

Spectrum Brands, Inc.
Form 10-K
December 14, 2005
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended September 30, 2005.

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

Commission file No. 001-13615

SPECTRUM BRANDS, INC.

(Exact name of registrant as specified in its charter)

Wisconsin
(State or other jurisdiction of
incorporation or organization)

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

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

30328
(Zip Code)

Registrant's telephone number, including area code: (770) 829-6200

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, Par Value \$.01	New York Stock Exchange, Inc.

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

None

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was \$1,253,514,565 based upon the closing price on the last business day of the registrant's most recently completed second fiscal quarter (April 1, 2005).* As of December 1, 2005, there were outstanding 50,788,009 shares of the registrant's Common Stock, \$0.01 par value.

* For purposes of this calculation only, Spectrum Brands, Inc. common stock held by directors, executive officers, the Thomas H. Lee Funds and Ameriprise Financial, Inc. has been treated as owned by affiliates.

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PART I

ITEM 1. BUSINESS

General

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. We are a leading worldwide manufacturer and marketer of alkaline, zinc carbon and hearing aid batteries, as well as aquariums and aquatic health supplies and a leading worldwide designer and marketer of rechargeable batteries, battery-powered lighting products, electric shavers and accessories, grooming products and hair care appliances. We are also a leading North American manufacturer and marketer of lawn fertilizers, herbicides, pet supplies and specialty food products, and insecticides and repellents.

We sell our 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). We enjoy strong name recognition in our markets under the Rayovac, VARTA and Remington brands, each of which has been in existence for more than 80 years, and under the Spectracide, Cutter, Tetra, 8-in-1 and various other brands. We have manufacturing and product development facilities located in the United States, Europe, China and Latin America. We manufacture alkaline and zinc carbon batteries, zinc air hearing aid batteries, lawn fertilizers, herbicides, pet supplies and specialty food products and insecticides and repellents in our company operated manufacturing facilities. Substantially all of our rechargeable batteries and chargers, electric shaving and grooming products, electric personal care products and portable lighting products are manufactured by third party suppliers, primarily located in Asia.

Effective May 2, 2005, we changed our corporate name from Rayovac Corporation to Spectrum Brands, Inc. While, in this report, unless specified otherwise or the context requires, Spectrum and Rayovac both refer to the Company. Rayovac may be used to refer to the Company in relation to periods prior to the name change.

We made two significant acquisitions in 2005 designed to diversify our business and leverage our distribution strengths. A third acquisition of Jungle Laboratories Corporation (Jungle Labs), completed in the fourth quarter, was inconsequential to the period. (See Note 16, Acquisitions, of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further discussion of the Jungle Labs acquisition). On February 7, 2005, we completed the acquisition of all of the outstanding equity interests of United Industries Corporation (United), a leading manufacturer and marketer of products for the consumer lawn and garden and household insect control markets in North America and a leading supplier of quality pet supplies in the United States. The aggregate purchase price was approximately \$1,490 million, net of cash acquired of approximately \$14 million. The purchase price consisted of cash consideration of approximately \$1,051 million and our common stock totaling approximately \$439 million. The aggregate purchase price included acquisition related expenditures of approximately \$22 million. At the time of the acquisition, United had approximately 2,800 employees throughout North America and was organized under three operating divisions: U.S. Home & Garden, Nu-Gro Corporation and United Pet Group. The acquisition of United gives us a significant presence in several new consumer product categories that will significantly diversify our revenue base. Subsequent to the acquisition, the financial results of United are reported as a separate business segment within our consolidated results. United contributed approximately \$787 million to our 2005 net sales, and recorded operating income of approximately \$79 million.

On April 29, 2005, we acquired all of the outstanding equity interests of Tetra Holding GmbH (Tetra) for a purchase price of approximately \$550 million, net of cash acquired of approximately \$13 million and inclusive of a final working capital payment of \$2.4 million, paid in July

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2005. The aggregate purchase price also included acquisition related expenditures of approximately \$16 million. The acquisition was financed with additional borrowings under an Incremental Term Loan Facility and existing Revolving Credit Facility (each as defined in

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Note 6, Debt, of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K). Headquartered in Melle, Germany, Tetra manufactures, distributes and markets a comprehensive line of foods, equipment and care products for fish and reptiles, along with accessories for home aquariums and ponds. This acquisition provides us a global brand and distribution to extend our North American pet supplies business. At the time of the acquisition, Tetra had approximately 700 employees. Tetra operates in over 90 countries and holds leading market positions in Europe, North America and Japan. Subsequent to the acquisition, the financial results of Tetra are reported as a separate business segment within our consolidated results. Tetra contributed approximately \$96 million to our 2005 net sales, and recorded operating income of approximately \$10 million.

