Spectrum Brands, Inc.
Form 10-Q
May 08, 2008
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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 March 30, 2008

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)

Wisconsin	**22-2423556**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
Six Concourse Parkway,	
Suite 3300, Atlanta, Georgia	**30328**
(Address of principal executive offices)	**(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 x 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 x
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 x

The number of shares outstanding of the Registrant s common stock, $.01 par value, as of May 5, 2008, was 52,767,673.

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SPECTRUM BRANDS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR QUARTER ENDED March 30, 2008

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SPECTRUM BRANDS, INC.

Condensed Consolidated Balance Sheets

March 30, 2008 and September 30, 2007

(Unaudited)

(Amounts in thousands, except per share figures)

	March 30, 2008	September 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 81,454	$ 69,853
Receivables:		
Trade accounts receivable, net of allowances of $17,878 and $17,196, respectively	365,045	352,877
Other	36,894	47,522
Inventories	468,198	396,329
Deferred income taxes	14,860	22,208
Assets held for sale	8,942	33,646
Prepaid expenses and other	56,370	53,966
Total current assets	1,031,763	976,401
Property, plant and equipment, net	275,444	281,568
Deferred charges and other	47,602	40,740
Goodwill	861,390	820,727
Intangible assets, net	1,056,223	1,047,044
Debt issuance costs	40,770	44,906
Total assets	$ 3,313,192	$ 3,211,386
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Current maturities of long-term debt	$ 58,378	$ 43,438
Accounts payable	288,417	279,548
Accrued liabilities:		
Wages and benefits	58,814	67,492
Income taxes payable	15,977	18,345
Restructuring and related charges	43,065	55,793
Accrued interest	51,336	51,122
Liabilities held for sale		8,475
Other	81,254	81,943
Total current liabilities	597,241	606,156
Long-term debt, net of current maturities	2,584,975	2,416,916
Employee benefit obligations, net of current portion	60,295	54,469
Deferred income taxes	232,600	169,088
Other	70,998	68,585
Total liabilities	3,546,109	3,315,214
Commitments and contingencies		
Shareholders deficit:		
	692	690

Common stock, $.01 par value, authorized 150,000 shares; issued 69,250 and 69,062 shares, respectively; outstanding 52,779 and 52,765 shares, respectively				
Additional paid-in capital		672,562		669,274
Accumulated deficit		(918,486)		(763,370)
Accumulated other comprehensive income		89,091		65,664
		(156,141)		(27,742)
Less treasury stock, at cost, 16,327 and 16,297 shares, respectively		(76,776)		(76,086)
Total shareholders deficit		(232,917)		(103,828)
Total liabilities and shareholders deficit	$	3,313,192	$	3,211,386

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 and six month periods ended March 30, 2008 and April 1, 2007

(Unaudited)

(Amounts in thousands, except per share figures)

	THREE MONTHS		SIX MONTHS	
	2008	2007	2008	2007
Net sales	$ 647,142	$ 634,465	$ 1,251,826	$ 1,245,551
Cost of goods sold	412,348	403,985	799,229	790,845
Restructuring and related charges	195	6,664	316	12,615
Gross profit	234,599	223,816	452,281	442,091
Selling	139,102	139,520	275,403	288,403
General and administrative	59,233	48,401	98,479	87,717
Research and development	6,199	7,154	11,998	14,541
Goodwill and intangibles impairment	13,200	214,039	13,200	214,039
Restructuring and related charges	5,175	11,175	10,067	14,783
Total operating expenses	222,909	420,289	409,147	619,483
Operating income (loss)	11,690	(196,473)	43,134	(177,392)
Interest expense	58,221	85,215	115,393	132,099
Other (income) expense, net	(1,054)	2,303	(1,163)	3,254
Loss from continuing operations before income taxes	(45,477)	(283,991)	(71,096)	(312,745)
Income tax expense (benefit)	66,329	(45,886)	82,774	(57,070)
Loss from continuing operations	(111,806)	(238,105)	(153,870)	(255,675)
Income (loss) from discontinued operations, net of tax	93	590	(1,245)	(650)
Net loss	$ (111,713)	$ (237,515)	$ (155,115)	$ (256,325)
Basic earnings per share:				
Weighted average shares of common stock outstanding	50,897	49,811	50,937	49,828
Loss from continuing operations	$ (2.19)	$ (4.78)	$ (3.02)	$ (5.13)
Income (loss) from discontinued operations		0.01	(0.03)	(0.01)
Net loss	$ (2.19)	$ (4.77)	$ (3.05)	$ (5.14)
Diluted earnings per share:				
Weighted average shares and equivalents outstanding	50,897	49,811	50,937	49,828
Loss from continuing operations	$ (2.19)	$ (4.78)	$ (3.02)	$ (5.13)
Income (loss) from discontinued operations		0.01	(0.03)	(0.01)
Net loss	$ (2.19)	$ (4.77)	$ (3.05)	$ (5.14)

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 Cash Flows

For the six month periods ended March 30, 2008 and April 1, 2007

(Unaudited)

(Amounts in thousands)

	SIX MONTHS	
	2008	**2007**
Cash flows from operating activities:		
Net loss	$ (155,115)	$ (256,325)
Loss from discontinued operations	(1,245)	(650)
Loss from continuing operations	(153,870)	(255,675)
Non-cash adjustments to loss from continuing operations:		
Depreciation	29,188	21,087
Amortization	22,494	15,386
Amortization of debt issuance costs	4,288	3,822
Impairment of goodwill and intangibles	13,200	214,039
Other non-cash adjustments	84,652	(20,428)
Net changes in assets and liabilities, net of discontinued operations	(136,347)	(180,232)
Net cash used by operating activities of continuing operations	(136,395)	(202,001)
Net cash used by operating activities of discontinued operations	(296)	(13,001)
Net cash used by operating activities	(136,691)	(215,002)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(10,122)	(14,689)
Proceeds from sale of equipment	126	231
Net cash used by investing activities of continuing operations	(9,996)	(14,458)
Net cash provided by investing activities of discontinued operations	15,076	
Net cash provided (used) by investing activities	5,080	(14,458)
Cash flows from financing activities:		
Reduction of debt	(146,201)	(1,715,780)
Proceeds from debt financing	285,000	2,076,623
Debt issuance costs	(152)	(40,969)
Treasury stock purchases	(690)	(665)
Net cash provided by financing activities	137,957	319,209
Effect of exchange rate changes on cash and cash equivalents	5,255	62
Net increase in cash and cash equivalents	11,601	89,811
Cash and cash equivalents, beginning of period	69,853	28,430
Cash and cash equivalents, end of period	$ 81,454	$ 118,241

See accompanying notes which are an integral part of these condensed consolidated financial statements

(Unaudited).

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SPECTRUM BRANDS, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

(Amounts in thousands, except per share figures)

1 DESCRIPTION OF BUSINESS

Spectrum Brands, Inc. and its subsidiaries (the Company) is a global branded consumer products company with 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.

The Company manages 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) Home and Garden Business, which consists of the Company s lawn and garden and household insect control businesses (the Home and Garden Business).

The Company s 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 operations also include the manufacturing and marketing of specialty pet supplies. The Company also manufactures and markets lawn fertilizers, herbicides, insecticides and repellents in North America. The Company s operations utilize manufacturing and product development facilities located in the United States, Europe, China and Latin 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, Spectracide, Cutter and various other brands.

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 Home and Garden Business, which at the time was comprised of United States (U.S.) and Canadian divisions. As a result, the Company designated certain assets and liabilities related to the Home and Garden Business as held for sale and designated the Home and Garden Business as discontinued operations. On November 1, 2007, the Company sold the Canadian division of the Home and Garden Business. See Note 2, Significant Accounting Policies Discontinued Operations and Assets Held for Sale for further details on the sale of the Canadian division of the Home and Garden Business.

During the second quarter of the Company s fiscal year ending September 30, 2008 the Company determined that in view of the difficulty in predicting the timing or probability of a sale of the Home and Garden Business, the requirements of Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), necessary to classify the Home and Garden Business as discontinued operations were no longer met. As a result, effective December 31, 2007, the Company reclassified the Home and Garden Business, which had been designated as a discontinued operation since October 1, 2006, as an asset held and used. Accordingly, the presentation herein of the results of continuing operations includes the Home and Garden Business, without the Canadian division which, as indicated above, was sold on November 1, 2007, for all periods presented.

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SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

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 March 30, 2008, the results of operations for the three and six month periods ended March 30, 2008 and April 1, 2007, and cash flows for the six month periods ended March 30, 2008 and April 1, 2007. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to such SEC rules and regulations. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 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: 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 $1,087, net of tax benefit.

The following amounts related to the Canadian division of the Home and Garden Business have been segregated from continuing operations and are reflected as discontinued operations for the three and six months ended March 30, 2008 and April 1, 2007, respectively:

	Three Months		Six Months	
	2008[(A)]	**2007[(B)]**	**2008[(A)]**	**2007[(B)]**
Net sales	$	$ 25,495	$ 4,732	$ 34,609
Income (loss) from discontinued operations before income taxes	$ 93	$ 890	$ (1,896)	$ (1,049)
Provision for income tax expense (benefit)		300	(651)	(399)
Income (loss) from discontinued operations, net of tax	$ 93	$ 590	$ (1,245)	$ (650)

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

(A) The three month period ended March 30, 2008 represents the adjustment of certain liabilities, primarily professional fees related to the sale of the Canadian division of the Home and Garden Business. The six month period ended March 30, 2008 represents results from discontinued operations from October 1, 2007 through November 1, 2008, the date of sale. Included in the loss for the six month period is a loss on disposal of $1,087, net of tax benefit.

(B) The three month period ended April 1, 2007 represents results from discontinued operations from January 1, 2007 through April 1, 2007. The six month period ended April 1, 2007 represents results for the discontinued operations for October 1, 2006 through April 1, 2007.

