

NEWELL RUBBERMAID INC

Form 10-K

February 16, 2006

**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2005

COMMISSION FILE NUMBER  
1-9608

**NEWELL RUBBERMAID INC.**  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE  
(State or other jurisdiction of  
Incorporation or organization)

36-3514169  
(I.R.S. Employer  
Identification No.)

10 B Glenlake Parkway, Suite 600  
Atlanta, Georgia  
(Address of principal executive offices)

30328  
(Zip Code)

Registrant's telephone number, including area code: (770) 407-3800  
Securities registered pursuant to Section 12(b) of the Act:

**NAME OF EACH EXCHANGE  
ON WHICH REGISTERED**

**TITLE OF EACH CLASS**

Common Stock, \$1 par value per share, and associated  
Common Stock Purchase Rights

New York Stock Exchange  
Chicago Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.  
Yes  No

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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

There were 274.5 million shares of the Registrant's Common Stock outstanding (net of treasury shares) as of January 31, 2006. The aggregate market value of the shares of Common Stock (based upon the closing price on the New York Stock Exchange on June 30, 2005) beneficially owned by non-affiliates of the Registrant was approximately \$6,446.5 million. For purposes of the foregoing calculation only, which is required by Form 10-K, the Registrant has included in the shares owned by affiliates those shares owned by directors and officers of the Registrant, and such inclusion shall not be construed as an admission that any such person is an affiliate for any purpose.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement for its Annual Meeting of Stockholders to be held May 9, 2006.

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**TABLE OF CONTENTS**

PART I

ITEM 1. BUSINESS

ITEM 1A. RISK FACTORS

ITEM 1B. UNRESOLVED STAFF COMMENTS

ITEM 2. PROPERTIES

ITEM 3. LEGAL PROCEEDINGS

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

SUPPLEMENTARY ITEM -- EXECUTIVE OFFICERS OF THE REGISTRANT

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

ITEM 6. SELECTED FINANCIAL DATA

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

ITEM 9A. CONTROLS AND PROCEDURES

ITEM 9B. OTHER INFORMATION

PART

III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

ITEM 11. EXECUTIVE COMPENSATION

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

PART

IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

SIGNATURES

EXHIBIT INDEX

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**PART I**

**ITEM 1. BUSINESS**

Newell Rubbermaid or the Company refers to Newell Rubbermaid Inc. alone or with its wholly owned subsidiaries, as the context requires. When this report uses the words we or our, they refer to the Company and its subsidiaries unless the context otherwise requires.

**WEBSITE ACCESS TO SECURITIES AND EXCHANGE COMMISSION REPORTS**

The Company's Internet website can be found at [www.newellrubbermaid.com](http://www.newellrubbermaid.com). The Company makes available free of charge on or through its website its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as practicable after the Company files them with, or furnishes them to, the Securities and Exchange Commission.

**GENERAL**

Newell Rubbermaid is a global manufacturer and marketer of branded consumer products and their commercial extensions, serving a wide array of retail channels including department stores, discount stores, warehouse clubs, home centers, hardware stores, commercial distributors, office superstores, contract stationers, automotive stores, and baby superstores. The Company's basic business strategy is to create brands that matter by marketing a multi-product offering of everyday consumer and commercial products, backed by a focus on innovation and customer service excellence, in order to achieve maximum results for its stockholders. The Company's multi-product offering consists of well known name-brand consumer products and their commercial extensions in five business segments: Cleaning & Organization; Office Products; Tools & Hardware; Home Fashions; and Other. The Company's financial objectives are to achieve above-average sales and earnings per share growth, maintain a superior return on investment and maintain a conservative level of debt.

The Company's six transformational strategic initiatives are as follows: Productivity, Streamlining, New Product Development, Marketing, Strategic Account Management, and Collaboration.

Productivity is the initiative to continuously reduce the cost of manufacturing a product in order to become the best-cost supplier. Streamlining is the commitment to reduce non-strategic costs throughout the organization. New Product Development represents the commitment to develop and introduce cutting-edge, innovative new products at best-cost to meet end-user needs. The Marketing initiative represents the Company's commitment to transform from a push to pull marketing organization, focusing on the end-user. The Strategic Account Management initiative represents the Company's program to allocate resources to those strategic retailers the Company believes will continue to grow profitably with us in the future. Collaboration is the Company's initiative for the divisional operating units to work together to maximize economies of scale and reapply best practices.

Refer to the forward-looking statements section of Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of the Company's forward-looking statements.

**BUSINESS SEGMENTS**

The Company's reporting segments reflect the Company's focus on building large consumer and commercial brands, promoting organizational integration, achieving operating efficiencies and aligning the businesses with the Company's strategic account management strategy. The Company reports its results in five reportable segments as follows:

| Segment                 | Description of Products   |
|-------------------------|---|
| Cleaning & Organization | Material handling, cleaning, refuse, indoor/outdoor organization, home storage, food storage  |
| Office Products         | Ballpoint/roller ball pens, markers, highlighters, pencils, correction fluids, office products, art supplies, on-demand labeling products |

|                  |  |
|------------------|--|
| Tools & Hardware | Hand tools, power tool accessories, manual paint applicators, cabinet, window and convenience hardware, propane torches, solder  |
| Home Fashions    | Drapery hardware, window treatments  |
| Other            | Operating segments that do not meet aggregation criteria, including aluminum and stainless steel cookware, hair care accessory products, infant and juvenile products, including toys, high chairs, car seats, strollers, and play yards |

In 2005, the Company completed its acquisition of DYMO, a global leader in designing, manufacturing and marketing on-demand labeling solutions. The results of DYMO are included in the Company's Office Products segment since November 23, 2005, the date of acquisition. Refer to Footnote 2 to the Consolidated Financial Statements for additional information.

During 2005, the Company divested its Curver business and entered into an agreement to sell its European Cookware business. The Company completed the divestiture of its European Cookware business on January 3, 2006. The businesses were previously reported in the Cleaning & Organization and Other operating segments, respectively. The results of these businesses are currently included in discontinued operations. Refer to Footnote 3 to the Consolidated Financial Statements for additional information.

#### CLEANING & ORGANIZATION

The Company's Cleaning & Organization segment is conducted by the Rubbermaid Home Products, Rubbermaid Foodservice Products, Rubbermaid Commercial Products, Rubbermaid Europe, Rubbermaid Canada, and Rubbermaid Asia Pacific divisions. These divisions design, manufacture or source, package and distribute indoor and outdoor organization, home storage, food storage, cleaning, refuse and material handling products.

Rubbermaid Home Products, Rubbermaid Foodservice Products, Rubbermaid Commercial Products, Rubbermaid Europe, Rubbermaid Canada, and Rubbermaid Asia Pacific primarily sell their products under the Rubbermaid®, Brute®, Roughneck® and TakeAlongs® trademarks.

Rubbermaid Home Products, Rubbermaid Foodservice Products, Rubbermaid Europe, Rubbermaid Canada, and Rubbermaid Asia Pacific market their products directly and through distributors to mass merchants, home centers, warehouse clubs, grocery/drug stores and hardware distributors. Rubbermaid Commercial Products markets its products directly and through distributors to commercial channels and home centers.

#### OFFICE PRODUCTS

The Company's Office Products segment is conducted by the divisions of Sanford North America, Sanford Europe, Sanford Latin America and Sanford Asia Pacific. Sanford North America primarily designs, manufactures or sources, packages and distributes permanent/waterbase markers, dry erase markers, overhead projector pens, highlighters, wood-cased pencils, ballpoint pens and inks, correction fluids, office products, art supplies and on-demand labeling products. It also distributes other writing instruments including roller ball pens and mechanical pencils for the retail marketplace. Sanford Europe, Latin America and Asia Pacific primarily design and manufacture or source, package and distribute ballpoint pens, wood-cased pencils, roller ball pens, art supplies and on-demand labeling products for the retail and distributor markets.

Office Products primarily sells its products under the trademarks Sharpie®, Paper Mate®, Parker®, Waterman®, Eberhard Faber®, BeroI®, Grumbacher®, Reynolds®, rotring®, uni-Ball® (used under exclusive license from Mitsubishi Pencil Co. Ltd. and its subsidiaries in North America), Expo®, Accent®, Vis-à-Vis®, Espresso®, Liquid Paper®, Mongol®, Foohy®, Prismacolor®, Eldon®, Sensa® and DYMO®.

Sanford North America markets its products directly and through distributors to mass merchants, warehouse clubs, grocery/drug stores, office superstores, office supply stores, contract stationers, and hardware distributors. Sanford Europe, Latin America and Asia Pacific market their products directly to retailers, distributors and contract stationers.

#### TOOLS & HARDWARE

The Company's Tools & Hardware segment is conducted by the following divisions: IRWIN North America Power Tool Accessories, IRWIN North America Hand Tools, IRWIN Latin America, IRWIN Europe and Asia Pacific, LENOX and Amerock. IRWIN North America Power Tool Accessories, IRWIN North America Hand Tools, IRWIN Latin America, IRWIN Europe and Asia Pacific and LENOX design, manufacture or source, package and distribute hand tools and power tool accessories, propane torches, solder and accessories, and manual paint applicator products. Amerock designs, manufactures or sources, packages and distributes cabinet hardware for the retail and O.E.M. marketplace, window and door hardware for window and door manufactures and hardware for the retail marketplace. IRWIN North America Power Tool Accessories, IRWIN North America Hand Tools, IRWIN Latin America and IRWIN Europe and Asia Pacific primarily sell their products under the trademarks IRWIN®, Vise-Grip®, Marathon®, Twill®, Speedbor®, Jack®, Quick-Grip®, Unibit®, Strait-Line®, BernzOmatic®, Shur-Line® and Rubbermaid®. LENOX primarily sells its products under the LENOX® and Taramet Sterling® trademarks. Amerock primarily sells its products under the trademarks Amerock®, Allison®, Ashland® and Bulldog®. IRWIN North America Power Tool Accessories, IRWIN North America Hand Tools, IRWIN Latin America, IRWIN Europe and Asia Pacific, LENOX, and Amerock market their products directly and through distributors to mass merchants, home centers, department/specialty stores, hardware distributors, industrial/construction outlets, custom shops, select contract customers and other professional customers.

#### HOME FASHIONS

The Company's Home Fashions segment is conducted by Levolor/Kirsch and the European Home Décor business. Levolor/Kirsch primarily designs, manufactures or sources, packages and distributes drapery hardware, custom and stock horizontal and vertical blinds, as well as pleated, cellular and roller shades in the U.S. retail marketplace. Levolor/Kirsch also produces window treatment components for custom window treatment fabricators. Home Décor primarily designs, manufactures, packages and distributes drapery hardware and custom window treatments and related components for the European retail marketplace.

Levolor/Kirsch primarily sells its products under the trademarks Levolor®, Newell®, and Kirsch®. Home Décor primarily sells its products under the trademarks Nenplas®, Homelux®, Gardinia®, and Kirsch®.

Levolor/Kirsch markets its products directly and through distributors to mass merchants, home centers, department/specialty stores, hardware distributors, industrial/construction outlets, custom shops, select contract customers and other professional customers. Home Décor markets its products to mass merchants and buying groups.

#### OTHER

The Company's Other segment is conducted by the following divisions: Calphalon, Little Tikes, Graco, and Goody. Calphalon primarily designs manufactures or sources, packages and distributes aluminum and stainless steel cookware, bakeware and cutlery. The Little Tikes and Graco businesses design, manufacture or source, package and distribute infant and juvenile products such as toys, high chairs, car seats, strollers, and play yards. Goody designs, manufactures or sources, packages and distributes hair care accessories.

Calphalon primarily sells its products under the trademarks Calphalon®, Kitchen Essentials®, Cooking with Calphalon®, and Calphalon®One®. Little Tikes and Graco primarily sell their products under the Little Tike® and Graco® trademarks. Goody markets its products primarily under the Goody®, Ace® and ilm® trademarks.

Calphalon markets its products directly to department and specialty stores. Little Tikes and Graco market their products directly and through distributors to mass merchants, warehouse clubs, and grocery/drug stores. Goody markets its products directly and through distributors to mass merchants, warehouse clubs, and grocery/drug stores.

#### NET SALES BY BUSINESS SEGMENT

The following table sets forth the amounts and percentages of the Company's net sales for the three years ended December 31, (*in millions, except percentages*) (including sales of acquired businesses from the time of acquisition), for the Company's five business segments. Sales to Wal\*Mart Stores, Inc. and subsidiaries amounted to approximately 14%, 15%, and 15% of consolidated net sales for the years ended December 31, 2005, 2004 and 2003, respectively, substantially across all divisions. Sales to no other customer exceeded 10% of consolidated net sales. For more detailed segment information, including operating income and identifiable assets by segment, refer to Footnote 20 to the Consolidated Financial Statements.

|                            | 2005      | % of<br>Total | 2004      | % of<br>Total | 2003      | % of<br>Total |
|----------------------------|-----------|---------------|-----------|---------------|-----------|---------------|
| Cleaning &<br>Organization | \$1,614.6 | 25.5%         | \$1,702.7 | 26.3%         | \$1,848.6 | 27.9%         |
| Office Products            | 1,713.3   | 27.0          | 1,686.2   | 26.0          | 1,681.2   | 25.4          |
| Tools & Hardware           | 1,260.3   | 19.9          | 1,218.7   | 18.8          | 1,199.7   | 18.1          |
| Home Fashions              | 824.0     | 13.0          | 906.8     | 14.0          | 901.0     | 13.6          |
| Other                      | 930.3     | 14.7          | 965.4     | 14.9          | 984.3     | 14.9          |
| Total Company              | \$6,342.5 | 100.0%        | \$6,479.8 | 100.0%        | \$6,614.8 | 100.0%        |

## **GROWTH STRATEGY**

The Company's growth strategy emphasizes internal growth and acquisitions.

### **Internal Growth**

The Company focuses on internal growth principally by introducing innovative new products, entering new domestic and international markets, adding new customers, cross-selling existing product lines to current customers and supporting its U.S.-based customers' international expansion. Internal growth is defined by the Company as growth from continuing businesses owned more than one year and minor acquisitions.

### **Acquisition Strategy**

The Company supplements internal growth by selectively acquiring businesses with prominent end-user focused brands and improving the profitability of such businesses through the implementation of the Company's strategic initiatives. Other strategic criteria for an acquisition include: the Company's ability to grow the business; the ability to create strong, differentiated brands; its importance to key customers; its relationship to existing product lines; its function as a low-cost source of supply; its ability to provide the Company with an entrance into a new market; and the extent to which the Company can improve operational efficiency through shared resources. In addition, the Company will consider the business' actual and potential impact on the Company's operating performance.

During 2005, the Company acquired DYMO, a global leader in designing, manufacturing and marketing on-demand labeling solutions, from Esselte. The purchase price was approximately \$730 million, subject to adjustment for working capital and other items. The cash paid at closing was \$706 million, reflecting a preliminary working capital adjustment relating to Esselte's retention of certain receivables, as well as an adjustment relating to a modification of the transaction structure. The final purchase price is subject to further adjustment relating to changes in the closing working capital. This acquisition strengthens the Company's global leadership position in the Office Products segment by expanding and enhancing the Company's product lines and customer base. See Footnote 2 to the Consolidated Financial Statements for further information on acquisitions.

