



2007 Annual Report

Hard at Work



Financial Highlights

(in millions, except per share amounts)

Year Ended December 31,	2007	2006	2005	2004	2003
Net Sales	\$1,994.5	\$1,894.7	\$1,762.2	\$1,417.2	\$922.1
Net (loss) income	(596.7)	(434.0)	46.8	55.8	15.5
Diluted (loss) EPS	\$ (11.72)	\$ (8.77)	\$ 1.03	\$ 1.61	\$ 0.48
Diluted EPS, as adjusted	0.02	0.39	1.26	1.83	1.27

Note: See page 9 for reconciliation to U.S. GAAP financial results.



Spectrum Brands



Spectrum Brands is a global consumer products company. Our portfolio of leading brands includes products in the battery, specialty pet supply, lawn and garden, shaving and grooming, personal care, household insect control and portable lighting categories. These products are sold by the world's top 25 retailers and are available in more than one million retail stores in more than 120 countries around the world. Headquartered in Atlanta, we have approximately 7,100 employees worldwide. Spectrum Brands' shares trade on the New York Stock Exchange under the symbol SPC.

Seated (left to right): Tony Genito, Executive Vice President and Chief Financial Officer; Kent Hussey, Chief Executive Officer.

Standing (left to right): Dave Lumley, President, Global Batteries & Personal Care and Co-Chief Operating Officer; Amy Yoder, President, United Industries; John Heil, President, Global Pet Supplies and Co-Chief Operating Officer.



To Our Shareholders:

My message to you this year is one of confidence and optimism about the future of Spectrum Brands. This sentiment is based on two factors. First, we have reinvented the business for profit and growth. The right organizational framework, the right cost structure and the right management team are now in place thanks to major restructuring initiatives during fiscal 2007. As a result, a more accountable, agile and competitive Spectrum has emerged with our businesses better positioned to generate profitable growth in the future. The second reason for my optimism is based on our businesses and brands themselves. Key indicators across all three businesses in all three major geographic markets are largely stable and positive – a first in quite some time. Though market conditions change constantly, our brand fundamentals – from manufacturing and distribution to product development and market position – are solid. As a result, we are confident in the ability of our brands to more fully realize their potential going forward. Simply put: our hard work is working.

Kent J. Hussey
Chief Executive Officer



Business Structure Goals Achieved

As many of you know, Spectrum diversified significantly in 2005 by acquiring United Industries and Tetra, which added a pet supply and a home and garden business to our portfolio. These acquisitions represented the achievement of a key strategic milestone, but one that brought with it a number of challenges. Since then, a major goal has been to develop an organizational structure that capitalizes on the unique operating attributes of each business in the most efficient manner possible. After some missteps during 2006, this goal was realized in 2007 with the completion of a reorganization plan that established three product-focused, free-standing business segments: Global Batteries & Personal Care, Global Pet Supplies and Home & Garden.

As part of this reorganization, we undertook a series of initiatives

that streamlined management and eliminated more than \$50 million in overhead costs. Executive changes were made, as appropriate, to ensure that effective leadership was in place in key positions. Today, with eleven years of personal perspective from within the Company, I can assure you that Spectrum's portfolio of brands is better aligned with its customer base, competing from a stronger position and operating in a more productive way than at any time in recent history.

Restructuring Produces Positive Results

The effectiveness of our initiatives became truly apparent in the second half of fiscal 2007. After a difficult first six months, our performance trajectory turned positive mid-year. In the fourth quarter, we recorded top-line growth in all of our businesses across all geographies, with the

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“Debt reduction remains a key priority in order to strengthen our capital structure and achieve more flexibility to invest long-term in our businesses.”

exception of outdoor lawn and garden products, which experienced one of the worst weather-related seasons in years.

Equally as important, EBITDA, during the second half of fiscal 2007, improved by \$40 million, or 28 percent, over the previous year. This improvement was driven by sales volume growth as well as the benefits from our restructuring initiatives. Though full-year results (highlighted on the inside front cover of this report) were not acceptable, we believe results in the second half of the year are more indicative of our true business potential for the foreseeable future and we see many encouraging trends.

After several years of losing market share to private label products, our European battery business appears to be stabilizing, with a cost structure and a distribution system better aligned with the retail marketplace. In Latin America, we remain the market leader in batteries with strong double-digit sales growth in 2007. And in North America, the Rayovac brand is on the move again, with numerous exciting marketing initiatives, including an exclusive three-year license with the Walt Disney Company. Under this agreement, Rayovac will be the exclusive battery sold in all Disney parks and resorts, and gains the right

to use Disney characters on package and in advertising, merchandising and promotions – a strong validation of Rayovac’s quality from one of the world’s best-known consumer brands.

Our Global Pet Supplies business continues to demonstrate good momentum. Companion pet care product sales generated double-digit growth in 2007, driven by successful brand extensions and increased distribution of key brands. Aquatic products continue to enjoy strong growth in Europe and Asia.

Our strategy of expanding our diverse portfolio of brands across our existing global distribution footprint is working well. Remington personal care products generated year-over-year sales growth of 13 percent in 2007, largely fueled by strong sales across Europe and Latin America. We also launched a limited lineup of companion animal pet supply products across our international Tetra customer base, mirroring our successful Remington strategy, and we expect significant growth from this initiative in the next several years.

