UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 2, 2006

OR

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

For the transition period from to

Commission File Number 001-13615

Spectrum Brands, Inc.

(Exact name of registrant as specified in its charter)

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

(770) 829-6200

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares outstanding of the Registrant s common stock, $.01 par value, as of August 4, 2006, was 51,161,200.

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SPECTRUM BRANDS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR QUARTER ENDED JULY 2, 2006

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SPECTRUM BRANDS, INC.

Condensed Consolidated Balance Sheets

July 2, 2006 and September 30, 2005

(Unaudited)

(Amounts in thousands, except per share figures)

	July 2, 2006	September 30, 2005
-ASSETS-		
Current assets:		
Cash and cash equivalents	$ 13,135	$ 29,852
Receivables, less allowance for doubtful accounts of $19,684 and $20,262, respectively	406,818	373,395
Inventories	461,003	451,553
Assets held for sale	3,226	108,174
Prepaid expenses and other	89,952	84,993
Total current assets	974,134	1,047,967
Property, plant and equipment, net	315,752	304,323
Goodwill	1,478,442	1,429,017
Intangible assets, net	1,146,379	1,154,397
Deferred charges and other	53,445	47,375
Debt issuance costs	39,272	39,012
Total assets	$ 4,007,424	$ 4,022,091
-LIABILITIES AND SHAREHOLDERS EQUITY-		
Current liabilities:		
Current maturities of long-term debt	$ 51,167	$ 39,308
Accounts payable	281,314	281,954
Liabilities held for sale		22,294
Accrued liabilities	259,123	213,820
Total current liabilities	591,604	557,376
Long-term debt, net of current maturities	2,231,757	2,268,025
Employee benefit obligations, net of current portion	82,991	78,510
Deferred income taxes	154,133	208,251
Other	66,920	67,199
Total liabilities	3,127,405	3,179,361
Shareholders equity:		
Common stock, $.01 par value, authorized 150,000 shares; issued 67,528 and 66,625 shares, respectively; outstanding 51,597 and 50,797 shares, respectively	675	666
Additional paid-in capital	648,319	635,309
Retained earnings	272,740	267,315
Accumulated other comprehensive income	31,361	10,260

	953,095	913,550
Less treasury stock, at cost, 15,931 and 15,828 shares, respectively	(73,076)	(70,820)
Total shareholders equity	880,019	842,730
Total liabilities and shareholders equity	$ 4,007,424	$ 4,022,091

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

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SPECTRUM BRANDS, INC.

Condensed Consolidated Statements of Operations

For the three and nine month periods ended July 2, 2006 and July 3, 2005

(Unaudited)

(Amounts in thousands, except per share figures)

	THREE MONTHS		NINE MONTHS	
	2006	2005	2006	2005
Net sales	$ 698,269	$ 707,791	$ 1,943,349	$ 1,719,525
Cost of goods sold	430,086	429,831	1,196,515	1,057,668
Restructuring and related charges	2,708	7,807	4,435	7,807
Gross profit	265,475	270,153	742,399	654,050
Selling	154,243	142,864	419,673	349,442
General and administrative	43,153	42,997	137,386	112,645
Research and development	7,482	7,993	22,521	21,214
Restructuring and related charges	11,552	7,365	22,835	7,521
Total operating expenses	216,430	201,219	602,415	490,822
Operating income	49,045	68,934	139,984	163,228
Interest expense	45,688	38,623	130,000	94,544
Other income, net	(84)	(1,107)	(6,023)	(1,274)
Income from continuing operations before income taxes	3,441	31,418	16,007	69,958
Income tax expense	896	10,653	5,302	24,864
Income from continuing operations	2,545	20,765	10,705	45,094
Income (loss) from discontinued operations, net of tax		2,946	(5,280)	4,615
Net income	$ 2,545	$ 23,711	$ 5,425	$ 49,709
Basic earnings per share:				
Weighted average shares of common stock outstanding	49,456	48,916	49,458	42,024
Income from continuing operations	$ 0.05	$ 0.42	$ 0.22	$ 1.07
Income (loss) from discontinued operations		0.06	(0.11)	0.11
Net income	$ 0.05	$ 0.48	$ 0.11	$ 1.18
Diluted earnings per share:				
Weighted average shares and equivalents outstanding	51,584	51,086	50,959	43,919
Income from continuing operations	$ 0.05	$ 0.41	$ 0.21	$ 1.03
Income (loss) from discontinued operations		0.05	(0.10)	0.10
Net income	$ 0.05	$ 0.46	$ 0.11	$ 1.13

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

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SPECTRUM BRANDS, INC.