Assets Held for Sale: At March 30, 2008 assets totaling $8,942, which consists primarily of a distribution facility in the Dominican Republic and manufacturing facilities in France and Brazil, were included in Assets held for sale in the Condensed Consolidated Balance Sheets (Unaudited). At September 30, 2007, the Company had assets and liabilities of $24,975 and $8,475, respectively, related to the Canadian division of the Home and Garden Business included in Assets held for sale and liabilities held for sale in its Condensed Consolidated Balance Sheets (Unaudited). See Discontinued Operations in this Note 2 above for additional information. The remaining balance in Assets held for sale in the Condensed Consolidated Balance Sheets (Unaudited) as of September 30, 2007, consists primarily of a distribution facility in the Dominican Republic and manufacturing facilities in France and Brazil.

Intangible Assets: Intangible assets are recorded at cost or at fair value if acquired in a purchase business combination. Customer lists and proprietary technology intangibles are amortized, using the straight-line method, over their estimated useful lives of approximately 5 to 19 years. Excess of cost over fair value of net assets acquired (goodwill) and indefinite-lived intangible assets (certain trade name intangibles) are not amortized. Goodwill is tested for impairment at least annually at the reporting unit level. If an impairment is indicated, a writedown 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, determined using a relief from royalty methodology, with the carrying value. Any excess of carrying value over fair value is recognized as an impairment loss in income from operations.

SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142) 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. The fair values of the Company s goodwill and trade name intangibles were tested as of December 31, 2007 and April 1, 2007. Goodwill and trade name intangibles were tested as of December 31, 2007 in conjunction with the Company s reclassification of the Home and Garden Business from an asset held for sale to an asset held and used coupled with a change in circumstances which indicated that the carrying value of certain of the Company s reporting units may not be recoverable. Goodwill and trade name intangibles were tested as of April 1, 2007 in conjunction with the Company s realignment of reportable segments.

In accordance with SFAS 142, the Company conducted impairment testing on the Company s goodwill. The Company used the discounted estimated future cash flows methodology to determine the fair value of its reporting units. Assumptions critical to the Company s fair value estimates were: (i) the present value factors used in determining the fair value of the reporting units and trade names; (ii) royalty rates used in the Company s trade name valuations; (iii) projected average revenue growth rates used in the reporting unit and trade name models; and (iv) projected long-term growth rates used in the derivation of terminal year values. These and other assumptions are impacted by economic conditions and expectations of management and will change in the future based on period specific facts and circumstances. The Company also tested fair value for reasonableness by

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

comparison to the market capitalization of the Company. The Company first compared the fair value of its reporting units with their carrying amounts, including goodwill. As a result of the testing performed as of December 31, 2007 this first step indicated that the fair value of the Company s reporting units were in excess of their carrying amounts and, accordingly, no further testing of goodwill was required. As a result of the testing performed as of April 1, 2007 this first step indicated that the fair value of the Company s North America reporting unit, which is included in the Global Batteries & Personal Care reportable segment, was less than the Company s North America reporting unit s carrying amount and, accordingly, further testing of goodwill was required to determine the impairment charge required by SFAS 142. Accordingly, the Company then compared the carrying amount of the North America reporting unit s goodwill against the respective implied fair value of goodwill. The carrying amount of the North America reporting unit s goodwill was determined to exceed its implied fair value and, therefore, the Company recorded an impairment charge equal to the excess of the carrying amount of the reporting unit s goodwill over the implied fair value of such goodwill. As a result of this goodwill impairment analysis, the Company recorded a non-cash pretax goodwill impairment charge of approximately $214,039 during the three months ended April 1, 2007. This impairment of goodwill is primarily attributed to lower forecasted profits of the North America reporting unit, reflecting more conservative future growth rates, coupled with an increase in its carrying value during the six month period ended April 1, 2007.

The recognition of the $214,039 non-cash impairment of goodwill for the three months ended April 1, 2007, recorded as a separate component of Operating expenses, has had a material negative effect on the Company s financial condition and results of operations for the three and six month periods ended April 1, 2007. The impairment will not result in future cash expenditures.

In addition, in accordance with SFAS 142, as of December 31, 2007 and April 1, 2007 the Company also compared the carrying amount of indefinite-lived trade name intangible assets with their respective implied fair value. Fair value was determined using a relief from royalty methodology. Assumptions critical to the Company s fair value estimates were: (i) royalty rates; and (ii) projected average revenue growth rates. As a result, the Company concluded that as of December 31, 2007 the implied fair values of certain trade name intangible assets related to the Home and Garden Business were less that the carrying amounts of those assets. Accordingly, the Company recorded a non-cash pretax impairment charge of $13,200, equal to the excess of the carrying amounts of these intangible assets over the implied fair value of such assets. This impairment of indefinite-lived intangible assets, which related to the Home and Garden Business, is primarily attributed to lower forecasted sales of products sold under the respective impaired trade name. As a result of the testing performed as of April 1, 2007 the Company concluded that the fair values of its trade name intangible assets were in excess of their respective carrying amounts and, hence, such assets were not impaired.

The recognition of the $13,200 non-cash impairment of indefinite-lived intangible assets for the three months ended March 30, 2008, recorded as a separate component of Operating expenses, has had a material negative effect on the Company s financial condition and results of operations for the three and six month periods ended March 30, 2008. The impairment will not result in future cash expenditures.

The Company s 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. Subsequent to March 30, 2008 there have been significant cost increases in certain raw materials used in the production of many of the lawn fertilizer and growing media products manufactured by the Company s Home and Garden Business, namely urea, diammonium phosphate and potash. If the cost of these commodities were to remain at, or increase from, their current levels and the Company was unable to offset or temper a significant portion of such higher costs by securing higher selling prices,

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

implementing cost reduction programs, or a combination of both, the cash flows of the Home and Garden Business could be negatively impacted which could result in a future impairment of goodwill related to that reporting unit.

Shipping and Handling Costs: The Company incurred shipping and handling costs of $57,542 and $106,706 for the three and six month periods ended March 30, 2008, respectively, and $58,502 and $104,917 for the three and six month periods ended April 1, 2007, respectively. These costs are included in Selling expenses. 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 principally on the basis of past collection experience applied to ongoing evaluations of the Company s receivables 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 17% and 18% of the Company s Net sales during the three and six month periods ended March 30, 2008, respectively, and 20% of the Company s Net sales during both the three and six month periods ended April 1, 2007. This major customer also represented approximately 16% and 11% of the Company s trade accounts receivable, net as of March 30, 2008 and September 30, 2007, respectively.

Approximately 39% and 46% of the Company s Net sales during the three and six month periods ended March 30, 2008, respectively, and 40% and 45% of the Company s Net sales during the three and six month periods ended April 1, 2007, respectively, occurred outside the United States. 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 uses or has used two forms of stock based compensation. Shares of restricted stock have been awarded to certain employees and members of management since the fiscal year ended September 30, 2001. Prior to the fourth quarter of the fiscal year ended September 30, 2004, the Company also issued stock options to employees, some of which remained unvested as of October 1, 2005, the date the Company adopted SFAS No. 123(R), *Share Based Payment* (SFAS 123(R)). Restricted stock is now the only form of stock based compensation used by the Company.

SFAS 123(R) requires the Company to recognize expense related to the fair value of its employee stock option awards. Total stock compensation expense associated with both stock options and restricted stock awards recognized by the Company during the three and six month periods ended March 30, 2008, was $1,388, or $861, net of taxes, and $3,249, or $2,014, net of taxes, respectively, and during the three and six month periods ended April 1, 2007 was $4,818 and $8,626, or $3,228 and $5,779, net of taxes, respectively. The amounts before tax are included in General and administrative expenses in the Condensed Consolidated Statements of Operations (Unaudited). The Company expects that total stock compensation expense for 2008 will be approximately $6,555 before the effect of income taxes. As of March 30, 2008, there was $10,405 of unrecognized compensation cost related to restricted stock that is expected to be recognized over a weighted average period of approximately 3 years.

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SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

Stock options previously awarded generally vest under a combination of time-based and performance-based vesting criteria. Under the time-based vesting, the stock options become exercisable primarily in equal increments over a three year period, while under the performance-based vesting such options become exercisable over the same time period if certain performance criteria are met or one day prior to the end of the exercise period, if certain performance criteria are not met. The period during which such options, if vested, may be exercised generally extends ten years from the date of grant.

Restricted stock shares granted through the fiscal year ended September 30, 2006 generally have vesting periods of three to five years. Approximately 50% of the restricted stock shares are purely time-based and vest on a pro rata basis over either a three or four year vesting period and approximately 50% are time-based and performance-based. Vesting of such performance based restricted stock will occur upon achievement of certain performance goals established by the Board of Directors of the Company. Generally, performance targets consist of Earnings Per Share (EPS), segment Earnings Before Interest and Taxes (EBIT) and cash flow components. If such performance targets are not met, the performance component of a restricted stock award will not vest in the year that the performance targets applied to and instead will automatically vest one year after the originally scheduled vesting date, effectively making the award time-based. The Company recognizes amortization on the time-based component on a straight-line basis over the vesting period. The Company recognizes amortization on the performance-based component over the vesting period, assuming performance targets will not be met, unless and until it is probable that the performance targets will be met. At the point in time when it is probable that the performance target will be met, the recognition period is shortened one year to account for the accelerated vesting requirement of the performance-based component. All vesting dates are subject to the recipient s continued employment with the Company, except as otherwise permitted by the Company s Board of Directors or if the employee is terminated without cause.

Restricted stock shares granted in Fiscal 2007 generally have vesting periods which can range from one to five years. Approximately 89% of the shares granted are purely performance based and vest only upon the achievement of certain performance goals. Such performance goals consist of reportable segment and consolidated company Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) and cash flow components, each as defined by the Company for purposes of such awards. The remaining shares granted in Fiscal 2007 are time based, which vest either 100% after three years or on a pro rata basis over three years. All vesting dates are subject to the recipient s continued employment with the Company, except as otherwise permitted by the Company s Board of Directors or if the employee is terminated without cause.

During the six month period ended March 30, 2008, the Company granted approximately 308 shares of restricted stock. Of these grants, 58 shares are time based and vest on a pro rata basis over a three year period and 250 are purely performance based and vest only upon achievement of certain performance goals which consist of reportable segment and consolidated company EBITDA and cash flow components, each as defined by the Company for purposes of such awards. All vesting dates are subject to the recipient s continued employment with the Company, except as otherwise permitted by the Company s Board of Directors or if the employee is terminated without cause.