### **Selective Globalization**



The Company is pursuing selective international opportunities to further its internal growth and acquisition objectives. The growth of consumer goods economies and retail structures in several regions outside the U.S., particularly Asia, Mexico and South America, makes them attractive to the Company by providing selective opportunities to acquire businesses, develop partnerships with new foreign customers and extend relationships with

the Company's domestic customers whose businesses are growing internationally. The Company had sales outside the U.S. of approximately 28%, 29%, and 28% of total sales in 2005, 2004, and 2003, respectively.

#### **DIVESTITURE AND PRODUCT LINE RATIONALIZATION**

The Company's divestiture and product line rationalization strategy emphasizes the divestiture of businesses and rationalization of product offerings that do not meet the Company's long-term strategic goals and objectives.

The Company consistently reviews its businesses and product offerings, assesses their strategic fit and seeks opportunities to divest non-strategic businesses. The criteria used by the Company in assessing the strategic fit include: the ability to increase sales for the business; the ability to create strong, differentiated brands; its importance to key customers; its relationship with existing product lines; its impact to the market; and the business' actual and potential impact on the operating performance of the Company.

During 2005, the Company divested its Curver business and entered into an agreement to sell its European Cookware business. The Company completed the divestiture of its European Cookware business in January 2006. In 2004, the Company sold its U.S. picture frame business (Burnes), its Anchor Hocking glassware business, its Mirro cookware business, its Panex Brazilian low-end cookware business, its European picture frames business and its Little Tikes Commercial Playground Systems business. See Footnote 3 to the Consolidated Financial Statements for a description of discontinued operations.

In 2005 and 2004, the Company rationalized \$200 million and \$257 million, respectively, in low-margin product sales, primarily in the Cleaning & Organization segment. The Company's decision to exit these low margin product lines is consistent with its strategy to focus on high margin, high potential opportunities that support the Company's financial objectives.

#### **STRATEGIC INITIATIVES**

##### **Productivity**

The Company's objective is to reduce the cost of manufacturing a product on an ongoing basis. To achieve productivity, the Company focuses on reducing purchasing costs, material handling costs, manufacturing inefficiencies, removing excess overhead costs to reduce the overall cost of manufacturing products and reducing the cost of distribution and transportation.

The deployment of Newell Operational Excellence (Newell OPEX) throughout the Company's manufacturing network is aimed at delivering the Company's productivity targets. Newell OPEX is a methodical process focused on lean manufacturing that includes installing the right manufacturing and distribution metrics and driving improvements quarter after quarter. In addition to the cost reductions, other key components of Newell OPEX are improved quality and service levels and the reduction of inventory lead times.

In September 2005, the Company announced Project Acceleration aimed at strengthening and transforming the Company's portfolio. The project includes the approval by the Board of Directors of a three-year restructuring plan, which commenced in December 2005. While the Board of Directors has approved the overall plan, specific approval of each individual project is required prior to commencing the action in accordance with the Company's schedule of corporate authority. Project Acceleration is designed to reduce manufacturing overhead by strategically sourcing and manufacturing products in lower cost countries and includes the closure of approximately one-third of the Company's 80 manufacturing facilities (as of September 2005). The Company began executing the plan in the fourth quarter of 2005. See Footnote 4 to the Consolidated Financial Statements for additional information on restructuring.

##### **Streamlining**

The streamlining initiative represents the Company's commitment and focus on reducing non-strategic costs throughout the organization. The Company is vigilant in creating a leaner organization that is more flexible in its response time, both internally and externally.

### New Product Development

The Company's goal is to become the leader in introducing innovative and patented new products to the consumer and commercial marketplace. The Company continues to implement a consistent, world class new product development process across the organization that begins with identifying unmet needs and developing solutions to deliver the ideal end-user experience. Excellence in new product development will enhance brand image and help drive internal sales growth.

Over the last two years, the Company launched a number of innovative new products, including the Sharpie® MINI and RT (retractable) permanent markers; IRWIN GrooveLock pliers; the Leno® Gold utility knife; Rubbermaid® Paint Buddy paint touch-up tool; Rubbermaid® Collapsibles food storage containers; Rubbermaid® Commercial Microfiber cleaning tools and accessories; Calphalon® One Infused Anodized, Calphalon® One Nonstick and Contemporary Stainless lines of gourmet cookware and Katana Series cutlery line; and Graco® Mosaic stroller and travel system.

### Marketing

The Company's objective is to develop long-term, mutually beneficial partnerships with its customers and become their supplier and brand of choice. To achieve this goal, the Company has a value-added marketing program that offers a family of leading brand name staple products, tailored sales programs, innovative merchandising support, in-store services and responsive top management.

The Company's marketing skills help customers stimulate store traffic and sales through timely advertising and innovative promotions. The Company also assists customers in differentiating their offerings by customizing products and packaging. Through self-selling packaging and displays that emphasize good-better-best value relationships, retail customers are encouraged to trade up to higher-value, best quality products.

The Company is also committed to increasing selective television or print advertising where appropriate, increasing brand awareness and trial among end-users of the product. In 2005, Sharpie® markers and IRWIN® Industrial Tools were sponsors of the #97 IRWIN®/Sharpie® car and sponsored the Sharpie® 500 NASCAR race in Bristol, Tennessee. IRWIN® and Sharpie® will sponsor the #26 car, and Sharpie® will continue its sponsorship of the Sharpie® 500 NASCAR race in 2006.

The Company's in-store and end user marketing effort focuses largely on an extensive grass roots marketing campaign, highlighted by the Phoenix Program. This program is an action-oriented field sales force consisting of recent university graduates. The team works in the field, primarily within our Strategic Account structure, performing in-store product demonstrations, event marketing, on-shelf merchandising, interacting with the end-user, and maintaining an ongoing relationship with store personnel. This initiative allows the Company to enhance product placement and minimize stock outages and, together with the Strategic Account Management Program, to maximize shelf space potential.

### Strategic Account Management

The Strategic Account Management Program is the Company's sales and marketing approach that focuses growth efforts on strategic accounts with high long-term growth potential. Separate sales organizations have been established to more effectively manage the relationship at the largest strategic accounts. As part of this program, the Company established Sales President and Vice President level positions to more effectively manage the relationships with these accounts. The program allows the Company to present these customers with one face to enhance the Company's response time, understand the customer's needs and support the best possible customer relationship.

#### Collaboration

Collaboration represents the Company's focus on benefiting from the sharing of best practices and the reduction of costs achieved through economies of scale. For example, functions, such as purchasing and distribution and transportation, have been centralized to increase buying power across the Company.

Additionally, certain administrative functions are centralized at the corporate level including cash management, accounting systems, capital expenditure approvals, order processing, billing, credit, accounts receivable, data processing operations and legal functions. Centralization concentrates technical expertise in one location, making it easier to observe overall business trends and manage the Company's businesses.

#### **OTHER INFORMATION**

##### Multi-Product Offering

The Company's broad product coverage in multiple product lines permits it to more effectively meet the needs of its customers. With families of leading brand names and profitable and innovative new products, the Company also can help volume purchasers sell a more profitable product mix. As a potential single source for an entire product line, the Company can use program merchandising to improve product presentation, optimize display space for both sales and income and encourage impulse buying by retail customers.

##### Customer Service

The Company believes that one of the primary ways it distinguishes itself from its competitors is through customer service. The Company's ability to provide superior customer service is a result of its information technology, marketing and merchandising programs designed to enhance the sales and profitability of its customers and provide consistent on-time delivery of its products.

##### On-Time Delivery

A critical element of the Company's customer service is consistent on-time delivery of products to its customers. Retailers are pursuing a number of strategies to deliver the highest-quality, best-cost products to their customers. A growing trend among retailers is to purchase on a just-in-time basis in order to reduce inventory carrying costs and increase returns on investment. As retailers shorten their lead times for orders, manufacturers need to more closely anticipate consumer-buying patterns. The Company supports its retail customers' just-in-time inventory strategies through more responsive sourcing, manufacturing and distribution capabilities and electronic communications. The Company currently manufactures the majority of its products and has extensive experience in high-volume, cost-effective manufacturing.

##### Foreign Operations

Information regarding the Company's 2005, 2004 and 2003 foreign operations and financial information by geographic area is included in Footnote 20 to the Consolidated Financial Statements and is incorporated by reference herein. Information regarding risks relating to the Company's foreign operations is set forth in Part I, Item 1A of this report and is incorporated by reference herein.

##### Raw Materials

The Company has multiple foreign and domestic sources of supply for substantially all of its material requirements. The raw materials and various purchased components required for its products have generally been available in sufficient quantities. The Company's product offerings require the purchase of resin, steel, aluminum and corrugate. The Company has experienced inflation in these raw materials, especially in resin, and expects such inflation pressures to continue in 2006. The Company has reduced the volume of its resin purchases through product line rationalization and strategic divestitures. In 2005, the Company purchased approximately 900 million pounds of resin and expects to purchase approximately 10% less in 2006. See Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion.

#### Backlog

The dollar value of unshipped factory orders is not material.

#### Seasonal Variations

The Company's sales and operating income in the first quarter are generally lower than any other quarter during the year, driven principally by reduced volume and the mix of products sold in the quarter. The Cleaning & Organization and Other business segments typically have higher sales in the second half of the year due to retail stocking related to the holiday season; the Home Fashions business segment typically has higher sales in the second and third quarters due to an increased level of do-it-yourself projects completed in the summer months; the Tools & Hardware business segment typically has higher sales in the third and fourth quarters due to an increased level of home improvement projects completed in the summer and fall months and purchases of tools as gifts for the holiday season; and the Office Products business segment has higher sales in the second and third quarters due to the back-to-school season.

#### Patents and Trademarks

The Company has many patents, trademarks, brand names and trade names that are, in the aggregate, important to its business. The Company's most significant registered trademarks are Rubbermaid, Sharpe, Paper Mate, LENOVO, IRWIN, Graco and DYMO.

#### Customers / Competition

The Company's principal customers are large mass merchandisers, such as discount stores, home centers, warehouse clubs and office superstores, and commercial distributors. The rapid growth of these large mass merchandisers, together with changes in consumer shopping patterns, have contributed to a significant consolidation of the consumer products retail industry and the formation of dominant multi-category retailers that have strong negotiating power with suppliers. This environment limits the Company's ability to recover cost increases through selling prices.

Current trends among retailers include fostering high levels of competition among suppliers, demanding innovative new products and requiring suppliers to maintain or reduce product prices and deliver products with shorter lead times. Other trends, in the absence of a strong new product development effort or strong end-user brands, are for the retailer to import generic products directly from foreign sources and to source and sell products, under their own private label brands, that compete with products of the Company. The combination of these market influences has created an intensely competitive environment in which the Company's principal customers continuously evaluate which product suppliers to use, resulting in pricing pressures and the need for strong end-user brands, the ongoing introduction of innovative new products and continuing improvements in customer service. The Company competes with numerous manufacturers and distributors of consumer products, many of which are large and well established.

The Company has positioned itself to respond to the challenges of this retail environment by developing strong relationships with large, high-volume purchasers. The Company markets its strong multi-product offering through virtually every category of high-volume retailer, including discount, drug, grocery and variety chains, warehouse clubs, department, hardware and specialty stores, home centers, office superstores, contract stationers and military exchanges. The Company's largest customer, Wal\*Mart (which includes Sam's Club), accounted for approximately 14% of net sales in 2005, across substantially all divisions. The Company's top ten customers included (*in alphabetical order*): Ace Hardware, Lowe's, Office Depot, Office Max, Staples, Target, The Home Depot, Toys 'R Us, United Stationers and Wal\*Mart.

The Company's principal methods of meeting its competitive challenges are high brand name recognition, superior customer service (including innovative good-better-best marketing and merchandising programs), consistent on-time delivery, decentralized manufacturing and marketing, centralized administration, outsourcing certain production to low cost suppliers and lower cost countries where appropriate and experienced management.

#### Environmental Matters

Information regarding the Company's environmental matters is included in Management's Discussion and Analysis section of this report and in Footnote 21 to the Consolidated Financial Statements and is incorporated by reference herein.

#### Research and Development

Information regarding the Company's research and development costs for each of the past three fiscal years is included in Footnote 1 to the Consolidated Financial Statements and is incorporated by reference herein.

#### Employees

As of December 31, 2005, the Company had approximately 27,900 employees worldwide, of whom approximately 4,000 are covered by collective bargaining agreements or, in certain countries, other collective arrangements decreed by statute.

#### **ITEM 1A. RISK FACTORS**

The factors that are discussed below, as well as the matters that are generally set forth in this report on Form 10-K and the documents incorporated by reference herein, could materially and adversely affect the Company's business, results of operations and financial condition.

#### **The Company is subject to risks related to its dependence on the strength of retail economies in various parts of the world.**

The Company's business depends on the strength of the retail economies in various parts of the world, primarily in North America and to a lesser extent Europe, Central and South America and Asia. These retail economies are affected primarily by factors such as consumer demand and the condition of the retail industry, which, in turn, are affected by general economic conditions and specific events such as natural disasters and the terrorist attacks of September 11, 2001. In recent years, the retail industry in the U.S. and, increasingly, elsewhere has been characterized by intense competition and consolidation among retailers. Because such competition, particularly in weak retail economies, can cause retailers to struggle or fail, the Company must continuously monitor, and adapt to changes in, the profitability, creditworthiness and pricing policies of its customers.

#### **The Company is subject to intense competition in a marketplace dominated by large retailers.**

The Company competes with numerous other manufacturers and distributors of consumer and commercial products, many of which are large and well established. The Company's principal customers are large mass merchandisers, such as discount stores, home centers, warehouse clubs and office superstores, and commercial distributors. The rapid growth of these large mass merchandisers, together with changes in consumer shopping patterns, have contributed to the formation of dominant multi-category retailers that have strong negotiating power with suppliers. Current trends among retailers include fostering high levels of competition among suppliers, demanding innovative new products and requiring suppliers to maintain or reduce product prices and deliver products with shorter lead times. Other trends are for retailers to import products directly from foreign sources and to source and sell products, under their own private label brands, that compete with products of the Company.

The combination of these market influences has created an intensely competitive environment in which the Company's principal customers continuously evaluate which product suppliers to use, resulting in downward pricing pressures and the need for strong end-user brands, the ongoing introduction of innovative new products, continuing improvements in customer service, and the maintenance of strong relationships with large, high-volume purchasers. The Company also faces the risk of changes in the strategy or structure of its major retailer customers, such as overall store and inventory reductions and retailer consolidation. The resulting risks to the Company include possible loss of sales, reduced profitability and limited ability to recover cost increases through price increases.

#### **To compete successfully, the Company must develop a continuing stream of innovative new products that create consumer demand.**

The Company's long-term success in this competitive retail environment depends on its ability to develop a continuing stream of innovative new products that create consumer demand for the Company's products. The Company also faces the risk that its competitors will introduce innovative new products that compete with the Company's products. Project Acceleration, a three-year initiative announced in September 2005, includes increased investment in new product development. There are, nevertheless, numerous uncertainties inherent in successfully developing and introducing innovative new products on a continuing basis, and new product launches may not deliver expected growth results.

**To compete successfully, the Company must develop and maintain strong end-user brands.**

The Company's competitive success also depends increasingly on its ability to develop and maintain strong end-user brands so that the Company's retailer customers will need the Company's products to meet consumer demand. The development and maintenance of such brands requires significant investment in brand building and marketing initiatives. While the Company is substantially increasing its expenditures for advertising and other brand building and marketing initiatives as a part of Project Acceleration, the increased investment may not deliver the anticipated results.

