Spectrum Brands, Inc.
Form 10-Q
August 08, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2013
OR

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

For the transition period from to
Commission File Number 001-34757
Spectrum Brands, Inc.
(Exact name of registrant as specified in its charter)

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

(608) 275-3340
(Registrant's telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report.)

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

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

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

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

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 ý No ¨

Table of Contents

SPECTRUM BRANDS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTER ENDED June 30, 2013
INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
SPECTRUM BRANDS, INC.
Condensed Consolidated Statements of Financial Position
June 30, 2013 and September 30, 2012
(Unaudited)
(Amounts in thousands)

	June 30, 2013	September 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	$98,904	$157,872
Receivables:		
Trade accounts receivable, net of allowances of $32,591 and $21,870, respectively	479,307	335,301
Other	74,943	40,067
Inventories	707,340	452,633
Deferred income taxes	21,252	28,143
Prepaid expenses and other	69,800	49,273
Total current assets	1,451,546	1,063,289
Property, plant and equipment, net of accumulated depreciation of $180,596 and $139,994, respectively	355,250	214,017
Deferred charges and other	22,389	27,711
Goodwill	1,470,180	694,245
Intangible assets, net	2,169,404	1,714,929
Debt issuance costs	71,903	39,320
Total assets	$5,540,672	$3,753,511
Liabilities and Shareholders' Equity		
Current liabilities:		
Current maturities of long-term debt	$40,783	$16,414
Accounts payable	427,539	325,023
Accrued liabilities:		
Wages and benefits	63,623	82,119
Income taxes payable	29,586	30,272
Accrued interest	26,906	30,473
Other	155,410	124,597
Total current liabilities	743,847	608,898
Long-term debt, net of current maturities	3,185,271	1,652,886
Employee benefit obligations, net of current portion	109,340	89,994
Deferred income taxes	503,454	377,465
Other	24,845	31,578
Total liabilities	4,566,757	2,760,821
Commitments and contingencies		
Shareholders' equity:		
Other capital	1,385,806	1,359,946
Accumulated deficit	(406,513)	(333,821)
Accumulated other comprehensive loss	(56,310)	(33,435)
Total shareholders' equity	922,983	992,690

Non-controlling interest	50,932	—
Total equity	973,915	992,690
Total liabilities and equity	$5,540,672	$3,753,511

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

Table of Contents

SPECTRUM BRANDS, INC.
Condensed Consolidated Statements of Operations
For the three and nine month periods ended June 30, 2013 and July 1, 2012
(Unaudited)
(Amounts in thousands)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	2013	2012	2013	2012
Net sales	$1,089,825	$824,803	$2,947,849	$2,419,859
Cost of goods sold	706,053	531,069	1,949,332	1,575,803
Restructuring and related charges	1,013	2,038	4,698	8,303
Gross profit	382,759	291,696	993,819	835,753
Selling	165,178	129,851	464,961	391,522
General and administrative	70,057	50,726	196,077	157,493
Research and development	11,486	8,597	31,517	23,790
Acquisition and integration related charges	7,747	5,274	40,558	20,625
Restructuring and related charges	12,232	1,858	23,038	7,587
Total operating expenses	266,700	196,306	756,151	601,017
Operating income	116,059	95,390	237,668	234,736
Interest expense	61,516	39,686	185,652	150,169
Other expense, net	2,613	2,224	7,941	2,225
Income from continuing operations before income taxes	51,930	53,480	44,075	82,342
Income tax expense (benefit)	15,169	(5,371)	54,928	38,772
Net income (loss)	36,761	58,851	(10,853)	43,570
Less: Net income attributable to non-controlling interest	263	—	8	—
Net income (loss) attributable to controlling interest	$36,498	$58,851	$(10,861)	$43,570

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

Table of Contents

SPECTRUM BRANDS, INC.
Condensed Consolidated Statements of Comprehensive Income (Loss)
For the three and nine month periods ended June 30, 2013 and July 1, 2012
(Unaudited)
(Amounts in thousands)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	2013	2012	2013	2012
Net income (loss)	$36,761	$58,851	$(10,853)	$43,570
Other comprehensive (loss) income, net of tax:				
Foreign currency translation	(7,830)	(34,148)	(25,385)	(30,538)
Unrealized gain on derivative instruments	1,780	1,475	2,858	2,370
Defined benefit pension (loss) gain	(52)	422	(348)	924
Other comprehensive loss, net of tax	(6,102)	(32,251)	(22,875)	(27,244)
Comprehensive income (loss)	30,659	26,600	(33,728)	16,326
Less: Comprehensive income attributable to non-controlling interest	263	—	8	—
Comprehensive income (loss) attributable to controlling interest	$30,396	$26,600	$(33,736)	$16,326

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

Table of Contents

SPECTRUM BRANDS, INC.
Condensed Consolidated Statements of Cash Flows
For the nine month periods ended June 30, 2013 and July 1, 2012
(Unaudited)
(Amounts in thousands)

	NINE MONTHS ENDED	
	2013	2012
Cash flows from operating activities:		
Net (loss) income	$(10,853)	$43,570
Adjustments to reconcile net (loss) income to net cash used by operating activities, net of effects of acquisitions:		
Depreciation	42,618	28,708
Amortization of intangibles	57,502	46,550
Amortization of unearned restricted stock compensation	31,830	15,436
Amortization of debt issuance costs	7,210	5,273
Non-cash increase to cost of goods sold from sale of HHI Business acquisition inventory	31,000	—
Write off unamortized discount / (premium) on retired debt	885	(466)
Write off of debt issuance costs	4,600	2,945
Other non-cash adjustments	19,518	3,021
Net changes in assets and liabilities	(260,148)	(212,965)
Net cash used by operating activities	(75,838)	(67,928)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(45,236)	(33,117)
Acquisition of Shaser, net of cash acquired	(42,510)	—
Acquisition of the HHI Business, net of cash acquired	(1,351,008)	—
Acquisition of Black Flag	—	(43,750)
Acquisition of FURminator, net of cash acquired	—	(139,390)
Other investing activities	(1,141)	(1,627)
Net cash used by investing activities	(1,439,895)	(217,884)
Cash flows from financing activities:		
Proceeds from issuance of Term Loan, net of discount	792,000	—
Proceeds from issuance of 6.375% Notes	520,000	—
Proceeds from issuance of 6.625% Notes	570,000	—
Proceeds from issuance of 6.75% Notes	—	300,000
Payment of 12% Notes, including tender and call premium	—	(270,431)
Proceeds from issuance of 9.5% Notes, including premium	—	217,000
Payment of senior credit facilities, excluding ABL revolving credit facility	(406,904)	(4,091)
Debt issuance costs	(44,469)	(11,163)
Other debt financing, net	17,080	6,192
Reduction of other debt	(1,970)	(27,992)
ABL revolving credit facility, net	69,500	2,500
Capital contribution from parent	28,562	—
Cash dividends paid to parent	(61,842)	—
Share based award tax withholding payments	(20,141)	(3,936)
Other financing activities	—	(953)
Net cash provided by financing activities	1,461,816	207,126
	(1,870)	—

Effect of exchange rate changes on cash and cash equivalents due to Venezuela devaluation		
Effect of exchange rate changes on cash and cash equivalents	(3,181)	(1,429)
Net decrease in cash and cash equivalents	(58,968)	(80,115)
Cash and cash equivalents, beginning of period	157,872	142,414
Cash and cash equivalents, end of period	$98,904	$62,299

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

6

Table of Contents

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

1 DESCRIPTION OF BUSINESS

Spectrum Brands, Inc., a Delaware corporation ("Spectrum Brands" or the "Company"), is a global branded consumer products company. Spectrum Brands, Inc., is a wholly owned subsidiary of Spectrum Brands Holdings, Inc. ("SB Holdings"). SB Holdings' common stock trades on the New York Stock Exchange (the "NYSE") under the symbol "SPB." The Company's operations include the worldwide manufacturing and marketing of alkaline, zinc carbon and hearing aid batteries, as well as aquariums and aquatic health supplies and the designing and marketing of rechargeable batteries, battery-powered lighting products, electric shavers and accessories, grooming products and hair care appliances. The Company's operations also include the manufacturing and marketing of specialty pet supplies. The Company also manufactures and markets herbicides, insecticides and insect repellents in North America. The Company also designs, markets and distributes a broad range of branded small appliances and personal care products. The Company's operations utilize manufacturing and product development facilities located in the United States ("U.S."), Europe, Latin America and Asia.

On December 17, 2012, the Company acquired the residential hardware and home improvement business (the "HHI Business") from Stanley Black & Decker, Inc. ("Stanley Black & Decker"), which includes (i) the equity interests of certain subsidiaries of Stanley Black & Decker engaged in the business and (ii) certain assets of Stanley Black & Decker used or held for use in connection with the business (the "Hardware Acquisition"). The HHI Business has a broad portfolio of recognized brand names, including Kwikset, Weiser, Baldwin, National Hardware, Stanley, FANAL and Pfister, as well as patented technologies such as Smartkey, a rekeyable lockset technology, and Smart Code Home Connect. On April 8, 2013, the Company completed the Hardware Acquisition, which included the acquisition of certain assets of Tong Lung Metal Industry Co. Ltd., a Taiwan Corporation ("TLM Taiwan"), which is involved in the production of residential locksets. For information pertaining to the Hardware Acquisition, see Note 15, "Acquisitions."

The Company sells its products in approximately 140 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and original equipment manufacturers and enjoys name recognition in its markets under the Rayovac, VARTA and Remington brands, each of which has been in existence for more than 80 years, and under the Tetra, 8-in-1, Dingo, Nature's Miracle, Spectracide, Cutter, Hot Shot, Black & Decker, George Foreman, Russell Hobbs, Farberware, Black Flag, FURminator, the previously mentioned HHI Business brands and various other brands.

The Company's global branded consumer products have positions in seven major product categories: consumer batteries; small appliances; pet supplies; electric shaving and grooming; electric personal care; home and garden controls; and hardware and home improvement, which consists of the recently acquired HHI Business.

The Company manages the businesses in four vertically integrated, product-focused reporting segments: (i) Global Batteries & Appliances, which consists of the Company's worldwide battery, electric shaving and grooming, electric personal care and small appliances primarily in the kitchen and home product categories ("Global Batteries & Appliances"); (ii) Global Pet Supplies, which consists of the Company's worldwide pet supplies business ("Global Pet Supplies"); (iii) Home and Garden Business, which consists of the Company's home and garden and insect control business (the "Home and Garden Business"); and (iv) Hardware & Home Improvement, which consists of the recently acquired HHI Business ("Hardware & Home Improvement"). Management reviews the performance of the Company based on these segments, which also reflect the manner in which the Company's management monitors performance and allocates resources. For information pertaining to our business segments, see Note 12, "Segment Results."

2 SIGNIFICANT ACCOUNTING POLICIES

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

These condensed consolidated financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of the Company, include all adjustments (which are normal and recurring in nature) necessary to present fairly the financial position of the Company at June 30, 2013, the results of operations for the three and nine month periods ended June 30, 2013 and July 1, 2012, the

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

comprehensive income (loss) for the three and nine month periods ended June 30, 2013 and July 1, 2012 and the cash flows for the nine month periods ended June 30, 2013 and July 1, 2012. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such SEC rules and regulations. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2012.
Change in Accounting Principle: During the quarter ended June 30, 2013, the Company made a change in accounting principle to present tax withholdings for share-based payment awards paid to taxing authorities on behalf of an employee as a financing activity within its Condensed Consolidated Statement of Cash Flows. Such amounts were previously presented within operating activities in the Condensed Consolidated Statement of Cash Flows. The Company believes this change is preferable as the predominant characteristic of the transaction is a financing activity. The Company has reclassified the following amounts within its previously reported Condensed Consolidated Statements of Cash Flows on a retrospective basis to reflect this change in accounting principle:

	Nine Months Ended	
	2013	2012
Net cash used by operating activities: Net changes in assets and liabilities	17,946	3,936
Net cash provided by financing activities: Share based award tax withholding payments	(17,946)	(3,936)

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

Intangible Assets: Intangible assets are recorded at cost or at fair value if acquired in a purchase business combination. Customer relationships and proprietary technology intangibles are amortized, using the straight-line method, over their estimated useful lives. Excess of cost over fair value of net assets acquired (goodwill) and indefinite lived trade name intangibles are not amortized. Accounting Standards Codification ("ASC") Topic 350: "Intangibles-Goodwill and Other," requires that goodwill and indefinite-lived intangible assets be tested for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have been incurred. Goodwill is tested for impairment at the reporting unit level, with such groupings being consistent with the Company's reportable segments. If an impairment is indicated, a write-down to fair value (normally measured by discounting estimated future cash flows) is recorded. Indefinite lived trade name intangibles are tested for impairment at least annually by comparing the fair value with the carrying value. Any excess of carrying value over fair value is recognized as an impairment loss in income from operations.
The Company's annual impairment testing is completed at the August financial period end. Management uses its judgment in assessing whether assets may have become impaired between annual impairment tests. Indicators such as unexpected adverse business conditions, economic factors, unanticipated technological change or competitive activities, loss of key personnel, and acts by governments and courts may signal that an asset has become impaired.
Shipping and Handling Costs: The Company incurred shipping and handling costs of $67,023 and $183,050 for the three and nine month periods ended June 30, 2013, respectively, and $48,797 and $148,383 for the three and nine month periods ended July 1, 2012, respectively. These costs are included in Selling expenses in the accompanying Condensed Consolidated Statements of Operations (Unaudited). Shipping and handling costs include costs incurred with third-party carriers to transport products to customers as well as salaries and overhead costs related to activities to prepare the Company's products for shipment from its distribution facilities.

