Spectrum Brands, Inc.
Form 8-K
May 24, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

Current Report

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

May 24, 2010 (May 24, 2010)

Date of Report (Date of earliest event reported)

SPECTRUM BRANDS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**001-13615**	**22-2423556**
(State or Other Jurisdiction of Incorporation)	**(Commission File Number)**	**(IRS 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)

Six Concourse Parkway, Suite 3300

Atlanta, Georgia 30328

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

x Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events.

As previously announced, Spectrum Brands, Inc., a Delaware corporation (Spectrum), entered into an Agreement and Plan of Merger, dated as of February 9, 2010, by and among Spectrum Brands Holdings, Inc. (SB Holdings), Battery Merger Corp., Grill Merger Corp., Spectrum and Russell Hobbs, Inc. (Russell Hobbs), as amended from time to time.

As presented below, Spectrum has released certain unaudited pro forma financial information for the combined entity for the year ended September 30, 2009 and for the twelve month period ended April 4, 2010. The following unaudited pro forma condensed combined financial information for the year ended September 30, 2009 and for the twelve month period ended April 4, 2010, the date of the latest publicly available financial information for Spectrum, gives effect to the acquisitions of Spectrum and Russell Hobbs by SB Holdings (collectively, the Mergers, and together with the transactions related to the Mergers, the Transactions).

The following unaudited pro forma condensed combined financial information as of April 4, 2010 is presented on a basis to reflect the Transactions as if they had occurred on April 4, 2010. The following unaudited pro forma condensed combined financial information for the twelve month period ended April 4, 2010 and for the year ended September 30, 2009 is presented on a basis to reflect the Transactions as if they had occurred on October 1, 2008. Because of different fiscal year ends, and in order to present results for comparable periods, the unaudited pro forma condensed combined financial information for the twelve month period ended April 4, 2010 combines Spectrum s historical consolidated statement of operations for the twelve months ended April 4, 2010 with Russell Hobbs historical consolidated statement of operations for the twelve months ended March 31, 2010. The unaudited pro forma condensed combined statement of operations for the fiscal year ended September 30, 2009 combines Spectrum s historical audited consolidated statement of operations for the fiscal year then ended with Russell Hobbs historical audited consolidated statement of operations for the fiscal year ended June 30, 2009. SB Holdings fiscal year ends September 30, the same date as Spectrum s fiscal year end. Pro forma adjustments are made in order to reflect the potential effect of the Transactions on the unaudited pro forma condensed combined financial information.

Spectrum intends to release full unaudited pro forma condensed combined financial statements as soon as such information becomes available.

The pro forma adjustments are based upon available information and assumptions that the managements of Spectrum and Russell Hobbs believe reasonably reflect the Transactions. The unaudited pro forma condensed combined financial information is provided for illustrative purposes only and does not purport to represent what the actual consolidated results of operations or the consolidated financial position of SB Holdings would have been had the Transactions occurred on the dates assumed, nor is it necessarily indicative of future consolidated results of operations or the financial position of SB Holdings.

Pro forma combined operations ($ in millions)

	As of and for the Fiscal Year Ended September 30, 2009	As of and for the Twelve Months Ended April 4, 2010
Income Statement		
Net sales	$ 3,027	$ 3,088
Gross profit	1,036	1,078
% of sales	34.2%	34.9%
Adjusted EBITDA	390	446
% of sales	12.9%	14.4%
Capital expenditures	17	21
% of sales	0.6%	0.7%

Pro forma liquidity ($ in millions)

	Spectrum Standalone (4/4/10)	Pro Forma Liquidity (4/4/10)
Cash	$ 55	$ 83
Revolver availability	92	166(1)
Total liquidity	**$ 147**	**$ 249**

(1) Assumes $266.5 million borrowing base available, less $8.5 million of reserves, approximately $40.0 million in letters of credit and $52 million drawn on facility.

