Spectrum Brands, Inc.
Form 10-Q
February 09, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended December 31, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 001-13615

Spectrum Brands, Inc.

(Exact name of registrant as specified in its charter)

Wisconsin	**22-2423556**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
Six Concourse Parkway,	**30328**

Suite 3300, Atlanta, Georgia
(Address of principal executive offices) **(Zip Code)**
(770) 829-6200

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

The number of shares outstanding of the Registrant s common stock, $.01 par value, as of February 7, 2007, was 52,458,956.

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SPECTRUM BRANDS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR QUARTER ENDED December 31, 2006

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SPECTRUM BRANDS, INC.

Condensed Consolidated Balance Sheets

December 31, 2006 and September 30, 2006

(Unaudited)

(Amounts in thousands, except per share figures)

	December 31, 2006	September 30, 2006
-ASSETS-		
Current assets:		
Cash and cash equivalents	$ 37,980	$ 28,430
Receivables, less allowance for doubtful accounts of $24,056 and $21,394, respectively	337,363	365,532
Inventories	337,125	460,672
Assets held for sale	763,399	3,499
Deferred income taxes	47,520	50,401
Prepaid expenses and other	41,164	51,281
Total current assets	1,564,551	959,815
Property, plant and equipment, net	268,125	311,839
Goodwill	846,360	1,130,184
Intangible assets, net	843,162	1,061,087
Deferred charges and other	48,129	49,028
Debt issuance costs	36,771	37,367
Total assets	$ 3,607,098	$ 3,549,320
-LIABILITIES AND SHAREHOLDERS EQUITY-		
Current liabilities:		
Current maturities of long-term debt	$ 52,333	$ 42,713
Accounts payable	223,647	309,111
Liabilities held for sale	67,860	
Accrued liabilities	212,436	210,789
Total current liabilities	556,276	562,613
Long-term debt, net of current maturities	2,328,191	2,234,458
Employee benefit obligations, net of current portion	78,376	76,893
Deferred income taxes	129,814	156,578
Other	63,826	66,561
Total liabilities	3,156,483	3,097,103
Shareholders equity:		
Common stock, $.01 par value, authorized 150,000 shares; issued 68,424 and 67,422 shares, respectively; outstanding 52,416 and 51,491 shares, respectively	683	674
Additional paid-in capital	655,442	651,644
Accumulated deficit	(185,465)	(166,657)

Accumulated other comprehensive income		53,703		39,639
		524,363		525,300
Less treasury stock, at cost, 16,008 and 15,931 shares, respectively		(73,748)		(73,083)
Total shareholders equity		450,615		452,217
Total liabilities and shareholders equity	$	3,607,098	$	3,549,320

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

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SPECTRUM BRANDS, INC.

Condensed Consolidated Statements of Operations

For the three month periods ended December 31, 2006 and January 1, 2006

(Unaudited)

(Amounts in thousands, except per share figures)

	THREE MONTHS	
	2007	**2006**
Net sales	$ 564,552	$ 566,252
Cost of goods sold	349,677	341,017
Restructuring and related charges	5,951	1,296
Gross profit	208,924	223,939
Selling	125,971	108,300
General and administrative	37,068	39,777
Research and development	6,933	7,119
Restructuring and related charges	1,390	1,171
Total operating expenses	171,362	156,368
Operating income	37,562	67,572
Interest expense	31,743	29,782
Other expense, net	951	1,487
Income from continuing operations before income taxes	4,868	36,303
Income tax expense	1,448	13,378
Income from continuing operations	3,420	22,925
Loss from discontinued operations, net of tax	(22,228)	(20,608)
Net (loss) income	$ (18,808)	$ 2,317
Basic earnings per share:		
Weighted average shares of common stock outstanding	49,842	49,440
Income from continuing operations	$ 0.07	$ 0.46
Loss from discontinued operations	(0.45)	(0.41)
Net (loss) income	$ (0.38)	$ 0.05
Diluted earnings per share:		
Weighted average shares and equivalents outstanding	49,842	50,610
Income from continuing operations	$ 0.07	$ 0.45
Loss from discontinued operations	(0.45)	(0.40)
Net (loss) income	$ (0.38)	$ 0.05

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

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SPECTRUM BRANDS, INC.

Condensed Consolidated Statements of Cash Flows

For the three month periods ended December 31, 2006 and January 1, 2006

(Unaudited)

(Amounts in thousands)

	THREE MONTHS	
	2007	**2006**
Cash flows from operating activities:		
Income from continuing operations	$ 3,420	$ 22,925
Non-cash adjustments to income from continuing operations:		
Depreciation	10,454	9,907
Amortization	7,179	6,952
Amortization of debt issuance costs	1,881	1,546
Other non-cash adjustments	(7,364)	4,932
Net changes in assets and liabilities, net of acquisitions and discontinued operations	(56,370)	(30,135)
Net cash (used) provided by operating activities of continuing operations	(40,800)	16,127
Net cash used by operating activities of discontinued operations	(31,121)	(12,871)
Net cash (used) provided by operating activities	(71,921)	3,256
Cash flows from investing activities:		
Purchases of property, plant and equipment	(6,472)	(9,967)
Proceeds from sale of equipment	97	
Payment for acquisitions, net of cash acquired		(7,363)
Net cash used by investing activities of continuing operations	(6,375)	(17,730)
Net cash used by investing activities of discontinued operations		(1,159)
Net cash used by investing activities	(6,375)	(18,489)
Cash flows from financing activities:		
Reduction of debt	(191,572)	(147,924)
Proceeds from debt financing	280,726	159,757
Debt issuance costs	(1,285)	(1,639)
Proceeds from exercise of stock options		283
Stock option income tax benefit		65
Net cash provided by financing activities	87,869	10,035
Effect of exchange rate changes on cash and cash equivalents	(23)	(235)
Net increase (decrease) in cash and cash equivalents	9,550	(5,433)
Cash and cash equivalents, beginning of period	28,430	29,852
Cash and cash equivalents, end of period	$ 37,980	$ 24,419

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

SPECTRUM BRANDS, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

(Amounts in thousands, except per share figures)

1 DESCRIPTION OF BUSINESS

Spectrum Brands, Inc. and its subsidiaries (the Company) is a global branded consumer products company with positions in seven major product categories: consumer batteries; pet supplies; lawn and garden; electric shaving and grooming; household insect control; electric personal care products; and portable lighting. In the third quarter of the Company s fiscal year ended September 30, 2006, the Company engaged advisors to assist it with a sale of various assets in order to focus on strategic growth businesses, reduce its outstanding indebtedness and maximize long-term shareholder value. In connection with this undertaking, the Company has engaged in discussions to sell the assets related to its lawn and garden and household insect control product offerings (the Home and Garden Business). The Company currently expects that the sale would be consummated during the third quarter of fiscal 2007. In view of these discussions, the Company has designated certain assets and liabilities related to its Home and Garden Business as held for sale and has designated the Home and Garden Business as a discontinued operation (for additional information please see footnote 2, Significant Accounting Policies Discontinued Operations and footnote 2, Significant Accounting Policies Assets Held for Sale).

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 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 in North America. Through the Company s Home and Garden Business, it manufactures and markets lawn fertilizers, herbicides, insecticides and repellants in North America.