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

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

The Company has a broad range of customers including many large retail outlet chains, one of which accounts for a significant percentage of its sales volume. This customer represented approximately 17% and 18% of the Company's Net sales during the three and nine month periods ended June 30, 2013, respectively, and 23% of the Company's Net sales during both the three and nine month periods ended July 1, 2012. This customer also represented approximately 10% and 13% of the Company's Trade accounts receivable, net at June 30, 2013 and September 30, 2012, respectively.
Approximately 37% and 41% of the Company's Net sales during the three and nine month periods ended June 30, 2013, respectively, and 40% and 44% of the Company's Net sales during the three and nine month periods ended July 1, 2012, respectively, occurred outside the U.S. These sales and related receivables are subject to varying degrees of credit, currency, political and economic risk. The Company monitors these risks and makes appropriate provisions for collectibility based on an assessment of the risks present.

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

Total stock compensation expense associated with restricted stock awards and restricted stock units recognized by the Company during the three and nine month periods ended June 30, 2013 was $17,673 and $31,830, respectively. Total stock compensation expense associated with restricted stock awards and restricted stock units recognized by the Company during the three and nine month periods ended July 1, 2012 was $4,361 and $15,436, respectively.

The Company granted approximately 30 and 644 restricted stock units during the three and nine month periods ended June 30, 2013, respectively. Of these grants, 90 are performance-based and vest over a one year period and 554 are performance and time-based and vest over a two year period. The total market value of the restricted stock units on the dates of the grants was approximately $29,319.

The Company granted approximately 42 and 741 restricted stock units during the three and nine month periods ended July 1, 2012, respectively. Of these grants, 42 restricted stock units are time-based and vest over a two year period. The remaining 699 restricted stock units are performance and time-based and vest over a two year period. The total market value of the restricted stock units on the dates of the grants was approximately $20,293.

The fair value of restricted stock awards and restricted stock units is determined based on the market price of the Company's shares of common stock on the grant date. A summary of the activity in the Company's non-vested restricted stock awards and restricted stock units during the nine months ended June 30, 2013 is as follows:

Restricted Stock Awards	Shares	Weighted Average Grant Date Fair Value	Fair Value at Grant Date
Non-vested restricted stock awards at September 30, 2012	13	$28.00	$364
Vested	(13)	28.00	(364)
Non-vested restricted stock awards at June 30, 2013	—	$—	$—

Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value	Fair Value at Grant Date
Non-vested restricted stock units at September 30, 2012	1,931	$28.45	$54,931
Granted	644	45.53	29,319
Forfeited	(290)	29.78	(8,637)
Vested	(1,116)	28.21	(31,485)
Non-vested restricted stock units at June 30, 2013	1,169	$37.75	$44,128

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

(Amounts in thousands, except per share figures)

The following table summarizes acquisition and integration related charges incurred by the Company during the three and nine month periods ended June 30, 2013 and July 1, 2012:

	Three Months Ended		Nine Months Ended	
	2013	2012	2013	2012
Russell Hobbs				
Integration costs	$695	$1,573	$2,630	$6,766
Employee termination charges	(35)	840	224	3,356
Legal and professional fees	(78)	587	12	1,508
Russell Hobbs Acquisition and integration related charges	$582	$3,000	$2,866	$11,630
HHI Business				
Legal and professional fees	4,663	—	25,650	—
Integration costs	1,615	—	5,292	—
Employee termination charges	13	—	103	—
HHI Business Acquisition and integration related charges	$6,291	$—	$31,045	$—
Shaser	161	—	4,534	—
FURminator	372	1,738	1,605	6,337
Black Flag	52	95	90	1,912
Other	289	441	418	746
Total Acquisition and integration related charges	$7,747	$5,274	$40,558	$20,625

Table of Contents

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

3 COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) includes foreign currency translation gains and losses on assets and liabilities of foreign subsidiaries, effects of exchange rate changes on intercompany balances of a long-term nature and transactions designated as a hedge of a net investment in a foreign subsidiary, deferred gains and losses on derivative financial instruments designated as cash flow hedges and amortization of deferred gains and losses associated with the Company's pension plans. The foreign currency translation gains and losses for the three and nine month periods ended June 30, 2013 and July 1, 2012 were primarily attributable to the impact of translation of the net assets of the Company's European and Latin American operations, which primarily have functional currencies in Euros, Pounds Sterling and Brazilian Real.

For information pertaining to the reclassification of unrealized gains and losses on derivative instruments, see Note 8, "Derivative Financial Instruments."

The components of Other comprehensive income (loss), net of tax, for the three and nine month periods ended June 30, 2013 and July 1, 2012 are as follows:

	Three Months Ended		Nine Months Ended	
	2013	2012	2013	2012
Foreign Currency Translation Adjustments:				
Gross change before reclassification adjustment	$(7,830)	$(34,148)	$(25,385)	$(30,538)
Net reclassification adjustment for (gains) losses included in earnings	—	—	—	—
Gross change after reclassification adjustment	(7,830)	(34,148)	(25,385)	(30,538)
Deferred tax effect	—	—	—	—
Deferred tax valuation allowance	—	—	—	—
Other Comprehensive Loss	$(7,830)	$(34,148)	$(25,385)	$(30,538)
Unrealized Gains (Losses) on Derivative Instruments:				
Gross change before reclassification adjustment	$3,193	$3,210	$4,595	$391
Net reclassification adjustment for (gains) losses included in earnings	(507)	(309)	(80)	3,214
Gross change after reclassification adjustment	2,686	2,901	4,515	3,605
Deferred tax effect	(450)	(1,891)	(1,566)	(1,478)
Deferred tax valuation allowance	(456)	465	(91)	243
Other Comprehensive Income	$1,780	$1,475	$2,858	$2,370
Defined Benefit Pension Plans:				
Gross change before reclassification adjustment	$(575)	$217	$(2,164)	$539
Net reclassification adjustment for losses included in Cost of goods sold	326	152	979	320
Net reclassification adjustment for losses included in Selling expenses	41	19	122	40
Net reclassification adjustment for losses included in General and administrative expenses	152	71	456	148
Gross change after reclassification adjustment	(56)	459	(607)	1,047
Deferred tax effect	(38)	(37)	205	(94)
Deferred tax valuation allowance	42	—	54	(29)

Other Comprehensive (Loss) Income	$(52)	$422	$(348)	$924
Total Other Comprehensive Loss, net of tax	$(6,102)	$(32,251)	$(22,875)	$(27,244)

4 INVENTORIES

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

11

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

	June 30, 2013	September 30, 2012
Raw materials	$108,284	$58,515
Work-in-process	53,461	23,434
Finished goods	545,595	370,684
	$707,340	$452,633

5 GOODWILL AND INTANGIBLE ASSETS

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

	Global Batteries & Appliances	Hardware & Home Improvement	Global Pet Supplies	Home and Garden Business	Total
Goodwill:					
Balance at September 30, 2012	$ 268,556	$—	$237,932	$187,757	$694,245
Additions	65,618	720,890	—	1,179	787,687
Effect of translation	(5,432)	(5,817)	(503)	—	(11,752)
Balance at June 30, 2013	$ 328,742	$715,073	$237,429	$188,936	$1,470,180
Intangible Assets:					
Trade names Not Subject to Amortization					
Balance at September 30, 2012	$ 545,426	$—	$212,142	$83,500	$841,068
Additions	—	330,000	—	—	330,000
Effect of translation	(4,887)	(157)	886	—	(4,158)
Balance at June 30, 2013	$ 540,539	$329,843	$213,028	$83,500	$1,166,910
Intangible Assets Subject to Amortization					
Balance at September 30, 2012, net	$ 447,112	—	$264,622	$162,127	$873,861
Additions	32,800	157,100	749	—	190,649
Amortization during period	(26,818)	(7,565)	(16,013)	(7,106)	(57,502)
Effect of translation	(3,276)	(698)	(540)	—	(4,514)
Balance at June 30, 2013, net	$ 449,818	$148,837	$248,818	$155,021	$1,002,494
Total Intangible Assets, net at June 30, 2013	$ 990,357	$478,680	$461,846	$238,521	$2,169,404

Intangible assets subject to amortization include proprietary technology, customer relationships and certain trade names, which were recognized in connection with acquisitions and from the application of fresh-start reporting during fiscal 2009. The useful lives of the Company’s intangible assets subject to amortization are 9 to 17 years for technology assets associated with the Global Batteries & Appliances segment, 8 to 9 years for technology assets related to the Hardware & Home Improvement segment, 4 to 9 years for technology assets related to the Global Pet Supplies segment, 15 to 20 years for customer relationships of the Global Batteries & Appliances segment, 20 years for customer relationships of the Hardware & Home Improvement segment, Home and Garden Business and Global Pet Supplies segments, 1 to 12 years for trade names within the Global Batteries & Appliances segment, 5 to 8 years for trade names within the Hardware & Home Improvement segment and 3 years for a trade name within the Global Pet Supplies segment.

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

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

	June 30, 2013	September 30, 2012
Technology Assets Subject to Amortization:		
Gross balance	$175,473	$90,924
Accumulated amortization	(34,777)	(22,768)
Carrying value, net	$140,696	$68,156
Trade Names Subject to Amortization:		
Gross balance	$171,482	$150,829
Accumulated amortization	(41,168)	(28,347)
Carrying value, net	$130,314	$122,482
Customer Relationships Subject to Amortization:		
Gross balance	$879,410	$796,235
Accumulated amortization	(147,926)	(113,012)
Carrying value, net	$731,484	$683,223
Total Intangible Assets, net Subject to Amortization	$1,002,494	$873,861

Amortization expense for the three and nine month periods ended June 30, 2013 and July 1, 2012 is as follows:

	Three Months Ended		Nine Months Ended	
	2013	2012	2013	2012
Proprietary technology amortization	$4,470	$2,411	$12,009	$6,721
Trade names amortization	4,264	3,509	12,162	9,788
Customer relationships amortization	11,611	10,181	33,331	30,041
	$20,345	$16,101	$57,502	$46,550

The Company estimates annual amortization expense of intangible assets for the next five fiscal years will approximate $78,500 per year.

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

6DEBT
Debt consists of the following:

	June 30, 2013		September 30, 2012	
	Amount	Rate	Amount	Rate
Term Loan, due December 17, 2019	$757,457	4.6 %	$—	— %
Former term loan facility	—	—	370,175	5.1 %
9.5% Notes, due June 15, 2018	950,000	9.5 %	950,000	9.5 %
6.375% Notes, due November 15, 2020	520,000	6.4 %	—	— %
6.625% Notes, due November 15, 2022	570,000	6.6 %	—	— %
6.75% Notes, due March 15, 2020	300,000	6.8 %	300,000	6.8 %
ABL Facility, expiring May 24, 2017	69,500	2.1 %	—	4.3 %
Other notes and obligations	32,966	8.3 %	18,059	10.9 %
Capitalized lease obligations	29,861	6.2 %	26,683	6.2 %
	$3,229,784		$1,664,917	
Original issuance (discounts) premiums on debt	(3,730)		4,383	
Less: current maturities	40,783		16,414	
Long-term debt	$3,185,271		$1,652,886	

Term Loan

On December 17, 2012, the Company entered into a senior term loan facility, maturing December 17, 2019, which provides borrowings in an aggregate principal amount of $800,000, with $100,000 in Canadian dollar equivalents (the "Term Loan") in connection with the acquisition of the HHI Business. A portion of the Term Loan proceeds were used to refinance the former term loan facility, which was scheduled to mature on June 17, 2016, and had an aggregate amount outstanding of $370,175 prior to refinancing. In connection with the refinancing, the Company recorded accelerated amortization of portions of the unamortized discount and unamortized Debt issuance costs related to the former term loan facility totaling $5,485 as an adjustment to interest expense during the nine month period ended June 30, 2013.

