

Spectrum Brands, Inc.  
Form 10-Q  
February 03, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended January 1, 2012

OR

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

For the transition period from            to

Commission File Number 001-13615

# Spectrum Brands, Inc.

(Exact name of registrant as specified in its charter)

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

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

**601 Rayovac Drive**

**Madison, Wisconsin**  
(Address of principal executive offices)

**53711**  
(Zip Code)

**(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  No

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

Indicate by check mark 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

Smaller reporting company

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

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



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**SPECTRUM BRANDS, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR QUARTER ENDED January 1, 2012**

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****SPECTRUM BRANDS, INC.****Consolidated Statements of Financial Position****January 1, 2012 and September 30, 2011****(Unaudited)****(Amounts in thousands)**

	<b>Successor Company</b>	
	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 55,592	\$ 142,414
Receivables:		
Trade accounts receivable, net of allowances of \$16,302 and \$14,128, respectively	362,253	356,605
Other	47,007	33,235
Inventories	482,292	434,630
Deferred income taxes	24,490	28,170
Prepaid expenses and other	54,796	48,792
Total current assets	1,026,430	1,043,846
Property, plant and equipment, net of accumulated depreciation of \$112,761 and \$107,357, respectively	204,001	206,389
Deferred charges and other	37,955	36,824
Goodwill	690,283	610,338
Intangible assets, net	1,759,216	1,683,909
Debt issuance costs	43,291	40,957
Total assets	\$ 3,761,176	\$ 3,622,263
<b>Liabilities and Shareholders Equity</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 23,356	\$ 41,090
Accounts payable	293,204	323,171
Accrued liabilities:		
Wages and benefits	42,972	70,945
Income taxes payable	27,741	31,606
Accrued interest	21,066	30,467
Other	128,632	134,565
Total current liabilities	536,971	631,844
Long-term debt, net of current maturities	1,756,103	1,535,522
Employee benefit obligations, net of current portion	80,680	83,802
Deferred income taxes	362,510	337,336
Other	34,742	44,637
Total liabilities	2,771,006	2,633,141
Commitments and contingencies		

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Shareholders' equity:		
Other capital	1,339,117	1,338,734
Accumulated deficit	(321,996)	(335,166)
Accumulated other comprehensive loss	(26,951)	(14,446)
Total shareholders' equity	990,170	989,122
Total liabilities and shareholders' equity	\$ 3,761,176	\$ 3,622,263

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 month periods ended January 1, 2012 and January 2, 2011****(Unaudited)****(Amounts in thousands)**

	<b>THREE MONTHS ENDED</b>	
	<b>2012</b>	<b>2011</b>
Net sales	\$ 848,771	\$ 861,067
Cost of goods sold	560,140	561,234
Restructuring and related charges	4,605	594
Gross profit	284,026	299,239
Selling	131,759	140,220
General and administrative	50,430	60,745
Research and development	7,235	7,567
Acquisition and integration related charges	7,600	16,455
Restructuring and related charges	3,120	4,971
Total operating expenses	200,144	229,958
Operating income	83,882	69,281
Interest expense	41,209	53,095
Other expense, net	2,193	889
Income from continuing operations before income taxes	40,480	15,297
Income tax expense	27,310	35,043
Net income (loss)	\$ 13,170	\$ (19,746)

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 three month periods ended January 1, 2012 and January 2, 2011****(Unaudited)****(Amounts in thousands)**

	<b>THREE MONTHS ENDED</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 13,170	\$ (19,746)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation	9,248	12,392
Amortization of intangibles	14,628	14,319
Amortization of unearned restricted stock compensation	4,307	5,554
Amortization of debt issuance costs	1,686	4,411
Non-cash debt accretion	179	2,330
Other non-cash adjustments	558	3,639
Net changes in assets and liabilities, net of discontinued operations	(138,703)	(73,273)
Net cash used by operating activities of continuing operations	(94,927)	(50,374)
Net cash used by operating activities of discontinued operations		(252)
Net cash used by operating activities	(94,927)	(50,626)
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(8,851)	(8,142)
Acquisition of Black Flag	(43,750)	
Acquisition of FURminator, net of cash acquired	(139,390)	
Acquisition of Seed Resources, net of cash acquired		(10,278)
Other investing activity	(100)	
Net cash used by investing activities	(192,091)	(18,420)
<b>Cash flows from financing activities:</b>		
Proceeds from new 9.5% Notes, including premium	217,000	
Payment of senior credit facilities, excluding ABL revolving credit facility	(1,363)	(70,000)
Debt issuance costs	(4,020)	
Proceeds from other debt financing	1,361	13,044
Reduction of other debt	(25,809)	(224)
ABL Revolving Credit Facility, net	11,400	43,500
Treasury stock purchases		(3,241)
Net cash provided (used) by financing activities	198,569	(16,921)
Effect of exchange rate changes on cash and cash equivalents	1,627	(1,596)
Net decrease in cash and cash equivalents	(86,822)	(87,563)
Cash and cash equivalents, beginning of period	142,414	170,614
Cash and cash equivalents, end of period	\$ 55,592	\$ 83,051



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

(Unaudited).

