Spectrum Brands, Inc.
Form 10-Q
February 08, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended December 30, 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 001-34757

Spectrum Brands, Inc.
(Exact name of registrant as specified in its charter)

Delaware	22-2423556
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
601 Rayovac Drive Madison, Wisconsin	53711
(Address of principal executive offices)	(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 ý 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 ý 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	x	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 ý

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 ý No ¨

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
SPECTRUM BRANDS, INC.
Condensed Consolidated Statements of Financial Position
December 30, 2012 and September 30, 2012
(Unaudited)
(Amounts in thousands)

	December 30, 2012	September 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	$70,832	$157,872
Receivables:		
Trade accounts receivable, net of allowances of $24,154 and $21,870, respectively	481,235	335,301
Other	47,172	40,067
Inventories	679,150	452,633
Deferred income taxes	20,301	28,143
Prepaid expenses and other	164,497	49,273
Total current assets	1,463,187	1,063,289
Property, plant and equipment, net of accumulated depreciation of $151,266 and $139,994, respectively	320,065	214,017
Deferred charges and other	32,800	27,711
Goodwill	1,421,326	694,245
Intangible assets, net	2,207,970	1,714,929
Debt issuance costs	76,486	39,320
Total assets	$5,521,834	$3,753,511
Liabilities and Shareholders’ Equity		
Current liabilities:		
Current maturities of long-term debt	$29,190	$16,414
Accounts payable	407,369	325,023
Accrued liabilities:		
Wages and benefits	59,601	82,119
Income taxes payable	21,373	30,272
Accrued interest	21,068	30,473
Other	156,124	124,597
Total current liabilities	694,725	608,898
Long-term debt, net of current maturities	3,193,094	1,652,886
Employee benefit obligations, net of current portion	95,189	89,994
Deferred income taxes	487,428	377,465
Other	37,540	31,578
Total liabilities	4,507,976	2,760,821
Commitments and contingencies		
Shareholders’ equity:		
Other capital	1,367,437	1,359,946
Accumulated deficit	(369,978)	(333,821)
Accumulated other comprehensive loss	(30,468)	(33,435)
Total shareholders' equity	966,991	992,690

Non-controlling interest	46,867	—
Total equity	1,013,858	992,690
Total liabilities and equity	$5,521,834	$3,753,511

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

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SPECTRUM BRANDS, INC.
Condensed Consolidated Statements of Operations
For the three month periods ended December 30, 2012 and January 1, 2012
(Unaudited)
(Amounts in thousands)

	THREE MONTHS ENDED	
	December 30, 2012	January 1, 2012
Net sales	$870,268	$848,771
Cost of goods sold	581,026	560,140
Restructuring and related charges	1,086	4,605
Gross profit	288,156	284,026
Selling	128,761	131,759
General and administrative	56,046	50,430
Research and development	8,171	7,235
Acquisition and integration related charges	20,812	7,600
Restructuring and related charges	5,502	3,120
Total operating expenses	219,292	200,144
Operating income	68,864	83,882
Interest expense	63,780	41,209
Other expense, net	1,562	2,193
Income from continuing operations before income taxes	3,522	40,480
Income tax expense	10,613	27,310
Net (loss) income	(7,091)	13,170
Less: Net loss attributable to non-controlling interest	(518)	—
Net (loss) income attributable to controlling interest	$(6,573)	$13,170

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

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SPECTRUM BRANDS, INC.
Condensed Consolidated Statements of Comprehensive Income (Loss)
For the three month periods ended December 30, 2012 and January 1, 2012
(Unaudited)
(Amounts in thousands)

	THREE MONTHS ENDED	
	December 30, 2012	January 1, 2012
Net (loss) income	$(7,091)	$13,170
Other comprehensive income (loss), net of tax:		
Foreign currency translation	2,867	(14,929)
Unrealized gain on derivative instruments	246	2,121
Defined benefit pension (loss) gain	(146)	303
Other comprehensive income (loss), net of tax	2,967	(12,505)
Comprehensive (loss) income	(4,124)	665
Less: Comprehensive loss attributable to non-controlling interest	$(518)	$—
Comprehensive (loss) income attributable to controlling interest	$(3,606)	$665

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

SPECTRUM BRANDS, INC.
Condensed Consolidated Statements of Cash Flows
For the three month periods ended December 30, 2012 and January 1, 2012
(Unaudited)
(Amounts in thousands)

	THREE MONTHS ENDED	
	December 30, 2012	January 1, 2012
Cash flows from operating activities:		
Net (loss) income	$(7,091)	$13,170
Adjustments to reconcile net (loss) income to net cash used by operating activities, net of effects of acquisitions:		
Depreciation	10,625	9,248
Amortization of intangibles	17,124	14,628
Amortization of unearned restricted stock compensation	2,775	4,307
Amortization of debt issuance costs	1,816	1,686
Non-cash increase to cost of goods sold from sale of HHI Business acquisition inventory	5,247	—
Write off unamortized discount on retired debt	885	—
Write off debt issuance costs	4,600	—
Other non-cash adjustments	4,865	558
Net changes in assets and liabilities	(227,641)	(138,524)
Net cash used by operating activities	(186,795)	(94,927)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(9,325)	(8,851)
Acquisition of Shaser, net of cash acquired	(23,919)	—
Acquisition of the HHI Business, net of cash acquired	(1,271,956)	—
Acquisition of Black Flag	—	(43,750)
Acquisition of FURminator, net of cash acquired	—	(139,390)
Escrow payment - TLM Taiwan acquisition	(100,000)	—
Other investing activities	16	(100)
Net cash used by investing activities	(1,405,184)	(192,091)
Cash flows from financing activities:		
Proceeds from issuance of Term Loan	792,000	—
Proceeds from issuance of 6.375% Notes	520,000	—
Proceeds from issuance of 6.625% Notes	570,000	—
Proceeds from issuance of 9.5% Notes, including premium	—	217,000
Payment of senior credit facilities, excluding ABL revolving credit facility	(370,175)	(1,363)
Debt issuance costs	(43,590)	(4,020)
Other debt financing, net	7,431	1,361
Reduction of other debt	(1,013)	(25,809)
ABL revolving credit facility, net	32,000	11,400
Capital contribution from parent	28,562	—
Cash dividends paid to parent	(29,584)	—
Net cash provided by financing activities	1,505,631	198,569
Effect of exchange rate changes on cash and cash equivalents	(692)	1,627
Net decrease in cash and cash equivalents	(87,040)	(86,822)