Despite a wet spring and dry summer that adversely impacted top-line growth, operational execution within our Home & Garden business improved dramatically during fiscal 2007 and, in fact, Spectrum

Brands was recognized by Lowe’s as the most improved vendor in the category for the year. We believe we are positioned for significant profitability improvement in fiscal 2008 if weather trends return to more normal patterns.

Capital Structure Remains a Priority

While we are pleased with our progress in the marketplace, our significant debt level remains a challenge. In March 2007, we successfully negotiated a \$1.6 billion senior credit facility and refinanced \$350 million in senior subordinated debt. Later in the year we retired \$200 million of senior term debt and closed a \$225 million asset-based revolving credit facility for working capital needs. These refinancing efforts resulted in a more flexible debt structure that we believe will meet our liquidity needs for the foreseeable future.

However, our Company is still highly leveraged. Debt reduction remains a key priority in order to strengthen our capital structure and achieve more flexibility to invest long-term in our businesses. To this end, we divested the Canadian division of our Home & Garden business in November and used the proceeds to pay down debt.

“After two years of relentless focus on cost control, we plan to be a more outwardly-focused company in 2008, with a new emphasis on profitable growth.”

In addition, we continue to explore options for the sale of our remaining Home & Garden business, which is accounted for as a discontinued operation. While the current state of the credit markets is a significant impediment near-term, we are optimistic that plans to divest a strategic asset can be completed successfully once credit markets improve.

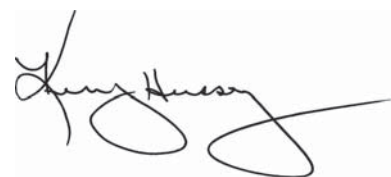
Working Smarter for Profitable Growth

In fiscal 2007, we accomplished our goal to reorganize the Spectrum organization into three product-focused, free-standing business segments: Global Batteries & Personal Care, Global Pet Supplies and Home & Garden. In 2008, our goal is to move forward by implementing smarter business practices throughout the Company. After two years of relentless focus on cost control, we plan to be a more outwardly-focused company in 2008, with a new emphasis on profitable growth. We are implementing an aggressive SKU optimization and rationalization program to realize further efficiencies. As part of this process, we expect to exit unprofitable or marginally profitable contracts or

relationships that do not meet minimum ROI and profit contribution hurdles. We will not rule out exiting part of a business, even if it means forsaking revenue, in order to enhance overall profitability.

Finally, in the midst of all the restructuring and reorganization of the past two years, it is important for us to remember that Spectrum possesses an enviable portfolio of brands. These brands enjoy high household name recognition, compete in large and growing markets, command competitive market positions and are sold by the world’s most respected retailers in more than 120 countries. It is a great foundation upon which to build a successful future that will reward our shareholders. We appreciate your support and look forward to sharing this future with you as our hard work continues to pay off.

Sincerely,



Kent J. Hussey
Chief Executive Officer



Global Batteries

Realizing new efficiencies

Our battery products span North America, Europe and Latin America where we are among the top three players in each region. In Europe, the premium-positioned VARTA is the second largest alkaline battery brand. In North America, Rayovac is the number three brand with a well-defined value proposition; and in Latin America, the Rayovac brand dominates the battery market. Our product portfolio spans a wide variety of consumer batteries including alkaline, zinc carbon, hearing aid, rechargeable batteries and chargers. In addition, Rayovac and VARTA market a line of portable lighting products such as flashlights and lanterns.

Personal Care

Innovating new products

Our Remington brand is one of the leading names in electric shaving and grooming and personal care products including men's and women's shavers, beard and mustache trimmers, body trimmers, nose and ear trimmers, hair dryers, straightening irons, styling irons and hairsetters. A continuous pipeline of innovative new products ensures leading market share positions. In North America, Remington is the market leader in grooming products and women's shavers and holds the number two position in men's shavers. In Australasia and in the U.K., Remington is the market leader in grooming products and one of the top two hair care brands.

Global Pet Supplies

Expanding retail distribution

Spectrum is one of the largest players in the world in specialty pet supplies, historically among the fastest growing consumer product categories. In the aquatics category, Tetra is the top global premium brand name. Tetra products include fish food and water treatments, aquariums, filters, heaters, pumps and other aquatic supplies. Our companion pet products include treats, clean up and training aid products, health and grooming aids and bedding. These are marketed under brands such as 8in1, Dingo and Nature's Miracle. Spectrum pet supplies enjoy broad distribution throughout North America, Europe and Japan.

Home & Garden

Focusing on the domestic market

Cutter, Repel, Hot Shot, Spectracide, Vigoro, Sta-Green – These are just some of the household names in our Home & Garden portfolio of branded consumer products. Generally, these products are used for lawn and plant growth, weed and insect control and insect repellent, which combined, represents an estimated \$3 billion market in North America. Retail distribution includes home improvement centers, mass merchandisers, hardware stores, grocery stores and drug chains. Within these retail locations, Spectrum products are typically positioned as the value brand and occupy a strong number two position in each product category in which they compete.





Hard at Work: A Conversation with Kent Hussey

Q. You have been with the Company eleven years. What fresh thinking do you bring to your new role as CEO?

A. I started with the Company as CFO and then spent many years as COO, so I know our Company inside and out and understand the issues that each business faces. With a finance and operations background, I bring a fresh focus on profitability and bottom-line performance, not just top-line growth. In terms of management philosophy, I am team oriented and place a lot of emphasis on hiring the right people and trusting them to do their job. My goal is to build a more transparent organization with open internal and external communication. Finally, my focus is on the long term – I firmly believe that if you make the right long-term decisions, the financial results will take care of themselves.