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**SPECTRUM BRANDS, INC.**

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

**(Amounts in thousands, except per share figures)**

**1 DESCRIPTION OF BUSINESS**

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

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

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

The Company sells its products in approximately 130 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and original equipment manufacturers and enjoys name recognition in its markets under the Rayovac, VARTA and Remington brands, each of which has been in existence for more than 80 years, and under the Tetra, 8-in-1, Spectracide, Cutter, Black & Decker, George Foreman, Russell Hobbs, Farberware, Black Flag, FURminator and various other brands.

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

**2 SIGNIFICANT ACCOUNTING POLICIES**

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

These condensed consolidated financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the SEC and, in the opinion of the Company, include all adjustments (which are normal and recurring in nature) necessary to present fairly the financial position of the Company at January 1, 2012 and September 30, 2011, and the results of operations and the cash flows for the three month periods ended January 1, 2012 and January 2, 2011. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such SEC rules and regulations. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

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



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**SPECTRUM BRANDS, INC.**

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

**(Amounts in thousands, except per share figures)**

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

*Intangibles-Goodwill and Other*, requires that goodwill and indefinite-lived intangible assets be tested for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have been incurred.

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

**Shipping and Handling Costs:** The Company incurred shipping and handling costs of \$50,319 and \$51,270 for the three month periods ended January 1, 2012 and January 2, 2011, respectively. These costs are included in Selling expenses in the accompanying Condensed Consolidated Statements of Operations (Unaudited). Shipping and handling costs include costs incurred with third-party carriers to transport products to customers as well as salaries and overhead costs related to activities to prepare the Company's products for shipment from its distribution facilities.

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

The Company has a broad range of customers including many large retail outlet chains, one of which accounts for a significant percentage of its sales volume. This customer represented approximately 24% of the Company's Net sales during both three month periods ended January 1, 2012 and January 2, 2011. This customer also represented approximately 13% and 16% of the Company's Trade accounts receivable, net at January 1, 2012 and September 30, 2011, respectively.

Approximately 49% of the Company's Net sales during both the three month periods ended January 1, 2012 and January 2, 2011 occurred outside the United States. These sales and related receivables are subject to varying degrees of credit, currency, political and economic risk. The Company monitors these risks and makes appropriate provisions for collectibility based on an assessment of the risks present.

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

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

In conjunction with the Merger, the Company assumed the Spectrum Brands Holdings, Inc. 2007 Omnibus Equity Award Plan (formerly known as the Russell Hobbs, Inc. 2007 Omnibus Equity Award Plan, as amended on June 24, 2008) (the 2007 RH Plan). Up to 600 shares of common

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stock, net of forfeitures and cancellations, could have been issued under the 2007 RH Plan. After October 21, 2010, no further awards may be made under the 2007 RH Plan (as described in further detail below) as the 2011 Plan was approved by the shareholders of the Company on March 1, 2011.

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

**Table of Contents****SPECTRUM BRANDS, INC.****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

(Amounts in thousands, except per share figures)

Total stock compensation expense associated with restricted stock awards recognized by the Company during the three month periods ended January 1, 2012 and January 2, 2011 was \$4,307, or \$2,800 net of taxes, and \$5,554, or \$3,610 net of taxes, respectively.

The Company granted approximately 687 restricted stock units during the three month period ended January 1, 2012 all of which are performance and time-based and vest over a two year period. The total market value of the restricted stock units on the dates of the grants was approximately \$18,457.

The Company granted approximately 1,408 shares of restricted stock units during the three month period ended January 2, 2011. Of these grants, 18 restricted stock units are time-based and vest over a three year period. The remaining 1,390 shares are restricted stock units and are performance and time-based with 640 shares vesting over a one year period and 750 shares vesting over a three year period. The total market value of the restricted shares on the date of the grant was approximately \$40,549.

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

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

<b>Restricted Stock Units</b>	<b>Shares</b>	<b>Weighted Average Grant Date Fair Value</b>	<b>Fair Value at Grant Date</b>
Restricted stock units at September 30, 2011	1,629	\$ 28.97	\$ 47,236
Granted	687	26.87	18,457
Forfeited	(4)	28.25	(113)
Vested	(373)	28.82	(10,749)
Restricted stock units at January 1, 2012	1,939	\$ 28.25	\$ 54,831

**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.

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The following table summarizes acquisition and integration related charges incurred by the Company during the three month periods ended January 1, 2012 and January 2, 2011 associated with the Merger:

	2012	2011
Integration costs	\$ 2,408	\$ 10,130
Legal and professional fees	612	2,395
Employee termination charges	609	3,752
Total	\$ 3,629	\$ 16,277

Additionally, the Company incurred \$1,285 and \$2,485 of legal, professional and integration costs associated with the acquisitions of the Black Flag and TAT trade names from Homax Group, Inc ( Black Flag ) and FURminator, Inc. ( FURminator ), respectively and \$201 of other acquisition and integration related costs during the three month period ended January 1, 2012. The Company incurred \$178 of legal and professional fees associated with the acquisition of Seed Resources, LLC during the three month period ended January 2, 2011. (See Note 14, Acquisitions, for information on the Black Flag and FURminator acquisitions.)