Condensed Consolidated Statements of Cash Flows

For the nine month periods ended July 2, 2006 and July 3, 2005

(Unaudited)

(Amounts in thousands)

	NINE MONTHS	
	2006	**2005**
Cash flows from operating activities:		
Income from continuing operations	$ 10,705	$ 45,094
Non-cash adjustments to income from continuing operations:		
Gain on sale of assets	(8,876)	
Depreciation	36,661	32,960
Amortization	29,748	15,815
Amortization of debt issuance costs	4,976	4,188
Loss on debt extinguishment		12,033
Inventory valuation purchase accounting charge	204	34,961
Other non-cash adjustments	28,825	3,931
Net changes in operating assets and liabilities, net of acquisitions and discontinued operations	(93,938)	(18,043)
Net cash provided by operating activities of continuing operations	8,305	130,939
Net cash provided by operating activities of discontinued operations		275
Net cash provided by operating activities	8,305	131,214
Cash flows from investing activities:		
Purchases of property, plant and equipment	(51,158)	(40,833)
Proceeds from sale of property, plant and equipment and investments	5,379	
Proceeds from sale of assets held for sale	10,641	
Payment for acquisitions, net of cash acquired	(14,856)	(1,598,703)
Net cash used by investing activities of continuing operations	(49,994)	(1,639,536)
Net cash provided (used) by investing activities of discontinued operations	84,432	(275)
Net cash provided (used) by investing activities	34,438	(1,639,811)
Cash flows from financing activities:		
Reduction of debt	(741,643)	(911,208)
Proceeds from debt financing	686,996	2,432,266
Debt issuance costs	(5,236)	(31,109)
Proceeds from exercise of stock options	365	18,028
Stock option income tax benefit	80	10,234
Cash repayment of notes receivable from officers/shareholders		2,650
Net cash (used) provided by financing activities	(59,438)	1,520,861
Effect of exchange rate changes on cash and cash equivalents	(22)	772
Net (decrease) increase in cash and cash equivalents	(16,717)	13,036
Cash and cash equivalents, beginning of period	29,852	13,971

Cash and cash equivalents, end of period	$ 13,135	$ 27,007

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

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SPECTRUM BRANDS, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

(Amounts in thousands, except per share figures)

1 DESCRIPTION OF BUSINESS

Spectrum Brands, Inc. and its subsidiaries (the Company) is a global branded consumer products company with positions in seven major product categories: consumer batteries; lawn and garden; pet supplies; electric shaving and grooming; household insect control; electric personal care products; and portable lighting. The Company is a worldwide manufacturer and marketer of alkaline, zinc carbon and hearing aid batteries, as well as aquariums and aquatic health supplies, a designer and marketer of rechargeable batteries and battery-powered lighting products and a designer and marketer of electric shavers and accessories, grooming products and hair care appliances. The Company is also a North American manufacturer and marketer of lawn fertilizers, herbicides, pet supplies and specialty food products, and insecticides and repellents.

The Company sells its products in approximately 120 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and original equipment manufacturers (OEMs) and enjoys strong name recognition in its markets under the Rayovac, VARTA and Remington brands, each of which has been in existence for more than 80 years, and under the Spectracide, Cutter, Tetra, 8-in-1 and various other brands. The Company s manufacturing and product development facilities are located in the United States, Europe, China and Latin America. Due to business seasonality, the Company s operating results for the three and nine month periods ended July 2, 2006 are not necessarily indicative of the results that may be expected for the full year ended September 30, 2006.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: These condensed consolidated financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the SEC) and, in the opinion of the Company, include all adjustments (which are normal and recurring in nature) necessary to present fairly the financial position of the Company at July 2, 2006, and the results of operations and cash flows for the three and nine month periods ended July 2, 2006 and July 3, 2005. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to such SEC rules and regulations. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2005. Certain prior period amounts have been reclassified to conform to the current period presentation.

Significant Accounting Policies and Practices: The condensed consolidated financial statements include the condensed consolidated financial statements of Spectrum Brands, Inc. and its subsidiaries and are prepared in accordance with generally accepted accounting principles in the United States of America. All intercompany transactions have been eliminated. The Company s fiscal year ends September 30. References herein to 2006 and 2005 refer to the fiscal years ended September 30, 2006 and 2005, respectively.