**Price increases in raw materials could harm the Company's financial results.**

The Company purchases some raw materials, including resin, corrugate, steel and aluminum, that are subject to price volatility and inflationary pressure. The Company attempts to reduce its exposure to increases in those costs through a variety of programs, including periodic purchases, purchases for future delivery, long-term contracts and sales price adjustments. Where practical, the Company uses derivatives as part of its risk management process. Raw material price increases may offset productivity gains and could materially impact the Company's financial results.

**The Company's success depends on its ability to continuously improve productivity and streamline operations, principally by reducing its manufacturing overhead.**

The Company's objective is to become its retailer customers' low-cost provider and global supplier and brand of choice. To do this, the Company needs to continuously improve its manufacturing efficiencies and develop sources of supply on a global basis. Project Acceleration includes the closure of approximately one-third of the Company's 80 manufacturing facilities (as of September 2005) over the next three years. The Company also needs to continue to divest low-margin product lines that do not fit in the Company's strategic plan. The Company runs the risk that Project Acceleration may not be completed substantially as planned, may be more costly to implement than expected, or may not have the positive effects anticipated, or that another major productivity and streamlining program may be required after Project Acceleration is completed. In addition, disruptions in the Company's ability to supply products on a timely basis, which may be incidental to any problems in the execution of Project Acceleration, could adversely affect the Company's future results.

**The Company needs to continue to make strategic acquisitions and to integrate its acquired businesses.**

Although the Company has in recent years increasingly emphasized internal growth rather than growth by acquisition, the Company's ability to continue to make strategic acquisitions and to integrate the acquired businesses successfully, obtaining anticipated cost savings and operating income improvements within a reasonable period of time, remain important factors in the Company's future growth. For example, the successful integration of the recently acquired DYMO business into the Company's Office Products segment is important to the Company's success. Furthermore, the cost of any future major acquisitions could constrain the Company's access to capital and increase the Company's borrowing costs.

**The Company is subject to risks related to its international operations.**

Foreign operations, especially in Europe, but also in Asia, Central and South America and Canada, are important to the Company's business. In November 2005, the Company acquired the DYMO business and thereby increased the magnitude of the Company's operations in Europe. In addition, as the Company increasingly sources products in low-cost countries, particularly in the Far East, it is exposed to additional risks and uncertainties. Foreign operations can be affected by factors such as currency devaluation, other currency fluctuations, tariffs, nationalization,

exchange controls, interest rates, limitations on foreign investment in local business and other political, economic and regulatory risks and difficulties. The Company also faces risks due to the transportation and logistical complexities inherent in increased reliance on foreign sourcing.

**The Company faces challenges and uncertainties as it transforms into a company that grows through strong brands and new product innovation.**

The Company is undergoing a transformation from a portfolio-holding company that grew through acquisitions to a focused group of leadership platforms that generate internal growth driven by strong brands and new product innovation. Although the process is well underway, there remain significant challenges and uncertainties.

**Impairment charges could have a material adverse effect on the Company's financial results.**

Future events may occur that would adversely affect the reported value of the Company's assets and require impairment charges. Such events may include, but are not limited to, strategic decisions made in response to changes in economic and competitive conditions, the impact of the economic environment on the Company's customer base, or a material adverse change in its relationship with significant customers.

**Product liability claims or regulatory actions could adversely affect the Company's financial results or harm its reputation or the value of its end-user brands.**

Claims for losses or injuries purportedly caused by some of the Company's products arise in the ordinary course of the Company's business. In addition to the risk of substantial monetary judgments, product liability claims or regulatory actions could result in negative publicity that could harm the Company's reputation in the marketplace or the value of its end-user brands. The Company could also be required to recall possibly defective products, which could result in adverse publicity and significant expenses. Although the Company maintains product liability insurance coverage, potential product liability claims are subject to a self-insured retention or could be excluded under the terms of the policy.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

The following table shows the location and general character of the principal operating facilities owned or leased by the Company. The properties are listed within their designated business segment: Cleaning & Organization; Office Products; Tools & Hardware; Home Fashions; and Other. These are the primary manufacturing locations and in many instances also contain administrative offices and warehouses used for distribution of the Company's products. The Company also maintains sales offices throughout the United States and the world. The corporate offices are located in leased space in Atlanta, Georgia. Most of the Company's idle facilities, which are excluded from the following list, are subleased while being held pending sale or lease expiration. The Company's properties are generally in good condition, well maintained, and are suitable and adequate to carry on the Company's business.

| BUSINESS SEGMENT           | LOCATION | CITY        | OWNED<br>OR<br>LEASED |  | GENERAL CHARACTER   |
|----------------------------|----------|-------------|-----------------------|--|---------------------|
|                            |          |             |                       |  |                     |
| CLEANING<br>& ORGANIZATION | Mexico   | Cadereyta   | L                     |  | Commercial Products |
|                            | TN       | Cleveland   | O                     |  | Commercial Products |
|                            | VA       | Winchester  | O                     |  | Commercial Products |
|                            | IA       | Centerville | O                     |  | Home Products       |
|                            | OH       | Mogadore    | O                     |  | Home Products       |
|                            | OH       | Canton      | O                     |  | Home Products       |
|                            | KS       | Winfield    | O                     |  | Home Products       |
|                            | Canada   | Mississauga | O                     |  | Home Products       |





| BUSINESS SEGMENT    | LOCATION    | CITY            | OWNED        | GENERAL CHARACTER           |
|---------------------|-------------|-----------------|--------------|-----------------------------|
|                     |             |                 | OR<br>LEASED |                             |
|                     | Canada      | Calgary         | L            | Home Products               |
|                     | TX          | Greenville      | O            | Home Products               |
|                     | Brazil      | Porto Alegre    | O            | Home Products               |
|                     | MO          | Jackson         | O            | Home Storage Systems        |
|                     | Canada      | Watford         | L            | Home Storage Systems        |
| OFFICE PRODUCTS     |             |                 |              |                             |
|                     | CA          | Santa Monica    | L            | Writing Instruments         |
|                     | IL          | Oak Brook       | L            | Writing Instruments         |
|                     | TN          | Lewisburg       | O            | Writing Instruments         |
|                     | TN          | Shelbyville     | O            | Writing Instruments         |
|                     | WI          | Janesville      | L            | Writing Instruments         |
|                     | Thailand    | Bangkok         | O            | Writing Instruments         |
|                     | India       | Chennai         | L            | Writing Instruments         |
|                     | Colombia    | Bogota          | O            | Writing Instruments         |
|                     | France      | St. Herblain    | O            | Writing Instruments         |
|                     | France      | Valence         | O            | Writing Instruments         |
|                     | Germany     | Hamburg         | O            | Writing Instruments         |
|                     | Mexico      | Tlalnepantla    | O            | Writing Instruments         |
|                     | UK          | Newhaven        | O            | Writing Instruments         |
|                     | China       | Dongguan        | L            | Writing Instruments         |
|                     | China       | Shanghai        | L            | Writing Instruments         |
|                     | Venezuela   | Maracay         | O            | Writing Instruments         |
|                     | TN          | Maryville       | O            | Office & Storage Organizers |
|                     | WI          | Madison         | O            | Office & Storage            |
|                     | CT          | Stamford        | L            | On-Demand Labeling Products |
|                     | Belgium     | Sint Niklaas    | O            | On-Demand Labeling Products |
| TOOLS &<br>HARDWARE |             |                 |              |                             |
|                     | WI          | Saint Francis   | O            | Paint Applicators           |
|                     | China       | Shanghai        | O            | Paint Applicators           |
|                     | NY          | Medina          | O            | Propane/Oxygen Hand Torches |
|                     | IN          | Lowell          | O            | Window Hardware             |
|                     | NE          | DeWitt          | O            | Tools                       |
|                     | MA          | East Longmeadow | O            | Tools                       |
|                     | ME          | Gorham          | O            | Tools                       |
|                     | NC          | Huntersville    | L            | Tools                       |
|                     | New Zealand | Wellsford       | O            | Tools                       |
|                     | Poland      | Brodnica        | O            | Tools                       |
|                     | Brazil      | Sao Paulo       | O            | Tools                       |
|                     | Brazil      | Carlos Barbosas | O            | Tools                       |
|                     | UK          | Sheffield       | O            | Tools                       |
|                     | Denmark     | Asnaes          | O            | Tools                       |
|                     | Denmark     | Thisted         | O            | Tools                       |
|                     | Netherlands | Helmond         | O            | Tools                       |

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|               |         |                     |   |                   |
|---------------|---------|---------------------|---|-------------------|
|               | India   | Grajarat            | O | Tools             |
|               | Mexico  | Monterrey           | L | Hardware          |
|               | Canada  | Woodbridge          | L | Hardware          |
|               | China   | Shenzhen            | L | Hardware          |
| HOME FASHIONS |         |                     |   |                   |
|               | Mexico  | Agua Prieta         | L | Window Treatments |
|               | Mexico  | Esqueda             | L | Window Treatments |
|               | Canada  | Calgary             | L | Window Treatments |
|               | Denmark | Hornum              | O | Window Treatments |
|               | France  | Feuquieres-en-Vimeu | O | Window Treatments |

| BUSINESS SEGMENT | LOCATION | CITY                 | OWNED        | GENERAL CHARACTER |
|------------------|----------|----------------------|--------------|-------------------|
|                  |          |                      | OR<br>LEASED |                   |
|                  | France   | Tremblay-les-Village | O            | Window Treatments |
|                  | France   | La Boissellerie      | O            | Window Treatments |
|                  | Germany  | Borken               | L            | Window Treatments |
|                  | Germany  | Isny                 | O            | Window Treatments |
|                  | Germany  | Bunde                | O            | Window Treatments |
|                  | Germany  | Maierhofen           | O            | Window Treatments |
|                  | IL       | Freeport             | O            | Window Treatments |
|                  | Italy    | Figino               | O            | Window Treatments |
|                  | UK       | Ashbourne            | O            | Window Treatments |
|                  | UK       | Tamworth             | O            | Window Treatments |
|                  | Portugal | Porto                | L            | Window Treatments |
|                  | UT       | Salt Lake City       | L            | Window Treatments |
|                  | Poland   | Wrowclaw             | O            | Window Treatments |
|                  | China    | Shenzhen             | L            | Window Treatments |
| OTHER            |          |                      |              |                   |
|                  | OH       | Perrysburg           | O            | Cookware          |
|                  | OH       | Macedonia            | O            | Infant Products   |
|                  | PA       | Exton                | L            | Infant Products   |
|                  | Mexico   | Piedras Negras       | L            | Infant Products   |
|                  | OH       | Hudson               | O            | Juvenile Products |
|                  | GA       | Manchester           | O            | Hair Accessories  |

### ITEM 3. LEGAL PROCEEDINGS

Information regarding legal proceedings is included in Footnote 21 to the Consolidated Financial Statements and is incorporated by reference herein.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the Company's shareholders during the fourth quarter of fiscal year 2005.

#### SUPPLEMENTARY ITEM EXECUTIVE OFFICERS OF THE REGISTRANT

| Name                | Age | Present Position With The Company                                |
|---------------------|-----|--|
| Mark D. Ketchum     | 56  | President and Chief Executive Officer                            |
| James J. Roberts    | 47  | President and Chief Operating Officer,<br>Rubbermaid/IRWIN Group |
| Timothy J. Jahnke   | 46  | President, Home & Family Products Group                          |
| Steven G. Marton    | 49  | President, Office Products Group                                 |
| J. Patrick Robinson | 50  | Vice President Chief Financial Officer                           |
| Dale L. Matschullat | 60  | Vice President General Counsel and<br>Corporate Secretary        |
| Hartley D. Blaha    | 40  | President Corporate Development                                  |
| James M. Sweet      | 53  | Vice President Human Resources                                   |
| Raymond J. Johnson  | 50  | President Global Manufacturing and Supply<br>Chain               |
| Shaun P. Holliday   | 48  | President New Business & Innovation                              |

Mark D. Ketchum has been President and Chief Executive Officer of the Company since October 2005. Mr. Ketchum joined Newell Rubbermaid's Board of Directors in November 2004 and served as a member of the Audit Committee prior to assuming his current role. Prior thereto, he was President of the Global Baby & Family Care business of Procter & Gamble (a manufacturer and marketer of consumer products) from 1999 through November

2004. From 1971 to 1984, he held a variety of operations positions with Procter & Gamble's paper division. From 1984 to 1999, he transitioned into brand management and general management roles, culminating as President of Global Baby & Family Care.

James J. Roberts has been President and Chief Operating Officer of the Rubbermaid/IRWIN Group since September 2003. Prior thereto, he was Group President of the Company's IRWIN business segment from April 2001 until August 2003. From September 2000 until March 2001, he served as President - Worldwide Hand Tools and Hardware at Stanley Works (a supplier of tools, door systems and related hardware). From July 1981 until September 2000, he held a variety of positions with The Black and Decker Corporation (a manufacturer and marketer of power tools and accessories), culminating as President of Worldwide Accessories.

Timothy J. Jahnke has been President of the Home & Family Products Group since April 2004. Prior thereto, he was Vice President - Human Resources of the Company from February 2001 to April 2004 and President of the Anchor Hocking Specialty Glass division from June 1999 until February 2001. From 1995 until June 1999, he led the human resources department of the Company's Sanford division's worldwide operations.

Steven G. Marton has been President of the Office Products Group since December 2004. From September 2000 to December 2004, he was President and Chief Operating Officer of Hill's Pet Nutrition, a division of Colgate Palmolive (a manufacturer and marketer of consumer products). From 1992 until 2000, he held various other executive positions, with significant international experience, in several divisions of Colgate Palmolive, including Colgate Oral Pharmaceuticals.

J. Patrick Robinson has been Vice President - Chief Financial Officer since November 2004. Prior thereto, he was Vice President - Corporate Controller and Chief Financial Officer from June 2003 until October 2004 and Vice President Controller and Chief Accounting Officer from May 2001 until May 2003. From March 2000 until May 2001, he was Chief Financial Officer of AirClic Inc. (a web-based software and services platform company for the mobile information market). From 1983 until March 2000, he held a variety of financial positions with The Black and Decker Corporation (a manufacturer and marketer of power tools and accessories), culminating as Vice President of Finance, Worldwide Power Tools.

Dale L. Matschullat has been Vice President - General Counsel since January 2001 and Corporate Secretary since August 2003. Prior thereto, he was Vice President-Finance, Chief Financial Officer and General Counsel from January 2000 until January 2001. From 1989 until January 2000, he was Vice President - General Counsel.

Hartley D. Blaha has been President - Corporate Development since February 2005. Prior thereto, he was Vice President - Corporate Development from November 2003 to February 2005. Prior thereto, from 1987 to 2003 he held a variety of positions within the Investment Banking Division of Lehman Brothers Inc. (a global investment bank), culminating as Managing Director, Mergers and Acquisitions.

James M. Sweet has been Vice President - Human Resources since May 2004. Prior thereto, he was Group Vice President - Human Resources for the Sharpie/Calphalon Group from January 2004 to April 2004. From 2001 to 2004, he was President of Capital H, Inc., a human resource services company that Mr. Sweet co-founded. From 1999-2001, he was Vice President of Human Resources for the Industrial Automation Systems and Rexnord divisions of Invensys PLC (an industrial manufacturing company). Prior thereto, he held executive human resource positions at Kohler Co., Keystone International and Brady Corp.