**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) and the components of other comprehensive income (loss), net of tax, for the three month periods ended January 1, 2012 and January 2, 2011 are as follows:

	Three Months	
	2012	2011
Net income (loss)	\$ 13,170	\$ (19,746)
Other comprehensive income (loss):		
Foreign currency translation	(14,929)	(4,074)
Pension liability adjustments	303	
Valuation allowance adjustments	303	643
Net unrealized gain on derivative instruments	1,818	4,179
<b>Net change to derive comprehensive income (loss) for the period</b>	<b>(12,505)</b>	<b>748</b>
Comprehensive income (loss)	\$ 665	\$ (18,998)

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

The changes in accumulated foreign currency translation for the three month periods ended January 1, 2012 and January 2, 2011 were primarily attributable to the impact of translation of the net assets of the Company's European and Latin American operations, which primarily have functional currencies in Euros, Pounds Sterling and Brazilian Real.

**4 INVENTORIES**

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

	January 1, 2012	September 30, 2011
Raw materials	\$ 73,224	\$ 59,928
Work-in-process	25,336	25,465
Finished goods	383,732	349,237
	\$ 482,292	\$ 434,630

**5 GOODWILL AND INTANGIBLE ASSETS**

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



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	Global Batteries & Appliances	Global Pet Supplies	Home and Garden Business	Total
<b>Goodwill:</b>				
Balance at September 30, 2011	\$ 268,148	\$ 170,285	\$ 171,905	\$ 610,338
Additions		68,531	15,852	84,383
Effect of translation	(2,224)	(2,214)		(4,438)
Balance at January 1, 2012	\$ 265,924	\$ 236,602	\$ 187,757	\$ 690,283
<b>Intangible Assets:</b>				
<b><i>Trade names Not Subject to Amortization</i></b>				
Balance at September 30, 2011	\$ 545,804	\$ 205,491	\$ 75,500	\$ 826,795
Additions		14,000	8,000	22,000
Effect of translation	(3,792)	(4,481)		(8,273)
Balance at January 1, 2012	\$ 542,012	\$ 215,010	\$ 83,500	\$ 840,522
<b><i>Intangible Assets Subject to Amortization</i></b>				
Balance at September 30, 2011, net	\$ 481,473	\$ 219,243	\$ 156,398	\$ 857,114

**Table of Contents****SPECTRUM BRANDS, INC.****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

(Amounts in thousands, except per share figures)

	<b>Global Batteries &amp; Appliances</b>	<b>Global Pet Supplies</b>	<b>Home and Garden Business</b>	<b>Total</b>
<b>Additions</b>		65,118	17,000	82,118
Amortization during period	(8,223)	(4,071)	(2,334)	(14,628)
Effect of translation	(3,352)	(2,558)		(5,910)
Balance at January 1, 2012, net	\$ 469,898	\$ 277,732	\$ 171,064	\$ 918,694
<b>Total Intangible Assets, net at January 1, 2012</b>	<b>\$ 1,011,910</b>	<b>\$ 492,742</b>	<b>\$ 254,564</b>	<b>\$ 1,759,216</b>

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

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

	<b>January 1, 2012</b>	<b>September 30, 2011</b>
<b>Technology Assets Subject to Amortization:</b>		
Gross balance	\$ 90,923	\$ 71,805
Accumulated amortization	(15,532)	(13,635)
Carrying value, net	\$ 75,391	\$ 58,170
<b>Trade Names Subject to Amortization:</b>		
Gross balance	\$ 149,700	\$ 149,700
Accumulated amortization	(19,460)	(16,320)
Carrying value, net	\$ 130,240	\$ 133,380
<b>Customer Relationships Subject to Amortization:</b>		
Gross balance	\$ 795,292	\$ 738,937
Accumulated amortization	(82,229)	(73,373)
Carrying value, net	\$ 713,063	\$ 665,564

Amortization expense for the three month periods ended January 1, 2012 and January 2, 2011 is as follows:

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	Three Months	
	2012	2011
Proprietary technology amortization	\$ 1,897	\$ 1,649
Customer relationships amortization	9,591	9,530
Trade names amortization	3,140	3,140
	\$ 14,628	\$ 14,319

The Company estimates annual amortization expense of intangible assets for the next five fiscal years will approximate \$62,700 per year.

**Table of Contents****SPECTRUM BRANDS, INC.****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

(Amounts in thousands, except per share figures)

**6 DEBT**

Debt consists of the following:

	January 1, 2012		September 30, 2011	
	Amount	Rate	Amount	Rate
Term Loan, U.S. Dollar, due June 17, 2016	\$ 523,873	5.1%	\$ 525,237	5.1%
9.5% Notes, due June 15, 2018	950,000	9.5%	750,000	9.5%
12% Notes, due August 28, 2019	245,031	12.0%	245,031	12.0%
ABL Revolving Credit Facility, expiring April 21, 2016	11,400	4.5%		2.5%
Other notes and obligations	20,377	11.0%	44,333	6.5%
Capitalized lease obligations	24,469	6.2%	24,911	6.2%
	\$ 1,775,150		\$ 1,589,512	
Original issuance premiums (discounts) on debt	4,309		(12,900)	
Less: current maturities	23,356		41,090	
Long-term debt	\$ 1,756,103		\$ 1,535,522	

In connection with the Merger, the Company (i) entered into a new senior secured term loan pursuant to a new senior credit agreement (the Senior Credit Agreement ) consisting of a \$750,000 term loan facility; (ii) issued \$750,000 in aggregate principal amount of 9.5% Notes; and (iii) entered into a \$300,000 ABL Revolving Credit Facility (the Senior Secured Facilities ).