Q. What has been the biggest challenge to achieving the right business organization and cost structure for Spectrum?

A. The operations infrastructure put in place after the 2005 acquisitions failed to produce the results we hoped for. Our organizational structure, designed to support all our brands and product categories through an integrated matrix system, was inefficient. Costs simply got ahead of revenues. In fact, after a year of significant integration challenges, we came to the conclusion that autonomous business organizations were actually more effective. While we have a portfolio of consumer brands, our products have some fairly significant differences. The distribution of fertilizer differs materially from the distribution of aquatic supplies, for example. On the other hand, batteries and electric shavers have quite a few distribution synergies. The trick has been to identify and capitalize on true efficiencies, while preserving the unique attributes of each brand from a competitive perspective. Accountability was another important objective. With all direct costs to run our businesses embedded in the business segments rather than at the corporate level, we provide management with vital information to measure results, and ultimately to make the right decisions to grow and improve profitability at each of our businesses.



Kent J. Hussey

Chief Executive Officer

Q. What is the trade-off between selling an asset with growth potential versus improving your capital structure?

A. The decision to sell a strategic asset is always a difficult one. Each of our businesses is attractive and each has solid growth prospects. However, the reality is that Spectrum has a highly leveraged capital structure. It is simply not prudent or fair to our businesses to rely on a strategy of “growing our way out” of this highly leveraged position. If capital constraints prevent us from investing in our businesses to realize their inherent value, then keeping them all is self-defeating. Asset divestiture is a tough choice, but we believe it will prove to be the right strategic choice for Spectrum.

Q. While you work to complete a divestiture, does the Company have the resources necessary to operate?

A. We do not view liquidity as an issue for the Company. At year-end we had \$70 million in cash and an undrawn \$225 million asset-based revolver facility. In combination with cash generated from operations, we believe we have the resources to operate all of Spectrum’s businesses for the foreseeable future without an asset sale. The real issue is long-term growth and fiscal responsibility. We would prefer to invest in growth rather than debt service. And, because markets are inevitably cyclical, we believe a more stable capital structure positions the Company to better weather challenging economic conditions.

Q. What does it mean to operate Home & Garden as a discontinued operation? Does it receive less support than your other businesses?

A. Discontinued operation is a designation made for accounting purposes only. Since we continue to market Home & Garden in an effort to sell this business, it must be accounted for as such. From a business perspective, however, Home & Garden has been a great turnaround story for us. An entirely new management team was put in place in 2007, and did a terrific job working out integration issues that plagued the business in 2006. On-time and customer fill rates, for instance, have returned to 95 percent or better. By every operational measure, Home & Garden is performing at industry-standard levels today. Unfortunately, we cannot control the weather, which hampered financial performance this past season. The investments have been made, however, to position Home & Garden as a formidable competitor when conditions improve.

Q. Going forward, which metrics will investors find most helpful to measure Spectrum’s progress?

A. Our view is that investors should pay less attention to top-line growth and more attention to segment profitability and adjusted EBITDA. Many of the restructuring initiatives undertaken in the past two years will continue to show benefits in 2008. We also have made investments in growing our businesses that should begin to accrue to the bottom line. Remington, for instance, has spent significantly to build distribution in Europe and Latin America. In fact, Remington’s sales outside of North America have nearly doubled since we bought the brand in 2003. Over the coming year, we should see more of this investment benefit the bottom line. Our number one operating goal is to make Spectrum Brands more profitable, and we are in a great position to make this a reality in 2008.



Board of Directors and Executive Officers

Board of Directors

John D. Bowlin

Chairman of the Board

Former President and Chief Executive Officer
of Miller Brewing Company

*(Member of the audit committee and the nominating and corporate
governance committee)*

Kent J. Hussey

Chief Executive Officer

Charles A. Brizius

Managing Director of Thomas H. Lee Partners, L.P.

William P. Carmichael

Former Senior Managing Director, Succession Fund;
former Senior Vice President of Sara Lee Corporation

*(Chairperson of the audit committee and member of the
compensation committee)*

John S. Lupo

Principal in the consulting firm Renaissance Partners, LLC;
former Executive Vice President, Sales and Marketing,
Bassett Furniture Industries, Inc.

*(Member of the compensation committee and the nominating and
corporate governance committee)*

Scott A. Schoen

Co-President of Thomas H. Lee Partners, L.P.

Thomas R. Shepherd

Chairman, TSG Equity Partners, LLC

*(Chairperson of the compensation committee and
member of the audit committee)*

Barbara S. Thomas

Former interim CEO, Ocean Spray Company;
former President, Warner-Lambert Consumer Healthcare

*(Chairperson of the nominating and corporate governance committee
and member of the audit committee)*

Executive Officers

Kent J. Hussey

Chief Executive Officer

Anthony L. Genito

Executive Vice President and
Chief Financial Officer

David R. Lumley

President, Global Batteries & Personal Care
and Co-Chief Operating Officer

John A. Heil

President, Global Pet Supplies
and Co-Chief Operating Officer

Amy J. Yoder

President, United Industries



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Reconciliation to Generally Accepted Accounting Principles (GAAP)

Spectrum Brands, Inc. and Subsidiaries

The Company believes adjusting for unusual items in the Company's results provides useful information regarding the Company's ability to service its indebtedness and facilitates investors' and analysts' ability to evaluate the Company's operations excluding these unusual items. However, the following factors should be considered in evaluating such measures: Adjusted Diluted Earnings Per Share (i) should not be considered in isolation, (ii) is not a measure of performance calculated in accordance with U.S. generally accepted accounting principles ("GAAP"), (iii) should not be construed as an alternative or a substitute for diluted earnings per share in analyzing the Company's operating performance, (as determined in accordance with GAAP) and (iv) should not be used as an indicator of the Company's operating performance. Additionally, because all companies do not calculate Adjusted Diluted Earnings Per Share in a uniform fashion, the calculations presented herein may not be comparable to other similarly titled measures of other companies.

