force of the Home and Garden Business is aligned by customer. We sell primarily to home improvement centers, mass merchandisers, hardware stores, home and garden distributors, and food and drug retailers in the U.S.

## **Manufacturing, Raw Materials and Suppliers**

The principal raw materials used in manufacturing our products—zinc powder, electrolytic manganese dioxide powder and steel—are sourced either on a global or regional basis. The prices of these raw materials are susceptible to price fluctuations due to supply and demand trends, energy costs, transportation costs, government regulations and tariffs, changes in currency exchange rates, price controls, general economic conditions and other unforeseen circumstances. We have regularly engaged in forward purchase and hedging derivative transactions in an attempt to effectively manage the raw material costs we expect to incur over the next 12 to 24 months.

Substantially all of our rechargeable batteries and chargers, portable lighting products, hair care and other personal care products and our electric shaving and grooming products and small appliances are manufactured by third party suppliers that are primarily located in the Asia/Pacific region. We maintain ownership of most of the tooling and molds used by our suppliers.

We continually evaluate our manufacturing facilities' capacity and related utilization. As a result of such analyses, we have closed a number of manufacturing facilities during the past five years. In general, we believe our existing facilities are adequate for our present and foreseeable needs.

## **Research and Development**

Our research and development strategy is focused on new product development and performance enhancements of our existing products. We plan to continue to use our strong brand names, established customer relationships and significant research and development efforts to introduce innovative products that offer enhanced value to consumers through new designs and improved functionality.

In our fiscal years ended September 30, 2011, 2010 and 2009, we invested \$32.9 million, \$31.0 million and \$24.4 million, respectively, in product research and development.

## **Patents and Trademarks**

We own or license from third parties a significant number of patents and patent applications throughout the world relating to products we sell and manufacturing equipment we use. We hold a license that expires in March 2022 for certain alkaline battery designs, technology and manufacturing equipment from Matsushita Electrical Industrial Co., Ltd. (Matsushita), to whom we pay a royalty.

We also use and maintain a number of trademarks in our business, including DINGO, JUNGLETALK, MARINELAND, RAYOVAC, REMINGTON, TETRA, VARTA, 8IN1, CUTTER, HOT SHOT, GARDEN SAFE, NATURE'S MIRACLE, REPEL, SPECTRACIDE, SPECTRACIDE TERMINATE, GEORGE FOREMAN, RUSSELL HOBBS and BLACK & DECKER. We seek trademark protection in the U.S. and in foreign countries by all available means, including registration.

As a result of the October 2002 sale by VARTA AG of substantially all of its consumer battery business to us and VARTA AG's subsequent sale of its automotive battery business to Johnson Controls, Inc. (Johnson Controls), we acquired rights to the VARTA trademark in the consumer battery category and Johnson Controls acquired rights to the trademark in the automotive battery category. VARTA AG continues to have rights to use the trademark with travel guides and industrial batteries and VARTA Microbattery GmbH has the right to use the trade mark with micro batteries. We are party to a Trademark and Domain Names Protection and Delimitation Agreement that governs ownership and usage rights and obligations of the parties relative to the VARTA trademark.

As a result of the common origins of the Remington Products, L.L.C. (Remington Products) business we acquired in September 2003 and the Remington Arms Company, Inc. (Remington Arms), the REMINGTON trademark is owned by us and by Remington Arms each with respect to

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its principal products as well as associated products. Accordingly, we own the rights to use the REMINGTON trademark for electric shavers, shaver accessories, grooming products and personal care products, while Remington Arms owns the rights to use the trademark for firearms, sporting goods and products for industrial use, including industrial hand tools. In addition, the terms of a 1986 agreement between Remington Products and Remington Arms provides for the shared rights to use the REMINGTON trademark on products which are not considered principal products of interest for either company. We retain the REMINGTON trademark for nearly all products which we believe can benefit from the use of the brand name in our distribution channels.

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## **Table of Contents**

We license the Black & Decker brand in North America, Latin America (excluding Brazil) and the Caribbean for four core categories of household appliances: beverage products, food preparation products, garment care products and cooking products. Russell Hobbs has licensed the Black & Decker brand since 1998 for use in marketing various household small appliances. In July 2011, Russell Hobbs and The Black & Decker Corporation ( BDC ) extended the trademark license agreement for a fourth time through December 2015. Under the agreement as extended, Russell Hobbs agreed to pay BDC royalties based on a percentage of sales, with minimum annual royalty payments of \$15.0 million from calendar year 2011 through calendar year 2015. The agreement also requires us to comply with maximum annual return rates for products.

If BDC does not agree to renew the license agreement, we have 18 months to transition out of the brand name. No minimum royalty payments will be due during such transition period. BDC has agreed not to compete in the four core product categories for a period of five years after the termination of the license agreement. Upon request, BDC may elect to extend the license to use the Black & Decker brand to certain additional product categories. BDC has approved several extensions of the license to additional categories and geographies.

### **Competition**

In our retail markets, we compete for limited shelf space and consumer acceptance. Factors influencing product sales include brand name recognition, perceived quality, price, performance, product packaging, design innovation, and consumer confidence and preferences as well as creative marketing, promotion and distribution strategies.

The battery product category is highly competitive. Most consumer batteries manufactured throughout the world are sold by one of four global companies: Spectrum Brands (manufacturer/seller of Rayovac and VARTA brands); Energizer Holdings, Inc. ( Energizer ) (manufacturer/seller of the Energizer brand); The Procter & Gamble Company ( Procter & Gamble ) (manufacturer/seller of the Duracell brand); and Matsushita (manufacturer/seller of the Panasonic brand). We also face competition from the private label brands of major retailers, particularly in Europe. The offering of private-label batteries by retailers may create pricing pressure in the consumer battery market. Typically, private-label brands are not supported by advertising or promotion, and retailers sell these private label offerings at prices below competing name-brands. The main barriers to entry for new competitors are investment in technology research, cost of building manufacturing capacity and the expense of building retail distribution channels and consumer brands.

In the U.S. alkaline battery category, the Rayovac brand is positioned as a value brand, which is typically defined as a product that offers comparable performance at a lower price. In Europe, the VARTA brand is competitively priced with other premium brands. In Latin America, where zinc carbon batteries outsell alkaline batteries, the Rayovac brand is competitively priced.

The pet supply product category is highly fragmented with over 500 manufacturers in the U.S. alone, consisting primarily of small companies with limited product lines. Our largest competitors in this product category are Mars Corporation ( Mars ), The Hartz Mountain Corporation ( Hartz ) and Central Garden & Pet Company ( Central Garden & Pet ). Both Hartz and Central Garden & Pet sell a comprehensive line of pet supplies and compete with a majority of the products we offer. Mars sells primarily aquatics products.

Products we sell in the home and garden product category through the Home and Garden Business face competition from The Scotts Miracle-Gro Company ( Scotts Company ), which markets home and garden products under the Scotts, Ortho, Roundup and Miracle-Gro brand names; Central Garden & Pet, which markets garden products under the AMDRO and Sevin brand names; and Bayer A.G., which markets home and garden products under the Bayer Advanced brand name.

Products we sell in the household insect control product category through the Home and Garden Business face competition from S.C. Johnson & Son, Inc. ( S.C. Johnson ), which markets insecticide and repellent products under the Raid and OFF! brands; Scotts Company, which markets household insect control products under the Ortho brand; and Henkel KGaA, which markets insect control products under the Combat brand.

Our primary competitors in the electric shaving and grooming product category are Norelco, a division of Koninklijke Philips Electronics NV ( Philips ), which sells and markets rotary shavers, and Braun, a division of Procter & Gamble, which sells and markets foil shavers. Through our Remington brand, we sell both foil and rotary shavers.

Primary competitive brands in the small appliance category include Hamilton Beach, Proctor Silex, Sunbeam, Mr. Coffee, Oster, General Electric, Rowenta, DeLonghi, Kitchen Aid, Cuisinart, Krups, Braun, Rival, Europro, Kenwood, Philips, Morphy Richards, Breville and Tefal. The key competitors of Russell Hobbs in this market in the U.S. and Canada include Jarden Corporation, DeLonghi America, Euro-Pro Operating LLC, Metro Thebe, Inc., d/b/a HWI Breville, NACCO Industries, Inc. (Hamilton Beach) and SEB S.A. In addition, Russell Hobbs competes with retailers who use their own private label brands for household appliances (for example, Wal-Mart).





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## **Table of Contents**

Our major competitors in the electric personal care product category are Conair Corporation, Wahl Clipper Corporation and Helen of Troy Limited ( Helen of Troy ).

Our primary competitors in the portable lighting product category are Energizer and Mag Instrument, Inc.

Some of our major competitors have greater resources and greater overall market share than we do. They have committed significant resources to protect their market shares or to capture market share from us and may continue to do so in the future. In some key product lines, our competitors may have lower production costs and higher profit margins than we do, which may enable them to compete more aggressively in advertising and in offering retail discounts and other promotional incentives to retailers, distributors, wholesalers and, ultimately, consumers.

### **Seasonality**

On a consolidated basis our financial results are approximately equally weighted between quarters, however, sales of certain product categories tend to be seasonal. Sales in the consumer battery, electric shaving and grooming and electric personal care product categories, particularly in North America, tend to be concentrated in the December holiday season (Spectrum's first fiscal quarter). Demand for pet supplies products remains fairly constant throughout the year. Demand for home and garden control products sold through the Home and Garden Business typically peaks during the first six months of the calendar year (Spectrum's second and third fiscal quarters). Small Appliances peaks from July through December primarily due to the increased demand by customers in the late summer for back-to-school sales and in the fall for the holiday season. For a more detailed discussion of the seasonality of our product sales, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Seasonal Product Sales.

### **Governmental Regulations and Environmental Matters**

Due to the nature of our operations, our facilities are subject to a broad range of federal, state, local and foreign legal and regulatory provisions relating to the environment, including those regulating the discharge of materials into the environment, the handling and disposal of solid and hazardous substances and wastes and the remediation of contamination associated with the releases of hazardous substances at our facilities. We believe that compliance with the federal, state, local and foreign laws and regulations to which we are subject will not have a material effect upon our capital expenditures, financial condition, earnings or competitive position.

From time to time, we have been required to address the effect of historic activities on the environmental condition of our properties. We have not conducted invasive testing at all facilities to identify all potential environmental liability risks. Given the age of our facilities and the nature of our operations, it is possible that material liabilities may arise in the future in connection with our current or former facilities. If previously unknown contamination of property underlying or in the vicinity of our manufacturing facilities is discovered, we could incur material unforeseen expenses, which could have a material adverse effect on our financial condition, capital expenditures, earnings and competitive position. Although we are currently engaged in investigative or remedial projects at some of our facilities, we do not expect that such projects, taking into account established accruals, will cause us to incur expenditures that are material to our business, financial condition or results of operations; however, it is possible that our future liability could be material.

We have been, and in the future may be, subject to proceedings related to our disposal of industrial and hazardous material at off-site disposal locations or similar disposals made by other parties for which we are held responsible as a result of our relationships with such other parties. In the U.S., these proceedings are under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 ( CERCLA ) or similar state laws that hold persons who arranged for the disposal or treatment of such substances strictly liable for costs incurred in responding to the release or threatened release of hazardous substances from such sites, regardless of fault or the lawfulness of the original disposal. Liability under CERCLA is typically joint and several, meaning that a liable party may be responsible for all costs incurred in investigating and remediating contamination at a site. As a practical matter, liability at CERCLA sites is shared by all of the viable responsible parties. We occasionally are identified by federal or state governmental agencies as being a potentially responsible party for response actions contemplated at an off-site facility. At the existing sites where we have been notified of our status as a potentially responsible party, it is either premature to determine whether our potential liability, if any, will be material or we do not believe that our liability, if any, will be material. We may be named as a potentially responsible party under CERCLA or similar state laws for other sites not currently known to us, and the costs and liabilities associated with these sites may be material.

It is difficult to quantify with certainty the potential financial impact of actions regarding expenditures for environmental matters, particularly remediation, and future capital expenditures for environmental control equipment. Nevertheless, based upon the information currently available, we believe that our ultimate liability arising from such environmental matters, taking into account established accruals of \$7.3 million for estimated liabilities at September 30, 2011 should not be material to our business or financial condition.



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**Table of Contents**

Electronic and electrical products that we sell in Europe, particularly products sold under the Remington brand name, VARTA battery chargers, certain portable lighting and all of our batteries, are subject to regulation in European Union ( EU ) markets under three key EU directives. The first directive is the Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment ( RoHS ) which took effect in EU member states beginning July 1, 2006. RoHS prohibits companies from selling products which contain certain specified hazardous materials in EU member states. We believe that compliance with RoHS will not have a material effect on our capital expenditures, financial condition, earnings or competitive position. The second directive is entitled the Waste of Electrical and Electronic Equipment ( WEEE ). WEEE makes producers or importers of particular classes of electrical goods financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. WEEE assigns levels of responsibility to companies doing business in EU markets based on their relative market share. WEEE calls on each EU member state to enact enabling legislation to implement the directive. To comply with WEEE requirements, we have partnered with other companies to create a comprehensive collection, treatment, disposal and recycling program. As EU member states pass enabling legislation we currently expect our compliance system to be sufficient to meet such requirements. Our current estimated costs associated with compliance with WEEE are not significant based on our current market share. However, we continue to evaluate the impact of the WEEE legislation as EU member states implement guidance and as our market share changes and, as a result, actual costs to our company could differ from our current estimates and may be material to our business, financial condition or results of operations. The third directive is the Directive on Batteries and Accumulators and Waste Batteries, which was adopted in September 2006 and went into effect in September 2008 (the Battery Directive ). The Battery Directive bans heavy metals in batteries by establishing maximum quantities of those heavy metals in batteries and mandates waste management of batteries, including collection, recycling and disposal systems. The Battery Directive places the costs of such waste management systems on producers and importers of batteries. The Battery Directive calls on each EU member state to enact enabling legislation to implement the directive. We currently believe that compliance with the Battery Directive will not have a material effect on our capital expenditures, financial condition, earnings or competitive position. However, until such time as the EU member states adopt enabling legislation, a full evaluation of these costs cannot be completed. We will continue to evaluate the impact of the Battery Directive and its enabling legislation as EU member states implement guidance.

Certain of our products and facilities in each of our business segments are regulated by the United States Environmental Protection Agency (the EPA ) and the United States Food and Drug Administration (the FDA ) or other federal consumer protection and product safety agencies and are subject to the regulations such agencies enforce, as well as by similar state, foreign and multinational agencies and regulations. For example, in the U.S., all products containing pesticides must be registered with the EPA and, in many cases, similar state and foreign agencies before they can be manufactured or sold. Our inability to obtain or the cancellation of any registration could have an adverse effect on our business, financial condition and results of operations. The severity of the effect would depend on which products were involved, whether another product could be substituted and whether our competitors were similarly affected. We attempt to anticipate regulatory developments and maintain registrations of, and access to, substitute chemicals and other ingredients. We may not always be able to avoid or minimize these risks.

