

Spectrum Brands, Inc.
Form 10-Q
February 10, 2006
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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, 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)

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Wisconsin
(State or other jurisdiction of
incorporation or organization)

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

Six Concourse Parkway, Suite 3300, Atlanta, Georgia
(Address of principal executive offices)

30328
(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 No

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

The number of shares outstanding of the Registrant's common stock, \$.01 par value, as of February 3, 2006, was 51,460,048.

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QUARTERLY REPORT ON FORM 10-Q
FOR QUARTER ENDED JANUARY 1, 2006

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****SPECTRUM BRANDS, INC.****Condensed Consolidated Balance Sheets**

January 1, 2006 and September 30, 2005

(Unaudited)

(Amounts in thousands, except per share figures)

	<u>January 1, 2006</u>	<u>September 30, 2005</u>
-ASSETS-		
Current assets:		
Cash and cash equivalents	\$ 24,419	\$ 29,852
Receivables, less allowance for doubtful accounts of \$21,671 and \$20,262, respectively	394,944	373,395
Inventories	455,855	451,553
Assets held for sale	106,257	108,174
Prepaid expenses and other	80,399	84,993
	<u>1,061,874</u>	<u>1,047,967</u>
Total current assets	1,061,874	1,047,967
Property, plant and equipment, net	301,710	304,323
Goodwill	1,409,873	1,429,017
Intangible assets, net	1,144,630	1,154,397
Deferred charges and other	52,211	47,375
Debt issuance costs	39,105	39,012
	<u>4,009,403</u>	<u>4,022,091</u>
Total assets	\$ 4,009,403	\$ 4,022,091
-LIABILITIES AND SHAREHOLDERS EQUITY-		
Current liabilities:		
Current maturities of long-term debt	\$ 45,826	\$ 39,308
Accounts payable	280,949	281,954
Liabilities held for sale	14,601	22,294
Accrued liabilities	237,141	213,820
	<u>578,517</u>	<u>557,376</u>
Total current liabilities	578,517	557,376
Long-term debt, net of current maturities	2,266,352	2,268,025
Employee benefit obligations, net of current portion	78,836	78,510
Other	244,932	275,450
	<u>3,168,637</u>	<u>3,179,361</u>
Total liabilities	3,168,637	3,179,361
Shareholders' equity:		
	673	666

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Common stock, \$.01 par value, authorized 150,000 shares; issued 67,311 and 66,625 shares, respectively; outstanding 51,388 and 50,797 shares, respectively		
Additional paid-in capital	639,391	635,309
Retained earnings	269,632	267,315
Accumulated other comprehensive income	4,005	10,260
	913,701	913,550
Less treasury stock, at cost, 15,923 and 15,828 shares, respectively	(72,935)	(70,820)
	840,766	842,730
Total shareholders equity	840,766	842,730
Total liabilities and shareholders equity	\$ 4,009,403	\$ 4,022,091

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, 2006 and January 2, 2005

(Unaudited)

(Amounts in thousands, except per share figures)

	THREE MONTHS	
	2006	2005
Net sales	\$ 619,960	\$ 490,769
Cost of goods sold	375,435	292,412
Restructuring and related charges	1,296	
Gross profit	243,229	198,357
Selling	130,919	100,321
General and administrative	47,467	30,665
Research and development	7,421	6,138
Restructuring and related charges	5,139	
Total operating expenses	190,946	137,124
Operating income	52,283	61,233
Interest expense	41,458	16,955
Other expense (income), net	1,487	(36)
Income from continuing operations before income taxes	9,338	44,314
Income tax expense	3,269	16,385
Income from continuing operations	6,069	27,929
Loss from discontinued operations, net of tax benefit of \$768	(3,752)	
Net income	\$ 2,317	\$ 27,929
Basic earnings per share:		
Weighted average shares of common stock outstanding	49,440	34,229
Income from continuing operations	\$ 0.12	\$ 0.82
Loss from discontinued operations	(0.07)	
Net income	\$ 0.05	\$ 0.82
Diluted earnings per share:		
Weighted average shares and equivalents outstanding	50,610	35,540
Income from continuing operations	\$ 0.12	\$ 0.79
Loss from discontinued operations	(0.07)	
Net income	\$ 0.05	\$ 0.79



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, 2006 and January 2, 2005

(Unaudited)

(Amounts in thousands)