Adjusted Diluted Earnings Per Share

Impact of Unusual Items within the Statements of Operations:

<i>(All information in millions, except per share amounts)</i>	2007	2006	2005	2004	2003
Diluted Net (Loss) Earnings Per Share	\$(11.72)	\$(8.77)	\$ 1.03	\$ 1.61	\$ 0.48
Unusual Items:					
Unusual items within gross profit and operating expenses, net of tax ^{(1) (2) (3)(4)}	5.62	8.51	0.61	0.21	0.73
Non-operating expense, net of tax ⁽⁵⁾	-	(0.10)	-	-	0.06
Adjustment to deferred tax assets valuation allowance ⁽⁶⁾	2.49	0.38	-	-	-
Discontinued operations, net of tax ⁽⁷⁾	3.63	0.37	(0.38)	0.10	-
Adjusted Diluted Net Earnings Per Share	\$ 0.02	\$ 0.39	\$ 1.26	\$1.83	\$ 1.27

(1) The Company recorded restructuring and related charges within gross profit and operating expenses during Fiscal 2007, 2006, 2005, 2004 and 2003 reflecting: (i) a global restructuring announced in January 2007, (ii) the rationalization of manufacturing, packaging and distribution processes, (iii) the realignment of manufacturing capacities, (iv) restructuring of the Company's administrative functions, and (v) acquisition-related inventory valuation charges. For more information see Management's Discussion and Analysis and Note 16 in the Notes to Consolidated Financial Statements.

(2) In Fiscal 2007 and 2006, the Company recorded an impairment charge for certain goodwill and intangible assets written off as a result of the Company's SFAS 142 impairment evaluation. For more information see Management's Discussion and Analysis and Note 2(i) in the Notes to Consolidated Financial Statements.

(3) In Fiscal 2007, the Company recognized financing charges associated with a refinancing of the Company's debt. For more information see Management's Discussion and Analysis and Note 7 in the Notes to Consolidated Financial Statements.

(4) In Fiscal 2007, the Company incurred professional and consulting fees in connection with the potential sale of the Company's Home and Garden business discontinued effective October 1, 2006. For more information see Management's Discussion and Analysis.

(5) In Fiscal 2006, the Company recorded a gain on the sale of certain manufacturing facilities. In Fiscal 2003, the Company recorded non-operating expenses relating to the write-off of debt issuance costs.

(6) In Fiscal 2007 and 2006, the Company recorded a non-cash charge to increase the valuation allowance against certain net deferred tax assets. For more information see Management's Discussion and Analysis and Note 10 in the Notes to Consolidated Financial Statements.

(7) For Fiscal 2007, 2006, 2005 and 2004, reflects the respective loss (income) from discontinued operations, net of tax. For more information see Management's Discussion and Analysis and Note 11 in the Notes to Consolidated Financial Statements.

SELECTED FINANCIAL DATA

Spectrum Brands, Inc.

The following selected historical financial data is derived from our audited consolidated financial statements. Only our Consolidated Balance Sheets as of September 30, 2007 and 2006 and our Consolidated Statements of Operations, Consolidated Statements of Shareholders' Equity (Deficit) and Comprehensive Income (Loss) and Consolidated Statements of Cash Flows for the years ended September 30, 2007, 2006 and 2005 are included elsewhere in this Annual Report on Form 10-K. As of October 1, 2005, we began reporting the results of operations of Nu-Gro Pro and Tech as discontinued operations. Additionally, we began reporting the results of operations of our Home and Garden Business as discontinued operations as of October 1, 2006. Therefore, the presentation of all historical continuing operations has been changed to exclude Nu-Gro Pro and Tech and our Home and Garden Business. The following selected financial data should be read in conjunction with our consolidated financial statements and notes thereto and the information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