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

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SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

The Company s Condensed Consolidated Financial Statements (unaudited) presented herein include the results of operations for Jungle Laboratories Corporation (Jungle Labs) subsequent to the September 1, 2005 date of acquisition, the results of operations for Tetra Holding GmbH (Tetra) subsequent to the April 29, 2005 date of acquisition and the results of operations for United Industries Corporation (United) subsequent to the February 7, 2005 date of acquisition. (See footnote 10, Acquisitions, for additional information on the Jungle Labs, Tetra and United acquisitions).

Discontinued Operations: On November 22, 2005, the Company announced the sale of its fertilizer technology and Canadian professional fertilizer products businesses to Agrium Inc., an agricultural retailer and wholesale producer and marketer of agricultural nutrients and industrial products. The sale, which was completed on January 25, 2006, included two divisions of Spectrum Brands Nu-Gro subsidiary, representing fiscal 2005 revenue of approximately $80,000 from sales of high-end specialty controlled-release nitrogen fertilizer and other products to professional turf markets and specialty wholesale fertilizer customers. Proceeds from the sale, net of contractual working capital adjustments, are expected to total approximately $83,000.

The Company has reflected the fertilizer technology and Canadian professional fertilizer products operations of Nu-Gro as discontinued operations. The Company discontinued these operations effective September 30, 2005 as part of the United integration initiatives. See footnote 11, Restructuring and Related Charges, for additional discussion of United integration initiatives. The following amounts have been segregated from continuing operations and are reflected as discontinued operations for the three and nine month periods ended July 2, 2006 and July 3, 2005, respectively:

	Three Months		Nine Months	
	2006	2005[A]	2006[B]	2005[A]
Net sales	$	$ 22,654	$ 16,314	$ 36,200
Income (loss) from discontinued operations before income taxes	$	$ 4,464	$ (6,106)	$ 7,113
Provision for income taxes		(1,518)	826	(2,498)
Income (loss) from discontinued operations (including estimated loss on disposal of $3,788 in 2006), net of tax	$	$ 2,946	$ (5,280)	$ 4,615

(A) The three month period ended July 3, 2005 represents results for the discontinued operations for April 2005 through June 2005. The nine month period ended July 3, 2005 represents results for the discontinued operations for February 2005 through June 2005.

(B) The nine month period ended July 2, 2006 represents results for the discontinued operations for October 2005 through January 2006.

Assets Held for Sale: The balance in Assets held for sale in the Condensed Consolidated Balance Sheets (unaudited) as of July 2, 2006 consists primarily of a distribution facility in the Dominican Republic and a manufacturing facility in France. During the nine month period ended July 2, 2006, an $8,876 gain on sale of assets is included in the Condensed Consolidated Statements of Cash Flows. This gain includes an $8,260 gain on the sale of a Bridgeport, CT facility, previously included in Assets held for sale.

Shipping and Handling Costs: The Company incurred shipping and handling costs of $65,777 and $163,909 for the three and nine month periods ended July 2, 2006, respectively, and $56,089 and $117,530 for the three and nine month periods ended July 3, 2005, respectively. These costs are included in Selling expenses. Shipping and handling costs include costs incurred with third-party carriers to transport products to customers as well as salaries and overhead costs related to activities to prepare the Company s products for shipment from its distribution facilities.

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

Concentrations of Credit Risk: Trade receivables subject the Company to credit risk. The Company extends credit to its customers based upon an evaluation of the customer s financial condition and credit history, but generally does not require collateral. The Company monitors its customers credit and financial condition based on changing economic conditions and will make adjustments to credit policies as required. Provision for losses on uncollectible trade receivables are determined principally on the basis of past collection experience applied to ongoing evaluations of the Company s receivables and evaluations of the risks of nonpayment for a given customer.

The Company has a broad range of customers including many large retail outlet chains, one of which accounts for a significant percentage of its sales volume. This customer represented approximately 20% of the Company s Net sales during both the three and nine month periods ended July 2, 2006, and 21% and 19% of its Net sales during the three and nine month periods ended July 3, 2005, respectively. This major customer also represented approximately 15% and 12% of its trade accounts receivable, net as of July 2, 2006 and September 30, 2005, respectively.

