

Spectrum Brands Holdings, Inc.

Form 10-Q

August 01, 2017

[Table of Contents](#)

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 2, 2017

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 No.	Name of Registrant, State of Incorporation,	IRS Employer Identification No.
001-34757	Address of Principal Offices, and Telephone No. Spectrum Brands Holdings, Inc.	27-2166630
	(a Delaware corporation)	
	3001 Deming Way	
	Middleton, WI 53562	
	(608) 275-3340	

Edgar Filing: Spectrum Brands Holdings, Inc. - Form 10-Q

www.spectrumbrands.com

333-192634-03

SB/RH Holdings, LLC

27-2812840

(a Delaware limited liability company)

3001 Deming Way

Middleton, WI 53562

(608) 275-3340

Indicate by check mark whether the registrants (1) have 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.

Spectrum Brands Holdings, Inc.	Yes	No
SB/RH Holdings, LLC	Yes	No

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Spectrum Brands Holdings, Inc.	Yes	No
SB/RH Holdings, LLC	Yes	No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Registrant	Large Accelerated Filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
Spectrum Brands Holdings, Inc.	X			
SB/RH Holdings, LLC			X	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Spectrum Brands Holdings, Inc.	Yes	No
SB/RH Holdings, LLC	Yes	No

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§232.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Spectrum Brands Holdings, Inc.	Yes	No
SB/RH Holdings, LLC	Yes	No

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Spectrum Brands Holdings, Inc.
SB/RH Holdings, LLC

As of July 28, 2017, there were outstanding 58,043,152 shares of Spectrum Brands Holdings, Inc.'s common stock, par value \$0.01 per share.

SB/RH Holdings, LLC meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this report with a reduced disclosure format as permitted by general instruction H(2).

Table of Contents

Forward-Looking Statements

We have made or implied certain forward-looking statements in this report. All statements, other than statements of historical facts included in this report, including the statements under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” regarding our business strategy, future operations, financial condition, estimated revenues, projected costs, projected synergies, prospects, plans and objectives of management, as well as information concerning expected actions of third parties, are forward-looking statements. When used in this report, the words anticipate, intend, plan, estimate, believe, expect, project, could, will, should, may and similar expressions are also intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words.

Since these forward-looking statements are based upon our current expectations of future events and projections and are subject to a number of risks and uncertainties, many of which are beyond our control and some of which may change rapidly, actual results or outcomes may differ materially from those expressed or implied herein, and you should not place undue reliance on these statements. Important factors that could cause our actual results to differ materially from those expressed or implied herein include, without limitation:

- the impact of our indebtedness on our business, financial condition and results of operations;
- the impact of restrictions in our debt instruments on our ability to operate our business, finance our capital needs or pursue or expand business strategies;
 - any failure to comply with financial covenants and other provisions and restrictions of our debt instruments;
- the impact of actions taken by significant shareholders;
- the impact of expenses resulting from the implementation of new business strategies, divestitures or current and proposed restructuring activities;
- our inability to successfully integrate and operate new acquisitions at the level of financial performance anticipated;
- the unanticipated loss of key members of senior management;
- the impact of fluctuations in commodity prices, costs or availability of raw materials or terms and conditions available from suppliers, including suppliers’ willingness to advance credit;
- interest rate and exchange rate fluctuations;
- our ability to utilize our net operating loss carry-forwards to offset tax liabilities from future taxable income;
- the loss of, or a significant reduction in, sales to any significant retail customer(s);
- competitive promotional activity or spending by competitors, or price reductions by competitors;
- the introduction of new product features or technological developments by competitors and/or the development of new competitors or competitive brands;
- the effects of general economic conditions, including inflation, recession or fears of a recession, depression or fears of a depression, labor costs and stock market volatility or changes in trade, monetary or fiscal policies in the countries where we do business;
- changes in consumer spending preferences and demand for our products;
- our ability to develop and successfully introduce new products, protect our intellectual property and avoid infringing the intellectual property of third parties;

- our ability to successfully implement, achieve and sustain manufacturing and distribution cost efficiencies and improvements, and fully realize anticipated cost savings;
- the cost and effect of unanticipated legal, tax or regulatory proceedings or new laws or regulations (including environmental, public health and consumer protection regulations);
- public perception regarding the safety of our products, including the potential for environmental liabilities, product liability claims, litigation and other claims;
- the impact of pending or threatened litigation;
- the impact of cyber security breaches or our actual or perceived failure to protect company and personal data;
- changes in accounting policies applicable to our business;
- government regulations;
- the seasonal nature of sales of certain of our products;
- the effects of climate change and unusual weather activity;
- the effects of political or economic conditions, terrorist attacks, acts of war or other unrest in international markets; and
- the special committee's exploration of strategic alternatives and the terms of any strategic transaction, if any.

Some of the above-mentioned factors are described in further detail in the sections entitled "Risk Factors" in our annual and quarterly reports (including this report), as applicable. You should assume the information appearing in this report is accurate only as of the end of the period covered by this report, or as otherwise specified, as our business, financial condition, results of operations and prospects may have changed since that date. Except as required by applicable law, including the securities laws of the United States ("U.S.") and the rules and regulations of the United States Securities and Exchange Commission ("SEC"), we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

Table of Contents

SPECTRUM BRANDS HOLDINGS, INC.

SB/RH HOLDINGS, LLC

TABLE OF CONTENTS

This report is a combined report of Spectrum Brands Holdings, Inc. and SB/RH Holdings, LLC. The combined notes to the condensed consolidated financial statements include notes representing Spectrum Brands Holdings, Inc. and SB/RH Holdings, LLC and certain notes related specifically to SB/RH Holdings, LLC.

PART I	FINANCIAL INFORMATION	Page
<u>Item 1.</u>	<u>Financial Statements</u>	2
Spectrum Brands Holdings, Inc. Condensed Consolidated Financial Statements (Unaudited)		
	<u>Condensed Consolidated Statements of Financial Position as of July 2, 2017 and September 30, 2016</u>	2
	<u>Condensed Consolidated Statements of Income for the three and nine month periods ended July 2, 2017 and July 3, 2016</u>	3
	<u>Condensed Consolidated Statements of Comprehensive Income for the three and nine month periods ended July 2, 2017 and July 3, 2016</u>	3
	<u>Condensed Consolidated Statements of Shareholders' Equity for the nine month period ended July 2, 2017</u>	4
	<u>Condensed Consolidated Statements of Cash Flows for the nine month periods ended July 2, 2017 and July 3, 2016</u>	5
SB/RH Holdings, LLC Condensed Consolidated Financial Statements (Unaudited)		
	<u>Condensed Consolidated Statements of Financial Position as of July 2, 2017 and September 30, 2016</u>	6
	<u>Condensed Consolidated Statements of Income for the three and nine month periods ended July 2, 2017 and July 3, 2016</u>	7
	<u>Condensed Consolidated Statements of Comprehensive Income for the three and nine month periods ended July 2, 2017 and July 3, 2016</u>	7
	<u>Condensed Consolidated Statements of Shareholder's Equity for the nine month period ended July 2, 2017</u>	8
	<u>Condensed Consolidated Statements of Cash Flows for the nine month periods ended July 2, 2017 and July 3, 2016</u>	9
Spectrum Brands Holdings, Inc. and SB/RH Holdings, LLC Combined (Unaudited)		
	<u>Combined Notes to Condensed Consolidated Financial Statements</u>	10
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	34
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	49
<u>Item 4.</u>	<u>Controls and Procedures</u>	50
PART II	OTHER INFORMATION	
<u>Item 1.</u>	<u>Legal Proceedings</u>	51
<u>Item 1A.</u>	<u>Risk Factors</u>	51

Edgar Filing: Spectrum Brands Holdings, Inc. - Form 10-Q

<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	53
<u>Item 6.</u>	<u>Exhibits</u>	53
<u>Signatures</u>		54

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SPECTRUM BRANDS HOLDINGS, INC.

Condensed Consolidated Statements of Financial Position

July 2, 2017 and September 30, 2016

(in millions, unaudited)

	July 2, 2017	September 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 109.9	\$ 275.3
Trade receivables, net	616.1	482.6
Other receivables	42.2	55.6
Inventories	843.7	740.6
Prepaid expenses and other current assets	94.1	78.8
Total current assets	1,706.0	1,632.9
Property, plant and equipment, net	675.1	542.1
Deferred charges and other	65.3	43.2
Goodwill	2,621.3	2,478.4
Intangible assets, net	2,453.4	2,372.5
Total assets	\$ 7,521.1	\$ 7,069.1
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 33.9	\$ 164.0
Accounts payable	557.6	580.1
Accrued wages and salaries	68.9	122.9
Accrued interest	45.5	39.3
Other current liabilities	199.2	189.3
Total current liabilities	905.1	1,095.6
Long-term debt, net of current portion	4,066.7	3,456.2
Deferred income taxes	583.9	532.7
Other long-term liabilities	150.2	140.6
Total liabilities	5,705.9	5,225.1

Commitments and contingencies (Note 16)

Shareholders' equity:

Common Stock	0.6	0.6
Additional paid-in capital	2,126.2	2,073.6
Accumulated earnings	191.9	63.6
Accumulated other comprehensive loss, net of tax	(238.1)	(229.4)
Treasury stock, at cost	(274.2)	(108.3)
Total shareholders' equity	1,806.4	1,800.1
Noncontrolling interest	8.8	43.9
Total equity	1,815.2	1,844.0
Total liabilities and equity	\$ 7,521.1	\$ 7,069.1

See accompanying notes to the condensed consolidated financial statements

Table of Contents

SPECTRUM BRANDS HOLDINGS, INC.

Condensed Consolidated Statements of Income

For the three and nine month periods ended July 2, 2017 and July 3, 2016

(in millions, except per share figures, unaudited)

	Three Months Ended		Nine Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Net sales	\$ 1,303.9	\$ 1,361.5	\$ 3,685.6	\$ 3,790.0
Cost of goods sold	819.3	830.8	2,290.6	2,355.5
Restructuring and related charges	11.2	0.1	16.5	0.4
Gross profit	473.4	530.6	1,378.5	1,434.1
Selling	199.5	201.7	576.6	578.3
General and administrative	85.8	94.2	273.7	276.2
Research and development	14.5	14.6	44.0	42.9
Acquisition and integration related charges	5.8	8.0	15.0	31.2
Restructuring and related charges	10.0	5.4	16.2	7.8
Total operating expenses	315.6	323.9	925.5	936.4
Operating income	157.8	206.7	453.0	497.7
Interest expense	52.4	59.9	158.8	175.8
Other non-operating expense, net	2.1	2.2	2.9	6.5
Income from operations before income taxes	103.3	144.6	291.3	315.4
Income tax expense	24.7	42.5	88.8	46.8
Net income	78.6	102.1	202.5	268.6
Net income attributable to non-controlling interest	1.7	0.2	1.5	0.4
Net income attributable to controlling interest	\$ 76.9	\$ 101.9	\$ 201.0	\$ 268.2
Earnings Per Share				
Basic earnings per share	\$ 1.31	\$ 1.72	\$ 3.41	\$ 4.52
Diluted earnings per share	1.31	1.71	3.40	4.51
Dividends per share	0.42	0.38	1.22	1.09
Weighted Average Shares Outstanding				
Basic	58.7	59.4	58.9	59.3
Diluted	58.9	59.6	59.1	59.5

See accompanying notes to the condensed consolidated financial statements

SPECTRUM BRANDS HOLDINGS, INC.

Condensed Consolidated Statements of Comprehensive Income

Edgar Filing: Spectrum Brands Holdings, Inc. - Form 10-Q

For the three and nine month periods ended July 2, 2017 and July 3, 2016

(in millions, unaudited)

	Three Months Ended		Nine Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Net income	\$ 78.6	\$ 102.1	\$ 202.5	\$ 268.6
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain (loss), net tax of \$(1.6), \$0, \$1.9 and \$0, respectively	30.3	(13.7)	5.9	(6.0)
Unrealized (loss) gain on hedging activity, net tax of \$16.3, \$(2.9), \$6.6 and \$(0.4), respectively	(30.2)	7.8	(15.7)	8.6
Defined benefit pension (loss) gain, net tax of \$0.8, \$(0.3), \$(0.3) and \$(0.5), respectively	(2.3)	1.2	0.7	1.7
Other comprehensive (loss) income, net of tax	(2.2)	(4.7)	(9.1)	4.3
Comprehensive income	76.4	97.4	193.4	272.9
Comprehensive (loss) attributable to non-controlling interest	(0.2)	(0.2)	(0.4)	(0.3)
Comprehensive income attributable to controlling interest	\$ 76.6	\$ 97.6	\$ 193.8	\$ 273.2

See accompanying notes to the condensed consolidated financial statements

Table of Contents

SPECTRUM BRANDS HOLDINGS, INC.

Condensed Consolidated Statement of Shareholders' Equity

For the nine month period ended July 2, 2017

(in millions, unaudited)

	Common Shares	Stock Amount	Additional Paid-in Capital	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity	Non- controlling Interest	Total Equity
Balances as of September 30, 2016	59.4	\$ 0.6	\$ 2,073.6	\$ 63.6	\$ (229.4)	\$ (108.3)	\$ 1,800.1	\$ 43.9	\$ 1,844.0
Net income	—	—	—	201.0	—	—	201.0	1.5	202.5
Other comprehensive loss, net of tax	—	—	—	—	(8.7)	—	(8.7)	(0.4)	(9.1)
Purchase of non-controlling interest	—	—	23.8	—	—	—	23.8	(36.2)	(12.4)
Restricted stock issued and related tax withholdings	0.3	—	9.0	—	—	—	9.0	—	9.0
Share based compensation	—	—	19.8	—	—	—	19.8	—	19.8
Treasury stock purchases	(1.4)	—	—	—	—	(165.9)	(165.9)	—	(165.9)
Dividends declared	—	—	—	(72.7)	—	—	(72.7)	—	(72.7)
Balances as of July 2, 2017	58.3	\$ 0.6	\$ 2,126.2	\$ 191.9	\$ (238.1)	\$ (274.2)	\$ 1,806.4	\$ 8.8	\$ 1,815.2

See accompanying notes to the condensed consolidated financial statements

Table of Contents

SPECTRUM BRANDS HOLDINGS, INC.

Condensed Consolidated Statements of Cash Flows

For the nine month periods ended July 2, 2017 and July 3, 2016

(in millions, unaudited)

	July 2, 2017	July 3, 2016
Cash flows from operating activities		
Net income	\$ 202.5	\$ 268.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	70.9	70.5
Depreciation	72.2	66.2
Share based compensation	28.4	47.4
Amortization of debt issuance costs	5.4	8.4
Inventory acquisition step-up	0.8	—
Pet safety recall inventory write-off	13.0	—
Write-off of debt issuance costs	2.5	—
Non-cash debt accretion	0.6	1.6
Deferred tax expense (benefit)	52.2	(3.1)
Net changes in operating assets and liabilities	(286.1)	(341.7)
Net cash provided by operating activities	162.4	117.9
Cash flows from investing activities		
Purchases of property, plant and equipment	(78.1)	(59.6)
Business acquisitions, net of cash acquired	(304.7)	—
Proceeds from sales of property, plant and equipment	4.3	0.8
Other investing activities	(1.2)	(1.9)
Net cash used by investing activities	(379.7)	(60.7)
Cash flows from financing activities		
Proceeds from issuance of debt	557.5	203.9
Payment of debt	(223.3)	(270.2)
Payment of debt issuance costs	(5.9)	(1.6)
Payment of cash dividends	(72.1)	(64.6)
Treasury stock purchases	(165.9)	(40.2)
Purchase of non-controlling interest	(12.6)	—
Payment of contingent consideration	—	(3.2)
Share based tax withholding payments, net of proceeds upon vesting	(24.3)	(10.5)
Net cash provided (used) by financing activities	53.4	(186.4)
Effect of exchange rate changes on cash and cash equivalents	(1.5)	(1.7)
Net decrease in cash and cash equivalents	(165.4)	(130.9)
Cash and cash equivalents, beginning of period	275.3	247.9

Edgar Filing: Spectrum Brands Holdings, Inc. - Form 10-Q

Cash and cash equivalents, end of period	\$ 109.9	\$ 117.0
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 138.1	\$ 186.8
Cash paid for taxes	\$ 28.7	\$ 30.7
Non cash investing activities		
Acquisition of property, plant and equipment through capital leases	\$ 133.7	\$ 28.2
Non cash financing activities		
Issuance of shares through stock compensation plan	\$ 54.4	\$ 47.2

See accompanying notes to the condensed consolidated financial statements

Table of Contents

SB/RH HOLDINGS, LLC

Condensed Consolidated Statements of Financial Position

July 2, 2017 and September 30, 2016

(in millions, unaudited)

	July 2, 2017	September 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 109.8	\$ 270.8
Trade receivables, net	616.1	482.6
Other receivables	41.0	55.6
Inventories	843.7	740.6
Prepaid expenses and other current assets	94.1	78.8
Total current assets	1,704.7	1,628.4
Property, plant and equipment, net	675.1	542.1
Deferred charges and other	51.3	32.1
Goodwill	2,621.3	2,478.4
Intangible assets, net	2,453.4	2,372.5
Total assets	\$ 7,505.8	\$ 7,053.5
Liabilities and Shareholder's Equity		
Current liabilities:		
Current portion of long-term debt	\$ 33.9	\$ 164.0
Accounts payable	557.6	580.1
Accrued wages and salaries	68.9	122.9
Accrued interest	45.5	39.3
Other current liabilities	196.6	188.3
Total current liabilities	902.5	1,094.6
Long-term debt, net of current portion	4,066.7	3,456.2
Deferred income taxes	583.7	532.7
Other long-term liabilities	150.2	140.6
Total liabilities	5,703.1	5,224.1
Commitments and contingencies (Note 16)		
Shareholder's equity:		
Other capital	2,060.3	2,000.9
Accumulated (deficit) earnings	(28.3)	8.1
Accumulated other comprehensive loss, net of tax	(238.1)	(229.4)
Total shareholder's equity	1,793.9	1,779.6
Noncontrolling interest	8.8	49.8
Total equity	1,802.7	1,829.4
Total liabilities and equity	\$ 7,505.8	\$ 7,053.5

See accompanying notes to the condensed consolidated financial statements

6

Table of Contents

SB/RH HOLDINGS, LLC

Condensed Consolidated Statements of Income

For the three and nine month periods ended July 2, 2017 and July 3, 2016

(in millions, unaudited)

	Three Months Ended		Nine Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Net sales	\$ 1,303.9	\$ 1,361.5	\$ 3,685.6	\$ 3,790.0
Cost of goods sold	819.3	830.8	2,290.6	2,355.5
Restructuring and related charges	11.2	0.1	16.5	0.4
Gross profit	473.4	530.6	1,378.5	1,434.1
Selling	199.5	201.7	576.6	578.3
General and administrative	84.6	92.8	267.8	271.7
Research and development	14.5	14.6	44.0	42.9
Acquisition and integration related charges	5.8	8.0	15.0	31.2
Restructuring and related charges	10.0	5.4	16.2	7.8
Total operating expenses	314.4	322.5	919.6	931.9
Operating income	159.0	208.1	458.9	502.2
Interest expense	52.5	59.9	159.2	175.8
Other non-operating expense, net	2.1	2.2	2.9	6.5
Income from operations before income taxes	104.4	146.0	296.8	319.9
Income tax expense	25.0	40.8	91.6	56.6
Net income	79.4	105.2	205.2	263.3
Net income attributable to non-controlling interest	1.7	0.1	1.5	0.3
Net income attributable to controlling interest	\$ 77.7	\$ 105.1	\$ 203.7	\$ 263.0

See accompanying notes to the condensed consolidated financial statements

SB/RH HOLDINGS, LLC

Condensed Consolidated Statements of Comprehensive Income

For the three and nine month periods ended July 2, 2017 and July 3, 2016

(in millions, unaudited)

Edgar Filing: Spectrum Brands Holdings, Inc. - Form 10-Q

	Three Months Ended		Nine Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Net income	\$ 79.4	\$ 105.2	\$ 205.2	\$ 263.3
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain (loss), net tax of \$(1.6), \$0, \$1.9 and \$0, respectively	30.3	(13.7)	5.9	(6.0)
Unrealized (loss) gain on hedging activity, net tax of \$16.3, \$(2.9), \$6.6 and \$(0.4), respectively	(30.2)	7.8	(15.7)	8.6
Defined benefit pension (loss) gain, net tax of \$0.8, \$(0.3), \$(0.3) and \$(0.5), respectively	(2.3)	1.2	0.7	1.7
Other comprehensive (loss) income, net of tax	(2.2)	(4.7)	(9.1)	4.3
Comprehensive income	77.2	100.5	196.1	267.6
Comprehensive (loss) attributable to non-controlling interest	(0.2)	(0.2)	(0.4)	(0.3)
Comprehensive income attributable to controlling interest	\$ 77.4	\$ 100.7	\$ 196.5	\$ 267.9

See accompanying notes to the condensed consolidated financial statements

Table of Contents

SB/RH HOLDINGS, LLC

Condensed Consolidated Statements of Shareholder's Equity

For the nine month period ended July 2, 2017

(in millions, unaudited)