During 2005, we managed operations in five reportable business segments, including three based primarily upon geographic area (North America, Latin America and Europe/Rest of World (Europe/ROW)), a fourth (United) based on our acquisition of United and a fifth (Tetra) based on our acquisition of Tetra. North America includes the legacy business (battery, shaving and grooming, personal care and portable lighting) in the United States and Canada; Latin America includes the legacy business in Mexico, Central America, South America and the Caribbean; Europe/ROW includes the legacy business in the United Kingdom, continental Europe, China, Australia and all other countries in which we conduct business. The United business segment includes the acquired lawn and garden, household insect control and United Pet Group business in the United States and Canada. The Tetra business segment includes the acquired global Tetra business, primarily in Europe, North America and Japan.

Commencing in fiscal 2006, we will manage operations in four reportable segments: North America, which will consist of the legacy business (battery, shaving and grooming, personal care and portable lighting) in the United States and Canada and the acquired United lawn and garden household insect control business; Latin America (as described above); Europe/ROW (as described above) and Global Pet, which will consist of the acquired United Pet Group business and the acquired global Tetra business (Global Pet).

Global and geographic strategic initiatives and financial objectives are determined at the corporate level. Each business segment is responsible for implementing defined strategic initiatives and achieving certain financial objectives. Each business segment has a general manager responsible for all the sales and marketing initiatives for all product lines within that business segment plus the financial results of that business segment. Financial information pertaining to our business segments is contained in Note 12, Segment Information, of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

On November 23, 2005, we entered into an agreement with Agrium Inc. to sell our fertilizer technology and Canadian professional fertilizer products business (which is currently a part of our Nu-Gro Corporation business) to Agrium for \$86 million. This divestiture is expected to reinforce our ability to focus on our primary growth strategy of marketing branded consumer products to retailers and, subject to certain regulatory approvals and closing conditions, is expected to close in January, 2006. Proceeds from the sale will be used to reduce our outstanding debt. As part of the transaction, we have signed strategic multi-year reciprocal supply agreements with Agrium.

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

Our Products

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We compete 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. Our broad line of products includes:

general batteries, including alkaline and zinc carbon;

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rechargeable batteries and chargers;

hearing aid batteries;

other specialty batteries;

fertilizer, herbicides and other lawn and garden products;

pet supplies, including aquatic equipment and supplies, health and grooming products, treats and small animal foods and other;

electric shaving and grooming products;

household insect control;

electric personal care products; and

portable lighting products.

Net sales data for our products as a percentage of consolidated net sales is set forth below.

	Percentage of Company Net Sales Fiscal Year Ended September 30,		
	2005	2004	2003
Consumer batteries	41%	67%	90%
Lawn and garden	19		
Pet supplies	12		
Electric shaving and grooming	12	19	
Household insect control	6		
Electric personal care products	6	8	
Portable lighting	4	6	10
	100%	100%	100%

Consumer Batteries

General Batteries

Our general batteries category includes alkaline and zinc carbon. We sell a full line of alkaline batteries (AA, AAA, C, D and 9-volt sizes) for both consumers and industrial customers. Our alkaline batteries are marketed and sold primarily under the Rayovac Maximum Plus brand and the VARTA Longlife, High Energy and MaxiTech brands. We also engage in private label manufacturing of alkaline batteries. Our zinc carbon batteries, marketed and sold primarily under the Rayovac and VARTA brands, are designed for low- and medium-drain battery-powered devices such as flashlights.

Hearing Aid Batteries

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

Rechargeable Batteries, Chargers and Other

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

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Our specialty battery products include photo batteries, lithium batteries, silver oxide batteries and keyless entry batteries. We sell coin cells for use in watches, cameras, calculators, communications equipment and medical instrumentation. Our lithium coin cells are high-quality lithium batteries marketed for use in instrumentation, calculators and personal computer clocks and memory back-up systems.