Raymond J. Johnson has been President - Global Manufacturing and Supply Chain since February 2005. Prior thereto, he was Group Vice President - Manufacturing from November 2003 to February 2005, and was Vice President Manufacturing for the IRWIN Power Tool Accessories Division from November 2002 to November 2003. From May 2001 to May 2002, he was General Manager of the Golf Grip Business Unit of Eaton Corporation. From 1999 to May 2001, he was Vice President - Operations of True Temper Sports, Inc. (a manufacturer and marketer of golf shafts). Prior thereto, he was Vice President and General Manager of the Diversified Products Division of Technimark, Inc. (a manufacturer of plastics products for commercial customers) from 1998 to 1999, and held a variety of positions with The Black and Decker Corporation (a manufacturer and marketer of power tools and accessories) from 1983 to 1998, culminating as Vice President of Operations for North American Power Tools.

Shaun P. Holliday has been President New Business & Innovation since April 2005. Prior thereto, he served in a variety of positions with Pepsi Bottling Group, Inc. (a manufacturer and distributor of Pepsi-Cola beverage products), including President International from September 2003 through January 2004 and culminating as President Business Operations from January 2004 through April 2005, where he was responsible for global supply chain operations as well as human resources, communications and information technology functions. From December 2000 through April 2003, he was Chief Executive Officer of EMac Digital LLC (a provider of technology solutions to the foodservice industry). Prior thereto, he served in executive positions with Diageo/Guinness PLC (a supplier of premium beverage products) and Frito Lay, Incorporated (a manufacturer and marketer of convenience food products).

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is listed on the New York and Chicago Stock Exchanges (symbol: NWL). As of January 31, 2006 there were 18,483 stockholders of record. The following table sets forth the high and low sales prices of the common stock on the New York Stock Exchange Composite Tape (as published in The Wall Street Journal) for the calendar periods indicated:

| Quarters | 2005    |         | 2004    |         |
|----------|---------|---------|---------|---------|
|          | High    | Low     | High    | Low     |
| First    | \$24.55 | \$20.60 | \$26.41 | \$22.15 |
| Second   | 24.06   | 20.50   | 25.03   | 22.19   |
| Third    | 25.69   | 21.66   | 23.60   | 19.75   |
| Fourth   | 24.49   | 21.54   | 24.27   | 19.05   |

The Company has paid regular cash dividends on its common stock since 1947. The quarterly cash dividend has been \$0.21 per share since February 1, 2000. The Company currently expects that comparable cash dividends will continue to be paid to holders of the Company's common stock in the future. However, the payment of dividends to holders of the Company's common stock remains entirely at the discretion of the Board of Directors and will depend upon many factors, including the Company's financial condition, earnings, legal requirements and other factors the Board of Directors deems relevant.

### ITEM 6. SELECTED FINANCIAL DATA

The following is a summary of certain consolidated financial information relating to the Company at December 31, (*in millions, except per share data*). The summary has been derived in part from, and should be read in conjunction with, the Consolidated Financial Statements of the Company included elsewhere in this report and the schedules thereto.

|  | 2005(1)   | 2004(1)   | 2003(1)   | 2002      | 2001      |
|--|-----------|-----------|-----------|-----------|-----------|
| STATEMENTS OF OPERATIONS DATA                |           |           |           |           |           |
| Net sales                                    | \$6,342.5 | \$6,479.8 | \$6,614.8 | \$6,189.9 | \$5,694.6 |
| Cost of products sold                        | 4,448.1   | 4,641.0   | 4,732.7   | 4,399.3   | 4,123.7   |
| Gross margin                                 | 1,894.4   | 1,838.8   | 1,882.1   | 1,790.6   | 1,570.9   |
| Selling, general and administrative expenses | 1,265.6   | 1,208.8   | 1,160.7   | 1,113.9   | 975.2     |
| Impairment charges                           | 34.4      | 295.1     | 34.5      |           |           |
| Restructuring costs (2)                      | 72.2      | 44.2      | 189.3     | 92.8      | 53.2      |
| Goodwill amortization (3)                    |           |           |           |           | 46.4      |
| Operating income                             | 522.2     | 290.7     | 497.6     | 583.9     | 496.1     |

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|                             |        |       |       |       |       |
|-----------------------------|--------|-------|-------|-------|-------|
| Nonoperating expenses:      |        |       |       |       |       |
| Interest expense, net       | 127.1  | 119.3 | 134.3 | 132.6 | 133.6 |
| Other (income) expense, net | (23.0) | (3.2) | 25.6  | 26.8  | 21.4  |
| Net nonoperating expenses   | 104.1  | 116.1 | 159.9 | 159.4 | 155.0 |

- 16 -

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|  | 2005(1)  | 2004(1)   | 2003(1)  | 2002      | 2001    |
|--|----------|-----------|----------|-----------|---------|
| Income from continuing operations before income taxes and cumulative effect of accounting change | 418.1    | 174.6     | 337.7    | 424.5     | 341.1   |
| Income taxes   | 61.7     | 104.0     | 119.8    | 132.1     | 124.1   |
| Income from continuing operations  | 356.4    | 70.6      | 217.9    | 292.4     | 217.0   |
| (Loss) gain from discontinued operations, net of tax   | (105.1)  | (186.7)   | (264.5)  | 19.1      | 47.6    |
| Cumulative effect of accounting change, net of tax   |          |           |          | (514.9)   |         |
| Net income (loss)  | \$251.3  | (\$116.1) | (\$46.6) | (\$203.4) | \$264.6 |
| Weighted average shares outstanding:   |          |           |          |           |         |
| Basic  | 274.4    | 274.4     | 274.1    | 267.1     | 266.7   |
| Diluted  | 274.9    | 274.7     | 274.3    | 268.0     | 267.0   |
| Per common share   |          |           |          |           |         |
| Basic  |          |           |          |           |         |
| Income from continuing operations  | \$1.30   | \$0.26    | \$0.79   | \$1.09    | \$0.81  |
| (Loss) income from discontinued operations   | (\$0.38) | (\$0.68)  | (\$0.96) | \$0.07    | \$0.18  |
| Cumulative effect of accounting change   | \$       | \$        | \$       | (\$1.93)  | \$      |
| Net income (loss)  | \$0.92   | (\$0.42)  | (\$0.17) | (\$0.76)  | \$0.99  |
| Diluted  |          |           |          |           |         |
| Income from continuing operations  | \$1.30   | \$0.26    | \$0.79   | \$1.09    | \$0.81  |
| (Loss) income from discontinued operations   | (\$0.38) | (\$0.68)  | (\$0.96) | \$0.07    | \$0.18  |
| Cumulative effect of accounting change   | \$       | \$        | \$       | (\$1.92)  | \$      |
| Net income (loss)  | \$0.91   | (\$0.42)  | (\$0.17) | (\$0.76)  | \$0.99  |
| Dividends  | \$0.84   | \$0.84    | \$0.84   | \$0.84    | \$0.84  |
| <b>BALANCE SHEET DATA</b>  |          |           |          |           |         |
| Inventories, net   | \$875.9  | \$918.0   | \$836.5  | \$938.5   | \$838.3 |
| Working capital (4)  | 675.3    | 1,141.1   | 978.2    | 465.6     | 316.8   |
| Total assets   | 6,445.8  | 6,666.8   | 7,481.8  | 7,404.4   | 7,266.1 |
| Short-term debt, including current portion of long-term debt                                     | 166.8    | 206.9     | 35.4     | 449.2     | 826.6   |
| Long-term debt, net of current portion   | 2,429.7  | 2,424.3   | 2,868.6  | 2,372.1   | 1,365.0 |
| Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust  |          |           |          |           | 500.0   |

|                      |         |         |         |         |         |
|----------------------|---------|---------|---------|---------|---------|
| Stockholders' equity | 1,643.2 | 1,764.2 | 2,016.3 | 2,063.5 | 2,433.4 |
|----------------------|---------|---------|---------|---------|---------|

- (1) Supplemental data regarding 2005, 2004 and 2003 is provided in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.
- (2) The 2002 and 2001 restructuring costs include facility and other exit costs, employee severance and termination benefits and other costs.
- (3) Prior to 2002, goodwill was amortized over its estimated useful life. Commencing in 2002, goodwill is no longer amortized, but rather is subject to annual impairment tests in accordance with FASB Statement No. 142.
- (4) Working capital is defined as Current Assets less Current Liabilities.

**ACQUISITIONS OF BUSINESSES**

2005, 2004 and 2003

Information regarding businesses acquired in the last three years is included in Footnote 2 to the Consolidated Financial Statements.

2002

In 2002, the Company completed the purchase of IRWIN (then known as American Tool Companies, Inc.), a leading manufacturer of hand tools and power tool accessories. The Company had previously held a 49.5% stake in IRWIN, which had been accounted for under the equity method prior to acquisition. The purchase price was \$467 million, which included \$197 million for the majority 50.5% ownership stake, the repayment of \$243 million in IRWIN debt and \$27 million of transaction costs. At the time of acquisition, the Company paid off IRWIN's senior debt, senior subordinated debt and debt under their revolving credit agreement. The Company allocated the

purchase price to the identifiable assets. In 2002, the Company recorded nonoperating expenses of \$8.7 million for transaction costs associated with the acquisition.

2001

The Company made only minor acquisitions in 2001, for \$61.2 million in cash and \$0.1 million of assumed debt.

#### QUARTERLY SUMMARIES

Summarized quarterly data for the last two years is as follows (*in millions, except per share data*) (unaudited):

| Calendar Year                              | 1 <sup>st</sup> | 2 <sup>nd</sup> | 3 <sup>rd</sup> | 4 <sup>th</sup> | Year      |
|--|-----------------|-----------------|-----------------|-----------------|-----------|
| <u>2005</u>                                |                 |                 |                 |                 |           |
| Net sales                                  | \$1,363.1       | \$1,645.6       | \$1,584.8       | \$1,749.0       | \$6,342.5 |
| Gross margin                               | 374.7           | 508.1           | 498.3           | 513.4           | 1,894.4   |
| Income from continuing operations          | 89.4            | 81.8            | 100.4           | 84.8            | 356.4     |
| Loss from discontinued operations          | (52.9)          | (15.6)          | (28.9)          | (7.8)           | (105.1)   |
| Net income                                 | \$36.5          | \$66.2          | \$71.5          | \$77.0          | \$251.3   |
| Earnings (loss) per share:                 |                 |                 |                 |                 |           |
| Basic                                      |                 |                 |                 |                 |           |
| Income from continuing operations          | \$0.33          | \$0.30          | \$0.37          | \$0.31          | \$1.30    |
| Loss from discontinued operations          | (\$0.19)        | (\$0.06)        | (\$0.11)        | (\$0.03)        | (\$0.38)  |
| Net income                                 | \$0.13          | \$0.24          | \$0.26          | \$0.28          | \$0.92    |
| Diluted                                    |                 |                 |                 |                 |           |
| Income from continuing operations          | \$0.33          | \$0.30          | \$0.37          | \$0.31          | \$1.30    |
| Loss from discontinued operations          | (\$0.19)        | (\$0.06)        | (\$0.11)        | (\$0.03)        | (\$0.38)  |
| Net income                                 | \$0.13          | \$0.24          | \$0.26          | \$0.28          | \$0.91    |
| <u>2004</u>                                |                 |                 |                 |                 |           |
| Net sales                                  | \$1,462.1       | \$1,677.4       | \$1,608.7       | \$1,731.6       | \$6,479.8 |
| Gross margin                               | 397.1           | 477.1           | 459.2           | 505.4           | 1,838.8   |
| Income (loss) from continuing operations   | 33.5            | 71.7            | (155.6)         | 120.9           | 70.6      |
| (Loss) income from discontinued operations | (108.4)         | (10.7)          | (70.8)          | 3.2             | (186.7)   |
| Net (loss) income                          | (\$74.9)        | \$61.0          | (\$226.4)       | \$124.1         | (\$116.1) |
| Earnings (loss) per share:                 |                 |                 |                 |                 |           |
| Basic                                      |                 |                 |                 |                 |           |
| Income (loss) from continuing operations   | \$0.12          | \$0.26          | (\$0.57)        | \$0.44          | \$0.26    |
| (Loss) income from discontinued operations | (\$0.40)        | (\$0.04)        | (\$0.26)        | \$0.01          | (\$0.68)  |
| Net (loss) income                          | (\$0.27)        | \$0.22          | (\$0.83)        | \$0.45          | (\$0.42)  |

|  |          |          |          |        |          |
|--|----------|----------|----------|--------|----------|
| Diluted                                    |          |          |          |        |          |
| Income (loss) from continuing operations   | \$0.12   | \$0.26   | (\$0.57) | \$0.44 | \$0.26   |
| (Loss) income from discontinued operations | (\$0.39) | (\$0.04) | (\$0.26) | \$0.01 | (\$0.68) |
| Net (loss) income                          | (\$0.27) | \$0.22   | (\$0.83) | \$0.45 | (\$0.42) |

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company's consolidated results of operations and financial condition. The discussion should be read in conjunction with the accompanying Consolidated Financial Statements.

### **Executive Overview**

Newell Rubbermaid is a global manufacturer and marketer of branded consumer products and their commercial extensions, serving a wide array of retail channels including department stores, discount stores, warehouse clubs, home centers, hardware stores, commercial distributors, office superstores, contract stationers, automotive stores and

baby superstores. The Company's basic business strategy is to create brands that matter by marketing a multi-product offering of consumer and commercial products, backed by a focus on innovation and customer service excellence, in order to achieve maximum results for its stockholders. The Company conducts businesses in five operating segments as follows:

| Segment                                    | Description of Products   |
|--|---|
| Cleaning & Organization<br>Office Products | Material handling, cleaning, refuse, indoor/outdoor organization, home storage, food storage<br>Ballpoint/roller ball pens, markers, highlighters, pencils, correction fluids, office products, art supplies, on-demand labeling products |
| Tools & Hardware                           | Hand tools, power tool accessories, manual paint applicators, cabinet, window and convenience hardware, propane torches, solder   |
| Home Fashions                              | Drapery hardware, window treatments   |
| Other                                      | Operating segments that do not meet aggregation criteria, including aluminum and stainless steel cookware, hair care accessory products, infant and juvenile products, including toys, high chairs, car seats, strollers and play yards   |

The Company remains committed to investing in strategic brands and new product development, having best cost platforms, and strengthening its portfolio of businesses. The Company will continue to make investments in advertising, promotion, and new product development in its invest businesses, which encompass the Company's high-potential, high margin brands, while taking action to improve profitability in its fix businesses, which encompass many of the Company's low margin product lines.

The Company defines invest businesses as those having high margin opportunity and the ability to generate profitable growth through innovative new products and investments in brand building and marketing. Invest businesses are generally meeting or exceeding the company's minimum financial targets and collectively generate above average operating income margins. Fix businesses are characterized as having unacceptable profitability levels. Management's primary focus for fix businesses is to take significant actions to improve overall profitability. For all periods presented, the Company classified Rubbermaid Home Products, Home Fashions, Goody, Graco and Little Tikes as fix businesses. Beginning in 2006, Graco and Goody will be classified as invest businesses.