**Senior Term Credit Facility**

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

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

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

**9.5% Notes**

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

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

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

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**SPECTRUM BRANDS, INC.**

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

**(Amounts in thousands, except per share figures)**

The Company recorded \$3,463 of fees in connection with the offering of the 9.5% Notes during the three month period ended January 1, 2012. The fees are classified as Debt issuance costs within the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) and are amortized as an adjustment to interest expense over the remaining life of the 9.5% Notes.

**12% Notes**

The indenture governing the 12% Notes (the 2019 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 2019 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 2019 Indenture arising from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the 12% Notes. If any other event of default under the 2019 Indenture occurs and is continuing, the trustee for the indenture or the registered holders of at least 25% in the then aggregate outstanding principal amount of the 12% Notes may declare the acceleration of the amounts due under those notes.

**ABL Revolving Credit Facility**

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

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

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

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

As a result of borrowings and payments under the ABL Revolving Credit Facility, at January 1, 2012, the Company had aggregate borrowing availability of approximately \$133,412, net of lender reserves of \$38,934 and outstanding letters of credit of \$28,804.

**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

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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) were as follows:

<b>Asset Derivatives</b>	<b>January 1, 2012</b>	<b>September 30, 2011</b>
Derivatives designated as hedging instruments under ASC 815:		
Commodity contracts	\$ 9	\$ 274
Foreign exchange contracts	5,231	3,189
Foreign exchange contracts	205	
Total asset derivatives designated as hedging instruments under ASC 815	\$ 5,445	\$ 3,463
Derivatives not designated as hedging instruments under ASC 815:		
Foreign exchange contracts	174	
Total asset derivatives	\$ 5,619	\$ 3,463

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

<b>Liability Derivatives</b>	<b>January 1, 2012</b>	<b>September 30, 2011</b>
Derivatives designated as hedging instruments under ASC 815:		
Interest rate contracts	\$ 331	\$ 1,246
Interest rate contracts	662	708
Commodity contracts	1,353	1,228
Commodity contracts	13	4
Foreign exchange contracts	2,389	2,698
Total liability derivatives designated as hedging instruments under ASC 815	\$ 4,748	\$ 5,884



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Derivatives not designated as hedging instruments  
under ASC 815:

Foreign exchange contracts	Accounts payable	5,416	10,945
Foreign exchange contracts	Other long term liabilities	6,950	12,036
Total liability derivatives		\$ 17,114	\$ 28,865

### Changes in AOCI from Derivative Instruments

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

**Table of Contents****SPECTRUM BRANDS, INC.****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

(Amounts in thousands, except per share figures)

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

<b>Derivatives in ASC 815 Cash Flow</b>	<b>Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)</b>	<b>Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)</b>	<b>Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)</b>	<b>Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)</b>	<b>Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)</b>
<b>Hedging Relationships</b>					
Commodity contracts	\$ (745)	Cost of goods sold	\$ (366)	Cost of goods sold	\$ (19)
Interest rate contracts	(21)	Interest expense	(659)	Interest expense	
Foreign exchange contracts	(129)	Net sales	(122)	Net sales	
Foreign exchange contracts	1,308	Cost of goods sold	(1,255)	Cost of goods sold	
<b>Total</b>	<b>\$ 413</b>		<b>\$ (2,402)</b>		<b>\$ (19)</b>

The following table summarizes the impact of derivative instruments on the accompanying Condensed Consolidated Statement of Operations (Unaudited) for the three month period ended January 2, 2011, pretax:

<b>Derivatives in ASC 815 Cash Flow</b>	<b>Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)</b>	<b>Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)</b>	<b>Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)</b>	<b>Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)</b>	<b>Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)</b>
<b>Hedging Relationships</b>					
Commodity contracts	\$ 2,023	Cost of goods sold	\$ 550	Cost of goods sold	\$ 1
Interest rate contracts	7	Interest expense	(849)	Interest expense	(101)
Foreign exchange contracts	(389)	Net sales	(119)	Net sales	
Foreign exchange contracts	1,942	Cost of goods sold	(2,125)	Cost of goods sold	
<b>Total</b>	<b>\$ 3,583</b>		<b>\$ (2,543)</b>		<b>\$ (100)</b>

**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

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the period of change. During the three month periods ended January 1, 2012 and January 2, 2011, the Company recognized the following gains on these derivative contracts:

Derivatives Not Designated as	Amount of Gain (Loss)		Location of Gain or (Loss)
	Recognized in		
Hedging Instruments Under ASC 815	Income on Derivatives		Recognized in
Foreign exchange contracts	2012	2011	Income on Derivatives
Foreign exchange contracts	7,245	9,058	Other expense, net