Lawn and Garden

Our lawn and garden business is comprised of a number of leading lawn and garden care products, including, among others, dry, granular lawn fertilizers, lawn fertilizer combination and lawn control products, herbicides, water-soluble and controlled-release garden and indoor plant foods, plant care products, potting soils and other growing media products and grass seed. Our largest brands include Spectracide, Garden Safe, Sta-Green, Vigoro, Schultz and Bandini. We have exclusive brand arrangements for our Vigoro brand at The Home Depot and our Sta-Green brand at Lowe's. We also sell our products in Canada where our brands include Wilson, So-Green, Greenleaf and Green Earth in the lawn and garden categories, and IB Nitrogen, Nitroform, Nutralene, S.C.U. and Organiform in the fertilizer technology and professional category. Our lawn and garden products are targeted toward consumers who want products and packaging that are comparable to, and sold at lower prices than, premium-priced brands.

Pet Supplies

Our pet supplies business is comprised of a number of leading premium-branded pet supplies and specialty pet food products for fish, dogs, cats, birds and other small domestic animals. We have a broad line of consumer and commercial aquatics pet products, including integrated aquarium kits, standalone tanks and stands, filtration systems, heaters, pumps, sea salt, aquarium hoods and lights and other aquarium supplies and accessories. Our largest aquatics brands include Tetra, Bio-Wheel, Penguin, Eclipse, Magnum, Perfecto and ASI. We also sell a variety of specialty pet products, including treats, stain and odor removal products, grooming aids, bedding products, premium food, medications and vitamin supplements. Our largest specialty pet brands include 8-in-1, Nature's Miracle, One Earth, Dingo, Wild Harvest and Kookamunga.

Electric Shaving and Grooming

We market a broad line of electric shaving and grooming products under the Remington brand name, including men's rotary and foil shavers, women's shavers, beard and mustache trimmers, nose and ear trimmers, haircut kits and related accessories. We market electric shaver accessories consisting of shaver replacement parts (primarily foils and cutters), pre-shave products and cleaning agents.

Household Insect Control

Our household insect control business is comprised of a number of leading products that allow consumers to repel insects and maintain a pest-free household. Such products include household insecticides such as spider, roach and ant killer, flying insect killer, insect foggers, wasp and hornet killer, flea and tick control products and roach and ant baits. We also manufacture and market a complete line of products in the insect repellent category that provide protection from insects, especially mosquitoes. Such products include both personal repellents, such as application wipes, aerosols and pump sprays, and area repellents, such as yard sprays, citronella candles and torches. Our largest brands in the insect control business include Hot Shot, Cutter and Repel.

Electric Personal Care Products

Our personal care products, marketed and sold under the Remington brand name, include hair dryers, hairsetters, curling irons, hair crimpers and straighteners and hot air brushes.

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Portable Lighting

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

Sales and Distribution

We sell our products through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and OEMs. Our sales to Wal-Mart Stores, Inc. represented approximately 18% of consolidated net sales for fiscal 2005 and no other customer accounted for more than 10% of our consolidated net sales in fiscal 2005.

North America

We align our internal sales force in North America by distribution channel. We maintain separate sales forces primarily to service (i) our retail sales and distribution channels, (ii) our hearing aid professionals and (iii) our industrial distributors and OEM sales and distribution channels. In addition, we use a network of independent brokers to service participants in selected distribution channels. As part of our integration activities, during 2005 we merged the United lawn and garden and household insect control sales force into our North America sales force.

Europe/ROW

We maintain a separate sales force in Europe/ROW and utilize an international network of distributors to promote the sale of all of our products. We have sales operations throughout Europe/ROW organized by three sales channels: (i) food/retail, which includes mass merchandisers, discounters, drug and food stores and non-food stores; (ii) special trade, which includes clubs (cash/carry), consumer electronics stores, department stores, photography stores, hearing aid professionals and wholesalers/distributors, and (iii) industrial, government and OEMs.

Latin America

We align our internal sales force in Latin America by distribution channel or geographic territory. We sell primarily to large retailers, wholesalers, distributors, food and drug chains, and retail outlets in both urban and rural areas. In some countries where we do not maintain a separate internal sales force, we sell to distributors who sell our products to all channels in their particular market.

United and Tetra

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Our United and Tetra sales forces are aligned by significant customer. We sell our lawn and garden, pet supplies and household insect control products to mass merchandisers, home improvement centers, hardware, grocery and drug chains, nurseries and garden centers, pet superstores, independent pet stores and other retailers. As part of our integration activities, during 2005 we merged the United lawn and garden and household insect control sales force into our North America sales force. Subsequent to the realignment, United's lawn and garden and household insect control sales forces are aligned with North America, as described above.