The following section details the Company's performance in each of its 2005 objectives:

#### **Strengthen/Broaden its Portfolio of Businesses**

The Company continues to evaluate its current portfolio and intends to pursue acquisition opportunities to complement internal growth. In addition to acquiring high potential businesses or product lines, such as DYMO, the Company is focused on divesting non-strategic businesses, such as the divested Curver and the European Cookware businesses, and rationalizing low margin product lines that do not fit within the Company's strategy. In 2005 and 2004, the Company rationalized \$200 million and \$257 million, respectively, in low-margin product sales. See Footnote 2 to the Consolidated Financial Statements for additional information on acquisitions. See Footnote 3 to the Consolidated Financial Statements for additional information on divestitures.

#### **Invest in High Margin Businesses**

The Company continues to focus significant resources on enhancing its new product development pipeline, as well as strengthening the Company's numerous brands through targeted advertising and promotion. In 2005, the Company made additional investments in SG&A (primarily in the Office Products and Tools & Hardware segments) through increased expenditures for advertising and promotion.

In order to partially fund increases in SG&A in the invest businesses, the Company is focused on streamlining its operations to reduce non-strategic costs throughout the organization.

#### **Address Raw Material Inflation**

The Company has several businesses that have been significantly impacted by raw material inflation, particularly in resin and to a lesser extent, steel. The Company historically combated such cost increases through internal



productivity initiatives. However, due to the continued inflationary pressure in raw materials, the Company has implemented sales price increases to offset a portion of the increased costs. In 2005, the Company experienced raw material inflation of approximately \$153 million (primarily in resin and steel), partially offset by pricing increases of approximately \$132 million. The Company expects such inflationary pressures to continue in 2006. The Company has reduced the volume of its resin purchases through product line rationalization and divestitures in 2005. In 2005, the Company purchased approximately 900 million pounds of resin and expects to purchase approximately 10% less in 2006.

### **Reduce Manufacturing Overhead**

The Company is committed to reducing the cost of manufacturing. The primary focus is on reducing its manufacturing overhead structure and labor costs.

In 2005, the Company announced a global initiative referred to as Project Acceleration aimed at strengthening and transforming the Company's portfolio. In connection with Project Acceleration, in September 2005 the Board of Directors of the Company approved a three-year restructuring plan (the Plan), which commenced in December 2005. While the Board of Directors has approved the overall plan, specific approval of each individual project is required prior to commencing the action in accordance with the Company's schedule of corporate authority. The Plan is designed to reduce manufacturing overhead by strategically sourcing and manufacturing products in lower cost countries. The Company began executing the Plan in the fourth quarter of 2005 and recorded \$51.3 million in non-cash restructuring charges. See Footnote 4 to the Consolidated Financial Statements for additional information on restructuring.

The Plan is expected to result in cumulative restructuring charges totaling between \$350 million and \$400 million (\$295 million - \$340 million after tax), with between \$170 million and \$200 million (\$145 million - \$170 million after tax) to be incurred in 2006. Approximately 60% of the cumulative charges under Project Acceleration are expected to be cash charges. The Company expects annual savings from the plan to exceed \$120 million upon conclusion of the program. See Footnote 4 to the Consolidated Financial Statements for additional information.

Additionally, the Company is committed to the deployment of Newell Operational Excellence. Newell Operational Excellence is the process that the Company has developed using best practices from methodologies such as Six Sigma, Kaizen, Kanban and other lean manufacturing principles. The Company delivered approximately \$87 million of productivity savings, excluding raw material inflation, during 2005.

### *2006 Priorities:*

In 2006, management is focused on the following key objectives:

- 1. Invest in Strategic Brands to Deliver Top-Line Growth:** The Company's emphasis will be to deliver sales growth through increased investments in marketing and new product development on the strongest brands within its invest businesses. The Company will focus on developing best-in-class practices for innovation and branding. The Company's objective is to build brands that really matter to its consumers. The Company will put in the systems to understand its consumers in detail - how they use its products, what they value, and how to delight them or excite them. The Company will invest in more innovation that differentiates its products. The Company will have to invest more in advertising and other consumer marketing to increase awareness as well as trial and repeat purchases. Further, the Company will have to be able to measure the effectiveness of those increased marketing investments.
- 2. Reduce Supply Chain Costs/Execute Project Acceleration:** Through Newell Operational Excellence and previous restructuring, the Company has made significant progress in reducing its supply chain costs and delivering productivity savings. The Company will broaden the supply chain efforts to include purchasing and distribution & transportation. Project Acceleration is designed to reduce manufacturing overhead and labor costs by strategically sourcing and manufacturing products in lower cost countries.
- 3. Strengthen the Portfolio:** The Company has made significant progress in strengthening its portfolio over the past three years. The Company has made selective acquisitions of new product lines. In 2005, the Company





acquired DYMO, a global leader in designing, manufacturing and marketing on-demand labeling solutions, and plans to integrate DYMO into its Office Products segment in 2006. This acquisition will strengthen the Company's global leadership position in the Office Products segment by expanding and enhancing the Company's product lines and customer base. In 2003, the Company acquired LENOX, a leading manufacturer of power tools accessories and hand tools. The Company also divests businesses that do not fit its business model (i.e., businesses that can sustain high margins and grow through investments in brands and new product innovation). In 2004, the Company sold its U.S. picture frame business (Burnes), its Anchor Hocking glassware business, its Mirro cookware business, its Panex Brazilian low-end cookware business, its European picture frames business and its Little Tikes Commercial Playground Systems business. In 2005, the Company sold its Curver business and entered into an agreement to sell its European Cookware business, completing this sale in January 2006. The Company will continue to review opportunities to optimize the portfolio through selective acquisitions and divestitures.

- 4. Streamline Non-Strategic SG&A:** In 2006, the Company will continue to streamline its non-strategic SG&A, especially in its fix businesses, by challenging non-strategic costs and SG&A investments in these businesses. The Company plans to use those savings to fund investments in SG&A in its invest businesses, primarily through increased advertising, new product development, promotion and brand building activities.

#### Consolidated Results of Operations

The following table sets forth for the periods indicated items from the Consolidated Statements of Operations as reported and as a percentage of net sales for the years ended December 31, (*in millions, except percentages*):

|   | 2005      |        | 2004      |        | 2003      |        |
|---|-----------|--------|-----------|--------|-----------|--------|
| Net sales   | \$6,342.5 | 100.0% | \$6,479.8 | 100.0% | \$6,614.8 | 100.0% |
| Cost of products sold                                 | 4,448.1   | 70.1   | 4,641.0   | 71.6   | 4,732.7   | 71.5   |
| Gross margin  | 1,894.4   | 29.9   | 1,838.8   | 28.4   | 1,882.1   | 28.5   |
| Selling, general and administrative expenses          | 1,265.6   | 20.0   | 1,208.8   | 18.7   | 1,160.7   | 17.5   |
| Impairment charges                                    | 34.4      | 0.5    | 295.1     | 4.6    | 34.5      | 0.5    |
| Restructuring costs                                   | 72.2      | 1.1    | 44.2      | 0.7    | 189.3     | 2.9    |
| Operating income                                      | 522.2     | 8.2    | 290.7     | 4.5    | 497.6     | 7.5    |
| Nonoperating expenses:                                |           |        |           |        |           |        |
| Interest expense, net                                 | 127.1     | 2.0    | 119.3     | 1.8    | 134.3     | 2.0    |
| Other (income) expense, net                           | (23.0)    | (0.4)  | (3.2)     |        | 25.6      | 0.4    |
| Net nonoperating expenses                             | 104.1     | 1.6    | 116.1     | 1.8    | 159.9     | 2.4    |
| Income from continuing operations before income taxes | 418.1     | 6.6    | 174.6     | 2.7    | 337.7     | 5.1    |
| Income taxes  | 61.7      | 1.0    | 104.0     | 1.6    | 119.8     | 1.8    |
| Income from continuing operations                     | 356.4     | 5.6    | 70.6      | 1.1    | 217.9     | 3.3    |
| Loss from discontinued operations, net of tax         | (105.1)   | (1.7)  | (186.7)   | (2.9)  | (264.5)   | (4.0)  |

|                   |         |      |           |        |          |        |
|-------------------|---------|------|-----------|--------|----------|--------|
| Net income (loss) | \$251.3 | 4.0% | (\$116.1) | (1.8)% | (\$46.6) | (0.7)% |
|-------------------|---------|------|-----------|--------|----------|--------|

**Results of Operations 2005 vs. 2004**

Net sales for 2005 were \$6,342.5 million, representing a decrease of \$137.3 million, or 2.1% from \$6,479.8 million for 2004, consisting of the following (*in millions, except percentages*):

|                                | \$      | %      |
|--------------------------------|---------|--------|
| Favorable currency translation | \$48    | 0.7%   |
| Favorable pricing              | 132     | 2.0    |
| Product line rationalization   | (200)   | (3.1)  |
| Core sales decline             | (142)   | (2.1)  |
| Acquired business sales        | 25      | 0.4    |
|                                | (\$137) | (2.1)% |

- 21 -

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Net sales in the Company's invest businesses improved 2.0% for 2005 versus 2004, led by double digit growth in the LENOX tools businesses and high single digit growth in Rubbermaid Commercial Products and IRWIN- branded tools businesses. The acquisition of DYMO contributed \$24.9 million in net sales in 2005.

Net sales in the Company's fix businesses declined 8.0% for 2005 versus 2004, as a result of low margin product line exits in Rubbermaid Home Products and core sales declines in the Little Tikes battery operated products and European Window Fashion businesses.

Gross margin, as a percentage of net sales, for 2005 was 29.9%, or \$1,894.4 million, versus 28.4%, or \$1,838.8 million, for 2004. The improvement in gross margin is primarily related to favorable pricing of \$132 million, or 2.0% of net sales, gross productivity of \$87 million, and favorable mix driven by the rationalization of unprofitable product lines primarily in the Rubbermaid Home Products business, partially offset by raw material inflation of \$153 million (primarily resin and steel) and the impact of the core sales decline.

Selling, general and administrative expenses (SG&A) for 2005 were 20.0% of net sales, or \$1,265.6 million, versus 18.7%, or \$1,208.8 million, for 2004. The increase in SG&A reflects a currency impact of \$11.0 million, a \$9.0 million impact from the acquisition of DYMO and strategic investments in invest businesses, partially offset by streamlining in the Company's fix businesses.

The Company recorded non-cash pre-tax impairment charges of \$34.4 million and \$295.1 million for 2005 and 2004, respectively. The 2005 charges were required to write-down certain assets to fair value, including goodwill, trademarks and tradenames related to the Company's United Kingdom Home Fashions business. The 2004 charges were required to write-down certain assets to fair value, primarily in the Company's European and Latin American Office Products businesses. See Footnote 18 to the Consolidated Financial Statements for additional information.

The Company recorded restructuring costs of \$72.2 million and \$44.2 million for 2005 and 2004, respectively. The 2005 restructuring costs included \$51.3 million in non-cash facility restructuring charges relating to Project Acceleration and \$20.9 million relating to restructuring actions approved prior to the commencement of Project Acceleration. The \$20.9 million of pre-Project Acceleration costs included \$7.7 million of facility and other exit costs, \$11.4 million of employee severance and termination benefits and \$1.8 million of exited contractual commitments and other restructuring costs. The 2004 costs included \$39.6 million of facility and other exit costs, \$3.0 million of employee severance and termination benefits and \$1.6 million of exited contractual commitments and other restructuring costs. See Footnote 4 to the Consolidated Financial Statements for further information on the restructuring costs.

Operating income for 2005 was \$522.2 million, or 8.2% of net sales, versus \$290.7 million, or 4.5% of net sales, in 2004. The improvement in operating margins is the result of the factors described above.

Net nonoperating expenses for 2005 were 1.6% of net sales, or \$104.1 million, versus 1.8% of net sales, or \$116.1 million, for 2004. The decrease in net nonoperating expenses is mainly attributable to gains recognized in 2005 on the sale of property, plant and equipment and the liquidation of a foreign subsidiary. This was partially offset by an increase in net interest expense, \$127.1 million for 2005 compared to \$119.3 million for 2004. The increase in net interest expense was primarily due to higher borrowing rates, partially offset by lower average debt balances. See Footnote 19 to the Consolidated Financial Statements for further information.

The effective tax rate was 14.8% for 2005 versus 59.6% for 2004. The change in the effective tax rate is primarily related to the \$73.9 million income tax benefit recorded in 2005 compared to the net income tax benefit of \$15.5 million recorded in 2004, as a result of favorable resolution of certain tax positions and the expiration of the statute of limitations on other deductions. Additionally, the effective tax rate was impacted by the non-deductibility associated with a portion of the Company's impairment charges recorded in 2005 and 2004 (\$34.4 million and \$295.1 million, respectively). See Footnotes 17 and 18 to the Consolidated Financial Statements for further information.

In the second quarter of 2005, the Company committed to the disposal of a business in the Cleaning & Organization segment and recognized impairment charge of \$24.5 million, net of tax, in order to state the assets of this business at their estimated fair values. In the third and fourth quarters of 2005, the Company revised its estimation related to the fair value of this business after winning several line reviews with a key retailer and reversed the full amount of the impairment charge. In the fourth quarter of 2005, the Company changed its decision to dispose of this business



as a result of the aforementioned line review wins and the identification of significant productivity opportunities. The results of this business are reflected in continuing operations.

Income from continuing operations for 2005 was \$356.4 million, compared to \$70.6 million for 2004. Diluted earnings per share from continuing operations were \$1.30 for 2005 compared to \$0.26 for 2004.

The loss from discontinued operations for 2005 was \$105.1 million, compared to \$186.7 million for 2004. For 2005, the loss on disposal of discontinued operations was \$96.8 million, comprised primarily of a \$62.0 million loss on the disposal of the Curver business and a \$33.9 million loss related to the sale of the European Cookware business. For 2004, the Company recorded a \$21.5 million loss on the disposal of the U.S. picture frames business (Burnes), the Anchor Hocking glassware business, and the Mirro cookware business, a \$72.2 million loss on the disposal of the Panex Brazilian low-end cookware division, and a \$6.4 million loss, net of tax, on the disposal of the European picture frames business, partially offset by a gain on the disposal of the Little Tikes Commercial Playground Systems business of \$9.6 million. Diluted loss per share from discontinued operations was \$0.38 for 2005 compared to \$0.68 for 2004. See Footnote 3 to the Consolidated Financial Statements for further information.

Net income (loss) for 2005 was \$251.3 million, compared to (\$116.1) million for 2004. Diluted earnings (loss) per share was \$0.91 for 2005 compared to (\$0.42) for 2004.

### **Results of Operations 2004 vs. 2003**

Net sales for 2004 were \$6,479.8 million, representing a decrease of \$135.0 million, or 2.0% from \$6,614.8 million for 2003, consisting of the following (*in millions, except percentages*):

|                                | \$      | %      |
|--------------------------------|---------|--------|
| Favorable currency translation | \$134   | 2.0%   |
| Unfavorable pricing            | (3)     |        |
| Product line rationalization   | (257)   | (3.9)  |
| Core sales decline             | (9)     | (0.1)  |
|                                | (\$135) | (2.0)% |

Net sales in the Company's invest businesses improved 1.0% in 2004 versus 2003 led by single digit growth in Tools & Hardware and Rubbermaid Commercial Products.

