

Spectrum Brands, Inc.
Form 10-Q
February 08, 2008
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 30, 2007

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)

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 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

The number of shares outstanding of the Registrant's common stock, \$.01 par value, as of February 4, 2008, was 52,794,352.

Table of Contents

SPECTRUM BRANDS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTER ENDED December 30, 2007

INDEX

	Page
Part I Financial Information	
Item 1. <u>Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets (Unaudited) as of December 30, 2007 and September 30, 2007</u>	3
<u>Condensed Consolidated Statements of Operations (Unaudited) for the three month periods ended December 30, 2007 and December 31, 2006</u>	4
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the three month periods ended December 30, 2007 and December 31, 2006</u>	5
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	44
Item 4. <u>Controls and Procedures</u>	45
Part II Other Information	
Item 1. <u>Legal Proceedings</u>	47
Item 1A. <u>Risk Factors</u>	47
Item 2. <u>Issuer Purchases of Equity Securities</u>	59
Item 6. <u>Exhibits</u>	59
<u>Signatures</u>	60

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****SPECTRUM BRANDS, INC.****Condensed Consolidated Balance Sheets****December 30, 2007 and September 30, 2007****(Unaudited)****(Amounts in thousands, except per share figures)**

	December 30, 2007	September 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 84,880	\$ 69,853
Receivables:		
Trade accounts receivable, net of allowances of \$17,965 and \$16,891, respectively	339,777	311,043
Other	41,575	45,102
Inventories	322,124	317,469
Deferred income taxes	10,496	22,208
Assets held for sale	583,002	572,859
Prepaid expenses and other	45,248	47,034
Total current assets	1,427,102	1,385,568
Property, plant and equipment, net	239,753	249,802
Deferred charges and other	42,776	37,164
Goodwill	671,947	659,649
Intangible assets, net	840,858	834,297
Debt issuance costs	42,641	44,906
Total assets	\$ 3,265,077	\$ 3,211,386
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Current maturities of long-term debt	\$ 57,884	\$ 43,438
Accounts payable	245,559	253,480
Accrued liabilities:		
Wages and benefits	38,019	62,120
Income taxes payable	13,125	18,345
Restructuring and related charges	46,755	55,793
Accrued interest	55,058	51,122
Liabilities held for sale	62,776	47,688
Other	79,768	74,170
Total current liabilities	598,944	606,156
Long-term debt, net of current maturities	2,512,234	2,416,916
Employee benefit obligations, net of current portion	58,653	54,469
Deferred income taxes	164,034	169,088
Other	72,366	68,585
Total liabilities	3,406,231	3,315,214
Commitments and contingencies		
Shareholders' deficit:	693	690

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Common stock, \$.01 par value, authorized 150,000 shares; issued 69,250 and 69,062 shares, respectively; outstanding 52,923 and 52,765 shares, respectively			
Additional paid-in capital	671,152		669,274
Accumulated deficit	(806,773)		(763,370)
Accumulated other comprehensive income	70,543		65,664
	(64,385)		(27,742)
Less treasury stock, at cost, 16,327 and 16,297 shares, respectively	(76,769)		(76,086)
Total shareholders' deficit	(141,154)		(103,828)
Total liabilities and shareholders' deficit	\$ 3,265,077	\$	3,211,386

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 December 30, 2007 and December 31, 2006****(Unaudited)****(Amounts in thousands, except per share figures)**