	Other	Accumulated Earnings	Accumulated Other Comprehensive (Loss)	Total Shareholder's Equity	Non- controlling Interest	Total Equity
Balances as of September 30, 2016	Capital 2,000.9	(Deficit) 8.1	(Loss) (229.4)	1,779.6	49.8	1,829.4
Net income	—	203.7	—	203.7	1.5	205.2
Other comprehensive loss, net of tax	—	—	(8.7)	(8.7)	(0.4)	(9.1)
Purchase of non-controlling interest	29.6	—	—	29.6	(42.1)	(12.5)
Restricted stock issued and related tax withholdings	12.2	—	—	12.2	—	12.2
Share based compensation	17.6	—	—	17.6	—	17.6
Dividends paid to parent	—	(240.1)	—	(240.1)	—	(240.1)
Balances as of July 2, 2017	\$ 2,060.3	\$ (28.3)	\$ (238.1)	\$ 1,793.9	\$ 8.8	\$ 1,802.7

See accompanying notes to the condensed consolidated financial statements

Table of Contents

SB/RH HOLDINGS, LLC

Condensed Consolidated Statements of Cash Flows

For the nine month periods ended July 2, 2017 and July 3, 2016

(in millions, unaudited)

	July 2, 2017	July 3, 2016
Cash flows from operating activities		
Net income	\$ 205.2	\$ 263.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	70.9	70.5
Depreciation	72.2	66.2
Share based compensation	26.1	43.4
Amortization of debt issuance costs	5.4	8.4
Inventory acquisition step-up	0.8	—
Pet safety recall inventory write-off	13.0	—
Write-off of debt issuance costs	2.5	—
Non-cash debt accretion	0.6	1.6
Deferred tax expense	55.0	6.6
Net changes in operating assets and liabilities	(307.1)	(355.3)
Net cash provided by operating activities	144.6	104.7
Cash flows from investing activities		
Purchases of property, plant and equipment	(78.1)	(59.6)
Business acquisitions, net of cash acquired	(304.7)	—
Proceeds from sales of property, plant and equipment	4.3	0.8
Other investing activities	(1.2)	(1.9)
Net cash used by investing activities	(379.7)	(60.7)
Cash flows from financing activities		
Proceeds from issuance of debt	557.5	217.8
Payment of debt	(223.3)	(311.7)
Payment of debt issuance costs	(5.9)	(1.6)
Payment of cash dividends to parent	(240.1)	(74.6)
Purchase of non-controlling interest	(12.6)	—
Payment of contingent consideration	—	(3.2)
Net cash provided (used) by financing activities	75.6	(173.3)
Effect of exchange rate changes on cash and cash equivalents	(1.5)	(1.7)
Net decrease in cash and cash equivalents	(161.0)	(131.0)
Cash and cash equivalents, beginning of period	270.8	247.9
Cash and cash equivalents, end of period	\$ 109.8	\$ 116.9
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 138.1	\$ 186.8
Cash paid for taxes	\$ 28.7	\$ 30.7

Edgar Filing: Spectrum Brands Holdings, Inc. - Form 10-Q

Non cash investing activities

Acquisition of property, plant and equipment through capital leases	\$ 133.7	\$ 28.2
---	----------	---------

See accompanying notes to the condensed consolidated financial statements

Table of Contents

SPECTRUM BRANDS HOLDINGS, INC.
SB/RH HOLDINGS, LLC
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in millions, unaudited)

This report is a combined report of Spectrum Brands Holdings, Inc. (“SBH”) and SB/RH Holdings, LLC (“SB/RH”) (collectively, the “Company”). The notes to the condensed consolidated financial statements that follow include both consolidated SBH and SB/RH notes, unless otherwise indicated below.

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company and its majority owned subsidiaries in accordance with accounting principles for interim financial information generally accepted in the United States and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes necessary for a comprehensive presentation of financial position and results of operations. It is management’s opinion, however, that all material adjustments have been made which are necessary for a fair financial statement presentation. For further information, refer to the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2016.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU requires revenue recognition to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new revenue recognition model requires identifying the contract and performance obligations, determining the transaction price, allocating the transaction price to performance obligations and recognizing the revenue upon satisfaction of performance obligations. This ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. This ASU can be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the updates recognized at the date of the initial application along with additional disclosures. The ASU will become effective for us beginning in the first quarter of our fiscal year ending September 30, 2019, with early adoption available to us beginning in the first quarter of our fiscal year ending September 30, 2018. We have not elected to early adopt. We have performed our preliminary risk assessment and scoping of the adoption impact and are currently performing detailed assessment of various implementation matters that may have an impact on the consolidated financial statements of the Company, but we have not concluded on the materiality or method of adoption.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which supersedes the lease requirements in ASC 840, Leases. This ASU requires lessees to recognize lease assets and liabilities on the balance sheet, as well as disclosing key information about leasing arrangements. Although the ASU requires both operating and finance leases to be disclosed on the balance sheet, a distinction between the two types still exists. The ASU can be applied using a modified retrospective approach, with optional practical expedients that entities may elect to apply, relating to the identification and classification of leases that commenced before the effective date, along with the ability to use hindsight in the evaluation of lease decisions. The ASU will become effective for us beginning in the first quarter of our fiscal year ending September 30, 2020, with early adoption available. We are assessing the impact this pronouncement will have on the consolidated financial statements of the Company and have not determined the materiality or method of adoption.

In March 2017, the FASB issued ASU No. 2017-07, Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires an employer to disaggregate the service cost component from the other components of net periodic pension costs within the statement of income. The amendment provides guidance requiring the service cost component to be recognized consistent with other compensation costs arising from service rendered by employees during the period, and all other components to be recognized separately outside of the subtotal of income from operations. The ASU is applied on a retrospective basis, and will become effective for us in the first quarter of the year ending September 30, 2019; with early adoption available to us in the first quarter of the year ending September 30, 2018. The net periodic benefit cost for the year ended September 30, 2016 was \$4.5 million; of which the service cost component was \$2.8 million and other components were \$1.7 million. The net periodic benefit cost for the year ending September 30, 2017 will be \$7.6 million, of which the service cost component is \$3.9 million and other cost components are \$3.7 million.

Table of Contents

In January 2017, the FASB issued ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies the test for goodwill impairment by removing Step 2 from the goodwill impairment test. If goodwill impairment is realized, the amount recognized will be the amount by which the carrying amount exceeds the reporting unit's fair value; however the loss recognized cannot exceed the total amount of goodwill allocated to that reporting unit. The ASU must be applied on a prospective basis and will become effective for us beginning in the first quarter of the year ended September 30, 2021, with early adoption available. We chose to adopt the standard immediately, with no impact to the condensed consolidated financial statements.

NOTE 3 – ACQUISITIONS

The Company applies the acquisition method of accounting. The acquisition method of accounting requires, among other things, that the assets acquired and liabilities assumed in a business combination be measured at their fair values as of the closing date of the acquisition.

PetMatrix

On June 1, 2017, the Company completed the acquisition of PetMatrix LLC, a manufacturer and marketer of rawhide-free dog chews consisting primarily of the DreamBone® and SmartBones® brands. The results of PetMatrix's operations since June 1, 2017 are included in the Company's Consolidated Statements of Income, and reported within the PET reporting segment for the three and nine month periods ended July 2, 2017.

The Company has recorded a preliminary allocation of the purchase price to the Company's tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values as of the June 1, 2017 acquisition date. The excess of the purchase price over the fair value of the net tangible assets and identifiable intangible assets was recorded as goodwill, which includes value associated with the assembled workforce. The calculation of purchase price and preliminary purchase price allocation is as follows:

	Purchase
(in millions)	Price
Cash consideration	\$ 255.2
(in millions)	Allocation
Cash and cash equivalents	\$ 0.2
Trade receivables	7.8

Inventories	16.0
Prepaid expenses and other current assets	0.9
Property, plant and equipment	0.8
Goodwill	123.8
Intangible assets	110.4
Accounts payable	(4.1)
Accrued wages and salaries	(0.1)
Other current liabilities	(0.5)
Net assets acquired	\$ 255.2

The preliminary purchase price allocation resulted in goodwill of \$123.8 million, allocated to the PET segment; of which \$123.8 million is deductible for tax purposes. The values allocated to intangible assets and the weighted average useful lives are as follows:

(in millions)	Carrying Amount	Weighted Average Useful Life (Years)
Tradenames	\$ 75.0	Indefinite
Technology	21.0	14 years
Customer relationships	12.0	16 years
Non-compete agreement	2.4	5 years
Total intangibles acquired	\$ 110.4	

Table of Contents

The Company performed a valuation of the acquired inventories; tradenames; technologies; customer relationships and non-compete agreements. The fair values were determined based upon a preliminary valuation and the estimates and assumptions used in such valuation are pending completion and subject to change, which could be significant, within the measurement period; up to one year from the June 1, 2017 acquisition date. The following is a summary of significant inputs to the valuation:

- Inventory – Acquired inventory consists of branded finished goods that were valued based on the comparative sales method, which estimates the expected sales price of the finished goods inventory, reduced for all costs expected to be incurred in its completion or disposition and a profit on those costs.
- Tradenames – The Company valued indefinite-lived trade names, DreamBone® and SmartBones®, using an income approach, the relief-from-royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the trade names were not owned. Royalty rates were selected based on consideration of several factors, including prior transactions, related trademarks and trade names, other similar trademark licensing and transaction agreements and the relative profitability and perceived contribution of the trade names.
- Technology – The Company valued technology using an income approach, the relief-from-royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the technology was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions, related licensing agreements and the importance of the technology and profit levels, among other considerations. The Company anticipates using these technologies through the legal life of the underlying patents; therefore, the expected useful life of these technologies is based on the remaining life of the underlying patents.
- Customer relationships – The Company valued customer relationships using an income approach, the multi-period excess earnings method. In determining the fair value of the customer relationships, the multi-period excess earnings approach values the intangible asset at the present value of the incremental after-tax cash flows attributable only to the customer relationship after deducting contributory asset charges. The incremental after-tax cash flows attributable to the subject intangible asset are then discounted to their present value. Only expected sales from current customers were used, which are estimated using annual expected growth rates of 2% to 20%. The Company assumed a customer retention rate of up to 98%, which is supported by historical retention rates. Income taxes were estimated at 35% and amounts were discounted using a rate of 12%.
- Non-compete agreements – The Company valued the non-compete agreement using the income approach that compares the prospective cash flows with and without the non-compete agreement in place. The value of the non-compete agreement is the difference between the discounted cash flows of the business under each of these two alternative scenarios, considering both tax expenditure and tax amortization benefits.

Pro forma results have not been presented as the PetMatrix acquisition is not considered individually significant to the consolidated results of the Company.

GloFish

On May 12, 2017, the Company entered into an asset purchase agreement with Yorktown Technologies LP, for the acquisition of assets consisting of the GloFish branded operations, including transfer of the GloFish® brand, related intellectual property and operating agreements. The GloFish operations primarily consist of the development and licensing of fluorescent fish for sale through mass retail and online channels. The results of GloFish's operations since May 12, 2017 are included in the Company's Consolidated Statements of Income, and reported within the PET reporting segment for the three and nine month periods ended July 2, 2017.

Table of Contents

The Company has recorded a preliminary allocation of the purchase price to the Company's tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values as of the May 12, 2017 acquisition date. The excess of the purchase price over the fair value of the net tangible assets and identifiable intangible assets was recorded as goodwill, which includes value associated with the assembled workforce, including an experienced research team. The calculation of purchase price and preliminary purchase price allocation is as follows:

(in millions)	Purchase Price
Cash consideration	\$ 49.7
Contingent consideration	4.2
Total purchase price	\$ 53.9
(in millions)	Allocation
Trade receivables	\$ 0.4
Property, plant and equipment	0.6
Goodwill	15.4
Intangible assets	37.8
Other current liabilities	(0.3)
Net assets acquired	\$ 53.9

The preliminary purchase price allocation resulted in goodwill of \$15.4 million, allocated to the PET segment; of which \$15.4 million is deductible for tax purposes. The values allocated to intangible assets and the weighted average useful lives are as follows:

(in millions)	Carrying Amount	Weighted Average Useful Life (Years)
Tradenames	\$ 6.1	Indefinite
Technology	30.2	13 years
Customer relationships	1.5	10 years
Total intangibles acquired	\$ 37.8	

The Company performed a valuation of the acquired tradenames; technologies; customer relationships and contingent consideration. The fair values were determined based upon a preliminary valuation and the estimates and assumptions used in such valuation are pending completion and subject to change, which could be significant, within the measurement period; up to one year from the May 12, 2017 acquisition date. The following is a summary of significant inputs to the valuation:

- Tradenames – The Company valued indefinite-lived trade names using an income approach, the relief-from-royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the trade names were not owned. Royalty rates were selected based on consideration of several factors, including prior transactions, related trademarks and trade names, other similar trademark licensing and transaction agreements and the relative profitability and perceived contribution of the trade names.
- Technology – The Company valued technology using an income approach, the relief-from-royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the technology was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions, related licensing agreements and the importance of the technology and profit levels, among other considerations. The Company anticipates using these technologies through the legal life of the underlying patents; therefore, the expected useful life of these technologies is based on the remaining life of the underlying patents.
- Customer relationships – The Company valued customer relationships using a replacement cost. The replacement cost approach values the intangible asset at the present value of the incremental after-tax cash flows attributable only to the customer relationships after deducting the cost to recreate key customer relationships. The incremental after-tax cash flows attributable to the subject intangible asset are then discounted to their present value. Income taxes were estimated at 35% and amounts were discounted using a rate of 12%.
- Contingent consideration – The Company purchase of GloFish includes a future payment that is contingent upon the achievement of future financial performance, and was valued using at its fair value at the acquisition date. The fair value of the contingent consideration is sensitive to increases or decreases in revenue projections used in the assumptions.

Pro forma results have not been presented as the GloFish acquisition is not considered individually significant to the consolidated results of the Company.

Table of Contents

Shaser

On May 18, 2017, the Company completed the purchase of the remaining 44% non-controlling interest of Shaser, Inc. with a purchase price of \$12.6 million. Effective May 18, 2017, Shaser, Inc. is a wholly owned subsidiary of the Company and all recognized non-controlled interest associated with Shaser, Inc. is part of the Company's equity. As a result of the acquisition the Company recognized an increase of \$24.1 million to additional paid-in capital.

Acquisition and Integration Costs

The following summarizes acquisition and integration related charges for the three and nine month periods ended July 2, 2017 and July 3, 2016:

	Three Months Ended		Nine Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
(in millions)				
HHI Business	\$ 1.8	\$ 4.4	\$ 5.7	\$ 12.0
PetMatrix	1.7	—	2.0	—
GloFish	0.8	—	0.8	—
Armored AutoGroup	0.6	2.6	3.0	13.2
Shaser	0.2	—	1.4	—
Other	0.7	1.0	2.1	6.0
Total acquisition and integration related charges	\$ 5.8	\$ 8.0	\$ 15.0	\$ 31.2

NOTE 4 - RESTRUCTURING AND RELATED CHARGES

Pet Rightsizing Initiative – During the second quarter of the year ending September 30, 2017, the Company implemented a rightsizing initiative within the PET segment to streamline certain operations and reduce operating costs. The initiative includes headcount reductions and the rightsizing of certain facilities. Total costs associated with this initiative are expected to be approximately \$9 million, of which \$2.8 million has been incurred to date. The balance is anticipated to be incurred through September 30, 2018.

HHI Distribution Center Consolidation – During the second quarter of the year ending September 30, 2017, the Company implemented an initiative within the HHI segment to consolidate certain operations and reduce operating costs. The initiative includes headcount reductions and the exit of certain facilities. Total costs associated with the initiative are expected to be approximately \$23 million, of which \$9.1 million has been incurred to date. The balance is anticipated to be incurred through September 30, 2019.

GAC Business Rationalization Initiative – During the third quarter of the year ended September 30, 2016, the Company implemented an initiative in the GAC segment to consolidate certain operations and reduce operating costs. The initiative includes headcount reductions and the exit of certain facilities. Total costs associated with the initiative are expected to be approximately \$33 million, of which \$25.1 million has been incurred to date. The balance is anticipated to be incurred through December 31, 2017.

Other Restructuring Activities – The Company is entering or may enter into small, less significant initiatives and restructuring activities to reduce costs and improve margins throughout the organization. Individually these activities are not substantial, and occur over a shorter time period (less than 12 months).

The following summarizes restructuring and related charges for the three and nine month periods ended July 2, 2017 and July 3, 2016:

	Three Months Ended		Nine Months Ended	
	July		July	
(in millions)	July 2, 2017	3, 2016	July 2, 2017	3, 2016
GAC business rationalization initiative	\$ 12.8	\$ 3.6	\$ 19.8	\$ 3.6
HHI distribution center consolidation	9.0	—	9.1	—
PET rightsizing initiative	2.2	—	2.8	—
Other restructuring activities	(2.8)	1.9	1.0	4.6
Total restructuring and related charges	\$ 21.2	\$ 5.5	\$ 32.7	\$ 8.2
Reported as:				
Cost of goods sold	\$ 11.2	\$ 0.1	\$ 16.5	\$ 0.4
Operating expense	10.0	5.4	16.2	7.8

Table of Contents

The following is a summary of restructuring and related charges for the three and nine month periods ended July 2, 2017 and July 3, 2016 and cumulative costs for current restructuring initiatives as of July 2, 2017, by cost type. Termination costs consist of involuntary employee termination benefits and severance pursuant to a one-time benefit arrangement recognized as part of a restructuring initiative. Other costs consist of non-termination type costs related to restructuring initiatives such as incremental costs to consolidate or close facilities, relocate employees, costs to retrain employees to use newly deployed assets or systems, lease termination costs, asset write-downs and disposals, carrying costs of closed facility until sale, and redundant or incremental transitional operating costs and customer fines during transition, among others:

(in millions)	Termination Benefits	Other Costs	Total
For the three months ended July 2, 2017	4.4	16.8	21.2
For the three months ended July 3, 2016	1.3	4.2	5.5
For the nine months ended July 2, 2017	7.7	25.0	32.7
For the nine months ended July 3, 2016	3.0	5.2	8.2
Cumulative costs through July 2, 2017	8.0	30.0	38.0
Future costs to be incurred	7.9	20.3	28.2

The following is a roll-forward of the accrual related to all restructuring and related activities, included within Other Current Liabilities, by cost type for the nine month period ended July 2, 2017:

(in millions)	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2016	1.6	1.0	2.6
Provisions	5.7	4.1	9.8
Cash expenditures	(2.0)	(0.4)	(2.4)
Accrual balance at July 2, 2017	\$ 5.3	\$ 4.7	\$ 10.0

The following summarizes restructuring and related charges by segment for the three and nine month periods ended July 2, 2017 and July 3, 2016, cumulative costs incurred through July 2, 2017, and future expected costs to be incurred by segment:

(in millions)	GBA	PET	HHI	GAC	Total
For the three months ended July 2, 2017	\$ 0.2	\$ 2.0	\$ 6.1	\$ 12.9	\$ 21.2
For the three months ended July 3, 2016	0.6	0.6	0.7	3.6	5.5
For the nine months ended July 2, 2017	1.5	3.7	7.7	19.8	32.7
For the nine months ended July 3, 2016	1.0	2.4	1.2	3.6	8.2
Cumulative costs through July 2, 2017	1.5	3.7	7.7	25.1	38.0
Future costs to be incurred	—	6.4	14.1	7.7	28.2

\

NOTE 5 - RECEIVABLES AND CONCENTRATION OF CREDIT RISK

The allowance for uncollectible receivables as of July 2, 2017 and September 30, 2016 was \$49.6 million and \$46.8 million, respectively. 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 represents approximately 20% and 15% of the Company's Trade Receivables at July 2, 2017 and September 30, 2016, respectively.

NOTE 6 - INVENTORIES

Inventories consist of the following:

(in millions)	July 2, 2017	September 30, 2016
Raw materials	\$ 141.6	\$ 127.5
Work-in-process	59.5	43.6
Finished goods	642.6	569.5
	\$ 843.7	\$ 740.6

Table of Contents

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

(in millions)	July 2, 2017	September 30, 2016
Land, buildings and improvements	\$ 195.3	\$ 195.8
Machinery, equipment and other	595.7	550.6
Capital leases	262.9	130.0
Construction in progress	79.3	57.7
Property, plant and equipment	\$ 1,133.2	\$ 934.1
Accumulated depreciation	(458.1)	(392.0)
Property, plant and equipment, net	\$ 675.1	\$ 542.1

NOTE 8 - GOODWILL AND INTANGIBLE ASSETS

Goodwill, by segment, consists of the following:

(in millions)	GBA	HHI	PET	H&G	GAC	Total
As of September 30, 2016	345.1	702.8	299.8	196.5	934.2	2,478.4
PetMatrix acquisition	—	—	123.8	—	—	123.8
GloFish acquisition	—	—	15.4	—	—	15.4
Foreign currency impact	0.8	2.1	0.4	—	0.4	3.7
As of July 2, 2017	\$ 345.9	\$ 704.9	\$ 439.4	\$ 196.5	\$ 934.6	\$ 2,621.3

The carrying value and accumulated amortization for intangible assets subject to amortization are as follows:

(in millions)	July 2, 2017			September 30, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	\$ 1,001.6	\$ (344.3)	\$ 657.3	\$ 984.8	\$ (302.9)	\$ 681.9
Technology assets	287.2	(114.1)	173.1	237.2	(96.7)	140.5
Tradenames	165.7	(100.8)	64.9	165.7	(89.1)	76.6
Total	\$ 1,454.5	\$ (559.2)	\$ 895.3	\$ 1,387.7	\$ (488.7)	\$ 899.0

The range and weighted average useful lives for definite-lived intangible assets are as follows:

Asset Type	Range	Weighted Average
Customer relationships	2 - 20 years	18.4 years
Technology assets	5 - 18 years	11.6 years
Tradenames	5 - 13 years	11.4 years

Certain tradename intangible assets have an indefinite life and are not amortized. The balance of tradenames not subject to amortization was \$1,558.1 million and \$1,473.5 million as of July 2, 2017 and September 30, 2016, respectively. There was no impairment loss on indefinite-lived trade names for the three and nine month periods ended July 2, 2017 and July 3, 2016.