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

In connection with the issuance of the Term Loan, the Company recorded $201 and $19,328 of fees during the three and nine month periods ended June 30, 2013, respectively, of which $16,907 is classified as Debt issuance costs within the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) and is being amortized as an adjustment to interest expense over the remaining life of the Term Loan, with the remainder of $2,421 reflected as an increase to interest expense during the nine month period ended June 30, 2013.

6.375% Notes and 6.625% Notes

On December 17, 2012, in connection with the acquisition of the HHI Business, Spectrum Brands assumed $520,000 aggregate principal amount of 6.375% Notes at par value, due November 15, 2020 (the "6.375% Notes"), and $570,000 aggregate principal amount of 6.625% Notes at par value, due November 15, 2022 (the "6.625% Notes"), previously issued by Spectrum Brands Escrow Corporation. The 6.375% Notes and the 6.625% Notes are unsecured and guaranteed by Spectrum Brands' parent company, SB/RH Holdings, LLC, as well as by existing and future domestic restricted subsidiaries.

The Company may redeem all or a part of the 6.375% Notes and the 6.625% Notes, upon not less than 30 or more than 60 days notice, at specified redemption prices. Further, the indenture governing the 6.375% Notes and the 6.625% Notes (the “2020/22 Indenture”), requires the Company to make an offer, in cash, to repurchase all or a portion of the applicable outstanding notes for a specified redemption price, including a redemption premium, upon the occurrence of a change of control of the Company, as defined in such indenture.

The 2020/22 Indenture contains customary covenants that limit, among other things, the incurrence of additional indebtedness, payment of dividends on or redemption or repurchase of equity interests, the making of certain investments, expansion into unrelated businesses, creation of liens on assets, merger or consolidation with another company, transfer or sale of all or substantially all assets, and transactions with affiliates.

In addition, the 2020/22 Indenture provides for customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to make payments when due or on acceleration of certain other indebtedness, and certain events of bankruptcy and insolvency. Events of default under the 2020/22 Indenture arising from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the 6.375% Notes and the 6.625% Notes. If any other event of default under the 2020/22 Indenture occurs and is continuing, the trustee for the 2020/22 Indenture or the registered holders of at least 25% in the then aggregate outstanding principal amount of the 6.375% Notes, or the 6.625% Notes, may declare the acceleration of the amounts due under those notes.

The Company recorded $3 and $12,906 of fees in connection with the offering of the 6.375% Notes during the three and nine month periods ended June 30, 2013, respectively, and $4 and $14,127 of fees in connection with the offering of the 6.625% Notes during the three and nine month periods ended June 30, 2013, respectively. The fees are classified as Debt issuance costs within the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) and are being amortized as an adjustment to interest expense over the respective remaining lives of the 6.375% Notes and the 6.625% Notes.

ABL Facility

On December 17, 2012 the Company exercised its option to increase its asset based lending revolving credit facility (the "ABL Facility") from $300,000 to $400,000 and extend the maturity to May 24, 2017. In connection with the increase and extension, the Company incurred $323 of fees during the nine month period ended June 30, 2013. The fees are classified as Debt issuance costs within the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) and are being amortized as an adjustment to interest expense over the remaining life of the ABL Facility.

On March 28, 2013, the Company amended its ABL Facility to conform certain provisions to reflect the acquisition of the HHI Business. In connection with the amendment, the Company incurred $98 and $206 of fees during the three and nine month periods ended June 30, 2013, respectively. The fees are classified as Debt issuance costs within the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) and are being amortized as an adjustment to interest expense over the remaining life of the ABL Facility.

As a result of borrowings and payments under the ABL Facility, at June 30, 2013, the Company had aggregate borrowing availability of approximately $228,055, net of lender reserves of $7,942 and outstanding letters of credit of $38,491.

7 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Fair Value of Derivative Instruments
The Company discloses its derivative instruments and hedging activities in accordance with ASC Topic 815: "Derivatives and Hedging" ("ASC 815").
The fair value of the Company's outstanding derivative contracts recorded as assets in the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) are as follows:

Asset Derivatives		June 30, 2013	September 30, 2012
Derivatives designated as hedging instruments under ASC 815:			
Commodity contracts	Receivables—Other	$21	$985
Commodity contracts	Deferred charges and other	16	1,017
Foreign exchange contracts	Receivables—Other	5,197	1,194
Foreign exchange contracts	Deferred charges and other	621	—
Total asset derivatives designated as hedging instruments under ASC 815		5,855	3,196
Derivatives not designated as hedging instruments under ASC 815:			
Foreign exchange contracts	Receivables—Other	24	41
Total asset derivatives		$5,879	$3,237

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

Liability Derivatives		June 30, 2013	September 30, 2012
Derivatives designated as hedging instruments under ASC 815:			
Commodity contracts	Accounts payable	$1,174	$9
Commodity contracts	Other long-term liabilities	79	—
Foreign exchange contracts	Accounts payable	126	3,063
Foreign exchange contracts	Other long-term liabilities	13	—
Total liability derivatives designated as hedging instruments under ASC 815		$1,392	$3,072
Derivatives not designated as hedging instruments under ASC 815:			
Commodity contract	Accounts payable	197	—
Foreign exchange contracts	Accounts payable	3,324	3,967
Foreign exchange contracts	Other long-term liabilities	1,078	2,926
Total liability derivatives		$5,991	$9,965

Changes in AOCI from Derivative Instruments

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

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of Accumulated Other Comprehensive Income ("AOCI") and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on derivatives representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. See Note 3, "Comprehensive Income (Loss)" for further information.
The following table summarizes the impact of derivative instruments on the accompanying Condensed Consolidated Statement of Operations (Unaudited) for the three month period ended June 30, 2013, pretax:

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Commodity contracts	$(930)	Cost of goods sold	$ (321)	Cost of goods sold	$ 11
Foreign exchange contracts	89	Net sales	313	Net sales	—
Foreign exchange contracts	4,034	Cost of goods sold	515	Cost of goods sold	—
Total	$3,193		$ 507		$ 11

The following table summarizes the impact of derivative instruments on the accompanying Condensed Consolidated Statement of Operations (Unaudited) for the nine month period ended June 30, 2013, pretax:

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Commodity contracts	$(3,361)	Cost of goods sold	$ (223)	Cost of goods sold	$ (71)
Foreign exchange contracts	755	Net sales	653	Net sales	—
Foreign exchange contracts	7,201	Cost of goods sold	(350)	Cost of goods sold	—
Total	$4,595		$ 80		$ (71)

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

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Commodity contracts	$(2,368)	Cost of goods sold	$ (120)	Cost of goods sold	$ (6)
Foreign exchange contracts	(395)	Net sales	(129)	Net sales	—
Foreign exchange contracts	5,973	Cost of goods sold	558	Cost of goods sold	—
Total	$3,210		$ 309		$ (6)

17

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

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

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

Other Changes in Fair Value of Derivative Contracts
For derivative instruments that are used to economically hedge the fair value of the Company's third party and intercompany foreign currency payments, commodity purchases and interest rate payments, the gain (loss) associated with the derivative contract is recognized in earnings in the period of change. During the three month periods ended June 30, 2013 and July 1, 2012, the Company recognized the following gains (losses) on these derivative contracts:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Amount of Gain (Loss) Recognized in Income on Derivatives		Location of Gain or (Loss) Recognized in Income on Derivatives
	2013	2012	
Commodity contracts	$(197)	$—	Cost of goods sold
Foreign exchange contracts	477	7,941	Other expense, net
Total	$280	$7,941	

During the nine month periods ended June 30, 2013 and July 1, 2012, the Company recognized the following gains (losses) on these derivative contracts:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Amount of Gain (Loss) Recognized in Income on Derivatives		Location of Gain or (Loss) Recognized in Income on Derivatives
	2013	2012	
Commodity contracts	$(197)	$—	Cost of goods sold
Foreign exchange contracts	(1,834)	11,734	Other expense, net

Total	$(2,031)	$11,734

Credit Risk

The Company is exposed to the risk of default by the counterparties with which it transacts and generally does not require collateral or other security to support financial instruments subject to credit risk. The Company monitors counterparty credit risk on an individual basis by periodically assessing each such counterparty's credit rating exposure. The maximum loss due to credit risk equals the fair value of the gross asset derivatives that are concentrated with certain domestic and foreign financial institution counterparties. The Company considers these exposures when measuring its credit reserve on its derivative assets, which was $36 and $46 at June 30, 2013 and September 30, 2012, respectively.

The Company's standard contracts do not contain credit risk related contingent features whereby the Company would be required to post additional cash collateral as a result of a credit event. However, the Company is typically required to post collateral in the normal course of business to offset its liability positions. At June 30, 2013 and September 30, 2012, the

Company had posted cash collateral of $450 and $50, respectively, related to such liability positions. In addition, at June 30, 2013 and September 30, 2012, the Company had no posted standby letters of credit related to such liability positions. The cash collateral is included in Current Assets—Receivables-Other within the accompanying Condensed Consolidated Statements of Financial Position (Unaudited).

Derivative Financial Instruments

Cash Flow Hedges

When appropriate, the Company uses interest rate swaps to manage its interest rate risk. The swaps are designated as cash flow hedges with the changes in fair value recorded in AOCI and as a derivative hedge asset or liability, as applicable. The swaps settle periodically in arrears with the related amounts for the current settlement period payable to, or receivable from, the counter-parties included in accrued liabilities or receivables, respectively, and recognized in earnings as an adjustment to interest expense from the underlying debt to which the swap is designated. At June 30, 2013, the Company did not have any interest rate swaps outstanding.

The Company periodically enters into forward foreign exchange contracts to hedge the risk from forecasted foreign currency denominated third party and intercompany sales or payments. These obligations generally require the Company to exchange foreign currencies for U.S. Dollars, Euros, Pounds Sterling, Australian Dollars, Brazilian Reals, Mexican Pesos, Canadian Dollars or Japanese Yen. These foreign exchange contracts are cash flow hedges of fluctuating foreign exchange related to sales of product or raw material purchases. Until the sale or purchase is recognized, the fair value of the related hedge is recorded in AOCI and as a derivative hedge asset or liability, as applicable. At the time the sale or purchase is recognized, the fair value of the related hedge is reclassified as an adjustment to Net sales or purchase price variance in Cost of goods sold. At June 30, 2013, the Company had a series of foreign exchange derivative contracts outstanding through September 2014 with a contract value of $228,419. The derivative net gain on these contracts recorded in AOCI by the Company at June 30, 2013 was $4,138, net of tax expense of $1,541. At June 30, 2013, the portion of derivative net gain estimated to be reclassified from AOCI into earnings by the Company over the next 12 months is $3,697, net of tax.

The Company is exposed to risk from fluctuating prices for raw materials, specifically zinc and brass used in its manufacturing processes. The Company hedges a portion of the risk associated with the purchase of these materials through the use of commodity swaps. The hedge contracts are designated as cash flow hedges with the fair value changes recorded in AOCI and as a hedge asset or liability, as applicable. The unrecognized changes in fair value of the hedge contracts are reclassified from AOCI into earnings when the hedged purchase of raw materials also affects earnings. The swaps effectively fix the floating price on a specified quantity of raw materials through a specified date. At June 30, 2013, the Company had a series of zinc swap contracts outstanding through September 2014 for 10 tons with a contract value of $20,372. At June 30, 2013, the Company had a series of brass swap contracts outstanding through September 2014 for 1 ton with a contract value of $5,609. The derivative net loss on these contracts recorded in AOCI by the Company at June 30, 2013 was $1,068, net of tax benefit of $127. At June 30, 2013, the portion of derivative net loss estimated to be reclassified from AOCI into earnings by the Company over the next 12 months is $1,010, net of tax.