The Food Quality Protection Act ( FQPA ) established a standard for food-use pesticides, which is that a reasonable certainty of no harm will result from the cumulative effect of pesticide exposures. Under the FQPA, the EPA is evaluating the cumulative effects from dietary and non-dietary exposures to pesticides. The pesticides in certain of our products continue to be evaluated by the EPA as part of this program. It is possible that the EPA or a third party active ingredient registrant may decide that a pesticide we use in our products will be limited or made unavailable to us. We cannot predict the outcome or the severity of the effect of the EPA 's continuing evaluations of active ingredients used in our products.

Certain of our products and packaging materials are subject to regulations administered by the FDA. Among other things, the FDA enforces statutory prohibitions against misbranded and adulterated products, establishes ingredients and manufacturing procedures for certain products, establishes standards of identity for certain products, determines the safety of products and establishes labeling standards and requirements. In addition, various states regulate these products by enforcing federal and state standards of identity for selected products, grading products, inspecting production facilities and imposing their own labeling requirements.

**Employees**

We had approximately 5,900 full-time employees worldwide as of September 30, 2011. Approximately 31% of our total labor force is covered by collective bargaining agreements. There are five collective bargaining agreements that will expire during our fiscal year ending September 30, 2012, which cover approximately 78% of the labor force under collective bargaining agreements, or approximately 24% of our total labor force. We believe that our overall relationship with our employees is good.

**Table of Contents**

**Available Information**

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act ), are made available free of charge on or through our website at [www.spectrumbrands.com](http://www.spectrumbrands.com) as soon as reasonably practicable after such reports are filed with, or furnished to, the United States Securities and Exchange Commission (the SEC ). You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains our reports, proxy statements and other information at [www.sec.gov](http://www.sec.gov) . In addition, copies of our (i) Corporate Governance Guidelines, (ii) charters for the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, (iii) Code of Business Conduct and Ethics and (iv) Code of Ethics for the Principal Executive Officer and Senior Financial Officers are available at our Internet site at [www.spectrumbrands.com](http://www.spectrumbrands.com) under Investor Relations Corporate Governance. Copies will also be provided to any stockholder upon written request to the Vice President, Investor Relations & Corporate Communications, Spectrum Brands, Inc. at 601 Rayovac Drive, Madison, Wisconsin 53711 or via electronic mail at [investorrelations@spectrumbrands.com](mailto:investorrelations@spectrumbrands.com), or by contacting the Vice President, Investor Relations & Corporate Communications by telephone at (608) 275-3340.

**Table of Contents**

ITEM 1A. RISK FACTORS

**Forward-Looking Statements**

We have made or implied certain forward-looking statements in this Annual Report on Form 10-K. All statements, other than statements of historical facts included in this Annual Report, including the statements under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations regarding our business strategy, future operations, financial condition, estimated revenues, projected costs, projected synergies, prospects, plans and objectives of management, as well as information concerning expected actions of third parties, are forward-looking statements. When used in this Annual Report, the words anticipate, intend, plan, estimate, believe, expect, project, should, may and similar expressions are also intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words.

Since these forward-looking statements are based upon our current expectations of future events and projections and are subject to a number of risks and uncertainties, many of which are beyond our control and some of which may change rapidly, actual results or outcomes may differ materially from those expressed or implied herein, and you should not place undue reliance on these statements. Important factors that could cause our actual results to differ materially from those expressed or implied herein include, without limitation:

the impact of our substantial indebtedness on our business, financial condition and results of operations;

the impact of restrictions in our debt instruments on our ability to operate our business, finance our capital needs or pursue or expand business strategies;

any failure to comply with financial covenants and other provisions and restrictions of our debt instruments;

our ability to successfully integrate the business acquired in connection with the combination with Russell Hobbs and achieve the expected synergies from that integration at the expected costs;

the impact of expenses resulting from the implementation of new business strategies, divestitures or current and proposed restructuring activities;

the impact of fluctuations in commodity prices, costs or availability of raw materials or terms and conditions available from suppliers, including suppliers' willingness to advance credit;

interest rate and exchange rate fluctuations;

the loss of, or a significant reduction in, sales to a significant retail customer(s);

competitive promotional activity or spending by competitors or price reductions by competitors;

the introduction of new product features or technological developments by competitors and/or the development of new competitors or competitive brands;

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the effects of general economic conditions, including inflation, recession or fears of a recession, depression or fears of a depression, labor costs and stock market volatility or changes in trade, monetary or fiscal policies in the countries where we do business;

changes in consumer spending preferences and demand for our products;

our ability to develop and successfully introduce new products, protect our intellectual property and avoid infringing the intellectual property of third parties;

our ability to successfully implement, achieve and sustain manufacturing and distribution cost efficiencies and improvements, and fully realize anticipated cost savings;

the cost and effect of unanticipated legal, tax or regulatory proceedings or new laws or regulations (including environmental, public health and consumer protection regulations);

public perception regarding the safety of our products, including the potential for environmental liabilities, product liability claims, litigation and other claims;

the impact of pending or threatened litigation;

changes in accounting policies applicable to our business;

government regulations;

the seasonal nature of sales of certain of our products;

the effects of climate change and unusual weather activity; and

**Table of Contents**

the effects of political or economic conditions, terrorist attacks, acts of war or other unrest in international markets. Some of the above-mentioned factors are described in further detail in the section entitled Risk Factors set forth below. You should assume the information appearing in this Annual Report on Form 10-K is accurate only as of September 30, 2011 or as otherwise specified, as our business, financial condition, results of operations and prospects may have changed since that date. Except as required by applicable law, including the securities laws of the U.S. and the rules and regulations of the SEC, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

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**Table of Contents**

**RISK FACTORS**

*Any of the following factors could materially and adversely affect our business, financial condition and results of operations and the risks described below are not the only risks that we may face. Additional risks and uncertainties not currently known to us or that we currently view as immaterial may also materially and adversely affect our business, financial condition or results of operations.*

**Risks Related to the Merger**

*We may not realize the anticipated benefits of the Merger.*

The Merger involved the integration of two companies that previously operated independently. The integration of our operations with those of Russell Hobbs is expected to result in financial and operational benefits, including increased revenues and cost savings. There can be no assurance, however, regarding when or the extent to which we will be able to realize these increased revenues, cost savings or other benefits. Integration may also be difficult, unpredictable, and subject to delay because of possible company culture conflicts and different opinions on technical decisions and product roadmaps. We must integrate or, in some cases, replace, numerous systems, including those involving management information, purchasing, accounting and finance, sales, billing, employee benefits, payroll and regulatory compliance, many of which are dissimilar. In some instances, we and Russell Hobbs have served the same customers, and some customers may decide that it is desirable to have additional or different suppliers. Difficulties associated with integration could have a material adverse effect on our business, financial condition and operating results.

*Integrating our business with that of Russell Hobbs may divert our management's attention away from operations.*

Successful integration of our and Russell Hobbs' operations, products and personnel may place a significant burden on our management and other internal resources. The diversion of management's attention, and any difficulties encountered in the transition and integration process, could harm our business, financial conditions and operating results.

**Risks Related To Our Emergence From Bankruptcy**

*Because our consolidated financial statements are required to reflect fresh-start reporting adjustments to be made upon emergence from bankruptcy, financial information in our financial statements prepared after August 30, 2009 will not be comparable to our financial information from prior periods.*

All conditions required for the adoption of fresh-start reporting were met upon emergence from Chapter 11 of the Bankruptcy Code on the Effective Date. However, in light of the proximity of that date to our accounting period close immediately following the Effective Date, which was August 30, 2009, we elected to adopt a convenience date of August 30, 2009 for recording fresh-start reporting. We adopted fresh-start reporting in accordance with the Accounting Standards Codification (ASC) Topic 852: *Reorganizations*, pursuant to which our reorganization value, which is intended to reflect the fair value of the entity before considering liabilities and approximate the amount a willing buyer would pay for the assets of the entity immediately after the reorganization, was allocated to the fair value of assets in conformity with Statement of Financial Accounting Standards No. 141, *Business Combinations*, using the purchase method of accounting for business combinations. We stated liabilities, other than deferred taxes, at a present value of amounts expected to be paid. The amount remaining after allocation of the reorganization value to the fair value of identified tangible and intangible assets was reflected as goodwill, which is subject to periodic evaluation for impairment. In addition, under fresh-start reporting the accumulated deficit was eliminated. Thus, the data derived from our consolidated statements of financial position and operations as of dates and for the periods after August 30, 2009 will not be comparable in many respects to that derived from the consolidated statements of financial position and operations as of dates and for periods prior to the adoption of fresh-start reporting. The lack of comparable historical information may discourage investors from purchasing our securities. Additionally, the financial information included in this Annual Report on Form 10-K may not be indicative of future financial information.



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## **Table of Contents**

### **Risks Related To Our Business**

*Our substantial indebtedness may limit our financial and operating flexibility, and we may incur additional debt, which could increase the risks associated with our substantial indebtedness.*

We have, and we expect to continue to have, a significant amount of indebtedness. As of September 30, 2011, we had total indebtedness under our Senior Secured Facilities, the 12% Notes and other debt of approximately \$1.6 billion. Our substantial indebtedness has had, and could continue to have, material adverse consequences for our business, and may:

require us to dedicate a large portion of our cash flow to pay principal and interest on our indebtedness, which will reduce the availability of our cash flow to fund working capital, capital expenditures, research and development expenditures and other business activities;

increase our vulnerability to general adverse economic and industry conditions;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

restrict our ability to make strategic acquisitions, dispositions or to exploit business opportunities;

place us at a competitive disadvantage compared to our competitors that have less debt; and

limit our ability to borrow additional funds (even when necessary to maintain adequate liquidity) or dispose of assets.

Under the Senior Secured Facilities and the indenture governing the 12% Notes (the 2019 Indenture ), we may incur additional indebtedness. If new debt is added to our existing debt levels, the related risks that we now face would increase.

Furthermore, a substantial portion of our debt bears interest at variable rates. If market interest rates increase, the interest rate on our variable rate debt will increase and will create higher debt service requirements, which would adversely affect our cash flow and could adversely impact our results of operations. While we may enter into agreements limiting our exposure to higher debt service requirements, any such agreements may not offer complete protection from this risk.

*Restrictive covenants in the Senior Secured Facilities and the 2019 Indenture may restrict our ability to pursue our business strategies.*

The Senior Secured Facilities and the 2019 Indenture each restrict, among other things, asset dispositions, mergers and acquisitions, dividends, stock repurchases and redemptions, other restricted payments, indebtedness and preferred stock, loans and investments, liens and affiliate transactions. The Senior Secured Facilities and the 2019 Indenture also contain customary events of default. These covenants, among other things, limit our ability to fund future working capital and capital expenditures, engage in future acquisitions or development activities, or otherwise realize the value of our assets and opportunities fully because of the need to dedicate a portion of cash flow from operations to payments on debt. In addition, the Senior Secured Facilities contain financial covenants relating to maximum leverage and minimum interest coverage. Such covenants could limit the flexibility of our restricted entities in planning for, or reacting to, changes in the industries in which they operate. Our ability to comply with these covenants is subject to certain events outside of our control. If we are unable to comply with these covenants, the lenders under our Senior Secured Facilities or 12% Notes could terminate their commitments and the lenders under our Senior Secured Facilities or 12% Notes could accelerate repayment of our outstanding borrowings and, in either case, we may be unable to obtain adequate refinancing of outstanding borrowings on favorable terms. If we are unable to repay outstanding borrowings when due, the lenders under the Senior Secured Facilities or 12% Notes will also have the right to proceed against the collateral granted to them to secure the indebtedness owed to them. If our obligations under the Senior Secured Facilities and the 12% Notes are accelerated, we cannot assure you that our assets would be sufficient to repay in full such indebtedness.

***The sale or other disposition by Harbinger Group Inc., the holder of a majority of the outstanding shares of our common stock, to non-affiliates of a sufficient amount of the common stock of SB Holdings would constitute a change of control under the agreements governing Spectrum Brands debt.***

Harbinger Group Inc. ( HRG ) owns a majority of the outstanding shares of the common stock of SB Holdings. The sale or other disposition by HRG to non-affiliates of a sufficient amount of the common stock of SB Holdings could constitute a change of control under the agreements governing Spectrum Brands debt, including any foreclosure on or sale of SB Holdings common stock pledged as collateral by HRG pursuant to the indenture governing HRG s 10.625% Senior Secured Notes due 2015. Under the Term Loan and the ABL Revolving Credit Facility, a change of control is an event of default and, if a change of control were to occur, Spectrum Brands would be required to get an amendment to these agreements to avoid a default. If Spectrum Brands was unable to get such an amendment, the lenders could accelerate the maturity of each of the Spectrum Brands Term Loan and the ABL Revolving Credit Facility. In addition, under the

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## **Table of Contents**

indentures governing the 9.5% Notes and the 12% Notes, upon a change of control of SB Holdings, Spectrum Brands is required to offer to repurchase such notes from the holders at a price equal to 101% of principal amount of the notes plus accrued interest or obtain a waiver of default from the holders of such notes. If Spectrum Brands was unable to make the change of control offer, or to obtain a waiver of default, it would be an event of default under the indentures that could allow holders of such notes to accelerate the maturity of the notes

### ***We face risks related to the current economic environment.***

The current economic environment and related turmoil in the global financial system has had and may continue to have an impact on our business and financial condition. Global economic conditions have significantly impacted economic markets within certain sectors, with financial services and retail businesses being particularly impacted. Our ability to generate revenue depends significantly on discretionary consumer spending. It is difficult to predict new general economic conditions that could impact consumer and customer demand for our products or our ability to manage normal commercial relationships with our customers, suppliers and creditors. The recent continuation of a number of negative economic factors, including constraints on the supply of credit to households, uncertainty and weakness in the labor market and general consumer fears of a continuing economic downturn could have a negative impact on discretionary consumer spending. If the economy continues to deteriorate or fails to improve, our business could be negatively impacted, including as a result of reduced demand for our products or supplier or customer disruptions. Any weakness in discretionary consumer spending could have a material adverse effect on our revenues, results of operations and financial condition. In addition, our ability to access the capital markets may be restricted at a time when it could be necessary or beneficial to do so, which could have an impact on our flexibility to react to changing economic and business conditions.

In 2011, concern over sovereign debt in Greece, Ireland and certain other European Union countries caused significant fluctuations of the Euro relative to other currencies, such as the U.S. Dollar. Destabilization of the European economy could lead to a decrease in consumer confidence, which could cause reductions in discretionary spending and demand for our products. Furthermore, sovereign debt issues could also lead to further significant, and potentially longer-term, economic issues such as reduced economic growth and devaluation of the Euro against the U.S. Dollar, any of which could adversely affect our business, financial conditions and operating results.