The Company sells its products in approximately 120 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and original equipment manufacturers (OEMs) and enjoys strong name recognition in its markets under the Rayovac, VARTA and Remington brands, each of which has been in existence for more than 80 years, and under the Tetra, 8in1 and various other brands. The Company s Home and Garden Business enjoys strong name recognition under the Spectracide and Cutter brands, among others. The Company s operations utilize manufacturing and product development facilities located in the United States, Europe, China and Latin America. Due to business seasonality, the Company s operating results for the three month period ended December 31, 2006 are not necessarily indicative of the results that may be expected for the full year ended September 30, 2007.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: These condensed consolidated financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the SEC) and, in the opinion of the Company, include all adjustments (which are normal and recurring in nature) necessary to present fairly the financial position of the Company at December 31, 2006, and the results of operations and cash flows for the three month periods ended December 31, 2006 and January 1, 2006. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America 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, 2006. Certain prior period amounts have been reclassified to conform to the current period presentation. The financial statements included in this Form 10-Q have been adjusted to reflect the planned disposition of certain assets as discontinued operations for all periods presented.

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

Significant Accounting Policies and Practices: The condensed consolidated financial statements include the condensed consolidated financial statements of Spectrum Brands, Inc. and its subsidiaries and are prepared in accordance with generally accepted accounting principles in the United States of America. All intercompany transactions have been eliminated. The Company s fiscal year ends September 30. References herein to 2007 and 2006 refer to the fiscal years ended September 30, 2007 and 2006, respectively.

The preparation of condensed consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Discontinued Operations: In the third quarter of the Company s fiscal year ended September 30, 2006, the Company engaged advisors to assist it with a sale of various assets in order for the Company to focus on strategic growth businesses, reduce its outstanding indebtedness and maximize long-term shareholder value. In connection with this undertaking, the Company has engaged in discussions to sell the assets related to its Home and Garden Business. (See the Assets Held for Sale section below where the specific assets and liabilities to be sold are further discussed.) The Company currently expects that the sale would be consummated during the third quarter of fiscal 2007.

In view of these discussions, effective October 1, 2006, the Company reflected the operations of its Home and Garden Business as discontinued operations. The following amounts have been segregated from continuing operations and are reflected as discontinued operations for the three month periods ended December 31, 2006 and January 1, 2006, respectively:

	Three Months 2007	Three Months 2006
Net sales	$ 55,648	$ 53,708
Loss from discontinued operations before income taxes	$ (35,561)	$ (26,965)
Provision for income tax benefit	13,333	10,109
Loss from discontinued operations, net of tax	$ (22,228)	$ (16,856)

On January 25, 2006, the Company sold its fertilizer technology and Canadian professional fertilizer products businesses of Nu-Gro (Nu-Gro Pro and Tech) to Agrium Inc. Proceeds from the sale were used to reduce outstanding debt. The sale included two divisions of Spectrum Brands Nu-Gro subsidiary, representing fiscal 2005 revenue of approximately $80,000 from sales of high-end specialty controlled-release nitrogen fertilizer and other products to professional turf markets and specialty wholesale fertilizer customers. As part of the transaction, the Company signed strategic multi-year reciprocal supply agreements with Agrium. Proceeds from the sale totaled approximately $83,000 after selling expenses and contractual working capital adjustments which were finalized on October 30, 2006.

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SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

Effective October 1, 2005, the Company reflected the operations of Nu-Gro Pro and Tech as discontinued operations. The Company discontinued these operations as part of the United integration initiatives. See footnote 10, Restructuring and Related Charges, for additional discussion of United integration initiatives. The following amounts have been segregated from continuing operations and are reflected as discontinued operations for the three month period ended January 1, 2006:

	Three Months
	2006
Net sales	$ 12,072
Loss from discontinued operations before income taxes	$ (4,520)
Provision for income tax benefit	768
Loss from discontinued operations (including estimated loss on disposal of $2,448), net of tax[A]	$ (3,752)

[A] After selling expenses and contractual working capital adjustments were finalized on October 30, 2006, the loss on disposal was adjusted to $3,901. The adjustment to the loss on disposal was recognized in the fourth quarter of fiscal 2006.

Assets Held for Sale: At December 31, 2006, assets totaling $763,399 were included in Assets held for sale in the Condensed Consolidated Balance Sheets (unaudited). As of December 31, 2006, the Company had $760,175 and $67,860 included in Assets held for sale in its Condensed Consolidated Balance Sheets (unaudited) related to certain assets and liabilities, respectively, of the Company s Home and Garden Business. (See the Discontinued Operations section above where these discontinued operations are further discussed.) All relevant criteria of SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, allowing for assets held for sale classification have been met. The following table details the components of the assets and liabilities related to the Company s Home and Garden Business held for sale at December 31, 2006:

	Amount
Trade receivables, net of allowance for doubtful accounts	$ 27,076
Inventories	161,422
Other current assets	6,051
Property, plant and equipment, net	42,832
Goodwill	297,427
Intangible assets, net	224,302
Other assets	1,065
Total assets held for sale	760,175
Accounts payable	58,636
Other current liabilities	9,224
Total liabilities held for sale	67,860
Total Home & Garden net assets held for sale	$ 692,315

The remaining balance in Assets held for sale in the Condensed Consolidated Balance Sheets (unaudited) as of December 31, 2006 and the balance as of September 30, 2006 consist primarily of a distribution facility in the Dominican Republic and a manufacturing facility in France.

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SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

Shipping and Handling Costs: The Company incurred shipping and handling costs of $35,622 and $32,177 for the three month periods ended December 31, 2006 and January 1, 2006, respectively. These costs are included in Selling expenses. 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, but generally does not require collateral. The Company monitors its customers credit and financial condition based on changing economic conditions and will make adjustments to credit policies as required. Provision for losses on uncollectible trade receivables are determined principally on the basis of past collection experience applied to ongoing evaluations of the Company s receivables and evaluations of the risks of nonpayment for a given customer.

The Company has a broad range of customers including many large retail outlet chains, one of which accounts for a significant percentage of its sales volume. This customer represented approximately 21% and 26% of the Company s Net sales during the three month periods ended December 31, 2006 and January 1, 2006, respectively. This major customer also represented approximately 12% and 11% of its trade accounts receivable, net as of December 31, 2006 and September 30, 2006, respectively.

Approximately 55% of the Company s sales during the three month period ended December 31, 2006 occurred outside the United States. These sales and related receivables are subject to varying degrees of credit, currency, political and economic risk. The Company monitors these risks and makes appropriate provisions for collectibility based on an assessment of the risks present.

Stock-Based Compensation: On October 1, 2005 the Company adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards 123(R) (SFAS 123(R)) requiring the Company to recognize expense related to the fair value of its employee stock option awards. The Company recognizes the cost of all share-based awards on a straight-line basis over the vesting period of the award. Total stock compensation expense associated with both stock options and restricted stock awards recognized by the Company during the three month period ended December 31, 2006 was $3,808, or $2,551, net of taxes. The amounts before tax are included in General and administrative expenses in the Condensed Consolidated Statements of Operations (unaudited). The Company expects that total stock compensation expense for 2007 will be approximately $13,500 before the effect of income taxes. As of December 31, 2006, there was $37,303 of unrecognized compensation cost related to restricted stock that is expected to be recognized over a weighted average period of approximately 3 years.

The Company uses or has used two forms of stock based compensation. Shares of restricted stock have been awarded to certain employees and members of management since fiscal 2001. Prior to the fourth quarter of fiscal 2004, the Company also issued stock options to employees, some of which remained unvested at the adoption date of SFAS 123(R). Restricted stock is now the only form of stock based compensation used by the Company.