Derivative Contracts

The Company periodically enters into forward and swap foreign exchange contracts to economically hedge the risk from third party and intercompany payments resulting from existing obligations. These obligations generally require the Company to exchange foreign currencies for U.S. Dollars, Canadian Dollars, Euros or Australian Dollars. These foreign exchange contracts are fair value hedges of a related liability or asset recorded in the accompanying Condensed Consolidated Statements of Financial Position (Unaudited). The gain or loss on the derivative hedge contracts is recorded in earnings as an offset to the change in value of the related liability or asset at each period end. At June 30, 2013 and September 30, 2012, the Company had $112,737 and $172,581, respectively, of notional value for such foreign exchange derivative contracts outstanding.

The Company periodically enters into commodity swap contracts to economically hedge the risk from fluctuating prices for raw materials, specifically the pass-through of market prices for silver used in manufacturing purchased watch batteries. The Company hedges a portion of the risk associated with these materials through the use of commodity swaps. The swap contracts are designated as economic hedges with the unrealized gain or loss recorded in earnings and as an asset or liability at each period end. The unrecognized changes in fair value of the hedge contracts are adjusted through earnings when the realized gains or losses affect earnings upon settlement of the hedges. The swaps effectively fix the floating price on a specified quantity of silver through a specified date. At June 30, 2013, the Company had a series of such swap contracts outstanding through April 2014 for 60 troy ounces with a contract value of $1,189.

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

8 FAIR VALUE OF FINANCIAL INSTRUMENTS
The Company’s net derivative portfolio as of June 30, 2013, contains Level 2 instruments and consists of commodity and foreign exchange contracts. The fair values of these instruments as of June 30, 2013 were as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Foreign exchange contracts, net	$—	$1,301	$—	$1,301
Total Assets, net	$—	$1,301	$—	$1,301
Liabilities:				
Commodity contracts, net	$—	$(1,413)	$—	$(1,413)
Total Liabilities, net	$—	$(1,413)	$—	$(1,413)

The Company’s net derivative portfolio as of September 30, 2012, contains Level 2 instruments and consists of commodity and foreign exchange contracts. The fair values of these instruments as of September 30, 2012 were as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Commodity contracts, net	$—	$1,993	$—	$1,993
Total Assets, net	$—	$1,993	$—	$1,993
Liabilities:				
Foreign exchange contracts, net	$—	$(8,721)	$—	$(8,721)
Total Liabilities, net	$—	$(8,721)	$—	$(8,721)

The carrying values of cash and cash equivalents, accounts and notes receivable, accounts payable and non-publicly traded debt approximate fair value. The fair values of long-term publicly traded debt are based on unadjusted quoted market prices (Level 1) and derivative financial instruments are generally based on quoted or observed market prices (Level 2).
The carrying values of goodwill, intangible assets and other long-lived assets are tested annually, or more frequently if an event occurs that indicates an impairment loss may have been incurred, using fair value measurements with unobservable inputs (Level 3).
The carrying amounts and fair values of the Company’s financial instruments are summarized as follows ((liability)/asset):

	June 30, 2013		September 30, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Total debt	$(3,226,054)	$(3,395,679)	$(1,669,300)	$(1,804,831)
Commodity swap and option agreements	(1,413)	(1,413)	1,993	1,993
Foreign exchange forward agreements	1,301	1,301	(8,721)	(8,721)

9 EMPLOYEE BENEFIT PLANS
Pension Benefits

The Company has various defined benefit pension plans covering some of its employees in the U.S. and certain employees in other countries, including the United Kingdom, the Netherlands, Germany, Guatemala, Brazil, Mexico and Taiwan. These pension plans generally provide benefits of stated amounts for each year of service.

(Amounts in thousands, except per share figures)

The Company's results of operations for the three and nine month periods ended June 30, 2013 and July 1, 2012 reflect the following pension and deferred compensation benefit costs:

	Three Months Ended		Nine Months Ended	
Components of net periodic pension benefit and deferred compensation benefit cost	2013	2012	2013	2012
Service cost	$867	$578	$2,416	$1,700
Interest cost	2,498	2,552	7,326	7,030
Expected return on assets	(2,196)	(2,051)	(6,589)	(5,378)
Recognized net actuarial loss	519	242	1,557	508
Employee contributions	(46)	(46)	(137)	(139)
Net periodic benefit cost	$1,642	$1,275	$4,573	$3,721

The Company funds its U.S. pension plans in accordance with the Internal Revenue Service ("IRS") defined guidelines and, where applicable, in amounts sufficient to satisfy the minimum funding requirements of applicable laws. Additionally, in compliance with the Company's funding policy, annual contributions to non-U.S. defined benefit plans are equal to the actuarial recommendations or statutory requirements in the respective countries. The Company's contributions to its pension and deferred compensation plans for the three and nine month periods ended June 30, 2013 and July 1, 2012 were as follows:

	Three Months Ended		Nine Months Ended	
Pension and deferred compensation contributions	2013	2012	2013	2012
Contributions made during period	$1,188	$1,289	$2,890	$3,767

The Company sponsors a defined contribution pension plan for its domestic salaried employees, which allows participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. The Company also sponsors defined contribution pension plans for employees of certain foreign subsidiaries. Company contributions charged to operations, including discretionary amounts, for the three and nine month periods ended June 30, 2013 were $2,851 and $5,665, respectively. Company contributions charged to operations, including discretionary amounts, for the three and nine month periods ended July 1, 2012 were $545 and $1,694, respectively.

10 INCOME TAXES

The Company's effective tax rates for the three and nine month periods ended June 30, 2013 were 29% and 125%, respectively. The Company's effective tax rates for the three and nine month periods ended July 1, 2012 were (10)% and 47%, respectively. The Company's effective tax rates differ from the United States federal statutory rate of 35% principally due to: (i) losses in the U.S. and certain foreign jurisdictions for which no tax benefit can be recognized due to full valuation allowances that have been provided on the Company's net operating loss carryforward tax benefits and other deferred tax assets; (ii) deferred income tax expense related to the change in book versus tax basis of indefinite lived intangibles, which are amortized for tax purposes but not for book purposes, and (iii) the reversal of U.S. valuation allowances of $49,291 as a result of the HHI Business acquisition during the nine months ended June 30, 2013, and $13,915 as a result of the FURminator acquisition during the nine month period ended July 1, 2012.

The Company recognizes in its consolidated financial statements the impact of a tax position if it concludes that the position is more likely than not sustainable upon audit, based on the technical merits of the position. At June 30, 2013

and September 30, 2012, the Company had $8,968 and $5,877, respectively, of unrecognized tax benefits related to uncertain tax positions. The Company also had approximately $3,787 and $3,564, respectively, of accrued interest and penalties related to the uncertain tax positions at those dates. Interest and penalties related to uncertain tax positions are reported in the consolidated financial statements as part of income tax expense.
As of June 30, 2013, certain of the Company's legal entities in various jurisdictions are undergoing income tax audits. The Company cannot predict the ultimate outcome of the examinations; however, it is reasonably possible that during the next 12 months some portion of previously unrecognized tax benefits could be recognized.

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

11 SEGMENT RESULTS

The Company manages its business in four vertically integrated, product-focused reporting segments: (i) Global Batteries & Appliances; (ii) Global Pet Supplies; (iii) Home and Garden Business; and (iv) Hardware & Home Improvement.

The results of the HHI Business operations, excluding the TLM Business, since December 17, 2012 are included in the Company's Condensed Consolidated Statement of Operations (Unaudited). The results of the TLM Business operations since April 8, 2013 are included in the Company's Condensed Consolidated Statement of Operations (Unaudited). The financial results related to the HHI Business are reported as a separate business segment, Hardware & Home Improvement.

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

Net sales and Cost of goods sold from transactions with other business segments have been eliminated. The gross contribution of intersegment sales is included in the segment selling the product to the external customer. Segment net sales are based upon the segment from which the product is shipped.

The operating segment profits do not include restructuring and related charges, acquisition and integration related charges, interest expense, interest income and income tax expense. Corporate expenses primarily include general and administrative expenses and global long-term incentive compensation plan costs which are evaluated on a consolidated basis and not allocated to the Company’s operating segments. All depreciation and amortization included in income from operations is related to operating segments or corporate expense. Costs are identified to operating segments or corporate expense according to the function of each cost center.

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

Segment information for the three and nine month periods ended June 30, 2013 and July 1, 2012 is as follows:

Table of Contents

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

	Three Months Ended		Nine Months Ended	
	2013	2012	2013	2012
Net sales to external customers				
Consumer batteries	$207,339	$211,198	$678,067	$684,277
Small appliances	168,744	173,140	543,451	575,630
Electric shaving and grooming	61,742	62,860	207,978	214,979
Electric personal care	53,776	53,526	196,747	195,087
Global Batteries & Appliances	491,601	500,724	1,626,243	1,669,973
Global Pet Supplies	156,440	157,495	456,639	448,962
Home and Garden Business	156,568	166,584	289,091	300,924
Hardware & Home Improvement	285,216	—	575,876	—
Total segments	$1,089,825	$824,803	$2,947,849	$2,419,859

	Three Months Ended		Nine Months Ended	
	2013	2012	2013	2012
Segment profit				
Global Batteries & Appliances	$44,904	$47,093	$181,696	$185,726
Global Pet Supplies	26,560	22,470	62,833	57,778
Home and Garden Business	43,117	44,224	59,648	60,509
Hardware & Home Improvement	42,963	—	46,483	—
Total segments	157,544	113,787	350,660	304,013
Corporate expense	20,493	9,227	44,698	32,762
Acquisition and integration related charges	7,747	5,274	40,558	20,625
Restructuring and related charges	13,245	3,896	27,736	15,890
Interest expense	61,516	39,686	185,652	150,169
Other expense, net	2,613	2,224	7,941	2,225
Income from continuing operations before income taxes	$51,930	$53,480	$44,075	$82,342

On February 8, 2013, the Venezuelan government announced the formal devaluation of its currency, the Bolivar fuerte, relative to the U.S. dollar. As Venezuela continues to be considered a highly inflationary economy, the functional currency of the Company's Venezuelan subsidiary is the U.S. dollar. Therefore, the Company remeasured the local statement of financial position of its Venezuela entity as of February 8, 2013 to reflect the impact of the devaluation to the official exchange rate from 4.3 to 6.3 Bolivar fuerte per U.S. dollar. The effect of the devaluation of the Bolivar fuerte was recorded in other expense, net and resulted in a $1,953 reduction to the Company's pretax income during the nine month period ended June 30, 2013.

	June 30, 2013	September 30, 2012
Segment total assets		
Global Batteries & Appliances	$2,213,741	$2,243,472
Global Pet Supplies	959,282	956,043
Home and Garden Business	542,525	508,083
Hardware & Home Improvement	1,787,178	—
Total segment assets	5,502,726	3,707,598
Corporate	37,946	45,913

Total assets at period end	$5,540,672	$3,753,511

12 RESTRUCTURING AND RELATED CHARGES

23

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

The Company reports restructuring and related charges associated with manufacturing and related initiatives in Cost of goods sold. Restructuring and related charges reflected in Cost of goods sold include, but are not limited to, termination, compensation and related costs associated with manufacturing employees, asset impairments relating to manufacturing initiatives, and other costs directly related to the restructuring or integration initiatives implemented. The Company reports restructuring and related charges relating to administrative functions in Operating expenses, such as initiatives impacting sales, marketing, distribution, or other non-manufacturing functions. Restructuring and related charges reflected in Operating expenses include, but are not limited to, termination and related costs, any asset impairments relating to the functional areas described above, and other costs directly related to the initiatives.
The following table summarizes restructuring and related charges incurred by segment for the three and nine month periods ended June 30, 2013 and July 1, 2012:

	Three Months Ended		Nine Months Ended	
	2013	2012	2013	2012
Cost of goods sold:				
Global Batteries & Appliances	$93	$1,205	$907	$4,679
Hardware & Home Improvement	644	—	1,772	—
Global Pet Supplies	276	833	2,019	3,624
Total restructuring and related charges in cost of goods sold	1,013	2,038	4,698	8,303
Operating expenses:				
Global Batteries & Appliances	8,201	640	10,556	2,283
Hardware & Home Improvement	1,698	—	3,251	—
Global Pet Supplies	1,165	883	7,501	3,276
Home and Garden Business	151	192	518	1,163
Corporate	1,017	143	1,212	865
Total restructuring and related charges in operating expenses	12,232	1,858	23,038	7,587
Total restructuring and related charges	$13,245	$3,896	$27,736	$15,890

Global Expense Rationalization Initiatives Summary
During the third quarter of the fiscal year ending September 30, 2013, the Company implemented a series of initiatives throughout the Company to reduce operating costs (the “Global Expense Rationalization Initiatives”). These initiatives consist of headcount reductions in the Global Batteries & Appliances segment and Corporate. Costs associated with these initiatives, which are expected to be incurred through December 31, 2014, are currently projected to total approximately $10,500.
The Company recorded $7,876 of pretax restructuring and related charges during the three and nine month periods ended June 30, 2013, and no pretax restructuring and related charges during the three and nine month periods ended July 1, 2012, related to the Global Cost Reduction Initiatives.