The Company currently has one active incentive plan under which additional shares may be issued to employees as equity compensation. In 2004, the Company s Board of Directors (the Board) adopted the 2004 Rayovac Incentive Plan (2004 Plan). Up to 3,500 shares of common stock, net of forfeitures and cancellations, may be issued under the 2004 Plan, which expires in July 2014. As of March 30, 2008, 2,574 restricted shares had been granted, net of forfeitures and shares surrendered by employees for payment of taxes on such awards, and 1,356 restricted shares were outstanding under the 2004 Plan. No options have been granted under the 2004 Plan.

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(Amounts in thousands, except per share figures)

The Company also has two expired plans under which there remain equity based awards outstanding; the 1997 Rayovac Incentive Plan (1997 Plan), which expired on August 31, 2007, and the 1996 Rayovac Corporation Stock Option Plan (1996 Plan), which expired on September 12, 2006. As of March 30, 2008 there were options with respect to 1,152 shares of common stock and 526 restricted shares outstanding under the 1997 Plan, and options with respect to 180 shares of common stock outstanding under the 1996 Plan. The fair value of restricted stock is determined based on the market price per share of the Company s common stock on the grant date. A summary of the status of the Company s non-vested restricted stock as of March 30, 2008 is as follows:

Restricted Stock	Shares	Weighted Average Grant Date Fair Value	Fair Value
Restricted stock at September 30, 2007	2,265	$ 15.56	$ 35,242
Granted	308	5.73	1,765
Vested	(514)	19.00	(9,769)
Forfeited	(177)	30.26	(5,356)
Restricted stock at March 30, 2008	1,882	$ 11.63	$ 21,882

The following table summarizes the stock option transactions for the six month period ended March 30, 2008:

	Options	Weighted-Average Exercise Price
Outstanding at September 30, 2007	1,510	$ 15.82
Forfeited	(178)	17.45
Outstanding, at March 30, 2008	1,332	$ 15.58
Options exercisable at March 30, 2008	1,232	$ 15.72

The following table summarizes information about options outstanding and options outstanding and exercisable as of March 30, 2008:

	Options Outstanding			Options Outstanding and Exercisable	
Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
$11.32 $14.60	996	4.10 years	$ 13.49	902	$ 13.53
$16.19 $21.50	92	0.69	19.36	90	19.33
$21.63 $28.70	244	1.09	22.67	240	22.60

1,332	3.31	$	15.58	1,232	$	15.72

Derivative Financial Instruments: Derivative financial instruments are used by the Company principally in the management of its interest rate, foreign currency and raw material price exposures. The Company does not hold or issue derivative financial instruments for trading purposes. When entered into, the Company formally designates the financial instrument as a hedge of a specific underlying exposure if specific criteria are met, and documents both the risk management objectives and strategies for undertaking the hedge. The Company formally

SPECTRUM BRANDS, INC.

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

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assesses, both at inception and at least quarterly thereafter, whether the financial instruments that are used in hedging transactions are effective at offsetting changes in either the fair value or cash flows of the related underlying exposure. Because of the high degree of effectiveness between the hedging instrument and the underlying exposure being hedged, fluctuations in the value of the derivative instruments are generally offset by changes in the fair values or cash flows of the underlying exposures being hedged. Any ineffective portion of a financial instrument s change in fair value is immediately recognized in earnings.

The Company uses interest rate swaps to manage its interest rate risk. The swaps are designated as cash flow hedges with the changes in fair value recorded in Accumulated Other Comprehensive Income (AOCI) and as a derivative hedge asset or liability, as applicable. The swaps settle periodically in arrears with the related amounts for the current settlement period payable to, or receivable from, the counter-parties included in accrued liabilities or receivables, respectively, and recognized in earnings as an adjustment to Interest expense from the underlying debt to which the swap is designated. During the three month periods ended March 30, 2008 and April 1, 2007, $662 and $1,940 of pretax derivative gains, respectively, from such hedges were recorded as an adjustment to Interest expense. During the three month periods ended March 30, 2008 and April 1, 2007, no adjustments were recorded to Interest expense for ineffectiveness from such hedges as such amounts were de minimis. During the six month periods ended March 30, 2008 and April 1, 2007, $2,264 and $3,745 of pretax derivative gains, respectively, from such hedges were recorded as an adjustment to Interest expense. During the six month periods ended March 30, 2008 and April 1, 2007, no adjustments were recorded to Interest expense for ineffectiveness from such hedges as such amounts were de minimis. At March 30, 2008, the Company had a portfolio of USD-denominated interest rate swaps outstanding which effectively fixes the interest rates on floating rate debt, exclusive of lender spreads, at rates as follows: 4.46% for a notional principal amount of $170,000 through October 2008 and 5.49% for a notional principal amount of $225,000 through March 2010 and 3.01% for a notional principal amount of $80,000 through April 2010. In addition, the Company had a portfolio of EUR-denominated interest rate swaps outstanding which effectively fixes the interest rates on floating rate debt, exclusive of lender spreads, at rates as follows: 2.68% for a notional principal amount of 185,000 through September 2008. The derivative net loss on these contracts recorded in AOCI at March 30, 2008 was $8,255, net of tax benefit of $5,060. The derivative net gain on these contracts recorded in AOCI at September 30, 2007 was $163, net of tax expense of $100. At March 30, 2008, the portion of derivative net losses estimated to be reclassified from AOCI into earnings over the next 12 months was $5,350, net of tax benefit.

The Company periodically enters into forward foreign exchange contracts to hedge the risk from forecasted foreign denominated third-party and inter-company sales or payments. These obligations generally require the Company to exchange foreign currencies for U.S. Dollars, Euros, Pounds Sterling, Australian Dollars, Brazilian Reals, Canadian Dollars or Japanese Yen. These foreign exchange contracts are cash flow hedges of fluctuating foreign exchange related to sales or product or raw material purchases. Until the sale or purchase is recognized, the fair value of the related hedge is recorded in AOCI and as a derivative hedge asset or liability, as applicable. At the time the sale or purchase is recognized, the fair value of the related hedge is reclassified as an adjustment to Net sales or purchase price variance in Cost of goods sold. During the three month periods ended March 30, 2008 and April 1, 2007, $416 and $359 of pretax derivative losses and gains, respectively, from such hedges were recorded as an adjustment to Net sales. During the six month periods ended March 30, 2008 and April 1, 2007, $1,374 and $538 of pretax derivative losses and gains, respectively, from such hedges were recorded as an adjustment to Net sales. During the three month periods ended March 30, 2008 and April 1, 2007, $1,804 and $408 of pretax derivative losses, respectively, from such hedges were recorded as an adjustment to Cost of goods sold. During the six month periods ended March 30, 2008 and April 1, 2007, $4,698 and $549 of pretax derivative losses, respectively, from such hedges were recorded as an adjustment to Cost of goods sold. Following the sale or purchase, subsequent changes in the fair value of the derivative hedge contracts are

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

recorded as a gain or loss in earnings as an offset to the change in value of the related asset or liability recorded in the Condensed Consolidated Balance Sheet (Unaudited). During the three month periods ended March 30, 2008 and April 1, 2007, $0 and $351 of pretax derivative losses, respectively, from such hedges were recorded as an adjustment to earnings in Other income, net. During the six month periods ended March 30, 2008 and April 1, 2007, $0 and $756 of pretax derivative losses, respectively, from such hedges were recorded as an adjustment to earnings in Other income, net. The pretax derivative adjustment to earnings for ineffectiveness from these contracts for both the three month periods ended March 30, 2008 and April 1, 2007 was $0. The pretax derivative adjustment to earnings for ineffectiveness from these contracts for both the six month periods ended March 30, 2008 and April 1, 2007 was $0. The derivative net loss on these contracts recorded in AOCI at March 30, 2008 was $8,045, net of tax benefit of $3,251. The derivative net loss on these contracts recorded in AOCI at September 30, 2007 was $6,010, net of tax benefit of $3,318. At March 30, 2008, the portion of derivative net losses estimated to be reclassified from AOCI into earnings over the next 12 months was $6,781, net of tax benefit.

The Company periodically enters into forward and swap foreign exchange contracts to hedge the risk from third-party and inter-company payments resulting from existing obligations. These obligations generally require the Company to exchange foreign currencies for U.S. Dollars, Euros, Pounds Sterling, Brazilian Reals or Canadian Dollars. These foreign exchange contracts are fair value hedges of a related liability or asset recorded in the Condensed Consolidated Balance Sheets (Unaudited). The gain or loss on the derivative hedge contracts is recorded in earnings as an offset to the change in value of the related liability or asset at each period end. During the three month periods ended March 30, 2008 and April 1, 2007, $9,191 and $215 of pretax derivative losses, respectively, from such hedges were recorded as an adjustment to earnings in Other income, net. During the six month periods ended March 30, 2008 and April 1, 2007, $15,627 and $4,032 of pretax derivative losses, respectively, from such hedges were recorded as an adjustment to earnings in Other income, net. At March 30, 2008, $134,491 of such foreign exchange derivative contracts were outstanding. At September 30, 2007, $125,771 of such foreign exchange derivative contracts were outstanding.

The Company is exposed to risk from fluctuating prices for raw materials, including zinc, urea and diammonium phosphate used in its manufacturing processes. The Company hedges a portion of the risk associated with these materials through the use of commodity call options and swaps. The hedge contracts are designated as cash flow hedges with the fair value changes recorded in AOCI and as a hedge asset or liability, as applicable. The unrecognized changes in fair value of the hedge contracts are reclassified from AOCI into earnings when the hedged purchase of raw materials also affects earnings. The call options effectively cap the floating price on a specified quantity of raw materials through a specified date. The swaps effectively fix the floating price on a specified quantity of raw materials through a specified date. During the three month periods ended March 30, 2008 and April 1, 2007, $727 and $7,719, of pretax derivative gains, respectively, were recorded as an adjustment to Cost of goods sold for swap or option contracts settled at maturity. The hedges are generally effective, however, during the three month periods ended March 30, 2008 and April 1, 2007, $24 and $453, of pretax derivative gains and losses, respectively, were recorded as an adjustment to Cost of goods sold for ineffectiveness. During the six month periods ended March 30, 2008 and April 1, 2007, $564 and $12,313, respectively, of pretax derivative gains were recorded as an adjustment to Cost of goods sold for swap or option contracts settled at maturity. The hedges are generally effective, however, during the six month periods ended March 30, 2008 and April 1, 2007, $303 and $388 of pretax derivative losses, respectively, were recorded as an adjustment to Cost of goods sold for ineffectiveness. At March 30, 2008, the Company had a series of such swap contracts outstanding through March 2010 with a contract value of $44,668. At September 30, 2007, $64,043 of such commodity contracts were outstanding. The derivative net loss on these contracts recorded in AOCI at March 30, 2008, was $2,289, net of tax benefit of $1,134. The derivative net loss on these contracts recorded in

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

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AOCI at September 30, 2007 was $1,107, net of tax benefit of $529. At March 30, 2008, the portion of derivative net losses estimated to be reclassified from AOCI into earnings over the next 12 months is $1,964, net of tax.