Manufacturing, Raw Materials and Suppliers

The principal raw materials used to produce our products including granular urea, zinc powder, electrolytic manganese dioxide powder and steel are sourced on a global or regional basis, and the prices of those raw materials are susceptible to price fluctuations due to supply/demand trends, energy costs, transportation

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costs, government regulations and tariffs, changes in currency exchange rates, price controls, the economic climate and other unforeseen circumstances. We regularly engage in forward purchase and hedging transactions in an attempt to effectively manage our raw materials costs for the next six to twelve months. We believe we will continue to have access to adequate quantities of these materials.

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

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

Research and Development

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

In fiscal years 2005, 2004 and 2003, we invested \$29.3 million, \$23.2 million and \$14.4 million, respectively, in product research and development. These investments were supplemented by funds received from U.S. government contracts. These contracts enable us to investigate additional development opportunities.

Patents and Trademarks

We own or license from third parties a considerable number of patents and patent applications throughout the world for battery and electric personal care product improvements, additional features and manufacturing equipment. We have a license through March 2022 to certain alkaline battery designs, technology and manufacturing equipment from Matsushita Electrical Industrial Co., Ltd (Matsushita) to whom we pay a royalty.

We also use and maintain a number of trademarks in our business, including CUTTER, DINGO, GARDEN SAFE, HOT SHOT, JUNGLETALK, MARINELAND, NATURE'S MIRACLE, RAYOVAC, REMINGTON, REPEL, SCHULTZ, SPECTRACIDE, SPECTRACIDE TERMINATE, STA-GREEN, TETRA, VARTA, VIGORO and 8-IN-1. We seek trademark protection in the U.S. and in many foreign countries by available means, including registration.

As a result of the October 2002 sale by VARTA AG of substantially all of its consumer battery business to us and VARTA AG's subsequent sale of its automotive battery business to Johnson Controls, Inc., we acquired rights to the VARTA trademark in the consumer battery category and Johnson Controls acquired rights to the trademark in the automotive battery category. VARTA AG and its VARTA Microbatteries subsidiary continue to have rights to use the trademark with travel guides, industrial batteries and micro batteries. We are party to a Trademark and Domain

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Names Protection and Delimitation Agreement that governs ownership and usage rights and obligations of the parties relative to the VARTA trademark.

As a result of the common origins of the Remington business we acquired in September, 2003 and Remington Arms Company, Inc., the Remington trademark is owned by us and by the Remington Arms, Company Inc., each with respect to its principal products as well as associated products. As a result of our acquisition of Remington business, we own the Remington trademark for electric shavers, shaver accessories, grooming products and personal care products, while Remington Arms owns the trademark for firearms, sporting goods and products for industrial use, including industrial hand tools. The terms of a 1986 agreement between

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Remington and Remington Arms provides for the shared rights to use the Remington trademark on products which are not considered principal products of interest for either company. We retain the Remington trademark for nearly all products which we believe can benefit from the use of the brand name in our distribution channels.

On February 12, 2004, United executed a licensing, manufacturing and supply agreement with its largest customer at the time. Under the agreement, United will license its VIGORO and related trademarks and be the exclusive manufacturer and supplier for certain products branded with such trademarks from January 1, 2004, the effective date of the agreement, through December 31, 2008. If the customer achieves certain required minimum purchase volumes and other conditions during the initial four-year period, and the manufacturing and supply portion of the agreement is extended for an additional three-year period as specified in the agreement, United will assign the trademarks to the customer not earlier than May 1, 2009, but otherwise within thirty days after the date upon which such required minimum purchase volumes are achieved.

Competition

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

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

In the U.S. alkaline battery category, the Rayovac brand is positioned as a value brand. In Europe, the VARTA brand is competitively priced with the competition. In Latin America, where zinc carbon batteries outsell alkaline batteries, the Rayovac brand is competitively priced with the competition.

Our primary competitors in the lawn and garden business segment include: The Scotts Miracle-Gro Company, which markets lawn and garden products under the Scotts, Ortho, Roundup, Miracle-Gro and Hyponex brand names; Central Garden & Pet Company, which markets garden products under the AMDRO, IMAGE and Pennington Seed brand names; and Bayer A.G., which markets lawn and garden products under the Bayer Advanced brand name.