The following table summarizes the remaining accrual balance associated with the Global Expense Rationalization Initiatives and the activity during the nine month period ended June 30, 2013:

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2012	$—	$—	$—
Provisions	6,751	—	6,751

Cash expenditures	(99)	—	(99)
Non-cash items	(14)	—	(14)
Accrual balance at June 30, 2013	$6,638	$—	$6,638
Expensed as incurred (A)	$798	$327	$1,125

24

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

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

The following table summarizes the expenses incurred during the nine month period ended June 30, 2013, the cumulative amount incurred to date and the total future expected costs to be incurred associated with the Global Expense Rationalization Initiatives by operating segment:

	Global Batteries & Appliances	Corporate	Total
Restructuring and related charges during the nine month period ended June 30, 2013	$6,922	$954	$7,876
Restructuring and related charges since initiative inception	$6,922	$954	$7,876
Total future restructuring and related charges expected	$2,297	$250	$2,547

Global Cost Reduction Initiatives Summary

During the fiscal year ended September 30, 2009, the Company implemented a series of initiatives within the Global Batteries & Appliances segment, the Global Pet Supplies segment and the Home and Garden Business segment to reduce operating costs, and to evaluate opportunities to improve the Company’s capital structure (the “Global Cost Reduction Initiatives”). These initiatives included headcount reductions and the exit of certain facilities within each of the Company’s segments. These initiatives also included consultation, legal and accounting fees related to the evaluation of the Company’s capital structure. Costs associated with these initiatives, which are expected to be incurred through January 31, 2015, are projected to total approximately $104,500.

The Company recorded $2,981 and $14,627 of pretax restructuring and related charges during the three and nine month periods ended June 30, 2013, respectively, and $3,768 and $15,070 of pretax restructuring and related charges during the three and nine month periods ended July 1, 2012, respectively, related to the Global Cost Reduction Initiatives.

The following table summarizes the remaining accrual balance associated with the Global Cost Reduction Initiatives and the activity during the nine month period ended June 30, 2013:

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2012	$3,252	$1,095	$4,347
Provisions	5,418	226	5,644
Cash expenditures	(3,103)	(1,055)	(4,158)
Non-cash items	(5)	40	35
Accrual balance at June 30, 2013	$5,562	$306	$5,868
Expensed as incurred (A)	$1,183	$7,800	$8,983

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

The following table summarizes the expenses incurred during the nine month period ended June 30, 2013, the cumulative amount incurred to date and the total future expected costs to be incurred associated with the Global Cost Reduction Initiatives by operating segment:

Table of Contents

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

	Global Batteries & Appliances	Global Pet Supplies	Home and Garden Business	Corporate	Total
Restructuring and related charges during the nine month period ended June 30, 2013	$4,589	$9,520	$518	$—	$14,627
Restructuring and related charges since initiative inception	$25,398	$46,519	$18,138	$7,591	$97,646
Total future restructuring and related charges expected	$693	$5,085	$1,009	$—	$6,787

The Company recorded $2,342 and $5,023 of restructuring and related charges during the three and nine month periods ended June 30, 2013, respectively, related to initiatives implemented by the HHI Business prior to the Company's acquisition on December 17, 2012.
In connection with other restructuring efforts, the Company recorded $46 and $210 of pretax restructuring and related charges during the three and nine month periods ended June 30, 2013, respectively, and $128 and $820 of pretax restructuring and related charges during the three and nine month periods ended July 1, 2012, respectively.

13 COMMITMENTS AND CONTINGENCIES

The Company has provided for the estimated costs associated with environmental remediation activities at some of its current and former manufacturing sites. The Company believes that any additional liability which may result from resolution of these matters in excess of the amounts provided of approximately $5,126, will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company.
The Company is a defendant in various other matters of litigation generally arising out of the ordinary course of business. The Company does not believe that the resolution of any other matters or proceedings presently pending will have a material adverse effect on its results of operations, financial condition, liquidity or cash flows.

14 ACQUISITIONS

In accordance with ASC Topic 805, “Business Combinations” (“ASC 805”), the Company accounts for acquisitions by applying the acquisition method of accounting. The acquisition method of accounting requires, among other things, that the assets acquired and liabilities assumed in a business combination be measured at their fair values as of the closing date of the acquisition.

HHI Business

On December 17, 2012, the Company completed the cash acquisition of the HHI Business from Stanley Black & Decker. A portion of the HHI Business, consisting of the purchase of certain assets of TLM Taiwan, closed on April 8, 2013.
The following table summarizes the preliminary consideration paid for the HHI Business:

Negotiated sales price, excluding TLM Taiwan	$1,300,000
Working capital and other adjustments at December 17, 2012 close	(10,738)
Final working capital adjustment	(7,669)
Final purchase price, excluding TLM Taiwan	$1,281,593
Negotiated sales price, TLM Taiwan	100,000
Working capital and other adjustments at April 8, 2013 close	(6,500)
Total HHI Business purchase price	$1,375,093

The HHI Business is a major manufacturer and supplier of residential locksets, residential builders' hardware and faucets with a portfolio of recognized brand names, including Kwikset, Weiser, Baldwin, National Hardware, Stanley, FANAL and Pfister, as well as patented technologies such as the SmartKey, a re-keyable lockset technology, and Smart Code Home

Connect. Customers of the HHI Business include retailers, non-retail distributors and homebuilders. Headquartered in Lake Forest, California, the HHI Business has a global sales force and operates manufacturing and distribution facilities in the U.S., Canada, Mexico and Asia.

The results of the HHI Business operations since December 17, 2012, excluding TLM Taiwan, are included in the Company's Condensed Consolidated Statements of Operations (Unaudited). The results of TLM Taiwan operations since April 8, 2013 are included in the Company's Condensed Consolidated Statements of Operations (Unaudited). The HHI Business is reported within the Hardware & Home Improvement segment.

Preliminary Valuation of Assets and Liabilities

The preliminary fair values of the net tangible and intangible assets acquired and liabilities assumed in connection with the purchase of the HHI Business, excluding TLM Taiwan, have been recognized in the Condensed Consolidated Statement of Financial Position based upon their preliminary values at December 17, 2012. The preliminary fair values of the net tangible and intangible assets acquired and liabilities assumed in connection with the TLM Taiwan purchase have been recognized in the Condensed Consolidated Statement of Financial Position based upon their preliminary values at April 8, 2013. The excess of the purchase price over the preliminary fair values of the net tangible and intangible assets was recorded as goodwill, and includes value associated with greater product diversity, stronger relationships with core retail partners, cross-selling opportunities in all channels and a new platform for potential future global growth using the Company's existing international infrastructure, most notably in Europe. The majority of goodwill recorded is not expected to be deductible for income tax purposes. The preliminary fair values recorded were based upon a preliminary valuation and the estimates and assumptions used in such valuation are subject to change, which could be significant, within the measurement period (up to one year from the acquisition date). The primary areas of the preliminary valuation that are not yet finalized relate to the fair values of certain tangible assets and liabilities acquired, certain legal matters, amounts for income taxes including deferred tax accounts, amounts for uncertain tax positions and net operating loss carryforwards inclusive of associated limitations and valuation allowances, the determination of identifiable intangible assets and the final amount of residual goodwill. Additionally, finalized fair values associated with deferred tax accounts could have a material effect on the Company's estimated reversal of its consolidated U.S. valuation allowances recognized during the measurement period. See Note 11, "Income Taxes," for further information. The Company expects to continue to obtain information to assist it in determining the fair values of the net assets acquired at the acquisition date during the measurement period. The preliminary valuation of the assets acquired and liabilities assumed for the HHI Business, including a reconciliation to the preliminary valuation reported as of December 30, 2012, is as follows:

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

	HHI Business Preliminary Valuation December 30, 2012	TLM Taiwan Preliminary Valuation June 30, 2013	Adjustments / reclassifications	Preliminary Valuation June 30, 2013
Cash	$17,406	843	$5,836	$24,085
Accounts receivable	104,641	11	4,377	109,029
Inventory	207,160	1,135	(2,393)	205,902
Prepaid expenses and other	13,311	2,148	(4,160)	11,299
Property, plant and equipment	104,502	36,750	(5,147)	136,105
Intangible assets	470,000	17,100	—	487,100
Other long-term assets	3,051	124	—	3,175
Total assets acquired	$920,071	$58,111	$(1,487)	$976,695
Accounts payable	130,140	—	7,967	138,107
Deferred tax liability - current	7,081	—	(32)	7,049
Accrued liabilities	37,530	241	129	37,900
Deferred tax liability - long-term	104,708	1,930	11,177	117,815
Other long-term liabilities	11,231	8,089	(2,168)	17,152
Total liabilities assumed	$290,690	$10,260	$17,073	$318,023
Total identifiable net assets	629,381	47,851	(18,560)	658,672
Non-controlling interest	(2,235)	—	(2,234)	(4,469)
Goodwill	662,116	45,649	13,125	720,890
Total net assets	$1,289,262	$93,500	$(7,669)	$1,375,093

Since the preliminary valuation on December 30, 2012, the Company recorded $45,649 to goodwill related to the acquisition of TLM Taiwan on April 8, 2013, and recorded adjustments to the preliminary valuation of assets and liabilities, excluding TLM Taiwan, resulting in a net increase to goodwill of $13,125. The preliminary goodwill increased $11,177 as a result of recording certain state and foreign valuation allowances against deferred tax assets, $5,147 resulting from a reduction in certain property, plant and equipment asset values and $2,393 from a reduction in inventory asset values. The preliminary goodwill decreased $7,669 as a result of the final working capital adjustment related to the December 17, 2012 close. The changes in estimates were the result of additional accounting information provided by Stanley Black & Decker during the period. The Company believes that the information gathered to date provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the Company is waiting for additional information necessary to finalize those fair values. Thus, the provisional measurements of fair value set forth above are subject to change further. The Company expects to complete the purchase accounting process as soon as practicable but no later than one year from the acquisition date.

Preliminary Pre-Acquisition Contingencies Assumed

The Company has evaluated and continues to evaluate pre-acquisition contingencies relating to the HHI Business that existed as of the acquisition date. Based on the evaluation to date, the Company has preliminarily determined that certain pre-acquisition contingencies are probable in nature and estimable as of the acquisition date. Accordingly, the Company has recorded its best estimates for these contingencies as part of the preliminary valuation of the assets and liabilities acquired for the HHI Business. The Company continues to gather information relating to all pre-acquisition contingencies that it has assumed from the HHI Business. Any changes to the pre-acquisition contingency amounts recorded during the measurement period will be included in the final valuation and related amounts recognized. Subsequent to the end of the measurement period, any adjustments to pre-acquisition contingency amounts will be reflected in the Company's results of operations.