	Fiscal Year Ended September 30,				
<i>(in millions, except per share data)</i>	2007 ⁽¹⁾	2006 ⁽²⁾	2005 ⁽³⁾	2004 ⁽⁴⁾	2003 ⁽⁵⁾
Statement of Operations Data:					
Net sales	\$1,994.5	\$ 1,894.7	\$ 1,762.2	\$ 1,417.2	\$ 922.1
Gross profit	736.3	707.2	675.3	606.1	351.5
Operating (loss) income ⁽⁶⁾	(161.5)	(319.1)	154.1	156.2	59.6
(Loss) income from continuing operations before income taxes	(356.4)	(438.1)	45.1	90.5	23.0
(Loss) income from discontinued operations, net of tax ⁽⁷⁾	(184.6)	(18.5)	17.2	(0.4)	-
Net (loss) income ⁽⁸⁾⁽⁹⁾	(596.7)	(434.0)	46.8	55.8	15.5
Restructuring and related charges – cost of goods sold	\$ 31.3	\$ 22.5	\$ 10.5	\$ (0.8)	\$ 21.1
Restructuring and related charges – operating expenses	59.7	12.2	6.2	12.2	11.5
Other (income) expense, net ⁽¹⁰⁾	(0.3)	(3.9)	1.4	-	(0.6)
Interest expense	\$ 195.2	\$ 123.0	\$ 107.6	\$ 65.7	\$ 37.2
Per Share Data:					
Net (loss) income per common share:					
Basic	\$ (11.72)	\$ (8.77)	\$ 1.07	\$ 1.67	\$ 0.49
Diluted	(11.72)	(8.77)	1.03	1.61	0.48
Average shares outstanding:					
Basic	50.9	49.5	43.7	33.4	31.8
Diluted	50.9	49.5	45.6	34.6	32.6
Cash Flow and Related Data:					
Net cash (used) provided by operating activities	\$ (36.0)	\$ 44.5	\$ 216.6	\$ 96.1	\$ 76.2
Capital expenditures ⁽¹¹⁾	22.1	54.9	56.7	26.9	26.1
Depreciation and amortization (excluding amortization of debt issuance costs) ⁽¹¹⁾	77.4	70.5	57.3	40.6	35.0
Balance Sheet Data (at fiscal year end):					
Cash and cash equivalents	\$ 69.9	\$ 28.4	\$ 29.9	\$ 14.0	\$ 105.6
Working capital ⁽¹²⁾	779.4	397.2	490.6	251.9	269.8
Total assets	3,211.4	3,549.3	4,022.1	1,634.2	1,543.1
Total long-term debt, net of current maturities	2,416.9	2,234.5	2,268.0	806.0	870.5
Total debt	2,460.4	2,277.2	2,307.3	829.9	943.4
Total shareholders' equity	(103.8)	452.2	842.7	316.0	202.0

SELECTED FINANCIAL DATA (Continued)

Spectrum Brands, Inc.

- (1) Fiscal 2007 includes restructuring and related charges – cost of goods sold of \$31.3 million, and restructuring and related charges – operating expenses of \$59.7 million. See Note 16, *Restructuring and Related Charges*, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further discussion.
- (2) Fiscal 2006 includes restructuring and related charges – cost of goods sold of \$22.5 million, and restructuring and related charges – operating expenses of \$12.2 million. See Note 16, *Restructuring and Related Charges*, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further discussion.
- (3) Fiscal 2005 selected financial data was impacted by two significant acquisitions completed during the fiscal year. The United acquisition was completed on February 7, 2005 and the Tetra acquisition was completed on April 29, 2005. See further discussion of these acquisitions in Item 1: *Business*, and in Note 17, *Acquisitions*, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Fiscal 2005 includes restructuring and related charges – cost of goods sold of \$10.5 million, and restructuring and related charges – operating expenses of \$6.2 million. See Note 16, *Restructuring and Related Charges*, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further discussion.
- (4) Fiscal 2004 selected financial data was impacted by two acquisitions completed during the fiscal year. The Ningbo Baowang Battery Company, Ltd. acquisition was completed on March 31, 2004 and the Microlite acquisition was completed on May 28, 2004.

Fiscal 2004 includes restructuring and related charges – cost of goods sold of \$(0.8) million, and restructuring and related charges – operating expenses of \$12.2 million. See Note 16, *Restructuring and Related Charges*, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further discussion.
- (5) Fiscal 2003 selected financial data was impacted by two acquisitions completed during the fiscal year. The VARTA acquisition was completed on October 1, 2002 and the Remington acquisition was completed on September 30, 2003.

Fiscal 2003 includes restructuring and related charges – cost of goods sold of \$21.1 million, and restructuring and related charges – operating expenses of \$11.5 million. Fiscal 2003 also includes a non-operating expense of \$3.1 million discussed in (9) below.
- (6) During Fiscal 2007 and Fiscal 2006, pursuant to Statement of Financial Accounting Standards (“SFAS”) No. 142, “Goodwill and Other Intangible Assets” (“SFAS 142”), issued by the Financial Accounting Standards Board (“FASB”), we, with the assistance of independent third-party valuation specialists, conducted our annual impairment testing of goodwill and indefinite-lived intangible assets. As a result of these analyses we recorded non-cash pretax impairment charges of approximately \$238 million and \$433.0 million in Fiscal 2007 and Fiscal 2006, respectively. See the “Critical Accounting Policies – Valuation of Assets and Asset Impairment” section of Item 7. *Management’s Discussion and Analysis of Financial Condition and Results of Operations* as well as Note 2(i), *Significant Accounting Policies – Intangible Assets*, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further details on these impairment charges.
- (7) Fiscal 2007 loss from discontinued operations, net of tax, includes a non-cash pretax impairment charge of approximately \$169 million to reduce the carrying value of certain assets, principally consisting of goodwill and intangible assets, relating to our Home and Garden Business in order to reflect the estimated fair value of this business. See Note 5, *Assets Held for Sale*, and Note 11, *Discontinued Operations*, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for information relating to this impairment charge.
- (8) Fiscal 2007 income tax expense of \$55.7 million includes a non-cash charge of approximately \$180.1 million which increased the valuation allowance against certain net deferred tax assets.
- (9) Fiscal 2006 income tax benefit of \$22.7 million includes a non-cash charge of approximately \$29.3 million which increased the valuation allowance against certain net deferred tax assets.
- (10) Fiscal 2006 includes a \$7.9 million net gain on the sale of our Bridgeport, Connecticut manufacturing facility, acquired as part of the Remington acquisition and subsequently closed in Fiscal 2004, and our Madison, Wisconsin packaging facility, which was closed in our fiscal year ended September 30, 2003 (“Fiscal 2003”).