Approximately 41% of the Company s sales during the nine month period ended July 2, 2006 occurred outside the United States. These sales and related receivables are subject to varying degrees of credit, currency, political and economic risk. The Company monitors these risks and makes appropriate provisions for collectibility based on an assessment of the risks present.

Stock-Based Compensation: On October 1, 2005 the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (Revised 2004), *Share-Based Payment* (SFAS 123(R)) requiring the Company to recognize expense related to the fair value of its employee stock option awards. The Company recognizes the cost of all share-based awards on a straight-line basis over the vesting period of the award. Total stock compensation expense associated with both stock options and restricted stock awards recognized by the Company during the three and nine month periods ended July 2, 2006 was $4,449 and $12,573, respectively, or $3,291 and $8,408, net of taxes, respectively. The amounts before tax are included in General and administrative expenses in the Condensed Consolidated Statements of Operations (unaudited). The Company expects that total stock compensation expense for 2006 will be approximately $17,000 before the effect of income taxes. As of July 2, 2006 there was $38,854 of unrecognized compensation cost related to restricted stock that is expected to be recognized over a weighted average period of approximately 3 years.

The Company uses or has used two forms of stock based compensation. Shares of restricted stock have been awarded to certain employees and members of management since fiscal 2001. Restricted stock is now the only form of stock based compensation used by the Company. Prior to the fourth quarter of fiscal 2004, the Company also issued stock options to employees, some of which remained unvested at the adoption date of SFAS 123(R).

Stock options previously awarded generally vest under a combination of time-based and performance-based vesting criteria. Under the time-based vesting, the stock options become exercisable primarily in equal increments over a three year period, while under the performance-based vesting such options become exercisable over the same time period or one year after, if certain performance criteria are not met. The exercise period for all stock options does not exceed ten years from the date of grant.

Restricted stock shares granted prior to the third quarter of fiscal 2006 generally have vesting periods of three to five years. Approximately 50% of the restricted stock shares are time-based and vest on a pro rata basis over either a three or four year vesting period and the remaining 50% are performance-based. Vesting of such performance based restricted stock will occur only upon achievement of certain performance goals established by

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

the Board of Directors of the Company. Generally, performance targets consist of EPS (Earnings Per Share), segment EBIT (Earnings Before Interest and Taxes) and cash flow components. If such performance targets are not met, the performance component of a restricted stock award will automatically vest one year after the originally scheduled vesting date, effectively making the award time based. The Company recognizes amortization on the time-based component on a straight-line basis over the vesting period. The Company recognizes amortization on the performance-based component on a straight-line basis over the vesting period, assuming performance targets will not be met, unless and until it is probable that the performance targets will be met. At the point in time when it is probable that the performance target will be met, the recognition period is shortened one year to account for the accelerated vesting requirement of the performance-based component.

Effective the third quarter of fiscal 2006, the only stock-based compensation to be awarded will be performance-based restricted stock or stock options. Such future performance-based restricted stock or stock options will vest upon the achievement of certain performance goals established by the Board of Directors and will not contain a time-based provision providing for automatic vesting one year after the originally scheduled vesting date if the performance targets are not met.

The Company currently has two active incentive plans under which additional shares may be issued. In 1997, the Board adopted the 1997 Rayovac Incentive Plan (1997 Plan). Up to 5,000 shares of Common stock may be issued under the 1997 Plan, which expires in August 2007. As of July 2, 2006, there were options with respect to 1,551 shares of common stock outstanding under the 1997 Plan. In 2004, the Board adopted the 2004 Rayovac Incentive Plan (2004 Plan). The 2004 Plan supplements the 1997 Plan. Up to 3,500 shares of common stock may be issued under the 2004 Plan, which expires in July 2014. As of July 2, 2006, 2,205 restricted shares had been granted under the 2004 Plan. No options have been granted under the 2004 Plan.