### ***We may not be able to retain key personnel or recruit additional qualified personnel whether as a result of the Merger or otherwise, which could materially affect our business and require us to incur substantial additional costs to recruit replacement personnel.***

We are highly dependent on the continuing efforts of our senior management team and other key personnel. As a result of the Merger, our current and prospective employees could experience uncertainty about their future roles. This uncertainty may adversely affect our ability to attract and retain key management, sales, marketing and technical personnel. Any failure to attract and retain key personnel, whether as a result of the Merger or otherwise, could have a material adverse effect on our business. In addition, we currently do not maintain key person insurance covering any member of our management team.

### ***We participate in very competitive markets and we may not be able to compete successfully, causing us to lose market share and sales.***

The markets in which we participate are very competitive. In the consumer battery market, our primary competitors are *Duracell* (a brand of Procter & Gamble), *Energizer* and *Panasonic* (a brand of Matsushita). In the electric shaving and grooming and electric personal care product markets, our primary competitors are *Braun* (a brand of Procter & Gamble), *Norelco* (a brand of Philips), and *Vidal Sassoon* and *Revlon* (brands of Helen of Troy). In the pet supplies market, our primary competitors are Mars, Hartz and Central Garden & Pet. In the Home and Garden Business, our principal national competitors are Scotts, Central Garden & Pet and S.C. Johnson. Our principal national competitors within our Small Appliances segment include Jarden Corporation, DeLonghi America, Euro-Pro Operating LLC, Metro Thebe, Inc., d/b/a HWI Breville, NACCO Industries, Inc. (*Hamilton Beach*) and SEB S.A. In each of these markets, we also face competition from numerous other companies. In addition, in a number of our product lines, we compete with our retail customers, who use their own private label brands, and with distributors and foreign manufacturers of unbranded products. Significant new competitors or increased competition from existing competitors may adversely affect our business, financial condition and results of our operations.

We compete with our competitors for consumer acceptance and limited shelf space based upon brand name recognition, perceived product quality, price, performance, product features and enhancements, product packaging and design innovation, as well as creative marketing, promotion and distribution strategies, and new product introductions. Our ability to compete in these consumer product markets may be adversely affected by a number of factors, including, but not limited to, the following:

We compete against many well-established companies that may have substantially greater financial and other resources, including personnel and research and development, and greater overall market share than us.



## **Table of Contents**

In some key product lines, our competitors may have lower production costs and higher profit margins than us, which may enable them to compete more aggressively in offering retail discounts, rebates and other promotional incentives.

Product improvements or effective advertising campaigns by competitors may weaken consumer demand for our products.

Consumer purchasing behavior may shift to distribution channels where we do not have a strong presence.

Consumer preferences may change to lower margin products or products other than those we market.

We may not be successful in the introduction, marketing and manufacture of any new products or product innovations or be able to develop and introduce, in a timely manner, innovations to our existing products that satisfy customer needs or achieve market acceptance.

Some competitors may be willing to reduce prices and accept lower profit margins to compete with us. As a result of this competition, we could lose market share and sales, or be forced to reduce our prices to meet competition. If our product offerings are unable to compete successfully, our sales, results of operations and financial condition could be materially and adversely affected.

***We may not be able to realize expected benefits and synergies from future acquisitions of businesses or product lines.***

We may acquire partial or full ownership in businesses or may acquire rights to market and distribute particular products or lines of products. The acquisition of a business or the rights to market specific products or use specific product names may involve a financial commitment by us, either in the form of cash or equity consideration. In the case of a new license, such commitments are usually in the form of prepaid royalties and future minimum royalty payments. There is no guarantee that we will acquire businesses or product distribution rights that will contribute positively to our earnings. Anticipated synergies may not materialize, cost savings may be less than expected, sales of products may not meet expectations, and acquired businesses may carry unexpected liabilities.

***Sales of certain of our products are seasonal and may cause our operating results and working capital requirements to fluctuate.***

On a consolidated basis our financial results are approximately equally weighted between quarters, however, sales of certain product categories tend to be seasonal. Sales in the consumer battery, electric shaving and grooming and electric personal care product categories, particularly in North America, tend to be concentrated in the December holiday season (Spectrum's first fiscal quarter). Demand for pet supplies products remains fairly constant throughout the year. Demand for home and garden control products sold through the Home and Garden Business typically peaks during the first six months of the calendar year (Spectrum's second and third fiscal quarters). Small Appliances peaks from July through December primarily due to the increased demand by customers in the late summer for back-to-school sales and in the fall for the holiday season. As a result of this seasonality, our inventory and working capital needs fluctuate significantly during the year. In addition, orders from retailers are often made late in the period preceding the applicable peak season, making forecasting of production schedules and inventory purchases difficult. If we are unable to accurately forecast and prepare for customer orders or our working capital needs, or there is a general downturn in business or economic conditions during these periods, our business, financial condition and results of operations could be materially and adversely affected.

***We are subject to significant international business risks that could hurt our business and cause our results of operations to fluctuate.***

Approximately 44% of our net sales for the fiscal year ended September 30, 2011 were from customers outside of the U.S. Our pursuit of international growth opportunities may require significant investments for an extended period before returns on these investments, if any, are realized. Our international operations are subject to risks including, among others:

currency fluctuations, including, without limitation, fluctuations in the foreign exchange rate of the Euro;

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changes in the economic conditions or consumer preferences or demand for our products in these markets;

the risk that because our brand names may not be locally recognized, we must spend significant amounts of time and money to build brand recognition without certainty that we will be successful;

labor unrest;

**Table of Contents**

political and economic instability, as a result of terrorist attacks, natural disasters or otherwise;

lack of developed infrastructure;

longer payment cycles and greater difficulty in collecting accounts;

restrictions on transfers of funds;

import and export duties and quotas, as well as general transportation costs;

changes in domestic and international customs and tariffs;

changes in foreign labor laws and regulations affecting our ability to hire and retain employees;

inadequate protection of intellectual property in foreign countries;

unexpected changes in regulatory environments;

difficulty in complying with foreign law;

difficulty in obtaining distribution and support; and

adverse tax consequences.

The foregoing factors may have a material adverse effect on our ability to increase or maintain our supply of products, financial condition or results of operations.

***Adverse weather conditions during our peak selling season for our home and garden control products could have a material adverse effect on our Home and Garden Business.***

Weather conditions in the U.S. have a significant impact on the timing and volume of sales of certain of our lawn and garden and household insecticide and repellent products. Periods of dry, hot weather can decrease insecticide sales, while periods of cold and wet weather can slow sales of herbicides.

***Our products utilize certain key raw materials; any increase in the price of, or change in supply and demand for, these raw materials could have a material and adverse effect on our business, financial condition and profits.***

The principal raw materials used to produce our products including zinc powder, electrolytic manganese dioxide powder, petroleum-based plastic materials, steel, aluminum, copper and corrugated materials (for packaging) are sourced either on a global or regional basis by us or our suppliers, and the prices of those raw materials are susceptible to price fluctuations due to supply and demand trends, energy costs, transportation costs, government regulations, duties and tariffs, changes in currency exchange rates, price controls, general economic conditions and other unforeseen circumstances. In particular, during 2008 and 2010, and to date in 2011, we experienced extraordinary price increases for raw materials, particularly as a result of strong demand from China. Although we may increase the prices of certain of our goods to our

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customers, we may not be able to pass all of these cost increases on to our customers. As a result, our margins may be adversely impacted by such cost increases. We cannot provide any assurance that our sources of supply will not be interrupted due to changes in worldwide supply of or demand for raw materials or other events that interrupt material flow, which may have an adverse effect on our profitability and results of operations.

We regularly engage in forward purchase and hedging derivative transactions in an attempt to effectively manage and stabilize some of the raw material costs we expect to incur over the next 12 to 24 months; however, our hedging positions may not be effective, or may not anticipate beneficial trends, in a particular raw material market or may, as a result of changes in our business, no longer be useful for us. In addition, for certain of the principal raw materials we use to produce our products, such as electrolytic manganese dioxide powder, there are no available effective hedging markets. If these efforts are not effective or expose us to above average costs for an extended period of time, and we are unable to pass our raw materials costs on to our customers, our future profitability may be materially and adversely affected. Furthermore, with respect to transportation costs, certain modes of delivery are subject to fuel surcharges which are determined based upon the current cost of diesel fuel in relation to pre-established agreed upon costs. We may be unable to pass these fuel surcharges on to our customers, which may have an adverse effect on our profitability and results of operations.

In addition, we have exclusivity arrangements and minimum purchase requirements with certain of our suppliers for the Home and Garden Business, which increase our dependence upon and exposure to those suppliers. Some of those agreements include caps on the price we pay for our supplies and in certain instances, these caps have allowed us to purchase materials at below market prices. When we attempt to renew those contracts, the other parties to the contracts may not be willing to include or may limit the effect of those caps and could even attempt to impose above market prices in an effort to make up for any below market prices paid by us prior to the renewal of the agreement. Any failure to timely obtain suitable supplies at competitive prices could materially adversely affect our business, financial condition and results of operations.



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**Table of Contents**

***We may not be able to fully utilize our U.S. net operating loss carryforwards.***

As of September 30, 2011, Spectrum Brands has U.S. federal and state net operating loss carryforwards of approximately \$1,163 million and \$1,197 million, respectively. These net operating loss carryforwards expire through years ending in 2032. As of September 30, 2011, our management determined that it continues to be more likely than not that the U.S. net deferred tax asset, excluding certain indefinite-lived assets, will not be realized in the future and as such recorded a full valuation allowance to offset the net U.S. deferred tax asset, including Spectrum Brands' net operating loss carryforwards. In addition, Spectrum Brands has had changes of ownership, as defined under Section 382 of the Internal Revenue Code of 1986, as amended (the "IRC"), that continue to subject a significant amount of Spectrum Brands' U.S. net operating losses and other tax attributes to certain limitations.

As a consequence of the Salton-Applica merger, as well as earlier business combinations and issuances of common stock consummated by both companies, use of the tax benefits of Russell Hobbs' U.S. loss carryforwards is also subject to limitations imposed by Section 382 of the IRC. We expect that a significant portion of these carryforwards will not be available to offset future taxable income, if any. In addition, use of Russell Hobbs' net operating loss and credit carryforwards is dependent upon both Russell Hobbs and us achieving profitable results in the future. The Russell Hobbs' U.S. net operating loss carryforwards are subject to a full valuation allowance at September 30, 2010.

We estimate that approximately \$302 million of the Spectrum and Russell Hobbs U.S. federal net operating losses and \$385 million of the Spectrum and Russell Hobbs state net operating losses would expire unused even if the Company generates sufficient income to otherwise use all its net operating losses, due to the limitation in Section 382 of the IRC.

If we are unable to fully utilize our net operating losses, other than those restricted under Section 382 of the IRC, as discussed above, to offset taxable income generated in the future, our results of operations could be materially and negatively impacted.

***Consolidation of retailers and our dependence on a small number of key customers for a significant percentage of our sales may negatively affect our business, financial condition and results of operations.***

As a result of consolidation of retailers and consumer trends toward national mass merchandisers, a significant percentage of our sales are attributable to a very limited group of customers. Our largest customer accounted for approximately 24% of our consolidated net sales for the fiscal year ended September 30, 2011. As these mass merchandisers and retailers grow larger and become more sophisticated, they may demand lower pricing, special packaging, or impose other requirements on product suppliers. These business demands may relate to inventory practices, logistics, or other aspects of the customer-supplier relationship. Because of the importance of these key customers, demands for price reductions or promotions, reductions in their purchases, changes in their financial condition or loss of their accounts could have a material adverse effect on our business, financial condition and results of operations.

Although we have long-established relationships with many of our customers, we do not have long-term agreements with them and purchases are generally made through the use of individual purchase orders. Any significant reduction in purchases, failure to obtain anticipated orders or delays or cancellations of orders by any of these major customers, or significant pressure to reduce prices from any of these major customers, could have a material adverse effect on our business, financial condition and results of operations. Additionally, a significant deterioration in the financial condition of the retail industry in general could have a material adverse effect on our sales and profitability.

In addition, as a result of the desire of retailers to more closely manage inventory levels, there is a growing trend among them to purchase products on a "just-in-time" basis. Due to a number of factors, including (i) manufacturing lead-times, (ii) seasonal purchasing patterns and (iii) the potential for material price increases, we may be required to shorten our lead-time for production and more closely anticipate our retailers' and customers' demands, which could in the future require us to carry additional inventories and increase our working capital and related financing requirements. This may increase the cost of warehousing inventory or result in excess inventory becoming difficult to manage, unusable or obsolete. In addition, if our retailers significantly change their inventory management strategies, we may encounter difficulties in filling customer orders or in liquidating excess inventories, or may find that customers are cancelling orders or returning products, which may have a material adverse effect on our business.

Furthermore, we primarily sell branded products and a move by one or more of our large customers to sell significant quantities of private label products, which we do not produce on their behalf and which directly compete with our products, could have a material adverse effect on our business, financial condition and results of operations.

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## **Table of Contents**

### ***As a result of our international operations, we face a number of risks related to exchange rates and foreign currencies.***

Our international sales and certain of our expenses are transacted in foreign currencies. During the fiscal year ended September 30, 2011, approximately 44% of our net sales and 45% of our operating expenses were denominated in foreign currencies. We expect that the amount of our revenues and expenses transacted in foreign currencies will increase as our Latin American, European and Asian operations grow and, as a result, our exposure to risks associated with foreign currencies could increase accordingly. Significant changes in the value of the U.S. dollar in relation to foreign currencies will affect our cost of goods sold and our operating margins and could result in exchange losses or otherwise have a material effect on our business, financial condition and results of operations. Changes in currency exchange rates may also affect our sales to, purchases from and loans to our subsidiaries as well as sales to, purchases from and bank lines of credit with our customers, suppliers and creditors that are denominated in foreign currencies.

We source many products from China and other Asian countries. To the extent the Chinese Renminbi ( RMB ) or other currencies appreciate with respect to the U.S. dollar, we may experience fluctuations in our results of operations. Since 2005, the RMB has no longer been pegged to the U.S. dollar at a constant exchange rate and instead fluctuates versus a basket of currencies. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate within a flexible peg range against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future Chinese authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market.

While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and we may not be able to successfully hedge our exposure to currency fluctuations. Further, we may not be successful in implementing customer pricing or other actions in an effort to mitigate the impact of currency fluctuations and, thus, our results of operations may be adversely impacted.