Stock options previously awarded generally vest under a combination of time-based and performance-based vesting criteria. Under the time-based vesting, the stock options become exercisable primarily in equal increments over a three year period, while under the performance-based vesting such options become exercisable over the same time period or one day prior to the end of the exercise period, if certain performance criteria are not met. The exercise period for all stock options is no greater than ten years from the date of grant.

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

Restricted stock shares granted through fiscal 2006 generally have vesting periods of three to five years. Approximately 50% of the restricted stock shares are purely time-based and vest on a pro rata basis over either a three or four year vesting period and the remaining 50% are time-based and performance-based. Vesting of such performance based restricted stock will occur only upon achievement of certain performance goals established by the Board of Directors of the Company. Generally, performance targets consist of EPS (Earnings Per Share), segment EBIT (Earnings Before Interest and Taxes) and cash flow components. If such performance targets are not met, the performance component of a restricted stock award will not vest in the year that the performance targets applied to and instead will automatically vest one year after the originally scheduled vesting date, effectively making the award time based. The Company recognizes amortization on the time-based component on a straight-line basis over the vesting period. The Company recognizes amortization on the performance-based component over the vesting period, assuming performance targets will not be met, unless and until it is probable that the performance targets will be met. At the point in time when it is probable that the performance target will be met, the recognition period is shortened one year to account for the accelerated vesting requirement of the performance-based component.

During the three month period ended December 31, 2006, the Company granted approximately 1,018 shares of restricted stock. Of these grants, 49 shares are time-based and vest on a pro rata basis over a three year period and 969 shares are purely performance-based and vest upon achievement of certain performance goals, with none of these performance goals probable as of December 31, 2006.

The Company currently has two active incentive plans under which additional shares may be issued to employees as equity compensation. In 1997, the Board adopted the 1997 Rayovac Incentive Plan (1997 Plan). Up to 5,000 shares of Common stock may be issued under the 1997 Plan, which expires in August 2007. As of December 31, 2006, there were options with respect to 1,484 shares of common stock outstanding under the 1997 Plan. In 2004, the Board adopted the 2004 Rayovac Incentive Plan (2004 Plan). The 2004 Plan supplements the 1997 Plan. Up to 3,500 shares of common stock may be issued under the 2004 Plan, which expires in July 2014. As of December 31, 2006, 3,225 restricted shares had been granted under the 2004 Plan. No options have been granted under the 2004 Plan.

The fair value of restricted stock is determined based on the market price of the Company s shares on the grant date. A summary of the status of the Company s nonvested restricted stock as of December 31, 2006, and changes during the three month period ended December 31, 2006, is as follows:

Restricted Stock	Shares	Weighted Average Grant Date Fair Value	Fair Value
Restricted stock at September 30, 2006	2,046	$ 25.91	$ 53,021
Granted	1,018	8.31	8,458
Vested	(429)	23.18	(9,945)
Forfeited	(16)	22.31	(357)
Restricted stock at December 31, 2006	2,619	$ 19.54	$ 51,177

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SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

The following table summarizes the stock option transactions for the three month period ended December 31, 2006:

Stock Options	Shares	Weighted Average Price	Aggregate Intrinsic Value
Outstanding at September 30, 2006	1,911	$ 14.65	$
Granted			
Exercised			
Forfeited	(53)	13.84	
Outstanding at December 31, 2006	1,858	$ 14.67	$
Exercisable at December 31, 2006	1,653	$ 14.76	$

The following table summarizes information about options outstanding and options outstanding and exercisable as of December 31, 2006:

Range of Exercise Prices	Options Outstanding Number of Shares	Options Outstanding Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Options Outstanding and Exercisable Number of Shares	Options Outstanding and Exercisable Weighted-Average Exercise Price
$4.39	149	0.75 years	$ 4.39	149	$ 4.39
$11.32 $14.60	1,225	5.38	13.43	1,039	13.53
$16.19 $21.50	210	1.75	18.75	201	18.69
$21.63 $28.70	274	2.50	22.71	264	22.51
	1,858	4.18	$ 14.67	1,653	$ 14.76

Derivative Financial Instruments: Derivative financial instruments are used by the Company principally in the management of its interest rate, foreign currency and raw material price exposures. The Company does not hold or issue derivative financial instruments for trading purposes. When entered into, the Company formally designates the financial instrument as a hedge of a specific underlying exposure if such criteria are met, and documents both the risk management objectives and strategies for undertaking the hedge. The Company formally assesses, both at the inception and at least quarterly thereafter, whether the financial instruments that are used in hedging transactions are effective at offsetting changes in either the fair value or 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 fair values or 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.

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 Accumulated other comprehensive income (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 and recognized in earnings as an adjustment to interest expense from the underlying debt to which the swap is designated. During the three month periods ended December 31, 2006 and January 1, 2006, $1,805 of pretax derivative gains and $87 of pretax

derivative losses, respectively, from such hedges were recorded as an

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SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

adjustment to Interest expense. During the three month periods ended December 31, 2006 and January 1, 2006, $0 and $431 of pretax derivative gains, respectively, were recorded as adjustments to interest expense for ineffectiveness from such hedges and included in the amounts above. At December 31, 2006 the Company had a portfolio of USD-denominated interest rate swaps outstanding which effectively fixes the interest rates on floating rate debt, exclusive of lender spreads, at rates as follows: 4.81% for a notional principal amount of $100,000 through April 2007, 4.15% for a notional principal amount of $175,000 through September 2007 and 4.46% for a notional principal amount of $170,000 through October 2008. In addition, the Company had a portfolio of EUR-denominated interest rate swaps outstanding which effectively fixes the interest rates on floating rate debt, exclusive of lender spreads, at rates as follows: 2.68% for a notional principal amount of 60,000 through September 2007 and 2.68% for a notional principal amount of 220,000 through September 2008. The derivative net gain on these contracts recorded in AOCI at December 31, 2006 was $6,777, net of tax expense of $4,153. The derivative net gain on these contracts recorded in AOCI at September 30, 2006 was $6,385, net of tax expense of $3,913. At December 31, 2006, the portion of derivative net gains estimated to be reclassified from AOCI into earnings over the next 12 months is $3,963, net of tax.

The Company periodically enters into forward foreign exchange contracts to hedge the risk from forecasted foreign denominated third party and intercompany sales or payments. These obligations generally require the Company to exchange foreign currencies for U.S. Dollars, Euros, Pounds Sterling, Australian Dollars, Brazilian Reals, Canadian Dollars or Japanese Yen. These foreign exchange contracts are cash flow hedges of fluctuating foreign exchange related to sales or product or raw material purchases. Until the sale or purchase is recognized, the fair value of the related hedges 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. During the three month periods ended December 31, 2006 and January 1, 2006, $179 and $0, respectively, of pretax derivative gains from such hedges were recorded as an adjustment to Net sales. During the three month periods ended December 31, 2006 and January 1, 2006, $141 of pretax derivative losses and $43 of pretax derivative gains, respectively, from such hedges were recorded as an adjustment to Cost of good sold. Following the sale or purchase, subsequent changes in the fair value of the derivative hedge contracts are recorded as a gain or loss in earnings as an offset to the change in value of the related asset or liability recorded in the Condensed Consolidated Balance Sheet (unaudited). During the three month periods ended December 31, 2006 and January 1, 2006, $405 of pretax derivative losses and $40 of pretax derivative gains, respectively, from such hedges were recorded as an adjustment to earnings in Other income, net. The pretax derivative adjustment to earnings for ineffectiveness from these contracts for the three month periods ended December 31, 2006 and January 1, 2006 was $0. At December 31, 2006 and September 31, 2006, respectively, the Company had $117,574 and $97,932 of such foreign exchange derivative contracts outstanding. The derivative net loss on these contracts recorded in AOCI at December 31, 2006 was $319, net of tax benefit of $72. The derivative net gain on these contracts recorded in AOCI at September 30, 2006 was $647, net of tax expense of $326. At December 31, 2006, the portion of derivative net losses estimated to be reclassified from AOCI into earnings over the next 12 months is $316, net of tax.