Amortization expense from intangible assets for the three month periods ended July 2, 2017 and July 3, 2016 was \$23.9 million and \$23.5 million respectively. Amortization expense from intangible assets for the nine month periods ended July 2, 2017 and July 3, 2016 was \$70.9 million and \$70.5 million respectively. Excluding the impact of any future acquisitions or changes in foreign currency, the Company estimates annual amortization expense of intangible assets for the next five fiscal years will be as follows:

(in millions)	Amortization
2017	\$ 93.0
2018	90.8
2019	90.5
2020	89.0
2021	83.9

Table of Contents

NOTE 9 - DEBT

Debt consists of the following:

(in millions)	SBH			September 30,			SB/RH			September 30,		
	July 2, 2017		Amount	2016		Rate	July 2, 2017		Rate	2016		Rate
	Amount	Rate		Amount	Rate		Amount	Rate		Amount	Rate	
Term Loan, variable rate, due June 23, 2022	\$ 1,247.3	3.2 %		\$ 1,005.5	3.6 %		\$ 1,247.3	3.2 %		\$ 1,005.5	3.6 %	
CAD Term Loan, variable rate, due June 23, 2022	56.5	4.5 %		54.9	4.6 %		56.5	4.5 %		54.9	4.6 %	
Euro Term Loan, variable rate, due June 23, 2022	—	— %		63.0	3.5 %		—	— %		63.0	3.5 %	
4.00% Notes, due October 1, 2026	486.3	4.0 %		477.0	4.0 %		486.3	4.0 %		477.0	4.0 %	
5.75% Notes, due July 15, 2025	1,000.0	5.8 %		1,000.0	5.8 %		1,000.0	5.8 %		1,000.0	5.8 %	
6.125% Notes, due December 15, 2024	250.0	6.1 %		250.0	6.1 %		250.0	6.1 %		250.0	6.1 %	
6.375% Notes, due November 15, 2020	—	— %		129.7	6.4 %		—	— %		129.7	6.4 %	
6.625% Notes, due November 15, 2022	570.0	6.6 %		570.0	6.6 %		570.0	6.6 %		570.0	6.6 %	
Revolver Facility, variable rate, expiring March 6, 2022	293.0	3.1 %		—	— %		293.0	3.1 %		—	— %	
Other notes and obligations	15.5	10.2 %		16.8	9.8 %		15.5	10.2 %		16.8	9.8 %	
Obligations under capital leases	240.8	5.7 %		114.7	5.5 %		240.8	5.7 %		114.7	5.5 %	
Total debt	4,159.4			3,681.6			4,159.4			3,681.6		
Unamortized discount on debt	(3.8)			(4.5)			(3.8)			(4.5)		
Debt issuance costs	(55.0)			(56.9)			(55.0)			(56.9)		
Less current portion	(33.9)			(164.0)			(33.9)			(164.0)		
Long-term debt, net of current portion	\$ 4,066.7			\$ 3,456.2			\$ 4,066.7			\$ 3,456.2		

On October 6, 2016, the Company entered into the first amendment to the Credit Agreement under its Term Loans and Revolver Facility (the “Credit Agreement”) reducing the interest rate margins applicable to the USD Term Loans to either adjusted LIBOR (International Exchange London Interbank Offered Rate), subject to a 0.75% floor plus margin of 2.50% per annum, or base rate with a 1.75% floor plus margin of 1.50% per annum. The Company recognized \$1.0 million of costs in connection with amending the Credit Agreement that has been recognized as interest expense.

On March 6, 2017, the Company entered into a second amendment to the Credit Agreement expanding the overall capacity of the Revolver Facility to \$700 million, reducing the interest rate margin to either adjusted LIBOR plus margin ranging from 1.75% to 2.25%, or base rate plus margin ranging from 0.75% to 1.25%, reducing the commitment fee to 35bps, and extending the maturity to March 2022. The Company recognized \$2.6 million of costs in connection with amending the cash revolver that has been deferred as debt issuance costs.

On April 7, 2017, the Company entered into a third amendment to the Credit Agreement reducing the interest rate margins applicable to the USD Term Loans to either adjusted LIBOR plus margin of 2.00% per annum, or base rate plus margin of 1.00%. The Company recognized \$0.6 million of costs in connection with amending the Credit Agreement that has been recognized as interest expense.

On May 16, 2017, the Company entered into a fourth amendment to the Credit Agreement increasing its USD Term Loan by \$250.0 million of incremental borrowings and removing the floor which both LIBOR and base rates were subject to. The Company recognized \$2.7 million as costs in connection with the increased borrowing that has been deferred as debt issuance costs.

On May 24, 2017, the Company extinguished its Euro Term Loan and recognized non-cash interest expense of \$0.6 million for previously deferred debt issuance costs in connection with the extinguishment.

Subsequent to the amendments to the Credit Agreement discussed above, the Term Loans and Revolver Facility are subject to variable interest rates, (i) the USD Term Loan is subject to either adjusted LIBOR, plus margin of 2.00% per annum, or base rate plus margin of 1.00% per annum; (ii) the CAD Term Loan is subject to either CDOR (Canadian Dollar Offered Rate), subject to a 0.75% floor plus 3.50% per annum, or base rate with a 1.75% floor plus 2.50% per annum; (iii) the Euro Term Loan was subject to either EURIBOR (Euro Interbank Offered Rate), subject to a 0.75% floor plus 2.75% per annum; and (iv) the Revolver Facility is subject to either adjusted LIBOR plus margin ranging from 1.75% to 2.25% per annum, or base rate plus margin ranging from 0.75% to 1.25% per annum. As a result of borrowings and payments under the Revolver Facility, at July 2, 2017, the Company had borrowing availability of \$385.4 million, net outstanding letters of credit of \$20.1 million and a \$1.5 million amount allocated to a foreign subsidiary.

Table of Contents

The Credit Agreement, solely with respect to the Revolver Facility, contains a financial covenant test on the last day of each fiscal quarter on the maximum total leverage ratio. This is calculated as the ratio of (i) the principal amount of third party debt for borrowed money (including unreimbursed letter of credit drawings), capital leases and purchase money debt, at period-end, less cash and cash equivalents, to (ii) adjusted EBITDA for the trailing twelve months. The maximum total leverage ratio should be no greater than 6.0 to 1.0. As of July 2, 2017, we were in compliance with all covenants under the Credit Agreement and the indentures governing the 6.625% Notes, the 6.125% Notes, the 5.75% Notes, and the 4.00% Notes.

On October 20, 2016, the Company redeemed the remaining outstanding aggregate principal on the 6.375% Notes of \$129.7 million with a make whole premium of \$4.6 million recognized as interest expense for the nine month period ended July 2, 2017 in connection with the issuance of the €425 million aggregate principal amount 4.00% unsecured notes due 2026 (the “4.00% Notes”) and repurchase of the 6.375% Notes on September 20, 2016. The Company recognized \$1.9 million in non-cash interest expense for previously deferred debt issuance costs associated with the 6.375% Notes.

NOTE 10 - DERIVATIVES

Cash Flow Hedges

Interest Rate Swaps. 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 counterparties included in accrued liabilities or receivables, respectively, and recognized in earnings as an adjustment to interest from the underlying debt to which the swap is designated. At July 2, 2017, the Company had a series of U.S. dollar denominated interest rate swaps outstanding which effectively fix the interest on floating rate debt, exclusive of lender spreads, at 1.76% for a notional principal amount of \$300 million through May 2020. The derivative net losses estimated to be reclassified from AOCI into earnings over the next 12 months is \$1.0 million, net of tax. The Company’s interest rate swap financial instruments at July 2, 2017 and September 30, 2016 are as follows:

	July 2, 2017		September 30, 2016	
	Notional	Remaining	Notional	Remaining
(in millions)	Amount	Years	Amount	Years

Interest rate swaps - fixed \$ 300.0 2.8 \$ 300.0 0.5

Commodity Swaps. The Company is exposed to risk from fluctuating prices for raw materials, specifically zinc and brass used in its manufacturing processes. The Company hedges a portion of the risk associated with the purchase of these materials through the use of commodity 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 swaps effectively fix the floating price on a specified quantity of raw materials through a specified date. At July 2, 2017, the Company had a series of zinc and brass swap contracts outstanding through December 2018. The derivative net gains estimated to be reclassified from AOCI into earnings over the next 12 months is \$1.4 million, net of tax. The Company had the following commodity swap contracts outstanding as of July 2, 2017 and September 30, 2016.

	July 2, 2017		September 30, 2016	
	Notional	Contract Value	Notional	Contract Value
(in millions, except notional)				
Zinc swap contracts	7.4 Tons	\$ 18.2	6.7 Tons	\$ 12.8
Brass swap contracts	1.3 Tons	\$ 5.9	1.0 Tons	\$ 4.0

Foreign exchange contracts. The Company periodically enters into forward foreign exchange contracts to hedge a portion of the risk from forecasted foreign currency denominated third party and intercompany sales or payments. These obligations generally require the Company to exchange foreign currencies for U.S. Dollars, Euros, Pounds Sterling, Australian Dollars, Canadian Dollars or Japanese Yen. These foreign exchange contracts are cash flow hedges of fluctuating foreign exchange related to sales of 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 on the Condensed Consolidated Statements of Income. At July 2, 2017, the Company had a series of foreign exchange derivative contracts outstanding through December 2018. The derivative net loss estimated to be reclassified from AOCI into earnings over the next 12 months is \$5.5 million, net of tax. At July 2, 2017 and September 30, 2016, the Company had foreign exchange derivative contracts designated as cash flow hedges with a notional value of \$283.5 million and \$224.8 million, respectively.

Table of Contents

Net Investment Hedge

On September 20, 2016, SBI issued €425 million aggregate principal amount of 4.00% Notes. The 4.00% Notes are denominated in Euros and were designated as a net investment hedge of the translation of the Company's net investments in Euro denominated subsidiaries at the time of issuance. As a result, the translation of the Euro denominated debt is recognized as AOCI with any ineffective portion recognized as foreign currency translation gains or losses on the statement of income when the aggregate principal exceeds the net investment in its Euro denominated subsidiaries. Net gains or losses from the net investment hedge are reclassified from AOCI into earnings upon a liquidation event or deconsolidation of Euro denominated subsidiaries. As of July 2, 2017, the hedge was fully effective and no ineffective portion was recognized in earnings.

Derivative Contracts Not Designated as Hedges for Accounting Purposes

Foreign exchange contracts. The Company periodically enters into forward and swap foreign exchange contracts to economically hedge a portion of the risk from third party and intercompany payments resulting from existing obligations. These obligations generally require the Company to exchange foreign currencies for U.S. Dollars, Canadian Dollars, Euros, Pounds Sterling, Taiwanese Dollars, Hong Kong Dollars or Australian Dollars. These foreign exchange contracts are economic hedges of a related liability or asset recorded in the accompanying Condensed Consolidated Statements of Financial Position. 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. At July 2, 2017, the Company had a series of forward exchange contracts outstanding through July 2017. At July 2, 2017 and September 30, 2016, the Company had \$204.2 million and \$131.4 million, respectively, of notional value of such foreign exchange derivative contracts outstanding.

Commodity Swaps. The Company periodically enters into commodity swap contracts to economically hedge the risk from fluctuating prices for raw materials, specifically the pass-through of market prices for silver used in manufacturing purchased watch batteries. The Company hedges a portion of the risk associated with these materials through the use of commodity swaps. The swap contracts are designated as economic hedges with the unrealized gain or loss recorded in earnings and as an asset or liability at each period end. The unrecognized changes in the fair value of the hedge contracts are adjusted through earnings when the realized gains or losses affect earnings upon settlement of the hedges. The swaps effectively fix the floating price on a specified quantity of silver through a specified date. At July 2, 2017, the Company had a series of commodity swaps outstanding through November 2018. The Company had the following commodity swaps outstanding as of July 2, 2017 and September 30, 2016:

	July 2, 2017		September 30, 2016	
	Notional	Contract Value	Notional	Contract Value
(in millions, except notional)				
Silver	27.0 troy oz.	\$ 0.5	31.0 troy oz.	\$ 0.6

Fair Value of Derivative Instruments

The fair value of the Company's outstanding derivative contracts recorded in the Condensed Consolidated Statements of Financial Position is as follows:

(in millions)	Line Item	July 2, 2017	September 30, 2016
Derivative Assets			
Commodity swaps - designated as hedge	Receivables—Other	\$ 2.1	\$ 2.9
Commodity swaps - designated as hedge	Deferred charges and other	0.2	—
Interest rate swaps - designated as hedge	Deferred charges and other	0.2	—
Foreign exchange contracts - designated as hedge	Receivables—Other	0.1	5.5
Foreign exchange contracts - designated as hedge	Deferred charges and other	—	0.1
Foreign exchange contracts - not designated as hedge	Receivables—Other	0.3	0.2
Total Derivative Assets		\$ 2.9	\$ 8.7
Derivative Liabilities			
Interest rate swaps - designated as hedge	Other current liabilities	\$ —	\$ 0.7
Interest rate swaps - designated as hedge	Accrued interest	1.0	0.4
Commodity swaps - designated as hedge	Accounts payable	0.1	0.1
Foreign exchange contracts - designated as hedge	Accounts payable	7.6	1.7
Foreign exchange contracts - designated as hedge	Other long-term liabilities	1.1	0.1
Foreign exchange contracts - not designated as hedge	Accounts payable	1.0	0.2
Total Derivative Liabilities		\$ 10.8	\$ 3.2

Table of Contents

The Company is exposed to the risk of default by the counterparties with which it transacts and generally does not require collateral or other security to support financial instruments subject to credit risk. The Company monitors counterparty credit risk on an individual basis by periodically assessing each counterparty's credit rating exposure. The maximum loss due to credit risk equals the fair value of the gross asset derivatives that are concentrated with certain domestic and foreign financial institution counterparties. The Company considers these exposures when measuring its credit reserve on its derivative assets, which was less than \$0.1 million as of July 2, 2017 and September 30, 2016.

The Company's standard contracts do not contain credit risk related contingent features whereby the Company would be required to post additional cash collateral as a result of a credit event. However, the Company is typically required to post collateral in the normal course of business to offset its liability positions. As of July 2, 2017 and September 30, 2016, there was no cash collateral outstanding. In addition, as of July 2, 2017 and September 30, 2016, the Company had no posted standby letters of credit related to such liability positions.

The following summarizes the impact of derivative instruments on the accompanying Condensed Consolidated Statements of Income for the three and nine month periods ended July 2, 2017 and July 3, 2016, pretax:

For the three month period ended	Effective Portion		Gain (Loss)	Ineffective portion	
	Gain (Loss)	Reclassified to Earnings		Gain (Loss)	Gain (Loss)
	in OCI	Line Item	Gain (Loss)	Line Item	Gain (Loss)
July 2, 2017 (in millions)				Interest	
Interest rate swaps	\$ (1.1)	Interest expense	\$ (0.3)	expense	\$ —
Commodity swaps	(0.5)	Cost of goods sold	1.3	Cost of goods sold	—
				Other non-operating	
Net investment hedge	(32.6)	Other non-operating expense	—	expense	—
Foreign exchange contracts	0.2	Net sales	—	Net sales	—
				Cost of goods	
Foreign exchange contracts	(10.3)	Cost of goods sold	1.3	sold	—
Total	\$ (44.3)		\$ 2.3		\$ —
For the three month period ended	Effective Portion		Gain (Loss)	Ineffective portion	
	Gain (Loss)	Reclassified to Earnings		Gain (Loss)	Gain (Loss)
	in OCI	Line Item	Gain (Loss)	Line Item	Gain (Loss)
July 3, 2016 (in millions)				Interest	
Interest rate swaps	\$ (0.2)	Interest expense	\$ (0.5)	expense	\$ —

Edgar Filing: Spectrum Brands Holdings, Inc. - Form 10-Q

Commodity swaps	2.0	Cost of goods sold	(0.8)	Cost of goods sold	0.1
Foreign exchange contracts	(0.3)	Net sales	—	Net sales	—
Foreign exchange contracts	8.0	Cost of goods sold	0.1	Cost of goods sold	—
Total	\$ 9.5		\$ (1.2)		\$ 0.1

For the nine month period ended	Effective Portion		Gain (Loss)	Ineffective portion	
	Gain (Loss)	Reclassified to Earnings		Gain (Loss)	
July 2, 2017 (in millions)	in OCI	Line Item	(Loss)	Line Item	(Loss)
Interest rate swaps	\$ (1.0)	Interest expense	\$ (1.0)	Interest expense	\$ —
Commodity swaps	3.3	Cost of goods sold	3.8	Cost of goods sold	—
Net investment hedge	(9.3)	Other non-operating expense	—	Other non-operating expense	—
Foreign exchange contracts	0.3	Net sales	—	Net sales	—
Foreign exchange contracts	(4.4)	Cost of goods sold	8.4	Cost of goods sold	—
Total	\$ (11.1)		\$ 11.2		\$ —

For the nine month period ended	Effective Portion		Gain (Loss)	Ineffective portion	
	Gain (Loss)	Reclassified to Earnings		Gain (Loss)	
July 3, 2016 (in millions)	in OCI	Line Item	(Loss)	Line Item	(Loss)
Interest rate swaps	\$ (0.5)	Interest expense	\$ (1.4)	Interest expense	\$ —
Commodity swaps	2.9	Cost of goods sold	(3.8)	Cost of goods sold	0.1
Foreign exchange contracts	(0.4)	Net sales	—	Net sales	—
Foreign exchange contracts	6.8	Cost of goods sold	5.0	Cost of goods sold	—
Total	\$ 8.8		\$ (0.2)		\$ 0.1

Table of Contents

The following summarizes the loss associated with derivative contracts not designated as hedges in the Condensed Consolidated Statements of Income for the three and nine month periods ended July 2, 2017 and July 3, 2016:

(in millions)	Line Item	Three Months Ended		Nine Months Ended	
		July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Commodity swaps	Cost of goods sold	\$ —	\$ —	\$ 0.1	\$ —
Foreign exchange contracts	Other non-operating expenses, net	(1.0)	0.8	(2.4)	1.6
Total		\$ (1.0)	\$ 0.8	\$ (2.3)	\$ 1.6

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has not changed the valuation techniques used in measuring the fair value of any financial assets and liabilities during the year. The Company's derivative portfolio contains Level 2 instruments. See Note 10, "Derivatives" for additional detail. The fair value of derivative instruments as of July 2, 2017 and September 30, 2016 are as follows:

(in millions)	July 2, 2017		September 30, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Derivative Assets	\$ 2.9	\$ 2.9	\$ 8.7	\$ 8.7
Derivative Liabilities	\$ 10.8	\$ 10.8	\$ 3.2	\$ 3.2

The carrying value of cash and cash equivalents, receivables, accounts payable and short term debt approximate fair value based on the short-term nature of these assets and liabilities.

The fair value measurements of the Company's debt are valued at quoted input prices that are directly observable or indirectly observable through corroboration with observable market data (Level 2). The carrying value and fair value for debt as of July 2, 2017 and September 30, 2016 are as follows:

(in millions)	July 2, 2017		September 30, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Total debt - SBH	\$ 4,100.6	\$ 4,315.7	\$ 3,620.2	\$ 3,865.1
Total debt - SB/RH	\$ 4,100.6	\$ 4,315.7	\$ 3,620.2	\$ 3,865.1

NOTE 12 - EMPLOYEE BENEFIT PLANS

The net periodic benefit cost for the Company's pension and deferred compensation plans for the three and nine month periods ended July 2, 2017, and July 3, 2016 are as follows:

(in millions)	U.S. Plans		Non U.S. Plans	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Three month period ended				
Service cost	\$ 0.1	\$ 0.1	\$ 0.9	\$ 0.7
Interest cost	0.7	0.7	1.1	1.5
Expected return on assets	(1.1)	(1.1)	(1.0)	(1.2)
Recognized net actuarial loss	0.4	0.1	0.9	0.4
Net periodic benefit cost	\$ 0.1	\$ (0.2)	\$ 1.9	\$ 1.4
Nine month period ended				
Service cost	\$ 0.3	\$ 0.2	\$ 2.6	\$ 2.0
Interest cost	2.0	2.2	3.2	4.6
Expected return on assets	(3.3)	(3.3)	(3.0)	(3.6)
Recognized net actuarial loss	1.2	0.4	2.8	1.3

Edgar Filing: Spectrum Brands Holdings, Inc. - Form 10-Q

Net periodic benefit cost	\$ 0.2	\$ (0.5)	\$ 5.6	\$ 4.3
Weighted average assumptions				
			1.00 -	1.75 -
Discount rate	3.50%	4.25%	13.50%	13.81%
			2.25 -	1.75 -
Expected return on plan assets	7.00%	7.25%	7.00%	4.53%
			1.00 -	2.25 -
Rate of compensation increase	N/A	N/A	3.70%	5.50%

21

Table of Contents

Company contributions to its pension and deferred compensation plans, including discretionary amounts, for the three month periods ended July 2, 2017 and July 3, 2016, were \$2.2 million and \$2.2 million, respectively. Company contributions to its pension and deferred compensation plans, including discretionary amounts, for the nine month periods ended July 2, 2017 and July 3, 2016, were \$5.6 million and \$8.1 million, respectively.