Our primary competitors in the electric shaving and grooming market are Norelco, a division of Koninklijke Philips Electronics NV (Philips) (which only sells and markets rotary shavers) and Braun, a division of The Procter & Gamble Company (which sells and markets foil shavers). Only Remington sells both foil and rotary shavers.

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The pet supply industry is highly fragmented with over 500 manufacturers in the U.S., consisting primarily of small companies with limited product lines. Our largest competitors in this product category are The Hartz Mountain Corporation and Central Garden & Pet Company.

Our primary competitors in the household insect control market include: S.C. Johnson & Son, Inc., which markets insecticide and repellent products under the Raid and OFF! brands; The Scotts Miracle-Gro Company, which markets household insect control products under the Ortho brand; and Henkel KGaA, which markets products under the Combat brand.

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

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

Some of our major competitors have greater financial and other resources and greater overall market share than we do. They have committed significant resources to protect their own market shares or to capture market share from us in the past and may continue to do so in the future. In some key product lines, our competitors may have lower production costs and higher profit margins than we do, which may enable them to compete more aggressively in advertising and in offering retail discounts and other promotional incentives to retailers, distributors, wholesalers, and, ultimately, consumers. Companies that are able to maintain or increase the amount of retail shelf space allocated to their respective products can gain competitive advantage.

Seasonality

The acquisitions of United and Tetra have impacted the seasonality of our business, which, prior to the acquisitions, was weighted heavily towards the Christmas season (Spectrum's first fiscal quarter). Demand for lawn and garden products typically peaks during the first six months of the calendar year (Spectrum's second and third fiscal quarters) and pet supplies sales remain fairly constant throughout the year. More evenly distributed consumer demand will help balance the seasonality in Spectrum's business and working capital needs. For a more detailed discussion of the seasonality of our product sales, see Management's Discussion and Analysis of Financial Condition and Results of Operations Seasonal Product Sales.

Governmental Regulations and Environmental Matters

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

From time to time, we have been required to address the effect of historic activities on the environmental condition of our properties. We have not conducted invasive testing at all facilities to identify all potential environmental liability risks. Given the age of our facilities and the nature of our operations, there can be no assurance that material liabilities will not arise in the future in connection with our current or former facilities. If previously unknown contamination of property underlying or in the vicinity of our manufacturing facilities is discovered, we could be required to incur material unforeseen expenses. If this occurs, it may have a material adverse effect on our capital expenditures, earnings and competitive position. Although we are currently engaged in investigative or remedial projects at a few of our facilities, we do not expect that such projects will cause us to incur material expenditures; however, there can be no assurance that our liability will not be material.

We have been, and in the future may be, subject to proceedings related to our disposal of industrial and hazardous material at off-site disposal locations or similar disposals made by other parties for which we are held responsible as a result of our relationships with such other parties. These proceedings are under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) or similar state laws that hold persons who arranged for the disposal or treatment of such substances strictly liable for costs incurred in responding

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to the release or threatened release of hazardous substances from such sites, regardless of fault or the lawfulness of the original disposal. Liability under CERCLA is typically joint and several, meaning that a liable party may be responsible for all costs incurred in investigating and remediating contamination at a site. As a practical matter, liability at CERCLA sites is shared by all of the viable responsible parties. We

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occasionally are identified by federal or state governmental agencies as being a potentially responsible party for response actions contemplated at an off-site facility. At the one existing site where we have been notified of our status as a potentially responsible party, we do not believe that our liability, if any, will be material. We may be named as a potentially responsible party under CERCLA or similar state matters for other sites not currently known to us, and the costs and liabilities associated with these sites may be material.

It is difficult to quantify with certainty the potential financial impact of actions regarding expenditures for environmental matters, particularly remediation, and future capital expenditures for environmental control equipment. Nevertheless, based upon the information currently available, we believe that our ultimate liability arising from such environmental matters, taking into account established accruals of \$5.2 million for estimated liabilities at September 30, 2005, should not be material to our business or financial condition.