3 OTHER COMPREHENSIVE LOSS

Comprehensive income and the components of other comprehensive income, net of tax, for the three and six month periods ended March 30, 2008 and April 1, 2007, respectively, are as follows:

	Three Months		Six Months	
	2008	2007	2008	2007
Net loss	$ (111,713)	$ (237,515)	$ (155,115)	$ (256,325)
Other comprehensive income:				
Foreign currency translation	30,082	907	39,482	11,990
Adjustment of additional minimum pension liability		(52)		(1,614)
Valuation allowance adjustments	(3,269)		(4,636)	
Pension liability adjustments	103		206	
Net unrealized loss on derivative instruments	(8,365)	(10,197)	(11,622)	(5,656)
Net change to derive comprehensive income for the period	18,551	(9,342)	23,430	4,720
Comprehensive loss	$ (93,162)	$ (246,857)	$ (131,685)	$ (251,605)

Net exchange gains or losses resulting from the translation of assets and liabilities of foreign subsidiaries are accumulated in the AOCI section of Shareholders deficit. Also included are the effects of exchange rate changes on intercompany balances of a long-term nature and transactions designated as hedges of net foreign investments. The changes in accumulated foreign currency translation for the three and six month periods ended March 30, 2008 and April 1, 2007 were primarily attributable to the impact of translation of the net assets of the Company s European operations, primarily denominated in Euros and Pounds Sterling.

4 NET LOSS PER COMMON SHARE

Net loss per common share for the three and six month periods ended March 30, 2008 and April 1, 2007, respectively, is calculated based upon the following number of shares:

	Three Months		Six Months	
	2008	2007	2008	2007
Basic	50,897	49,811	50,937	49,828
Effect of restricted stock and assumed conversion of options				
Diluted	50,897	49,811	50,937	49,828

For the three and six month periods ended March 30, 2008 and April 1, 2007, respectively, the Company has not assumed the exercise of common stock equivalents as the impact would be antidilutive.

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SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

5 INVENTORIES

Inventories, which are stated at the lower of cost or market, consist of the following:

	March 30, 2008	September 30, 2007
Raw materials	$ 108,063	$ 102,353
Work-in-process	33,693	29,455
Finished goods	326,442	264,521
	$ 468,198	$ 396,329

6 GOODWILL AND ACQUIRED INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

	Global Batteries & Personal Care	Home and Garden	Global Pet Supplies	Total
Goodwill:				
Balance as of September 30, 2007	$ 129,899	$ 161,078	$ 529,750	$ 820,727
Purchase price allocation[(A), (B)]		(1,064)	(379)	(1,443)
Effect of translation	14,572		27,534	42,106
Balance as of March 30, 2008	$ 144,471	$ 160,014	$ 556,905	$ 861,390
Intangible Assets:				
Trade names Not Subject to Amortization				
Balance as of September 30, 2007	$ 387,789	$ 138,400	$ 310,637	$ 836,826
Purchase price allocation[(C)]	(1,900)			(1,900)
Impairment charge		(13,200)		(13,200)
Effect of translation	17,913		18,589	36,502
Balance as of March 30, 2008	$ 403,802	$ 125,200	$ 329,226	$ 858,228
Intangible Assets Subject to Amortization				
Balance as of September 30, 2007, gross	$ 16,954	$ 89,450	$ 155,816	$ 262,220
Less: Accumulated amortization	(4,388)	(15,103)	(32,511)	(52,002)
Balance as of September 30, 2007, net	$ 12,566	$ 74,347	$ 123,305	$ 210,218
Additions			52	52
Amortization during period	(546)	(11,999)	(6,700)	(19,245)
Effect of translation	1,329		5,641	6,970

Balance as of March 30, 2008, net	$ 13,349	$ 62,348	$ 122,298	$ 197,995
Total Intangible Assets, net	$ 417,151	$ 187,548	$ 451,524	$ 1,056,223

(A) During the six month period ended March 30, 2008, the Company reduced goodwill in its Home and Garden Business segment as a result of adjustment to certain liabilities assumed in connection with the Company s February 7, 2005 acquisition of United Industries Corporation (United) recorded in accordance with Emerging Issues Task Force (EITF) Issue 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination.*

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

(Amounts in thousands, except per share figures)

(B) During the six month period ended March 30, 2008, the Company reduced goodwill in its Global Pet Supplies segment as a result of a partial reversal of a tax contingency reserve recorded in connection with the acquisition of Tetra Holding GmbH and its affiliates and subsidiaries in the aquatics business (Tetra).

(C) During the six month period ended March 30, 2008, in accordance with SFAS No. 109, *Accounting for Income Taxes,* the Company reduced Global Batteries & Personal Care segment intangible assets as a result of the estimated reversal in Fiscal 2008 of a portion of the valuation allowance established against net deferred tax assets at the time of the acquisition of the Company s Brazilian battery business as all prior goodwill had been written off.

Intangible assets subject to amortization include proprietary technology, customer relationship intangibles and certain trade names. The carrying value of technology assets was $35,125, net of accumulated amortization of $12,642, at March 30, 2008 and $35,635, net of accumulated amortization of $10,726, at September 30, 2007. The carrying value of customer relationship intangibles was $160,094, net of accumulated amortization of $50,424, at March 30, 2008 and $169,715, net of accumulated amortization of $35,586, at September 30, 2007. The carrying value of trade name intangibles was $2,775, net of accumulated amortization of $8,181 at March 30, 2008 and $4,868, net of accumulated amortization of $5,690 at September 30, 2007.

Of the intangible assets acquired in the United acquisition and the Company s acquisition of Jungle Laboratories Corporation (Jungle Labs), customer relationships and technology assets have been assigned a life of approximately 12 years and certain trade names have been assigned a life of 5 years. Of the intangible assets acquired in the Company s acquisition of Tetra, customer relationships have been assigned a life of approximately 12 years and technology assets have been assigned a 6 year life.

Amortization expense for the three and six month periods ended March 30, 2008 and April 1, 2007, respectively, is as follows:

	Three Months		Six Months	
	2008	2007	2008	2007
Proprietary technology amortization	$ 964	$ 910	$ 1,916	$ 1,821
Customer relationships amortization	12,293	2,338	14,838	4,676
Trade names amortization	2,391	167	2,491	334
	$ 15,648	$ 3,415	$ 19,245	$ 6,831

The Company estimates annual amortization expense for the next five fiscal years will approximate $21,729 per year.

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

7 DEBT

Debt consists of the following:

	March 30, 2008		September 30, 2007	
	Amount	Rate(A)	Amount	Rate(A)
Senior Subordinated Notes, due February 1, 2015	$ 700,000	7.4%	$ 700,000	7.4%
Senior Subordinated Notes, due October 1, 2013	2,873	8.5%	2,873	8.5%
Senior Subordinated Notes, due October 2, 2013	347,012	11.5%	347,012	11.3%
Term Loan B, U.S. Dollar, expiring March 30, 2013	983,837	7.9%	997,500	9.6%
Term Loan, Euro, expiring March 30, 2013	406,693	9.0%	369,855	8.8%
Revolving Credit Facility, expiring September 28, 2011	150,500	5.5%		
Other notes and obligations	36,986	7.8%	28,719	5.6%
Capitalized lease obligations	15,452	4.9%	14,395	5.0%
	2,643,353		2,460,354	
Less current maturities	58,378		43,438	
Long-term debt	$ 2,584,975		$ 2,416,916	

(A) Interest rates on senior credit facilities represent the period-end weighted average rates on balances outstanding exclusive of the effects of any interest rate swaps.

Senior Credit Facilities

During the second quarter of Fiscal 2007, the Company refinanced its outstanding senior credit facilities with new senior secured credit facilities pursuant to a new senior credit agreement (the Senior Credit Agreement) consisting of a $1,000,000 U.S. Dollar Term B Loan facility (the U.S. Dollar Term B Loan), a $200,000 U.S. Dollar Term B II Loan facility (the U.S. Dollar Term B II Loan), a 262,000 Term Loan facility (the Euro Facility), and a $50,000 synthetic letter of credit facility (the L/C Facility). The proceeds of borrowings under the Senior Credit Agreement were used to repay all outstanding obligations under the Company s Fourth Amended and Restated Credit Agreement, dated as of February 7, 2005, to pay fees and expenses in connection with the refinancing and the exchange offer completed on March 30, 2007 relating to certain of our senior subordinated notes and for general corporate purposes. Subject to certain mandatory prepayment events, the term loan facilities under the Senior Credit Agreement are subject to repayment according to a scheduled amortization, with the final payment of all amounts outstanding, plus accrued and unpaid interest, due on March 30, 2013. Letters of credit issued pursuant to the L/C Facility are required to expire, at the latest, five business days prior to March 30, 2013.

On September 28, 2007, as provided for in the Senior Credit Agreement, the Company entered into a $225,000 U.S. Dollar Asset Based Revolving Loan Facility (the ABL Facility) pursuant to a new credit agreement (the ABL Credit Agreement). The ABL Facility replaced the U.S. Dollar Term B II Loan, which was simultaneously prepaid using cash on hand generated from the Company s operations and available cash from prior borrowings under its Senior Credit Agreement in connection with the above-referenced refinancing. The Company, at its option, may increase the existing $225,000 commitment under the ABL Facility up to $300,000 upon request to the lenders under the ABL Facility and upon meeting certain criteria specified in the ABL Credit Agreement. The ABL Facility has a maturity date of September 28, 2011, subject to certain mandatory prepayment events. As a result of the prepayment of the U.S. Dollar Term B II Loan, under the terms of the ABL Credit Agreement and borrowings under the ABL Facility during the first half of Fiscal 2008, as of

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

March 30, 2008, the Company had aggregate borrowing availability of approximately $36,659, net of lender reserves of $31,825 and outstanding letters of credit of $3,000, under the ABL Facility. As of September 30, 2007, the Company had aggregate borrowing availability of approximately $171,005, net of lenders reserves of $32,370, under the ABL Facility. References to Senior Credit Facilities in this Quarterly Report on Form 10-Q, refer, collectively, to the U.S. Dollar Term B Loan, the Euro Facility and the ABL Facility.