NOTE 13 - SHARE BASED COMPENSATION

The following is a summary of share based compensation expense for the three and nine month periods ended July 2, 2017 and July 3, 2016:

Share Based Compensation Expense (in millions)	Three Months Ended		Nine Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
SBH	5.3	15.9	28.4	47.4
SB/RH	4.8	14.6	26.1	43.4

The remaining unrecognized pre-tax compensation cost as of July 2, 2017, for SBH and SB/RH was \$25.3 million and \$24.6 million, respectively.

The Company measures share based compensation expense of Restricted Stock Units (“RSUs”) based on the fair value of the awards, as determined by the market price of the Company’s shares on the grant date and recognizes these costs on a straight-line basis over the requisite service period of the awards. Certain RSUs are performance-based awards that are dependent upon achieving specified financial metrics over a designated period of time. The following is a summary of activity of the RSUs granted during the nine month period ended July 2, 2017:

SBH		SB/RH	
Weighted	Fair	Weighted	Fair

Edgar Filing: Spectrum Brands Holdings, Inc. - Form 10-Q

		Average Grant Date	Value at Grant Date		Average Grant Date	Value at Grant Date
(in millions, except per share data)	Shares	Fair Value	Date	Shares	Fair Value	Date
Total time-based grants	0.3	\$ 133.15	\$ 39.0	0.3	\$ 133.04	\$ 37.5
Performance-based grants						
Vesting in less than 12 months	—	\$ 140.38	\$ 0.1	—	\$ 140.38	\$ 0.1
Vesting in 12 to 24 months	0.1	122.66	12.9	0.1	122.66	12.9
Vesting in more than 24 months	0.3	122.43	36.0	0.3	122.43	\$ 36.0
Total performance-based grants	0.4	\$ 122.53	\$ 49.0	0.4	\$ 122.53	\$ 49.0
Total grants	0.7	\$ 127.02	\$ 88.0	0.7	\$ 126.87	\$ 86.5

A summary of the activity in the Company's RSUs during the nine month period ended July 2, 2017 is as follows:

	SBH			SB/RH		
		Weighted Average Grant Date	Fair Value at Grant Date		Weighted Average Grant Date	Fair Value at Grant Date
(in millions, except per share data)	Shares	Fair Value	Date	Shares	Fair Value	Date
At September 30, 2016	0.6	\$ 94.97	\$ 54.8	0.5	\$ 96.92	\$ 45.3
Granted	0.7	127.02	88.0	0.7	126.87	86.5
Forfeited	—	117.21	(0.9)	—	117.21	(0.9)
Vested	(0.5)	109.03	(54.5)	(0.5)	112.00	(48.3)
At July 2, 2017	0.8	\$ 114.65	\$ 87.4	0.7	\$ 116.29	\$ 82.6

Table of Contents

NOTE 14 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in the components of AOCI, net of tax, for the nine month period ended July 2, 2017 was as follows:

(in millions)	Foreign Currency Translation	Hedging Activity	Employee Benefit Plans	Total
Accumulated other comprehensive (loss) income, as of September 30, 2016	\$ (160.5)	\$ 3.1	\$ (72.0)	\$ (229.4)
Other comprehensive (loss) income before reclassification	4.0	(11.1)	(3.0)	(10.1)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(11.2)	4.0	(7.2)
Other comprehensive (loss) income	4.0	(22.3)	1.0	(17.3)
Deferred tax effect	1.7	6.6	(0.3)	8.0
Deferred tax valuation allowance	0.2	—	—	0.2
Other comprehensive (loss) income, net of tax	5.9	(15.7)	0.7	(9.1)
Other comprehensive loss attributable to non-controlling interest	(0.4)	—	—	(0.4)
Other comprehensive (loss) income attributable to controlling interest	6.3	(15.7)	0.7	(8.7)
Accumulated other comprehensive (loss) income, as of July 2, 2017	\$ (154.2)	\$ (12.6)	\$ (71.3)	\$ (238.1)

Amounts reclassified from AOCI associated with employee benefit plan costs and recognized on the Company's Condensed Consolidated Statements of Income for the three and nine month periods ended July 2, 2017 and July 3, 2016 were as follows:

(in millions)	Three Month Period Ended July 2, 2017		Nine Month Period Ended July 3, 2016	
Cost of goods sold	\$ 0.8	\$ 0.4	\$ 2.4	\$ 1.1
Selling expenses	0.1	—	0.5	0.2
General and administrative expenses	0.4	0.2	1.1	0.5
Amounts reclassified from accumulated other comprehensive income	\$ 1.3	\$ 0.6	\$ 4.0	\$ 1.8

See Note 10 “Derivatives”, for amounts reclassified from AOCI from the Company’s derivative hedging activity.

NOTE 15 - INCOME TAXES

The effective tax rate for the three and nine month periods ended July 2, 2017 and July 3, 2016 is as follows:

	Three Months Ended		Nine Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Effective tax rate				
SBH	23.9%	29.4%	30.5%	14.8%
SB/RH	24.0%	27.9%	30.9%	17.7%

The estimated annual effective tax rate applied to these periods differs from the U.S. federal statutory rate of 35% principally due to income earned outside the U.S. that is subject to statutory rates lower than 35% net of U.S. and non-U.S. taxes provided on income earned outside the U.S. that is not permanently reinvested. For the three and nine month periods ended July 2, 2017, the effective tax rate was reduced for the recognition of tax credits. For the three and nine month periods ended July 3, 2016, the effective tax rate was reduced by the release of valuation allowance on US net operating loss deferred tax assets and increased due to \$25.5 million of income tax expense recognized for a tax contingency reserve for a tax exposure in Germany. For the nine month period ended July 3, 2016, the effective tax rate was also reduced by \$5.9 million for non-recurring items related to the impact of tax law changes in state deferred tax rates on the Company’s net deferred tax liabilities.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

The Company is a defendant in various litigation matters generally arising out of the ordinary course of business. The Company does not believe that any of the matters or proceedings presently pending will have a material adverse effect on its results of operations, financial condition, liquidity or cash flows.

Environmental. The Company has provided for the estimated costs of \$4.3 million and \$4.4 million, as of July 2, 2017 and September 30, 2016, respectively, 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 that may result from resolution of these matters, will not have a material adverse effect on the consolidated financial condition, results of operations or cash flows of the Company.

Table of Contents

Product Liability. The Company may be named as a defendant in lawsuits involving product liability claims. The Company has recorded and maintains an estimated liability in the amount of management's estimate for aggregate exposure for such liabilities based upon probable loss from loss reports, individual cases, and losses incurred but not reported. As of July 2, 2017 and September 30, 2016, the Company recognized \$7.1 million and \$8.0 million in product liability accruals, respectively, included in Other Current Liabilities on the Consolidated Statement of Financial Position. The Company believes that any additional liability in excess of the amounts provided that may result from resolution of these matters will not have a material adverse effect on the consolidated financial condition, results of operations or cash flows of the Company.

Product Warranty. The Company recognizes an estimated liability for standard warranty on certain products when we recognize revenue on the sale of the warranted products. Estimated warranty costs incorporate replacement parts, products and delivery, and are recorded as a cost of goods sold at the time of product shipment based on historical and projected warranty claim rates, claims experience and any additional anticipated future costs on previously sold products. The Company recognized \$6.8 million and \$7.5 million of warranty accruals as of July 2, 2017 and September 30, 2016, respectively, included in Other Current Liabilities on the Consolidated Statement of Financial Statement.

Product Safety Recall. On June 10, 2017, the Company initiated a voluntary safety recall of various rawhide chew products for dogs sold by the Company's PET segment due to possible chemical contamination. As a result, the Company recognized estimated losses related to the recall of \$11.9 million as of July 2, 2017, which comprised of estimates for customer losses and direct incremental costs incurred by the Company. Additionally, the Company recognized \$13.0 million of inventory write-offs associated with inventory on-hand that was determined to be a risk of loss due to the recall. The estimates for customer losses reflect the cost of the affected products returned to or replaced by the Company and the estimated cost to reimburse customers for costs incurred by them related to the recall. The incremental costs incurred directly by the company do not include lost earnings associated with interruption of production at the Company's facilities, or the costs to put into place corrective and preventative actions at those facilities. The Company's estimates for losses related to the recall are provisional and were determined based on an assessment of information currently available and may be revised in subsequent periods as the Company continues to work with its customers to substantiate claims received to date and any additional claims that may be received. The Company suspended production at facilities impacted by the product safety recall and completed a comprehensive manufacturing review and is recommencing production during the fourth quarter ending September 30, 2017. There have been no lawsuits or claims related to the recalled product filed against the Company.

NOTE 17 - SEGMENT INFORMATION

The Company identifies its segments based upon the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. The Company manufactures, markets and/or distributes multiple product lines through various distribution networks, and in multiple geographic regions. The Company manages its business in five vertically integrated, product-focused reporting

segments: (i) Global Batteries & Appliances, which consists of the Company's worldwide battery and lighting products, electric personal care and small appliances businesses; (ii) Hardware & Home Improvement, which consists of the Company's worldwide hardware, security and plumbing business; (iii) Global Pet Supplies, which consists of the Company's worldwide pet supplies business; (iv) Home and Garden, which consists of the Company's home and garden and insect control business and (v) Global Auto Care, which consists of the Company's automotive appearance and performance products. Global strategic initiatives and financial objectives for each reportable segment are determined at the corporate level. Each 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 the segment.

Table of Contents

Net sales relating to the segments for the three and nine month periods ended July 2, 2017 and July 3, 2016 are as follows:

	SBH		SB/RH	
Three month periods ended (in millions)	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Consumer batteries	\$ 184.8	\$ 187.2	\$ 184.8	\$ 187.2
Small appliances	145.4	151.1	145.4	151.1
Personal care	110.9	115.8	110.9	115.8
Global Batteries & Appliances	441.1	454.1	441.1	454.1
Hardware & Home Improvement	324.7	328.5	324.7	328.5
Global Pet Supplies	189.9	207.1	189.9	207.1
Home and Garden	192.4	212.0	192.4	212.0
Global Auto Care	155.8	159.8	155.8	159.8
Net sales	\$ 1,303.9	\$ 1,361.5	\$ 1,303.9	\$ 1,361.5

	SBH		SB/RH	
Nine month periods ended (in millions)	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Consumer batteries	\$ 630.5	\$ 618.0	\$ 630.5	\$ 618.0
Small appliances	455.3	479.3	455.3	479.3
Personal care	378.2	393.0	378.2	393.0
Global Batteries & Appliances	1,464.0	1,490.3	1,464.0	1,490.3
Hardware & Home Improvement	927.2	912.9	927.2	912.9
Global Pet Supplies	576.0	619.0	576.0	619.0
Home and Garden	374.2	414.7	374.2	414.7
Global Auto Care	344.2	353.1	344.2	353.1
Net sales	\$ 3,685.6	\$ 3,790.0	\$ 3,685.6	\$ 3,790.0

The Company uses Adjusted EBITDA as its metric for evaluating operating performance as it reflects how the Chief Operating Decision Maker is currently evaluating the business and making operating decisions. EBITDA is calculated by excluding the Company's income tax expense, interest expense, depreciation expense and amortization expense (from intangible assets) from net income. Adjusted EBITDA further excludes: (1) share based compensation expense as it is a non-cash based compensation cost; (2) acquisition and integration costs that consist of transaction costs from acquisition transactions during the period, or subsequent integration related project costs directly associated with the acquired business; (3) restructuring and related costs, which consist of project costs associated with restructuring initiatives across the segments; (4) non-cash purchase accounting inventory adjustments recognized in earnings subsequent to an acquisition; (5) non-cash asset impairments or write-offs realized; (6) and other. During the three and nine month periods ended July 2, 2017, other adjustments consist of estimated costs for a non-recurring voluntary recall of rawhide product by the PET segment and professional fees associated with non-acquisition based strategic initiatives of the Company. During the three and nine month periods ended July 3, 2016, other adjustments consists of

costs associated with the onboarding a key executive and the involuntary transfer of inventory.

25

Table of Contents

The following is a reconciliation of net income to adjusted EBITDA for the three and nine month periods ended July 2, 2017 and July 3, 2016, respectively:

	SBH		SB/RH	
Three month periods ended (in millions)	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Global Batteries & Appliances	\$ 64.6	\$ 64.3	\$ 64.6	\$ 64.3
Hardware & Home Improvement	62.2	65.2	62.2	65.2
Global Pet Supplies	36.1	37.7	36.1	37.7
Home and Garden	59.5	67.0	59.5	67.0
Global Auto Care	50.7	54.2	50.7	54.2
Total Segment Adjusted EBITDA	273.1	288.4	273.1	288.4
Depreciation and amortization	49.5	45.3	49.5	45.3
Share-based compensation	5.3	15.9	4.8	14.6
Corporate expenses	9.2	9.2	9.1	9.1
Acquisition and integration related charges	5.8	8.0	5.8	8.0
Restructuring and related charges	21.2	5.5	21.2	5.5
Interest expense	52.4	59.9	52.5	59.9
Inventory acquisition step-up	0.8	—	0.8	—
Pet safety recall	24.9	—	24.9	—
Other	0.7	—	0.1	—
Income from operations before income taxes	\$ 103.3	\$ 144.6	\$ 104.4	\$ 146.0

	SBH		SB/RH	
Nine month periods ended (in millions)	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Global Batteries & Appliances	\$ 233.5	\$ 228.1	\$ 233.5	\$ 228.1
Hardware & Home Improvement	178.0	172.5	178.0	172.5
Global Pet Supplies	98.7	98.3	98.7	98.3
Home and Garden	100.8	118.3	100.8	118.3
Global Auto Care	115.9	122.0	115.9	122.0
Total Segment Adjusted EBITDA	726.9	739.2	726.9	739.2
Depreciation and amortization	143.1	136.7	143.1	136.7
Share-based compensation	28.4	47.4	26.1	43.4
Corporate expenses	28.7	23.3	28.2	22.9
Acquisition and integration related charges	15.0	31.2	15.0	31.2
Restructuring and related charges	32.7	8.2	32.7	8.2
Interest expense	158.8	175.8	159.2	175.8
Inventory acquisition step-up	0.8	—	0.8	—
Pet safety recall	24.9	—	24.9	—
Other	3.2	1.2	0.1	1.1
Income from operations before income taxes	\$ 291.3	\$ 315.4	\$ 296.8	\$ 319.9

Table of Contents

NOTE 18 - EARNINGS PER SHARE - SBH

The reconciliation of the numerator and denominator of the basic and diluted earnings per share calculation and the anti-dilutive shares for the three and nine month periods ended July 2, 2017 and July 3, 2016 are as follows:

	Three months ended		Nine months ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
(in millions, except per share amounts)				
Numerator				
Net income attributable to controlling interest	\$ 76.9	\$ 101.9	\$ 201.0	\$ 268.2
Denominator				
Weighted average shares outstanding - basic	58.7	59.4	58.9	59.3
Dilutive shares	0.2	0.2	0.2	0.2
Weighted average shares outstanding - diluted	58.9	59.6	59.1	59.5
Earnings per share				
Basic earnings per share	\$ 1.31	\$ 1.72	\$ 3.41	\$ 4.52
Diluted earnings per share	\$ 1.31	\$ 1.71	\$ 3.40	\$ 4.51
Weighted average number of anti-dilutive shares excluded from denominator				
Restricted stock units	0.3	0.3	0.3	0.3

Table of Contents

NOTE 19 - GUARANTOR STATEMENTS – SB/RH

Spectrum Brands, Inc. (“SBI”) with SB/RH as a parent guarantor (collectively, the “Parent”), with SBI’s domestic subsidiaries as subsidiary guarantors, has issued the 6.625% Notes under the 2022 Indenture, the 6.125% Notes under the 2024 Indenture, the 5.75% Notes under the 2025 Indenture and the 4.00% Notes under the 2026 Indenture.

The following consolidating financial statements illustrate the components of the condensed consolidated financial statements of SB/RH Holdings, LLC. The ‘Parent’ consists of the financial statements of Spectrum Brands, Inc. as the debt issuer, with SB/RH Holdings, LLC as a parent guarantor, without consolidated entities. SB/RH Holdings, LLC financial information is not presented separately as there are no independent assets or operations and therefore determined to not be material. Investments in subsidiaries are accounted for using the equity method for purposes of illustrating the consolidating presentation. The elimination entries presented herein eliminate investments in subsidiaries and intercompany balances and transactions.

Statement of Financial Position As of July 2, 2017 (in millions)	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	\$ 5.6	\$ 1.5	\$ 102.7	\$ —	\$ 109.8
Trade receivables, net	209.5	198.9	207.7	—	616.1
Intercompany receivables	—	1,037.7	280.9	(1,318.6)	—
Other receivables	7.9	3.8	30.0	(0.7)	41.0
Inventories	394.2	165.3	306.2	(22.0)	843.7
Prepaid expenses and other	47.1	8.5	38.4	0.1	94.1
Total current assets	664.3	1,415.7	965.9	(1,341.2)	1,704.7
Property, plant and equipment, net	328.3	116.4	230.4	—	675.1
Long-term intercompany receivables	351.2	110.6	12.3	(474.1)	—
Deferred charges and other	253.1	2.9	40.7	(245.4)	51.3
Goodwill	927.5	1,345.5	348.3	—	2,621.3
Intangible assets, net	1,335.0	741.0	377.4	—	2,453.4
Investments in subsidiaries	3,930.5	1,238.0	—	(5,168.5)	—
Total assets	\$ 7,789.9	\$ 4,970.1	\$ 1,975.0	\$ (7,229.2)	\$ 7,505.8
Liabilities and Shareholder's Equity					
Current liabilities:					
Current portion of long-term debt	\$ 16.0	\$ 1.7	\$ 16.8	\$ (0.6)	\$ 33.9
Accounts payable	213.5	94.4	249.7	—	557.6
Intercompany accounts payable	1,327.4	—	—	(1,327.4)	—

Edgar Filing: Spectrum Brands Holdings, Inc. - Form 10-Q

Accrued wages and salaries	22.1	2.3	44.5	—	68.9
Accrued interest	45.5	—	—	—	45.5
Other current liabilities	82.6	14.6	100.1	(0.7)	196.6
Total current liabilities	1,707.1	113.0	411.1	(1,328.7)	902.5
Long-term debt, net of current portion	3,973.5	59.9	33.3	—	4,066.7
Long-term intercompany debt	12.4	344.0	108.3	(464.7)	—
Deferred income taxes	243.2	516.4	74.7	(250.6)	583.7
Other long-term liabilities	34.2	6.3	109.7		150.2
Total liabilities	5,970.4	1,039.6	737.1	(2,044.0)	5,703.1
Shareholder's equity:					
Other capital	2,087.2	399.3	(1,005.7)	579.5	2,060.3
Accumulated (deficit) earnings	(28.3)	3,737.7	2,434.8	(6,172.5)	(28.3)
Accumulated other comprehensive (loss) income	(239.4)	(206.5)	(200.0)	407.8	(238.1)
Total shareholder's equity	1,819.5	3,930.5	1,229.1	(5,185.2)	1,793.9
Non-controlling interest	—	—	8.8	—	8.8
Total equity	1,819.5	3,930.5	1,237.9	(5,185.2)	1,802.7
Total liabilities and equity	\$ 7,789.9	\$ 4,970.1	\$ 1,975.0	\$ (7,229.2)	\$ 7,505.8

Table of Contents

Statement of Financial Position As of September 30, 2016 (in millions)	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	\$ 98.6	\$ 3.1	\$ 169.1	\$ —	\$ 270.8
Trade receivables, net	179.5	68.7	234.4	—	482.6
Intercompany receivables	—	909.1	233.4	(1,142.5)	—
Other receivables	—	5.5	56.3	(6.2)	55.6
Inventories	372.8	104.3	281.1	(17.6)	740.6
Prepaid expenses and other	42.8	4.4	32.1	(0.5)	78.8
Total current assets	693.7	1,095.1	1,006.4	(1,166.8)	1,628.4
Property, plant and equipment, net	241.1	77.6	223.4	—	542.1
Long-term intercompany receivables	365.4	187.3	13.7	(566.4)	—
Deferred charges and other	180.5	0.9	41.5	(190.8)	32.1
Goodwill	912.1	1,154.5	411.8	—	2,478.4
Intangible assets, net	1,341.5	628.5	402.5	—	2,372.5
Investments in subsidiaries	3,497.8	1,258.1	(2.9)	(4,753.0)	—
Total assets	\$ 7,232.1	\$ 4,402.0	\$ 2,096.4	\$ (6,677.0)	\$ 7,053.5
Liabilities and Shareholder's Equity					
Current liabilities:					
Current portion of long-term debt	\$ 143.6	\$ 1.4	\$ 19.9	\$ (0.9)	\$ 164.0
Accounts payable	257.5	58.4	264.2	—	580.1
Intercompany accounts payable	1,157.0	—	—	(1,157.0)	—
Accrued wages and salaries	63.9	6.6	52.4	—	122.9
Accrued interest	39.3	—	—	—	39.3
Other current liabilities	88.0	11.0	95.5	(6.2)	188.3
Total current liabilities	1,749.3	77.4	432.0	(1,164.1)	1,094.6
Long-term debt, net of current portion	3,402.5	20.5	33.2	—	3,456.2
Long-term intercompany debt	12.8	346.1	192.6	(551.5)	—
Deferred income taxes	189.0	459.2	80.3	(195.8)	532.7
Other long-term liabilities	39.5	1.0	100.1	—	140.6
Total liabilities	5,393.1	904.2	838.2	(1,911.4)	5,224.1
Shareholder's equity:					
Other capital	2,060.9	152.3	(954.0)	741.7	2,000.9
Accumulated earnings (deficit)	8.0	3,551.6	2,362.1	(5,913.6)	8.1
Accumulated other comprehensive (loss) income	(229.9)	(206.1)	(199.7)	406.3	(229.4)
Total shareholder's equity	1,839.0	3,497.8	1,208.4	(4,765.6)	1,779.6
Non-controlling interest	—	—	49.8	—	49.8
Total equity	1,839.0	3,497.8	1,258.2	(4,765.6)	1,829.4
Total liabilities and equity	\$ 7,232.1	\$ 4,402.0	\$ 2,096.4	\$ (6,677.0)	\$ 7,053.5