**Table of Contents****SPECTRUM BRANDS, INC.****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****(Amounts in thousands, except per share figures)****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 primarily concentrated with a foreign financial institution counterparty. The Company considers these exposures when measuring its credit reserve on its derivative assets, which was \$95 and \$18 at January 1, 2012 and September 30, 2011, 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 January 1, 2012 and September 30, 2011, the Company had posted cash collateral of \$1,692 and \$418, respectively, related to such liability positions. In addition, at both January 1, 2012 and September 30, 2011, the Company had posted standby letters of credit of \$2,000 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*

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 both January 1, 2012 and September 30, 2011, the Company had a portfolio of U.S. dollar-denominated interest rate swaps outstanding which effectively fix the interest on floating rate debt, exclusive of lender spreads as follows: 2.25% for a notional principal amount of \$200,000 to January 9, 2012 and 2.29% for a notional principal amount of \$300,000 to February 9, 2012. The derivative net loss on these contracts recorded in AOCI by the Company at January 1, 2012 was \$(149), net of tax benefit of \$92. The derivative net loss on these contracts recorded in AOCI by the Company at September 30, 2011 was \$(545), net of tax benefit of \$334. At January 1, 2012, the portion of derivative net losses estimated to be reclassified from AOCI into earnings by the Company over the next 12 months is \$(149), 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 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 January 1, 2012 the Company had a series of foreign exchange derivative contracts outstanding through March 2013 with a contract value of \$191,266. At September 30, 2011 the Company had a series of foreign exchange derivative contracts outstanding through September 2012 with a contract value of \$223,417. The derivative net gain on these contracts recorded in AOCI by the Company at January 1, 2012 was \$2,247, net of tax expense of \$800. The derivative gain on these contracts recorded in AOCI by the Company at September 30, 2011 was \$343, net of tax expense of \$148. At January 1, 2012, the portion of derivative net gains estimated to be reclassified from AOCI into earnings by the Company over the next 12 months is \$2,099, net of tax.

The Company is exposed to risk from fluctuating prices for raw materials, specifically zinc used in its manufacturing processes. The Company hedges a portion of the risk associated with 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 January 1, 2012 the Company had a series

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of such swap contracts outstanding through March 2013 for 7 tons with a contract value of \$14,761. At September 30, 2011 the Company had a series of such swap contracts outstanding through December 2012 for 9 tons with a contract value of \$18,858. The derivative net loss on these contracts recorded in AOCI by the Company at January 1, 2012 was \$(848), net of tax benefit of \$442. The derivative net loss on these contracts recorded in AOCI by the Company at September 30, 2011 was \$(599), net of tax benefit of \$312. At January 1, 2012, the portion of derivative net losses estimated to be reclassified from AOCI into earnings by the Company over the next 12 months is \$(840), net of tax.

**Table of Contents****SPECTRUM BRANDS, INC.****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

(Amounts in thousands, except per share figures)

*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, 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 January 1, 2012 and September 30, 2011, the Company had \$179,324 and \$265,974, respectively, of notional value for such foreign exchange derivative contracts outstanding.

**8 FAIR VALUE OF FINANCIAL INSTRUMENTS**

ASC Topic 820: *Fair Value Measurements and Disclosures*, ( ASC 820 ) establishes a framework for measuring fair value that requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. ASC 820 establishes market or observable inputs as the preferred source of values, followed by assumptions based on hypothetical transactions in the absence of market inputs.

The valuation techniques required by ASC 820 are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions made by the Company. These two types of inputs create the following fair value hierarchy:

- Level 1      Unadjusted quoted prices for identical instruments in active markets.
  
- Level 2      Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
  
- Level 3      Significant inputs to the valuation model are unobservable.

The Company has not changed its valuation techniques in measuring the fair value of any financial assets and liabilities during the periods presented.

The Company's net derivative portfolio as of January 1, 2012, contains Level 2 instruments and consists of commodity, interest rate and foreign exchange contracts. The fair values of these instruments as of January 1, 2012 were as follows:

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Commodity contracts, net	\$	\$	\$	\$
<b>Total Assets</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Liabilities:</b>				
Interest rate contracts	\$	\$ (993)	\$	\$ (993)

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Commodity contracts, net		(1,357)		(1,357)
Foreign exchange contracts, net		(9,145)		(9,145)
<b>Total Liabilities</b>	\$	\$ (11,495)	\$	\$ (11,495)

The Company's net derivative portfolio as of September 30, 2011, contains Level 2 instruments and consists of commodity, interest rate and foreign exchange contracts. The fair values of these instruments as of September 30, 2011 were as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Total Assets</b>	\$	\$	\$	\$
<b>Liabilities:</b>				
Interest rate contracts	\$	\$ (1,954)	\$	\$ (1,954)
Commodity contracts		(958)		(958)
Foreign exchange contracts, net		(22,490)		(22,490)
<b>Total Liabilities</b>	\$	\$ (25,402)	\$	\$ (25,402)

**Table of Contents****SPECTRUM BRANDS, INC.****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

(Amounts in thousands, except per share figures)

The carrying values of cash and cash equivalents, accounts and notes receivable, accounts payable and short-term debt approximate fair value. The fair values of long-term debt and derivative financial instruments are generally based on quoted or observed market prices.