During the six month period ended March 30, 2008, the Company prepaid $18,847 of term loan indebtedness under its Senior Credit Agreement with borrowings under the ABL Facility and net proceeds from the sale of the Canadian division of the Home and Garden Business. See Note 2, Significant Accounting Policies Discontinued Operations for further details on the sale of the Canadian division of the Home and Garden Business.

At March 30, 2008, the aggregate amount outstanding under the Company s Senior Credit Facilities totaled a U.S. Dollar equivalent of $1,593,588, including principal amounts of $983,837 under the U.S. Dollar Term B Loan, 257,776 under the Euro Facility (USD $406,693 at March 30, 2008), $153,500 under the ABL Facility, including $3,000 in letters of credit. Letters of credit outstanding under the L/C Facility totaled $49,558 at March 30, 2008.

The Senior Credit Agreement contains financial covenants with respect to debt, including, but not limited to, a maximum senior secured leverage ratio, which covenants, pursuant to their terms, become more restrictive over time. In addition, the Senior Credit Agreement contains customary restrictive covenants, including, but not limited to, restrictions on the Company s ability to incur additional indebtedness, create liens, make investments or specified payments, give guarantees, pay dividends, make capital expenditures and merge or acquire or sell assets. Pursuant to a guarantee and collateral agreement, the Company and its domestic subsidiaries have guaranteed their respective obligations under the Senior Credit Agreement and related loan documents and have pledged substantially all of their respective assets to secure such obligations.

The ABL Credit Agreement also contains customary restrictive covenants, including, but not limited to, restrictions on the Company s ability to incur additional indebtedness, create liens, make investments or specified payments, give guarantees, pay dividends, make capital expenditures and merge or acquire or sell assets. Pursuant to a guarantee and collateral agreement, the Company and its domestic subsidiaries have guaranteed their respective obligations under the ABL Credit Agreement and related loan documents and have pledged certain of their liquid assets, including, but not limited to, deposit accounts, trade receivables and inventory to secure such obligations.

The Senior Credit Agreement and ABL Credit Agreement each provide for customary events of default, including payment defaults and cross-defaults on other material indebtedness. If an event of default occurs and is continuing under either agreement, amounts due under such agreement may be accelerated and the rights and remedies of the lenders under such agreement available under the applicable loan documents may be exercised, including rights with respect to the collateral securing the obligations under such agreement.

As of March 30, 2008, the Company was in compliance with all of the covenants under the Senior Credit Agreement and ABL Credit Agreement.

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

Senior Subordinated Notes

At March 30, 2008, the Company had outstanding principal of $700,000 under its 7 3/8% Senior Subordinated Notes due 2015, outstanding principal of $2,873 under its 8 1/2% Senior Subordinated Notes due 2013, and outstanding principal of $347,012 under its Variable Rate Toggle Senior Subordinated Notes due 2013 (collectively, the Senior Subordinated Notes). The Variable Rate Toggle Senior Subordinated Notes due 2013 are subject to a variable rate of interest that increases semi-annually, varying depending on whether interest is paid in cash or increased principal. As of March 30, 2008, the Variable Rate Toggle Senior Subordinated Notes due 2013 bore interest at a rate of 11 1/2%.

The Company may redeem all or a part of the Variable Rate Toggle Senior Subordinated Notes due 2013 upon not less than 30 nor more than 60 days notice, at specified redemption prices. The terms of the 8 1/2% Senior Subordinated Notes due 2013 and 7 3/8% Senior Subordinated Notes due 2015 do not currently permit redemption. Further, the indentures governing the 7 3/8% Senior Subordinated Notes due 2015 and the Variable Rate Toggle Senior Subordinated Notes due 2013 require the Company to make an offer, in cash, to repurchase all or a portion of the applicable outstanding notes for a specified redemption price, including a redemption premium, upon the occurrence of a change of control of the Company, as defined in such indentures and require prepayment in connection with certain asset sales.

The indentures governing the Senior Subordinated Notes contain customary covenants that limit the ability of the Company and certain of its subsidiaries to, among other things, incur additional indebtedness, pay dividends on or redeem or repurchase its equity interests, make certain investments, expand into unrelated businesses, create liens on assets, merge or consolidate with another company, transfer or sell all or substantially all of its assets, and enter into transactions with affiliates.

In addition, the indentures governing the Senior Subordinated Notes each provide for customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to make payments on or acceleration of certain other indebtedness, and certain events of bankruptcy and insolvency. Events of default under the respective indentures arising from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the notes subject to that indenture. If any other event of default under an indenture occurs and is continuing, the trustee for that indenture or the registered holders of at least 25% in the then aggregate outstanding principal amount of those notes, may declare the acceleration of the amounts due under those notes.

As of March 30, 2008, the Company was in compliance with all covenants under the Senior Subordinated Notes and the respective indentures. The Company, however, is subject to certain restrictions under the terms of the respective indentures because, due to significant restructuring charges and reduced business performance, the Company does not currently satisfy the Fixed Charge Coverage Ratio test of 2:1 under each of the indentures. Until the test is satisfied, the Company and certain of its subsidiaries are limited in their ability to make significant acquisitions or incur significant additional senior credit facility debt beyond the Senior Credit Facilities. The Company does not expect its inability to satisfy the Fixed Charge Coverage Ratio test to impair its ability to provide adequate liquidity to meet the short-term and long-term liquidity requirements of its existing businesses, although no assurance can be given in this regard.

8 EMPLOYEE BENEFIT PLANS

The Company has various defined benefit pension plans covering some of its employees in the United States and certain employees in other countries, primarily the United Kingdom and Germany. Plans generally provide benefits of stated amounts for each year of service. The Company funds its U.S. pension plans at a level to

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

(Amounts in thousands, except per share figures)

maintain, within established guidelines, the IRS-defined 90 percent current liability funded status. At January 1, 2007, the date of the most recent calculation, all U.S. funded defined benefit pension plans reflected a current liability funded status equal to or greater than 90 percent. Additionally, in compliance with the Company s funding policy, annual contributions to non-U.S. defined benefit plans are equal to the actuarial recommendations or statutory requirements in the respective countries.

The Company also sponsors or participates in a number of other non-U.S. pension arrangements, including various retirement and termination benefit plans, some of which are covered by local law or coordinated with government-sponsored plans, which are not significant in the aggregate and therefore are not included in the information presented below.

The Company also has various nonqualified deferred compensation agreements with certain of its employees. Under certain of these agreements, the Company has agreed to pay certain amounts annually for the first 15 years subsequent to retirement or to a designated beneficiary upon death. It is management s intent that life insurance contracts owned by the Company will fund these agreements. Under the remaining agreements, the Company has agreed to pay such deferred amounts in up to 15 annual installments beginning on a date specified by the employee, subsequent to retirement or disability, or to a designated beneficiary upon death.

The Company s results of operations for the three and six month periods ended March 30, 2008 and April 1, 2007, respectively, reflect the following pension and deferred compensation benefit costs:

	Three Months		Six Months	
Components of net periodic pension benefit and deferred compensation benefit cost	**2008**	**2007**	**2008**	**2007**
Service cost	$ 668	$ 782	$ 1,336	$ 1,565
Interest cost	1,669	1,393	3,338	2,786
Expected return on assets	(1,207)	(1,017)	(2,414)	(2,035)
Settlement and Curtailment		173		347
Amortization of prior service cost	63	64	127	127
Recognized net actuarial loss	70	156	139	312
Net periodic benefit cost	$ 1,263	$ 1,551	$ 2,526	$ 3,102

	Three Months		Six Months	
Pension and deferred compensation contributions	**2008**	**2007**	**2008**	**2007**
Contributions made during period	$ 1,309	$ 198	$ 1,979	$ 779

Under the Rayovac postretirement plan the Company provides certain health care and life insurance benefits to eligible retired employees. Participants earn retiree health care benefits after reaching age 45 over the next 10 succeeding years of service and remain eligible until reaching age 65. The plan is contributory; retiree contributions have been established as a flat dollar amount with contribution rates expected to increase at the active medical trend rate. The plan is unfunded. The Company is amortizing the transition obligation over a 20-year period.

The Company sponsors a defined contribution retirement plan for its domestic employees, which allows participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. The Company contributes annually from up to 4% of participants compensation, and may make additional discretionary contributions. The Company also sponsors defined contribution pension plans for employees of

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

certain foreign subsidiaries. Company contributions charged to operations, including discretionary amounts, for the three and six month periods ended March 30, 2008 were $1,150 and $2,415, respectively.

Effective September 30, 2007, the Company adopted SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS 158). The recognition and disclosure provisions of this statement require recognition of the overfunded or underfunded status of defined benefit pension and postretirement plans as an asset or liability in the statement of financial position, and recognition of changes in that funded status in AOCI in the year in which the adoption occurs. The initial adoption was reflected as a $1,900 decrease to the September 30, 2007 balance of AOCI and included the elimination of the additional minimum liability, which is no longer required. In periods subsequent to the adoption of SFAS 158, adjustments to other comprehensive income will reflect prior service cost or credits and actuarial gain or loss amounts arising during the period and reclassification adjustments for amounts being recognized as components of net periodic pension benefit and deferred compensation benefit cost, net of tax, in accordance with current pension accounting rules.

The measurement date provisions of SFAS 158, which for the Company becomes effective for the fiscal year ending September 30, 2009, will require the Company to measure all of its defined benefit pension and postretirement plan assets and obligations as of September 30, its fiscal year end. The Company currently measures plan assets and obligations of its domestic pension plans as of June 30 each year and September 30 each year for its foreign pension plans and its domestic other postretirement plans. The Company is currently evaluating the impact of adopting the measurement date provisions of SFAS 158 on its consolidated financial statements.