### ***A deterioration in trade relations with China could lead to a substantial increase in tariffs imposed on goods of Chinese origin, which potentially could reduce demand for and sales of our products.***

We purchase a number of our products and supplies from suppliers located in China. China gained Permanent Normal Trade Relations ( PNTR ) with the U.S. when it acceded to the World Trade Organization ( WTO ), effective January 2002. The U.S. imposes the lowest applicable tariffs on exports from PNTR countries to the U.S. In order to maintain its WTO membership, China has agreed to several requirements, including the elimination of caps on foreign ownership of Chinese companies, lowering tariffs and publicizing its laws. China may not meet these requirements and, as a result, it may not remain a member of the WTO, and its PNTR trading status may not be maintained. If China's WTO membership is withdrawn or if PNTR status for goods produced in China were removed, there could be a substantial increase in tariffs imposed on goods of Chinese origin entering the U.S. which could have a material negative adverse effect on our sales and gross margin. Furthermore, on October 11, 2011, the U.S. Senate approved a bill to impose sanctions against China for its currency valuation, although the future status of this bill is uncertain. If this bill is enacted into law, the U.S. government may impose duties on products from China and other countries found to be subsidizing their exports by undervaluing their currencies, which may increase the costs of goods produced in China, or prompt China to retaliate with other tariffs or other actions. Any such series of events could have a material negative adverse effect on our sales and gross margin.

### ***Our international operations may expose us to risks related to compliance with the laws and regulations of foreign countries.***

We are subject to three EU Directives that may have a material impact on our business: Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment, Waste of Electrical and Electronic Equipment and the Directive on Batteries and Accumulators and Waste Batteries, discussed below. Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment requires us to eliminate specified hazardous materials from products we sell in EU member states. Waste of Electrical and Electronic Equipment requires us to collect and treat, dispose of or recycle certain products we manufacture or import into the EU at our own expense. The EU Directive on Batteries and Accumulators and Waste Batteries bans heavy metals in batteries by establishing maximum quantities of heavy metals in batteries and mandates waste management of these batteries, including collection, recycling and disposal systems, with the costs imposed upon producers and importers such as us. The costs associated with maintaining compliance or failing to comply with the EU Directives may harm our business. For example:

Although contracts with our suppliers address related compliance issues, we may be unable to procure appropriate Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment compliant material in sufficient quantity and quality and/or be able to incorporate it into our product procurement processes without compromising quality and/or harming our cost structure.

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**Table of Contents**

We may face excess and obsolete inventory risk related to non-compliant inventory that we may continue to hold in fiscal 2011 for which there is reduced demand, and we may need to write down the carrying value of such inventories.

We may be unable to sell certain existing inventories of our batteries in Europe.

Many of the developing countries in which we operate do not have significant governmental regulation relating to environmental safety, occupational safety, employment practices or other business matters routinely regulated in the U.S. or may not rigorously enforce such regulation. As these countries and their economies develop, it is possible that new regulations or increased enforcement of existing regulations may increase the expense of doing business in these countries. In addition, social legislation in many countries in which we operate may result in significantly higher expenses associated with labor costs, terminating employees or distributors and closing manufacturing facilities. Increases in our costs as a result of increased regulation, legislation or enforcement could materially and adversely affect our business, results of operations and financial condition.

***We may not be able to adequately establish and protect our intellectual property rights, and the infringement or loss of our intellectual property rights could harm our business.***

To establish and protect our intellectual property rights, we rely upon a combination of national, foreign and multi-national patent, trademark and trade secret laws, together with licenses, confidentiality agreements and other contractual arrangements. The measures that we take to protect our intellectual property rights may prove inadequate to prevent third parties from infringing or misappropriating our intellectual property. We may need to resort to litigation to enforce or defend our intellectual property rights. If a competitor or collaborator files a patent application claiming technology also claimed by us, or a trademark application claiming a trademark, service mark or trade dress also used by us, in order to protect our rights, we may have to participate in expensive and time consuming opposition or interference proceedings before the U.S. Patent and Trademark Office or a similar foreign agency. Similarly, our intellectual property rights may be challenged by third parties or invalidated through administrative process or litigation. The costs associated with protecting intellectual property rights, including litigation costs, may be material. For example, our Small Appliances segment has spent several million dollars on protecting its patented automatic litter box business over the last few years. Furthermore, even if our intellectual property rights are not directly challenged, disputes among third parties could lead to the weakening or invalidation of our intellectual property rights, or our competitors may independently develop technologies that are substantially equivalent or superior to our technology. Obtaining, protecting and defending intellectual property rights can be time consuming and expensive, and may require us to incur substantial costs, including the diversion of the time and resources of management and technical personnel.

Moreover, the laws of certain foreign countries in which we operate or may operate in the future do not protect, and the governments of certain foreign countries do not enforce, intellectual property rights to the same extent as do the laws and government of the U.S., which may negate our competitive or technological advantages in such markets. Also, some of the technology underlying our products is the subject of nonexclusive licenses from third parties. As a result, this technology could be made available to our competitors at any time. If we are unable to establish and then adequately protect our intellectual property rights, our business, financial condition and results of operations could be materially and adversely affected.

We license various trademarks, trade names and patents from third parties for certain of our products. These licenses generally place marketing obligations on us and require us to pay fees and royalties based on net sales or profits. Typically, these licenses may be terminated if we fail to satisfy certain minimum sales obligations or if we breach the terms of the license. The termination of these licensing arrangements could adversely affect our business, financial condition and results of operations.

In our Global Batteries & Appliances segment, we license the use of the *Black & Decker* brand for marketing in certain small household appliances in North America, South America (excluding Brazil) and the Caribbean. Sales of *Black & Decker* branded products represented approximately 14% of the total consolidated revenue in Fiscal 2011. In July 2011, BDC extended the license agreement through December 2015. The failure to renew the license agreement with BDC or to enter into a new agreement on acceptable terms could have a material adverse effect on our financial condition, liquidity and results of operations.

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**Table of Contents**

***Claims by third parties that we are infringing their intellectual property and other litigation could adversely affect our business.***

From time to time in the past we have been subject to claims that we are infringing the intellectual property of others. We currently are the subject of such claims and it is possible that third parties will assert infringement claims against us in the future. An adverse finding against us in these or similar trademark or other intellectual property litigations may have a material adverse effect on our business, financial condition and results of operations. Any such claims, with or without merit, could be time consuming and expensive, and may require us to incur substantial costs, including the diversion of the resources of management and technical personnel, cause product delays or require us to enter into licensing or other agreements in order to secure continued access to necessary or desirable intellectual property. If we are deemed to be infringing a third party's intellectual property and are unable to continue using that intellectual property as we had been, our business and results of operations could be harmed if we are unable to successfully develop non-infringing alternative intellectual property on a timely basis or license non-infringing alternatives or substitutes, if any exist, on commercially reasonable terms. In addition, an unfavorable ruling in intellectual property litigation could subject us to significant liability, as well as require us to cease developing, manufacturing or selling the affected products or using the affected processes or trademarks. Any significant restriction on our proprietary or licensed intellectual property that impedes our ability to develop and commercialize our products could have a material adverse effect on our business, financial condition and results of operations.

***Our dependence on a few suppliers and one of our U.S. facilities for certain of our products makes us vulnerable to a disruption in the supply of our products.***

Although we have long-standing relationships with many of our suppliers, we generally do not have long-term contracts with them. An adverse change in any of the following could have a material adverse effect on our business, financial condition and results of operations:

our ability to identify and develop relationships with qualified suppliers;

the terms and conditions upon which we purchase products from our suppliers, including applicable exchange rates, transport costs and other costs, our suppliers' willingness to extend credit to us to finance our inventory purchases and other factors beyond our control;

the financial condition of our suppliers;

political instability in the countries in which our suppliers are located;

our ability to import outsourced products;

our suppliers' noncompliance with applicable laws, trade restrictions and tariffs; or

our suppliers' ability to manufacture and deliver outsourced products according to our standards of quality on a timely and efficient basis.

If our relationship with one of our key suppliers is adversely affected, we may not be able to quickly or effectively replace such supplier and may not be able to retrieve tooling, molds or other specialized production equipment or processes used by such supplier in the manufacture of our products.

In addition, we manufacture the majority of our foil cutting systems for our shaving product lines, using specially designed machines and proprietary cutting technology, at our Portage, Wisconsin facility. Damage to this facility, or prolonged interruption in the operations of this facility for repairs, as a result of labor difficulties or for other reasons, could have a material adverse effect on our ability to manufacture and sell our foil shaving products which could in turn harm our business, financial condition and results of operations.

*We face risks related to our sales of products obtained from third-party suppliers.*

We sell a significant number of products that are manufactured by third party suppliers over which we have no direct control. While we have implemented processes and procedures to try to ensure that the suppliers we use are complying with all applicable regulations, there can be no assurances that such suppliers in all instances will comply with such processes and procedures or otherwise with applicable regulations. Noncompliance could result in our marketing and distribution of contaminated, defective or dangerous products which could subject us to liabilities and could result in the imposition by governmental authorities of procedures or penalties that could restrict or eliminate our ability to purchase products from non-compliant suppliers. Any or all of these effects could adversely affect our business, financial condition and results of operations.

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## **Table of Contents**

### ***Class action and derivative action lawsuits and other investigations, regardless of their merits, could have an adverse effect on our business, financial condition and results of operations.***

We and certain of our officers and directors have been named in the past, and, along with the officers and directors of SB Holdings, may be named in the future, as defendants of class action and derivative action lawsuits. In the past, we have also received requests for information from government authorities. Regardless of their subject matter or merits, class action lawsuits and other government investigations may result in significant cost to us, which may not be covered by insurance, may divert the attention of management or may otherwise have an adverse effect on our business, financial condition and results of operations.

### ***We may be exposed to significant product liability claims which our insurance may not cover and which could harm our reputation.***

In the ordinary course of our business, we may be named as a defendant in lawsuits involving product liability claims. In any such proceeding, plaintiffs may seek to recover large and sometimes unspecified amounts of damages and the matters may remain unresolved for several years. Any such matters could have a material adverse effect on our business, results of operations and financial condition if we are unable to successfully defend against or settle these matters or if our insurance coverage is insufficient to satisfy any judgments against us or settlements relating to these matters. Although we have product liability insurance coverage and an excess umbrella policy, our insurance policies may not provide coverage for certain, or any, claims against us or may not be sufficient to cover all possible liabilities. Additionally, we do not maintain product recall insurance. We may not be able to maintain such insurance on acceptable terms, if at all, in the future. Moreover, any adverse publicity arising from claims made against us, even if the claims were not successful, could adversely affect the reputation and sales of our products. In particular, product recalls or product liability claims challenging the safety of our products may result in a decline in sales for a particular product. This could be true even if the claims themselves are ultimately settled for immaterial amounts. This type of adverse publicity could occur and product liability claims could be made in the future.

### ***We may incur material capital and other costs due to environmental liabilities.***

We are subject to a broad range of federal, state, local, foreign and multi-national laws and regulations relating to the environment. These include laws and regulations that govern:

discharges to the air, water and land;

the handling and disposal of solid and hazardous substances and wastes; and

remediation of contamination associated with release of hazardous substances at our facilities and at off-site disposal locations.

Risk of environmental liability is inherent in our business. As a result, material environmental costs may arise in the future. In particular, we may incur capital and other costs to comply with increasingly stringent environmental laws and enforcement policies, such as the EU Directives: Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment, Waste of Electrical and Electronic Equipment and the Directive on Batteries and Accumulators and Waste Batteries, discussed above. Moreover, there are proposed international accords and treaties, as well as federal, state and local laws and regulations, that would attempt to control or limit the causes of climate change, including the effect of greenhouse gas emissions on the environment. In the event that the U.S. government or foreign governments enact new climate change laws or regulations or make changes to existing laws or regulations, compliance with applicable laws or regulations may result in increased manufacturing costs for our products, such as by requiring investment in new pollution control equipment or changing the ways in which certain of our products are made. We may incur some of these costs directly and others may be passed on to us from our third-party suppliers. Although we believe that we are substantially in compliance with applicable environmental laws and regulations at our facilities, we may not always be in compliance with such laws and regulations or any new laws and regulations in the future, which could have a material adverse effect on our business, financial condition and results of operations.

From time to time, we have been required to address the effect of historic activities on the environmental condition of our properties or former properties. We have not conducted invasive testing at all of our facilities to identify all potential environmental liability risks. Given the age of our facilities and the nature of our operations, material liabilities may arise in the future in connection with our current or former facilities. If previously unknown contamination of property underlying or in the vicinity of our manufacturing facilities is discovered, we could be required to incur material unforeseen expenses. If this occurs, it may have a material adverse effect on our business, financial condition and results of operations. We are currently engaged in investigative or remedial projects at a few of our facilities and any liabilities arising from such

investigative or remedial projects at such facilities may have a material effect on our business, financial condition and results of operations.

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**Table of Contents**

We are also subject to proceedings related to our disposal of industrial and hazardous material at off-site disposal locations or similar disposals made by other parties for which we are responsible as a result of our relationship with such other parties. These proceedings are under CERCLA or similar state or foreign jurisdiction laws that hold persons who arranged for the disposal or treatment of such substances strictly liable for costs incurred in responding to the release or threatened release of hazardous substances from such sites, regardless of fault or the lawfulness of the original disposal. Liability under CERCLA is typically joint and several, meaning that a liable party may be responsible for all of the costs incurred in investigating and remediating contamination at a site. We occasionally are identified by federal or state governmental agencies as being a potentially responsible party for response actions contemplated at an off-site facility. At the existing sites where we have been notified of our status as a potentially responsible party, it is either premature to determine if our potential liability, if any, will be material or we do not believe that our liability, if any, will be material. We may be named as a potentially responsible party under CERCLA or similar state or foreign jurisdiction laws in the future for other sites not currently known to us, and the costs and liabilities associated with these sites may have a material adverse effect on our business, financial condition and results of operations.

***Compliance with various public health, consumer protection and other regulations applicable to our products and facilities could increase our cost of doing business and expose us to additional requirements with which we may be unable to comply.***

Certain of our products sold through, and facilities operated under, each of our business segments are regulated by the EPA, the FDA or other federal consumer protection and product safety agencies and are subject to the regulations such agencies enforce, as well as by similar state, foreign and multinational agencies and regulations. For example, in the U.S., all products containing pesticides must be registered with the EPA and, in many cases, similar state and foreign agencies before they can be manufactured or sold. Our inability to obtain, or the cancellation of, any registration could have an adverse effect on our business, financial condition and results of operations. The severity of the effect would depend on which products were involved, whether another product could be substituted and whether our competitors were similarly affected. We attempt to anticipate regulatory developments and maintain registrations of, and access to, substitute chemicals and other ingredients, but we may not always be able to avoid or minimize these risks.

As a distributor of consumer products in the U.S., certain of our products are also subject to the Consumer Product Safety Act, which empowers the U.S. Consumer Product Safety Commission (the Consumer Commission) to exclude from the market products that are found to be unsafe or hazardous. Under certain circumstances, the Consumer Commission could require us to repair, replace or refund the purchase price of one or more of our products, or we may voluntarily do so. For example, Russell Hobbs, in cooperation with the Consumer Commission, voluntarily recalled approximately 9,800 units of a thermal coffeemaker sold under the *Black & Decker* brand in August 2009 and approximately 584,000 coffeemakers in June 2009. Any additional repurchases or recalls of our products could be costly to us and could damage the reputation or the value of our brands. If we are required to remove, or we voluntarily remove our products from the market, our reputation or brands could be tarnished and we may have large quantities of finished products that could not be sold. Furthermore, failure to timely notify the Consumer Commission of a potential safety hazard can result in significant fines being assessed against us. Additionally, laws regulating certain consumer products exist in some states, as well as in other countries in which we sell our products, and more restrictive laws and regulations may be adopted in the future.