The Company periodically enters into forward and swap foreign exchange contracts to hedge the risk from third party and intercompany payments resulting from existing obligations. These obligations generally require the Company to exchange foreign currencies for U.S. Dollars, Euros, Pounds Sterling, Brazilian Reals or Canadian Dollars. These foreign exchange contracts are fair value hedges of a related liability or asset recorded in the Condensed Consolidated Balance Sheet (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. During the three month periods ended December 31, 2006 and January 1, 2006, $3,808 and $258 of pretax derivative losses, respectively,

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

from such hedges were recorded as an adjustment to earnings in Other income, net. The pretax derivative adjustment to earnings for ineffectiveness from these contracts for the three month periods ended December 31, 2006 and January 1, 2006 was $0. At December 31, 2006 and September 30, 2006, $108,230 and $129,663, respectively, of such foreign exchange derivative contracts were outstanding.

The Company is exposed to risk from fluctuating prices for raw materials, including zinc, urea and di-ammonium phosphates used in its manufacturing processes. The Company hedges a portion of the risk associated with these materials through the use of commodity call options and 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 call options effectively cap the floating price on a specified quantity of raw materials through a specified date. The swaps effectively fix the floating price on a specified quantity of raw materials through a specified date. During the three month periods ended December 31, 2006 and January 1, 2006, $4,594 and $472, respectively, of pretax derivative gains were recorded as an adjustment to Cost of goods sold for swap or option contracts settled at maturity. The hedges are generally highly effective, however, during the three month periods ended December 31, 2006 and January 1, 2006, $65 of pretax derivative gains and $24 of pretax derivative losses, respectively, were recorded as an adjustment to Cost of goods sold for ineffectiveness. At December 31, 2006 the Company had a series of such swap contracts outstanding through September 2007 with a contract value of $47,647. At September 30, 2006, $43,614 of such commodity contracts were outstanding. The derivative net gain on these contracts recorded in AOCI at December 31, 2006 was $8,636, net of tax expense of $5,149. The derivative net gain on these contracts recorded in AOCI at September 30, 2006 was $3,495, net of tax expense of $1,852. At December 31, 2006, the portion of derivative net gains estimated to be reclassified from AOCI into earnings over the next 12 months is $8,354, net of tax.

3 OTHER COMPREHENSIVE INCOME

Comprehensive income and the components of other comprehensive income, net of tax, for the three month periods ended December 31, 2006 and January 1, 2006, respectively, are as follows:

	Three Months	
	2007	**2006**
Net (loss) income	$ (18,808)	$ 2,317
Other comprehensive income:		
Foreign currency translation	11,083	(8,774)
Adjustment of additional minimum pension liability	(1,562)	163
Net unrealized gain on derivative instruments	4,541	2,356
Net change to derive comprehensive income for the period	14,062	(6,255)
Comprehensive loss	$ (4,746)	$ (3,938)

Net exchange gains or losses resulting from the translation of assets and liabilities of foreign subsidiaries are accumulated in the AOCI section of Shareholders equity. Also included are the effects of exchange rate changes on intercompany balances of a long-term nature and transactions designated as hedges of net foreign investments. The changes in accumulated foreign currency translation for the three month periods ended December 31, 2006 and January 1, 2006 were primarily attributable to the impact of translation of the net assets of the Company s European operations, primarily denominated in Euros and Pounds Sterling.

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(Amounts in thousands, except per share figures)

4 NET INCOME PER COMMON SHARE

Net income per common share for the three month periods ended December 31, 2006 and January 1, 2006, respectively, is calculated based upon the following number of shares:

	Three Months	
	2007	2006
Basic	49,842	49,440
Effect of restricted stock and assumed conversion of stock options		1,170
Diluted	49,842	50,610

For the three month period ended December 31, 2006, the Company has not assumed the exercise of common stock equivalents as the impact would be antidultive.

5 INVENTORIES

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

	December 31, 2006	September 30, 2006
Raw materials	$ 132,968	$ 121,793
Work-in-process	35,492	36,205
Finished goods	168,665	302,674
	$ 337,125	$ 460,672

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

(Amounts in thousands, except per share figures)

6 GOODWILL AND ACQUIRED INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

	North America	Europe/ROW	Latin America	Global Pet	Total
Goodwill:					
Balance as of September 30, 2006	$ 513,416	$ 114,379	$	$ 502,389	$ 1,130,184
Asset held for sale	(297,427)				(297,427)
Effect of translation	(1,863)	6,035		9,431	13,603
Balance as of December 31, 2006	$ 214,126	$ 120,414	$	$ 511,820	$ 846,360
Intangible Assets:					
Trade names Not Subject to Amortization					
Balance as of September 30, 2006	$ 305,634	$ 151,728	$ 82,383	$ 297,199	$ 836,944
Additions				655	655
Asset held for sale	(146,285)				(146,285)
Effect of translation	(350)	5,586	368	3,340	8,944
Balance as of December 31, 2006	$ 158,999	$ 157,314	$ 82,751	$ 301,194	$ 700,258
Intangible Assets Subject to Amortization					
Balance as of September 30, 2006, gross	$ 95,506	$ 14,311	$	$ 150,559	$ 260,376
Less: Accumulated amortization	(16,567)	(2,777)		(19,662)	(39,006)
Balance as of September 30, 2006, net	$ 78,939	$ 11,534	$	$ 130,897	$ 221,370
Asset held for sale	(78,017)				(78,017)
Amortization during period	(23)	(223)		(3,169)	(3,415)
Effect of translation	(150)	405			255
Balance as of December 31, 2006, net	$ 749	$ 11,716	$	$ 127,728	$ 140,193
Pension Intangibles					
Balance as of December 31, 2006	$ 2,711	$	$	$	$ 2,711
Total Intangible Assets, net	$ 162,459	$ 169,030	$ 82,751	$ 428,922	$ 843,162

The carrying value of technology assets was $36,753, net of accumulated amortization of $8,036 at December 31, 2006 and $37,305, net of accumulated amortization of $7,126 at September 30, 2006. Remaining intangible assets subject to amortization include mostly customer relationship intangibles. Of the intangible assets acquired in the United and Jungle acquisitions, customer relationships and technology assets have been assigned a life of approximately 12 years and other intangibles have been assigned lives of 1 year to 4 years. Of the intangible assets acquired in the Tetra acquisition, customer relationships have been assigned a life of approximately 12 years and technology assets have been assigned a 6 year life.

Amortization expense for the three month periods ended December 31, 2006 and January 1, 2006 is as follows:

	Three Months	
	2007	2006
Proprietary technology amortization	$ 910	$ 898
Customer list amortization	2,338	4,072
Trade names amortization	167	883
	$ 3,415	$ 5,853

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

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The Company estimates annual amortization expense for the next five fiscal years will approximate $13,500 per year.