Pro forma capitalization ($ in millions)

	Current Capitalization			
	Spectrum April 4, 2010	Russell Hobbs March 31, 2010	Transaction Adjustment	Pro forma capitalization April 4, 2010
Cash and cash equivalents	$ 55	$ 28	$	$ 83
Pro forma capitalization				
New ABL Facility maturing 2014			52	52
New Term Loan Facility maturing 2017			1,000	1,000
Notes offered hereby due 2018			500	500
Capital Leases and Other	32	11		43
12% Senior Subordinated Notes due 2019(1)	231			231
Spectrum debt being refinanced				
ABL Revolving Credit Facility	72		(72)	
Term Loan B	1,310		(1,310)	
Supplemental Loan	45		(45)	
Russell Hobbs debt being refinanced				
North American ABL Facility		13	(13)	
Harbinger Term Loan(2)		157	(157)	
Total debt	**$ 1,690**	**$ 181**	**$ (45)**	**$ 1,826**
Equity Value ($24.58/share)(3)				$ 1,276
Total enterprise value				**$ 3,019**
Metrics				
LTM* Adjusted EBITDA (before synergies)(4)	$ 350	$ 96		$ 446
Secured debt / LTM Adjusted EBITDA	4.2x	1.9x		3.6x
Total debt / LTM Adjusted EBITDA	4.8x	1.9x		4.1x
LTM Adjusted EBITDA / cash interest expense	2.6x			4.0x

* Last twelve months

(1) Payment-in-kind at Spectrum s option through the semi-annual interest period ended February 2011.

(2) Term loan held by Harbinger Capital Partners Master Fund I, Ltd. and Harbinger Capital Partners Special Situations Fund, L.P. (collectively, Harbinger) will be equitized as part of the Transactions.

(3) Spectrum 5/20/10 share price ($24.58) multiplied by 51.9 million pro forma shares outstanding after the Mergers.

(4) Assumes no synergies. Management expects $25-30 million synergies to be realized in the next 36 months.

Sources			Uses		
	(In millions)			(In millions)	
New ABL Facility ($300 million capacity)	$	52	Spectrum ABL Revolving Credit Facility	$	72
New Sr. Secured Term Loan		1,000	Spectrum Term Loan B.		1,310
New Sr. Secured Notes		500	Spectrum Supplemental Loan.		45
			Russell Hobbs North American ABL Facility.		13
			Accrued interest.		18
			Transaction fees and expenses.		94
Total Cash Sources	**$**	**1,552**	**Total Cash Uses**	**$**	**1,552**

Pro forma adjusted free cash flow ($ in millions)

	Pro forma LTM 4/4/10(1)	
Spectrum adjusted EBITDA	$	350
Russell Hobbs adjusted EBITDA		96
Synergies (2)		28
Pro forma adjusted EBITDA	$	474
Pro forma capital expenditures		(40)
Pro forma cash interest expense		(110)
Pro forma cash taxes (3)		(50)
Free cash flow	**$**	**274**
Free cash flow as a % of adjusted EBITDA		**58%**

(1) Excludes restructuring, working capital changes, non-recurring and other items.
(2) Midpoint of $25-30 million in estimated synergies per management public guidance expected to be realized over the next 24-36 months.
(3) Spectrum has large U.S. net operating losses expected to offset any U.S. federal tax exposure for the next five years.

RECONCILIATION OF NON-GAAP FINANCIAL MEASUREMENTS

Management believes that certain non-GAAP financial measures may be useful in certain instances to provide additional meaningful comparisons between current results and results in prior operating periods. Excluding the impact of current exchange rate fluctuations may provide additional meaningful reflection of underlying business trends. In addition, reference is made to adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) and free cash flow.

Adjusted EBITDA is a metric used by management and frequently used by the financial community which provides insight into an organization s operating trends and facilitates comparisons between peer companies, because interest, taxes, depreciation and amortization can differ greatly between organizations as a result of differing capital structures and tax strategies. Adjusted EBITDA can also be a useful measure of a company s ability to service debt and is one of the measures used for determining debt covenant compliance. Adjusted EBITDA excludes certain items that are unusual in nature or not comparable from period to period.