The FQPA established a standard for food-use pesticides, which is that a reasonable certainty of no harm will result from the cumulative effect of pesticide exposures. Under the FQPA, the EPA is evaluating the cumulative effects from dietary and non-dietary exposures to pesticides. The pesticides in certain of our products that are sold through the Home and Garden Business continue to be evaluated by the EPA as part of this program. It is possible that the EPA or a third party active ingredient registrant may decide that a pesticide we use in our products will be limited or made unavailable to us. We cannot predict the outcome or the severity of the effect of the EPA's continuing evaluations of active ingredients used in our products.

In addition, the use of certain pesticide products that are sold through our Home and Garden Business may, among other things, be regulated by various local, state, federal and foreign environmental and public health agencies. These regulations may require that only certified or professional users apply the product, that users post notices on properties where products have been or will be applied or that certain ingredients may not be used. Compliance with such public health regulations could increase our cost of doing business and expose us to additional requirements with which we may be unable to comply.

Any failure to comply with these laws or regulations, or the terms of applicable environmental permits, could result in us incurring substantial costs, including fines, penalties and other civil and criminal sanctions or the prohibition of sales of our pest control products. Environmental law requirements, and the enforcement thereof, change frequently, have tended to become more stringent over time and could require us to incur significant expenses.



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## **Table of Contents**

Most federal, state and local authorities require certification by Underwriters Laboratory, Inc. ( UL ), an independent, not-for-profit corporation engaged in the testing of products for compliance with certain public safety standards, or other safety regulation certification prior to marketing electrical appliances. Foreign jurisdictions also have regulatory authorities overseeing the safety of consumer products. Our products may not meet the specifications required by these authorities. A determination that any of our products are not in compliance with these rules and regulations could result in the imposition of fines or an award of damages to private litigants.

***Public perceptions that some of the products we produce and market are not safe could adversely affect us.***

On occasion, customers and some current or former employees have alleged that some products failed to perform up to expectations or have caused damage or injury to individuals or property. Public perception that any of our products are not safe, whether justified or not, could impair our reputation, damage our brand names and have a material adverse effect on our business, financial condition and results of operations.

***If we are unable to negotiate satisfactory terms to continue existing or enter into additional collective bargaining agreements, we may experience an increased risk of labor disruptions and our results of operations and financial condition may suffer.***

Approximately 31% of our total labor force is covered by collective bargaining agreements. There are five collective bargaining agreements that will expire during our fiscal year ending September 30, 2012, which cover approximately 78% of the labor force under collective bargaining agreements, or approximately 24% of our total labor force. While we currently expect to negotiate continuations to the terms of these agreements, there can be no assurances that we will be able to obtain terms that are satisfactory to us or otherwise to reach agreement at all with the applicable parties. In addition, in the course of our business, we may also become subject to additional collective bargaining agreements. These agreements may be on terms that are less favorable than those under our current collective bargaining agreements. Increased exposure to collective bargaining agreements, whether on terms more or less favorable than our existing collective bargaining agreements, could adversely affect the operation of our business, including through increased labor expenses. While we intend to comply with all collective bargaining agreements to which we are subject, there can be no assurances that we will be able to do so and any noncompliance could subject us to disruptions in our operations and materially and adversely affect our results of operations and financial condition.

***Significant changes in actual investment return on pension assets, discount rates and other factors could affect our results of operations, equity and pension contributions in future periods.***

Our results of operations may be positively or negatively affected by the amount of income or expense we record for our defined benefit pension plans. U.S. Generally Accepted Accounting Principles ( GAAP ) requires that we calculate income or expense for the plans using actuarial valuations. These valuations reflect assumptions about financial market and other economic conditions, which may change based on changes in key economic indicators. The most significant year-end assumptions we used to estimate pension income or expense are the discount rate and the expected long-term rate of return on plan assets. In addition, we are required to make an annual measurement of plan assets and liabilities, which may result in a significant change to equity. Although pension expense and pension funding contributions are not directly related, key economic factors that affect pension expense would also likely affect the amount of cash we would contribute to pension plans as required under the Employee Retirement Income Security Act of 1974, as amended.

***If our goodwill, indefinite-lived intangible assets or other long-term assets become impaired, we will be required to record additional impairment charges, which may be significant.***

A significant portion of our long-term assets consist of goodwill, other indefinite-lived intangible assets and finite-lived intangible assets recorded as a result of past acquisitions as well as through fresh start reporting. We do not amortize goodwill and indefinite-lived intangible assets, but rather review them for impairment on a periodic basis or whenever events or changes in circumstances indicate that their carrying value may not be recoverable. We consider whether circumstances or conditions exist which suggest that the carrying value of our goodwill and other long-lived intangible assets might be impaired. If such circumstances or conditions exist, further steps are required in order to determine whether the carrying value of each of the individual assets exceeds its fair value. If analysis indicates that an individual asset's carrying value does exceed its fair value, the next step is to record a loss equal to the excess of the individual asset's carrying value over its fair value.

The steps required by GAAP entail significant amounts of judgment and subjectivity. Events and changes in circumstances that may indicate that there may be an impairment and which may indicate that interim impairment testing is necessary include, but are not limited to: strategic decisions to exit a business or dispose of an asset made in response to changes in economic, political and competitive conditions; the impact of the economic environment on the customer base and



**Table of Contents**

on broad market conditions that drive valuation considerations by market participants; our internal expectations with regard to future revenue growth and the assumptions we make when performing impairment reviews; a significant decrease in the market price of our assets; a significant adverse change in the extent or manner in which our assets are used; a significant adverse change in legal factors or the business climate that could affect our assets; an accumulation of costs significantly in excess of the amount originally expected for the acquisition of an asset; and significant changes in the cash flows associated with an asset. As a result of such circumstances, we may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill, indefinite-lived intangible assets or other long-term assets is determined. Any such impairment charges could have a material adverse effect on our business, financial condition and operating results.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

The following table lists our principal owned or leased manufacturing, packaging, and distribution facilities at September 30, 2011:

<b>Facility</b>	<b>Function</b>
<b><i>Global Batteries &amp; Appliances</i></b>	
Fennimore, Wisconsin(1)	Alkaline Battery Manufacturing
Portage, Wisconsin(1)	Zinc Air Button Cell and Lithium Coin Cell Battery, Foil Shaver Component Manufacturing
Dischingen, Germany(1)	Alkaline Battery Manufacturing
Washington, UK(2)	Zinc Air Button Cell Battery Manufacturing & Distribution
Guatemala City, Guatemala(1)	Zinc Carbon Battery Manufacturing
Jaboatao, Brazil(1)	Zinc Carbon Battery Manufacturing
Manizales, Colombia(3)	Zinc Carbon Battery Manufacturing
Dixon, Illinois(2)	Battery & Lighting Device Packaging & Distribution
Ellwangen-Neunheim, Germany(2)	Battery & Lighting Device, Electric Shaver & Personal Care Product Distribution
Redlands, California(2)	Warehouse, Electric Shaver & Personal Care Product Distribution
Manchester, England(1)	Warehouse and Sales and administrative office
Wolverhampton, England(1)	Warehouse
Wolverhampton, England(2)	Warehouse
<b><i>Global Pet Supplies</i></b>	
Noblesville, Indiana(1)	Pet Supply Manufacturing & Distribution
Moorpark, California(2)	Pet Supply Manufacturing
Bridgeton, Missouri(2)	Pet Supply Manufacturing
Blacksburg, Virginia(1)	Pet Supply Manufacturing & Distribution
Melle, Germany(1)	Pet Supply Manufacturing
Melle, Germany(2)	Pet Supply Distribution
Edwardsville, Illinois(2)	Pet Supply Manufacturing & Distribution
Grand Rapids, Michigan(2)	Pet Supply Manufacturing & Distribution
Roanoke, Virginia(2)	Pet Supply Distribution
<b><i>Home and Garden Business</i></b>	
Vinita Park, Missouri(2)	Household & Controls and Contract Manufacturing
Earth City, Missouri(2)	Household & Controls Manufacturing

(1) Facility is owned.

(2) Facility is leased.

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(3) Facility was shut down in November 2011.

We also own, operate or contract with third parties to operate distribution centers, sales offices and administrative offices throughout the world in support of our business. We lease our administrative headquarters and primary research and development facility located in Madison, Wisconsin.

**Table of Contents**

We believe that our existing facilities are suitable and adequate for our present purposes and that the productive capacity in such facilities is substantially being utilized or we have plans to utilize it.

ITEM 3. LEGAL PROCEEDINGS

**Litigation**

We are a defendant in various other matters of litigation generally arising out of the ordinary course of business.

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

**Environmental**

We have provided for the estimated costs associated with environmental remediation activities at some of our current and former manufacturing sites. We believe that any additional liability in excess of the amounts provided of approximately \$7 million, which may result from resolution of these matters, will not have a material adverse effect on our financial condition, results of operations or cash flows.

We are subject to various federal, state and local environmental laws and regulations. We believe we are in substantial compliance with all such environmental laws that are applicable to our operations. See also the discussion captioned Governmental Regulations and Environmental Matters under Item 1 above.

ITEM 4. (REMOVED AND RESERVED)

**Table of Contents**

**PART II**

**ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

We are a wholly-owned subsidiary of SB Holdings. Accordingly, there is no established public trading market for our common stock.

During the fiscal years ended September 30, 2010 and 2011, there were no cash dividends distributed to SB Holdings. Certain restrictive covenants in the 2019 Indenture and the Senior Secured Facilities impose limitations on the payment of dividends to SB Holdings.

There was one record holder of our common stock at December 5, 2011.

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

The following selected historical financial data is derived from our audited consolidated financial statements. Only our Consolidated Statements of Financial Position as of September 30, 2011 and 2010 and our Consolidated Statements of Operations, Consolidated Statements of Shareholders' Equity (Deficit) and Comprehensive Income (Loss) and Consolidated Statements of Cash Flows for the years ended September 30, 2011, 2010 and 2009 are included elsewhere in this Annual Report on Form 10-K. The information presented below as of and for the fiscal years ended September 30, 2011 and 2010 also includes that of Russell Hobbs since the Merger on June 16, 2010.

On November 5, 2008, Spectrum Brands' board of directors committed to the shutdown of the growing products portion of the Home and Garden Business, which includes the manufacturing and marketing of fertilizers, enriched soils, mulch and grass seed, following an evaluation of the historical lack of profitability and the projected input costs and significant working capital demands for the growing product portion of the Home and Garden Business during Fiscal 2009. During the second quarter of Fiscal 2009, we completed the shutdown of the growing products portion of the Home and Garden Business and, accordingly, began reporting the results of operations of this business as discontinued operations. Therefore, the presentation of all historical continuing operations has been changed to exclude the growing products portion of the Home and Garden Business. The following selected financial data, which may not be indicative of future performance, should be read in conjunction with our consolidated financial statements and notes thereto and the information contained in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein.

	Successor Company		Period		Predecessor Company	
	2011	2010	from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009	2008	2007
<b>Statement of Operations Data:</b>						
Net sales	\$ 3,186.9	\$ 2,567.0	\$ 219.9	\$ 2,010.6	\$ 2,426.6	\$ 2,332.7
Gross profit	1,128.9	921.4	64.4	751.8	920.1	876.7
Operating income (loss)(1)	228.7	169.1	0.1	156.8	(684.6)	(251.8)
Interest expense (12)	\$ 208.5	\$ 277.0	\$ 17.0	\$ 172.9	\$ 229.0	\$ 255.8
Other expense (income), net	2.5	12.3	(0.8)	3.3	1.2	(0.3)
Reorganization items expense (income), net		4	4	(1,143)		
Income (loss) from continuing operations before income taxes	17.7	(123.8)	(20.0)	1,123.4	(914.8)	(507.2)
(Loss) income from discontinued operations, net of tax(2)		(2.7)	0.4	(86.8)	(26.2)	(33.7)
Net (loss) income(3)(4)(5)(6)(7)	(74.6)	(189.8)	(70.8)	1,013.9	(931.5)	(596.7)
Restructuring and related charges - cost of goods sold(8)	\$ 7.8	\$ 7.1	\$ 0.2	\$ 13.2	\$ 16.5	\$ 31.3
Restructuring and related charges - operating expenses(8)	20.8	17.0	1.6	30.9	22.8	66.7
<b>Per Share Data:</b>						
<b>Cash Flow and Related Data:</b>						
Net cash provided (used) by operating activities	\$ 232.2	\$ 57.3	\$ 75.0	\$ 1.6	\$ (10.2)	\$ (32.6)
Capital expenditures(10)	36.2	40.3	2.7	8.1	18.9	23.2
Depreciation and amortization (excluding amortization of debt issuance costs)(10)	134.7	117.3	8.6	58.5	85.0	77.4
<b>Statement of Financial Position Data (at period end):</b>						
Cash and cash equivalents	\$ 142.4	\$ 170.6	\$ 97.8		\$ 104.8	\$ 69.9
Working capital(11)	412.0	537.3	323.7		371.5	370.2
Total assets	3,622.3	3,873.7	3,020.7		2,247.5	3,211.4
Total long-term debt, net of current maturities	1,535.5	1,723.1	1,530.0		2,474.8	2,416.9
Total debt	1,576.6	1,743.8	1,583.5		2,523.4	2,460.4
Total shareholders' equity (deficit)	989.1	1,046.7	660.9		(1,027.2)	(103.8)

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- (1) Pursuant to the guidance in Financial Accounting Standards Board Codification Topic 350: *Intangibles-Goodwill and Other*, we conduct annual impairment testing of goodwill and indefinite-lived intangible assets. As a result of these analyses we recorded non-cash pretax impairment charges of approximately \$32 million, \$34 million, \$861 million and \$362 million in Fiscal 2011, the period from October 1, 2008 through August 30, 2009, Fiscal 2008 and Fiscal 2007, respectively. No non-cash impairment charges were recorded during Fiscal 2010 and the period from August 31, 2009 through September 30, 2009. See the *Critical Accounting Policies Valuation of Assets and Asset Impairment* section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations as well as Note 2(i), Significant Accounting Policies Intangible Assets, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further details on impairment charges.