7 DEBT

Debt consists of the following:

	December 31, 2006		September 30, 2006	
	Amount	Rate[(A)]	Amount	Rate[(A)]
Senior Subordinated Notes, due February 1, 2015	$ 700,000	7.4%	$ 700,000	7.4%
Senior Subordinated Notes, due October 1, 2013	350,000	8.5%	350,000	8.5%
Term Loan, U.S. Dollar, expiring February 6, 2012	604,827	8.7%	604,827	8.6%
Term Loan, Canadian Dollar, expiring February 6, 2012	69,420	7.6%	72,488	7.4%
Term Loan, Euro, expiring February 6, 2012	139,452	6.9%	134,721	6.3%
Term Loan, Euro Tranche B, expiring February 6, 2012	343,983	6.9%	332,315	6.2%
Revolving Credit Facility, expiring February 6, 2011	108,400	9.3%	26,200	10.3%
Euro Revolving Credit Facility, expiring February 6, 2011				
GBP Revolving Credit Facility, expiring February 6, 2011				
Other notes and obligations	50,443	6.3%	42,698	5.7%
Capitalized lease obligations	13,999	5.0%	13,922	5.0%
	2,380,524		2,277,171	
Less current maturities	52,333		42,713	
Long-term debt	$ 2,328,191		$ 2,234,458	

(A) Interest rates on senior credit facilities represent the period-end weighted average rates on balances outstanding exclusive of the effects of any interest rate swaps.

The Company s senior credit facilities (the Senior Credit Facilities) include aggregate facilities of $1,457,682 consisting of a $604,827 U.S. Dollar Term Loan, a 106,063 Term Loan (USD $139,452 at December 31, 2006), a Tranche B 261,624 Term Loan (USD $343,983 at December 31, 2006), a Canadian Dollar 80,548 Term Loan (USD $69,420 at December 31, 2006) and a revolving credit facility of $300,000 (the Revolving Credit Facility). Approximately $108,400 was outstanding under the Revolving Credit Facility at December 31, 2006. The Revolving Credit Facility includes foreign currency sublimits equal to the U.S. Dollar equivalent of 25,000 for borrowings in Euros, the U.S. Dollar equivalent of £10,000 for borrowings in Pounds Sterling and the equivalent of borrowings in Chinese Yuan of $35,000.

Approximately $137,490 remains available under the Revolving Credit Facility as of December 31, 2006, net of approximately $54,110 of outstanding letters of credit.

The Company was in compliance with all covenants associated with its Senior Credit Facilities, as amended, and Senior Subordinated Notes, with the exception of the Fixed Charge Coverage Ratio test relating to the indebtedness under the Senior Subordinated Notes, that were in effect as of and during the period ended December 31, 2006. Due to significant restructuring charges and reduced business performance, the Company does not meet the minimum requirement of 2:1 for the Fixed Charge Coverage Ratio test under the indentures governing its Senior Subordinated Notes. Until the Company satisfies such test, it is limited in its ability to make significant acquisitions or incur significant additional senior debt beyond its existing Senior Credit Facilities. The

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SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

Company does not expect this to impair its ability to provide adequate liquidity to meet the short-term and long-term liquidity requirements of its existing business, although no assurance can be given in this regard.

On December 12, 2006, the Company reached agreement with its lenders under its Senior Credit Facilities (the Senior Lenders) to amend the maximum consolidated leverage ratio and the minimum consolidated interest coverage ratio covenants associated with its Senior Credit Facilities effective for the periods ended December 31, 2006 and April 1, 2007. The amendment raises the interest rate on all of the Company s debt under its Senior Credit Facilities by 0.25% per annum until the Company prepays at least $500,000 in principal amount of its term loans with proceeds from the sale of certain of its assets. In connection with the amendment, the Company incurred approximately $1,285 of fees which are being amortized over the remaining term of its Senior Credit Facilities. As noted above, at December 31, 2006, the Company was in compliance with all covenants under the Senior Credit Facilities. The Company s ability to comply with applicable debt covenants beyond the first quarter of fiscal 2007 will depend on its ability to consummate the disposal of its Home and Garden Business on favorable contractual terms and its ability to secure further amendments or waivers with its Senior Lenders. Furthermore, to address this issue, the Company may also consider opportunities to refinance all or a portion of its outstanding indebtedness. Unless the Company is able to obtain future amendments or waivers to the maximum consolidated leverage ratio and the minimum consolidated interest coverage ratio covenants associated with its Senior Credit Facilities for the remaining quarters of fiscal 2007 and beyond, the Company currently anticipates that it will be out of compliance with such covenants, which could materially adversely affect its ability to finance its operations or capital needs and could create a default under the Senior Credit Facilities. This could lead to an event of default which could cause all amounts borrowed under the Senior Credit Facilities to become due and payable immediately. In the event of default under the Senior Credit Facilities, the amounts outstanding under the Company s Senior Subordinated Notes would also be subject to acceleration.

8 EMPLOYEE BENEFIT PLANS

The Company has several defined benefit pension plans covering certain employees in the United States and other countries, primarily the United Kingdom and Germany. Plans generally provide benefits of stated amounts for each year of service. The Company funds its U.S. pension plans at a level to maintain, within established guidelines, the IRS-defined 90 percent current liability funded status. At January 1, 2006, the date of the most recent calculation, all U.S. funded defined benefit pension plans reflected a current liability funded status equal to or greater than 90 percent. Additionally, in compliance with the Company s funding policy, annual contributions to non-U.S. defined benefit plans are equal to the actuarial recommendations or statutory requirements in the respective countries.

The Company also sponsors or participates in a number of other non-U.S. pension arrangements, including various retirement and termination benefit plans, some of which are covered by local law or coordinated with government-sponsored plans, which are not significant in the aggregate and therefore are not included in the information presented below.

The Company also has various nonqualified deferred compensation agreements with certain of its employees. Under certain of these agreements, the Company has agreed to pay certain amounts annually for the first 15 years subsequent to retirement or to a designated beneficiary upon death. It is management s intent that life insurance contracts owned by the Company will fund these agreements. Under the remaining agreements, the Company has agreed to pay such deferred amounts in up to 15 annual installments beginning on a date specified by the employee, subsequent to retirement or disability, or to a designated beneficiary upon death.

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

The Company s results of operations for the three month periods ended December 31, 2006 and January 1, 2006, respectively, reflect the following pension and deferred compensation benefit costs:

Components of net periodic pension and deferred compensation benefit cost	**Three Months 2007**	**Three Months 2006**
Service cost	$ 782	$ 1,066
Interest cost	1,393	1,367
Expected return on assets	(1,017)	(959)
Settlement and curtailment	173	
Amortization of prior service cost	64	96
Amortization of transition obligation		8
Recognized net actuarial loss	156	328
Net periodic benefit cost	$ 1,551	$ 1,906

Pension and deferred compensation contributions	**Three Months 2007**	**Three Months 2006**
Contributions made during period	$ 581	$ 1,003

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

The Company 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 contributes annually from 3% to 6% of participants compensation based on age or service, and may make additional discretionary contributions. The Company also sponsors defined contribution pension plans for employees of certain foreign subsidiaries. Company contributions charged to operations, including discretionary amounts, for the three month period ended December 31, 2006 were $1,217.

9 SEGMENT RESULTS

The Company manages its business in four reportable segments: (i) North America, which consists of the Company s battery, shaving and grooming, personal care and portable lighting business (the Legacy Businesses) in the United States and Canada and the Home and Garden Business (North America); (ii) Latin America, which consists of the Legacy Businesses in Mexico, Central America, South America and the Caribbean (Latin America); (iii) Europe/ROW, which consists of the Legacy Businesses in the United Kingdom, continental Europe, China, Australia and all other countries in which the Company conducts Legacy Businesses (Europe/ROW); and (iv) Global Pet, which consists of the acquired United Pet Group, Tetra and Jungle Labs businesses (together, Global Pet).