Net sales in the Company's fix businesses declined 6.0% in 2004 versus 2003, as a result of planned rationalization of low margin products in the Rubbermaid Home Products and Graco Children's Products businesses.

Gross margin, as a percentage of net sales, for 2004 was 28.4%, or \$1,838.8 million, versus 28.5%, or \$1,882.1 million, for 2003. The decline in gross margin is primarily related to raw material inflation of \$116 million and unfavorable pricing of \$3 million, partially offset by favorable mix driven by the rationalization of unprofitable product lines, primarily in the Rubbermaid Home Products business, gross productivity and other savings of \$76 million.

Selling, general and administrative expenses (SG&A) for 2004 were 18.7% of net sales, or \$1,208.8 million, versus 17.5%, or \$1,160.7 million, for 2003. The increase in SG&A reflects a currency impact of \$37 million and pension cost increases of \$16 million. All other SG&A was down \$5 million, with strategic investments more than offset by streamlining in the Company's fix businesses.

The Company recorded non-cash impairment charges of \$295.1 million and \$34.5 million for 2004 and 2003, respectively. The 2004 charge was required to write-down certain assets to fair value, primarily in the Company's European and Latin American Office Products businesses. The 2003 charge was required to write-down certain assets to fair value, primarily in the Company's Cleaning & Organization segment, resulting from the decision to exit certain product lines. See Footnote 18 to the Consolidated Financial Statements for additional information.

The Company recorded restructuring costs of \$44.2 million and \$189.3 million for 2004 and 2003, respectively. The 2004 costs included \$39.6 million of facility and other exit costs, \$3.0 million of employee severance and termination benefits and \$1.6 million of exited contractual commitments and other restructuring costs. The 2003 pre-tax costs

included \$83.2 million of facility and other exit costs, \$80.2 million of employee severance and  
- 23 -

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termination benefits and \$25.9 million of exited contractual commitments and other restructuring costs. See Footnote 4 to the Consolidated Financial Statements for further information on the restructuring costs.

Operating income for 2004 was \$290.7 million, or 4.5% of net sales, versus \$497.6 million, or 7.5% of net sales, in 2003. The decline in operating margins is the result of the factors described above.

Net nonoperating expenses for 2004 were 1.8% of net sales, or \$116.1 million, versus 2.4% of net sales, or \$159.9 million, for 2003. The decrease in net nonoperating expenses is attributable to a reduction in net interest expense of \$15.0 million in 2004 (\$119.3 million in 2004 compared to \$134.3 million in 2003), as a result of lower average debt outstanding, partially offset by increased interest rates. Also, in 2003, the Company recognized a \$30.4 million non-cash loss on the sale of its Cosmolab and Photo Fashions businesses. See Footnote 19 to the Consolidated Financial Statements for further information.

The effective tax rate was 59.6% for 2004 versus 35.5% for 2003. The change in the effective tax rate is primarily related to the non-deductibility associated with a portion of the Company's \$295.1 million impairment charge in 2004, partially offset by the net income tax benefit of \$15.5 million recorded in 2004, as a result of the favorable resolution of certain tax positions and the expiration of the statute of limitations. See Footnotes 17 and 18 to the Consolidated Financial Statements for further information.

Income from continuing operations for 2004 was \$70.6 million, compared to \$217.9 million for 2003. Diluted earnings per share from continuing operations were \$0.26 for 2004 compared to \$0.79 for 2003.

The loss from discontinued operations in 2004 was \$186.7 million compared to \$264.5 million in 2003. The loss from operations of discontinued operations for 2004 was \$96.2 million, compared to \$264.5 million for 2003. For 2003, the Company recorded a non-cash pre-tax write-down of \$254.9 million on certain businesses that it was evaluating for potential sale and were presented in discontinued operations. See Footnote 3 to the Consolidated Financial Statements for further information. The loss on disposal of discontinued operations for 2004 was \$90.5 million. In 2003, there were no disposals of business. In 2004, the Company recorded a \$21.5 million loss on the disposal of the U.S. picture frames business (Burnes), Anchor Hocking glassware business, and Mirro cookware business, a \$72.2 million loss on the disposal of the Panex Brazilian low-end cookware division, a \$6.4 million loss on the disposal of the European picture frames business, partially offset by a gain on the disposal of the Little Tikes Commercial Playground Systems business of \$9.6 million. Diluted loss per share from discontinued operations was \$0.68 for 2004 compared to \$0.96 for 2003. See Footnote 3 to the Consolidated Financial Statements for further information.

Net loss for 2004 was \$116.1 million, compared to \$46.6 million for 2004. Diluted loss per share was \$0.42 for 2004 compared to \$0.17 for 2003.

### Business Segment Operating Results

#### 2005 vs. 2004 Business Segment Operating Results

Net sales by segment were as follows for the year ended December 31, *(in millions, except percentages)*:

|                         | 2005      | 2004      | % Change |
|-------------------------|-----------|-----------|----------|
| Cleaning & Organization | \$1,614.6 | \$1,702.7 | (5.2)%   |
| Office Products         | 1,713.3   | 1,686.2   | 1.6      |
| Tools & Hardware        | 1,260.3   | 1,218.7   | 3.4      |
| Home Fashions           | 824.0     | 906.8     | (9.1)    |
| Other                   | 930.3     | 965.4     | (3.6)    |
| Total Net Sales         | \$6,342.5 | \$6,479.8 | (2.1)%   |

Operating income by segment was as follows for the year ended December 31, *(in millions, except percentages)*:

|                         | 2005    | 2004    | % Change |
|-------------------------|---------|---------|----------|
| Cleaning & Organization | \$116.9 | \$100.7 | 16.1%    |

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|                  |       |       |       |
|------------------|-------|-------|-------|
| Office Products  | 266.0 | 261.9 | 1.6   |
| Tools & Hardware | 171.1 | 181.8 | (5.9) |
|                  | 24    |       |       |

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|                        | 2005    | 2004    | % Change |
|------------------------|---------|---------|----------|
| Home Fashions          | 22.7    | 33.0    | (31.2)   |
| Other                  | 98.1    | 92.0    | 6.6      |
| Corporate              | (46.0)  | (39.4)  | (16.8)   |
| Impairment charge      | (34.4)  | (295.1) |          |
| Restructuring costs    | (72.2)  | (44.2)  |          |
| Total Operating Income | \$522.2 | \$290.7 | 79.6%    |

### **Cleaning & Organization**

Net sales for 2005 were \$1,614.6 million, a decrease of \$88.1 million, or 5.2%, from \$1,702.7 million in 2004, driven primarily by the planned product line exits and core sales declines in the Rubbermaid Home Products business. These factors were partially offset by increases in core product sales in the Rubbermaid Commercial Products business, favorable pricing and foreign currency translation.

Operating income for 2005 was \$116.9 million, an increase of \$16.2 million, or 16.1%, from \$100.7 million in 2004. The improvement in operating income is the result of core sales growth in Rubbermaid Commercial Products, favorable sales mix and favorable pricing which more than offset raw material inflation and lost absorption in manufacturing facilities.

### **Office Products**

Net sales for 2005 were \$1,713.3 million, an increase of \$27.1 million, or 1.6% from \$1,686.2 million in 2004. The increase was primarily due to the acquisition of DYMO, the introduction of innovative new products in the markers business and favorable foreign currency translation, partially offset by sales declines in the fine writing and the Eldon office products businesses.

Operating income for 2005 was \$266.0 million, an increase of \$4.1 million, or 1.6%, from \$261.9 million in 2004, as a result of the impact of the DYMO acquisition and improved margins associated with the new product introductions and productivity, partially offset by raw material inflation and increased investment in SG&A, primarily related to advertising and promotion.

### **Tools & Hardware**

Net sales for 2005 were \$1,260.3 million, an increase of \$41.6 million, or 3.4%, from \$1,218.7 million in 2004, driven by increases in the LENOX, and IRWIN-branded businesses, partially offset by sales declines in the Amerock business and consumer electronic tools.

Operating income for 2005 was \$171.1 million, a decrease of \$10.7 million, or 5.9%, from \$181.8 million in 2004, driven by raw material inflation, restructuring related costs at the Amerock business and investments in SG&A in the tools business, partially offset by productivity and the sales increase noted above.

### **Home Fashions**

Net sales for 2005 were \$824.0 million, a decrease of \$82.8 million, or 9.1%, from \$906.8 million in 2004, driven by product line exits and core sales declines in the European Home Fashions business, partially offset by favorable foreign currency translation and increased sales in the North American Home Fashions business.

Operating income for 2005 was \$22.7 million, a decrease of \$10.3 million, or 31.2%, from \$33.0 million in 2004. The decrease in operating income was due primarily to lower sales, partially offset by productivity.

### **Other**

Net sales for 2005 were \$930.3 million, a decrease of \$35.1 million, or 3.6%, from \$965.4 million in 2004. The decline is primarily the result of core sales declines in the Little Tikes battery operated products business.

Operating income for 2005 was \$98.1 million, an increase of \$6.1 million, or 6.6%, from \$92.0 million in the comparable period of 2004, driven by productivity, favorable pricing and reduced SG&A in the juvenile products businesses, partially offset by raw material inflation.

#### 2004 vs. 2003 Business Segment Operating Results

Net sales by segment were as follows for the year ended December 31, (*in millions, except percentages*):

|                         | 2004      | 2003      | % Change |
|-------------------------|-----------|-----------|----------|
| Cleaning & Organization | \$1,702.7 | \$1,848.6 | (7.9)%   |
| Office Products         | 1,686.2   | 1,681.2   | 0.3      |
| Tools & Hardware        | 1,218.7   | 1,199.7   | 1.6      |
| Home Fashions           | 906.8     | 901.0     | 0.6      |
| Other                   | 965.4     | 984.3     | (1.9)    |
| Total Net Sales         | \$6,479.8 | \$6,614.8 | (2.0)%   |

Operating income by segment was as follows for the year ended December 31, (*in millions*):

|                         | 2004    | 2003    | % Change |
|-------------------------|---------|---------|----------|
| Cleaning & Organization | \$100.7 | \$103.6 | (2.8)%   |
| Office Products         | 261.9   | 309.6   | (15.4)   |
| Tools & Hardware        | 181.8   | 179.3   | 1.4      |
| Home Fashions           | 33.0    | 44.4    | (25.7)   |
| Other                   | 92.0    | 114.8   | (19.9)   |
| Corporate               | (39.4)  | (30.3)  | (30.0)   |
| Impairment charges      | (295.1) | (34.5)  |          |
| Restructuring costs     | (44.2)  | (189.3) |          |
| Total Operating Income  | \$290.7 | \$497.6 | (41.6)%  |

#### Cleaning & Organization

Net sales for 2004 were \$1,702.7 million, a decrease of \$145.9 million, or 7.9%, from \$1,848.6 million in 2003. The 7.9% sales decrease was driven primarily by a decline in the Rubbermaid Home Products business due to planned low-margin product line rationalizations, partially offset by favorable pricing and increases in core product sales in the Rubbermaid Foodservice, Rubbermaid Commercial, and Rubbermaid Asia Pacific businesses.

Operating income for 2004 was \$100.7 million, a decrease of \$2.9 million, or 2.8%, from \$103.6 million in 2003. The decrease in operating income is primarily the result of higher raw material costs (particularly resin), partially offset by favorable pricing and improvement in Rubbermaid Commercial and Rubbermaid Asia Pacific businesses.

#### Office Products

Net sales for 2004 were \$1,686.2 million, an increase of \$5.0 million, or 0.3%, from \$1,681.2 million in 2003. The increase in net sales primarily resulted from a single-digit increase in the writing instruments business on the strength of innovative new products, largely offset by the exit of low margin resin based products in the Eldon office products business.

Operating income for 2004 was \$261.9 million, a decrease of \$47.7 million, or 15.4%, from \$309.6 million in 2003. The decrease in operating income was driven by restructuring related costs in the European writing instruments business and raw material inflation, primarily in resin costs in the Eldon office products division, partially offset by improvement in the Sanford Latin America and Sanford Asia Pacific businesses.

#### Tools & Hardware



Net sales for 2004 were \$1,218.7 million, an increase of \$19.0 million, or 1.6%, from \$1,199.7 million in 2003. The increase in net sales was driven by increases in the LENOX businesses.

Operating income for 2004 was \$181.8 million, an increase of \$2.5 million, or 1.4%, from \$179.3 million in 2003. The improvement in operating income was generated primarily by productivity savings, sales increases and streamlining initiatives, partially offset by raw material inflation.

#### **Home Fashions**

Net sales for 2004 were \$906.8 million, an increase of \$5.8 million, or 0.6%, from \$901.0 million in 2003. The increase in net sales was driven primarily by favorable foreign currency fluctuation, partially offset by planned product line exits in the Swish UK business.

Operating income for 2004 was \$33.0 million, a decrease of \$11.4 million, or 25.7%, from \$44.4 million in 2003. The decrease in operating income is primarily the result of raw material inflation and charges related to the liquidation of certain product lines in the segment.

#### **Other**

Net sales for 2004 were \$965.4 million, a decrease of \$18.9 million, or 1.9%, from \$984.3 million in 2003. The decrease in net sales was primarily attributable to the sale of Cosmolab in March 2003, which contributed \$10 million in sales in 2003, and sales declines experienced in the Graco business.

Operating income for 2004 was \$92.0 million, a decrease of \$22.8 million, or 19.9%, from \$114.8 million in 2003. The decrease in operating income was due primarily to the sales decrease at Graco and raw material inflation in resin based products.

#### **Liquidity and Capital Resources**

Cash and cash equivalents (decreased) increased as follows for the year ended December 31, (*in millions*):

|  | 2005      | 2004    | 2003    |
|--|-----------|---------|---------|
| Cash provided by operating activities            | \$641.6   | \$660.0 | \$773.2 |
| Cash (used in)/provided by investing activities  | (766.7)   | 189.6   | (716.1) |
| Cash (used in)/provided by financing activities  | (257.2)   | (494.1) | 31.4    |
| Exchange effect on cash and cash equivalents     | (7.8)     | 5.7     | 0.8     |
| (Decrease) Increase in cash and cash equivalents | (\$390.1) | \$361.2 | \$89.3  |

#### **Sources**

The Company's primary sources of liquidity and capital resources include cash provided by operations, proceeds from divestitures and use of available borrowing facilities.

Cash provided by operating activities for the year ended December 31, 2005 was \$641.6 million compared to \$660.0 million for the comparable period of 2004. Net cash provided by operating activities before working capital changes decreased in 2005, which was partially offset by improvements in working capital.

In 2005, the Company received cash proceeds of \$65.5 million related to the sale of businesses and other non-current assets, compared to \$318.1 million in 2004. In 2005, the Company received cash proceeds of \$64.3 million related to the sale of other non-current assets, compared to \$55.3 million in 2004. In 2005, the Company sold the Curver business. Businesses sold in 2004 include Panex Brazilian low-end cookware, European picture frames, U.S. picture frames (Burnes), Anchor Hocking glassware, Mirro cookware and Little Tikes Commercial Playground Systems.

In 2005, the Company received proceeds from the issuance of debt of \$337.0 million compared to \$33.9 million in 2004. Most of the increase in 2005 was due to the issuance of commercial paper related to the funding of the November 2005 DYMO acquisition.