**Table of Contents**

- (2) Fiscal 2007 loss from discontinued operations, net of tax, includes a non-cash pretax impairment charge of approximately \$45 million to reduce the carrying value of certain assets, principally consisting of goodwill and intangible assets, relating to the Canadian Division of our Home and Garden Business in order to reflect the estimated fair value of this business. Fiscal 2008 loss from discontinued operations, net of tax, includes a non-cash pretax impairment charge of approximately \$8 million to reduce the carrying value of intangible assets relating to the growing products portion of our Home and Garden Business in order to reflect the estimated fair value of this business.
- (3) Fiscal 2011 income tax expense of \$92 million includes a non-cash charge of approximately \$65 million resulting from an increase in the valuation allowance against certain net deferred tax assets.
- (4) Fiscal 2010 income tax expense of \$63 million includes a non-cash charge of approximately \$92 million resulting from an increase in the valuation allowance against certain net deferred tax assets.
- (5) Included in the period from August 31, 2009 through September 30, 2009 for the Successor Company is a non-cash tax charge of \$58 million related to the residual U.S. and foreign taxes on approximately \$166 million of actual and deemed distributions of foreign earnings. Income tax expense for the Predecessor Company for the period from October 1, 2008 through August 30, 2009 includes a non-cash adjustment of approximately \$52 million resulting from a reduction in the valuation allowance against certain deferred tax assets. Included in income tax expense for the period from October 1, 2008 through August 30, 2009 for the Predecessor Company is a non-cash charge of \$104 million related to the tax effects of the fresh start adjustments. In addition, income tax expense for the Predecessor Company for this period includes the tax effect of the gain on the cancellation of debt from the extinguishment of the senior subordinated notes as well as the modification of the senior term credit facility. The tax effect of these gains increased the Company's U.S. net deferred tax asset exclusive of indefinite lived intangibles by approximately \$124 million. However, due to the Company's full valuation allowance on the U.S. net deferred tax asset exclusive of indefinite lived intangibles as of August 30, 2009, the tax effect of the gain on the cancellation of debt and the modification of the senior secured credit facility was offset by a corresponding adjustment to increase the valuation allowance for deferred tax assets by \$124 million. The tax effect of the fresh start adjustments, the gain on the cancellation of debt and the modification of the senior secured credit facility, net of corresponding adjustments to the valuation allowance, are netted against reorganization items.
- (6) Fiscal 2008 income tax benefit of \$10 million includes a non-cash charge of approximately \$222 million resulting from an increase in the valuation allowance against certain net deferred tax assets.
- (7) Fiscal 2007 income tax expense of \$56 million includes a non-cash charge of approximately \$180 million resulting from an increase in the valuation allowance against certain net deferred tax assets.
- (8) See Note 14, Restructuring and Related Charges, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further discussion.
- (9) Diluted average shares outstanding for each of Fiscal 2011, Fiscal 2010, the period from August 31, 2009 through September 30, 2009, the period from October 1, 2008 through August 30, 2009, Fiscal 2008 and Fiscal 2007 does not assume the exercise of common stock equivalents as the impact would be antidilutive.
- (10) Amounts reflect the results of continuing operations only.
- (11) Working capital is defined as current assets less current liabilities.
- (12) Fiscal 2011 includes a non-cash charge of \$24 million related to the write-off of unamortized debt issuance costs and unamortized discounts in conjunction with the refinancing of the Company's Term Debt facility. Fiscal 2010 includes a non-cash charge of \$83 million related to the write-off of unamortized debt issuance costs and unamortized discounts and premiums related to the extinguishment and refinancing of debt that was completed in conjunction with the Merger.

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**Table of Contents**

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Introduction**

The following is management's discussion of the financial results, liquidity and other key items related to our performance and should be read in conjunction with Item 6. Selected Financial Data and our Consolidated Financial Statements and related notes included in this Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation. All references to Fiscal 2011, 2010 and 2009 refer to fiscal year periods ended September 30, 2011, 2010 and 2009, respectively.

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' common stock trades on the New York Stock Exchange under the symbol "SPB."

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

Unless the context indicates otherwise, the terms the "Company," "Spectrum," "we," "our" or "us" are used to refer to Spectrum Brands and its subsidiaries subsequent to the Merger and Spectrum Brands prior to the Merger, as well as before, on and after the Effective Date. The term "Old Spectrum" refers only to Spectrum Brands, our Wisconsin predecessor, and its subsidiaries prior to the Effective Date.

On November 1, 2011, we completed a cash acquisition of certain trade name brands from The Homax Group, Inc., a portfolio company of Olympus Partners. This acquisition was not significant individually. In accordance with ASC Topic 805, *Business Combinations* ( "ASC 805" ), we will account for the acquisition by applying the acquisition method of accounting and include the fair value of acquired assets within the Company's Home and Garden Business segment. We are in process of preparing the preliminary purchase price allocation.

On November 2, 2011, we offered \$200 million aggregate principal amount of 9.5% Notes; these notes are in addition to the \$750 million aggregate principal amount of 9.5% Notes 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 Spectrum Brands' and the guarantors' assets. The additional notes will vote together with the existing 9.5% Notes.

**Business Overview**

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

We sell our products in approximately 130 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and original equipment manufacturers ( "OEMs" ) and enjoy strong name recognition in our markets under the Rayovac, VARTA and Remington brands, each of which has been in existence for more than 80 years, and under the Tetra, 8-in-1, Spectracide, Cutter, Black & Decker, George Foreman, Russell Hobbs, Farberware and various other brands.

## **Table of Contents**

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

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

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

In November 2008, our board of directors committed to the shutdown of the growing products portion of the Home and Garden Business, which includes the manufacturing and marketing of fertilizers, enriched soils, mulch and grass seed, following an evaluation of the historical lack of profitability and the projected input costs and significant working capital demands for the growing products portion of the Home and Garden Business for Fiscal 2009. We believe the shutdown was consistent with what we have done in other areas of our business to eliminate unprofitable products from our portfolio. As of March 29, 2009, we completed the shutdown of the growing products portion of the Home and Garden Business. Accordingly, the presentation herein of the results of continuing operations excludes the growing products portion of the Home and Garden Business for all periods presented. See Note 16, Discontinued Operations, to our Consolidated Financial Statements included in this Annual Report on Form 10-K for further details on the disposal of the growing products portion of the Home and Garden Business.

As a result of our Bankruptcy Filing, we were able to significantly reduce our indebtedness. As a result of the Merger, we were able to further reduce our outstanding debt leverage ratio. However, we continue to have a significant amount of indebtedness relative to our competitors and paying down outstanding indebtedness continues to be a priority for us. The Bankruptcy Filing is discussed in more detail under Chapter 11 Proceedings.

### ***Chapter 11 Proceedings and Related Reporting Impacts***

As a result of our substantial leverage, we determined that, absent a financial restructuring, we would be unable to achieve future profitability or positive cash flows on a consolidated basis solely from cash generated from operating activities or to satisfy certain payment obligations as they became due and could be at risk of not satisfying the leverage ratios to which we were subject under our then existing senior secured term loan facility, which ratios became more restrictive in future periods. Accordingly, on February 3, 2009, we announced that we had reached agreements with certain noteholders, representing, in the aggregate, approximately 70% of the face value of our then outstanding senior subordinated notes, to pursue a refinancing that, if implemented as proposed, would significantly reduce our outstanding debt. On the same day, the Debtors filed voluntary petitions under Chapter 11 of the Bankruptcy Code, in the Bankruptcy Court (the Bankruptcy Filing ) and filed with the Bankruptcy Court a proposed plan of reorganization (the Proposed Plan ) that detailed the Debtors' proposed terms for the refinancing. The Chapter 11 cases were jointly administered by the Bankruptcy Court as Case No. 09-50455 (the Bankruptcy Cases ). The Bankruptcy Court entered a written order (the Confirmation Order ) on July 15, 2009 confirming the Proposed Plan (as so confirmed, the Plan ).

The Plan became effective on the Effective Date, and the Debtors emerged from Chapter 11 of the Bankruptcy Code. Pursuant to and by operation of the Plan, on the Effective Date, all of Old Spectrum's existing equity securities, including the existing common stock and stock options, were extinguished and deemed cancelled. Reorganized Spectrum Brands, Inc. filed a certificate of incorporation authorizing new shares of common stock. Pursuant to and in accordance with the Plan, on the Effective Date, reorganized Spectrum Brands, Inc. issued a total of 27,030,000 shares of common stock and approximately \$218 million in aggregate principal amount of 12% Senior Subordinated Toggle Notes due 2019 (the 12% Notes ) to holders of allowed claims with respect to Old Spectrum's 12% Senior Subordinated Notes due 2013 (the 12% Notes ), 7/8 % Senior Subordinated Notes due 2015 (the 7/8 % Notes ) and Variable Rate Toggle Senior Subordinated Notes due 2013 (the Variable Rate Notes ) (collectively, the Senior Subordinated Notes ). For a further discussion of the 12% Notes



## **Table of Contents**

see *Debt Financing Activities 12% Notes*. Also on the Effective Date, reorganized Spectrum Brands, Inc. issued a total of 2,970,000 shares of common stock to supplemental and sub-supplemental debtor-in-possession credit facility participants in respect of the equity fee earned under the Debtors' debtor-in-possession credit facility.

### *Accounting for Reorganization*

Subsequent to the Petition Date, our financial statements are prepared in accordance with ASC Topic 852: *Reorganizations*, ( ASC 852 ). ASC 852 does not change the application of GAAP in the preparation of our financial statements. However, ASC 852 does require that financial statements for periods including and subsequent to the filing of a Chapter 11 petition, distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. In accordance with ASC 852 we have distinguished transactions and events that are directly associated with the reorganization from the ongoing operations of the business in our consolidated Statements of Operations and Cash Flows included in this Annual Report on Form 10-K., and have applied fresh-start reporting upon emergence from Chapter 11 of the Bankruptcy Code as further described below.

### *Fresh-Start Reporting*

As required by ASC 852 we adopted fresh-start reporting upon emergence from Chapter 11 of the Bankruptcy Code. We applied fresh-start reporting as of the close of our monthly period ended August 30, 2009, which we determined would be an appropriate fresh-start reporting date given that the Effective Date was August 28, 2009; the transactions that occurred during the two-day period from August 29, 2009 through August 30, 2009 were not material individually or in the aggregate; and August 30, 2009 coincided with our normal financial period close for August 2009. Upon adoption of fresh-start reporting, the recorded amounts of assets and liabilities were adjusted to reflect their estimated fair values. Accordingly, the financial information of Old Spectrum prior to the adoption of fresh-start reporting (i.e., for periods ended prior to August 30, 2009) are not comparable to the financial information for periods subsequent to August 30, 2009.

Since the reorganization value of the assets of Old Spectrum immediately before the date of confirmation of the Plan was less than the total of all post-petition liabilities and allowed claims and the holders of Old Spectrum's voting shares immediately before confirmation of the Plan received less than 50 percent of the voting shares of the emerging entity, the Company adopted fresh-start reporting as of the close of business on August 30, 2009 in accordance with ASC 852. The Consolidated Statement of Financial Position as of August 30, 2009 was adjusted to give effect to allocations to the carrying value of assets or amounts and classifications of liabilities that were necessary when adopting fresh-start reporting.

### *Cost Reduction Initiatives*

We continually seek to improve our operational efficiency, match our manufacturing capacity and product costs to market demand and better utilize our manufacturing resources. We have undertaken various initiatives to reduce manufacturing and operating costs.

*Fiscal 2009.* In connection with our announcement of a plan to reduce headcount within each of our segments and to exit certain facilities in the U.S. related to the Global Pet Supplies segment, we implemented a number of cost reduction initiatives (the Global Cost Reduction Initiatives ). These initiatives also included consultation, legal and accounting fees related to the evaluation of our capital structure.

*Fiscal 2008.* In connection with our decision to exit our zinc carbon and alkaline battery manufacturing and distribution facility in Ninghai, China, we undertook cost reduction initiatives (the Ningbo Exit Plan ). These initiatives include fixed cost savings by integrating production equipment into our remaining production facilities and headcount reductions.

*Fiscal 2007.* In connection with our announcement that we would manage our business in three vertically integrated, product-focused reporting segments we undertook a number of cost reduction initiatives, primarily headcount reductions, at the corporate and operating segment levels (the Global Realignment Initiatives ), including a headcount reduction of approximately 200 employees.

### *Meeting Consumer Needs through Technology and Development*

We continue to focus our efforts on meeting consumer needs for our products through new product development and technology innovations. Research and development efforts associated with our electric shaving and grooming products allow us to deliver to the market unique cutting systems. Research and development efforts associated with our electric personal care products allow us to deliver to our customers products that save them time, provide salon alternatives and enhance their in-home personal care options. We are continuously pursuing new innovations for our shaving, grooming and hair care products including foil and rotary shaver improvements, trimmer enhancements and technologies that deliver skin and hair care benefits.



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## **Table of Contents**

During Fiscal 2011, we introduced the new Spectracide Easy Action Pump delivery system, which makes application over larger areas quick and easy by providing consumers up to five minutes of continuous spray. We also launched the Cutter Natural and Repel Natural insect repellents that offer highly effective, DEET-free protection and are priced like other repellents. Additionally, under the Remington brand we introduced the Mb Touch, a precision beard trimmer with LED touch screen controls, expanded into a pearl line of hair care accessories and began marketing the i-Light IPL device in the United States which uses cutting edge intense pulsed light technology to remove hair for up to six months and has been approved by the FDA. Furthermore, we launched coffee machines using new fast brew technology under the Farberware tradename. For the North American Aquatic business we launched energy efficient Marineland LED reef capable lights. These LEDs produce a high quality, natural-looking light that shimmers, adding depth and dimension to the aquarium. In the Companion Animal business we launched Dingo Grill House, the longer lasting combo treat made with real chicken and expanded the popular Nature's Miracle product line to include: litter and accessories, shampoo, waste management and pet crates.

During Fiscal 2010, we launched our Rayovac Platinum Nickel Metal Hydride rechargeable batteries. These batteries are ready to use directly out of the package, and stay charged up to 3 times longer than other rechargeable batteries. We also introduced Instant Ocean aquatic food and chemical products and additional products under the Dingo and Nature's Miracle brands.

During Fiscal 2009, we introduced the Roughneck Flex 360 flashlight. We also launched a long lasting zero-mercury hearing aid battery. This product provides the same long lasting performance as conventional hearing aid batteries, but with an environmentally friendly formula. During Fiscal 2009, we also introduced a line of Tetra marine aquatic products, new dog treat items and enhanced Nature's Miracle Stain & Odor products.

During Fiscal 2008, we introduced longer lasting alkaline batteries in cell sizes AA and AAA. We also launched several new products targeted at specific niche markets such as Hot Shot Spider Trap, Cutter Mosquito Stakes, Spectracide Destroyer Wasp & Hornet and Spectracide Weed Stop. We also introduced a new line of men's rotary shavers with 360° Flex & Pivot Technology. The flex and pivot technology allows the cutting blades to follow the contour of a person's face and neck. In addition, we added Teflon coated heads to our blades to reduce redness and irritation from shaving. We also introduced The Short Cut Clipper. The product is positioned as the world's first clipper with exclusive curved cutting technology. We also launched Shine Therapy, a hair straightener with vitamin conditioning technology: Vitamin E, Avocado Oil and conditioners infused into the ceramic plates.

During Fiscal 2007, advancements in shaver blade coatings continued to be significant with further introductions of Titanium, Nano-Diamond, Nano-Silver and Tourmaline on a variety of products, which allowed us to continue to launch new products or product enhancements into the market place.