Preliminary Valuation Adjustments

The Company performed a preliminary valuation of the assets and liabilities of the HHI Business, excluding TLM Taiwan, on December 17, 2012. The Company performed a preliminary valuation of the assets and liabilities of TLM Taiwan on April 8, 2013. Significant adjustments as a result of the preliminary valuation and the bases for their determination are summarized as follows:

- Inventories- An adjustment of $31,000 was recorded to adjust inventory to fair value. Finished goods were valued at estimated selling prices less the sum of costs of disposal and a reasonable profit allowance for the selling effort.
- Property, plant and equipment, net- An adjustment of $3,997 was recorded to adjust the net book value of property, plant and equipment to fair value giving consideration to the highest and best use of the assets. The valuation of the Company's property, plant and equipment was based on the cost approach.
- Certain indefinite-lived intangible assets were valued using a relief from royalty methodology. Customer relationships and certain definite-lived intangible assets were valued using a multi-period excess earnings method. The total fair value of indefinite and definite lived intangibles was $487,100. A summary of the significant key inputs is as follows:
- The Company valued customer relationships using the income approach, specifically the multi-period excess earnings method. In determining the fair value of the customer relationships, the multi-period excess earnings approach values the intangible asset at the present value of the incremental after-tax cash flows attributable only to the customer relationship after deducting contributory asset charges. The incremental after-tax cash flows attributable to the subject intangible asset are then discounted to their present value. Only expected sales from current customers were used, which included an annual expected growth rate of 2.5% - 3%. The Company assumed a customer retention rate of approximately 95%, which was supported by historical retention rates. Income taxes were estimated at 17% - 35% and amounts were discounted using a rate of 12%. The customer relationships were valued at $90,000 under this approach and will be amortized over 20 years.
- The Company valued indefinite-lived trade names and trademarks using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the trade name was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions of the HHI Business, related trademarks and trade names, other similar trademark licensing and transaction agreements and the relative profitability and perceived contribution of the trademarks and trade names. Royalty rates used in the determination of the fair values of trade names and trademarks ranged from 3% - 5% of expected net sales related to the respective trade names and trademarks. The Company anticipates using the majority of the trade names and trademarks for an indefinite period as demonstrated by the sustained use of each subject trademark. In estimating the fair value of the trademarks and trade names, Net sales for significant trade names and trademarks were estimated to grow at a rate of 2.5% - 5% annually with a terminal year growth rate of 2.5%. Income taxes were estimated at 35% and amounts were discounted using a rate of 12%. Trade name and trademarks were valued at $330,000 under this approach.
- The Company valued definite lived trade names using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the trade name was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions of the HHI Business, related trademarks and trade names, other similar trademark licensing and transaction agreements and the relative profitability and perceived contribution of the trademarks and trade names. The royalty rates used in the determination of the fair values of the trade names ranged from1% - 3.5% of expected net sales related to the respective trade name. The Company assumed an 8 year useful life of the trade name. In estimating the fair value of the trade name, Net sales for the trade name were estimated to grow at a rate of 2.5% - 5% annually. Income taxes were estimated at 17% - 35% and amounts were discounted using a rate of 12%. The trade names were valued at $4,100 under this approach.
- The Company valued a trade name license agreement using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the trade name was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions of the HHI Business, related trademarks and trade names, other similar trademark

licensing and transaction agreements and the relative profitability and perceived contribution of the trademarks and trade names. The royalty rate used in the determination of the fair value of the trade name license agreement was 4% of expected Net sales related to the respective trade name. In estimating the fair value of the trade name license agreement, Net sales were estimated to grow at

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

a rate of 2.5% - 5% annually. The Company assumed a 5 year useful life of the trade name license agreement. Income taxes were estimated at 35% and amounts were discounted using a rate of 12%. The trade name license agreement was valued at $12,000 under this approach.

- The Company valued technology using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the technology was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions of the HHI Business, related licensing agreements and the importance of the technology and profit levels, among other considerations. Royalty rates used in the determination of the fair values of technologies ranged from 4% - 5% of expected Net sales related to the respective technology. The Company anticipates using these technologies through the legal life of the underlying patent; therefore, the expected life of these technologies was equal to the remaining legal life of the underlying patents which was 10 years. In estimating the fair value of the technologies, Net sales were estimated to grow at a rate of 2.5% - 31% annually. Income taxes were estimated at 35% and amounts were discounted using the rate of 12%. The technology assets were valued at $51,000 under this approach.
- Deferred tax liabilities, net- An adjustment of $124,864 was recorded to adjust deferred taxes for the preliminary fair value adjustments made in accounting for the purchase.

Supplemental Pro Forma Information (Unaudited)
The following reflects the Company's pro forma results had the results of the HHI Business been included for all periods presented.

	Three Months Ended		Nine Months Ended	
	2013	2012	2013	2012
Net sales:				
Reported Net sales	$1,089,825	$824,803	$2,947,849	$2,419,859
HHI Business adjustment (1)	—	253,004	191,777	716,862
Pro forma Net sales	$1,089,825	$1,077,807	$3,139,626	$3,136,721
Net income (loss):				
Reported Net income (loss) (2) (3)	$36,761	$58,851	$(10,853)	$43,570
HHI Business adjustment (1)	—	26,665	4,942	49,593
Pro forma Net income (loss)	$36,761	$85,516	$(5,911)	$93,163

(1) The results related to the HHI Business adjustment do not reflect the TLM Taiwan business as stand alone financial data is not available for the periods periods presented. The TLM Taiwan business is not deemed material to the operating results of the Company.

(2) Included in Reported Net loss for the nine month period ended June 30, 2013, is an adjustment of $49,291 to record the income tax benefit resulting from the reversal of U.S. valuation allowances on deferred tax assets as a result of the HHI Business acquisition. For information pertaining to the income tax benefit, see Note 11, "Income Taxes."

(3) Included in Reported Net loss for the three and nine month periods ended June 30, 2013, is $6,291 and $31,045, respectively, of Acquisition and integration related charges as a result of the HHI Business acquisition. For information pertaining to Acquisition and integration related charges, see Note 2, "Significant Accounting Policies - Acquisition and Integration Related Charges."

Shaser

On November 8, 2012, SB Holdings completed the cash acquisition of approximately a 56% interest in Shaser Biosciences, Inc. ("Shaser"), of which the Company purchased 49%. Shaser is a global technology leader in developing energy-based, aesthetic dermatological technology for home use devices. This acquisition was not significant individually.

The following table summarizes the preliminary consideration paid for Shaser:

30

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

Negotiated sales price	$50,000
Less: negotiated sales price attributable to SB Holdings	6,197
Preliminary working capital adjustment	(423)
Preliminary purchase price	$43,380

The purchase agreement provides the Company with an option, exercisable solely at the Company's discretion, to acquire the remaining 44% interest of Shaser (the "Call Option"). The Call Option is exercisable any time between January 1, 2017 and March 31, 2017 at a price equal to 1.0x trailing revenues or 7.0x adjusted trailing EBITDA, as defined, for the calendar year ending December 31, 2016.
The results of Shaser's operations since November 8, 2012 are included in the Company's Condensed Consolidated Statements of Operations (Unaudited) and are reported as part of the Global Batteries & Appliances segment.

Preliminary Valuation of Assets and Liabilities
The assets acquired and liabilities assumed in the Shaser acquisition have been measured at their fair values at November 8, 2012 as set forth below. The excess of the purchase price over the fair values of the net tangible assets and identifiable intangible assets was recorded as goodwill, which includes value associated with the assembled workforce including an experienced research team, and is not expected to be deductible for income tax purposes. The preliminary fair values recorded were determined based upon a preliminary valuation and the estimates and assumptions used in such valuation are subject to change, which could be significant, within the measurement period (up to one year from the acquisition date). The primary areas of acquisition accounting that are not yet finalized relate to amounts for income taxes including deferred tax accounts, uncertain tax positions and net operating loss carryforwards inclusive of associated limitations and valuation allowances, certain legal matters and residual goodwill.
The preliminary fair values recorded for the assets acquired and liabilities assumed for Shaser, including a reconciliation to the preliminary valuation reported as of December 30, 2012, are as follows:

	Preliminary Valuation December 30, 2012	Adjustments / reclassifications	Preliminary Valuation June 30, 2013
Cash	$870	$—	$870
Intangible asset	35,500	(2,700)	32,800
Other assets	2,679	—	2,679
Total assets acquired	$39,049	$(2,700)	$36,349
Total liabilities assumed	14,398	(962)	13,436
Total identifiable net assets	24,651	(1,738)	22,913
Non-controlling interest	(38,954)	—	(38,954)
Goodwill	63,880	1,738	65,618
Total identifiable net assets	$49,577	$—	$49,577

During the three month period ended March 31, 2013, the Company recorded adjustments to the preliminary valuation of assets and liabilities resulting in a net increase to goodwill of $1,738. Goodwill increased as a result of further information to support a key valuation factor that impacted the valuation of the technology asset acquired. This revised information was provided by Shaser during the period. The Company believes that information gathered to date provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the Company is waiting for additional information necessary to finalize those fair values. Thus, the provisional measurements of fair value set forth above are subject to further change. The Company expects to complete the purchase accounting process as soon as practicable but no later than one year from the acquisition date.

Preliminary Pre-Acquisition Contingencies Assumed

The Company has evaluated and continues to evaluate pre-acquisition contingencies relating to Shaser that existed as of the acquisition date. Based on the evaluation to date, the Company has preliminarily determined that certain pre-acquisition

31

contingencies are probable in nature and estimable as of the acquisition date. Accordingly, the Company has preliminarily recorded its best estimates for these contingencies as part of the preliminary purchase accounting for Shaser. The Company continues to gather information relating to all pre-acquisition contingencies that it has assumed from Shaser. Any changes to the pre-acquisition contingency amounts recorded during the measurement period will be included in the final valuation and related amounts recognized. Subsequent to the end of the measurement period, any adjustments to pre-acquisition contingency amounts will be reflected in the Company's results of operations.

Preliminary Valuation Adjustments

The Company performed a preliminary valuation of the acquired proprietary technology assets, the non-controlling interest and the Call Option related to Shaser at November 8, 2012. A summary of the significant key inputs is as follows:

- The Company valued the technology assets using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the technology was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions of Shaser, related licensing agreements and the importance of the technology and profit levels, among other considerations. The royalty rate used in the determination of the fair value of the technology asset was 10.5% of expected Net sales related to the technology. The Company anticipates using the technology through the legal life of the underlying patent and therefore the expected life of the technology was equal to the remaining legal life of the underlying patent which was 13 years. In estimating the fair value of the technology, Net sales were estimated to grow at a long-term rate of 3% annually. Income taxes were estimated at 35% and amounts were discounted using the rate of 11%. The technology asset was valued at approximately $32,800 under this approach.
- The Company valued the non-controlling interest in Shaser, a private company, by applying both income and market approaches. Under these methods, the non-controlling value was determined by using a discounted cash flow method, a guideline companies method, and a recent transaction approach. In estimating the fair value of the non-controlling interest, key assumptions include (i) cash flow projections based on market participant data and estimates by Company management, with Net sales estimated to grow at a terminal growth rate of 3% annually, income taxes estimated at 35%, and amounts discounted using a rate of 12%, (ii) financial multiples of companies deemed to be similar to Shaser, and (iii) adjustments because of lack of control or lack of marketability that market participants would consider when estimating the fair value of the non-controlling interest in Shaser. The non-controlling interest was valued at $38,954 under this approach.
- The Company, in connection with valuing the non-controlling interest in Shaser, also valued the Call Option. In addition to the valuation methods and key assumptions discussed above, the Company compared the forecasted revenue and EBITDA multiples, as defined, associated with the Call Option to current guideline companies. The Call Option was determined to have an immaterial value under this approach.

16 NEW ACCOUNTING PRONOUNCEMENTS

Presentation of Comprehensive Income

In June 2011, the Financial Accounting Standards Board ("FASB") issued new accounting guidance which requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The guidance requiring disclosure of the income statement location where gains and losses reclassified out of comprehensive income are included was deferred in December 2011. In November 2012, the FASB clarified its position on the reclassification disclosures, allowing disclosure of reclassification adjustments on the face of the comprehensive income statement or in the notes to the financial statements. The accounting guidance requiring a comprehensive income statement is now effective for the Company. The Company has implemented all required disclosures.

In connection with the combination with Russell Hobbs, Spectrum Brands, with its domestic subsidiaries and SB/RH Holdings, LLC as guarantors, issued the 9.5% Notes under the 2018 Indenture. (See Note 6, “Debt,” for further information on the the 9.5% Notes under the 2018 Indenture.)
The following consolidating financial statements illustrate the components of the consolidated financial statements of the Company. Investments in subsidiaries are accounted for using the equity method for purposes of illustrating the consolidating presentation. Earnings of subsidiaries are therefore reflected in the Company’s and Guarantor Subsidiaries’ investment accounts and earnings. The elimination entries presented herein eliminate investments in subsidiaries and intercompany balances and transactions. Separate consolidated financial statements of the Guarantor Subsidiaries are not presented because management has determined that such financial statements would not be material to investors.