9 INCOME TAXES

In 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), which clarifies the accounting for uncertainty in tax positions. FIN 48 requires the Company to recognize in its financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The Company adopted the provisions of FIN 48 on October 1, 2007. As a result of the adoption of FIN 48, the Company recognized no cumulative effect adjustment. As of October 1, 2007 and March 30, 2008, the Company had approximately $7,933 and $7,354 of unrecognized tax benefits, respectively, of which approximately $4,630 and $4,785, respectively, would affect the Company s effective tax rate if recognized and approximately $2,629 and $1,900, respectively, of which would result in a reduction in goodwill if recognized. The change from October 1, 2007 to March 30, 2008 is primarily a result of the accrual of additional interest and penalties and the settlement of a tax examination in Germany as further discussed below.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of October 1, 2007 and March 30, 2008, the Company had approximately $1,525 and $1,713, respectively, of accrued interest and penalties related to uncertain tax positions.

The Company does not expect any significant increases in the unrecognized tax benefits within twelve months of the reporting date of this Quarterly Report on Form 10-Q.

The Company files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions and is subject to ongoing examination by the various taxing authorities. The Company s major taxing jurisdictions are the U.S. and Germany. In the U.S, federal tax filings for years prior to and including the

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

(Amounts in thousands, except per share figures)

Company s fiscal year ended September 30, 2004 are closed. However, the federal net operating loss carryforward from the Company s fiscal year ended September 30, 2004 is subject to Internal Revenue Service (IRS) examination until the year that such net operating loss carryforward is utilized and that year is closed for audit. The Company s fiscal years ended September 30, 2005, 2006 and 2007 remain open to examination by the IRS. Various U.S. state and local jurisdictions are also subject to audit and to date no significant audit matters have arisen.

During the six month period ended March 30, 2008, certain of the German legal entities acquired by the Company in April, 2005 settled German tax audits for the fiscal years ended 2001 through 2004. As a result of the settlement, the Company reduced its unrecognized tax benefits by approximately $734, resulting in a reduction of goodwill of approximately $379 and the remainder of which was reclassified as a current tax liability.

The Company cannot predict the ultimate outcome of its current tax examinations. However, it is reasonably possible that during the next 12 months some portion of previously unrecognized tax benefits could be recognized.

10 SEGMENT RESULTS

In Fiscal 2007 the Company began managing its business in three vertically integrated, product-focused reporting segments; (i) Global Batteries & Personal Care; (ii) Global Pet Supplies and (iii) the Home and Garden Business.

Global strategic initiatives and financial objectives for each reportable segment are determined at the corporate level. Each reportable segment is responsible for implementing defined strategic initiatives and achieving certain financial objectives and has a general manager responsible for the sales and marketing initiatives and financial results for product lines within that segment.

Net sales and Cost of goods sold to other business segments have been eliminated. The gross contribution of intersegment sales is included in the segment selling the product to the external customer. Segment net sales are based upon the segment from which the product is shipped.

The operating segment profits do not include restructuring and related charges, interest expense, interest income, impairment charges and income tax expense. Accordingly, corporate expenses include primarily general and administrative expenses associated with corporate overhead and global long-term incentive compensation plans. All depreciation and amortization included in income from operations is related to operating segments or corporate expense. Costs are identified to operating segments or corporate expense according to the function of each cost center.

All capital expenditures are related to operating segments. Variable allocations of assets are not made for segment reporting.

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SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

Segment information for the three and six month periods ended March 30, 2008 and April 1, 2007 and at March 30, 2008 and September 30, 2007 is as follows:

	Three Months		Six Months	
	2008	2007	2008	2007
Net sales from external customers				
Global Batteries & Personal Care	$ 307,596	$ 297,189	$ 725,655	$ 724,059
Global Pet Supplies	148,408	142,545	290,869	280,226
Home and Garden Business	191,138	194,731	235,302	241,266
Total segments	$ 647,142	$ 634,465	$ 1,251,826	$ 1,245,551

	Three Months		Six Months	
	2008	2007	2008	2007
Segment profit				
Global Batteries & Personal Care	$ 24,675	$ 22,144	$ 71,766	$ 61,952
Global Pet Supplies	15,276	16,357	32,089	34,697
Home and Garden Business	(549)	14,779	(19,633)	(1,483)
Total segments	39,402	53,280	84,222	95,166
Corporate expense	9,142	17,875	17,505	31,121
Restructuring and related charges	5,370	17,839	10,383	27,398
Goodwill and intangibles impairment	13,200	214,039	13,200	214,039
Interest expense	58,221	85,215	115,393	132,099
Other (income) expense, net	(1,054)	2,303	(1,163)	3,254
Loss from continuing operations before income taxes	$ (45,477)	$ (283,991)	$ (71,096)	$ (312,745)

	March 30, 2008	September 30, 2007
Segment total assets		
Global Batteries & Personal Care	$ 1,271,338	$ 1,328,802
Global Pet Supplies	1,265,659	1,202,263
Home and Garden Business	635,752	564,188
Total segments	3,172,749	3,095,253
Corporate	140,443	116,133
Total assets at period end	$ 3,313,192	$ 3,211,386

11 RESTRUCTURING AND RELATED CHARGES

The Company reports restructuring and related charges associated with manufacturing and related initiatives in Cost of goods sold. Restructuring and related charges reflected in Cost of goods sold include, but are not limited to, termination and related costs associated with manufacturing employees, asset impairments relating to manufacturing initiatives, and other costs directly related to the restructuring or integration initiatives implemented.

The Company reports restructuring and related charges relating to administrative functions in Operating expenses, such as initiatives impacting sales, marketing, distribution, or other non-manufacturing related

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SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

functions. Restructuring and related charges reflected in Operating expenses include, but are not limited to, termination and related costs, any asset impairments relating to the functional areas described above, and other costs directly related to the initiatives implemented.

The following table summarizes restructuring and related charges incurred by segment for the three and six month periods ended March 30, 2008 and April 1, 2007 respectively:

	Three Months		Six Months	
	2008	2007	2008	2007
Cost of goods sold:				
Global Batteries & Personal Care	$ 73	$ 2,703	$ 207	$ 5,577
Global Pet Supplies	122	3,961	109	7,038
Home and Garden Business				
Total restructuring and related charges in cost of goods sold	195	6,664	316	12,615
Operating expenses:				
Global Batteries & Personal Care	2,762	7,309	4,538	7,307
Global Pet Supplies	687	2,506	966	3,899
Home and Garden Business	711	1,360	1,950	3,577
Corporate	1,015		2,613	
Total restructuring and related charges in operating expenses	5,175	11,175	10,067	14,783
Total restructuring and related charges	$ 5,370	$ 17,839	$ 10,383	$ 27,398

2007 Restructuring Initiatives

The Company has implemented a series of initiatives within the Global Batteries & Personal Care segment in Latin America to reduce operating costs (the Latin American Initiatives). These initiatives, which are substantially complete, include the reduction of certain manufacturing operations in Brazil and the restructuring of management, sales, marketing and support functions. The Company recorded $12 of pretax restructuring and related charges during both the three and six month period ended March 30, 2008, respectively, in connection with the Latin American Initiatives. The Company has recorded pretax restructuring and related charges of $10,935 since the inception of the Latin American Initiatives.

The following table summarizes the remaining accrual balance associated with the Latin American Initiatives and activity that occurred during Fiscal 2008:

Latin American Initiatives Summary

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2007	$ 124	$ 576	$ 700
Provisions		(30)	(30)
Non-cash items		42	42

Accrual balance at March 30, 2008	$ 124	$ 588	$ 712
Expensed as incurred[(A)]	$ 42	$	$ 42

(A) Consists of amounts not impacting the accrual for restructuring and related charges.

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

In Fiscal 2007, the Company began managing its business in three vertically integrated, product-focused reporting segments; Global Batteries & Personal Care, Global Pet Supplies and the Home and Garden Business. As part of this realignment, the Company s Global Operations organization, previously included in corporate expense, consisting of research and development, manufacturing management, global purchasing, quality operations and inbound supply chain, is now included in each of the operating segments. See also Note 10, Segment Results, for additional discussion on the Company s realignment of its operating segments. In connection with these changes the Company undertook a number of cost reduction initiatives, primarily headcount reductions, at the corporate and operating segment levels (the Global Realignment Initiatives). The Company recorded $4,532 and $9,011 of pretax restructuring and related charges during the three and six month period ended March 30, 2008, respectively, in connection with the Global Realignment Initiatives. Costs associated with these initiatives, which are expected to be incurred through December 31, 2008, relate primarily to severance and are projected at approximately $78,000, the majority of which will be cash costs.

The following table summarizes the remaining accrual balance associated with the Global Realignment Initiatives and activity that occurred during Fiscal 2008:

Global Realignment Initiatives Summary

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2007	$ 27,477	$ 4,043	$ 31,520
Provisions	5,600	(50)	5,550
Cash expenditures	(13,539)	(343)	(13,882)
Non-cash items	1,411	(268)	1,143
Accrual balance at March 30, 2008	$ 20,949	$ 3,382	$ 24,331
Expensed as incurred[(A)]	$ 918	$ 2,543	$ 3,461

(A) Consists of amounts not impacting the accrual for restructuring and related charges.

The following table summarizes the expenses as incurred during Fiscal 2008, the cumulative amount incurred to date and the total future expected costs incurred associated with the Global Realignment Initiatives by operating segment:

	Global Batteries and Personal Care	Home and Garden	Corporate	Total
Restructuring and related charges during Fiscal 2008	$ 4,447	$ 1,951	$ 2,613	$ 9,011
Restructuring and related charges since initiative inception	$ 34,129	$ 4,446	$ 22,706	$ 61,281
Total future restructuring and related charges expected	$ 8,168	$ 2,383	$ 5,617	$ 16,168

2006 Restructuring Initiatives

The Company implemented a series of initiatives within the Global Batteries & Personal Care segment in Europe to reduce operating costs and rationalize the Company s manufacturing structure (the European Initiatives). These initiatives, which are substantially complete, include the relocation of certain operations at the Ellwangen, Germany packaging center to the Dischingen, Germany battery plant, transferring private label

battery production at the Company s Dischingen, Germany battery plant to the Company s manufacturing facility in China and restructuring its sales, marketing and support functions. The Company recorded $(10) and $164 of pretax restructuring and related charges during the three and six month period ended March 30, 2008, respectively, in connection with the European Initiatives. The Company has recorded pretax restructuring and related charges of $27,910 since the inception of the European Initiatives.