The fair value of restricted stock is determined based on the market price of the Company s shares on the grant date. A summary of the status of the Company s nonvested restricted stock as of September 30, 2005, and changes during the nine month period ended July 2, 2006, is as follows:

Restricted Stock	Shares	Weighted Average Grant Date Fair Value	Fair Value
Restricted stock at September 30, 2005	1,783	$ 26.87	$ 47,910
Granted	964	19.56	18,854
Vested	(504)	16.54	(8,338)
Forfeited	(88)	28.14	(2,476)
Restricted stock at July 2, 2006	2,155	$ 25.96	$ 55,950

Prior to October 1, 2005, the Company accounted for its stock option plans under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) and related Interpretations, as permitted by SFAS 123, *Accounting for Stock-Based Compensation* (SFAS 123). No stock option-based employee compensation cost was recognized in the income statement prior to that date, as all stock options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective October 1, 2005, the Company adopted the fair value recognition provisions of SFAS 123(R), using the modified-prospective transition method. Under that transition method, compensation cost recognized in fiscal 2006 includes:
(a) compensation cost for all share-based payments granted prior to, but not yet vested as of October 1, 2005, based on the grant date fair value

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to October 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated. As a result of adopting SFAS 123(R) on October 1, 2005, the Company s income from continuing operations before income taxes and net income for the three month period ended July 2, 2006, was $175 and $129 lower, respectively, and for the nine month period ended July 2, 2006, was $556 and $372 lower, respectively, than if the Company had continued to account for share-based compensation under APB 25.

Prior to the adoption of SFAS 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the statement of cash flows. Beginning on October 1, 2005, the Company changed its cash flow presentation in accordance with SFAS 123(R) and FASB Staff Position (FSP) FAS 123(R)-3, *Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards* (FSP FAS 123(R)-3) which require the cash flows resulting from the tax benefits for these options to be classified as financing cash flows. The Company also elected to calculate its initial pool of excess tax benefits under the alternative transition method described in FSP FAS 123(R)-3.

The Company estimated the fair value of its previously granted option awards using the Black-Scholes option-pricing formula. The Black-Scholes option pricing model was used with the following weighted-average assumptions for grants made in the following years:

Black-Scholes Option Valuation Assumptions	2005	2004	2003
Fair value of options granted during the period	$	$ 7.79	$ 5.99
Expected term (in years)		6	8
Expected volatility		41.4%	40.3%
Expected dividend yield			
Risk free rate		3.79%	3.36%

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123(R) to options granted under the Company s stock option plans during the nine month period ended July 3, 2005. For purposes of this pro forma disclosure, the value of the options is amortized to expense on a straight-line basis over a three year vesting period and forfeitures are recognized as they occur. The Company s pro forma information follows for the nine month period ended July 3, 2005:

	Nine Months 2005
Net income, as reported	$ 49,709
Add: Stock-based compensation expense included in reported net income, net of tax	4,944
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of tax	(6,390)
Pro forma net income	$ 48,263
Basic earnings per share as reported	$ 1.18
Basic earnings per share pro forma	$ 1.15
Diluted earnings per share as reported	$ 1.13
Diluted earnings per share pro forma	$ 1.10

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SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

The following table summarizes the stock option transactions for the nine month period ended July 2, 2006:

Stock Options	Shares	Weighted Average Price	Aggregate Intrinsic Value
Outstanding at September 30, 2005	1,988	$ 14.64	$ 16,938
Granted			
Exercised	(28)	13.08	4
Forfeited	(24)	14.87	
Outstanding at July 2, 2006	1,936	$ 14.67	$
Exercisable at July 2, 2006	1,656	$ 14.76	$

The following table summarizes information about options outstanding and options outstanding and exercisable as of July 2, 2006:

	Options Outstanding			Options Outstanding and Exercisable	
Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
$4.39	149	0.20 years	$ 4.39	149	$ 4.39
$11.32 $15.00	1,290	5.91	13.42	1,039	13.50
$16.19 $21.50	221	2.51	18.82	204	18.70
$21.63 $28.70	276	3.05	22.75	264	22.52
	1,936	4.68	$14.67	1,656	$14.76

Derivative Financial Instruments: Derivative financial instruments are used by the Company principally in the management of its interest rate, foreign currency and raw material price exposures. The Company does not hold or issue derivative financial instruments for trading purposes.