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):

	January 1, 2012		September 30, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Total debt	\$ (1,779,459)	\$ (1,856,672)	\$ (1,576,612)	\$ (1,660,528)
Interest rate swap agreements	(993)	(993)	(1,954)	(1,954)
Commodity swap and option agreements	(1,357)	(1,357)	(958)	(958)
Foreign exchange forward agreements	(9,145)	(9,145)	(22,490)	(22,490)

**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, primarily the United Kingdom and Germany. These pension plans generally provide benefits of stated amounts for each year of service. 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.

**Other Benefits**

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

Under the Tetra U.S. postretirement plan, the Company provides postretirement medical benefits to full-time employees who meet minimum age and service requirements. The plan is contributory with retiree contributions adjusted annually and contains other cost-sharing features such as deductibles, coinsurance and copayments.

The Company's results of operations for the three month periods ended January 1, 2012 and January 2, 2011 reflect the following pension and deferred compensation benefit costs:



Components of net periodic pension and other deferred	Three Months	
	2012	2011
<b>compensation benefit costs</b>		
Service cost	\$ 543	\$ 781
Interest cost	1,926	2,557
Expected return on assets	(1,276)	(1,965)
Recognized net actuarial loss	23	97
Employee contributions	(46)	(129)
Net periodic benefit cost	\$ 1,170	\$ 1,341

**Table of Contents****SPECTRUM BRANDS, INC.****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

(Amounts in thousands, except per share figures)

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 month periods ended January 1, 2012 and January 2, 2011 were as follows:

Pension and deferred compensation contributions	Three Months	
	2012	2011
Contributions made during period	\$ 824	\$ 914

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 month periods ended January 1, 2012 and January 2, 2011 were \$576 and \$1,411, respectively.

**10 INCOME TAXES**

The Company files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions and is subject to ongoing examination by the various taxing authorities. The Company's major taxing jurisdictions are the U.S., United Kingdom and Germany. In the U.S., federal tax filings for years prior to and including the Company's fiscal years ended September 30, 2007 are closed. However, the federal net operating loss carryforwards from the Company's fiscal years ended September 30, 2007 and prior are subject to IRS examination until the year that such net operating loss carryforwards are utilized and that year is closed for audit. The Company's fiscal years ended September 30, 2008, 2009, 2010 and 2011 remain open to examination by the IRS. Filings in various U.S. state and local jurisdictions are also subject to audit and to date no significant audit matters have arisen.

**11 SEGMENT RESULTS**

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

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 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 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.



**Table of Contents****SPECTRUM BRANDS, INC.****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

(Amounts in thousands, except per share figures)

Segment information for the three month periods ended January 1, 2012 and January 2, 2011 is as follows:

	<b>Three Months</b>	
	<b>2012</b>	<b>2011</b>
<b><i>Net sales to external customers</i></b>		
Global Batteries & Appliances	\$ 689,181	\$ 696,572
Global Pet Supplies	134,938	137,045
Home and Garden Business	24,652	27,450
<b>Total segments</b>	<b>\$ 848,771</b>	<b>\$ 861,067</b>

	<b>Three Months</b>	
	<b>2012</b>	<b>2011</b>
<b><i>Segment profit (loss)</i></b>		
Global Batteries & Appliances	\$ 98,206	\$ 93,299
Global Pet Supplies	16,060	16,239
Home and Garden Business	(5,919)	(6,831)
<b>Total segments</b>	<b>108,347</b>	<b>102,707</b>
Corporate expense	9,140	11,406
Acquisition and integration related charges	7,600	16,455
Restructuring and related charges	7,725	5,565
Interest expense	41,209	53,095
Other expense, net	2,193	889
<b>Income from continuing operations before income taxes</b>	<b>\$ 40,480</b>	<b>\$ 15,297</b>

	<b>January 1, 2012</b>	<b>September 30, 2011</b>
<b><i>Segment total assets</i></b>		
Global Batteries & Appliances	\$ 2,204,544	\$ 2,275,076
Global Pet Supplies	976,281	828,202
Home and Garden Business	529,480	476,381
<b>Total segments</b>	<b>3,710,305</b>	<b>3,579,659</b>
Corporate	50,871	42,604
<b>Total assets at period end</b>	<b>\$ 3,761,176</b>	<b>\$ 3,622,263</b>

**12 RESTRUCTURING AND RELATED CHARGES**

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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 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.

The following table summarizes restructuring and related charges (credits) incurred by segment for the three month periods ended January 1, 2012 and January 2, 2011:

	Three Months	
	2012	2011
<b>Cost of goods sold:</b>		
Global Batteries & Appliances	\$ 3,020	\$ (150)
Global Pet Supplies	1,585	744
Total restructuring and related charges in cost of goods sold	4,605	594

**Table of Contents****SPECTRUM BRANDS, INC.****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

(Amounts in thousands, except per share figures)

	<b>Three Months</b>	
	<b>2012</b>	<b>2011</b>
<b>Operating expense:</b>		
Global Batteries & Appliances	877	25
Home and Garden Business	344	650
Global Pet Supplies	1,290	2,302
Corporate	609	1,994
Total restructuring and related charges in operating expense	3,120	4,971
Total restructuring and related charges	\$ 7,725	\$ 5,565

**Global Cost Reduction Initiatives Summary**

In the fiscal year ended September 30, 2009, 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 prior to its bankruptcy filing. Costs associated with these initiatives, which are expected to be incurred through January 31, 2015, are projected to total approximately \$86,000.