### *Competitive Landscape*

We compete in seven major product categories: consumer batteries, pet supplies, home and garden control products, electric shaving and grooming products, small appliances, electric personal care products, and portable lighting.

The consumer battery product category consists of non-rechargeable alkaline or zinc carbon batteries in cell sizes of AA, AAA, C, D and 9-volt, and specialty batteries, which include rechargeable batteries, hearing aid batteries, photo batteries and watch/calculator batteries. Most consumer batteries are marketed under one of the following brands: Rayovac/VARTA, Duracell, Energizer or Panasonic. In addition, some retailers market private label batteries, particularly in Europe. The majority of consumers in North America and Europe purchase alkaline batteries. The Latin America market consists primarily of zinc carbon batteries but is gradually converting to higher-priced alkaline batteries as household disposable income grows.

We believe that we are the largest worldwide marketer of hearing aid batteries and that we continue to maintain a leading global market position. We believe that our close relationship with hearing aid manufacturers and other customers, as well as our product performance improvements and packaging innovations, position us for continued success in this category.

Our global pet supplies business comprises aquatics equipment (aquariums, filters, pumps, etc.), aquatics consumables (fish food, water treatments and conditioners, etc.) and specialty pet products for dogs, cats, birds and other small domestic animals. The pet supply market is extremely fragmented, with no competitor holding a market share greater than twenty percent. We believe that our brand positioning, including the leading global aquatics brand in Tetra, our diverse array of innovative and attractive products and our strong retail relationships and global infrastructure will allow us to remain competitive in this fast growing industry.





## **Table of Contents**

Products in our home and garden category are sold through the Home and Garden Business. The Home and Garden Business manufactures and markets outdoor and indoor insect control products, rodenticides, herbicides and plant foods. The Home and Garden Business operates in the U.S. market under the brand names Spectracide, Cutter and Garden Safe. The Home and Garden Business' marketing position is primarily that of a value brand, enhanced and supported by innovative products and packaging to drive sales at the point of purchase. The Home and Garden Business' primary competitors include The Scotts Miracle-Gro Company, Central Garden & Pet Company and S.C. Johnson & Son, Inc.

We also operate in the shaving and grooming and personal care product category, consisting of electric shavers and accessories, electric grooming products and hair care appliances. Electric shavers include men's and women's shavers (both rotary and foil design) and electric shaver accessories consisting of shaver replacement parts (primarily foils and cutters), pre-shave products and cleaning agents. Electric shavers are marketed primarily under one of the following global brands: our Remington brand, Braun and Norelco. Electric grooming products include beard and mustache trimmers, nose and ear trimmers, body groomers and haircut kits and related accessories. Hair care appliances include hair dryers, straightening irons, styling irons and hair-setters. Europe and North America account for the majority of our worldwide product category sales. Our major competitors in the electric personal care product category are Conair Corporation, Wahl Clipper Corporation and Helen of Troy Limited.

Products in our small appliances category consist of small electrical appliances primarily in the kitchen and home product categories. Primary competitor brands in the small appliance category include Hamilton Beach, Procter Silex, Sunbeam, Mr. Coffee, Oster, General Electric, Rowenta, DeLonghi, Kitchen Aid, Cuisinart, Krups, Braun, Rival, Europro, Kenwood, Philips, Morphy Richards, Breville and Tefal.

The following factors contribute to our ability to succeed in these highly competitive product categories:

*Strong Diversified Global Brand Portfolio.* We have a global portfolio of well-recognized consumer product brands. We believe that the strength of our brands positions us to extend our product lines and provide our retail customers with strong sell-through to consumers.

*Strong Global Retail Relationships.* We have well-established business relationships with many of the top global retailers, distributors and wholesalers, which have assisted us in our efforts to expand our overall market penetration and promote sales.

*Expansive Distribution Network.* We distribute our products in approximately 130 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and OEMs.

*Innovative New Products, Packaging and Technologies.* We have a long history of product and packaging innovations in each of our seven product categories and continually seek to introduce new products both as extensions of existing product lines and as new product categories.

*Experienced Management Team.* Our management team has substantial consumer products experience. On average, each senior management team member has more than 20 years of experience at Spectrum, VARTA, Remington, Russell Hobbs or other branded consumer product companies such as Newell Rubbermaid, H.J. Heinz and Schering-Plough.

### *Seasonal Product Sales*

On a consolidated basis our financial results are approximately equally weighted between quarters, however, sales of certain product categories tend to be seasonal. Sales in the consumer battery, electric shaving and grooming and electric personal care product categories, particularly in North America, tend to be concentrated in the December holiday season (Spectrum's first fiscal quarter). Demand for pet supplies products remains fairly constant throughout the year. Demand for home and garden control products sold through the Home and Garden Business typically peaks during the first six months of the calendar year (Spectrum's second and third fiscal quarters). Small Appliances peaks from July through December primarily due to the increased demand by customers in the late summer for back-to-school sales and in the fall for the holiday season.



**Table of Contents**

The seasonality of our sales during the last three fiscal years is as follows:

**Percentage of Annual Sales**

Fiscal Quarter Ended	Fiscal Year Ended September 30,		
	2011	2010	2009
December	27%	23%	25%
March	22%	21%	23%
June	25%	25%	26%
September	26%	31%	26%

**Fiscal Year Ended September 30, 2011 Compared to Fiscal Year Ended September 30, 2010****Highlights of Consolidated Operating Results**

Year over year historical comparisons are influenced by the acquisition of Russell Hobbs, which is included in our Fiscal 2010 Consolidated Statements of Operations from June 16, 2010, the date of the Merger, through the end of the period. See Note 15, Acquisitions, of Notes to Consolidated Financial Statements, included in this Annual Report on Form 10-K for supplemental pro forma information providing additional year over year comparisons of the impact of the acquisition.

**Net Sales.** Net sales for Fiscal 2011 increased to \$3,187 million from \$2,567 million in Fiscal 2010, a 24.2% increase. The following table details the principal components of the change in net sales from Fiscal 2010 to Fiscal 2011 (in millions):

	Net Sales
Fiscal 2010 Net Sales	\$ 2,567
Addition of Russell Hobbs small appliances	548
Addition of Russell Hobbs pet supplies	7
Addition of Russell Hobbs home and garden control products	4
Increase in electric personal care products	28
Increase in electric shaving and grooming products	13
Increase in home and garden control products	7
Increase in lighting products	3
Decrease in pet supplies	(3)
Decrease in consumer batteries	(15)
Foreign currency impact, net	28
Fiscal 2011 Net Sales	\$ 3,187

Consolidated net sales by product line for Fiscal 2011 and Fiscal 2010 are as follows (in millions):

<i>Product line net sales</i>	Fiscal Year	
	2011	2010
Consumer batteries	\$ 862	\$ 866
Small appliances	778	231
Pet supplies	579	566
Home and garden control products	354	343
Electric shaving and grooming products	274	257
Electric personal care products	248	216

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Portable lighting products	92	88
Total net sales to external customers	\$ 3,187	\$ 2,567

Global consumer battery sales during Fiscal 2011 decreased \$4 million, or less than 1%, compared to Fiscal 2010, primarily driven by decreased sales in Latin America of \$37 million, which were tempered by increased sales in North America and Europe of \$17 million and \$5 million, respectively, coupled with favorable foreign exchange impacts of \$11 million. Sales decreases in Latin America were driven by decreased alkaline battery sales of \$11 million and zinc carbon battery sales of \$26 million primarily due to decreased volumes in Brazil as a result of competitive pressures in the region. North American sales increased as a result of strong holiday sales during our first fiscal quarter, distribution gains throughout the year and incremental sales due to strong weather patterns during Fiscal 2011. The sales increases in Europe were primarily attributable to the successful promotion of our Varta value sub-brands as well as customer gains.

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**Table of Contents**

Pet product sales during Fiscal 2011 increased \$13 million, or 2%, compared to Fiscal 2010. The increase of \$13 million is attributable to increased companion animal product sales of \$15 million, \$7 million of which was a direct result of the Merger, with the remaining \$8 million being driven by the Birdola acquisition, successful product launches and continued expansion in Europe. Favorable foreign exchange impacted sales by \$8 million. These gains were partially offset by decreased aquatics sales of \$10 million resulting from overall global macroeconomic conditions.

Sales of home and garden control products during Fiscal 2011 versus Fiscal 2010 increased \$11 million, or 3%. This increase is a result of increased household insect controls sales of \$14 million, of which \$4 million related to the Merger. The remaining growth in household insect control sales was driven by increased distribution and product placements with major customers. These gains were partially offset by a \$3 million decrease in lawn and garden control sales due to unseasonable weather conditions in the U.S. which negatively impacted the lawn and garden season.

Electric shaving and grooming product sales during Fiscal 2011 increased \$17 million, or 7%, compared to Fiscal 2010 due to increased sales within North America, Europe and Latin America of \$6 million, \$4 million and \$3 million, respectively, coupled with favorable foreign exchange translation of \$4 million. North American and European sales increases were driven by distribution and customer gains and increased online sales. Latin American sales increases were driven by distribution gains.

Electric personal care product sales during Fiscal 2011 increased \$32 million, or 15%, when compared to Fiscal 2010. The increase of \$32 million during Fiscal 2011 was attributable to increases in North America, Europe and Latin America of \$12 million, \$14 million and \$2 million, respectively, coupled with favorable foreign exchange impacts of \$4. The increases in North American and European sales were a result of successful new product launches, distribution and customer gains and increased online sales, while increases in Latin American sales were driven by distribution gains.

Sales of portable lighting products in Fiscal 2011 increased \$4 million, or 4%, compared to Fiscal 2010 as a result of increases in North America of \$7 million coupled with favorable foreign exchange translation of \$1 million, tempered by a decrease in Latin American sales of \$4 million. The increased sales in North America were primarily attributable to distribution gains, including successful launches with multiple online retailers, as well as a successful new product line launch at a major customer, whereas the sales decrease in Latin America was driven by competitive pressures in the region.

Small appliances contributed \$778 million or 24% of total net sales for Fiscal 2011 compared to \$231 million or 9% of sales in Fiscal 2010. This represents a full year of sales related to Russell Hobbs during Fiscal 2011 as compared to Fiscal 2010 in which we realized sales of the acquired business from the date of the Merger, June 16, 2010, through September 30, 2010, the close of our Fiscal 2010.

**Gross Profit.** Gross profit for Fiscal 2011 was \$1,129 million versus \$921 million during Fiscal 2010, representing a \$208 million increase. Our gross profit margin for Fiscal 2011 decreased slightly to 35.4% from 35.9% in Fiscal 2010. The increase in gross profit is primarily attributable to increased sales coupled with the non-recurrence of a \$34 million increase in cost of goods sold that resulted from the sale of inventory that was revalued in connection with our adoption of fresh-start reporting upon emergence from Chapter 11 of the Bankruptcy Code, that we recognized during the first quarter of Fiscal 2010. The increased sales due to the Merger accounted for a gross profit increase of \$152 million during Fiscal 2011 as compared to Fiscal 2010. The decrease in gross profit margin is attributable to the change in overall product mix as a result of the Merger as well as increasing commodity prices during Fiscal 2011.

**Operating Expense.** Operating expenses for Fiscal 2011 totaled \$900 million versus \$752 million during Fiscal 2010. The \$148 million increase in operating expenses for Fiscal 2011 versus Fiscal 2010 was driven by the Merger, which accounted for \$111 million of the increase, coupled with the Fiscal 2011 impairment charge of \$32 million and increased stock compensation expense of \$13 million. These increases were tempered by savings from our integration and global cost reduction initiatives. See *Restructuring and Related Charges* below, as well as Note 14, Restructuring and Related Charges, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information regarding our restructuring and related charges.

**Operating Income.** Operating income of approximately \$229 million was recognized in Fiscal 2011 compared to \$169 million recognized in Fiscal 2010, representing an increase of \$60 million. The Merger accounted for a \$41 million increase in operating income. Additionally, savings from our integration efforts, our global cost reduction initiatives and favorable foreign exchange translation impacted operating income by \$17 million, \$16 million and \$11 million, respectively. These profit improvements were partially offset by a \$32 million impairment charge, \$13 million increase in stock compensation expense and increased commodity costs during Fiscal 2011.



**Table of Contents**

**Adjusted EBITDA.** Management believes that certain non-GAAP financial measures may be useful in certain instances to provide additional meaningful comparisons between current results and results in prior operating periods. Adjusted earnings before interest, taxes, depreciation and amortization ( Adjusted EBITDA ) is a metric used by management and frequently used by the financial community. Adjusted EBITDA provides insight into an organization's operating trends and facilitates comparisons between peer companies, since interest, taxes, depreciation and amortization can differ greatly between organizations as a result of differing capital structures and tax strategies. Adjusted EBITDA can also be a useful measure of a company's ability to service debt and is one of the measures used for determining our debt covenant compliance. Adjusted EBITDA excludes certain items that are unusual in nature or not comparable from period to period. While management believes that non-GAAP measurements are useful supplemental information, such adjusted results are not intended to replace the Company's GAAP financial results.

Adjusted EBITDA, which includes the results of Russell Hobbs' businesses as if it was combined with Spectrum for all periods presented (see reconciliation of GAAP Net Income (Loss) from Continuing Operations to Adjusted EBIT and to Adjusted EBITDA by segment below) was \$457 million for Fiscal 2011 compared with \$432 million for Fiscal 2010.

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

Operating segment profits do not include restructuring and related charges, acquisition and integration related charges, interest expense, interest income, impairment charges, reorganization items and income tax expense. Expenses associated with global operations, consisting of research and development, manufacturing management, global purchasing, quality operations and inbound supply chain are included in the determination of operating segment profits. In connection with the realignment of reportable segments discussed above, expenses associated with certain general and administrative functions necessary to reflect the operating segments on a standalone basis, have been excluded in the determination of reportable segment profits. The costs associated with these functions were previously reflected in operating segment profits. Accordingly, corporate expenses primarily include general and administrative expenses and the costs of global long-term incentive compensation plans which are evaluated on a consolidated basis and not allocated to our operating segments.

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

Global strategic initiatives and financial objectives for each reportable segment are determined at the corporate level. Each reportable segment is responsible for implementing defined strategic initiatives and achieving certain financial objectives and has a general manager responsible for the sales and marketing initiatives and financial results for product lines within that segment. Financial information pertaining to our reportable segments is contained in Note 11, Segment Information, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further information relating to our operating segments.