The Company uses interest rate swaps to manage its interest rate risk. The swaps are designated as cash flow hedges with the changes in fair value recorded in Accumulated other comprehensive income (AOCI) and as a derivative hedge asset or liability, as applicable. The swaps settle periodically in arrears with the related amounts for the current settlement period payable to, or receivable from, the counter-parties included in accrued liabilities or receivables and recognized in earnings as an adjustment to interest expense from the underlying debt to which the swap is designated. Pretax derivative gains from such hedges recorded as an adjustment to Interest expense were $667 and $502 during the three and nine month periods ended July 2, 2006, respectively, and losses of $369 and $1,793 during the three and nine month periods ended July 3, 2005, respectively. The pretax adjustment to Interest expense for ineffectiveness from such hedges included in the amounts above, was a gain of $0 and $431 during the three and nine month periods ended July 2, 2006, respectively, and losses of $20 and $128 during the three and nine month periods ended July 3, 2005, respectively. At July 2, 2006, the Company had a portfolio of USD-denominated interest rate swaps outstanding which effectively fixes the market interest rates on floating rate debt, exclusive of lender spreads, at rates as follows: 4.81% for a notional principal amount of $100,000 through April 2007, 4.15% for a notional principal amount of $175,000 through September 2007 and 4.46% for a notional principal amount of $170,000 through October 2008. In addition, the Company had a portfolio of EUR-denominated interest rate swaps

outstanding which effectively fixes the market interest rates on floating

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

rate debt, exclusive of lender spreads, at rates as follows: 2.68% for a notional principal amount of 60,000 through September 2007 and 2.68% for a notional principal amount of 220,000 through September 2008. At July 2, 2006 and September 30, 2005, $800,000 and $445,000, respectively, of such swap contracts were outstanding. The derivative net gain on these contracts recorded in AOCI at July 2, 2006 was $9,095, net of tax expense of $5,575. At July 2, 2006, the portion of derivative net gains estimated to be reclassified from AOCI into earnings over the next 12 months is $3,566, net of tax.

The Company periodically enters into forward foreign exchange contracts to hedge the risk from forecasted foreign 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, Brazilian Reals, Canadian Dollars or Japanese Yen. These foreign exchange contracts are cash flow hedges of fluctuating foreign exchange rates related to sales or product or raw material purchases. Until the sale or purchase is recognized, the fair value of the related hedges 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. Pretax derivative losses from such hedges recorded as an adjustment to Net sales were $4 during both the three and nine month periods ended July 2, 2006, respectively. No such activity was recorded for comparable periods for 2005. Pretax derivative losses from such hedges recorded as an adjustment to Cost of goods sold were $384 and $221 during the three and nine month periods ended July 2, 2006, respectively, and pretax derivative gains were $157 and $87 during the three and nine month periods ended July 3, 2005, respectively. Following the sale or purchase, subsequent changes in the fair value of the derivative hedge contracts are recorded as a gain or loss in earnings as an offset to the change in value of the related asset or liability recorded in the Condensed Consolidated Balance Sheet (unaudited). Pretax derivative losses from such hedges recorded as an adjustment to earnings in Other income, net were $133 and $59 during the three and nine month periods ended July 2, 2006, respectively, and pretax derivative gains were $443 and $354 during the three and nine month periods ended July 3, 2005, respectively. The pretax derivative adjustment to earnings for ineffectiveness from these contracts was $0 for the three and nine month periods ended July 2, 2006 and July 3, 2005, respectively. At July 2, 2006 and September 30, 2005, respectively, the Company had $88,672 and $0 of such foreign exchange derivative contracts outstanding. The derivative net gain on these contracts recorded in AOCI at July 2, 2006 was $819, net of tax expense of $340. At July 2, 2006, the portion of derivative net gains estimated to be reclassified from AOCI into earnings over the next 12 months is $514, net of tax.

The Company periodically enters into forward and swap foreign exchange contracts to hedge 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, Euros, Pounds Sterling, Brazilian Reals or Canadian Dollars. These foreign exchange contracts are fair value hedges of a related liability or asset recorded in the Condensed Consolidated Balance Sheet (unaudited). The gain or loss on the derivative hedge contracts is recorded in earnings as an offset to the change in value of the related liability or asset. Pretax derivative gains from such hedges recorded as an adjustment to earnings in Other income, net were $3,409 and $2,798 during the three and nine month periods ended July 2, 2006, respectively, and losses of $406 and $933 during the three and nine month periods ended July 3, 2005, respectively. The pretax derivative adjustment to earnings for ineffectiveness from these contracts was $0 for the three and nine month periods ended July 2, 2006 and July 3, 2005, respectively. At July 2, 2006 and September 30, 2005, $95,378 and $0, respectively, of such foreign exchange derivative contracts were outstanding.

The Company is exposed to risk from fluctuating prices for raw materials, including zinc, urea and di-ammonium phosphates used in its manufacturing processes. The Company hedges a portion of the risk

SPECTRUM BRANDS, INC.