The Company recorded \$7,129 and \$3,729 of pretax restructuring and related charges during the three month periods ended January 1, 2012 and January 2, 2011, respectively, related to the Global Cost Reduction Initiatives.

The following table summarizes the remaining accrual balance associated with the 2009 initiatives and the activity during the three month period ended January 1, 2012:

	<b>Termination Benefits</b>	<b>Other Costs</b>	<b>Total</b>
Accrual balance at September 30, 2011	\$ 8,795	\$ 3,021	\$ 11,816
Provisions	192	195	387
Cash expenditures	(3,667)	(480)	(4,147)
Non-cash items	128	(387)	(259)
Accrual balance at January 1, 2012	\$ 5,448	\$ 2,349	\$ 7,797
Expensed as incurred <sup>(A)</sup>	\$ 3,359	\$ 3,383	\$ 6,742

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

The following table summarizes the expenses incurred during the three month period ended January 1, 2012, 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:

	<b>Global Batteries &amp; Appliances</b>	<b>Global Pet Supplies</b>	<b>Home and Garden Business</b>	<b>Corporate</b>	<b>Total</b>
Restructuring and related charges during the three month period ended January 1, 2012	\$ 3,910	\$ 2,875	\$ 344	\$	\$ 7,129
Restructuring and related charges since initiative inception	\$ 17,077	\$ 29,737	\$ 17,052	\$ 7,591	\$ 71,457
Total future restructuring and related charges expected	\$ 38	\$ 11,600	\$ 2,537	\$	\$ 14,175

In connection with other restructuring efforts, the Company recorded \$596 and \$1,836 of pretax restructuring and related charges during the three month periods ended January 1, 2012 and January 2, 2011, respectively.

**Table of Contents****SPECTRUM BRANDS, INC.****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

(Amounts in thousands, except per share figures)

**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 in excess of the amounts provided of

approximately \$8,011, 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 is a defendant in various other matters of litigation generally arising out of the ordinary course of business.

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

**14 ACQUISITIONS****Black Flag**

On October 31, 2011, the Company completed the \$43,750 cash acquisition of Black Flag from The Homax Group, Inc., a portfolio company of Olympus Partners. The Black Flag and TAT product lines consist of liquids, aerosols, baits and traps that control ants, spiders, wasps, bedbugs, fleas, flies, roaches, yellow jackets and other insects. This acquisition was not significant individually. In accordance with ASC Topic 805, *Business Combinations* (ASC 805), the Company accounted for the acquisition by applying the acquisition method of accounting. The acquisition method of accounting requires that the consideration transferred in a business combination be measured at fair value as of the closing date of the acquisition.

The results of Black Flag's operations since October 31, 2011 are included in the Company's Condensed Consolidated Statements of Operations (Unaudited) and are reported as part of the Home and Garden Business segment.

**Purchase Price Allocation**

The total purchase price for Black Flag was allocated to the net tangible and identifiable intangible assets based upon their fair values at October 31, 2011 as set forth below. The excess of the purchase price over the net tangible assets and identifiable intangible assets was recorded as goodwill. The preliminary purchase price allocation for Black Flag is as follows:

Inventory	\$ 2,509
Property, plant and equipment	301
Intangible assets	25,000
Goodwill	15,852
Other assets	88
 Total assets acquired	 \$ 43,750

ASC 805 requires, among other things, that most assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. Accordingly, the Company performed a valuation of the acquired assets of Black Flag at October 31, 2011. Significant adjustments as a result of the purchase price allocation are summarized as follows:



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 \$25,000 as of October 31, 2011. 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 relationship, 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 expected growth rate of 3%. The Company assumed a customer retention rate of approximately 95%, which was supported by historical retention rates. Income taxes were estimated at 40% and amounts were discounted using a rate of 13.5%. The customer relationships were valued at \$17,000 under this approach and will be amortized over 20 years.

The Company valued 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 other similar trademark licensing and transaction agreements and the relative profitability and perceived

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

contribution of the trademarks and trade names. Royalty rates used in the determination of the fair values of trade names were in the range of 2-4% of expected net sales related to the respective trade name. The Company anticipates using the trade names for an indefinite period as demonstrated by the sustained use of each subject trademark. In estimating the fair value of the trade names, Net sales for the trade names were estimated to grow at a rate of (15)%-8% annually with a terminal year growth rate of 3%. Income taxes were estimated at 40% and amounts were discounted using a rate of 13.5%. Trade names were valued at \$8,000 under this approach.

The Company's estimates and assumptions for Black Flag are subject to change as the Company obtains additional information for its estimates during the measurement period. The primary areas of the purchase price allocation that are not yet finalized relate to certain legal matters and residual goodwill.

**FURminator**

On December 22, 2011, the Company completed the \$141,745 cash acquisition of FURminator from HKW Capital Partners III, L.P. FURminator is a leading worldwide provider of branded and patented pet deshedding products. This acquisition was not significant individually. In accordance with ASC 805, the Company accounted for the acquisition by applying the acquisition method of accounting.