Table of Contents

Statement of Income	Guarantor		Nonguarantor		
Three month period ended July 2, 2017 (in millions)	Parent	Subsidiaries	Subsidiaries	Eliminations	Consolidated
Net sales	\$ 599.7	\$ 554.3	\$ 611.5	\$ (461.6)	\$ 1,303.9
Cost of goods sold	427.5	392.3	458.8	(459.3)	819.3
Restructuring and related charges	0.2	11.0	—	—	11.2
Gross profit	172.0	151.0	152.7	(2.3)	473.4
Selling	79.3	40.0	80.8	(0.6)	199.5
General and administrative	41.9	21.8	20.9	—	84.6
Research and development	9.0	2.5	3.0	—	14.5
Acquisition and integration related charges	4.6	0.4	0.8	—	5.8
Restructuring and related charges	7.9	1.8	0.3	—	10.0
Total operating expense	142.7	66.5	105.8	(0.6)	314.4
Operating income (loss)	29.3	84.5	46.9	(1.7)	159.0
Interest expense	44.7	6.0	1.8	—	52.5
Other non-operating (income) expense, net	(89.1)	(38.7)	1.5	128.4	2.1
Income from operations before income taxes	73.7	117.2	43.6	(130.1)	104.4
Income tax (benefit) expense	(5.7)	26.0	4.5	0.2	25.0
Net income (loss)	79.4	91.2	39.1	(130.3)	79.4
Net income attributable to non-controlling interest	—	—	1.7	—	1.7
Net income (loss) attributable to controlling interest	\$ 79.4	\$ 91.2	\$ 37.4	\$ (130.3)	\$ 77.7

Statement of Income	Guarantor		Nonguarantor		
Nine month period ended July 2, 2017 (in millions)	Parent	Subsidiaries	Subsidiaries	Eliminations	Consolidated
Net sales	\$ 1,812.2	\$ 1,147.1	\$ 1,908.4	\$ (1,182.1)	\$ 3,685.6
Cost of goods sold	1,232.5	807.7	1,426.4	(1,176.0)	2,290.6
Restructuring and related charges	0.5	15.9	0.1	—	16.5
Gross profit	579.2	323.5	481.9	(6.1)	1,378.5
Selling	240.5	91.8	246.0	(1.7)	576.6
General and administrative	148.4	52.9	66.5	—	267.8
Research and development	27.8	8.2	8.0	—	44.0

Edgar Filing: Spectrum Brands Holdings, Inc. - Form 10-Q

Acquisition and integration related charges	11.0	0.6	3.4	—	15.0
Restructuring and related charges	10.7	3.7	1.8	—	16.2
Total operating expense	438.4	157.2	325.7	(1.7)	919.6
Operating income (loss)	140.8	166.3	156.2	(4.4)	458.9
Interest expense	138.7	14.1	6.4	—	159.2
Other non-operating (income) expense, net	(216.6)	(120.6)	(0.1)	340.2	2.9
Income from operations before income taxes	218.7	272.8	149.9	(344.6)	296.8
Income tax expense (benefit)	13.5	52.8	25.5	(0.2)	91.6
Net income (loss)	205.2	220.0	124.4	(344.4)	205.2
Net income attributable to non-controlling interest	—	—	1.5	—	1.5
Net income (loss) attributable to controlling interest	\$ 205.2	\$ 220.0	\$ 122.9	\$ (344.4)	\$ 203.7

30

Table of Contents

Statement of Income	Guarantor		Nonguarantor		
Three month period ended July 3, 2016 (in millions)	Parent	Subsidiaries	Subsidiaries	Eliminations	Consolidated
Net sales	\$ 615.6	\$ 567.6	\$ 615.7	\$ (437.4)	\$ 1,361.5
Cost of goods sold	412.2	392.9	460.0	(434.3)	830.8
Restructuring and related charges	—	—	0.1	—	0.1
Gross profit	203.4	174.7	155.6	(3.1)	530.6
Selling	77.5	40.3	84.0	(0.1)	201.7
General and administrative	53.1	18.7	21.0	—	92.8
Research and development	9.1	1.6	3.9	—	14.6
Acquisition and integration related charges	4.4	0.3	3.3	—	8.0
Restructuring and related charges	0.6	3.7	1.1	—	5.4
Total operating expense	144.7	64.6	113.3	(0.1)	322.5
Operating income (loss)	58.7	110.1	42.3	(3.0)	208.1
Interest expense	50.7	5.1	4.1	—	59.9
Other non-operating (income) expense, net	(129.9)	(24.6)	2.3	154.4	2.2
Income from operations before income taxes	137.9	129.6	35.9	(157.4)	146.0
Income tax expense (benefit)	32.7	(0.5)	8.1	0.5	40.8
Net income (loss)	105.2	130.1	27.8	(157.9)	105.2
Net income attributable to non-controlling interest	—	—	0.1	—	0.1
Net income (loss) attributable to controlling interest	\$ 105.2	\$ 130.1	\$ 27.7	\$ (157.9)	\$ 105.1

Statement of Income	Guarantor		Nonguarantor		
Nine month period ended July 3, 2016 (in millions)	Parent	Subsidiaries	Subsidiaries	Eliminations	Consolidated
Net sales	\$ 1,821.9	\$ 1,167.8	\$ 1,956.8	\$ (1,156.5)	\$ 3,790.0
Cost of goods sold	1,241.8	805.8	1,457.6	(1,149.7)	2,355.5
Restructuring and related charges	—	—	0.4	—	0.4
Gross profit	580.1	362.0	498.8	(6.8)	1,434.1
Selling	234.0	91.2	254.1	(1.0)	578.3
General and administrative	160.5	51.5	59.8	(0.1)	271.7
Research and development	27.2	4.4	11.3	—	42.9
Acquisition and integration related charges	18.0	3.5	9.7	—	31.2
Restructuring and related charges	1.9	4.0	1.9	—	7.8
Total operating expense	441.6	154.6	336.8	(1.1)	931.9
Operating income (loss)	138.5	207.4	162.0	(5.7)	502.2

Edgar Filing: Spectrum Brands Holdings, Inc. - Form 10-Q

Interest expense	147.0	15.6	13.1	0.1	175.8
Other non-operating (income) expense, net	(282.7)	(116.7)	6.4	399.5	6.5
Income from operations before income taxes	274.2	308.5	142.5	(405.3)	319.9
Income tax expense (benefit)	10.9	24.2	25.1	(3.6)	56.6
Net income (loss)	263.3	284.3	117.4	(401.7)	263.3
Net income attributable to non-controlling interest	—	—	0.3	—	0.3
Net income (loss) attributable to controlling interest	\$ 263.3	\$ 284.3	\$ 117.1	\$ (401.7)	\$ 263.0

Table of Contents

Statement of Comprehensive Income		Guarantor	Nonguarantor		
Three month period ended July 2, 2017 (in millions)	Parent	Subsidiaries	Subsidiaries	Eliminations	Consolidated
Net income (loss)	\$ 79.4	\$ 91.2	\$ 39.1	\$ (130.3)	\$ 79.4
Other comprehensive income (loss), net of tax:					
Foreign currency translation gain (loss)	30.3	32.3	31.1	(63.4)	30.3
Unrealized (loss) gain on derivative instruments	(30.2)	(9.1)	(9.0)	18.1	(30.2)
Defined benefit pension (loss) gain	(2.3)	(2.2)	(2.3)	4.5	(2.3)
Other comprehensive (loss) income	(2.2)	21.0	19.8	(40.8)	(2.2)
Comprehensive income (loss)	77.2	112.2	58.9	(171.1)	77.2
Comprehensive (loss) attributable to non-controlling interest	—	—	(0.2)	—	(0.2)
Comprehensive income (loss) attributable to controlling interest	\$ 77.2	\$ 112.2	\$ 59.1	\$ (171.1)	\$ 77.4

Statement of Comprehensive Income		Guarantor	Nonguarantor		
Nine month period ended July 2, 2017 (in millions)	Parent	Subsidiaries	Subsidiaries	Eliminations	Consolidated
Net income (loss)	\$ 205.2	\$ 220.0	\$ 124.4	\$ (344.4)	\$ 205.2
Other comprehensive income (loss), net of tax:					
Foreign currency translation gain (loss)	5.9	8.8	8.1	(16.9)	5.9
Unrealized (loss) gain on derivative instruments	(15.7)	(9.9)	(10.0)	19.9	(15.7)
Defined benefit pension gain (loss)	0.7	0.8	0.8	(1.6)	0.7
Other comprehensive (loss) income	(9.1)	(0.3)	(1.1)	1.4	(9.1)
Comprehensive income (loss)	196.1	219.7	123.3	(343.0)	196.1
Comprehensive loss attributable to non-controlling interest	—	—	(0.4)	—	(0.4)
Comprehensive income (loss) attributable to controlling interest	\$ 196.1	\$ 219.7	\$ 123.7	\$ (343.0)	\$ 196.5

Statement of Comprehensive Income		Guarantor	Nonguarantor		
Three month period ended July 3, 2016 (in millions)	Parent	Subsidiaries	Subsidiaries	Eliminations	Consolidated
Net income (loss)	\$ 105.2	\$ 130.1	\$ 27.8	\$ (157.9)	\$ 105.2
Other comprehensive income (loss), net of tax:					
Foreign currency translation (loss) gain	(13.7)	(13.7)	(13.7)	27.4	(13.7)
Unrealized gain (loss) on derivative instruments	7.8	6.7	6.7	(13.4)	7.8
Defined benefit pension gain (loss)	1.2	1.1	1.2	(2.3)	1.2
Other comprehensive (loss) income	(4.7)	(5.9)	(5.8)	11.7	(4.7)
Comprehensive income (loss)	100.5	124.2	22.0	(146.2)	100.5

Edgar Filing: Spectrum Brands Holdings, Inc. - Form 10-Q

Comprehensive loss attributable to non-controlling interest	—	—	(0.2)	—	(0.2)
Comprehensive income (loss) attributable to controlling interest	\$ 100.5	\$ 124.2	\$ 22.2	\$ (146.2)	\$ 100.7

Statement of Comprehensive Income	Guarantor		Nonguarantor		
Nine month period ended July 3, 2016 (in millions)	Parent	Subsidiaries	Subsidiaries	Eliminations	Consolidated
Net income (loss)	\$ 263.3	\$ 284.3	\$ 117.4	\$ (401.7)	\$ 263.3
Other comprehensive income (loss), net of tax:					
Foreign currency translation (loss) gain	(6.0)	(6.0)	(5.9)	11.9	(6.0)
Unrealized gain (loss) on derivative instruments	8.6	3.9	3.8	(7.7)	8.6
Defined benefit pension gain (loss)	1.7	1.7	1.6	(3.3)	1.7
Other comprehensive income (loss)	4.3	(0.4)	(0.5)	0.9	4.3
Comprehensive income (loss)	267.6	283.9	116.9	(400.8)	267.6
Comprehensive loss attributable to non-controlling interest	—	—	(0.3)	—	(0.3)
Comprehensive income (loss) attributable to controlling interest	\$ 267.6	\$ 283.9	\$ 117.2	\$ (400.8)	\$ 267.9

Table of Contents

Statement of Cash Flows	Guarantor		Nonguarantor		
Nine month period ended July 2, 2017 (in millions)	Parent	Subsidiaries	Subsidiaries	Eliminations	Consolidated
Net cash provided (used) by operating activities	\$ 176.6	\$ 91.1	\$ (46.1)	\$ (77.0)	\$ 144.6
Cash flows from investing activities					
Purchases of property, plant and equipment	(35.4)	(13.0)	(29.7)	—	(78.1)
Business acquisitions, net of cash acquired	(304.7)	—	—	—	(304.7)
Proceeds from sales of property, plant and equipment	—	0.3	4.0	—	4.3
Other investing activities	—	(1.2)	—	—	(1.2)
Net cash used by investing activities	(340.1)	(13.9)	(25.7)	—	(379.7)
Cash flows from financing activities					
Proceeds from issuance of debt	557.5	—	—	—	557.5
Payment of debt	(207.7)	—	(15.6)	—	(223.3)
Payment of debt issuance costs	(5.9)	—	—	—	(5.9)
Payment of cash dividends to parent	(240.1)	—	—	—	(240.1)
Purchase of non-controlling interest	(12.6)	—	—	—	(12.6)
Advances related to intercompany transactions	(20.7)	(78.8)	22.5	77.0	—
Net cash provided (used) by financing activities	70.5	(78.8)	6.9	77.0	75.6
Effect of exchange rate changes on cash and cash equivalents	—	—	(1.5)	—	(1.5)
Net decrease in cash and cash equivalents	(93.0)	(1.6)	(66.4)	—	(161.0)
Cash and cash equivalents, beginning of period	98.6	3.1	169.1	—	270.8
Cash and cash equivalents, end of period	\$ 5.6	\$ 1.5	\$ 102.7	\$ —	\$ 109.8

Statement of Cash Flows	Guarantor		Nonguarantor		
Nine month period ended July 3, 2016 (in millions)	Parent	Subsidiaries	Subsidiaries	Eliminations	Consolidated
Net cash (used) provided by operating activities	\$ (272.0)	\$ 219.5	\$ (99.8)	\$ 257.0	\$ 104.7
Cash flows from investing activities				—	
Purchases of property, plant and equipment	(32.2)	(6.0)	(21.4)	—	(59.6)
Proceeds from sales of property, plant and equipment	0.1	—	0.7	—	0.8
Other investing activities	(0.6)	(1.3)	—	—	(1.9)
Net cash used by investing activities	(32.7)	(7.3)	(20.7)	—	(60.7)
Cash flows from financing activities					
Proceeds from issuance of debt	217.8	—	—	—	217.8
Payment of debt	(310.0)	—	(1.7)	—	(311.7)

Edgar Filing: Spectrum Brands Holdings, Inc. - Form 10-Q

Payment of debt issuance costs	(1.6)	—	—	—	(1.6)
Payment of cash dividends to parent	(74.6)	—	—	—	(74.6)
Payment of contingent consideration	(3.2)	—	—	—	(3.2)
Advances related to intercompany transactions	467.2	(218.3)	8.1	(257.0)	—
Net cash provided (used) by financing activities	295.6	(218.3)	6.4	(257.0)	(173.3)
Effect of exchange rate changes on cash and cash equivalents	—	—	(1.7)	—	(1.7)
Net decrease in cash and cash equivalents	(9.1)	(6.1)	(115.8)	—	(131.0)
Cash and cash equivalents, beginning of period	13.0	8.6	226.3	—	247.9
Cash and cash equivalents, end of period	\$ 3.9	\$ 2.5	\$ 110.5	\$ —	\$ 116.9

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The following is management's discussion of the financial results, liquidity and other key items related to our performance and should be read in conjunction with the Condensed Consolidated Financial Statements and related notes included in Item 1 of this Quarterly Report on Form 10-Q. Unless the context indicates otherwise, the term the "Company," "Spectrum," "we," "our," or "us" are used to refer to Spectrum Brands Holdings, Inc. and its subsidiaries and SB/RH Holdings, LLC and its subsidiaries, collectively.

Business Overview

We are a diversified global branded consumer products company. The Company manufactures, markets and/or distributes its products in approximately 160 countries in the North America ("NA"), Europe, Middle East & Africa ("EMEA"), Latin America ("LATAM") and Asia-Pacific ("APAC") regions through a variety of trade channels, including retailers, wholesalers and distributors, original equipment manufacturers ("OEMs"), construction companies and hearing aid professionals. We enjoy strong name recognition of our various brands and patented technologies. Our diversified global branded consumer products have positions in several product categories and types. We manage the businesses in five vertically integrated, product-focused segments: (i) Global Batteries & Appliances ("GBA"), (ii) Global Pet Supplies ("PET"), (iii) Home and Garden ("H&G"), (iv) Hardware & Home Improvement ("HHI") and (v) Global Auto Care ("GAC"). Global and geographic strategic initiatives and financial objectives are determined at the corporate level. Each segment is responsible for implementing defined strategic initiatives and achieving certain financial objectives and has a general manager responsible for sales and marketing initiatives and the financial results for all product lines within that segment. See Note 16, "Segment Information" of Notes to the Condensed Consolidated Financial Statements, included elsewhere in this Quarterly Report for more information pertaining to segments. The following table summarizes the respective product types, brands, and regions for each of the segments:

Segment	Products	Brands	Regions
GBA	Consumer batteries: Alkaline, zinc carbon, and NiMH rechargeable batteries; hearing aid and other specialty battery products; battery powered portable lighting products.	Consumer batteries: Rayovac®, VARTA®. Small appliances: Black & Decker®, George Foreman®, Russell Hobbs®, Juiceman®, Breadman®, Farberware® and Toastmaster®. Personal care: Remington®.	NA EMEA LATAM APAC

	Small appliances: Small kitchen and home appliances.		
	Personal care: Electric shaving and grooming products, hair care appliances and accessories.		
HHI	Hardware: Hinges, security hardware, screen and storm door products, garage door hardware, window hardware and floor protection. Security: Residential locksets and door hardware including knobs, levers, deadbolts, handlesets and electronics. Commercial doors, locks, and hardware. Plumbing: Kitchen, bath and shower faucets and plumbing products.	Hardware: National Hardware®, Stanley® and FANAL®. Security: Kwikset®, Weiser®, Baldwin®, EZSET® and Tell®. Plumbing: Pfister®.	NA EMEA LATAM APAC
PET	Companion Animal: Dog, cat and small animal food and treats; clean-up and training aid products and accessories; pet health and grooming products. Aquatics: Aquariums and aquatic health supplies.	Companion Animal: 8-in-1®, Dingo®, Nature's Miracle®, Wild Harvest®, Littermaid®, Jungle®, Excel®, FURminator®, IAMS®, Eukanuba®, Healthy-Hide®, Dreambone®, Smartbones®, ProSense®, Perfect Coat®, eCOTRITION®, Birdola® and Digest-eeze®. Aquatics: Tetra®, Marineland®, Whisper® and Instant Ocean®, GloFish®,	NA EMEA LATAM APAC
H&G	Controls: Outdoor insect and weed control solutions, animal repellents. Household: Household insecticides and pest controls. Repellents: Personal use pesticides and insect repellent products.	Controls: Spectracide®, Garden Safe®, Liquid Fence®, and EcoLogic®. Household: Hot Shot®, Black Flag®, Real Kill®, Ultra Kill®, The Ant Trap® (TAT), and Rid-a-Bug®. Repellents: Cutter® and Repel®.	NA LATAM
GAC	Appearance: Protectants, wipes, tire and wheel care products, glass cleaners, leather care products, air fresheners and washes. Performance: Automotive fuel and oil additives, and functional fluids. A/C Recharge: Do-it-yourself air conditioner recharge products, refrigerant and oil recharge kits, sealants and accessories.	Appearance: Armor All®. Performance: STP®. A/C Recharge: A/C PRO®.	NA EMEA LATAM APAC

Table of Contents

Acquisitions

The following recent acquisition activity has a significant impact on the comparability of financial results on the condensed consolidated financial statements.

- PetMatrix - On June 1, 2017, the Company completed the acquisition of PetMatrix, LLC, a manufacturer and marketer of rawhide-free dog chews consisting primarily of the DreamBone® and SmartBones® brands. The results of PetMatrix's operations since June 1, 2017 are included in the Company's Consolidated Statements of Income and reported within the PET reporting segment for the three and nine month periods ended July 2, 2017.
- GloFish - On May 12, 2017, the Company entered into an asset purchase agreement with Yorktown Technologies LP, for the acquisition of assets consisting of the GloFish operations, including transfer of the GloFish® brand, related intellectual property and operating agreements. The GloFish operations consist of the development and licensing of fluorescent fish for sale through retail and online channels. The results of GloFish's operations since May 12, 2017 are included in the Company's Consolidated Statements of Income and reported within the PET reporting segment for the three and nine month periods ended July 2, 2017.

See Note 3, "Acquisitions" in the Notes to the Condensed Consolidated Financial Statements, included elsewhere within this Quarterly report for additional detail.

Refinancing Activity

The following recent financing activity has a significant impact on the comparability of financial results on the condensed consolidated financial statements. During the three and nine-month periods ended July 2, 2017, the Company entered into various amendments to the Credit Agreement under its Term Loans resulting in the increase to its USD Term Loan, repayment of the Euro Term Loan, increase in the capacity of the Revolver Facility and changes to the applicable variable interest rates. See Note 9, "Debt" in the Notes to the Condensed Consolidated Financial Statements, included elsewhere within this Quarterly Report, for additional detail.