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

(Amounts in thousands, except per share figures)

associated with these materials through the use of commodity call options and swaps. The hedge contracts are designated as cash flow hedges with the fair value changes recorded in AOCI and as a hedge asset or liability, as applicable. The unrecognized changes in fair value of the swaps are reclassified from AOCI into earnings when the hedged purchase of raw materials also affects earnings. The call options effectively cap the floating price on a specified quantity of raw materials through a specified date. The swaps effectively fix the floating price on a specified quantity of raw materials through a specified date. Pretax derivative losses and gains recorded as an adjustment to Cost of goods sold for swap contracts settled at maturity were a gain of $512 and a loss of $238 during the three and nine month periods ended July 2, 2006, respectively, and gains of $1,703 and $3,082 during the three and nine month periods ended July 3, 2005, respectively. The hedges are generally highly effective, however, pretax derivative losses recorded as an adjustment to Cost of goods sold for ineffectiveness were $0 and $24 during the three and nine month periods ended July 2, 2006, respectively, and pretax derivative gains of $181 and $106 recorded during the three and nine month periods ended July 3, 2005, respectively. At July 2, 2006 and September 30, 2005, $51,851 and $5,591, respectively, of such commodity contracts were outstanding. The derivative net gain on these contracts recorded in AOCI at July 2, 2006 was $3,288, net of tax expense of $1,800. At July 2, 2006, the portion of derivative net gains estimated to be reclassified from AOCI into earnings over the next 12 months is $3,288, net of tax.

3 OTHER COMPREHENSIVE INCOME

Comprehensive income and the components of other comprehensive income, net of tax, for the three and nine months ended July 2, 2006 and July 3, 2005, respectively, are as follows:

	Three Months		Nine Months	
	2006	2005	2006	2005
Net income	$ 2,545	$ 23,711	$ 5,425	$ 49,709
Other comprehensive income (loss):				
Foreign currency translation	8,521	(12,819)	10,725	390
Adjustment of additional minimum pension liability	(392)	63	(403)	1,251
Net unrealized gain on derivative instruments	4,560	20	10,779	1,079
Net change to derive comprehensive income for the period	12,689	(12,736)	21,101	2,720
Comprehensive income	$ 15,234	$ 10,975	$ 26,526	$ 52,429

Net exchange gains or losses resulting from the translation of assets and liabilities of foreign subsidiaries are accumulated in the AOCI section of Shareholders equity. Also included are the effects of exchange rate changes on intercompany balances of a long-term nature and transactions designated as hedges of net foreign investments. The changes in accumulated foreign currency translation for the three and nine month periods ended July 2, 2006 and July 3, 2005 were primarily attributable to the impact of translation of the net assets of the Company s European operations, primarily denominated in Euros and Pounds Sterling.

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SPECTRUM BRANDS, INC.

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(Amounts in thousands, except per share figures)

4 NET INCOME PER COMMON SHARE

Net income per common share for the three and nine months ended July 2, 2006 and July 3, 2005, respectively, is calculated based upon the following number of shares:

	Three Months		Nine Months	
	2006	2005	2006	2005
Basic	49,456	48,916	49,458	42,024
Effect of restricted stock and assumed conversion of options	2,128	2,170	1,501	1,895
Diluted	51,584	51,086	50,959	43,919

5 INVENTORIES

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

	July 2, 2006	September 30, 2005
Raw materials	$ 124,476	$ 117,175
Work-in-process	41,094	37,931
Finished goods	295,433	296,447
	$ 461,003	$ 451,553

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

(Amounts in thousands, except per share figures)

6 GOODWILL AND ACQUIRED INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

	North America	Europe/ROW	Latin America	Global Pet	Total
Goodwill:					
Balance as of September 30, 2005	$ 1,113,397	$ 104,324	$ 111,572	$ 99,724	$ 1,429,017
Purchase price allocation during period	46	(147)	3,386	22,590	25,875
Effect of translation	(2,091)	4,148	314	21,179	23,550
Balance as of July 2, 2006	$ 1,111,352	$ 108,325	$ 115,272	$ 143,493	$ 1,478,442
Intangible Assets:					
Trade names Not Subject to Amortization					
Balance as of September 30, 2005	$ 305,100	$ 156,390	$ 113,142	$ 332,696	$ 907,328
Additions	9				9
Effect of translation	336	8,229	466	(96)	8,935
Balance as of July 2, 2006	$ 305,445	$ 164,619	$ 113,608	$ 332,600	$ 916,272