SFAS No. 145, “Recission of FASB Statement Nos. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections” (“SFAS 145”) addresses, among other things, the income statement presentation of gains and losses related to debt extinguishments and requires such expenses to no longer be treated as extraordinary items, unless the items meet the definition of extraordinary per Accounting Principles Board (“APB”) Opinion No. 30. We adopted SFAS 145 on October 1, 2002. As a result, in Fiscal 2003 we recorded a non-operating expense of \$3.1 million for the write-off of unamortized debt issuance costs associated with the replacement of our previous credit facility in October 2002.
- (11) Amounts reflect the results of continuing operations only.
- (12) Working capital is defined as current assets less current liabilities. Fiscal 2007 working capital includes assets held for sale of \$564.2 million related to our Home and Garden Business which has been designated as discontinued operations. See Note 5, *Assets Held for Sale*, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for information relating to assets held for sale.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Spectrum Brands, Inc.

The following is management's discussion of the financial results, liquidity and other key items related to our performance. This section should be read in conjunction with the "Selected Financial Data" and our Consolidated Financial Statements and related Notes included in this Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation. All references to 2007, 2006 and 2005 refer to fiscal year periods ended September 30, 2007, 2006 and 2005, respectively.

Introduction

We are a global branded consumer products company with positions in seven major product categories: consumer batteries; pet supplies; electric shaving and grooming; electric personal care; portable lighting; lawn and garden; and household insect control. In the third quarter of Fiscal 2006, we engaged advisors to assist us in exploring possible strategic options, including divesting certain assets, in order to sharpen our focus on strategic growth businesses, reduce our outstanding indebtedness and maximize long-term shareholder value. In connection with this undertaking, during the first quarter of Fiscal 2007 we approved and initiated a plan to sell our Home and Garden Business. As a result, we have designated certain assets and liabilities related to our Home and Garden Business as held for sale and have designated our Home and Garden Business as discontinued operations. Therefore, the presentation herein of the results of continuing operations has been changed to exclude the Home and Garden Business for all periods presented. See Note 5, Assets Held for Sale, and Note 11, Discontinued Operations, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information on our assets held for sale and discontinued operations. We remain committed to selling our Home and Garden Business.

In August 2007, we announced plans to pursue the potential sale of another strategic asset; however, we subsequently determined to postpone the sale process due to recent challenging conditions in the credit markets.

In Fiscal 2007, we began managing our business in three reportable segments: (i) Global Batteries & Personal Care; (ii) Global Pet Supplies; and (iii) our Home and Garden Business. The presentation of all historical segment reporting herein has been reclassified to conform to this segment structure.

Our continuing operations include the worldwide manufacturing and marketing of alkaline, zinc carbon and hearing aid batteries, as well as aquariums and aquatic supplies, and the designing and marketing of rechargeable batteries, battery-powered lighting products, electric shavers and accessories, grooming products and hair care appliances. Our continuing operations utilize manufacturing and product development facilities located in the United States, Europe, China and Latin America. Our continuing operations also include the

manufacturing and marketing of specialty pet supplies in North America. Through our Home and Garden Business, which we have designated as discontinued operations, we manufacture and market lawn fertilizers, herbicides, insecticides and repellents in North America.

We sell our products in approximately 120 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and OEMs and enjoy strong name recognition in our markets under the Rayovac, VARTA and Remington brands, each of which has been in existence for more than 80 years, and under the Tetra, 8 in 1 and various other brands. Our Home and Garden Business enjoys strong name recognition under the Spectracide and Cutter brands, among others.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144"), long-lived assets to be disposed of by sale are recorded at the lower of their carrying value or fair value less costs to sell. During Fiscal 2007, we recorded a non-cash pretax charge of \$169 million in discontinued operations to reduce the carrying value of certain assets, principally consisting of goodwill and intangible assets, related to the Home and Garden Business in order to reflect the estimated net proceeds to be realized from selling this business. Such estimated net proceeds were based on a range of estimated sales values, taking into account current market conditions, provided by independent third-party advisors. Actual proceeds received, if and when a sale is consummated, may vary from the estimated net proceeds.

On January 25, 2006, we sold the fertilizer technology and professional fertilizer products businesses of Nu-Gro, the Canadian division of our Home and Garden Business ("Nu-Gro Pro and Tech"), to Agrium Inc. for net proceeds of approximately \$83 million. Proceeds from the sale were used to reduce outstanding debt. As a result of the sale, effective as of October 1, 2005, we began reporting the results of operations of Nu-Gro Pro and Tech as discontinued operations. The presentation herein of the results of continuing operations has been changed to exclude Nu-Gro Pro and Tech for all periods presented. See Note 11, Discontinued Operations, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information regarding this divestiture.

On September 27, 2007, we signed a definitive agreement to sell the remainder of Nu-Gro to a new company formed by Roy-Cap Merchant Banking Group and Clarke Inc. The transaction closed on November 1, 2007. We estimate that our Fiscal 2008 peak seasonal borrowing needs will be reduced by approximately \$45 million as a result of cash proceeds from the transaction and the elimination of the working capital requirement for Nu-Gro in the 2008 lawn and garden selling season.