	THREE MONTHS	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 2,317	\$ 27,929
Non-cash adjustments to net income:		
Discontinued operations	3,752	
Depreciation	11,822	9,036
Amortization	5,853	243
Amortization of debt issuance costs	1,546	1,037
Other non-cash adjustments	8,469	7,274
Net changes in operating assets and liabilities, net of acquisitions and discontinued operations	(30,503)	(30,193)
Net cash provided by continuing operating activities	3,256	15,326
Cash flows from investing activities:		
Purchases of property, plant and equipment, net	(11,126)	(7,098)
Payment for acquisitions, net of cash acquired	(7,363)	
Net cash used by investing activities	(18,489)	(7,098)
Cash flows from financing activities:		
Reduction of debt	(147,924)	(104,656)
Proceeds from debt financing	159,757	96,739
Debt issuance costs	(1,639)	(74)
Payments on capital lease obligations	(507)	(267)
Stock option income tax benefit	65	1,213
Proceeds from exercise of stock options	283	3,525
Net cash provided (used) by financing activities	10,035	(3,520)
Effect of exchange rate changes on cash and cash equivalents	(235)	1,798
Net (decrease) increase in cash and cash equivalents	(5,433)	6,506
Cash and cash equivalents, beginning of period	29,852	15,789
Cash and cash equivalents, end of period	\$ 24,419	\$ 22,295

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. and its subsidiaries (the Company) is a global branded consumer products company with leading market positions in seven major product categories: consumer batteries; lawn and garden; pet supplies; electric shaving and grooming; household insect control; electric personal care products; and portable lighting. The Company is a leading worldwide manufacturer and marketer of alkaline, zinc carbon and hearing aid batteries, as well as aquariums and aquatic health supplies, a leading worldwide designer and marketer of rechargeable batteries and battery-powered lighting products and a leading worldwide designer and marketer of electric shavers and accessories, grooming products and hair care appliances. The Company is also a leading North American manufacturer and marketer of lawn fertilizers, herbicides, pet supplies and specialty food products, and insecticides and repellents.

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 Spectracide, Cutter, Tetra, 8-in-1 and various other brands. The Company has manufacturing and product development facilities located in the United States, Europe, China and Latin America. The Company's operating results for the three months ended January 1, 2006 are not necessarily indicative of the results that may be expected for the full year ended September 30, 2006, due to business seasonality.

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 January 1, 2006, and the results of operations and cash flows for the three month periods ended January 1, 2006 and January 2, 2005. 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, 2005. Certain prior period amounts have been reclassified to conform to the current period presentation.

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 2006 and 2005 refer to the fiscal years ended September 30, 2006 and 2005, 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

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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.

The Company's Condensed Consolidated Financial Statements (unaudited) presented herein include the results of operations for Jungle Laboratories Corporation (Jungle Labs) subsequent to the September 1, 2005 date of acquisition, the results of operations for Tetra Holding GmbH (Tetra) subsequent to the April 29, 2005

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SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

date of acquisition and the results of operations for United Industries Corporation (United) subsequent to the February 7, 2005 date of acquisition. (See footnote 10, Acquisitions, for additional information on the Jungle Labs, Tetra and United acquisitions).

Discontinued Operations: On November 22, 2005, the Company announced the sale of its fertilizer technology and Canadian professional fertilizer products business to Agrium Inc., a leading agricultural retailer and wholesale producer and marketer of agricultural nutrients and industrial products. The sale includes 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. The Company completed the sale on January 25, 2006. Proceeds from the sale, net of selling expenses and contractual working capital adjustments, are expected to total \$82,500. See footnote 13, Subsequent Events, for additional information.

The Company has reflected the fertilizer technology and Canadian professional fertilizer products operations of Nu-Gro as discontinued operations. The Company discontinued these operations effective September 30, 2005 as part of the United integration initiatives. See footnote 11, 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 months ended January 1, 2006:

	Three Months
	2006
Net sales	\$ 12,072
Loss from discontinued operations before income taxes	\$ (4,520)
Provision for income taxes	768
Loss from discontinued operations (including estimated loss on disposal of \$2,448), net of tax	\$ (3,752)
Depreciation expense associated with discontinued operations	\$ 607

The following table details the components of the Nu-Gro assets and liabilities held for sale at January 1, 2006:

	Amount
Trade receivables, net of allowance for doubtful accounts	\$ 15,305
Inventories	16,770
Property, plant and equipment, net	18,384
Goodwill	28,748

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Intangible assets, net	21,461
Other current assets	(1,118)
	<hr/>
Total assets held for sale	99,550
Accounts payable	4,062
Accrued liabilities and other	3,053
Deferred income taxes	7,486
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Total liabilities held for sale	14,601
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