Restructuring Activity

We continually seek to improve our operational efficiency, match our manufacturing capacity and product costs to market demand and better utilize our manufacturing resources. We have undertaken various initiatives to reduce manufacturing and operating costs, which may have a significant impact on the comparability of financial results on the condensed consolidated financial statements. The most significant of these initiatives are:

- GAC Business Rationalization Initiative, which began in the three month period ended July 3, 2016 and anticipated to be incurred through September 30, 2017;
- PET Rightsizing Initiative, which began during the three-month period ended April 2, 2017 and is anticipated to be incurred through December 31, 2017; and
- HHI Distribution Center Consolidation, which began in the three-month period ended April 2, 2017 and is anticipated to be incurred through September 30, 2019.

See Note 4, “Restructuring and Related Charges” in the Notes to the Condensed Consolidated Financial Statements, included elsewhere within this Quarterly report for additional detail.

Safety Recall

On June 10, 2017, the Company initiated a voluntary safety recall of various rawhide chew products for dogs sold by the Company’s PET segment due to possible chemical contamination. The Company estimated losses of \$24.9 million for the three and nine month periods ended July 2, 2017, which comprised of \$11.9 million of estimates for customer losses and direct incremental costs incurred by the Company, and \$13.0 million of inventory write-offs associated with inventory on-hand that was determined to be obsolete. The Company suspended production at facilities impacted by the product safety recall and completed a comprehensive manufacturing review and it recommencing production during the fourth quarter ending September 30, 2017. See Note 16, “Commitments and Contingencies” in the Notes to the Condensed Consolidated Financial Statements, included elsewhere within this Quarterly Report for additional detail.

Table of Contents

Non-GAAP Measurements

Our consolidated and segment results contain non-GAAP metrics such as organic net sales, and adjusted EBITDA (“Earnings Before Interest, Taxes, Depreciation, Amortization”). While we believe organic net sales and adjusted EBITDA are useful supplemental information, such adjusted results are not intended to replace our financial results in accordance with Accounting Principles Generally Accepted in the United States (“GAAP”) and should be read in conjunction with those GAAP results.

Organic Net Sales. We define organic net sales as net sales excluding the effect of changes in foreign currency exchange rates and/or impact from acquisitions (when applicable). We believe this non-GAAP measure provides useful information to investors because it reflects regional and operating segment performance from our activities without the effect of changes in currency exchange rate and/or acquisitions. We use organic net sales as one measure to monitor and evaluate our regional and segment performance. Organic growth is calculated by comparing organic net sales to net sales in the prior year. The effect of changes in currency exchange rates is determined by translating the period’s net sales using the currency exchange rates that were in effect during the prior comparative period. Net sales are attributed to the geographic regions based on the country of destination. We exclude net sales from acquired businesses in the current year for which there are no comparable sales in the prior period. The following is a reconciliation of reported net sales to organic net sales for the three and nine month periods ended July 2, 2017 compared to net sales for the three and nine month periods ended July 3, 2016, respectively:

July 2, 2017								
Three Month Period Ended (in millions, except %)	Net Sales	Effect of Changes in Currency	Net Sales Excluding Effect of Changes in Currency	Effect of Acquisitions	Organic Net Sales	Net Sales July 3, 2016	Variance	
Consumer batteries	\$ 184.8	\$ 2.4	\$ 187.2	\$ —	\$ 187.2	\$ 187.2	\$ -	0.0%
Small appliances	145.4	3.7	149.1	—	149.1	151.1	(2.0)	(1.3%)
Personal care	110.9	2.3	113.2	—	113.2	115.8	(2.6)	(2.2%)
Global Batteries & Appliances	441.1	8.4	449.5	—	449.5	454.1	(4.6)	(1.0%)
Hardware & Home Improvement	324.7	0.3	325.0	—	325.0	328.5	(3.5)	(1.1%)
Global Pet Supplies	189.9	2.7	192.6	(7.2)	185.4	207.1	(21.7)	(10.5%)
Home and Garden	192.4	—	192.4	—	192.4	212.0	(19.6)	(9.2%)
Global Auto Care	155.8	0.6	156.4	—	156.4	159.8	(3.4)	(2.1%)
Total	\$ 1,303.9	\$ 12.0	\$ 1,315.9	\$ (7.2)	\$ 1,308.7	\$ 1,361.5	(52.8)	(3.9%)

July 2, 2017

Edgar Filing: Spectrum Brands Holdings, Inc. - Form 10-Q

Nine Month Period Ended (in millions, except %)	Net Sales	Net Sales Excluding		Effect of Acquisitions	Organic Net Sales	Net Sales July 3, 2016	Variance	
		Effect of Changes in Currency	Effect of Changes in Currency					
Consumer batteries	\$ 630.5	\$ 9.0	\$ 639.5	\$ —	\$ 639.5	\$ 618.0	\$ 21.5	3.5%
Small appliances	455.3	14.6	469.9	—	469.9	479.3	(9.4)	(2.0%)
Personal care	378.2	8.0	386.2	—	386.2	393.0	(6.8)	(1.7%)
Global Batteries & Appliances	1,464.0	31.6	1,495.6	—	1,495.6	1,490.3	5.3	0.4%
Hardware & Home Improvement	927.2	(0.8)	926.4	—	926.4	912.9	13.5	1.5%
Global Pet Supplies	576.0	9.0	585.0	(7.2)	577.8	619.0	(41.2)	(6.7%)
Home and Garden	374.2	—	374.2	—	374.2	414.7	(40.5)	(9.8%)
Global Auto Care	344.2	0.8	345.0	—	345.0	353.1	(8.1)	(2.3%)
Total	\$ 3,685.6	\$ 40.6	\$ 3,726.2	\$ (7.2)	\$ 3,719.0	\$ 3,790.0	(71.0)	(1.9%)

Table of Contents

Adjusted EBITDA. Adjusted EBITDA is a metric used by management and we believe this non-GAAP measure provides useful information to investors because it reflects ongoing operating performance and trends of our segments, excluding certain non-cash based expenses and/or non-recurring items during each of the comparable periods. It also facilitates comparisons between peer companies since interest, taxes, depreciation and amortization can differ greatly between organizations as a result of differing capital structures and tax strategies. Adjusted EBITDA is also used for determining compliance with the Company's debt covenant. See Note 9, "Debt" in the Notes to the Condensed Consolidated Financial Statements, included elsewhere within this Quarterly Report, for additional detail.

EBITDA is calculated by excluding the Company's income tax expense, interest expense, depreciation expense and amortization expense (from intangible assets) from net income. Adjusted EBITDA further excludes:

- Stock based compensation expense as it is a non-cash based compensation cost, see Note 13 "Share Based Compensation" in the Notes to the Condensed Consolidated Financial Statements, included elsewhere within this Quarterly Report for further details;
- Acquisition and integration charges that consist of transaction costs from acquisition transactions during the period or subsequent integration related project costs directly associated with the acquired business, see Note 3 "Acquisition and Integration Charges" in the Notes to the Condensed Consolidated Financial Statements, included elsewhere within this Quarterly Report for further details;
- Restructuring and related charges, which consist of project costs associated with restructuring initiatives across the segments, see Note 4 "Restructuring and Related Charges" in the Notes to the Condensed Consolidated Financial Statements, included elsewhere within this Quarterly Report for further details;
- Non-cash purchase accounting inventory adjustments recognized in earnings subsequent to an acquisition (when applicable);
- Non-cash asset impairments or write-offs realized (when applicable); and
- Other adjustments as further discussed.

During the three and nine month period ended July 2, 2017, other adjustments consist of estimated costs for a non-recurring voluntary recall of rawhide product by the PET segment (see Note 16, "Commitment and Contingencies" in Notes to the Condensed Consolidated Financial Statements, included elsewhere within this Quarterly Report for further details) and professional fees associated with non-acquisition based strategic initiatives of the Company. During the three and nine month period ended July 3, 2016, other adjustments consisted of costs associated with the onboarding of a key executive and the involuntary transfer of inventory.

Table of Contents

The following is a reconciliation of net income to adjusted EBITDA for the three and nine month periods ended July 2, 2017 and July 3, 2016, respectively for SBH:

SPECTRUM BRANDS HOLDINGS, INC.

(in millions)

	GBA	HHI	PET	H&G	GAC	Corporate	Consolidated
Three Month Period Ended July 2, 2017							
Net income (loss)	\$ 44.2	\$ 44.4	\$ (5.4)	\$ 55.3	\$ 32.5	\$ (92.4)	\$ 78.6
Income tax expense	—	—	—	—	—	24.7	24.7
Interest expense	—	—	—	—	—	52.4	52.4
Depreciation and amortization	19.6	9.8	10.8	4.2	5.1	—	49.5
EBITDA	63.8	54.2	5.4	59.5	37.6	(15.3)	205.2
Share based compensation	—	—	—	—	—	5.3	5.3
Acquisition and integration related charges	0.6	1.8	3.0	—	0.3	0.1	5.8
Restructuring and related charges	0.2	6.2	2.0	—	12.8	—	21.2
Inventory acquisition step-up	—	—	0.8	—	—	—	0.8
Pet safety recall	—	—	24.9	—	—	—	24.9
Other	—	—	—	—	—	0.7	0.7
Adjusted EBITDA	\$ 64.6	\$ 62.2	\$ 36.1	\$ 59.5	\$ 50.7	\$ (9.2)	\$ 263.9
Three Month Period Ended July 3, 2016							
Net income (loss)	\$ 44.8	\$ 52.2	\$ 25.5	\$ 63.1	\$ 44.1	\$ (127.6)	\$ 102.1
Income tax (benefit) expense	—	—	—	—	—	42.5	42.5
Interest expense	—	—	—	—	—	59.9	59.9
Depreciation and amortization	18.2	8.8	10.6	3.9	3.8	—	45.3
EBITDA	63.0	61.0	36.1	67.0	47.9	(25.2)	249.8
Share based compensation	—	—	—	—	—	15.9	15.9
Acquisition and integration related charges	0.6	4.0	0.6	—	2.7	0.1	8.0
Restructuring and related charges	0.7	0.2	1.0	—	3.6	—	5.5
Adjusted EBITDA	\$ 64.3	\$ 65.2	\$ 37.7	\$ 67.0	\$ 54.2	\$ (9.2)	\$ 279.2

SPECTRUM BRANDS HOLDINGS,

INC. (in millions)

	GBA	HHI	PET	H&G	GAC	Corporate	Consolidated
Nine Month Period Ended July 2, 2017							
Net income (loss)	\$ 171.4	\$ 136.7	\$ 34.1	\$ 88.4	\$ 80.1	\$ (308.2)	\$ 202.5
Income tax expense	—	—	—	—	—	88.8	88.8
Interest expense	—	—	—	—	—	158.8	158.8
Depreciation and amortization	57.2	28.0	31.6	12.4	13.9	—	143.1
EBITDA	228.6	164.7	65.7	100.8	94.0	(60.6)	593.2
Share based compensation	—	—	—	—	—	28.4	28.4

Edgar Filing: Spectrum Brands Holdings, Inc. - Form 10-Q

Acquisition and integration related charges	3.4	5.6	3.6	—	2.1	0.3	15.0
Restructuring and related charges	1.5	7.7	3.7	—	19.8	—	32.7
Inventory acquisition step-up	—	—	0.8	—	—	—	0.8
Pet safety recall	—	—	24.9	—	—	—	24.9
Other	—	—	—	—	—	3.2	3.2
Adjusted EBITDA	\$ 233.5	\$ 178.0	\$ 98.7	\$ 100.8	\$ 115.9	\$ (28.7)	\$ 698.2
Nine Month Period Ended July 3, 2016							
Net income (loss)	\$ 171.7	\$ 133.4	\$ 59.8	\$ 106.1	\$ 92.0	\$ (294.4)	\$ 268.6
Income tax expense	—	—	—	—	—	46.8	46.8
Interest expense	—	—	—	—	—	175.8	175.8
Depreciation and amortization	53.0	26.8	32.0	11.3	13.6	—	136.7
EBITDA	224.7	160.2	91.8	117.4	105.6	(71.8)	627.9
Share based compensation	—	—	—	—	—	47.4	47.4
Acquisition and integration related charges	1.6	11.9	3.9	0.5	12.8	0.5	31.2
Restructuring and related charges	1.2	0.4	2.6	0.4	3.6	—	8.2
Other	0.6	—	—	—	—	0.6	1.2
Adjusted EBITDA	\$ 228.1	\$ 172.5	\$ 98.3	\$ 118.3	\$ 122.0	\$ (23.3)	\$ 715.9

Table of Contents

The following is a reconciliation of net income to adjusted EBITDA for the three and nine month periods ended July 2, 2017 and July 3, 2016 for SB/RH:

SB/RH HOLDINGS, LLC (in millions)	GBA	HHI	PET	H&G	GAC	Corporate	Consolidated
Three Month Period Ended July 2, 2017							
Net income (loss)	\$ 44.2	\$ 44.4	\$ (5.4)	\$ 55.3	\$ 32.5	\$ (91.6)	\$ 79.4
Income tax expense	—	—	—	—	—	25.0	25.0
Interest expense	—	—	—	—	—	52.5	52.5
Depreciation and amortization	19.6	9.8	10.8	4.2	5.1	—	49.5
EBITDA	63.8	54.2	5.4	59.5	37.6	(14.1)	206.4
Share based compensation	—	—	—	—	—	4.8	4.8
Acquisition and integration related charges	0.6	1.8	3.0	—	0.3	0.1	5.8
Restructuring and related charges	0.2	6.2	2.0	—	12.8	—	21.2
Inventory acquisition step-up	—	—	0.8	—	—	—	0.8
Pet safety recall	—	—	24.9	—	—	—	24.9
Other	—	—	—	—	—	0.1	0.1
Adjusted EBITDA	\$ 64.6	\$ 62.2	\$ 36.1	\$ 59.5	\$ 50.7	\$ (9.1)	\$ 264.0
Three Month Period Ended July 3, 2016							
Net income (loss)	\$ 44.8	\$ 52.2	\$ 25.5	\$ 63.1	\$ 44.1	\$ (124.5)	\$ 105.2
Income tax expense	—	—	—	—	—	40.8	40.8
Interest expense	—	—	—	—	—	59.9	59.9
Depreciation and amortization	18.2	8.8	10.6	3.9	3.8	—	45.3
EBITDA	63.0	61.0	36.1	67.0	47.9	(23.8)	251.2
Share based compensation	—	—	—	—	—	14.6	14.6
Acquisition and integration related charges	0.6	4.0	0.6	—	2.7	0.1	8.0
Restructuring and related charges	0.7	0.2	1.0	—	3.6	—	5.5
Adjusted EBITDA	\$ 64.3	\$ 65.2	\$ 37.7	\$ 67.0	\$ 54.2	\$ (9.1)	\$ 279.3

SB/RH HOLDINGS, LLC (in millions)	GBA	HHI	PET	H&G	GAC	Corporate	Consolidated
Nine Month Period Ended July 2, 2017							
Net income (loss)	\$ 171.4	\$ 136.7	\$ 34.1	\$ 88.4	\$ 80.1	\$ (305.5)	\$ 205.2
Income tax expense	—	—	—	—	—	91.6	91.6
Interest expense	—	—	—	—	—	159.2	159.2
Depreciation and amortization	57.2	28.0	31.6	12.4	13.9	—	143.1
EBITDA	228.6	164.7	65.7	100.8	94.0	(54.7)	599.1
Share based compensation	—	—	—	—	—	26.1	26.1
Acquisition and integration related charges	3.4	5.6	3.6	—	2.1	0.3	15.0

Edgar Filing: Spectrum Brands Holdings, Inc. - Form 10-Q

Restructuring and related charges	1.5	7.7	3.7	—	19.8	—	32.7
Inventory acquisition step-up	—	—	0.8	—	—	—	0.8
Pet safety recall	—	—	24.9	—	—	—	24.9
Other	—	—	—	—	—	0.1	0.1
Adjusted EBITDA	\$ 233.5	\$ 178.0	\$ 98.7	\$ 100.8	\$ 115.9	\$ (28.2)	\$ 698.7
Nine Month Period Ended July 3, 2016							
Net income (loss)	\$ 171.7	\$ 133.4	\$ 59.8	\$ 106.1	\$ 92.0	\$ (299.7)	\$ 263.3
Income tax expense	—	—	—	—	—	56.6	56.6
Interest expense	—	—	—	—	—	175.8	175.8
Depreciation and amortization	53.0	26.8	32.0	11.3	13.6	—	136.7
EBITDA	224.7	160.2	91.8	117.4	105.6	(67.3)	632.4
Share based compensation	—	—	—	—	—	43.4	43.4
Acquisition and integration related							
charges	1.6	11.9	3.9	0.5	12.8	0.5	31.2
Restructuring and related charges	1.2	0.4	2.6	0.4	3.6	—	8.2
Other	0.6	—	—	—	—	0.5	1.1
Adjusted EBITDA	\$ 228.1	\$ 172.5	\$ 98.3	\$ 118.3	\$ 122.0	\$ (22.9)	\$ 716.3

Table of Contents

Consolidated Results of Operations

The following is summarized consolidated results of operations for Spectrum Brands Holdings, Inc. for the three and nine month periods ended July 2, 2017 and July 3, 2016 respectively:

(in millions, except %)	Three Month Period Ended			Variance	Nine Month Period Ended			Variance
	July 2, 2017	July 3, 2016			July 2, 2017	July 3, 2016		
Net sales	\$ 1,303.9	\$ 1,361.5	\$ (57.6)	(4.2%)	\$ 3,685.6	\$ 3,790.0	\$ (104.4)	(2.8%)
Gross profit	473.4	530.6	(57.2)	(10.8%)	1,378.5	1,434.1	(55.6)	(3.9%)
Operating expenses	315.6	323.9	(8.3)	(2.6%)	925.5	936.4	(10.9)	(1.2%)
Interest expense	52.4	59.9	(7.5)	(12.5%)	158.8	175.8	(17.0)	(9.7%)
Income tax expense (benefit)	24.7	42.5	(17.8)	(41.9%)	88.8	46.8	42.0	89.7%
Net income	78.6	102.1	(23.5)	(23.0%)	202.5	268.6	(66.1)	(24.6%)

Net Sales. Net sales for the three month period ended July 2, 2017 decreased \$57.6 million, or 4.2%, with a decrease in organic net sales of \$52.8 million, or 3.9%. Net sales for the nine month period ended July 2, 2017 decreased \$104.4 million, or 2.8%, with a decrease in organic net sales of \$71.0 million, or 1.9%. The following sets forth net sales by segment for the three and nine month periods ended July 2, 2017 and July 3, 2016:

(in millions, except %)	Three Month Period Ended			Variance	Nine Month Period Ended			Variance
	July 2, 2017	July 3, 2016			July 2, 2017	July 3, 2016		
Consumer batteries	\$ 184.8	\$ 187.2	\$ (2.4)	(1.3%)	\$ 630.5	\$ 618.0	\$ 12.5	2.0%
Small appliances	145.4	151.1	(5.7)	(3.8%)	455.3	479.3	(24.0)	(5.0%)
Personal care	110.9	115.8	(4.9)	(4.2%)	378.2	393.0	(14.8)	(3.8%)
Global Batteries & Appliances	441.1	454.1	(13.0)	(2.9%)	1,464.0	1,490.3	(26.3)	(1.8%)
Hardware & Home Improvement	324.7	328.5	(3.8)	(1.2%)	927.2	912.9	14.3	1.6%
Global Pet Supplies	189.9	207.1	(17.2)	(8.3%)	576.0	619.0	(43.0)	(6.9%)
Home & Garden	192.4	212.0	(19.6)	(9.2%)	374.2	414.7	(40.5)	(9.8%)
Global Auto Care	155.8	159.8	(4.0)	(2.5%)	344.2	353.1	(8.9)	(2.5%)
Net Sales	\$ 1,303.9	\$ 1,361.5	(57.6)	(4.2%)	\$ 3,685.6	\$ 3,790.0	(104.4)	(2.8%)

The following sets forth the principle components of change in net sales from the three and nine month periods ended July 3, 2016 to the three and nine month period ended July 2, 2017:

(in millions)	Three Month Period Ended	Nine Month Period Ended
Net Sales for the periods ended July 3, 2016	\$ 1,361.5	\$ 3,790.0
Increase due to acquisitions	7.2	7.2
Increase in consumer batteries	—	21.5
Decrease in home appliances	(2.0)	(9.4)
Decrease in personal care	(2.6)	(6.8)
Decrease in global auto care	(3.4)	(8.1)
(Decrease) Increase in hardware & home improvement	(3.5)	13.5
Decrease in home & garden	(19.6)	(40.5)
Decrease in global pet supplies	(21.7)	(41.2)
Foreign currency impact, net	(12.0)	(40.6)
Net Sales for the periods ended July 2, 2017	\$ 1,303.9	\$ 3,685.6

Gross Profit. For the three month period ended July 2, 2017 gross profit decreased \$57.2 million, attributable to a reduction in net sales and lower gross profit margin. Gross profit margin decreased to 36.3% from 39.0% due to the decrease in organic sales and the pet safety recall discussed above. For the nine month period ended July 2, 2017, gross profit decreased \$55.6 million attributable to a decrease in gross profit margin. Gross profit margin decreased to 37.4% from 37.8% primarily due to the decrease in organic sales and the pet safety recall discussed above.