Cash and cash equivalents, beginning of period	157,872	142,414
Cash and cash equivalents, end of period	$70,832	$55,592

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, Inc., is a wholly owned subsidiary of Spectrum Brands Holdings, Inc. ("SB Holdings"). SB Holdings' common stock trades on the New York Stock Exchange (the “NYSE”) under the symbol “SPB.” 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 United States ("U.S."), Europe, Latin America and Asia.

On December 17, 2012, the Company acquired the residential hardware and home improvement business (the “HHI Business”) from Stanley Black & Decker, Inc. (“Stanley Black & Decker”), which includes (i) the equity interests of certain subsidiaries of Stanley Black & Decker engaged in the business and (ii) certain assets of Stanley Black & Decker used or held for use in connection with the business (the “Hardware Acquisition”). The HHI Business has a broad portfolio of recognized brands names, including Kwikset, Weiser, Baldwin, National Hardware, Stanley, FANAL and Pfister, as well as patented technologies such as Smartkey, a rekeyable lockset technology, and Smart Code Home Connect. A portion of the Hardware Acquisition has not yet closed, consisting of the purchase of certain assets of Tong Lung Metal Industry Co. Ltd., a Taiwan Corporation ("TLM Taiwan”), which is involved in the production of residential locksets. For information pertaining to the Hardware Acquisition, see Note 14, “Acquisitions.”

The Company sells its products in approximately 140 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, Dingo, Nature's Miracle, Spectracide, Cutter, Hot Shot, Black & Decker, George Foreman, Russell Hobbs, Farberware, Black Flag, FURminator, the previously mentioned HHI Business brands 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; home and garden controls; and hardware and home improvement, which consists of the recently acquired HHI Business.

The Company manages the businesses in four 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 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”); (iii) Home and Garden Business, which consists of the Company's home and garden and insect control business (the “Home and Garden Business”); and (iv) Hardware & Home Improvement, which consists of the recently acquired HHI Business (“Hardware & Home Improvement”). Management reviews the performance of the Company based on these segments, which also reflect the manner in which the Company's management monitors performance and allocates resources. For information pertaining to our business segments, see Note 11, “Segment Results.”

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 Securities and Exchange Commission ("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, 2012, the results of operations for the three month periods ended December 30, 2012 and January 1, 2012, the comprehensive income (loss) for the three month periods ended December 30, 2012 and January 1, 2012 and the cash flows for the three month periods ended December 30, 2012 and January 1, 2012. 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, 2012.

Use of Estimates: The preparation of 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.

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. Excess of cost over fair value of net assets acquired (goodwill) and indefinite lived trade name intangibles are not amortized. 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. Goodwill is tested for impairment 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. Indefinite lived 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.

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 $49,996 and $50,319 for the three month periods ended December 30, 2012 and January 1, 2012, 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 21% and 24% of the Company's Net sales during the three month periods ended December 30, 2012 and January 1, 2012, respectively. This customer also represented approximately 8% and 13% of the Company's Trade accounts receivable, net at December 30, 2012 and September 30, 2012, respectively.

Approximately 50% and 49% of the Company's Net sales during the three month periods ended December 30, 2012 and January 1, 2012, respectively, occurred outside the U.S. 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.

Total stock compensation expense associated with restricted stock awards and restricted stock units recognized by the Company during the three month period ended December 30, 2012 was $2,775. Total stock compensation expense associated with restricted stock awards and restricted stock units recognized by the Company during the three month period ended January 1, 2012 was $4,307.

(Amounts in thousands, except per share figures)

The Company granted approximately 552 restricted stock units during the three month period ended December 30, 2012. Of these 552 grants, 90 are performance-based and vest over a one year period and 462 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 $24,748.

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 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. At December 30, 2012 and September 30, 2012, the Company had 13 restricted stock awards outstanding with a weighted average grant date fair value of $28.00 per share and a total fair value at grant date of $364. A summary of the status of the Company's non-vested restricted stock units as of December 30, 2012 is as follows:

Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value	Fair Value at Grant Date
Restricted stock units at September 30, 2012	1,931	$28.45	$54,931
Granted	552	44.83	24,748
Forfeited	(263)	28.85	(7,588)
Vested	(999)	28.23	(28,200)
Restricted stock units at December 30, 2012	1,221	$35.95	$43,891

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

The following table summarizes acquisition and integration related charges incurred by the Company during the three month periods ended December 30, 2012 and January 1, 2012:

	Three Months Ended	
	December 30, 2012	January 1, 2012
Russell Hobbs		
Integration costs	$1,054	$2,408
Employee termination charges	108	612
Legal and professional fees	79	609