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Spectrum Brands, Inc.

SFAS 142 requires companies to test goodwill and indefinite-lived intangible assets for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have been incurred. In Fiscal 2007 and 2006, we, with the assistance of independent third-party valuation specialists, tested our goodwill and indefinite-lived intangible assets and, as a result of this testing, we recorded non-cash pretax impairment charges of approximately \$238 million and \$433 million in Fiscal 2007 and 2006, respectively. Future cash expenditures will not result from these impairment charges. There were no impairment charges recognized in Fiscal 2005 as a result of our testing. See "Critical Accounting Policies – Valuation of Assets and Asset Impairment" below as well as Note 2(i), Significant Accounting Policies and Practices – Intangible Assets, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further details on these impairment charges.

Our financial performance is influenced by a number of factors including: general economic conditions; foreign exchange fluctuations; trends in consumer markets; our overall product line mix, including pricing and gross margin, which vary by product line and geographic market; pricing of raw materials and commodities; fuel prices; and our general competitive position, especially as impacted by our competitors' advertising and promotional activities and pricing strategies.

Cost Reduction Initiatives

We continually seek to improve our operational efficiency, match our manufacturing capacity and product costs to market demand and better utilize our manufacturing resources. We have undertaken various initiatives to reduce manufacturing and operating costs.

Fiscal 2007. In connection with our announcement that we would manage our business in three vertically integrated, product-focused reporting segments, our costs related to research and development, manufacturing management, global purchasing, quality operations and inbound supply chain, which had previously been included in our corporate reporting segment are now included in each of the operating segments on a direct-as-incurred basis. In connection with these changes we undertook a number of cost reduction initiatives, primarily headcount reductions, at the corporate and operating segment levels (the "Global Realignment Initiatives"), including a headcount reduction of approximately 150 employees.

We have also implemented a series of initiatives within our Global Batteries & Personal Care business segment in Latin America to reduce operating costs (the "Latin America Initiatives"). These initiatives include the reduction of certain manufacturing operations in Brazil and the restructuring of management, sales, marketing and support functions. As a result, we reduced headcount in Latin America by approximately 100 employees.

Fiscal 2006. As a result of our continued concern regarding the European economy and the continued shift by consumers from branded to private label alkaline batteries, we announced a series of initiatives in the Global Batteries & Personal Care segment in Europe to reduce operating costs and rationalize our manufacturing structure (the "European Initiatives"). These initiatives include the reduction of certain operations at our Ellwangen, Germany packaging center and relocating those operations to our Dischingen, Germany battery plant, transferring private label battery production at our Dischingen, Germany battery plant to our manufacturing facility in China and restructuring the sales, marketing and support functions. As a result, we have reduced headcount in Europe by approximately 350 employees, or 24%.

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

As previously disclosed, effective October 1, 2006, we reflected the operations of our Home and Garden Business as discontinued operations. See Note 5, Assets Held for Sale, and Note 11, Discontinued Operations, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information on our assets held for sale and discontinued operations. As a result, as of October 1, 2006, initiatives to integrate the activities of our Home and Garden Business into our operations in Madison, Wisconsin have been suspended as we focus on separating this discontinued business from our continuing operations.

Our integration activities within Global Pet Supplies are substantially complete as of September 30, 2007. Global Pet Supplies integration activities consisted primarily of the rationalization of manufacturing facilities and the optimization of the distribution network. As a result of these integration initiatives, two pet supplies facilities were closed in 2005, one in Brea, California, and the other in Hazleton, Pennsylvania; one pet supply facility was closed in 2006 in Hauppauge, New York; and one pet supply facility was closed in Fiscal 2007 in Moorpark, California.

In 2005, we also announced the closure of a zinc carbon manufacturing facility in France.

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Meeting Consumer Needs Through Technology and Development

We continue to focus our efforts on meeting consumer needs for our products through new product development and technology innovations. Research and development efforts associated with our electric shaving and grooming products allow us to deliver unique cutting systems to the market. Research and development efforts associated with our electric personal care products allow us to deliver our customers products that save them time, provide salon alternatives and enhance their in-home personal care options. We are continuously pursuing new innovations for our shaving, grooming and hair care products, including foil and rotary shaver improvements, trimmer enhancements and technologies that deliver skin and hair care benefits.

During Fiscal 2007, we introduced a new men's shaving system designed for young men, called "Code," which is specifically targeted to the transitional skin of teenagers and young adults. We also introduced the world's first electric shaver with a disposable head, called "CleanExchange" that we believe provides a closer and more comfortable male shaving experience and will also establish a consistent recurring revenue stream on a per-customer basis, atypical for the electric razor market. Advancements in shaver blade coatings continued to be significant with further introductions of Titanium, Nano-Diamond, Nano-Silver and Tourmaline on a variety of products, which allow us to continue to launch new products or product enhancements into the marketplace.

During Fiscal 2006, we introduced a new men's shaving platform, including such new features as ComfortSelect and improved ComfortFlex, designed to improve the comfort and closeness of the shaving experience. In the lawn and garden category, we introduced Mulch with Weed Stop, the first premium landscape mulch with weed preventer, the Smart Seeder, the first ready-to-use combination grass seed container and spreader, and the only termite killing stakes product for the do-it-yourself market.