	THREE MONTHS	
	2008	2007
Net sales	\$ 560,520	\$ 564,552
Cost of goods sold	352,161	349,677
Restructuring and related charges	121	5,951
Gross profit	208,238	208,924
Selling	111,668	125,971
General and administrative	35,700	37,068
Research and development	5,450	6,933
Restructuring and related charges	3,653	1,390
Total operating expenses	156,471	171,362
Operating income	51,767	37,562
Interest expense	45,686	31,743
Other (income) expense, net	(232)	951
Income from continuing operations before income taxes	6,313	4,868
Income tax expense	16,422	1,448
(Loss) income from continuing operations	(10,109)	3,420
Loss from discontinued operations, net of tax	(33,293)	(22,228)
Net loss	\$ (43,402)	\$ (18,808)
Basic earnings per share:		
Weighted average shares of common stock outstanding	50,971	49,842
(Loss) income from continuing operations	\$ (0.20)	\$ 0.07
Loss from discontinued operations	(0.65)	(0.45)
Net loss	\$ (0.85)	\$ (0.38)
Diluted earnings per share:		
Weighted average shares and equivalents outstanding	50,971	49,842
(Loss) income from continuing operations	\$ (0.20)	\$ 0.07
Loss from discontinued operations	(0.65)	(0.45)
Net loss	\$ (0.85)	\$ (0.38)

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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 December 30, 2007 and December 31, 2006****(Unaudited)****(Amounts in thousands)**

	THREE MONTHS	
	2008	2007
Cash flows from operating activities:		
(Loss) income from continuing operations	\$ (10,109)	\$ 3,420
Non-cash adjustments to income from continuing operations:		
Depreciation	10,773	10,454
Amortization	5,458	7,179
Amortization of debt issuance costs	2,243	1,881
Other non-cash adjustments	16,968	(7,364)
Net changes in assets and liabilities, net of discontinued operations	(74,538)	(55,705)
Net cash used by operating activities of continuing operations	(49,205)	(40,135)
Net cash used by operating activities of discontinued operations	(41,721)	(29,952)
Net cash used by operating activities	(90,926)	(70,087)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(5,083)	(6,472)
Proceeds from sale of equipment	44	97
Net cash used by investing activities of continuing operations	(5,039)	(6,375)
Net cash provided by investing activities of discontinued operations	13,064	(1,169)
Net cash provided (used) by investing activities	8,025	(7,544)
Cash flows from financing activities:		
Reduction of debt	(59,012)	(191,572)
Proceeds from debt financing	155,816	280,726
Debt issuance costs	22	(1,285)
Treasury stock purchases	(683)	(665)
Net cash provided by financing activities	96,143	87,204
Effect of exchange rate changes on cash and cash equivalents	1,785	(23)
Net increase in cash and cash equivalents	15,027	9,550
Cash and cash equivalents, beginning of period	69,853	28,430
Cash and cash equivalents, end of period	\$ 84,880	\$ 37,980

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

Table of Contents

SPECTRUM BRANDS, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

(Amounts in thousands, except per share figures)

1 DESCRIPTION OF BUSINESS

Spectrum Brands, Inc. and its subsidiaries (the Company) is a global branded consumer products company with positions in seven major product categories: consumer batteries; pet supplies; electric shaving and grooming; electric personal care; portable lighting; lawn and garden and household insect control. In the third quarter of the Company's fiscal year ended September 30, 2006, the Company engaged advisors to assist it in exploring possible strategic options including divesting certain assets, in order to reduce its outstanding indebtedness. In connection with this undertaking, during the first quarter of the Company's fiscal year ended September 30, 2007 the Company approved and initiated a plan to sell the assets related to its lawn and garden and household insect control product offerings (the Home and Garden Business). As a result, the Company has designated certain assets and liabilities related to the Home and Garden Business as held for sale and has designated the Home and Garden Business as discontinued operations. See Note 2, Significant Accounting Policies Discontinued Operations and Assets Held for Sale for further details on the discontinued Home and Garden Business.

As of January 1, 2007, the Company began managing its business in three reportable segments: (i) Global Batteries & Personal Care, which consists of the Company's worldwide battery, shaving and grooming, personal care and portable lighting business (Global Batteries & Personal Care); (ii) Global Pet Supplies, which consists of the Company's worldwide pet supplies business (Global Pet Supplies); and (iii) the Home and Garden Business, which has been designated as discontinued operations. The presentation of all historical segment reporting herein has been reclassified to conform to this segment structure.