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

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

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

The reportable segment profits do not include interest expense, interest income and income tax expense. Also not included in the reportable segments are corporate expenses including purchasing department expense, corporate general and administrative expense, certain research and development expense and restructuring and related charges. All depreciation and amortization included in Operating income is related to reportable segments or corporate. Costs are identified to reportable segments or corporate, according to the function of each cost center.

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

Segment information for the three month periods ended December 31, 2006 and January 1, 2006, respectively, and at December 31, 2006 and September 30, 2006 is as follows:

	Three Months	
	2007	**2006**
Net sales to external customers		
North America	$ 172,200	$ 190,890
Europe/ROW	186,838	182,673
Latin America	67,832	59,987
Global Pet	137,682	132,702
Total segments	$ 564,552	$ 566,252

	Three Months	
	2007	**2006**
Intersegment net sales		
North America	$ 33,512	$ 10,958
Europe/ROW	6,953	3,640
Latin America	6	675
Global Pet	2,544	
Total segments	$ 43,015	$ 15,273

	Three Months	
	2007	**2006**
Segment profit		
North America	$ 18,923	$ 35,466
Europe/ROW	21,441	30,568
Latin America	10,168	6,651
Global Pet	20,992	20,200
Total segments	71,524	92,885
Corporate expense	26,621	22,846

Restructuring and related charges	7,341	2,467
Interest expense	31,743	29,782
Other expense, net	951	1,487
Income from continuing operations before income taxes	$ 4,868	$ 36,303

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

	December 31, 2006	September 30, 2006
Segment total assets		
North America	$ 1,463,614	$ 1,503,598
Europe/ROW	584,143	551,327
Latin America	252,262	239,635
Global Pet	1,182,091	1,170,841
Total segments	3,482,110	3,465,401
Corporate	124,988	83,919
Total assets at period end	$ 3,607,098	$ 3,549,320

10 RESTRUCTURING AND RELATED CHARGES

The Company reports restructuring and related charges associated with manufacturing and related initiatives in Cost of goods sold. Restructuring and related charges reflected in Cost of goods sold include, but are not limited to, termination and related costs associated with manufacturing employees, asset impairments relating to manufacturing initiatives, and other costs directly related to the restructuring or integration initiatives implemented.

The Company reports restructuring and related charges relating to administrative functions in Operating expenses, such as initiatives impacting sales, marketing, distribution, or other non-manufacturing related functions. Restructuring and related charges reflected in Operating expenses include, but are not limited to, termination and related costs, any asset impairments relating to the functional areas described above, and other costs directly related to the initiatives implemented.

The following table summarizes restructuring and related charges incurred by segment for the three month periods ended December 31, 2006 and January 1, 2006, respectively:

	Three Months	
	2007	2006
Cost of goods sold:		
North America	$ 5	$
Europe/ROW	976	782
Latin America	1,893	
Global Pet	3,077	514
Total restructuring and related charges in cost of goods sold	5,951	1,296
Operating expenses:		
North America	(227)	
Europe/ROW	225	514
Latin America		
Global Pet	1,392	657
Total restructuring and related charges in operating expenses	1,390	1,171

Total restructuring and related charges	$ 7,341	$ 2,467

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SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

2007 Restructuring Initiatives

The Company has implemented a series of initiatives in Latin America to reduce operating costs (Latin American Initiatives). These initiatives include the reduction of certain manufacturing operations in Brazil and the restructuring of management, sales, marketing and support functions. As a result, the Company expects to reduce headcount in Latin America by approximately 100 persons. The Company incurred $1,893 of pretax restructuring and related charges during the three month period ended December 31, 2006. Costs associated with these initiatives are expected to be incurred through September 2007 and are projected at approximately $4,300.

2007 Restructuring Initiatives Summary

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2006	$	$	$
Provisions	655	1,238	1,893
Cash expenditures	(115)	(164)	(279)
Non-cash expenditures	(318)	(969)	(1,287)
Accrual balance at December 31, 2006	$ 222	$ 105	$ 327

2006 Restructuring Initiatives

The Company has implemented a series of initiatives in Europe to reduce operating costs and rationalize the Company s manufacturing structure (European Initiatives). These initiatives include the reduction of certain operations at the Ellwangen, Germany packaging center and relocating such operations to the Dischingen, Germany battery plant, transferring private label battery production at the Company s Dischingen, Germany battery plant to the Company s manufacturing facility in China and restructuring the sales, marketing and support functions. As a result, the Company will reduce headcount in Europe by approximately 350, or 24%. The Company incurred $1,201 of pretax restructuring and related charges during the three month period ended December 31, 2006 in connection with the European Initiatives. Costs associated with these initiatives, expected to be incurred through June 2007, relate primarily to severance and are projected at approximately $27,000, the majority of which will be cash costs.

The following table summarizes the accrual balance and activity that occurred during the three month period ended December 31, 2006 associated with the 2006 Restructuring Initiatives:

2006 Restructuring Initiatives Summary

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2006	$ 12,922	$	$ 12,922
Cash expenditures	(5,297)		(5,297)
Accrual balance at December 31, 2006	$ 7,625	$	$ 7,625
Expensed as incurred[(A)]	$ 1,201	$	$ 1,201

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

2005 Restructuring Initiatives

In connection with the acquisitions of United and Tetra in 2005, the Company announced a series of initiatives to optimize the global resources of the combined United and Spectrum companies. These initiatives include: integrating all of United s Home & Garden administrative services, sales and customer service functions

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

into the Company s North America headquarters in Madison, Wisconsin; converting all information systems to SAP; consolidating United s manufacturing and distribution locations in North America; rationalizing the North America supply chain; and consolidating United Pet Group s and Tetra s administrative, manufacturing and distribution facilities.

As part of this reorganization, Spectrum s and United s sales management, field sales operations and marketing teams (including customer teams located in Atlanta, Bentonville, and Charlotte) were merged into a single North American sales and marketing organization reporting to Spectrum s North American management team located in Madison, Wisconsin. United s accounting, information services, customer service and other administrative functions were combined with existing counterpart organizations in Madison. Legal and certain corporate finance functions were combined directly into Spectrum s global headquarters in Atlanta. Canadian Consumer Product sales and marketing teams have been merged as well and report to a single country manager. Purchasing and sourcing have been completely integrated on a global basis, with an expanded product sourcing office in Asia serving all parts of the Company. In addition, as the Company optimizes its pet operations, two pet supplies facilities in Brea, California and Hazleton, Pennsylvania were closed in 2005.

The Company recorded $4,247 of pretax restructuring and related charges during the three month period ended December 31, 2006 in connection with its integration of businesses acquired in 2005. The Company s integration activities related to the United and Tetra acquisitions are ongoing and are expected to continue through fiscal 2007.