Electronic and Electrical Products that we sell in Europe, particularly products sold under the Remington brand name, VARTA battery chargers and certain portable lighting, are subject to regulation in European Union (EU) markets under two key EU Directives. The first is the Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment (RoHS) which takes effect in EU member states beginning July 1, 2006. RoHS prohibits companies from selling products which contain certain specified hazardous materials in EU member states. We are in the process of finalizing collecting RoHS compliant information on our products as well as procuring RoHS compliant material and information from our suppliers. We believe that compliance with RoHS will not have a material effect upon our capital expenditures, financial position, earnings or competitive position. The second Directive is entitled the Waste of Electrical and Electronic Equipment (WEEE). WEEE makes producers or importers of particular classes of electrical goods financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. WEEE assigns levels of responsibility to companies doing business in EU markets based on their relative market share. WEEE calls on each EU member state to enact enabling legislation to implement the directive. Thus far, a large majority of EU member states have passed WEEE legislation with effective dates ranging from August 2005 to early 2006. To comply with WEEE requirements, Spectrum has partnered with other firms to create a comprehensive collection, treatment, disposal, and recycling program. As additional EU member states pass enabling legislation our compliance system should be sufficient to meet such requirements. Our current estimated costs associated with Spectrum's compliance with WEEE based on our current market share are \$1 million per annum. However, we continue to evaluate the impact of the WEEE Legislation as EU member states implement guidance, and actual costs could differ from our current estimates.

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

The Food Quality Protection Act established a standard for food-use pesticides, which is that a reasonable certainty of no harm will result from the cumulative effect of pesticide exposures. Under this Act, the EPA is evaluating the cumulative effects from dietary and non-dietary exposures to pesticides. The pesticides in certain of our products continue to be evaluated by the EPA as part of this exposure. It is possible that the EPA or a third party active ingredient registrant may decide that a pesticide we use in our products will be limited or made unavailable to us. For example, in 2000, Dow AgroSciences L.L.C., an active ingredient registrant, voluntarily agreed to a withdrawal of virtually all residential uses of chlorpyrifos, an active ingredient that, until January 2001, United used in its lawn and garden products under the name Dursban. This had a material adverse effect

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on United s operations resulting in a charge of \$8.0 million in 2001. We cannot predict the outcome or the severity of the effect of the EPA s continuing evaluations of active ingredients used in our products.

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

Employees

We have approximately 9,800 full-time employees worldwide as of September 30, 2005. Approximately 12% of our total labor force is covered by collective bargaining agreements. We believe that our relationship with our employees is good and there have been no work stoppages involving our employees since 1981 in North America and since 1991 in the United Kingdom.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) are made available free of charge on or through our website at www.spectrumbrands.com as soon as reasonably practicable after such reports are filed with, or furnished to, the United States Securities and Exchange Commission (the SEC). You may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains our reports, proxy statements and other information at www.sec.gov. In addition, copies of our (i) Corporate Governance Guidelines, (ii) charters for the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, (iii) Code of Business Conduct and Ethics, and (iv) Code of Ethics for the Principal Executive Officer and Senior Financial Officers are available at our Internet site at www.spectrumbrands.com under Investor Relations Corporate Governance. Copies will also be provided to any stockholder upon written request to the Vice President, Investor Relations, Spectrum Brands, Inc., 6 Concourse Parkway, Suite 3300, Atlanta, Georgia 30328, via electronic mail at investorrelations@spectrumbrands.com, or by contacting the Vice President, Investor Relations at 770-829-6200. None of the information posted on our website is incorporated by reference into this Annual Report.

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ITEM 2. PROPERTIES

The following table lists our principal owned or leased manufacturing, packaging, and distribution facilities at September 30, 2005:

Facility	Function
North America	
Fennimore, Wisconsin(1)	Alkaline Battery Manufacturing
Portage, Wisconsin(1)	Zinc Air Button Cell & Lithium Coin Cell Battery Manufacturing & Foil Shaver Component Manufacturing
Dixon, Illinois(2)	Packaging & Distribution of Batteries and Lighting Devices & Distribution of Electric Shaver & Personal Care Devices
Nashville, Tennessee(2)	Distribution of Batteries, Lighting Devices, Electric Shaver & Personal Care Devices
Europe/ROW	
Dischingen, Germany(1)	Alkaline Battery Manufacturing
Washington, UK(2)	Zinc Air Button Cell Battery Manufacturing & Distribution
Ninghai, China(1)	Zinc Carbon & Alkaline Battery Manufacturing & Distribution
Ellwangen, Germany(2)	Battery Packaging
Neunheim, Germany(2)	Battery Distribution
Latin America	
Guatemala City, Guatemala(1)	Zinc Carbon Battery Manufacturing
Ipojuca, Brazil(1)	Zinc Carbon Battery Component Manufacturing
Jaboatoa, Brazil(1)	Zinc Carbon Battery Manufacturing
Manizales, Colombia(1)	Zinc Carbon Battery Manufacturing
United	
Vinita Park, Missouri(2)	Household and Contract Production Facility
Vinita Park, Missouri(2)	Warehouse
Bridgeton, Missouri(2)	Lawn and Garden Production and Distribution Facility
Akron, Ohio(2)	Distribution Center
Orrville, Ohio(1)	Lawn and Garden Production and Distribution Facility
Mentor, Ohio(2)	Aquatics Production Facility
Noblesville, Indiana(1)	Aquatics Production Facility
Sylacauga, Alabama(2)	Lawn and Garden Production and Distribution Facility
Hauppauge, New York(2)	Specialty Pet Production Facility
Gainesville, Georgia(2)	Distribution Center
Ontario, California(2)	Distribution Center
Moorpark, California(2)	Aquatics Production Facility
Woodstock, Ontario(1)	Blend, Pack and Warehouse Facility
Putnam, Ontario(1)	Blend, Pack and Warehouse Facility
Tetra	
Blacksburg, Virginia(1)	Pet Supply Manufacturing, Assembly, Warehousing and Shipping
Melle, Germany(1)	Pet Food and Pet Care Manufacturing
Melle, Germany(2)	Pet Food and Pet Care Distribution

(1) Facility is owned.

(2) Facility is leased.

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

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ITEM 3. LEGAL PROCEEDINGS

Litigation

We are subject to litigation from time to time in the ordinary course of business. The amount of any liability with respect to any litigation to which we are now subject cannot currently be determined. Other than the matters set forth below, we are not party to any pending legal proceedings which, in the opinion of management, are material or may be material to our business or financial condition.

On September 26, 2005, we, along with our Chairman and Chief Executive Officer David A. Jones, and Executive Vice President and Chief Financial Officer Randall J. Steward, were named as defendants in a purported class action lawsuit captioned *Jain v. Spectrum Brands Inc., David A. Jones and Randall J. Steward*, Civil Action No. 05-2494-WSD, filed in the U.S. District Court for the Northern District of Georgia. The complaint alleges violations of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder. The action is purportedly brought on behalf of all purchasers of our publicly-traded securities between January 4, 2005 and September 6, 2005. The plaintiff generally alleges that we and the individually named defendants made materially false and misleading public statements concerning our operational and financial condition, thereby allegedly causing plaintiff to purchase our securities at artificially inflated prices. The plaintiff seeks unspecified damages, as well as interest, costs and attorneys' fees. Substantially similar actions, captioned *Dague v. Spectrum Brands Inc., David A. Jones and Randall J. Steward*, Civil Action No. 05-0580-C (filed October 3, 2005 in the U.S. District Court for the Western District of Wisconsin) and *Davies v. Spectrum Brands Inc., David A. Jones and Randall J. Steward*, Civil Action No. 05-2814 (filed October 31, 2005 in the U.S. District Court for the Northern District of Georgia) were filed by other purported class representatives. In addition, a further action captioned *Hunkapiller v. Spectrum Brands Inc., David A. Jones and Randall J. Steward*, Civil Action No. 05-2911-WSD was filed November 14, 2005 in the U.S. District Court for the Northern District of Georgia and purportedly brought on behalf of all purchasers of our publicly-traded securities between January 4, 2005 and November 11, 2005. By Order dated November 18, 2005, all cases pending in the U.S. District Court for the Northern District of Georgia were consolidated. Defendants are not required to answer, move or otherwise respond until 30 days after service of a consolidated amended complaint. On November 28, 2005, a motion was filed to appoint lead plaintiffs and approve selection of lead counsel. The Court has not yet ruled on that motion. We believe that these actions are without merit and intend to contest them vigorously. At this stage of the litigation, we cannot make any estimate of a potential loss or range of loss.

On November 9, 2005, we received a request for information from the U.S. Attorney's Office for the Northern District of Georgia. On December 12, 2005, we received a request for the same information from the Atlanta District Office of the SEC. The U.S. Attorney's Office and the SEC are investigating our July 28, 2005 disclosure regarding our results for the third quarter ended July 3, 2005 and our revised guidance issued September 7, 2005 as to earnings for the fourth quarter of fiscal year 2005 and fiscal year 2006. The U.S. Attorney's Office and the SEC are also investigating the extent to which our senior management sold shares in the thirty-day period preceding the July 28, 2005 and September 7, 2005 disclosures. We are cooperating fully with the investigations. We are unable to predict the outcome of the investigations or the timing of their resolution at this time.