The Company's continuing operations include the worldwide manufacturing and marketing of alkaline, zinc carbon and hearing aid batteries, as well as aquariums and aquatic 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 continuing operations also include the manufacturing and marketing of specialty pet supplies. The Company's continuing operations utilize manufacturing and product development facilities located in the United States, Europe, China and Latin America. Through the Home and Garden Business, presented here as discontinued operations, the Company manufactures and markets lawn fertilizers, herbicides, insecticides and repellents in North America.

The Company sells its products in approximately 120 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and original equipment manufacturers 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, 8in1 and various other brands. The Home and Garden Business has name recognition under the Spectracide and Cutter brands, among others.

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 United States Securities and Exchange Commission (the SEC) and, in the opinion of the Company, include all adjustments (which are normal and recurring in nature) necessary to present fairly the financial position of the Company at December 30 and September 30, 2007, and the results of operations and cash flows for the three month periods ended December 30, 2007 and December 31, 2006. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to such SEC rules and regulations. These

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

(Amounts in thousands, except per share figures)

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, 2007. 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 Fiscal 2008 and Fiscal 2007 refer to the fiscal years ended September 30, 2008 and 2007, respectively.

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

Discontinued Operations: In the third quarter of the Company's fiscal year ended September 30, 2006, the Company engaged advisors to assist in exploring possible strategic options including a potential sale of various assets in order to reduce its outstanding indebtedness. In connection with this undertaking, during the first quarter of Fiscal 2007, the Company approved and initiated a plan to sell the assets related to the Home and Garden Business. (See Assets Held for Sale in this Note 2 below where the specific assets and liabilities to be sold are further discussed).

As a result, effective October 1, 2006, the Company reflected the operations of the Home and Garden Business as discontinued operations. Therefore, the presentation herein of the results of continuing operations exclude the Home and Garden Business for all periods presented. The following amounts have been segregated from continuing operations and are reflected as discontinued operations for the three months ended December 30, 2007 and December 31, 2006, respectively:

	Three Months	
	2008	2007
Net sales	\$ 48,896	\$ 55,648
Loss from discontinued operations before income taxes	\$ (33,918)	\$ (35,561)
Provision for income tax benefit	(625)	(13,333)
Loss from discontinued operations (including estimated loss on disposal of \$1,209), net of tax	\$ (33,293)	\$ (22,228)

On November 1, 2007, the Company sold the Canadian division of the Home and Garden Business, which operated under the name Nu-Gro, to a new company formed by RoyCap Merchant Banking Group and Clarke Inc. Cash proceeds received at closing, net of selling expenses, totaled \$14,931 and were used to reduce outstanding debt. These proceeds are included in net cash provided by investing activities of discontinued operations in the Condensed Consolidated Statements of Cash Flows (Unaudited) included in this Quarterly Report on Form 10-Q. On February 5, 2008, the Company finalized the contractual working capital adjustment in connection with this sale which increased proceeds received by the Company by \$500. As a result of the finalization of the contractual working capital adjustments the Company recorded a loss on disposal of \$1,209, net of tax benefit.

Table of Contents

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

Assets Held for Sale: At December 30 and September 30, 2007 assets totaling \$583,002 and \$572,859, respectively, were included in Assets held for sale in the Condensed Consolidated Balance Sheets (Unaudited). At December 30, 2007, the Company had \$574,571 and \$62,776 related to certain assets and liabilities, respectively, of the Home and Garden Business included in Assets held for sale and Liabilities held for sale, respectively, in its Condensed Consolidated Balance Sheets (Unaudited). At September 30, 2007, the Company had \$564,188 and \$47,688 related to certain assets and liabilities, respectively, of the Home and Garden Business included in Assets held for sale and Liabilities held for sale, respectively, in its Condensed Consolidated Balance Sheets (Unaudited). (See Di