Below are reconciliations of GAAP Net Income (Loss) from Continuing Operations to Adjusted EBIT and Adjusted EBITDA by segment and for Consolidated Spectrum Brands for Fiscal 2011 and Fiscal 2010:

	Fiscal 2011				Consolidated Spectrum Brands
	Global Batteries & Appliances	Global Pet Supplies	Home and Garden Business (in millions)	Corporate / Unallocated Items(a)	
Net income (loss)	\$ 180	\$ 50	\$ 62	\$ (367)	\$ (75)
Income tax expense				92	92
Interest expense				184	184
Write-off unamortized discounts and financing fees (b)				24	24
Restructuring and related charges	6	17	2	4	29
Acquisition and integration related charges	31			6	37
Intangible asset impairment	23	8	1		32
Accelerated depreciation and amortization (c)	(1)				(1)
Adjusted EBIT	\$ 239	\$ 75	\$ 65	\$ (57)	\$ 322

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Depreciation and amortization (d)	68	24	12	31	135
Adjusted EBITDA	\$ 307	\$ 99	\$ 77	\$ (26)	\$ 457

36



**Table of Contents**

	Fiscal 2010				
	Global Batteries & Appliances	Global Pet Supplies	Home and Garden Business (in millions)	Corporate / Unallocated Items(a)	Consolidated Spectrum Brands
Net income (loss)	\$ 143	\$ 51	\$ 40	\$ (424)	\$ (190)
Loss from discontinued operations, net of tax			3		3
Income tax expense				63	63
Interest expense				195	195
Write-off unamortized discounts and financing fees (e)				82	82
Pre-acquisition earnings	61	4	1		66
Restructuring and related charges	4	7	8	5	24
Acquisition and integration related charges	15			24	39
Reorganization items				3	3
Accelerated depreciation and amortization (c)			(1)	(2)	(3)
Fresh-start inventory fair value adjustment	18	14	2		34
Russell Hobbs inventory fair value adjustment	3				3
Brazilian IPI credit/other	(5)				(5)
Adjusted EBIT	\$ 239	\$ 76	\$ 53	\$ (54)	\$ 314
Depreciation and amortization (d)	58	28	15	17	118
Adjusted EBITDA	\$ 297	\$ 104	\$ 68	\$ (37)	\$ 432

- (a) It is our policy to record income tax expense and interest expense on a consolidated basis. Accordingly, such amounts are not reflected in the operating results of the operating segments.
- (b) Adjustment reflects the write-off of unamortized deferred financing fees and discounts related to the refinancing of our Term loan facility.
- (c) Adjustment reflects restricted stock amortization and accelerated depreciation associated with certain restructuring initiatives. Inasmuch as this amount is included within Restructuring and related charges, this adjustment negates the impact of reflecting the add-back of depreciation and amortization.
- (d) Included within depreciation and amortization is amortization of unearned restricted stock compensation.
- (e) Adjustment reflects the following: (i) \$61 million write-off of unamortized deferred financing fees and discounts associated with our restructured capital structure, refinanced on June 16, 2010; (ii) \$17 million related to the termination of interest rate swaps and commitment fees; and (iii) \$4 million related to pre-payment premiums associated with the paydown of our old asset based revolving credit facility and supplemental loan extinguished on June 16, 2010.

*Global Batteries & Appliances*

	2011	2010
	(in millions)	
Net sales to external customers	\$ 2,254	\$ 1,658
Segment profit	\$ 239	\$ 171
Segment profit as a % of net sales	10.6%	10.3%
Segment Adjusted EBITDA	\$ 307	\$ 297
Assets as of September 30,	\$ 2,275	\$ 2,477

Segment sales to external customers in Fiscal 2011 increased \$596 million to \$2,254 million from \$1,658 million during Fiscal 2010, representing a 36% increase. The Merger accounted for \$547 million of the increase due to a full year of small appliances sales of \$778 million in Fiscal 2011 compared to \$231 million during Fiscal 2010, which only includes sales after the Merger. Favorable foreign currency exchange translation impacted sales in Fiscal 2011 by approximately \$37 million when compared to Fiscal 2010.

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## **Table of Contents**

Consumer battery sales for Fiscal 2011 decreased slightly to \$862 million when compared to Fiscal 2010 sales of \$866 million. The decrease is attributable to a decline in specialty battery sales of \$24 million, which was tempered by increased alkaline battery sales of \$9 million and favorable foreign exchange translation of \$11 million. The \$24 million decrease in specialty battery sales was driven by a decrease in Latin American sales of \$26 million, primarily due to decreased volume in Brazil as a result of competitive pressures in the region tempered by increased sales of \$3 million in North America, predominantly driven by distribution gains. The \$9 million increase in alkaline sales is primarily attributable to increased sales in North America of \$14 million resulting from distribution gains, strong holiday sales in the first quarter of Fiscal 2011 and incremental sales due to severe weather during the year coupled with increased European sales of \$6 million driven by successful promotions and customer gains in the region. The alkaline battery sales growth in these regions was tempered by a decline of \$11 million in Latin America due to decreased volumes in Brazil as a result of competitive pressures.

Sales of electric shaving and grooming products in Fiscal 2011 increased by \$17 million, a 7% increase, compared to Fiscal 2010. This increase was driven by increases of \$6 million in North America, \$4 million in Europe, \$3 million in Latin America and favorable foreign exchange translation of \$4 million. The increases Latin America resulted from distribution gains, whereas the increases in European and North American sales were driven by increased online sales and distribution gains.

Electric personal care sales increased by \$32 million to \$248 million an increase of 15% over Fiscal 2010 sales. The \$32 million Fiscal 2011 sales growth was attributable to increased North American and European sales of \$12 million and \$14 million, respectively, as well as modest sales increases in Latin America coupled with favorable foreign exchange impacts of \$4 million. The sales increases in North America and Europe were both due to a combination of successful new product launches, distribution gains in each region and increased online sales.

Sales of portable lighting products for Fiscal 2011 increased to \$92 million compared to sales of \$88 million for Fiscal 2010, an increase of 4%. The portable lighting product sales increase was primarily driven by increased sales in North America of \$7 million, which were attributable to distribution gains, including multiple online retailers, and a successful new product line launch at a major customer, coupled with favorable foreign exchange of \$1 million. These gains were tempered by decreased sales in Latin America of \$4 million driven by competitive pressures in the region.

Segment profitability during Fiscal 2011 increased \$68 million to \$239 million from \$171 million in Fiscal 2010. The Merger accounted for a \$42 million increase in segment profit. The remaining increase in segment profitability during Fiscal 2011 was attributable to increased sales which contributed \$12 million of profit, cost saving from integration and cost reduction initiatives of \$12 million, favorable foreign exchange of \$11 million and the non-recurrence of a \$18 million increase in cost of goods sold that resulted from the sale of inventory that was revalued in connection with our adoption of fresh-start reporting upon emergence from Chapter 11 of the Bankruptcy Code, that we recognized during the first quarter of Fiscal 2010. Partially offsetting these increases to segment profitability was a \$29 million decrease in margins resulting from higher commodity costs and product mix. Segment profitability as a percentage of sales increased slightly to 10.6% in Fiscal 2011 compared to 10.3% in Fiscal 2010. See *Restructuring and Related Charges* below, as well as Note 14, Restructuring and Related Charges, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information regarding our restructuring and related charges.

Segment Adjusted EBITDA in Fiscal 2011 was \$307 million compared to \$297 million in Fiscal 2010, an increase of \$10 million. The increase in Adjusted EBITDA is mainly driven the increased sales, cost savings and foreign exchange impacts mentioned above, tempered by the decreased margins mentioned above.

Segment assets at September 30, 2011 increased to \$2,275 million from \$2,477 million at September 30, 2010. Goodwill and intangible assets, which are directly a result of the revaluation impacts of fresh-start reporting and subsequent acquisitions, decreased to \$1,295 million at September 30, 2011 from \$1,355 million at September 30, 2010. The decrease is due to a \$23 million intangible impairment as well as amortization of definite lived intangible assets of \$33 million and foreign exchange impacts of \$3 million.

### ***Foreign Currency Translation Venezuela Impacts***

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



**Table of Contents**

The designation of our Venezuela entity as a highly inflationary economy and the devaluation of the Bolivar fuerte resulted in a \$1 million reduction to our operating income during Fiscal 2010. We also reported a foreign exchange loss in Other expense (income), net, of \$10 million during Fiscal 2010.

As of September 30, 2011, we are no longer exchanging our Bolivar Fuertes for U.S. dollars through the SITME mechanism and the SITME is no longer the most likely method of exchanging our Bolivar fuertes for U.S. dollars. Therefore, we changed the rate used to remeasure Bolivar fuerte denominated transactions as of September 30, 2011 from the 5.3 SITME rate to the 4.3 official exchange rate as it is the expected rate at which exchanges of our Bolivar fuertes to U.S. dollars will be settled. We reported a foreign exchange gain in Other expense (income), net, of \$(1) million during Fiscal 2011 related to the change to the official exchange rate.

*Global Pet Supplies*

	2011	2010
	(in millions)	
Net sales to external customers	\$ 579	\$ 566
Segment profit	\$ 75	\$ 58
Segment profit as a % of net sales	13.0%	10.2%
Segment Adjusted EBITDA	\$ 99	\$ 104
Assets as of September 30,	\$ 828	\$ 839

Segment sales to external customers in Fiscal 2011 increased to \$579 million from \$566 million in Fiscal 2010, representing an increase of \$13 million or 2%. The increase of \$13 million is attributable to increased companion animal product sales of \$15 million, \$7 million of which was a direct result of the Merger, with the remaining \$8 million being driven by successful product launches and continued expansion in Europe, coupled with \$8 million of favorable foreign exchange. These gains were partially offset by decreased aquatics sales of \$10 million resulting from overall global macroeconomic conditions.

Segment profitability in Fiscal 2011 increased to \$75 million from \$58 million in Fiscal 2010. Segment profitability as a percentage of sales in Fiscal 2011 also increased to 13.0% from 10.2% during Fiscal 2010. The increase in segment profitability and profitability margin was primarily attributable to cost savings of \$12 million related to integration and cost reduction initiatives, in addition to the non-recurrence of a \$14 million increase in cost of goods sold that resulted from the sale of inventory that was revalued in connection with our adoption of fresh-start reporting upon emergence from Chapter 11 of the Bankruptcy Code, that we recognized during the first quarter of Fiscal 2010. These gains were slightly offset by decreased margins primarily due to closeout sales during the fourth quarter of Fiscal 2011. See *Restructuring and Related Charges* below, as well as Note 14, Restructuring and Related Charges, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information regarding our restructuring and related charges.

Segment Adjusted EBITDA in Fiscal 2011 was \$99 million compared to \$104 million in Fiscal 2010. The decrease in Adjusted EBITDA was driven by a lower EBITDA realized from products acquired in the Merger, as Fiscal 2010 Adjusted EBITDA includes preacquisition earnings.

Segment assets as of September 30, 2011 decreased to \$828 million from \$839 million at September 30, 2010. Goodwill and intangible assets, which are directly a result of the revaluation impacts of fresh-start reporting and subsequent acquisitions, decreased to \$595 million at September 30, 2011 from \$602 million at September 30, 2010. The decrease is due to a \$9 million intangible impairment as well as amortization of definite lived intangible assets of \$16 million, slightly offset by increases due to acquisitions that resulted in increased goodwill and intangible assets of \$17 million.

*Home and Garden Business*

	2011	2010
	(in millions)	
Net sales to external customers	\$ 354	\$ 343
Segment profit	\$ 65	\$ 51
Segment profit as a % of net sales	18.4%	14.9%
Segment Adjusted EBITDA	\$ 77	\$ 68
Assets as of September 30,	\$ 476	\$ 496



**Table of Contents**

Segment sales to external customers of home and garden control products during Fiscal 2011 increased \$11 million, or 3% versus Fiscal 2010, driven by increased household insect controls sales of \$14 million, of which \$4 million related to the Merger. The remaining growth in household insect control sales was driven by increased distribution and product placements with major customers. These gains were partially offset by a \$3 million decrease in lawn and garden control sales due to unseasonable weather conditions in the U.S., which negatively impacted the lawn and garden season.

Segment profitability in Fiscal 2011 increased to \$65 million compared to \$51 million in Fiscal 2010. This increase in segment profitability was attributable to increased sales as well as savings from our global cost reduction initiatives announced in Fiscal 2009 in addition to the non-recurrence of a \$2 million increase in cost of goods sold that resulted from the sale of inventory that was revalued in connection with our adoption of fresh-start reporting upon emergence from Chapter 11 of the Bankruptcy Code, that we recognized during the first quarter of Fiscal 2010. Segment profitability as a percentage of sales in Fiscal 2011 increased to 18.4% from 14.9% in Fiscal 2010. The increase in segment profitability was also due to the factors mentioned above, as well as margin improvements as a result of expense management. See

*Restructuring and Related Charges* below, as well as Note 14, Restructuring and Related Charges, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information regarding our restructuring and related charges.

Segment Adjusted EBITDA in Fiscal 2011 was \$77 million compared to \$68 million in Fiscal 2010. The increase in Adjusted EBITDA during Fiscal 2011 was mainly driven by product distribution gains, cost improvement initiatives and expense management as mentioned above.

Segment assets as of September 30, 2011 decreased to \$476 million from \$496 million at September 30, 2010. Goodwill and intangible assets, which are directly a result of the revaluation impacts of fresh-start reporting and subsequent acquisitions, decreased to \$404 million at September 30, 2011 from \$413 million at September 30, 2010. The decrease of \$9 million is driven by amortization associated with definite lived intangible assets of \$9 million and an intangible asset impairment of \$1 million slightly tempered by additions due to acquisitions.

**Corporate Expense.** Our corporate expense in Fiscal 2011 increased to \$54 million from \$49 million in Fiscal 2010. This increase is attributable to a \$14 million increase in stock based compensation expense during Fiscal 2011 compared to Fiscal 2010, partially offset by savings resulting from the relocation of the corporate office back to Madison, Wisconsin, as well as synergies realized from the Merger. Corporate expense as a percentage of consolidated net sales for Fiscal 2011 was 1.7% compared to 1.9% during Fiscal 2010.

**Restructuring and Related Charges.** See Note 14, Restructuring and Related Charges, of Notes to Consolidated Financial Statements, included in this Annual Report on Form 10-K for additional information regarding our restructuring and related charges.

The following table summarizes all restructuring and related charges we incurred in Fiscal 2011 and Fiscal 2010 (in millions):

	2011	2010
Costs included in cost of goods sold:		
Global Realignment Initiatives:		
Termination benefits	\$	\$ 0.2
Other associated costs		(0.1)
Ningbo Exit Plan:		
Other associated costs	0.3	2.1
Global Cost Reduction Initiatives:		
Termination benefits	1.6	2.6
Other associated costs	5.9	2.3
Total included in cost of goods sold	\$ 7.8	\$ 7.1
Costs included in operating expenses:		
European Initiatives:		
Termination benefits	\$ (0.3)	\$ (0.1)
Global Realignment Initiatives:		
Termination benefits	1.2	5.4
Other associated costs	1.9	(1.9)
Global Cost Reduction Initiatives:		
Termination benefits	10.2	4.3
Other associated costs	7.8	9.3

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Total included in operating expenses	\$ 20.8	\$ 17.0
Total restructuring and related charges	\$ 28.6	\$ 24.1

**Table of Contents**