SPECTRUM BRANDS, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Financial Position
June 30, 2013
(Unaudited)
(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS					
Current assets:					
Cash and cash equivalents	$682	$2,732	$95,490	$—	$98,904
Receivables:					
Trade accounts receivables, net of allowances	41,796	106,106	331,405	—	479,307
Intercompany receivables	220,219	904,187	(190,895)	(930,162)	3,349
Other	2,210	12,909	56,475	—	71,594
Inventories	103,035	183,363	429,895	(8,953)	707,340
Deferred income taxes	(5,697)	23,257	1,414	2,278	21,252
Prepaid expenses and other	19,138	8,705	113,353	(71,396)	69,800
Total current assets	381,383	1,241,259	837,137	(1,008,233)	1,451,546
Property, plant and equipment, net	68,111	46,562	240,577	—	355,250
Long-term intercompany receivables	108,626	132,430	40,220	(281,276)	—
Deferred charges and other	6,353	2,011	14,025	—	22,389
Goodwill	67,722	440,043	962,415	—	1,470,180
Intangible assets, net	507,135	746,714	915,555	—	2,169,404
Debt issuance costs	70,064	—	1,839	—	71,903
Investments in subsidiaries	3,979,462	2,412,934	445	(6,392,841)	—
Total assets	$5,188,856	$5,021,953	$3,012,213	$(7,682,350)	$5,540,672
LIABILITIES AND SHAREHOLDERS’ EQUITY					
Current liabilities:					
Current maturities of long-term debt	$6,786	$1,346	$32,651	$—	$40,783
Accounts payable	66,577	80,464	280,498	—	427,539
Intercompany accounts payable	920,146	309,386	124,341	(1,353,873)	—
Accrued liabilities:					
Wages and benefits	3,941	8,065	51,617	—	63,623
Income taxes payable	44	97	29,445	—	29,586
Accrued interest	25,983	—	923	—	26,906
Other	21,772	33,447	100,191	—	155,410
Total current liabilities	1,045,249	432,805	619,666	(1,353,873)	743,847
Long-term debt, net of current maturities	3,073,415	2,554	109,302	—	3,185,271
Intercompany long-term debt	—	349,173	(421,709)	72,536	—
Employee benefit obligations, net of current portion	33,016	—	76,324	—	109,340
Deferred income taxes	42,598	256,898	203,958	—	503,454
Other	12,045	1,062	11,738	—	24,845
Total liabilities	4,206,323	1,042,492	599,279	(1,281,337)	4,566,757
Shareholders’ equity:					
Other capital	1,394,424	3,181,285	2,218,803	(5,408,706)	1,385,806
Accumulated (deficit) retained earnings	(406,513)	780,417	172,322	(952,739)	(406,513)
Accumulated other comprehensive loss	(56,310)	(39,365)	(35,315)	74,680	(56,310)

Total shareholders’ equity	931,601	3,922,337	2,355,810	(6,286,765)	922,983
Non-controlling interest	50,932	57,124	57,124	(114,248)	50,932
Total equity	982,533	3,979,461	2,412,934	(6,401,013)	973,915
Total liabilities and shareholders’ equity	$5,188,856	$5,021,953	$3,012,213	$(7,682,350)	$5,540,672

SPECTRUM BRANDS, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Financial Position
September 30, 2012
(Unaudited)
(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS					
Current assets:					
Cash and cash equivalents	$6,729	$13,302	$137,841	$—	$157,872
Receivables:					
Trade accounts receivables, net of allowances	51,991	87,382	195,928	—	335,301
Intercompany receivables	242,449	961,195	332,975	(1,534,668)	1,951
Other	1,705	6,639	29,772	—	38,116
Inventories	87,482	174,254	197,467	(6,570)	452,633
Deferred income taxes	(5,545)	23,766	8,276	1,646	28,143
Prepaid expenses and other	16,534	4,721	28,022	(4)	49,273
Total current assets	401,345	1,271,259	930,281	(1,539,596)	1,063,289
Property, plant and equipment, net	61,246	47,633	105,138	—	214,017
Long term intercompany receivables	103,358	110,076	73,731	(287,165)	—
Deferred charges and other	9,094	1,920	16,697	—	27,711
Goodwill	67,722	438,864	187,659	—	694,245
Intangible assets, net	514,968	777,220	422,741	—	1,714,929
Debt issuance costs	39,320	—	—	—	39,320
Investments in subsidiaries	2,678,029	1,120,830	445	(3,799,304)	—
Total assets	$3,875,082	$3,767,802	$1,736,692	$(5,626,065)	$3,753,511
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current maturities of long-term debt	$3,939	$1,667	$10,808	$—	$16,414
Accounts payable	79,522	107,065	138,436	—	325,023
Intercompany accounts payable	993,646	321,210	20,261	(1,335,117)	—
Accrued liabilities:					
Wages and benefits	21,682	18,158	42,279	—	82,119
Income taxes payable	(96)	64	30,304	—	30,272
Accrued interest	30,427	—	46	—	30,473
Other	20,331	38,366	65,900	—	124,597
Total current liabilities	1,149,451	486,530	308,034	(1,335,117)	608,898
Long-term debt, net of current maturities	1,622,060	3,259	27,567	—	1,652,886
Long-term intercompany debt	—	376,754	109,966	(486,720)	—
Employee benefit obligations, net of current portion	24,560	—	65,434	—	89,994
Deferred income taxes	64,727	222,994	89,744	—	377,465
Other	16,225	236	15,117	—	31,578
Total liabilities	2,877,023	1,089,773	615,862	(1,821,837)	2,760,821
Shareholders' equity:					
Other equity	1,365,315	2,089,602	1,078,928	(3,173,899)	1,359,946
Accumulated (deficit) retained earnings	(333,821)	606,196	55,262	(661,458)	(333,821)

Accumulated other comprehensive (deficit) income	(33,435)	(17,769)	(13,360)	31,129	(33,435)
Total shareholders' equity (deficit)	998,059	2,678,029	1,120,830	(3,804,228)	992,690
Total liabilities and shareholders' equity	$3,875,082	$3,767,802	$1,736,692	$(5,626,065)	$3,753,511

SPECTRUM BRANDS, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Operations
Three Month Period Ended June 30, 2013
(Unaudited)
(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$138,746	$344,883	$870,895	$(264,699)	$1,089,825
Cost of goods sold	103,974	226,763	638,178	(262,862)	706,053
Restructuring and related charges	—	275	738	—	1,013
Gross profit	34,772	117,845	231,979	(1,837)	382,759
Operating expenses:					
Selling	17,018	37,834	110,585	(259)	165,178
General and administrative	16,446	20,108	33,503	—	70,057
Research and development	4,806	2,490	4,190	—	11,486
Acquisition and integration related charges	5,294	967	1,486	—	7,747
Restructuring and related charges	3,415	2,856	5,961	—	12,232
Total operating expense	46,979	64,255	155,725	(259)	266,700
Operating income	(12,207)	53,590	76,254	(1,578)	116,059
Interest expense	55,686	980	4,847	3	61,516
Other (income) expense, net	(87,536)	(54,320)	2,714	141,755	2,613
(Loss) income from continuing operations before income taxes	19,643	106,930	68,693	(143,336)	51,930
Income tax expense	(17,118)	16,666	15,637	(16)	15,169
Net (loss) income	36,761	90,264	53,056	(143,320)	36,761
Less: Net income attributable to non-controlling interest	263	263	263	(526)	263
Net (loss) income attributable to controlling interest	$36,498	$90,001	$52,793	$(142,794)	$36,498

SPECTRUM BRANDS, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Comprehensive Income
Three Month Period Ended June 30, 2013
(Unaudited)
(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net (loss) income	$36,761	$90,264	$53,056	$(143,320)	$36,761
Other comprehensive (loss) income, net of tax:					
Foreign currency translation	(7,830)	(7,834)	(8,113)	15,947	(7,830)
Unrealized gain on derivative instruments	1,780	1,926	1,926	(3,852)	1,780
Defined benefit pension loss	(52)	(52)	(52)	104	(52)
Other comprehensive (loss) income	(6,102)	(5,960)	(6,239)	12,199	(6,102)
Comprehensive (loss) income	30,659	84,304	46,817	(131,121)	30,659
Less: Comprehensive income attributable to non-controlling interest	263	263	263	(526)	263
Comprehensive (loss) income attributable to controlling interest	30,396	84,041	46,554	(130,595)	30,396

SPECTRUM BRANDS, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Operations
Three Month Period Ended July 1, 2012
(Unaudited)
(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$149,130	$357,363	$433,024	$(114,714)	$824,803
Cost of goods sold	109,719	239,647	296,558	(114,855)	531,069
Restructuring and related charges	—	804	1,234	—	2,038
Gross profit	39,411	116,912	135,232	141	291,696
Operating expenses:					
Selling	18,348	40,096	71,552	(145)	129,851
General and administrative	5,131	21,435	23,532	628	50,726
Research and development	5,000	2,713	884	—	8,597
Acquisition and integration related charges	1,055	3,003	1,216	—	5,274
Restructuring and related charges	140	659	1,059	—	1,858
	29,674	67,906	98,243	483	196,306
Operating (loss) income	9,737	49,006	36,989	(342)	95,390
Interest expense	35,204	1,401	3,078	3	39,686
Other (income) expense, net	(66,677)	(16,711)	2,035	83,577	2,224
(Loss) income from continuing operations before income taxes	41,210	64,316	31,876	(83,922)	53,480
Income tax (benefit) expense	(17,641)	5,814	6,333	123	(5,371)
Net (loss) income	$58,851	$58,502	$25,543	$(84,045)	$58,851

38

SPECTRUM BRANDS, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Comprehensive Income
Three Month Period Ended July 1, 2012
(Unaudited)
(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net (loss) income	$58,851	$58,502	$25,543	$(84,045)	$58,851
Other comprehensive income, net of tax:					
Foreign currency translation	(34,147)	(34,357)	(35,088)	69,444	(34,148)
Unrealized loss on derivative instruments	1,474	2,714	2,715	(5,428)	1,475
Defined benefit pension gain (loss)	422	422	422	(844)	422
Other comprehensive income	(32,251)	(31,221)	(31,951)	63,172	(32,251)
Comprehensive (loss) income	26,600	27,281	(6,408)	(20,873)	26,600

39

SPECTRUM BRANDS, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Operations
Nine Month Period Ended June 30, 2013
(Unaudited)
(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$466,600	$868,542	$2,256,031	$(643,324)	$2,947,849
Cost of goods sold	340,769	590,325	1,656,965	(638,727)	1,949,332
Restructuring and related charges	—	1,854	2,844	—	4,698
Gross profit	125,831	276,363	596,222	(4,597)	993,819
Operating expenses:					
Selling	56,222	107,418	302,037	(716)	464,961
General and administrative	51,182	56,660	88,216	19	196,077
Research and development	13,330	7,424	10,763	—	31,517
Acquisition and integration related charges	32,099	3,631	4,828	—	40,558
Restructuring and related charges	3,877	9,195	9,966	—	23,038
	156,710	184,328	415,810	(697)	756,151
Operating (loss) income	(30,879)	92,035	180,412	(3,900)	237,668
Interest expense	168,808	3,132	13,705	7	185,652
Other (income) expense, net	(170,869)	(121,518)	7,531	292,797	7,941
(Loss) income from continuing operations before income taxes	(28,818)	210,421	159,176	(296,704)	44,075
Income tax (benefit) expense	(17,965)	35,106	38,419	(632)	54,928
Net (loss) income	(10,853)	175,315	120,757	(296,072)	(10,853)
Less: Net loss attributable to non-controlling interest	8	8	8	(16)	8
Net (loss) income attributable to controlling interest	$(10,861)	$175,307	$120,749	$(296,056)	$(10,861)

40

SPECTRUM BRANDS, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Comprehensive Income
Nine Month Period Ended June 30, 2013
(Unaudited)
(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net (loss) income	$(10,853)	$175,315	$120,757	$(296,072)	$(10,853)
Other comprehensive (loss) income, net of tax:					
Foreign currency translation	(25,385)	(25,457)	(25,817)	51,274	(25,385)
Unrealized gain on derivative instruments	2,858	4,209	4,209	(8,418)	2,858
Defined benefit pension loss	(348)	(347)	(347)	694	(348)
Other comprehensive (loss) income	(22,875)	(21,595)	(21,955)	43,550	(22,875)
Comprehensive (loss) income	(33,728)	153,720	98,802	(252,522)	(33,728)
Less: Comprehensive loss attributable to non-controlling interest	8	8	8	(16)	8
Comprehensive (loss) income attributable to controlling interest	(33,736)	153,712	98,794	(252,506)	(33,736)