The following table summarizes the remaining accrual balance and activity that occurred during the three month period ended December 31, 2006 associated with the 2005 Restructuring Initiatives:

2005 Restructuring Initiatives Summary

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2006	$ 11,354	$ (13)	$ 11,341
Provisions	121	350	471
Cash expenditures	(3,490)	(109)	(3,599)
Non-cash expenditures		(485)	(485)
Accrual balance at December 31, 2006	$ 7,985	$ (257)	$ 7,728
Expensed as incurred[(A)]	$ (15)	$ 3,791	$ 3,776

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

2005 Restructuring Initiatives Summary Pursuant to Acquisitions[(A)]

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2006	$ 8,709	$ 11,083	$ 19,793
Cash expenditures	(407)	(1,542)	(1,949)
Non-cash expenditures		(217)	(217)
Accrual balance at December 31, 2006	$ 8,303	$ 9,324	$ 17,627

(A) Provisions for costs to exit activities of the acquired United and Tetra businesses. These costs, which include severance, lease termination costs, inventory disposal costs and other associated costs, relate to the closure of certain acquired Pet and Lawn & Garden manufacturing and distribution facilities. Such amounts are recognized as liabilities assumed as part of the United acquisition and included in the allocation of the acquisition cost in accordance with the provisions of EITF 95-3 *Recognition of Liabilities Assumed in Connection with a Purchase Business Combination.*

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

11 COMMITMENTS AND CONTINGENCIES

The Company has provided for the estimated costs associated with environmental remediation activities at some of its current and former manufacturing sites. The Company believes that any additional liability in excess of the amounts provided of approximately $3,200, which may result from resolution of these matters, will not have a material adverse effect on the financial condition, results of operations, or cash flows of the Company.

The Company s acquisition of Jungle Labs on September 1, 2005 included non-compete arrangements to be earned and paid through August 31, 2007. The purchase agreement also contains a provision for total contingent earnout payments not to exceed $3,500. The earnout calculation is based upon net sales of Jungle Labs products through August 31, 2007. Such amounts to be paid, if any, will be recorded as additional acquisition consideration.

Included in long-term liabilities assumed in connection with the acquisition of Microlite is a provision for presumed credits applied to the Brazilian excise tax on Manufactured Products, or IPI taxes . Although a previous ruling by the Brazilian Federal Supreme Court has been issued in favor of a specific Brazilian taxpayer with similar tax credits, the legality and constitutionality of the IPI presumed credits is currently being revisited by the Brazilian Federal Supreme Court. It is not certain when a final and definitive ruling will be issued. At December 31, 2006, these amounts totaled approximately $36,341 and are included in Other long-term liabilities in the Condensed Consolidated Balance Sheets (unaudited), however, ultimate resolution of this matter by the Brazilian Supreme Court could result in a liability less than or in excess of amounts accrued.

The Company has received a purported notice of default with respect to its 8 1/2% Senior Subordinated Notes due 2013. The notice asserted that the Company s incurrence of indebtedness under the Company s Fourth Amended and Restated Credit Agreement dated as of February 7, 2005 (the Credit Agreement) gave rise to certain defaults relating to the incurrence of indebtedness, incurrence of liens and delivery of proper notice under the Indenture, dated as of September 30, 2003 (the Indenture), between the Company and U.S. Bank National Association, as trustee (the Trustee), governing the 8 1/2% Senior Subordinated Notes due 2013. The Company believes that all existing indebtedness was incurred in compliance with the provisions of the Indenture and that no default has occurred under the Indenture. However, the default provisions of the Indenture provide that if the Company had incurred indebtedness other than in compliance with the Indenture and thereafter received written notice of a default from either the Trustee or holders representing 25% or more of the aggregate principal amount of the 8 1/2% Senior Subordinated Notes due 2013 then outstanding, the failure by the Company for 60 days after such written notice to comply with the agreements set forth in the Indenture would constitute an Event of Default under the Indenture. If an Event of Default were found to have occurred, the Trustee or holders of at least 25% in aggregate principal amount of the 8 1/2% Senior Subordinated Notes due 2013 then outstanding would have the contractual right to declare all unpaid principal, and any accrued, default or additional interest, on the 8 1/2 Senior Subordinated Notes due 2013 then outstanding to be due and payable. Such an Event of Default could also result in the acceleration of indebtedness under (i) our 7 3/8% Senior Subordinated Notes due 2015 by action of the trustee under the indenture governing those notes or the respective holders of at least 25% in principal amount of those notes outstanding and (ii) the Credit Agreement by action of the requisite lenders under the Credit Agreement.

On December 12, 2005, the Company received a request for information from the Atlanta District Office of the SEC which is investigating the Company s July 28, 2005 disclosure regarding its results for the third quarter ended July 3, 2005 and the Company s revised guidance issued September 7, 2005 as to earnings for the fourth

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

quarter of fiscal year 2005 and fiscal year 2006. Spectrum Brands continues to cooperate with the Atlanta District Office of the SEC s investigation into such matters. The Company is unable to predict the outcome of the SEC s investigation or the timing of its resolution at this time.

The Company, along with certain Executive Officers, are defendants in a purported class action lawsuit, filed in the U.S. District Court for the Northern District of Georgia. The lawsuit generally alleges that the Company and the individually named defendants made materially false and misleading public statements concerning the Company s operational and financial condition, thereby allegedly causing plaintiff to purchase Company securities at artificially inflated prices. The plaintiff seeks unspecified damages, as well as interest, costs and attorneys fees. On October 27, 2006, the Court granted Defendants motion to dismiss the consolidated amended complaint, but the Court granted plaintiffs 30 days to re-plead the complaint. On November 22, 2006, plaintiffs filed a motion seeking an extension of time to file an amended complaint and a partial lift of the stay of discovery. Defendants have opposed this motion. The Company believes that this action is without merit and is contesting it vigorously. At this stage of the litigation, the Company cannot make any estimate of a potential loss or range of loss.

On November 6, 2006, a purported shareholder derivative action was filed in the Superior Court of Fulton County for the State of Georgia, on the Company s behalf, against the Company as nominal defendant, the Company s Board of Directors, Chairman and Chief Executive Officer David A. Jones and Executive Vice President and Chief Financial Officer Randall J. Steward. The plaintiff derivatively claims breaches of fiduciary duty, abuse of control, gross mismanagement and waste against all of the individually named defendants. The plaintiff also derivatively claims that the Company s Chief Executive Officer and Chief Financial Officer misappropriated confidential company information for personal profit by selling the Company s stock while in possession of material, non-public information regarding the Company s financial condition and future business prospects. The plaintiff seeks unspecified damages, profits, the return of all compensation paid by us, costs and attorneys fees. This purported derivative action does not seek affirmative relief from the Company. The Company believes that there are substantial legal and factual defenses to the claims and intend to defend them vigorously.

The Company is a defendant in various other matters of litigation generally arising out of the normal course of business. Such litigation includes legal proceedings with Philips in Europe with respect to trademark or other intellectual property rights. The Company does not believe that any other matters or proceedings presently pending will have a material adverse effect on the results of operations, financial condition, liquidity or cash flow of the Company.

12 SUBSEQUENT EVENTS

On January 10, 2007, the Company announced its plans to realign the Company s four operating segments into three vertically integrated, product-focused operating units. The consolidation of the Company s four geography-based segments (North America, Latin America, Europe/ROW, and Global Pet) into three operating segments (Global Batteries & Personal Care, Home & Garden and Global Pet Supplies) coincided with this announcement. The Company s Global Operations organization will be consolidated within the new business segments. Commencing in the second quarter of fiscal 2007, Spectrum s financial reporting will reflect segment results under the new operational structure. As discussed above, the Company has engaged in discussions to sell the assets related to its Home and Garden Business. The Company currently expects that the sale would be consummated during the third quarter of fiscal 2007. In connection with the expected sale, certain transitional service agreements could be executed related to limited administrative and distribution activities. In view of these

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

discussions, the Company has designated certain assets and liabilities related to its Home and Garden Business as held for sale and has designated the Home and Garden Business as a discontinued operation. Thus, commencing in the second quarter of fiscal 2007, Spectrum s financial reporting will reflect segment results under two reportable segments (Global Batteries & Personal Care and Global Pet Supplies). In conjunction with these changes, the Company will undertake a number of cost reduction actions at the corporate and operating levels.