The results of FURminator operations since December 22, 2011 are included in the Company's Condensed Consolidated Statements of Operations (Unaudited) and are reported as part of the Global Pet Supplies business segment.

**Purchase Price Allocation**

The total purchase price for FURminator was allocated to the net tangible and identifiable intangible assets based upon their fair values at December 22, 2011 as set forth below. The excess of the purchase price over the net tangible assets and identifiable intangible assets was recorded as goodwill. The preliminary purchase price allocation for FURminator is as follows:

Current assets	\$ 9,240
Property, plant and equipment	648
Intangible assets	79,000
Goodwill	68,531
<b>Total assets acquired</b>	<b>\$ 157,419</b>
Current liabilities	758
Long-term liabilities	14,916
<b>Total liabilities assumed</b>	<b>\$ 15,674</b>
<b>Net assets acquired</b>	<b>\$ 141,745</b>

ASC 805 requires, among other things, that most assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. Accordingly, the Company performed a valuation of the assets and liabilities of FURminator at December 22, 2011. Significant adjustments as a result of the purchase price allocation are summarized as follows:

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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 \$79,000 as of December 22, 2011. 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 relationship, 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 expected growth rate of 3%. The Company assumed a customer retention rate of approximately 95%, which was supported by historical retention rates. Income taxes were estimated at 40% and amounts were discounted using a rate of 14%. The customer relationships were valued at \$46,000 under this approach and will be amortized over 20 years.

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

The Company valued 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 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 were in the range of 4-5% of expected net sales related to the respective trade name. The Company anticipates using the trade names for an indefinite period as demonstrated by the sustained use of each subject trade name. In estimating the fair value of the trade names, Net sales for the trade names were estimated to grow at a rate of 2%-12% annually with a terminal year growth rate of 3%. Income taxes were estimated at 40% and amounts were discounted using a rate of 14%. Trade names were valued at \$14,000 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 used in the determination of the fair values of technologies were 10-12% of expected net sales related to the respective technology. The Company anticipates using these technologies through the legal life of the underlying patent and therefore the expected life of these technologies was equal to the remaining legal life of the underlying patents, which is approximately 9 years. In estimating the fair value of the technologies, net sales were estimated to grow at a rate of 2%-12% annually. Income taxes were estimated at 40% and amounts were discounted using the rate of 14%. The technology assets were valued at \$19,000 under this approach.

The Company's estimates and assumptions for FURminator are subject to change as the Company obtains additional information for its estimates during the measurement period. The primary areas of the purchase price allocation that are not yet finalized relate to certain legal matters, income and non-income based taxes and residual goodwill.

**15 NEW ACCOUNTING PRONOUNCEMENTS*****Fair Value Measurement***

In May 2011, the Financial Accounting Standards Board (the FASB) issued amended accounting guidance to achieve a consistent definition of and common requirements for measurement of and disclosure concerning fair value between GAAP and International Financial Reporting Standards. This amended guidance is effective for the Company beginning in the second quarter of its fiscal year ending September 30, 2012. The Company is currently evaluating the impact of this new accounting guidance on its Consolidated Financial Statements.

***Presentation of Comprehensive Income***

In June 2011, the 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. This accounting guidance is effective for the Company for the fiscal year beginning October 1, 2012. Early adoption is permitted. The Company is currently evaluating the impact of this new accounting guidance on its Consolidated Financial Statements.

***Testing for Goodwill Impairment***

During September 2011, the FASB issued new accounting guidance intended to simplify how an entity tests goodwill for impairment. The guidance will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity will no longer be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This accounting guidance is effective for the Company for the annual and any interim goodwill impairment tests performed for the fiscal year beginning October 1, 2012. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a significant impact on its Consolidated Financial Statements.



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**SPECTRUM BRANDS, INC.**

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

**(Amounts in thousands, except per share figures)**

**16 CONSOLIDATING FINANCIAL STATEMENTS**

On August 28, 2009, Spectrum Brands, with its domestic subsidiaries as guarantors, issued the 12% Notes under the 2019 Indenture for the benefit of holders of allowed claims with respect to the Predecessor Company's then-existing senior subordinated notes. 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 12% Notes and the 2019 Indenture and the 9.5% Notes under the 2018 Indenture.)

The following consolidating financial statements illustrate the components of the consolidated financial statements of the Successor Company and the Predecessor 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.

**Table of Contents****SPECTRUM BRANDS, INC. AND SUBSIDIARIES****Condensed Consolidating Statement of Financial Position****January 1, 2012****(Unaudited)****(Amounts in thousands)**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Nonguarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 549	\$ 5,940	\$ 49,103	\$	\$ 55,592
Receivables:					
Trade accounts receivables, net of allowances	40,441	76,336	245,476		362,253
Intercompany receivables	802,432	948,528	400,309	(2,149,796)	1,473
Other	3,843	5,097	36,594		45,534
Inventories	74,083	226,913	185,958	(4,662)	482,292
Deferred income taxes	(7,909)	23,680	7,976	743	24,490
Prepaid expenses and other	20,362	10,019	24,415		54,796
<b>Total current assets</b>	<b>933,801</b>	<b>1,296,513</b>	<b>949,831</b>	<b>(2,153,715)</b>	<b>1,026,430</b>
Property, plant a					