SPECTRUM BRANDS, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Operations
Nine Month Period Ended July 1, 2012
(Unaudited)
(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$489,068	$915,117	$1,411,931	$(396,257)	$2,419,859
Cost of goods sold	354,725	638,757	977,269	(394,948)	1,575,803
Restructuring and related charges	—	3,595	4,708	—	8,303
Gross profit	134,343	272,765	429,954	(1,309)	835,753
Operating expenses:					
Selling	56,103	115,730	220,385	(696)	391,522
General and administrative	36,322	58,881	60,550	1,740	157,493
Research and development	13,600	7,412	2,778	—	23,790
Acquisition and integration related charges	7,364	8,931	4,330	—	20,625
Restructuring and related charges	1,596	3,819	2,172	—	7,587
	114,985	194,773	290,215	1,044	601,017
Operating income	19,358	77,992	139,739	(2,353)	234,736
Interest expense	136,257	3,760	10,150	2	150,169
Other (income) expense, net	(150,859)	(86,912)	3,153	236,843	2,225
(Loss) income from continuing operations before income taxes	33,960	161,144	126,436	(239,198)	82,342
Income tax expense	(9,610)	21,735	26,690	(43)	38,772
Net (loss) income	$43,570	$139,409	$99,746	$(239,155)	$43,570

SPECTRUM BRANDS, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Comprehensive Income
Nine Month Period Ended July 1, 2012
(Unaudited)
(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net (loss) income	$43,570	$139,409	$99,746	$(239,155)	$43,570
Other comprehensive income, net of tax:					
Foreign currency translation	(30,538)	(30,462)	(30,415)	60,877	(30,538)
Unrealized gain (loss) on derivative instruments	2,370	2,211	2,211	(4,422)	2,370
Defined benefit pension gain	924	5,261	645	(5,906)	924
Other comprehensive income	(27,244)	(22,990)	(27,559)	50,549	(27,244)
Comprehensive (loss) income	16,326	116,419	72,187	(188,606)	16,326

43

SPECTRUM BRANDS, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Cash Flows
Nine Month Period Ended June 30, 2013
(Unaudited)
(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net cash (used) provided by operating activities	$(230,744)	$41,163	$672,999	$(559,256)	$(75,838)
Cash flows from investing activities:					
Purchases of property, plant and equipment	(14,857)	(5,958)	(24,421)	—	(45,236)
Acquisition of Shaser, net of cash acquired	—	—	(42,510)	—	(42,510)
Acquisition of the HHI Business, net of cash acquired	—	(1,351,008)	—	—	(1,351,008)
Other investing activities	73	(1,289)	75	—	(1,141)
Net cash used by investing activities	(14,784)	(1,358,255)	(66,856)	—	(1,439,895)
Cash flows from financing activities:					
Proceeds from issuance of Term Loan	700,000	—	92,000	—	792,000
Proceeds from issuance of 6.375% Notes	520,000	—	—	—	520,000
Proceeds from issuance of 6.625% Notes	570,000	—	—	—	570,000
Payment of senior credit facilities, excluding ABL revolving credit facility	(406,904)	—	—	—	(406,904)
Debt issuance costs	(42,333)	—	(2,136)	—	(44,469)
Other debt financing, net	—	—	17,080	—	17,080
Reduction of other debt	—	—	(1,970)	—	(1,970)
ABL revolving credit facility, net	69,500	—	—	—	69,500
Capital contribution from parent	28,562	—	—	—	28,562
Cash dividends paid to parent	(61,842)	—	—	—	(61,842)
Share based award tax withholding payments	(20,141)	—	—	—	(20,141)
Advances related to intercompany transactions	(1,117,361)	1,306,522	(748,417)	559,256	—
Net cash provided (used) by financing activities	239,481	1,306,522	(643,443)	559,256	1,461,816
Effect of exchange rate changes on cash and cash equivalents due to Venezuela devaluation	—	—	(1,870)	—	(1,870)
Effect of exchange rate changes on cash and cash equivalents	—	—	(3,181)	—	(3,181)
Net (decrease) increase in cash and cash equivalents	(6,047)	(10,570)	(42,351)	—	(58,968)
Cash and cash equivalents, beginning of period	6,729	13,302	137,841	—	157,872
Cash and cash equivalents, end of period	$682	$2,732	$95,490	$—	$98,904

SPECTRUM BRANDS, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Cash Flows
Nine Month Period Ended July 1, 2012
(Unaudited)
(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net cash (used) provided by operating activities	(46,049)	188,635	125,730	(336,244)	(67,928)
Cash flows from investing activities:					
Purchases of property, plant and equipment	(14,321)	(9,719)	(9,077)	—	(33,117)
Acquisition of Black Flag	—	(43,750)	—	—	(43,750)
Acquisition of FURminator, net of cash	—	(139,390)	—	—	(139,390)
Other investing activities	135	(92)	(1,670)	—	(1,627)
Net cash used by investing activities	(14,186)	(192,951)	(10,747)	—	(217,884)
Cash flows from financing activities:					
Proceeds from 6.75% Notes	300,000	—	—	—	300,000
Payment of 12% Notes, including tender and call premium	(270,431)	—	—	—	(270,431)
Proceeds from new 9.5% Notes, including premium	217,000	—	—	—	217,000
Payment of senior credit facilities, excluding ABL revolving credit facility	(4,091)	—	—	—	(4,091)
Debt issuance costs	(11,163)	—	—	—	(11,163)
Other debt financing, net	—	—	6,192	—	6,192
Reduction of other debt	(25,000)	—	(2,992)	—	(27,992)
ABL revolving credit facility, net	2,500	—	—	—	2,500
Share based award tax withholding payments	(3,936)	—	—	—	(3,936)
Other financing activities	—	(953)	—	—	(953)
Proceeds from (advances related to) intercompany transactions	(144,229)	(1,360)	(190,655)	336,244	—
Net cash provided (used) by financing activities	60,650	(2,313)	(187,455)	336,244	207,126
Effect of exchange rate changes on cash and cash equivalents	—	—	(1,429)	—	(1,429)
Net (decrease) increase in cash and cash equivalents	415	(6,629)	(73,901)	—	(80,115)
Cash and cash equivalents, beginning of period	49	8,789	133,576	—	142,414
Cash and cash equivalents, end of period	$464	$2,160	$59,675	$—	$62,299

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

Introduction

Spectrum Brands, Inc., a Delaware corporation (“Spectrum Brands” or the “Company”), is a global branded consumer products company. Spectrum Brands, Inc., is a wholly owned subsidiary of Spectrum Brands Holdings, Inc. ("SB Holdings"). SB Holdings' common stock trades on the New York Stock Exchange (the “NYSE”) under the symbol “SPB.” Unless the context indicates otherwise, the terms the “Company,” “Spectrum,” “we,” “our” or “us” are used to refer to SB Holdings and its subsidiaries.

On December 17, 2012, we acquired the residential hardware and home improvement business (the “HHI Business”) from Stanley Black & Decker, Inc. (“Stanley Black & Decker”), which includes (i) the equity interests of certain subsidiaries of Stanley Black & Decker engaged in the business and (ii) certain assets of Stanley Black & Decker used or held for use in connection with the business (the “Hardware Acquisition”). On April 8, 2013, we completed the acquisition of certain assets of Tong Lung Metal Industry Co. Ltd., a Taiwan Corporation ("TLM Taiwan”), which is involved in the production of residential locksets. For information pertaining to the Hardware Acquisition, see Note 14, “Acquisitions” of Notes to Condensed Consolidated Financial Statements (Unaudited), included in this Quarterly Report on Form 10-Q.

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. We also design, market and distribute a broad range of branded small household appliances and personal care products. Our manufacturing and product development facilities are located in the United States ("U.S."), Europe, Latin America and Asia. Substantially all of our rechargeable batteries, chargers and portable lighting products, shaving and grooming products, small household appliances and personal care products are manufactured by third-party suppliers, primarily located in Asia.

With the addition of the HHI Business, we design, market, distribute and sell certain hardware, home improvement and plumbing products, and are a leading U.S. provider of residential locksets and builders' hardware and a leading provider of faucets. The HHI Business has a broad portfolio of recognized brands names, including Kwikset, Weiser, Baldwin, National Hardware, Stanley, FANAL and Pfister, as well as patented technologies such as Smartkey, a rekeyable lockset technology, and Smart Code Home Connect. HHI Business customers include retailers, non-retailers and homebuilders. The HHI Business has sales offices, manufacturing facilities and distribution centers in the U.S., Canada, Mexico and Asia.

We sell our products in approximately 140 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, Dingo, Nature's Miracle, Spectracide, Cutter, Hot Shot, Black & Decker, George Foreman, Russell Hobbs, Farberware, Black Flag, FURminator, the previously mentioned HHI Business brands and various other brands.

Our diversified global branded consumer products have positions in seven major product categories: consumer batteries; small appliances; pet supplies; electric shaving and grooming; electric personal care; home and garden controls; and hardware and home improvement, which consists of the recently acquired HHI Business.

Our chief operating decision-maker manages the businesses in four vertically integrated, product-focused reporting segments: (i) Global Batteries & Appliances, which consists of our worldwide battery, electric shaving and grooming, electric personal care, 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”); (iii) Home and Garden Business, which consists of our home and garden and insect control business (the “Home and Garden Business”); and (iv) Hardware & Home Improvement, which consists of the recently acquired HHI Business (“Hardware & Home Improvement”). Management reviews our performance based on these segments. For information pertaining to our business segments, see Note 11, “Segment Results” of Notes to Condensed Consolidated Financial Statements (Unaudited), included in this Quarterly Report on Form 10-Q.

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

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

Results of Operations

Fiscal Quarter and Fiscal Nine Months Ended June 30, 2013 Compared to Fiscal Quarter and Fiscal Nine Months Ended July 1, 2012

In this Quarterly Report on Form 10-Q we refer to the three month period ended June 30, 2013 as the "Fiscal 2013 Quarter," the nine month period ended June 30, 2013 as the "Fiscal 2013 Nine Months," the three month period ended July 1, 2012 as the "Fiscal 2012 Quarter," and the nine month period ended July 1, 2012 as the "Fiscal 2012 Nine Months."

Net Sales. Net sales for the Fiscal 2013 Quarter increased $265 million to $1,090 million from $825 million in the Fiscal 2012 Quarter, a 32% increase. The following table details the principal components of the change in net sales from the Fiscal 2012 Quarter to the Fiscal 2013 Quarter (in millions):

	Net Sales
Fiscal 2012 Quarter Net Sales	$825
Addition of hardware and home improvement products	285
Increase in pet supplies	1
Decrease in electric shaving and grooming products	(1)
Decrease in consumer batteries	(3)
Decrease in small appliances	(4)
Decrease in home and garden control products	(10)
Foreign currency impact, net	(3)
Fiscal 2013 Quarter Net Sales	$1,090

Net sales for the Fiscal 2013 Nine Months increased $528 million to $2,948 million from $2,420 million in the Fiscal 2012 Nine Months, a 22% increase. The following table details the principal components of the change in net sales from the Fiscal 2012 Nine Months to the Fiscal 2013 Nine Months (in millions):

	Net Sales
Fiscal 2012 Nine Months Net Sales	$2,420
Addition of hardware and home improvement products	576
Increase in pet supplies	11
Increase in consumer batteries	1
Increase in electric personal care products	3
Decrease in electric shaving and grooming products	(6)
Decrease in home and garden control products	(11)
Decrease in small appliances	(33)
Foreign currency impact, net	(13)
Fiscal 2013 Nine Months Net Sales	$2,948

Consolidated net sales by product line for the Fiscal 2013 Quarter, the Fiscal 2012 Quarter, the Fiscal 2013 Nine Months and the Fiscal 2012 Nine Months are as follows (in millions):

Table of Contents

	Fiscal Quarter		Fiscal Nine Months	
	2013	2012	2013	2012
Product line net sales				
Consumer batteries	$207	$211	$678	$685
Small appliances	169	173	543	576
Pet supplies	156	157	457	449
Home and garden control products	157	167	289	300
Electric personal care products	54	54	197	195
Electric shaving and grooming products	62	63	208	215
Hardware and home improvement products	285	—	576	—
Total net sales to external customers	$1,090	$825	$2,948	$