We are involved in a number of legal proceedings with Philips in Europe and Latin America with respect to trademark or other intellectual property rights Philips claims to have in relation to the appearance of the faceplate of the three-headed rotary shaver. In the first such legal proceeding in Europe, we were successful in having the Philips trademark at issue declared invalid by the High Court of Justice in the United Kingdom, a decision that was ultimately upheld by the European Court of Justice (ECJ) in 2002. The ECJ held that a shape consisting exclusively of the shape of a product is unregistrable as a trademark (or is subject to being declared invalid if it has been registered as a trademark) if it is established that the essential functional features of the shape are attributable only to the technical result. Both prior to and following the favorable ECJ decision in 2002, litigation over the Philips trademarks ensued between us (or one of our distributors) and Philips in each of France, Italy, Spain, Portugal, Germany and again in the U.K. The status of these various matters is as follows:

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In each of France (decision of June 13, 2003), Italy (decision of February 26, 2004) and Spain (decision of May 6, 2004), the respective First Instance Courts ordered that the various Philips trademarks be

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cancelled. The action in France commenced May 17, 2000, the action in Italy commenced May 15, 2000 and the action in Spain commenced March 12, 2003. In France, Philips unsuccessfully filed an appeal to the Paris Court of Appeal, which affirmed the cancellation of Phillips marks (decision of February 16, 2005). These decisions have been appealed by Philips to the French Supreme Court, the Milan Court of Appeal and the Spanish Appeal Court, respectively

In the second U.K. lawsuit commenced by Philips on February 15, 2000, the U.K. High Court of Justice (decision of October 21, 2004) ordered that Philips' trademarks at issue be cancelled. Philips filed an appeal in this matter, and a hearing on this appeal took place during the week of October 17, 2005 with a decision expected in calendar 2006.

In Germany, the Cologne District Court in August 2002 granted Philips a preliminary injunction that currently prevents us from selling rotary shavers in Germany. Since such time, we have sought to cancel relevant Philips trademarks. In a decision dated April 1, 2004, the German Federal Patent Court issued a ruling canceling three Philips marks and upholding Philips' right to one mark. The parties appealed this decision to the German Supreme Court. A hearing in those actions took place in the German Supreme Court on November 17, 2005 and the Court has announced that it will refer the matters back to the German Federal Patent Court for further proceedings.

In Portugal, Philips commenced a lawsuit against our distributor on December 12, 2003 seeking an injunction to prevent the marketing and sale of the Remington shavers. The Commercial Court in Portugal (decision of June 23, 2004) denied the request for an injunction. Philips initially appealed this decision to the Appellate Court which confirmed the decision of the Commercial Court, and Philips has not appealed that decision.

Additionally, since the beginning of fiscal 2005 we have filed proceedings seeking to cancel relevant Philips trademarks in Argentina, Austria, Brazil, Denmark, the Netherlands, Norway, South Africa and Switzerland and Philips is opposing these efforts. In Argentina, Philips has filed an infringement action against us and has obtained an ex parte preliminary injunction prohibiting our sale of rotary shavers in Argentina at present. We have appealed the injunction order and anticipate a decision in early calendar 2006.

In addition, The Gillette Company and its subsidiary, Braun GmbH, filed a complaint against us in the federal district court in Massachusetts on December 2, 2003 alleging that Remington's Smart Cleaner automatic cleaning device on Remington's Titanium Smart System shaving product infringes United States patent numbers 5,711,328 and 5,649,556 allegedly held by Braun (*The Gillette Company and Braun GmbH v. Remington Consumer Products Company, LLC., Case No. 03 CV 12428 WGY*). The complaint, which seeks injunctive relief and monetary damages, was served on Remington in March 2004. We have reached a tentative settlement in this matter under which we expect to enter into an agreement with Braun/Gillette and pay a license fee and royalties on our use of this license going forward. We expect to sign the settlement agreement before the end of calendar 2005.

Environmental

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

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No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock, \$0.01 par value per share (the "Common Stock"), is traded on the New York Stock Exchange (the "NYSE") under the symbol SPC. The Common Stock commenced public trading on November 21, 1997. As of December 1, 2005, there were approximately 550 holders