13 NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans An Amendment of FASB Statements No. 87, 88, 106, and 132R,* (SFAS 158). This new standard requires an employer to: (a) recognize in its statement of financial position an asset for a plan s overfunded status or a liability for a plan s underfunded status; (b) measure a plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year (with limited exceptions); and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income of a business entity and in changes in net assets of a not-for-profit organization. SFAS 158 applies to plan sponsors that are public and private companies and nongovernmental not-for-profit organizations. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006, for entities with publicly traded equity securities, and at the end of a company s first fiscal year ending after June 15, 2007, for all other entities. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. As of September 30, 2006, the Company s net unfunded benefit obligation was approximately $55,000, accordingly, the adoption of SFAS 158 will have a material impact on its financial condition.

In September 2006, the Securities and Exchange Commission (SEC) staff issued Staff Accounting Bulletin (SAB) Topic 1N, *Financial Statements Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements,* (SAB 108). SAB 108 provides guidance on how to evaluate prior period financial statement misstatements for purposes of assessing their materiality in the current period. If the prior period effect is material to the current period, then the prior period is required to be corrected. Correcting prior year financial statements would not require an amendment of prior year financial statements, but such corrections would be made the next time the company files the prior year financial statements. Upon adoption, SAB 108 allows a one-time transitional cumulative effect adjustment to retained earnings for corrections of prior period misstatements required under this statement. SAB 108 is effective for fiscal years beginning after November 15, 2006. The Company does not believe the adoption of SAB 108 will have a material impact on its financial position, results of operations or cash flows.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements,* (SFAS 157). SFAS 157 provides guidance for using fair value to measure assets and liabilities. The FASB believes SFAS 157 also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. Under SFAS 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. In SFAS 157, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

when pricing the asset or liability. In support of this principle, SFAS 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity s own data. Under SFAS 157, fair value measurements would be separately disclosed by level within the fair value hierarchy. The provisions of SFAS 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. The Company is currently evaluating the impact that SFAS 157 will have on its financial condition, results of operations and cash flows.

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109,* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes.* FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition whereby the enterprise determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is measurement whereby a tax position that meets the more-likely-than-not recognition threshold is calculated to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. Earlier application is permitted as long as the enterprise has not yet issued financial statements, including interim financial statements, in the period of adoption. The provisions of FIN 48 are to be applied to all tax positions upon initial adoption of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. The cumulative effect of applying the provisions of FIN 48 should be reported as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year. The Company is currently evaluating the impact that FIN 48 will have on its financial condition, results of operations and cash flows.

14 CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

In connection with the acquisitions of Remington, United, Tetra and Jungle Labs, the Company completed debt offerings of Senior Subordinated Notes. Payment obligations of the Senior Subordinated Notes are fully and unconditionally guaranteed on a joint and several basis by all of the Company s domestic subsidiaries.

The following consolidating financial data illustrates the components of the condensed consolidated financial statements. 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 condensed 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 Balance Sheets

December 31, 2006

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 5,944	$ 2,579	$ 29,457	$	$ 37,980
Receivables, net	205,893	226,269	246,963	(341,762)	337,363
Inventories	248,971	(104,689)	199,363	(6,520)	337,125
Assets held for sale	21	760,175	3,203		763,399
Prepaid expenses and other	53,411	6,041	27,314	1,918	88,684
Total current assets	514,240	890,375	506,300	(346,364)	1,564,551
Property, plant and equipment, net	78,740	20,494	167,808	1,083	268,125
Goodwill	221,730	55,086	567,216	2,328	846,360
Intangible assets, net	227,635	414,033	201,681	(187)	843,162
Deferred charges and other	776,755	(295,404)	(5,908)	(427,314)	48,129
Debt issuance costs	1,285			35,486	36,771
Investments in subsidiaries	5,368,597	4,694,588	3,771,485	(13,834,670)	
Total assets	$ 7,188,982	$ 5,779,172	$ 5,208,582	$ (14,569,638)	$ 3,607,098
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities:					
Current maturities of long-term debt	$ 32,814	$	$ 43,846	$ (24,327)	$ 52,333
Accounts payable	410,592	128,041	185,518	(500,504)	223,647
Accrued liabilities	94,490	85,918	93,740	6,148	280,296
Total current liabilities	537,896	213,959	323,104	(518,683)	556,276
Long-term debt, net of current maturities	2,307,904	(13,999)	67,903	(33,617)	2,328,191
Employee benefit obligations, net of current portion	17,544	1,448	49,668	9,716	78,376
Deferred income taxes	(89,614)	209,167	10,261		129,814
Other	768		63,058		63,826
Total liabilities	2,774,498	410,575	513,994	(542,584)	3,156,483
Shareholders equity:					
Common stock	683	547	537,492	(538,039)	683
Additional paid-in capital	652,063	1,488,337	4,537,565	(6,022,523)	655,442
Accumulated deficit	(96,942)	91,539	37,366	(217,428)	(185,465)
Accumulated other comprehensive income (loss)	3,932,428	3,788,174	(417,835)	(7,249,064)	53,703
	4,488,232	5,368,597	4,694,588	(14,027,054)	524,363
Less treasury stock, at cost	(73,748)				(73,748)
Total shareholders equity	4,414,484	5,368,597	4,694,588	(14,027,054)	450,615

Total liabilities and shareholders equity	$ 7,188,982	$ 5,779,172	$ 5,208,582	$ (14,569,638)	$ 3,607,098

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SPECTRUM BRANDS, INC. AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

Three Month Period Ended December 31, 2006

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$ 236,617	$ 63,880	$ 323,416	$ (59,361)	$ 564,552
Cost of goods sold	177,053	37,480	195,210	(60,066)	349,677
Restructuring and related charges	5	2,801	3,145		5,951
Gross profit	59,559	23,599	125,061	705	208,924
Operating expenses:					
Selling	56,831	(5,954)	74,653	441	125,971
General and administrative	(10,785)	124,650	(118,148)	41,351	37,068
Research and development	5,116	698	1,119		6,933
Restructuring and related charges	(227)	1,392	225		1,390
	50,935	120,786	(42,151)	41,792	171,362
Operating income	8,624	(97,187)	167,212	(41,087)	37,562
Interest expense	43,797	(20,010)	6,010	1,946	31,743
Other income, net	(54,896)	(174,639)	(2,082)	232,568	951
(Loss) income from continuing operations before income taxes	19,723	97,462	163,284	(275,601)	4,868
Income tax expense (benefit)	7,948	(5,481)	(1,132)	113	1,448
(Loss) income from continuing operations	11,775	102,943	164,416	(275,714)	$ 3,420
Income (loss) from discontinued operations, net of tax	12,417	(34,645)			(22,228)
Net income	$ 24,192	$ 68,298	$ 164,416	$ (275,714)	$ (18,808)

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SPECTRUM BRANDS, INC. AND SUBSIDIARIES

Condensed Consolidating Statement of Cash Flows

Three Month Period Ended December 31, 2006

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net cash (used) provided by continuing operating activities	$ (136,021)	$ (100,781)	$ 147,234	$ 17,647	$ (71,921)
Cash flows from investing activities:					
Purchases of property, plant and equipment	(3,467)	118	(3,123)		(6,472)
Proceeds from sale of property, plant and equipment and investments			97		97
Intercompany investments	(600,689)	449,914	150,775		

Net cash