Operating Expenses. Operating expenses for the three month period ended July 2, 2017 decreased \$8.3 million primarily due to the decrease in share based compensation expense of \$10.6 million and acquisition & integration related costs of \$2.2 million partially offset by the increase in restructuring and related charges of \$4.6 million. Operating expenses for the nine month period ended July 2, 2017 decreased \$10.9 million primarily due to the decrease in share based compensation of \$19.0 million and acquisition & integration related costs of \$16.2 million, partially offset by the increase in restructuring and related charges of \$8.4 million and depreciation & amortization expense of \$6.4 million, and incremental operating expenses from the PET safety recall and non-recurring GBA costs. See Note 3, “Acquisitions and Integration Costs”, Note 4, “Restructuring and Related Charges” and Note 13 “Share Based Compensation” to the Condensed Consolidated Financial Statements, included elsewhere within this Quarterly Report, for additional detail.

Table of Contents

Interest Expense. Interest expense decreased \$7.5 million, or 12.5%, for the three month period ended July 2, 2017 and decreased \$17.0 million, or 9.7% for the nine month period ended July 2, 2017 due to the refinancing activity previously discussed.

Income Taxes. Our effective tax rate was 23.9% for the three month period ended July 2, 2017 compared to 29.4% for the three month period ended July 3, 2016. Our effective tax rate was 30.5% for the nine month period ended July 2, 2017 compared to 14.8% for the nine month period ended July 3, 2016. Our estimated annual effective tax rate applied to these periods differs from the U.S. federal statutory rate of 35% primarily due to income earned outside the U.S. that is subject to statutory rates lower than 35% net of U.S. and non-U.S. taxes provided on income earned outside the U.S. that is not permanently reinvested.

For the three and nine month periods ended July 2, 2017, the effective tax rate was also reduced for the recognition of tax credits. For the three and nine month periods ended July 3, 2016, the effective tax rate was reduced by the release of valuation allowance on US net operating loss deferred tax assets and includes a \$25.5 million expense to record a tax contingency reserve for a tax exposure in Germany. During the quarter, a local court ruled against our characterization of certain assets as amortizable under Germany tax law. We have appealed this ruling to the German Federal Court. While we continue to believe that our tax treatment was correct under the applicable German law, we have concluded that sufficient uncertainty on the ruling from the German Federal Court exists to record a full tax contingency for this exposure. For the nine month period ended July 3, 2016, the effective tax rate was also reduced due to \$5.9 million for non-recurring items related to the impact of tax law changes and changed in state deferred tax rates on the Company's net deferred tax liabilities.

Table of Contents

Segment Financial Data

Global Batteries & Appliances

(in millions, except %)	Three Month Period				Nine Month Period			
	Ended July 2, 2017	July 3, 2016	Variance		Ended July 2, 2017	July 3, 2016	Variance	
Net sales	\$ 441.1	\$ 454.1	\$ (13.0)	(2.9%)	\$ 1,464.0	\$ 1,490.3	\$ (26.3)	(1.8%)
Operating income	44.9	46.1	(1.2)	(2.6%)	172.0	174.9	(2.9)	(1.7%)
Operating income margin	10.2%	10.2%	-	bps	11.7%	11.7%	—	bps
Adjusted EBITDA	64.6	64.3	0.3	0.5%	233.5	228.1	5.4	2.4%
Adjusted EBITDA margin	14.6%	14.2%	40	bps	15.9%	15.3%	60	bps

Net sales for the three month period ended July 2, 2017 decreased \$13.0 million, or 2.9%, with a decrease in organic net sales of \$4.6 million, or 1.0%.

- Consumer batteries decreased \$2.4 million with no change in organic net sales due to decreases in NA of \$7.0 million due to pricing constraints on alkaline batteries offset by volume increases, increases in EMEA of \$6.1 million from promotional sales volumes plus expansion with new and existing customers for both branded alkaline and specialty batteries, and increases in APAC of \$0.5 million and LATAM of \$0.4 million.
- Small appliances decreased \$5.7 million with a decrease in organic sales of \$2.0 million due to decreases in EMEA of \$2.4 million primarily from Brexit-related market softness in the UK, decreases in LATAM and APAC of \$2.0 million and \$1.1 million, respectively, partially offset by increases in NA of \$3.5 million driven by continued growth through e-commerce channels and additional product listings with key retail customers.
- Personal care appliances decreased \$4.9 million with a decrease in organic sales of \$2.6 million due to decreases in NA of \$2.4 million from softer category POS, reduced retailer shelf space, partially offset by continued growth through e-commerce channels, a decrease in EMEA of \$1.0 million from softer category POS, with increases in LATAM and APAC of \$0.7 million and \$0.1 million, respectively.

Net sales for the nine month period ended July 2, 2017 decreased \$26.3 million, or 1.8%, with an increase in organic net sales of \$5.3 million, or 0.4%.

- Consumer batteries increased \$12.5 million with an increase in organic net sales of \$21.5 million due to an increases in EMEA of \$24.4 million from promotional sales volumes plus expansion with new and existing customers for both branded alkaline and specialty batteries, decreases in NA of \$5.0 driven by pricing constraints on alkaline batteries,

discontinued private label business, offset by volume increases and strong holiday POS; and increases in APAC of \$2.3 million and a decrease in LATAM of \$0.2 million.

- Small appliances decreased \$24.0 million with a decrease in organic sales of \$9.4 million due to decreases in EMEA of \$6.3 million primarily from Brexit-related market softness in the UK, decreases in LATAM and APAC of \$6.0 million and \$3.7 million, respectively, offset by increases in NA of \$6.6 million driven by growth in e-commerce channels, promotional sales volumes and additional product listings with key retail customers offsetting slow category POS.
- Personal care appliances decreased \$14.8 million with a decrease in organic sales of \$6.8 million due to decreases in NA of \$10.1 million from softer category POS, reduced retailer shelf space, and competitor promotions, partially offset by continued growth in e-commerce channels; increases in LATAM and APAC of \$0.9 million and \$1.4 million, respectively, and an increase in EMEA of \$1.0 million from promotional sales volumes offset by softer category POS.

Operating income in the three month period ended July 2, 2017 decreased \$1.2 million, with an operating margin consistent to the three month period ended July 3, 2016, from unfavorable product mix, increased depreciation and amortization, negative foreign currency, partially offset by cost improvements. Adjusted EBITDA in the three month period ended July 2, 2017 increased \$0.3 million and the adjusted EBITDA margin improved 40 bps primarily due to cost improvements.

Operating income in the nine month period ended July 2, 2017 decreased \$2.9 million, with an operating margin consistent to the nine month period ended July 3, 2016, from increased depreciation and amortization, non-recurring costs of \$4.6 million primarily associated with bad debt from retail customer bankruptcy and legal expenses, incremental integration costs related to Shaser, and negative foreign currency, offset by cost improvements and product mix improvement. Adjusted EBITDA in the nine month period ended July 2, 2017 increased \$5.4 million and the adjusted EBITDA margin improved 60 bps driven by product mix improvement and cost improvements offsetting non-recurring costs previously discussed.

Table of Contents

Hardware & Home Improvement

(in millions, except %)	Three Month Period			Nine Month Period				
	Ended July 2, 2017	July 3, 2016	Variance	Ended July 2, 2017	July 3, 2016	Variance		
Net sales	\$ 324.7	\$ 328.5	\$ (3.8) (1.2%)	\$ 927.2	\$ 912.9	\$ 14.3 1.6%		
Operating income	45.1	52.4	(7.3) (13.9%)	137.4	134.1	3.3 2.5%		
Operating income margin	13.9%	16.0%	(210) bps	14.8%	14.7%	10 bps		
Adjusted EBITDA	62.2	65.2	(3.0) (4.6%)	178.0	172.5	5.5 3.2%		
Adjusted EBITDA margin	19.2%	19.8%	(60) bps	19.2%	18.9%	30 bps		

Net sales for the three month period ended July 2, 2017 decreased \$3.8 million, or 1.2%, with an organic net sales decrease of \$3.5 million, or 1.1%.

- Security and locksets increased \$0.4 million due to increases in NA of \$1.7 million from the introduction of Tell product in the retail channels partially offset by delayed shipping as a result of restructuring initiatives, decreases in LATAM of \$1.9 million primarily driven by the exit of lower margin business of \$1.6 million; with marginal increases in APAC of \$0.6 million.
- Plumbing accessories decreased \$1.4 million due to decreases in NA of \$0.5 million due to delayed shipping as a result of ongoing restructuring initiatives, offset by strong promotional sales volumes in Canada; with decreases in LATAM of \$0.8 million.
- Hardware decreased \$2.5 million due to decreases in NA of \$0.6 million due to delayed shipments as a result of restructuring initiatives, and a decrease in LATAM of \$2.0 million primarily driven by the exit of lower margin business of \$1.7 million.

Net sales for the nine-month period ended July 3, 2017 increased \$14.3 million, or 1.6%, for the nine month period ended July 2, 2017 while organic net sales increased \$13.5 million, or 1.5%,

- Security and locksets increased \$14.0 million from increased volumes due to the introduction of new products with key retailers, promotional sales in e-commerce channels, increased volumes with non-retail wholesale and builder channels, and the introduction of Tell product into retail channels, offset by delayed shipping as a result of restructuring initiatives, partially offset by the exit of lower margin business of \$6.1 million in LATAM;
- Plumbing increased \$2.7 million due to strong promotional sales volumes in Canada, and the introduction of new products with key retailers, offset by delayed shipping as a result of ongoing restructuring initiatives.
 - Hardware decreased \$3.2 million driven by the exit of lower margin business of \$5.2 million in LATAM; offset by incremental retail volumes and new product introduction.

Operating income in the three month period ended July 2, 2017 decreased \$7.3 million with an operating income margin decrease of 210 bps due to the decrease in sales volumes, restructuring related activity, and increased investment in research and development. Adjusted EBITDA in the three month period ended July 2, 2017 decreased \$3.0 million with an adjusted EBITDA margin decrease of 60 bps due to the decrease in sales volumes and increased operating expenses, excluding restructuring related costs.

Operating income in the nine month period ended July 2, 2017 increased \$3.3 million with a marginal increase in operating income margin of 10 bps due to increase in sales volumes with cost improvements, partially offset with increases in restructuring related activity. Adjusted EBITDA in the nine month period ended July 2, 2017 increased \$5.5 million with adjusted EBITDA margin increase of 30 bps due to the increase in sales volumes with cost improvements, excluding restructuring related activities.

Table of Contents

Global Pet Supplies

	Three Month Period			Nine Month Period			
	Ended July 2, 2017	July 3, 2016	Variance	Ended July 2, 2017	July 3, 2016	Variance	
(in millions, except %)							
Net sales	\$ 189.9	\$ 207.1	\$ (17.2)	(8.3%)	\$ 576.0	\$ 619.0	\$ (43.0) (6.9%)
Operating income	(5.2)	25.7	(30.9)	(120.2%)	34.4	60.5	(26.1) (43.1%)
Operating income margin	(2.7%)	12.4%	(1,510) bps		6.0%	9.8%	(380) bps
Adjusted EBITDA	36.1	37.7	(1.6)	(4.2%)	98.7	98.3	0.4 0.4%
Adjusted EBITDA margin	19.0%	18.2%	80 bps		17.1%	15.9%	120 bps

Net sales decreased \$17.2 million, or 8.3%, for the three month period ended July 2, 2017, with a decrease in organic net sales of \$21.7 million, or 10.5%.

- Net sales were positively impacted by \$7.2 million due to the acquisition of PetMatrix with \$6.4 million and GloFish with \$0.8 million.
- Net sales were negatively impacted by \$6.7 million for anticipated customer returns as a result of the pet safety recall discussed previously.
- Excluding the impact of the safety recall and acquisitions, companion animal decreased \$11.8 million primarily due to a decrease in EMEA of \$6.9 million primarily for a reduction of \$4.7 million for the acceleration of the exit of a pet food tolling agreement, lower distribution and softer POS from increased competition, and decreases in NA of \$5.5 million from retail inventory reduction management programs, reduced listings and soft POS with pet specialty retailers, exiting of low margin private label product of \$0.9 million and reduced distribution following the safety recall;
- Excluding the impact of acquisitions, aquatics sales decreased \$3.2 million primarily due to decrease in NA of \$2.3 million from retail inventory reduction management programs and soft category POS with pet specialty customers, and decrease in EMEA of \$0.9 million due to delayed sales due to weather.

Net sales decreased \$43.0 million, or 6.9% for the nine month period ended July 2, 2017, with decrease in organic net sales of \$41.2 million, or 6.7%.

- Net sales were positively impacted by \$7.2 million due to the acquisition of PetMatrix and GloFish.
- Net sales were negatively impacted by \$6.7 million for anticipated customer returns as a result of the pet safety recall discussed previously.
- Excluding the impact of the safety recall and acquisitions, companion animal sales decreased \$27.3 million due to decrease in EMEA of \$19.0 million from lower distribution and softer POS from increased competition and a

reduction of \$9.8 million for the acceleration of the exit of a pet food tolling agreement, and decreases in NA of \$9.5 million from retail inventory reduction management programs, reduced listings and soft POS with pet specialty retailers, and low margin product exits of \$5.2 million, offset by channel expansion of Nature's Miracle product.

- Excluding the impact of acquisitions, aquatics sales decreased \$7.4 million due to a decrease in NA of \$6.8 million from retail inventory reduction management programs and soft category POS with pet specialty customers; marginal increase in EMEA of \$0.1 million due to promotional sales offset by delayed sales due to weather.

Operating income decreased \$30.9 million for the three month period ended July 2, 2017 with a decrease in operating income margin of 1,510 bps primarily driven by the reduction of sales volumes, product recall, incremental acquisition & integration activity; partially offset by cost improvements. Adjusted EBITDA in the three month period ended July 2, 2017 decreased \$1.6 million with adjusted EBITDA margin increasing 80 bps due to reduced sales volumes and product recall offset by cost improvements.

Operating income decreased \$26.1 million for the nine month period ended July 2, 2017, and a decrease in operating income margin of 380 bps primarily driven by the reduction in sales volumes, product recall, incremental acquisition & integration activity; partially offset by product mix and cost improvements. Adjusted EBITDA in the nine month period ended July 2, 2017 increased \$0.4 million and adjusted EBITDA margin increased 120 bps due to cost improvements, improved product mix, and expense management offset by reduced sales volumes.

Table of Contents

Home and Garden

(in millions, except %)	Three Month Period				Nine Month Period			
	Ended July 2, 2017	July 3, 2016	Variance		Ended July 2, 2017	July 3, 2016	Variance	
Net sales	\$ 192.4	\$ 212.0	\$ (19.6)	(9.2%)	\$ 374.2	\$ 414.7	\$ (40.5)	(9.8%)
Operating income	55.3	63.1	(7.8)	(12.4%)	88.4	106.1	(17.7)	(16.7%)
Operating income margin	28.7%	29.8%	(110) bps		23.6%	25.6%	(200) bps	
Adjusted EBITDA	59.5	67.0	(7.5)	(11.2%)	100.8	118.3	(17.5)	(14.8%)
Adjusted EBITDA margin	30.9%	31.6%	(70) bps		26.9%	28.5%	(160) bps	

Net sales decreased \$19.6 million, or 9.2%, for the three month period ended July 2, 2017.

- Lawn & garden control products decreased \$1.7 million due to weather conditions decreasing seasonal inventory sales and lower POS, reduction in distribution from retail inventory reduction management programs; offset by the introduction of new product and increased market share with key retail partners.
- Repellent products decreased \$17.7 million due to weather conditions decreasing seasonal inventory sales and lower POS, reduction in distribution from retail inventory management programs, coupled with higher demand driven by Zika concerns in the prior period.
- Household insect control products marginally decreased \$0.2 million.

Net sales decreased \$40.5 million, or 9.8%, for the nine month period ended July 2, 2017

- Lawn & garden control products decreased \$12.7 million due to lower POS and weather conditions decreasing seasonal inventory sales and reduction in distribution from retail inventory reduction management programs; offset by the introduction of new product and increased market share with key retail partners.
- Repellent products decreased \$30.2 million due to lower POS and weather conditions decreasing seasonal inventory sales and reduction in distribution from retail inventory reduction management programs, coupled with higher demand driven by Zika concerns in the prior period.
- Household insect control products increased \$2.4 million.

Operating income for the three month period ended July 2, 2017 decreased \$7.8 million with a decline in operating income margin of 110 bps primarily from lower sales volumes, incremental investment in marketing costs for new product launches and channel expansion. Adjusted EBITDA in the three month period ended July 2, 2017 decreased \$7.5 million with adjusted EBITDA margin decrease of 70 bps primarily due to the lower sales volumes discussed above and incremental investment in marketing costs for new product launches and channel expansion.

Operating income for the nine month period ended July 2, 2017 decreased \$17.7 million with a decline in operating income margin of 200 bps from lower sales volumes, incremental investment in marketing costs for new product launches and channel expansion, partially offset by lower restructuring and integration related charges. Adjusted EBITDA in the nine month period ended July 2, 2017 decreased \$17.5 million with a decline in adjusted EBITDA margin of 160 bps from lower sales volumes and incremental investment in marketing costs for new product launches and channel expansion.

Table of Contents

Global Auto Care

	Three Month Period				Nine Month Period			
	Ended				Ended			
(in millions, except %)	July 2, 2017	July 3, 2016	Variance		July 2, 2017	July 3, 2016	Variance	
Net sales	\$ 155.8	\$ 159.8	\$ (4.0)	(2.5%)	\$ 344.2	\$ 353.1	\$ (8.9)	(2.5%)
Operating income	32.5	44.5	(12.0)	(27.0%)	80.1	93.1	(13.0)	(14.0%)
Operating income margin	20.9%	27.8%	(690) bps		23.3%	26.4%	(310) bps	
Adjusted EBITDA	50.7	54.2	(3.5)	(6.5%)	115.9	122.0	(6.1)	(5.0%)
Adjusted EBITDA margin	32.5%	33.9%	(140) bps		33.7%	34.6%	(90) bps	

Net sales decreased \$4.0 million, or 2.5%, for the three month period ended July 2, 2017, with a decrease in organic net sales of \$3.4 million, or 2.1%.

- Auto appearance products decreased \$1.1 million due to cooler and wet weather conditions and slowed POS during the period, mass and auto retailer inventory reduction programs, and delayed shipping as a result of ongoing restructuring initiatives.
- Refrigerant products decreased \$0.9 million due to cooler and wet weather conditions and slowed POS during the period, mass and auto retailer inventory reduction programs, and delays as a result of ongoing restructuring initiatives.
- Auto performance products and other decreased \$1.4 million due to mass and auto retail inventory reductions programs.

Net sales for the nine month period ended July 2, 2017 decreased \$8.9 million, or 2.5%, with a decrease in organic net sales of \$8.1 million, or 2.3%,

- Auto appearance products decreased \$6.0 million due to cooler and wet weather conditions and slowed POS, mass and auto retailer inventory reduction programs, and timing as a result of ongoing restructuring initiatives.
- Refrigerant products increased \$0.7 million due to price increases implemented in response to refrigerant cost increases offset by cooler and wet weather conditions and slowed POS, mass and auto retail inventory reduction programs, and timing as a result of ongoing restructuring initiatives.
- Auto performance products and other decreased \$2.8 million due to mass and auto retail inventory reductions programs.

Operating income decreased for the three month period ended July 2, 2017 by \$12.0 million with an operating income margin decrease of 690 bps due to the decrease in sales volumes, higher marketing costs for new product introductions, and increased restructuring costs. Adjusted EBITDA decreased \$3.5 million for the three month period ended July 2, 2017 with an adjusted EBITDA margin decrease of 140 bps from a decrease in sales volumes, higher

marketing costs for new product introductions.

Operating income decreased for the nine month period ended July 2, 2017 by \$13.0 million with an operating income margin decrease of 310 bps from a decrease in sales volumes, higher marketing costs for new product introductions and increased restructuring costs; offset by improved product mix. Adjusted EBITDA decreased \$6.1 million for the nine month period ended July 2, 2017 with an adjusted EBITDA margin decrease of 90 bps from a decrease in sales volumes, higher marketing costs for new product introductions; offset by improved product mix.

Table of Contents

Liquidity and Capital Resources

The following is a summary of the Company's cash flows for the nine month periods ended July 2, 2017 and July 3, 2016:

(in millions)	SBH		SB/RH	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
Net cash provided by operating activities	\$ 162.4	\$ 117.9	\$ 144.6	\$ 104.7
Net cash used by investing activities	\$ (379.7)	\$ (60.7)	\$ (379.7)	\$ (60.7)
Net cash provided (used) by financing activities	\$ 53.4	\$ (186.4)	\$ 75.6	\$ (173.3)
Effect of exchange rate changes on cash and cash equivalents	\$ (1.5)	\$ (1.7)	\$ (1.5)	\$ (1.7)

Cash Flows from Operating Activities

Cash flows provided by operating activities increased \$44.5 million during the nine month period ended July 2, 2017 due to:

- Incremental cash generated from the segment operations of \$18.3 million; including an increase in cash flow contributed by working capital of \$30.6 million, primarily from working capital management initiatives;
- Decrease in cash paid for interest of \$48.1 million due to a reduction in annualized interest costs from refinancing activities previously discussed;
- Decrease in cash paid for restructuring and integration related activities of \$10.9 million; and
- Decrease in cash paid for income taxes of \$2.0 million; partially offset by
- Cash payment to Stanley Black and Decker of \$23.2 million as a non-recurring settlement of transitional operating costs subsequent to the acquisition of the HHI Business acquired in 2013;
 - Increased corporate expenditures for investment in corporate initiatives of \$5.4 million; and
- Non-recurring financing cost of \$6.2 million associated with a premium on the redemption of 6.375% Notes and costs for re-pricing the USD Term Loan and Revolver Facility

Cash Flow from Investing Activities

Cash flow used in investing activities increased \$319.0 million during the nine month period ended July 2, 2017 due to:

- Cash used for the purchase of business acquisitions of PetMatrix for \$255.0 million and GloFish for \$49.7 million;
- Increase in capital expenditures of \$18.5 million associated with incremental investment in capacity expansion and cost reduction projects; partially offset by
- Increase in proceeds received from the sale of property, plant and equipment of \$3.5 million.