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

The following table summarizes the remaining accrual balance associated with the 2006 initiatives and activity that occurred during Fiscal 2008:

European Initiatives Summary

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2007	$ 5,224	$	$ 5,224
Cash expenditures	(364)	(349)	(713)
Non-cash items	(492)	1,025	533
Accrual balance at March 30, 2008	$ 4,368	$ 676	$ 5,044
Expensed as incurred[(A)]	$	$ 164	$ 164

[(A)] Consists of amounts not impacting the accrual for restructuring and related charges.

2005 Restructuring Initiatives

In connection with the acquisitions of United and Tetra in 2005, the Company implemented a series of initiatives to optimize the global resources of the combined companies. These initiatives included: integrating all of United s home and garden administrative services, sales and customer service functions into the Company s operations in Madison, Wisconsin; converting all information systems to SAP; consolidating United s home and garden manufacturing and distribution locations in North America; rationalizing the North America supply chain; and consolidating administrative, manufacturing and distribution facilities of the Company s Global Pet Supplies business. In addition, certain corporate finance functions were shifted to the Company s global headquarters in Atlanta, Georgia.

Effective October 1, 2006, initiatives to integrate the activities of the Home and Garden Business into the Company s operations in Madison, Wisconsin were suspended. The Company recorded $27 and $121 of pretax restructuring and related charges during the three and six month period ended March 30, 2008, in connection with the integration of the United home and garden business. The Company recorded pretax restructuring and related charges of $9,228 since the inception of the initiatives.

Integration activities within Global Pet Supplies were substantially complete as of September 30, 2007. Global Pet Supplies integration activities consisted primarily of the rationalization of manufacturing facilities and the optimization of the distribution network. As a result of these integration initiatives, two pet supplies facilities were closed in 2005, one in Brea, California and the other in Hazleton, Pennsylvania, one pet supply facility was closed in 2006, in Hauppauge, New York and one pet supply facility was closed in 2007 in Moorpark, California. The Company recorded $809 and $1,075 of pretax restructuring and related charges during the three and six month period ended March 30, 2008, respectively, primarily in connection with its integration activities within the Global Pet Supplies business. The Company has recorded pretax restructuring and related charges of $32,596 since the inception of the integration activities within Global Pet Supplies.

During the fiscal year ended September 30, 2005, the Company also announced the closure of a zinc carbon manufacturing facility in France within Global Batteries and Personal Care. The Company recorded no pretax restructuring and related charges during the three month period ended March 30, 2008 in connection with this closure. The costs associated with the initiative are complete and totaled $10,955.

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

The following tables summarize the remaining accrual balance associated with the 2005 initiatives and activity that occurred during Fiscal 2008:

2005 Restructuring Initiatives Summary

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2007	$ 2,747	$ 2,138	$ 4,885
Provisions	145		145
Cash expenditures	(1,101)	(708)	(1,809)
Non-cash items	(1,317)	914	(403)
Accrual balance at March 30, 2008	$ 474	$ 2,344	$ 2,818
Expensed as incurred[(A)]	$ 574	$ 477	$ 1,051

(A) Consists of amounts not impacting the accrual for restructuring and related charges.

2005 Restructuring Initiatives Summary Pursuant to Acquisitions[(A)]

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2007	$ 100	$ 11,770	$ 11,870
Cash expenditures	(82)	(1,325)	(1,407)
Non-cash expenditures		(1,862)	(1,862)
Accrual balance at March 30, 2008	$ 18	$ 8,583	$ 8,601

(A) Represents costs to exit activities of the acquired United and Tetra businesses. These costs, which include severance, lease termination costs, inventory disposal costs and other associated costs, relate to the closure of certain acquired Global Pet Supplies and home and garden manufacturing and distribution facilities. Such amounts are recognized as liabilities assumed as part of the United acquisition and included in the allocation of the acquisition cost in accordance with the provisions of EITF Issue 95-3.

12 COMMITMENTS AND CONTINGENCIES

The Company has provided for the estimated costs associated with environmental remediation activities at some of its current and former manufacturing sites. The Company believes that any additional liability in excess of the amounts provided of approximately $3,829, which may result from resolution of these matters, will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

Included in long-term liabilities assumed in connection with the acquisition of Microlite is a provision for presumed credits applied to the Brazilian excise tax on Manufactured Products, or IPI taxes . Although a previous ruling by the Brazilian Federal Supreme Court has been issued

in favor of a specific Brazilian taxpayer with similar tax credits, on February 15, 2007 the Brazilian Federal Supreme Court ruled against certain Brazilian taxpayers with respect to the legality and constitutionality of the IPI presumed credits. This decision is applicable to all similarly-situated taxpayers. At March 30, 2008 and September 30, 2007, these amounts totaled approximately $25,755 and $32,747, respectively, and are included in Other long-term liabilities in the Condensed Consolidated Balance Sheets (Unaudited).

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The Company is a defendant in various matters of litigation generally arising out of the normal course of business. Such litigation includes legal proceedings with Philips in Europe and Latin America with respect to trademark or other intellectual property rights. Effective April 1, 2008, Koninklijke Philips Electronics N.V. and Spectrum Brands, Inc., as a matter of commercial expediency, agreed not to continue to pursue litigation over the validity and infringement of the Philips trade marks relating to the three-headed rotary razor.

The Company is also involved in an ongoing arbitration proceeding with Tabriza Brasil Empreendimentos Ltda., Interelectrica Administração e Participações Ltda., and VARTA AG, the former owners of the Company s subsidiary Microlite S.A., with respect to a number of matters arising out of the Company s acquisition of Microlite, including the Company s right to receive indemnification for various alleged breaches of representations, warranties, covenants and agreements made by the selling shareholders in the acquisition agreement and the Company s obligation to pay additional amounts to Tabriza arising out of its earn-out rights under the acquisition agreement. The Company acquired Microlite in the Company s fiscal year ended September 30, 2004. In November 2007, the arbitration panel resolved certain matters at the summary judgment stage. All other disputed matters remain open pending the final decision by the arbitration panel. Among the matters decided at the summary judgment stage, the arbitration panel found in favor of Tabriza with respect to the questions of whether Tabriza is entitled to receive from the Company interest on certain earn-out payments previously made and whether Tabriza is entitled to receive from the Company an additional amount with respect to the earn-out as a result of a decision issued by an independent auditor engaged by the parties to determine certain disputed matters submitted to it with respect to the earn-out calculation. The Company currently estimates that the additional earn-out amounts owed to Tabriza arising out of the decisions on these two matters, which has been reflected as additional acquisition consideration, will be at least $5,000. Such additional amount due Tabriza is included in Accrued liabilities: Other, in the Condensed Consolidated Balance Sheets (Unaudited) as of March 30, 2008 and September 30, 2007. The arbitration panel held a hearing on the remaining open matters in February 2008 and post-hearing submissions continue with respect to the proceeding. It is currently anticipated that the arbitration panel will issue its final decision prior to the end of Fiscal 2008. Determination of the total net amount owed by or payable to the Company arising out of the arbitration proceeding cannot be determined until the arbitration panel has issued its final decision.

The Company does not believe that any other matters or proceedings presently pending will have a material adverse effect on the results of operations, financial condition, liquidity or cash flow of the Company.

13 NEW ACCOUNTING PRONOUNCEMENTS

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities. This statement is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures. This statement is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008. The Company does not believe the adoption of SFAS 161 will have a material impact on its financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* (SFAS 141(R)). SFAS 141(R) will significantly change the accounting for future business combinations after adoption. SFAS 141(R) establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquired business. SFAS 141(R) also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

Company is currently evaluating the impact that SFAS 141(R) will have on its financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160), an amendment of Accounting Research Bulletin No. 51, Consolidated Financial Statements, which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent s equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company does not believe the adoption of SFAS 160 will have a material impact on its financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 provides guidance for using fair value to measure assets and liabilities. The FASB believes SFAS 157 also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. Under SFAS 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. In SFAS 157, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, SFAS 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity s own data. Under SFAS 157, fair value measurements would be separately disclosed by level within the fair value hierarchy. The provisions of SFAS 157 for financial assets and liabilities, as well as any other assets and liabilities that are carried at fair value on a recurring basis in financial statements, are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The FASB did, however, provide a one year deferral for the implementation of SFAS 157 for other non-financial assets. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. The Company is currently evaluating the impact that SFAS 157 will have on its financial condition, results of operations and cash flows.

14 CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

In connection with the acquisitions of Remington, United and Tetra, the Company completed debt offerings of Senior Subordinated Notes. Payment obligations of the Senior Subordinated Notes are fully and unconditionally guaranteed on a joint and several basis by all of the Company s domestic subsidiaries.

The following consolidating financial data illustrates the components of the condensed consolidated financial statements. Investments in subsidiaries are accounted for using the equity method for purposes of illustrating the consolidating presentation. Earnings of subsidiaries are therefore reflected in the Company s and Guarantor Subsidiaries investment accounts and earnings. The elimination entries presented herein eliminate investments in subsidiaries and intercompany balances and transactions. Separate condensed consolidated financial statements of the Guarantor Subsidiaries are not presented because management has determined that such financial statements would not be material to investors.