In addition, management uses adjusted diluted earnings per share as one means of analyzing current and future financial performance and identifying trends in financial condition and results of operations. Management believes that adjusted diluted earnings per share is a useful measure for providing further insight into operating performance because it eliminates the effects of certain items that are not comparable from one period to the next.

Also, management believes that free cash flow is useful to both management and investors in their analysis of the company s ability to service and repay its debt and meet its working capital requirements. Free cash flow should not be considered in isolation or as a substitute for pretax income (loss), net income (loss), cash provided by (used in) operating activities or other statement of operations or cash flow statement data prepared in accordance with GAAP or as a measure of profitability or liquidity. In addition, the calculation of free cash flow does not reflect cash used to service debt and therefore, does not reflect funds available for investment or discretionary uses.

Spectrum and Russell Hobbs provide this information to investors to assist in comparisons of past, present and future operating results and to assist in highlighting the results of ongoing operations. While management believes that non-GAAP measurements are useful supplemental information, such adjusted results are not intended to replace GAAP financial results and should be read in conjunction with those GAAP results.

Spectrum EBITDA reconciliation ($ in millions)

	Fiscal Year Ended September 30,			**Twelve Months Ended April 4, 2010**
	2007	**2008**	**2009**	
Net (loss) income, net of tax	$ (597)	$ (932)	$ 943	$ 1,016
Income tax expense (benefit)	56	(10)	74	82
Interest expense	256	229	190	188
Reorganization items, net			(1,139)	(1,135)
Goodwill and intangible impairment	363	861	34	34
Depreciation and amortization	77	85	67	87
EBITDA	155	234	170	273
Inventory write-up(1)	$	$	$ 16	$ 51
Loss from discontinued operations, net of tax	34	26	86	7
Restructuring and related charges	98	39	46	20
Restricted stock / restructuring (2)	(10)		(4)	(2)
Brazilian IPI credit(3)	(9)	(12)	(6)	(1)
Transaction costs and other	4	9	2	2
Adjusted EBITDA	$ 272	$ 297	$ 310	$ 350

(1) Reflects write-up of inventory as part of fresh-start accounting to reflect current prices.

(2) Reflects restricted stock amortization and accelerated depreciation which is associated with and included in restructuring and related charges.

(3) Reflects reversal of accruals for excise tax changes in Brazil. No adjustments beyond Q1 FY 2010.

Russell Hobbs EBITDA reconciliation ($ in millions)

	Fiscal Year Ended June 30, 2008	Fiscal Year Ended June 30, 2009	Twelve Months Ended March 31, 2010
Operating income	$ 12	$ 63	$ 70
Depreciation and amortization	11	14	14
EBITDA	23	77	84
Integration and transition costs (1)	$ 18	$	$
Littermaid patent infringement and other litigation (2)	8	3	3
Merger and transaction related costs (3)	6	1	3
Inventory close-outs discontinued items (4)	4	4	3
Higher cost inventory (commodities and fuel) (5)	8	14	7
Employee termination benefits	1	1	
Argentina Miscellaneous income		(1)	(1)
Purchase accounting reversal		(4)	(4)
Latin American discontinued operations transitioned to distributors	1		
Water products segment losses		2	1
Global insurance platform(6)	4		
Adjusted EBITDA	$ 73	$ 97	$ 96

(1) Integration and transition expenses relate to the integration of Salton, Inc. and Applica Incorporated. Composed primarily of severance, professional and consulting fees and salaries paid to ex-employees.

(2) Legal expenses incurred in connection with (i) the Littermaid patent infringement and (ii) the defense of the outstanding litigation matter with NACCO Industries, Inc.

(3) For 2008, relates primarily to costs of a contemplated acquisition and the going private transaction by Harbinger; for the LTM period ended 3/31/10, relates primarily to costs incurred for the merger with Spectrum.