Cash Flow from Financing Activities

Cash flows from financing activities increased \$239.8 million for the nine month period ended July 2, 2017 due to incremental proceeds from debt issuances offset by cash payments towards debt issuance costs, dividends and treasury stock repurchases.

Debt

During the nine months ended July 2, 2017, the Company recognized incremental proceeds from the issuance of debt of \$353.6 million; including \$250.0 million from the issuance of USD Term Loan primarily to support funding acquisition activity, incremental net proceeds from the Revolver Facility of \$94.5 million primarily to support working capital, acquisition activity and treasury stock repurchases, and \$9.1 million of other debt financing. The Company made \$223.3 million payments on debt, including \$129.7 million for the redemption of the 6.375% Notes, \$61.3 million for the redemption of the Euro Term Loan, and \$32.3 million of scheduled amortizing payments on debt.

The Company also maintains a \$700.0 million revolving credit facility that matures in March 2022 (“Revolver Facility”) which the Company may borrow funds on a variable interest rate. As a result of borrowings and payments under the Revolver Facility, at July 2, 2017, the Company had borrowing availability of \$385.4 million, net of outstanding letters of credit of \$20.1 million and a \$1.5 million amount allocated to a foreign subsidiary.

Refer to Note 9 to the Condensed Consolidated Financial Statements, “Debt”, included elsewhere in this Quarterly Report for additional information.

At July 2, 2017, we were in compliance with all covenants under the Credit Agreement and the indentures governing the 6.625% Notes, the 6.125% Notes, the 5.75% Notes, and the 4.00% Notes.

Table of Contents

The Company's access to the capital markets and financing costs may depend on the credit ratings of the Company when it is accessing the capital markets. None of the Company's current borrowings are subject to default or acceleration as a result of a downgrading of credit ratings, although a downgrade of the Company's credit ratings could increase fees and interest charges on future borrowings.

Equity

From time to time we may repurchase outstanding shares of SBH common stock in the open market or otherwise. On July 28, 2015, the Board of Directors approved a \$300 million common stock repurchase program. The authorization was effective for 36 months. On January 24, 2017, the Board of Directors approved a \$500 million common stock repurchase program. The authorization is effective for 36 months and replaces the pre-existing \$300 million common stock repurchase program that was scheduled to expire in July 2018. During the nine month period ended July 2, 2017, treasury share repurchases increased by \$125.7 million as 1.3 million shares were repurchased at an average price of \$123.90 per share with \$437.1 million remaining under the current plan. The repurchase of additional shares in the future will depend upon many factors, including the Company's financial condition, liquidity and legal requirements.

SBH made cash dividend payments of \$72.1 million during the nine month period ended July 2, 2017, an increase of \$7.5 million due to the increase in the quarterly dividend from \$0.38 to \$0.42 per share.

During the nine month period ended July 2, 2017, SBH granted 0.7 million restricted stock units to our employees and our directors. All vesting dates are subject to the recipient's continued employment, except as otherwise permitted by our Compensation Committee or Board of Directors or in certain cases if the employee is terminated without cause or as otherwise provided in an applicable employment agreement. The total market value of the RSUs on the date of grant was \$88.0 million, which represented unearned share based compensation. Such unearned compensation is recognized as expense over the appropriate vesting period. See Note 13, "Share Based Compensation" of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report for additional information.

The Company purchased the remaining 44% non-controlling interest of Shaser, Inc. with a cash payment of \$12.6 million. Refer to Note 3 to the Condensed Consolidated Financial Statements, "Acquisitions", included elsewhere in this Quarterly Report for additional information.

Liquidity and capital resources of SB/RH are highly dependent upon the cash flow and financing activities of SBH.

Liquidity Outlook

The Company's ability to make principal and interest payment on borrowings under its U.S. and foreign credit facilities and its ability to fund planned capital expenditures will depend on its ability to generate cash in the future, which, to a certain extent, is subject to general economic, financial, competitive, regulatory and other conditions. Based on its current level of operations, the Company believes that its existing cash balances and expected cash flows from operations will be sufficient to meet its operating requirements for at least the next 12 months. However, the Company may request borrowings under its credit facilities and seek alternative forms of financing or additional investments to achieve its longer-term strategic plans.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Critical Accounting Policies and Estimates

Our Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q have been prepared in accordance with generally accepted accounting principles in the United States of America and fairly present our financial position and results of operations. There have been no material changes to our critical accounting policies or critical accounting estimates as discussed in our Annual Report on Form 10-K for the year ended September 30, 2016.

Table of Contents

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU requires revenue recognition to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new revenue recognition model requires identifying the contract and performance obligations, determining the transaction price, allocating the transaction price to performance obligations and recognizing the revenue upon satisfaction of performance obligations. This ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. This ASU can be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the updates recognized at the date of the initial application along with additional disclosures. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606) Deferral of the Effective Date, which amends the previously issued ASU to provide for a one year deferral from the original effective date. As a result, the ASU will become effective for us beginning in the first quarter of our fiscal year ending September 30, 2019, with early adoption available to us beginning in the first quarter of our fiscal year ending September 30, 2018. We have performed our preliminary risk assessment and scoping of the adoption impact and are currently performing a detailed assessment of various implementation matters that may have an impact on the consolidated financial statements of the Company, but we have not concluded on the materiality or method of adoption.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which supersedes the lease requirements in ASC 840, Leases. This ASU requires lessees to recognize lease assets and liabilities on the balance sheet, as well as disclosing key information about leasing arrangements. Although the ASU requires both operating and finance leases to be disclosed on the balance sheet, a distinction between the two types still exists. The ASU can be applied using a modified retrospective approach, with optional practical expedients that entities may elect to apply, relating to the identification and classification of leases that commenced before the effective date, along with the ability to use hindsight in the evaluation of lease decisions. The ASU will become effective for us beginning in the first quarter of our fiscal year ending September 30, 2020, with early adoption available. We are assessing the impact this pronouncement will have on the consolidated financial statements of the Company and have not determined the materiality or method of adoption.

In March 2017, the FASB issued ASU No. 2017-07, Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires an employer to disaggregate the service cost component from the other components of net periodic pension costs within the statement of income. The amendment provides guidance requiring the service cost component to be recognized consistent with other compensation costs arising from service rendered by employees during the period, and all other components to be recognized separately outside of the subtotal of income from operations. The ASU is applied on a retrospective basis, and will become effective for us in the first quarter of the year ending September 30, 2019; with early adoption available to us in the first quarter of the year ending September 30, 2018. The net periodic benefit cost

for the year ended September 30, 2016 was \$4.5 million, of which the service cost component was \$2.8 million and other components were \$1.7 million. The net periodic benefit cost for the year ending September 30, 2017 will be \$7.6 million, of which the service cost component is \$3.9 million and other cost components are \$3.7 million.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies the test for goodwill impairment by removing Step 2 from the goodwill impairment test. If goodwill impairment is realized, the amount recognized will be the amount by which the carrying amount exceeds the reporting unit's fair value; however the loss recognized cannot exceed the total amount of goodwill allocated to that reporting unit. The ASU must be applied on a prospective basis and will become effective for us beginning in the first quarter of the year ended September 30, 2021, with early adoption available. We chose to adopt the standard immediately with no impact to the condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Factors

There have been no material changes in the Company's market risk during the nine month period ended July 2, 2017. For additional information, refer to Note 9 "Debt", and Note 10 "Derivatives", to the Condensed Consolidated Financial Statements included elsewhere in the Quarterly Report and to Part II, Item 7A of the Company's Annual Report on Form 10-K for the year ended September 30, 2016.

Table of Contents

Item 4. Controls and Procedures

Spectrum Brands Holdings, Inc.

Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) pursuant to Rule 13a-15(b) under the Exchange Act as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, the Company's management, including our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms, and is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting. There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) that occurred during the nine month period ended July 2, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls. The Company's management, including our Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and procedures or the Company's internal controls over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

SB/RH Holdings, LLC

Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) pursuant to Rule 15d-15(b) under the Exchange Act as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, the Company's management, including our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures are effective to ensure that information required to be disclosed

by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms, and is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting. There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) that occurred during the nine month period ended July 2, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls. SB/RH Holdings' management, including our Chief Executive Officer and Chief Financial Officer, does not expect that the SB/RH Holdings' disclosure controls and procedures or SB/RH Holdings' internal controls over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within SB/RH Holdings have been detected.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Litigation

We are a defendant in various matters of litigation generally arising out of the ordinary course of business. We do not believe that any matters or proceedings presently pending will have a material adverse effect on our results of operations, financial condition, liquidity or cash flows.

Item 1A. Risk Factors

Information about our risk factors is contained in Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016. With the exception of the change in risk factors discussed below, we believe that at July 2, 2017, there have been no material changes in our risk factors from those contained in Item 1A of our Annual Report on Form 10-K for the year ended September 30, 2016.

HRG and its significant stockholders exercise significant influence over us and their interests in our business may be different from the interests of our stockholders.

HRG, as our majority stockholder, and its significant stockholders, have the ability to influence the outcome of any corporate action by us that requires stockholder approval, including, but not limited to, the election of directors, approval of merger transactions and the sale of all or substantially all of our assets. In addition, we are a party to a stockholder agreement with HRG and certain of its stockholders. This influence and actual control may have the effect of discouraging offers to acquire the Company because any such consummation would likely require the consent of HRG and perhaps certain of its stockholders. HRG may also delay or prevent a change in control of the Company.

In addition, because HRG owns more than 50% of the voting power of the Company, the Company is considered a controlled company under the NYSE listing standards. As such, the NYSE corporate governance rules requiring that a majority of the Company's board of directors and the Company's entire compensation committee or the nominating and corporate governance committee be independent do not apply. As a result, the ability of the Company's independent

directors to influence its business policies and affairs may be reduced.

We are one of several companies in which HRG owns a controlling interest. The interests of HRG and these other companies may, from time to time, diverge from the interests of other of the Company's stockholders and from each other, particularly with regard to new investment opportunities. HRG is not restricted from investing in other businesses involving or related to the marketing or distribution of household products, pet and pest products and personal care products. HRG may also engage in other businesses that compete or may in the future compete with the Company.

If HRG were to sell substantial amounts of the Company's common stock in the public market, or investors perceive that these sales could occur, the market price of the Company's common stock could be adversely affected. The Company has entered into a registration rights agreement (the "Registration Rights Agreement") with HRG, certain of HRG's stockholders and certain other of our stockholders. If requested properly under the terms of the Registration Rights Agreement, these stockholders have the right to require the Company to register all or some of such shares for sale under the Securities Act in certain circumstances, and also have the right to include those shares in a registration initiated by the Company. If the Company is required to include the shares of its common stock held by these stockholders pursuant to these registration rights in a registration initiated by the Company, sales made by such stockholders may adversely affect the price of the Company's common stock and ability to raise needed capital. In addition, if these stockholders exercise their demand registration rights and cause a large number of shares to be registered and sold in the public market or demand that the Company register its shares on a shelf registration statement, such sales or shelf registration may have an adverse effect on the market price of the Company's common stock.

As previously announced by HRG in November 2016, HRG disclosed that its Board of Directors had initiated a process to explore the strategic alternatives available to HRG with a view to maximizing shareholder value. HRG has further stated that as part of this process, HRG expects to discuss and may make proposals to one or more of the Company, its management, its board of directors, its stockholders and other persons, including discussions and proposals that may include, but are not limited to, a merger or a sale and/or a business combination of HRG and the Company. HRG has stated there is no definitive schedule for it to complete its review of strategic alternatives.

Table of Contents

In light of HRG's announcement of its exploration of strategic alternatives last November, the Company's Board of Directors formed a special committee of independent directors and has hired independent financial and legal advisors. The committee is in preliminary discussions with HRG concerning a potential strategic transaction. Any such transaction is expected to be beneficial to all shareholders of the Company. There can be no assurance that any proposal will be made or that HRG's process will result in a transaction, or if a transaction is undertaken, as to its terms, timing or outcome. Neither we nor HRG intend to provide any updates with respect to the foregoing unless determined otherwise in our or HRG's sole discretion or as required by law.

We face risks related to the impact on foreign trade agreements and relations from the current administration.

Recent changes in the United States federal government have caused uncertainty about the future of trade partnerships and treaties, such as the North American Free Trade Agreement ("NAFTA"). The current administration has expressed its desire to modify NAFTA and has already taken action against the Trans Pacific Partnership Agreement ("TPPA"), which have the ability to impact our business on a macro level in terms of demand for American built products, as well as affect the Company's ability to leverage lower cost facilities in territories outside of the U.S. The current administration has also indicated that imports from China and Mexico, as well as other countries with which the U.S. runs a trade deficit, may be subject to an import tax. We source many products for certain segments of the Company from Mexico, China and other Asian countries. Media and political reactions in the affected countries could potentially impact the ability of the Company's operations in those countries. Foreign countries may impose additional burdens on U.S. companies through the use of local regulations, tariffs or other requirements which could increase our operating costs in those foreign jurisdictions. It remains unclear what additional actions, if any, the current administration will take. If the United States were to materially modify NAFTA or other international trade agreements to which it is a party, or if tariffs were raised on the foreign-sourced goods that we sell, such goods may no longer be available at a commercially attractive price, which in turn could have a material adverse effect on our business, financial condition and results of operations.

We face risks relating to the United Kingdom's 2016 referendum, which called for its exit from the European Union.

The announcement of the referendum regarding the United Kingdom's ("UK") membership in the European Union ("EU") on June 23, 2016 (referred to as "Brexit"), advising for the exit of the UK from the EU, and subsequent notification of intention to withdraw given on March 29, 2017, has adversely impacted global markets and foreign currencies. In particular, the value of the Pound Sterling has sharply declined as compared to the US Dollar and other currencies. This volatility in foreign currencies is expected to continue as the UK negotiates and executes its exit from the EU, but there is uncertainty over what time period this will occur. A significantly weaker Pound Sterling compared to the US Dollar could have a significant negative effect on the Company's business, financial condition and results of operations. The decrease in value to the Pound Sterling and impacts across global markets and foreign currencies may influence trends in consumer confidence and discretionary spending habits, but given the lack of precedent and uncertainty, it is unclear how the implications will affect us.

The intention to withdraw begins a two-year negotiating period to establish the withdrawal terms. Even if no agreement is reached, the UK's separation still becomes effective unless all EU members unanimously agree on an extension. Negotiations will commence to determine the future terms of the UK relationship with the EU, including, among other things, the terms of trade between the UK and the EU. The effects of Brexit will depend on many factors, including any agreements that the UK makes to retain access to EU markets either during a transitional period or more permanently. Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the UK determines which EU laws to replace or replicate. Any of these effects of Brexit and others we cannot anticipate, Transactions between the UK and the EU, as well as the UK and non-EU countries, such as the United States will be affected because the UK currently operates under the EU's tax treaties. The UK will need to negotiate its own tax treaties with countries all over the world, which could take years to complete. While we cannot anticipate the outcome of these future negotiations, effects could include uncertainty regarding tax exemptions and reliefs within the EU, as well as expected changes in tax laws or regulations which could materially and adversely affect our business, business opportunities, results of operations, financial condition, liquidity and cash flows.

Table of Contents

The Company may be subject to product liability claims and product recalls, which could negatively impact its profitability

In the ordinary course of our business, the Company may be named as a defendant in lawsuits involving product liability claims. In any such proceedings, plaintiffs may seek to recover large and sometimes unspecified amounts of damages, and the matters may remain unresolved for several years. Any such matters could have a material adverse effect on our business, results of operations and cash flows if we are unable to successfully defend against or settle these matters or if our insurance coverage is insufficient to satisfy any judgments against us or settlement related to these matters. The Company sells perishable treats for animal consumption, which involves risks such as product contamination or spoilage, product tampering, and other adulteration of food products. The Company may be subject to liability if the consumption of any of its products causes injury, illness, or death. In addition, the Company will voluntarily recall products in the event of contamination or damage. For example, on June 10, 2017, the Company initiated a voluntary safety recall of various rawhide chew products for dogs sold by the Company's PET segment due to possible chemical contamination. The costs of the recall negatively impacted Net Sales, Gross Margin, and Adjusted EBITDA in the PET segment and the Company expects ongoing impacts to its business. A significant product liability judgment or a widespread product recall may negatively impact the Company's sales and profitability for a period of time depending on product availability, competitive reaction, and consumer attitudes. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that Company products caused illness or injury could adversely affect the Company's reputation with existing and potential customers and its corporate and brand image. Although we have product liability insurance coverage and an excess umbrella policy, our insurance policies may not provide coverage for certain, or any, claims against us or may not be sufficient to cover all possible liabilities. We may not be able to maintain such insurance on acceptable terms, if at all, in the future.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the nine month period ended July 2, 2017, we did not sell any equity securities that were not registered under the Securities Act. On July 28, 2015, the Board of Directors approved a \$300 million common stock repurchase program. The authorization was effective for 36 months. The following table reflects all shares repurchased within the common stock repurchase program:

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Plan	Approximate Dollar Value of Shares that may Yet Be Purchased
As of September 30, 2016	580,087	\$ 96.26	580,087	\$ 244,159,304

Edgar Filing: Spectrum Brands Holdings, Inc. - Form 10-Q

October 1 to October 30, 2016	25,196	135.10	25,196	240,755,272
October 31 to November 27, 2016	46,004	129.43	46,004	234,801,082
November 28, 2016 to January 1, 2017	736,081	119.93	736,081	146,520,916
Quarter ended January 1, 2017	807,281	\$ 120.95	807,281	\$ 146,520,916
January 2 to January 24, 2017	44,550	122.38	44,550	141,068,869
As of January 24, 2017	1,431,918	\$ 110.99	1,431,918	\$ 141,068,869

On January 24, 2017, the Board of Directors approved a \$500 million common stock repurchase program. The authorization is effective for 36 months and replaces the pre-existing \$300 million common stock repurchase program that was scheduled to expire in July 2018. As of July 2, 2017 there has been the following activity on the \$500 million common stock repurchase program:

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Plan	Approximate Dollar Value of Shares that may Yet Be Purchased
As of January 24, 2017	—	\$ —	—	\$ 500,000,000
January 24 to January 29, 2017	—	—	—	500,000,000
January 30 to February 26, 2017	—	—	—	500,000,000
February 27 to April 2, 2017	—	—	—	500,000,000
Quarter ended April 2, 2017	—	\$ —	—	\$ 500,000,000
April 3 to April 30, 2017	—	—	—	500,000,000
May 1 to May 28, 2017	254,699	128.63	254,699	467,238,277
May 29 to July 2, 2017	232,978	129.24	232,978	437,127,636
Period ended July 2, 2017	487,677	\$ 128.92	487,677	\$ 437,127,636

Item 6. Exhibits

Please refer to the Exhibit Index.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 1, 2017

SPECTRUM
BRANDS
HOLDINGS, INC.

By: /s/
 Douglas
 L. Martin
 Douglas
 L. Martin

Executive
Vice
President
and Chief
Financial
Officer
(Principal
Financial
Officer)

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 1, 2017

SB/RH
HOLDINGS, LLC
By: /s/
Douglas
L. Martin
Douglas
L. Martin

Executive
Vice
President
and Chief
Financial
Officer
(Principal
Financial
Officer)

Table of Contents

EXHIBIT INDEX

Exhibit 10.1	Third Amendment dated as of April 7, 2017 (to the Credit Agreement dated as of June 23, 2015), by and among Spectrum Brands, Inc., SB/RH Holdings, LLC, Deutsche Bank AG New York Branch, as administrative agent, Royal Bank of Canada, as arranger of the Third Amendment, and the lenders party thereto (filed by incorporation by reference to Exhibit 10.6 to the Current Report on Form 8-K filed with the SEC by Spectrum Brands Holdings, Inc. on April 7, 2017 (File No. 001-34757)).
Exhibit 10.2	Fourth Amendment dated as of May 16, 2017 (to the Credit Agreement dated as of June 23, 2015), by and among Spectrum Brands, Inc., SB/RH Holdings, LLC, Deutsche Bank AG New York Branch, as administrative agent and the lenders party thereto (filed by incorporation by reference to Exhibit 10.7 to the Current Report on Form 8-K filed with the SEC by Spectrum Brands Holdings, Inc. on May 16, 2017 (File No. 001-34757)).
Exhibit 31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Spectrum Brands Holdings, Inc.*
Exhibit 31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 the Sarbanes-Oxley Act of 2002. Spectrum Brands Holdings, Inc.*
Exhibit 31.3	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. SB/RH Holdings, LLC *
Exhibit 31.4	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 the Sarbanes-Oxley Act of 2002. SB/RH Holdings, LLC *
Exhibit 32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Spectrum Brands Holdings, Inc.*
Exhibit 32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Spectrum Brands Holdings, Inc.*
Exhibit 32.3	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. SB/RH Holdings, LLC *
Exhibit 32.4	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. SB/RH Holdings, LLC *

101.INS XBRL Instance Document**

101.SCH XBRL Taxonomy Extension Schema Document**

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document**

101.DEF XBRL Taxonomy Extension Definition Linkbase Document**

101.LAB XBRL Taxonomy Extension Label Linkbase Document**

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document**

* Filed herewith

** In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be "furnished" and not "filed."