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SPECTRUM BRANDS, INC. AND SUBSIDIARIES

Condensed Consolidating Balance Sheets

March 30, 2008

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 3,398	$ 1,569	$ 76,487	$	$ 81,454
Receivables, net	978,431	436,457	214,818	(1,227,767)	401,939
Inventories	84,521	203,954	185,299	(5,576)	468,198
Assets held for sale		316	8,626		8,942
Prepaid expenses and other	23,369	22,040	24,353	1,468	71,230
Total current assets	1,089,719	664,336	509,583	(1,231,875)	1,031,763
Property, plant and equipment, net	52,756	70,418	152,270		275,444
Goodwill	100	442,737	416,229	2,324	861,390
Intangible assets, net	221,469	404,844	430,097	(187)	1,056,223
Deferred charges and other	706,373	467,837	(773,556)	(353,052)	47,602
Debt issuance costs	40,770				40,770
Investments in subsidiaries	4,592,352	4,401,359	3,544,504	(12,538,215)	
Total assets	$ 6,703,539	$ 6,451,531	$ 4,279,127	$ (14,121,005)	$ 3,313,192
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities:					
Current maturities of long-term debt	$ 92,816	$ 84	$ 38,024	$ (72,546)	$ 58,378
Accounts payable	454,775	1,111,793	138,519	(1,416,670)	288,417
Accrued liabilities	94,098	46,516	109,832		250,446
Total current liabilities	641,689	1,158,393	286,375	(1,489,216)	597,241
Long-term debt, net of current maturities	2,570,514	602,643	(583,222)	(4,960)	2,584,975
Employee benefit obligations, net of current portion	9,303	(593)	51,585		60,295
Deferred income taxes	67,798	98,736	66,066		232,600
Other	14,034		56,964		70,998
Total liabilities	3,303,338	1,859,179	(122,232)	(1,494,176)	3,546,109
Shareholders equity:					
Common stock	692	451	537,967	(538,418)	692
Additional paid-in capital	672,444	1,421,969	4,287,771	(5,709,622)	672,562
Accumulated deficit	(883,864)	133,473	(547,486)	379,391	(918,486)
Accumulated other comprehensive income (loss)	3,687,705	3,036,459	123,107	(6,758,180)	89,091
	3,476,977	4,592,352	4,401,359	(12,626,829)	(156,141)
Less treasury stock, at cost	(76,776)				(76,776)

Total shareholders equity (deficit)	3,400,201	4,592,352	4,401,359	(12,626,829)	(232,917)
Total liabilities and shareholders equity (deficit)	$ 6,703,539	$ 6,451,531	$ 4,279,127	$ (14,121,005)	$ 3,313,192

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SPECTRUM BRANDS, INC. AND SUBSIDIARIES

Condensed Consolidating Balance Sheets

September 30, 2007

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 11,602	$ 1,473	$ 56,778	$	$ 69,853
Receivables, net	266,997	292,498	137,326	(296,422)	400,399
Inventories	145,850	74,832	176,601	(954)	396,329
Assets held for sale	(22,397)	47,688	8,355		33,646
Prepaid expenses and other	40,699	9,305	24,702	1,468	76,174
Total current assets	442,751	425,796	403,762	(295,908)	976,401
Property, plant and equipment, net	65,427	64,351	151,790		281,568
Goodwill	3,298	435,603	379,502	2,324	820,727
Intangible assets, net	226,515	433,842	386,874	(187)	1,047,044
Deferred charges and other	702,934	426,867	23,446	(1,112,507)	40,740
Debt issuance costs	44,906				44,906
Investments in subsidiaries	5,097,465	4,326,785	3,559,881	(12,984,131)	
Total assets	$ 6,583,296	$ 6,113,244	$ 4,905,255	$ (14,390,409)	$ 3,211,386
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities:					
Current maturities of long-term debt	$ 72,134	$ 30	$ 29,628	$ (58,354)	$ 43,438
Accounts payable	440,746	236,438	191,634	(589,270)	279,548
Accrued liabilities	94,728	68,622	119,820		283,170
Total current liabilities	607,608	305,090	341,082	(647,624)	606,156
Long-term debt, net of current maturities	2,403,531	609,706	66,730	(663,051)	2,416,916
Employee benefit obligations, net of current portion	10,531	(513)	44,451		54,469
Deferred income taxes	4,973	101,496	62,618	1	169,088
Other	4,997		63,589	(1)	68,585
Total liabilities	3,031,640	1,015,779	578,470	(1,310,675)	3,315,214
Shareholders equity:					
Common stock	690	547	537,944	(538,491)	690
Additional paid-in capital	669,156	1,438,763	4,303,169	(5,741,814)	669,274
(Accumulated deficit) Retained earnings	(721,829)	57,938	(597,425)	497,946	(763,370)
Accumulated other comprehensive income (loss)	3,679,725	3,600,217	83,097	(7,297,375)	65,664
	3,627,742	5,097,465	4,326,785	(13,079,734)	(27,742)
Less treasury stock, at cost	(76,086)				(76,086)

Total shareholders equity (deficit)	3,551,656	5,097,465	4,326,785	(13,079,734)	(103,828)
Total liabilities and shareholders equity (deficit)	$ 6,583,296	$ 6,113,244	$ 4,905,255	$ (14,390,409)	$ 3,211,386

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SPECTRUM BRANDS, INC. AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

Three Month Period Ended March 30, 2008

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$ 71,562	$ 337,866	$ 267,660	$ (29,946)	$ 647,142
Cost of goods sold	39,459	242,627	160,914	(30,652)	412,348
Restructuring and related charges		122	73		195
Gross profit	32,103	95,117	106,673	706	234,599
Operating expenses:					
Selling	17,427	57,388	64,225	62	139,102
General and administrative	17,743	25,362	16,128		59,233
Intangibles impairment		13,200			13,200
Research and development	3,347	1,639	1,213		6,199
Restructuring and related charges	2,782	1,398	995		5,175
	41,299	98,987	82,561	62	222,909
Operating (loss) income	(9,196)	(3,870)	24,112	644	11,690
Interest expense	45,504	6,162	6,679	(124)	58,221
Other (income) expense, net	(10,620)	(56,637)	(4,577)	70,780	(1,054)
(Loss) income from continuing operations before income taxes	(44,080)	46,605	22,010	(70,012)	(45,477)
Income tax expense (benefit)	68,346	(4,079)	2,062		66,329
(Loss) income from continuing operations	(112,426)	50,684	19,948	(70,012)	(111,806)
(Loss) from discontinued operations, net of tax	(11)	(1,108)	1,212		93
Net (loss) income	$ (112,437)	$ 49,576	$ 21,160	$ (70,012)	$ (111,713)

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SPECTRUM BRANDS, INC. AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

Three Month Period Ended April 1, 2007

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$ 270,229	$ 142,716	$ 270,130	$ (48,610)	$ 634,465
Cost of goods sold	182,756	103,721	165,744	(48,236)	403,985
Restructuring and related charges	375	3,931	2,358		6,664
Gross profit	87,098	35,064	102,028	(374)	223,816
Operating expenses:					
Selling	54,490	21,311	64,028	(309)	139,520
General and administrative	33,560	1,145	13,696		48,401
Goodwill impairment	214,039				214,039
Research and development	4,929	1,178	1,047		7,154
Restructuring and related charges	5,805	1,563	3,807		11,175
	312,823	25,197	82,578	(309)	420,289
Operating (loss) income	(225,725)	9,867	19,450	(65)	(196,473)
Interest expense	83,651	(4,570)	6,202	(68)	85,215
Other (income) expense, net	(19,824)	(15,525)	(74)	37,726	2,303
(Loss) income from continuing operations before income taxes	(289,552)	29,962	13,322	(37,723)	(283,991)
Income tax expense (benefit)	(51,621)	2,804	2,822	109	(45,886)
(Loss) income from continuing operations	(237,931)	27,158	10,500	(37,832)	$ (238,105)
Income from discontinued operations, net of tax	590				590
Net (loss) income	$ (237,341)	$ 27,158	$ 10,500	$ (37,832)	$ (237,515)

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SPECTRUM BRANDS, INC. AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

Six Month Period Ended March 30, 2008

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$ 160,205	$ 560,042	$ 601,049	$ (69,470)	$ 1,251,826
Cost of goods sold	87,011	419,780	362,161	(69,723)	799,229
Restructuring and related charges	5	109	202		316
Gross profit	73,189	140,153	238,686	253	452,281
Operating expenses:					
Selling	40,875	99,901	134,492	135	275,403
General and administrative	36,325	31,613	30,541		98,479
Intangibles impairment		13,200			13,200
Research and development	6,339	3,241	2,418		11,998
Restructuring and related charges	5,623	2,917	1,527		10,067
	89,162	150,872	168,978	135	409,147
Operating (loss) income	(15,973)	(10,719)	69,708	118	43,134
Interest expense	91,866	12,445	11,156	(74)	115,393
Other (income) expense, net	(24,966)	(106,026)	(8,951)	138,780	(1,163)
(Loss) income from continuing operations before income taxes	(82,873)	82,862	67,503	(138,588)	(71,096)
Income tax expense (benefit)	72,460	(559)	10,873		82,774
(Loss) income from continuing operations	(155,333)	83,421	56,630	(138,588)	(153,870)
(Loss) income from discontinued operations, net of tax	(34)	(1,215)	4		(1,245)
Net (loss) income	$ (155,367)	$ 82,206	$ 56,634	(138,588)	$ (155,115)

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SPECTRUM BRANDS, INC. AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

Six Month Period Ended April 1, 2007

(Unaudited)

(Amounts in thousands)

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$ 497,733	$ 262,245	$ 593,543	$ (107,970)	$ 1,245,551
Cost of goods sold	352,588	185,605	360,846	(108,194)	790,845
Restructuring and related charges	380	6,732	5,503		12,615
Gross profit	144,765	69,908	227,194	224	442,091
Operating expenses:					
Selling	108,814	41,336	138,612	(359)	288,403
General and administrative	(345,842)	271,427	162,132		87,717
Goodwill impairment	214,039				214,039
Research and development	10,045	2,330	2,166		14,541
Restructuring and related charges	7,950	2,624	4,209		14,783
	(4,994)	317,717	307,119	(359)	619,483
Operating income (loss)	149,759	(247,809)	(79,925)	583	(177,392)
Interest expense	129,031	(9,139)	12,140	67	132,099
Other expense (income), net	333,270	76,633	(1,993)	(404,656)	3,254
(Loss) income from continuing operations before income taxes	(312,542)	(315,303)	(90,072)	405,172	(312,745)
Income tax (benefit) expense	(58,898)	(2,677)	1,809	2,696	(57,070)
(Loss) income from continuing operations	(253,644)	(312,626)	(91,881)	402,476	$ (255,675)
Loss from discontinued operations, net of tax	(650)				(650)