The Company has short-term foreign and domestic uncommitted lines of credit with various banks that are available for short-term financing. Borrowings under the Company's uncommitted lines of credit are subject to the discretion of the lender. The Company's lines of credit do not have a material impact on the Company's liquidity. Borrowings under the Company's lines of credit at December 31, 2005 and 2004 totaled \$4.0 million and \$21.3 million, respectively.

In November 2005, the Company entered into a \$750.0 million syndicated revolving credit facility (the Revolver) pursuant to a five-year credit agreement. The Revolver, which expires in November 2010, replaces the Company's \$650.0 million five-year Syndicated Revolving Credit Agreement that was scheduled to expire in June 2007. At December 31, 2005, there were no borrowings under the Revolver.

In lieu of borrowings under the Revolver, the Company may issue up to \$750.0 million of commercial paper. The Revolver provides the committed backup liquidity required to issue commercial paper. Accordingly, commercial paper may only be issued up to the amount available for borrowing under the Revolver. The Revolver also provides for the issuance of up to \$100.0 million of standby letters of credit so long as there is a sufficient amount available for borrowing under the Revolver. At December 31, 2005, \$202.0 million of commercial paper was outstanding and there were no standby letters of credit issued under the Revolver.

The Revolver permits the Company to borrow funds on a variety of interest rate terms and requires, among other things, that the Company maintain certain Interest Coverage and Total Indebtedness to Total Capital Ratio, as defined in the agreement. The Revolver also limits Subsidiary Indebtedness. As of December 31, 2005, the Company was in compliance with the agreement governing the Revolver. On an annual basis, the Company may request extension of the Revolver (subject to lender approval) for additional one-year periods.

Under a 2001 receivables facility with a financial institution, the Company created a financing entity that is consolidated in the Company's financial statements. Under this facility, the Company regularly enters into transactions with the financing entity to sell an undivided interest in substantially all of the Company's United States trade receivables to the financing entity. In 2001, the financing entity issued \$450.0 million in preferred debt securities to the financial institution. Certain levels of accounts receivable write-offs and other events would permit the financial institution to terminate the receivables facility and require redemption of the preferred debt securities. The receivables and preferred debt securities are recorded in the consolidated accounts of the Company. The financing entity may cause the preferred debt securities to be exchanged on September 18, 2006 for a two year floating rate note in an aggregate principal amount equal to the par value of the preferred debt securities plus accrued but unpaid return. Upon the exchange, the financing entity will pay to the preferred debt securities holder, a premium for which the Company has accrued \$4.6 million as of December 31, 2005. Because this debt matures in 2008, the entire amount is considered to be long-term debt. At any time prior to maturity of the note, the holder may elect to convert it into new preferred debt securities of the financing company with a par value equal to the outstanding principal amount of the note. The preferred debt securities must be retired or redeemed, and any note for which such securities are exchanged must be repaid, before the Company can have access to the financing entity's receivables. As of December 31, 2005 and 2004, the aggregate amount of outstanding receivables sold under this facility was \$746.9 million and \$720.9 million, respectively.

#### Uses

The Company's primary uses of liquidity and capital resources include acquisitions, dividend payments, capital expenditures and payments on debt.

Cash used for acquisitions was \$740.0 million in 2005, compared to \$6.6 million in 2004. The cash used in 2005 related primarily to the acquisition of DYMO for \$706 million, which was funded by approximately \$487 million of cash on hand and \$219 million from existing credit facilities. See Footnote 2 to the Consolidated Financial Statements for additional information. In 2004, the Company did not invest in significant acquisitions.

Capital expenditures were \$92.2 million and \$121.9 million in 2005 and 2004, respectively. The decrease in capital expenditures is primarily due to the Company's focus on capital spending discipline in 2005. Capital expenditures for 2006 are expected to be in the range of \$125 to \$150 million.

In 2005, the Company made payments on notes payable and long-term debt of \$360.1 million compared to \$298.4 million in 2004, including the purchases in 2005 of 750,000 shares of its 5.25% convertible preferred securities from holders at an average price of \$47.075 per share (\$35.3 million). In 2004, the Company purchased 825,000 shares of its 5.25% convertible preferred securities from a holder for \$43.6875 per share (\$36.0 million). See Footnote 10 to the Consolidated Financial Statements for additional information on these transactions.

Aggregate dividends paid were \$231.5 million and \$231.0 million in 2005 and 2004, respectively. In 2006, the Company expects to make similar dividend payments.

Cash used for restructuring activities was \$35.5 million and \$79.7 million in 2005 and 2004, respectively. These payments relate primarily to employee termination benefits. In 2006, the Company expects to use approximately \$100 million of cash on restructuring activities related to Project Acceleration. See Footnote 4 to the Consolidated Financial Statements for additional information.

In 2005, the Company made a voluntary \$25.0 million cash contribution to fund its foreign pension plans. In 2004, the Company made a voluntary \$50.0 million cash contribution to fund the Company's U.S. pension plan.

In 2005, the Company terminated a cross currency interest rate swap and paid \$26.9 million. This payment has been recognized in operating cash flow. In 2004, the Company recognized \$5.5 million related to the fair value of an interest rate swap that was terminated as a source in operating cash flow.

Retained earnings increased in 2005 by \$19.7 million. The increase in retained earnings is due to the current year net income, partially offset by cash dividends paid on common stock.

Working capital at December 31, 2005 was \$675.3 million compared to \$1,141.1 million at December 31, 2004. The current ratio at December 31, 2005 was 1.38:1 compared to 1.61:1 at December 31, 2004. The decrease in working capital is due to cash used to fund the DYMO acquisition, partially offset by favorable tax settlements and the reduction of other accrued liabilities, primarily as a result of spending on previously announced restructuring plans.

Total debt to total capitalization (total debt is net of cash and cash equivalents, and total capitalization includes total debt and stockholders' equity) was .60:1 at December 31, 2005 and .55:1 at December 31, 2004.

The Company believes that cash provided from operations and available borrowing facilities will continue to provide adequate support for the cash needs of existing businesses on a short-term basis; however, certain events, such as significant acquisitions, could require additional external financing on a long-term basis.

#### **Minimum Pension Liability**

In accordance with Financial Accounting Standards Board (FASB) Statement No. 87, Employers' Accounting for Pensions, the Company recorded an additional minimum pension liability adjustment at December 31, 2005. The effect of this non-cash adjustment was to increase the pension liability by approximately \$89.1 million, with a corresponding charge to equity, net of taxes, of approximately \$60 million. The Company believes that its pension plan has the appropriate long-term investment strategy and the Company's liquidity position is expected to remain strong.

#### **Resolution of Income Tax Contingencies**

In 2005 and 2004, the Company recorded \$73.9 million and \$15.5 million, respectively, in income tax benefit as a result of favorable resolution of certain tax issues and the expiration of the statute of limitations on certain tax issues. These benefits are reflected in the Company's 2005 and 2004 Consolidated Statements of Operations.

### Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

The Company has various contractual obligations that are recorded as liabilities in its consolidated financial statements. Certain other items, such as purchase commitments and other executory contracts, are not recognized as liabilities in the Company's consolidated financial statements but are required to be disclosed. Examples of items not recognized as liabilities in the Company's consolidated financial statements are commitments to purchase raw materials or inventory that has not yet been received as of December 31, 2005 and future minimum lease payments for the use of property and equipment under operating lease agreements.

The following table summarizes the effect that lease and other material contractual obligations listed below are expected to have on the Company's cash flow in the indicated period. In addition, the table reflects the timing of principal and interest payments on borrowings outstanding as of December 31, 2005. Additional details regarding these obligations are provided in the footnotes to the Consolidated Financial Statements, as referenced in the table (*in millions*):

|                                   | Total     | Payments Due by Period |              |              |                      |
|-----------------------------------|-----------|------------------------|--------------|--------------|----------------------|
|                                   |           | Less than<br>1 Year    | 1-3<br>Years | 3-5<br>Years | More than<br>5 Years |
| Long-term debt maturities (1)     | \$2,592.5 | \$162.8                | \$705.4      | \$706.3      | \$1,018.0            |
| Interest on long-term debt (2)    | 1,323.7   | 145.8                  | 230.8        | 163.8        | 783.3                |
| Operating lease obligations (3)   | 290.9     | 90.4                   | 103.1        | 50.8         | 46.6                 |
| Purchase obligations (4)          | 600.0     | 407.7                  | 191.8        | 0.4          | 0.1                  |
| Total contractual obligations (5) | \$4,807.1 | \$806.7                | \$1,231.1    | \$921.3      | \$1,848.0            |

- (1) Amounts represent contractual obligations due, excluding interest, based on borrowings outstanding as of December 31, 2005. For further information relating to these obligations, see Footnotes 9 and 10 to the Consolidated Financial Statements.
- (2) Amounts represent estimated interest expense on borrowings outstanding as of December 31, 2005. Interest on floating debt was estimated using the index rate in effect as of December 31, 2005. For further information relating to this obligation, see Footnotes 9 and 10 to the Consolidated Financial Statements.
- (3) Amounts represent contractual minimum lease obligations on operating leases as of December 31, 2005. For further information relating to this obligation, see Footnote 12 to the Consolidated Financial Statements.
- (4) Primarily consists of purchase commitments entered into as of December 31, 2005 for finished goods, raw materials, components and services pursuant to legally enforceable and binding obligations, which include all significant terms.
- (5) Total does not include contractual obligations reported on the December 31, 2005 balance sheet as current liabilities, except for current portion of long-term debt.

The Company also has obligations with respect to its pension and post retirement medical benefit plans. See Footnote 13 to the Consolidated Financial Statements.

As of December 31, 2005, the Company had \$96.7 million in standby letters of credit primarily related to the Company's self-insurance programs, including workers' compensation, product liability, and medical. See Footnote 21 to the Consolidated Financial Statements for further information.

As of December 31, 2005, the Company did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

### Critical Accounting Policies

The Company's accounting policies are more fully described in Footnote 1 to the Consolidated Financial Statements. As disclosed in Footnote 1 to the Consolidated Financial Statements, the preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying footnotes. Future

events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the Consolidated Financial Statements. The following sections describe the Company's critical accounting policies.



### *Sales Recognition*

Sales of merchandise and freight billed to customers are recognized when title passes and all substantial risks of ownership change, which occurs either upon shipment or upon delivery based upon contractual terms. Sales is net of provisions for cash discounts, returns, customer discounts (such as volume or trade discounts), cooperative advertising and other sales related discounts.

### *Recovery of Accounts Receivable*

The Company evaluates the collectibility of accounts receivable based on a combination of factors. When aware of a specific customer's inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position, the Company records a specific reserve for bad debt to reduce the related receivable to the amount the Company reasonably believes is collectible. The Company also records reserves for bad debt for all other customers based on a variety of factors, including the length of time the receivables are past due and historical collection experience. If circumstances related to specific customers change, the Company's estimates of the recoverability of receivables could be further adjusted. As of December 31, 2005, the Company had allowances for doubtful accounts of \$31.8 million on \$1,234.5 million of accounts receivable.

### *Inventory Reserves*

The Company reduces its inventory value for estimated obsolete and slow moving inventory in an amount equal to the difference between the cost of inventory and the net realizable value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

### *Goodwill and Other Indefinite-Lived Intangible Assets*

The Company conducts its annual test of impairment for goodwill and indefinite life intangible assets in the third quarter because it coincides with its annual strategic planning process for all of its businesses. The Company also tests for impairment if events or circumstances indicate that it is more likely than not that the fair value of a reporting unit or the indefinite life intangible asset is below its carrying amount.

The Company cannot predict the occurrence of certain events that might adversely affect the reported value of goodwill and other intangible assets. Such events may include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on the Company's customer base, or a material negative change in its relationships with significant customers.

The Company assesses the fair value of its reporting units for its goodwill and other indefinite lived intangible assets (primarily trademarks and tradenames) in its impairment tests, generally based upon a discounted cash flow methodology, or an actual sales offer received from a prospective buyer, if available. The discounted cash flows are estimated utilizing various assumptions regarding future revenue and expenses, working capital, terminal value, and market discount rates. The underlying assumptions used are consistent with those used in the strategic plan.

If the carrying amount of the reporting unit is greater than the fair value, goodwill impairment may be present. The Company measures the goodwill impairment based upon the fair value of the underlying assets and liabilities of the reporting unit, including any unrecognized intangible assets, and estimates the implied fair value of goodwill. An impairment charge is recognized to the extent the recorded goodwill exceeds the implied fair value of goodwill.

If the carrying amount of the intangible asset exceeds its fair value, an impairment charge is recorded to the extent the recorded intangible asset exceeds the fair value.

### *Other Long-Lived Assets*

The Company tests its other long-lived assets for impairment in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. In accordance with

SFAS No. 144, the Company evaluates if impairment indicators related to its property, plant and equipment and other long-lived assets are present. These impairment indicators may include a significant decrease in the market price of a long-lived asset or asset group, a significant adverse change in the extent or manner in which a long-lived asset or asset group is being used or in its physical condition, or a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group. If impairment indicators are present, the company estimates the future cash flows for the asset or group of assets. The sum of the undiscounted future cash flows attributable to the asset or group of assets is compared to their carrying amount. The cash flows are estimated utilizing various assumptions regarding future revenue and expenses, working capital, and proceeds from asset disposals on a basis consistent with the strategic plan. If the carrying amount exceeds the sum of the undiscounted future cash flows, the Company discounts the future cash flows using a risk-free discount rate and records an impairment charge as the difference between the fair value and the carrying value of the asset group. Generally, the Company performs its testing of the asset group at the product-line level, as this is the lowest level for which identifiable cash flows are available.

#### *Product Liability Reserves*

The Company has a self-insurance program for product liability that includes reserves for self-retained losses and certain excess and aggregate risk transfer insurance. The Company uses historical loss experience combined with actuarial evaluation methods, review of significant individual files and the application of risk transfer programs in determining required product liability reserves. The Company's actuarial evaluation methods take into account claims incurred but not reported when determining the Company's product liability reserve. The Company has product liability reserves of \$28.3 million as of December 31, 2005. While the Company believes that it has adequately reserved for these claims, the ultimate outcome of these matters may exceed the amounts recorded by the Company and such additional losses may be material to the Company's Consolidated Financial Statements.

#### *Legal and Environmental Reserves*

The Company is subject to losses resulting from extensive and evolving federal, state, local and foreign laws and regulations, as well as, contract and other disputes. The Company evaluates the potential legal and environmental losses relating to each specific case and determines the probable loss based largely on historical experience. The estimated losses take into account anticipated costs associated with investigative and remediation efforts, including legal fees, where an assessment has indicated that a probable liability has been incurred and the cost can be reasonably estimated. No insurance recovery is taken into account in determining the Company's cost estimates or reserve, nor do the Company's cost estimates or reserve reflect any discounting for present value purposes, except with respect to long-term operations and maintenance CERCLA matters which are estimated at present value. The Company's estimate of environmental response costs associated with these matters as of December 31, 2005 ranged between \$12.8 million and \$23.8 million. As of December 31, 2005, the Company had a reserve equal to \$15.4 million for such environmental response costs in the aggregate, which is included in other accrued liabilities and other noncurrent liabilities in the Consolidated Balance Sheets.

#### *Income Tax Contingencies*

The Company establishes a tax contingency reserve for certain tax exposures when it is not probable that the Company's tax position will be ultimately sustained. The Company eliminates a tax contingency reserve balance when it becomes probable that the Company's tax position will ultimately be sustained, which generally occurs when the statute of limitations for a specific exposure item has expired or when the Company has reached agreement with the taxing authorities on the treatment of an item. The Company generally assesses its tax contingency reserves on a quarterly basis. Management cannot determine with certainty the ultimate resolution of these tax matters. Actual results may differ from the recorded amounts.

#### **Pending Adoption of New Accounting Pronouncements**

##### *Stock Options*

In December 2004, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 123 (revised) ( SFAS 123(R) ), Share-Based Payment. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values (i.e., pro forma disclosure is no longer an alternative to financial statement recognition). The Statement supersedes Accounting Principles Board Opinion ( APB ) No. 25, Accounting for Stock Issued to Employees, and will require adoption no later than January 1, 2006. The Company has adopted the provisions of the new standard using the modified prospective method and using the Black-Scholes option pricing model effective January 1, 2006. As a result of adoption, the Company expects to recognize approximately \$15 million to \$20 million, pre-tax, in additional expense in 2006.

### International Operations

For the years ended December 31, 2005, 2004 and 2003, the Company's non-U.S. businesses accounted for approximately 28%, 29% and 28% of net sales, respectively (see Footnote 20 to the Consolidated Financial Statements). Changes in both U.S. and non-U.S. net sales are shown below for the years ended December 31, (*in millions, except percentages*):

|          | 2005      | 2004      | 2003      | 2005 vs.<br>2004 %<br>Change | 2004 vs.<br>2003 %<br>Change |
|----------|-----------|-----------|-----------|------------------------------|------------------------------|
| U.S.     | \$4,537.1 | \$4,611.1 | \$4,787.1 | (1.6)%                       | (3.7)%                       |
| Non-U.S. | 1,805.4   | 1,868.7   | 1,827.7   | (3.4)                        | 2.2                          |
|          | \$6,342.5 | \$6,479.8 | \$6,614.8 | (2.1)%                       | (2.0)%                       |

### Forward-Looking Statements

Certain statements in this report and the documents incorporated herein by reference constitute forward-looking statements, as defined by the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties. The statements relate to, and other forward-looking statements that may be made by the Company may relate to, but are not limited to, information or assumptions about the effects of Project Acceleration, sales (including pricing), income/(loss), earnings per share, return on equity, return on invested capital, capital expenditures, working capital, cash flow, dividends, capital structure, debt to capitalization ratios, interest rates, internal growth rates, restructuring, impairment and other charges, potential losses on divestitures, impact of changes in accounting standards, pending legal proceedings and claims (including environmental matters), future economic performance, operating income improvements, costs and cost savings (including raw material inflation, productivity and streamlining), synergies, management's plans, goals and objectives for future operations and growth. These statements generally are accompanied by words such as intend, anticipate, believe, estimate, project, target, expect, will, should or similar statements. You should understand that forward-looking statements are not guaranteed because there are inherent difficulties in predicting future results. Actual results could differ materially from those expressed or implied in the forward-looking statements. The factors that are discussed in Part I, Item 1A of this report, as well as the matters that are set forth generally in this report and the documents incorporated by reference herein, could cause actual results to differ. Some of these factors are described as criteria for success. Our failure to achieve, or limited success in achieving, these objectives could result in actual results differing materially from those expressed or implied in the forward-looking statements. In addition, there can be no assurance that we have correctly identified and assessed all of the factors affecting the Company or that the publicly available and other information we receive with respect to these factors is complete or correct.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Market Risk

The Company's market risk is impacted by changes in interest rates, foreign currency exchange rates and certain commodity prices. Pursuant to the Company's policies, natural hedging techniques and derivative financial instruments

may be utilized to reduce the impact of adverse changes in market prices. The Company does not hold or issue derivative instruments for trading purposes.

The Company manages interest rate exposure through its conservative debt ratio target and its mix of fixed and floating rate debt. Interest rate swaps may be used to adjust interest rate exposures when appropriate based on market conditions, and, for qualifying hedges, the interest differential of swaps is included in interest expense.

The Company's foreign exchange risk management policy emphasizes hedging anticipated intercompany and third party commercial transaction exposures of one-year duration or less. The Company focuses on natural hedging techniques of the following form: 1) offsetting or netting of like foreign currency flows, 2) structuring foreign subsidiary balance sheets with appropriate levels of debt to reduce subsidiary net investments and subsidiary cash flows subject to conversion risk, 3) converting excess foreign currency deposits into U.S. dollars or the relevant functional currency and 4) avoidance of risk by denominating contracts in the appropriate functional currency. In addition, the Company utilizes forward contracts and purchased options to hedge commercial and intercompany transactions. Gains and losses related to qualifying hedges of commercial and intercompany transactions are deferred and included in the basis of the underlying transactions. Derivatives used to hedge intercompany loans are marked to market with the corresponding gains or losses included in the Company's Consolidated Statements of Operations.

The Company purchases certain raw materials, including resin, corrugate, steel and aluminum, which are subject to price volatility caused by unpredictable factors. While future movements of raw material costs are uncertain, a variety of programs, including periodic raw material purchases, purchases of raw materials for future delivery, long-term contracts and price adjustments help the Company mitigate this risk. Where practical, the Company uses derivatives to help manage the volatility related to this risk. In 2005, the Company experienced raw material inflation of approximately \$153 million (primarily in resin and steel), partially offset by pricing increases of approximately \$132 million.

The amounts shown below represent the estimated potential economic loss that the Company could incur from adverse changes in either interest rates or foreign exchange rates using the value-at-risk estimation model. The value-at-risk model uses historical foreign exchange rates and interest rates to estimate the volatility and correlation of these rates in future periods. It estimates a loss in fair market value using statistical modeling techniques that are based on a variance/covariance approach and includes substantially all market risk exposures (specifically excluding equity-method investments). The fair value losses shown in the table below have no impact on results of operations or financial condition, but are shown as an illustration of the impact of potential adverse changes in interest rates. The following table indicates the calculated amounts for each of the years ended December 31, 2005 and 2004 (*in millions, except percentages*):

|                  | 2005    | December    | 2004    | December    | Confidence |
|------------------|---------|-------------|---------|-------------|------------|
| Market Risk      | Average | 31,<br>2005 | Average | 31,<br>2004 | Level      |
| Interest rates   | \$9.5   | \$8.1       | \$12.1  | \$11.3      | 95%        |
| Foreign exchange | \$3.1   | \$5.6       | \$ 2.2  | \$ 1.9      | 95%        |

The 95% confidence interval signifies the Company's degree of confidence that actual losses would not exceed the estimated losses shown above. The amounts shown here disregard the possibility that interest rates and foreign currency exchange rates could move in the Company's favor. The value-at-risk model assumes that all movements in these rates will be adverse. Actual experience has shown that gains and losses tend to offset each other over time, and it is highly unlikely that the Company could experience losses such as these over an extended period of time. These amounts should not be considered projections of future losses, because actual results may differ significantly depending upon activity in the global financial markets.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA  
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS AND ANNUAL REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of Newell Rubbermaid Inc. is responsible for the accuracy and internal consistency of the preparation of the consolidated financial statements and footnotes contained in this annual report.

The Company's management is also responsible for establishing and maintaining adequate internal control over financial reporting. Newell Rubbermaid Inc. operates under a system of internal accounting controls designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of published financial statements in accordance with generally accepted accounting principles. The internal accounting control system is evaluated for effectiveness by management and is tested, monitored and revised as necessary. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making its assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on the results of its evaluation, the Company's management concluded that, as of December 31, 2005, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent auditors, Ernst & Young LLP, have audited the financial statements prepared by the management of Newell Rubbermaid Inc. and management's assessment of internal control over financial reporting. Their reports on these financial statements, and on management's assessment of internal control over financial reporting, are presented below.

NEWELL RUBBERMAID INC.

Atlanta, Georgia

February 10, 2006

Report of Independent Registered Public Accounting Firm  
The Board of Directors and Stockholders  
Newell Rubbermaid Inc.

We have audited the accompanying consolidated balance sheets of Newell Rubbermaid Inc. as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Newell Rubbermaid Inc. at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Newell Rubbermaid Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 10, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Chicago, Illinois  
February 10, 2006

Report of Independent Registered Public Accounting Firm  
The Board of Directors and Stockholders  
Newell Rubbermaid Inc.

We have audited management's assessment, included in the accompanying Management's Responsibility for Financial Statements and Annual Report on Internal Control Over Financial Reporting, that Newell Rubbermaid Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Newell Rubbermaid Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Newell Rubbermaid Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Newell Rubbermaid Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Newell Rubbermaid Inc. as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005 of Newell Rubbermaid Inc. and our report dated February 10, 2006, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Chicago, Illinois  
February 10, 2006



**Consolidated Statements of Operations**

| Year Ended December 31,   | 2005      | 2004      | 2003      |
|---|-----------|-----------|-----------|
| <i>(Amounts in millions, except per share data)</i>   |           |           |           |
| Net sales   | \$6,342.5 | \$6,479.8 | \$6,614.8 |
| Cost of products sold   | 4,448.1   | 4,641.0   | 4,732.7   |
| Gross margin  | 1,894.4   | 1,838.8   | 1,882.1   |
| Selling, general and administrative expenses  | 1,265.6   | 1,208.8   | 1,160.7   |
| Impairment charges  | 34.4      | 295.1     | 34.5      |
| Restructuring costs   | 72.2      | 44.2      | 189.3     |
| Operating income  | 522.2     | 290.7     | 497.6     |
| Nonoperating expenses:  |           |           |           |
| Interest expense, net of interest income of \$15.0, \$10.4, and \$5.8 in 2005, 2004, and 2003, respectively | 127.1     | 119.3     | 134.3     |
| Other (income) expense, net   | (23.0)    | (3.2)     | 25.6      |
| Net nonoperating expenses   | 104.1     | 116.1     | 159.9     |
| Income from continuing operations before income taxes   | 418.1     | 174.6     | 337.7     |
| Income taxes  | 61.7      | 104.0     | 119.8     |
| Income from continuing operations   | 356.4     | 70.6      | 217.9     |
| Loss from discontinued operations, net of tax   | (105.1)   | (186.7)   | (264.5)   |
| Net income (loss)   | \$251.3   | (\$116.1) | (\$46.6)  |
| Weighted average shares outstanding:  |           |           |           |
| Basic   | 274.4     | 274.4     | 274.1     |
| Diluted   | 274.9     | 274.7     | 274.3     |
| Per common share -  |           |           |           |
| Basic   |           |           |           |
| Income from continuing operations   | \$1.30    | \$0.26    | \$0.79    |
| Loss from discontinued operations   | (0.38)    | (0.68)    | (0.96)    |
| Net income (loss)   | \$0.92    | (\$0.42)  | (\$0.17)  |
| Diluted   |           |           |           |
| Income from continuing operations   | \$1.30    | \$0.26    | \$0.79    |
| Loss from discontinued operations   | (0.38)    | (0.68)    | (0.96)    |
| Net income (loss)   | \$0.91    | (\$0.42)  | (\$0.17)  |
| Dividends per share   | \$0.84    | \$0.84    | \$0.84    |

*See Footnotes to Consolidated Financial Statements.*



**Consolidated Balance Sheets**

| December 31,  | 2005             | 2004             |
|---|------------------|------------------|
| <i>(Amounts in millions, except par value)</i>                                |                  |                  |
| Assets  |                  |                  |
| Current Assets:   |                  |                  |
| Cash and cash equivalents   | \$115.5          | \$505.6          |
| Accounts receivable, net of allowances of \$31.8 for 2005 and \$45.2 for 2004 | 1,202.7          | 1,199.4          |
| Inventories, net  | 875.9            | 918.0            |
| Deferred income taxes   | 109.8            | 73.8             |
| Prepaid expenses and other  | 113.4            | 178.4            |
| Current assets of discontinued operations                                     | 55.5             | 137.2            |
| <b>Total Current Assets</b>   | <b>2,472.8</b>   | <b>3,012.4</b>   |
| Property, plant and equipment, net  | 971.1            | 1,231.9          |
| Deferred income taxes   | 37.3             | 30.5             |
| Goodwill  | 2,354.7          | 1,823.4          |
| Intangible assets, net  | 418.3            | 298.7            |
| Other assets  | 185.5            | 186.0            |
| Non-current assets of discontinued operations                                 | 6.1              | 83.9             |
| <b>Total Assets</b>   | <b>\$6,445.8</b> | <b>\$6,666.8</b> |
| Liabilities and Stockholders' Equity  |                  |                  |
| Current Liabilities:  |                  |                  |
| Accounts payable  | \$647.3          | \$637.1          |
| Accrued compensation  | 155.0            | 136.2            |
| Other accrued liabilities   | 719.5            | 750.9            |
| Income taxes payable  | 82.5             | 68.8             |
| Notes payable   | 4.0              | 21.3             |
| Current portion of long-term debt   | 162.8            | 185.6            |
| Current liabilities of discontinued operations                                | 26.4             | 71.4             |
| <b>Total Current Liabilities</b>  | <b>1,797.5</b>   | <b>1,871.3</b>   |
| Long-term debt  | 2,429.7          | 2,424.3          |
| Other noncurrent liabilities  | 573.4            | 604.1            |
| Long-term liabilities of discontinued operations                              | 2.0              | 2.9              |
| Stockholders' Equity:   |                  |                  |
| Common stock, authorized shares, 800.0 at \$1.00 par value;                   | 290.2            | 290.1            |
| Outstanding shares:   |                  |                  |
| 2005  | 290.2            |                  |
| 2004  | 290.1            |                  |
| Treasury stock, at cost;  | (411.6)          | (411.6)          |
| Shares held:  |                  |                  |
| 2005  | 15.7             |                  |
| 2004  | 15.7             |                  |

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|  |           |           |
|--|-----------|-----------|
| Additional paid-in capital                 | 453.0     | 437.5     |
| Retained earnings                          | 1,538.3   | 1,518.6   |
| Accumulated other comprehensive loss       | (226.7)   | (70.4)    |
| Total Stockholders' Equity                 | 1,643.2   | 1,764.2   |
| Total Liabilities and Stockholders' Equity | \$6,445.8 | \$6,666.8 |

*See Footnotes to Consolidated Financial Statements.*

**Consolidated Statements of Cash Flows**

| Year Ended December 31,  | 2005    | 2004      | 2003     |
|--|---------|-----------|----------|
| <i>(Amounts in millions)</i>   |         |           |          |
| Operating Activities   |         |           |          |
| Net income (loss)  | \$251.3 | (\$116.1) | (\$46.6) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |         |           |          |
| Depreciation and amortization  | 213.8   | 231.2     | 229.5    |
| Non-cash restructuring charges   | 56.2    | 30.9      | 138.3    |
| Deferred income taxes  | (66.1)  | 108.9     | (11.5)   |
| (Gain) loss on sale of assets/debt extinguishment  | (20.0)  | (9.0)     | 29.7     |
| Non-cash impairment charges Continuing operations  | 34.4    | 295.1     | 34.5     |
| Non-cash impairment charges Discontinued operations                                      |         | 78.9      | 254.9    |
| Loss on disposal of discontinued operations  | 96.8    | 90.5      |          |
| Other  | (23.9)  | (8.4)     | 26.1     |
| Changes in current accounts excluding the effects of acquisitions:                       |         |           |          |
| Accounts receivable  | (29.5)  | 161.8     | 18.5     |
| Inventories  | 45.7    |           |          |