During Fiscal 2005, we launched a new self-cleaning women's shaver, the world's first vacuuming haircut kit with a built-in vacuum and a new product line-up of hair dryers, setters and stylers under the "All-That" platform. Also, during Fiscal 2005, we brought to market a new self-repairing, self-spreading grass seed using RTF (Rhizomatous Tall Fescue) technology under the Vigoro and Expert Gardener brands. In the household insect control category, we introduced a new product during Fiscal 2005 called Cutter Advanced™ Insect repellent. Cutter Advanced introduced Picaridin as an active ingredient, the only non-DEET alternative recommended by the Centers for Disease Control and Prevention.

Competitive Landscape

We compete in seven major product categories. Our continuing operations include the following five major product categories: consumer batteries; pet supplies; electric shaving and grooming; electric personal care products; and portable lighting. Our discontinued operations include the lawn and garden and household insect control product categories that are sold through our Home and Garden Business.

The consumer battery product category consists of non-rechargeable alkaline or zinc carbon batteries in cell sizes of AA, AAA, C, D and 9-volt, and specialty batteries, which include rechargeable batteries, hearing aid batteries, photo batteries and watch/calculator batteries. Most consumer batteries are marketed under one of the following brands: Rayovac/VARTA, Duracell, Energizer or Panasonic. In addition, some retailers market private label batteries, particularly in Europe. The majority of consumers in North America and Europe purchase alkaline batteries. The Latin America market consists primarily of zinc carbon batteries but is gradually converting to higher-priced alkaline batteries as household disposable income grows.

We believe that we are the largest worldwide marketer of hearing aid batteries and that we continue to maintain a leading global market position. We believe that our close relationship with hearing aid manufacturers and other customers, as well as our product performance improvements and packaging innovations, position us for continued success in this category.

Our Global Pet Supplies business comprises aquatics equipment (aquariums, filters, pumps, etc.), aquatics consumables (fish food, water treatments and conditioners, etc.) and specialty pet products for dogs, cats, birds and other small domestic animals. The pet supply market is extremely fragmented, with no competitor holding a market share greater than 20%. We believe that our brand positioning, including the leading global aquatics brand in Tetra, our diverse array of innovative and attractive products and our strong retail relationships and global infrastructure will allow us to remain competitive in this fast-growing industry.

We also operate in the shaving and grooming and personal care product category, consisting of electric shavers and accessories, electric grooming products and hair care appliances. Electric shavers include men's and women's shavers (both rotary and foil design) and electric shaver accessories consisting of shaver replacement parts (primarily foils and cutters), pre-shave products and cleaning agents. Electric shavers are marketed primarily under one of the following global brands: Remington, Braun and Norelco. Electric grooming products include beard and mustache trimmers, nose and ear trimmers, body groomers and haircut kits and related accessories. Hair care appliances include hair dryers, straightening irons, styling irons and hair-setters. Europe and North America account for the majority of our worldwide product category sales.

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Products in our lawn and garden category are sold through our Home and Garden Business, which we have classified as discontinued operations. The Home and Garden Business manufactures and markets lawn and garden care products, including fertilizers, herbicides, outdoor and indoor insect control products, rodenticides, plant foods, potting soil and other growing media and grass seed. The Home and Garden Business operates in the U.S. market under the brand names Spectracide, Cutter, Garden Safe and Schultz. The Home and Garden Business also has exclusive brand arrangements for our Vigoro brand at The Home Depot, for our Sta-Green brand at Lowe's and for our Expert Gardener brand at Wal-Mart. The Home and Garden Business' marketing position is primarily that of a value brand, enhanced and supported by innovative products and packaging to drive sales at the point of purchase. The Home and Garden Business' primary competitors in the lawn and garden category include The Scotts Miracle-Gro Company and Central Garden & Pet Company. Our primary competitor in the outdoor and indoor insect control products category is S.C. Johnson & Son, Inc.

The following factors contribute to our ability to succeed in these highly competitive product categories:

- **Strong Diversified Global Brand Portfolio.** We have a global portfolio of well-recognized consumer product brands. We believe that the strength of our brands positions us to extend our product lines and provide our retail customers with strong sell-through to consumers.
- **Strong Global Retail Relationships.** We have well-established business relationships with many of the top global retailers, distributors and wholesalers, which have assisted us in our efforts to expand our overall market penetration and promote sales.
- **Expansive Distribution Network.** We distribute our products in approximately 120 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and OEMs.
- **Innovative New Products, Packaging and Technologies.** We have a long history of product and packaging innovations in each of our seven product categories and continually seek to introduce new products both as extensions of existing product lines and as new product categories.
- **Experienced Management Team.** Our management team has substantial consumer products experience. On average, each senior manager has more than 20 years of experience at Spectrum, VARTA, Remington or other branded consumer product companies such as Regina, Newell Rubbermaid, H.J. Heinz, Schering-Plough and Chemtura.

Seasonal Product Sales

On a consolidated basis our financial results are approximately equally weighted between quarters; however, certain of our products experience seasonal sales fluctuations. Sales in the battery, electric shaving and grooming and electric personal care product categories, particularly in North America, tend to be seasonal, with purchases of such products by consumers concentrated in the December holiday season. Pet supplies and personal care sales remain fairly constant throughout the year. Demand for our lawn and garden and household insect control products sold through the Home and Garden Business, which we have designated as discontinued operations, typically peaks during the first six months of the calendar year (Spectrum's second and third fiscal quarters). The seasonality of our sales during the last three fiscal years is as follows:

Percentage of Annual Sales

Fiscal Quarter Ended	Fiscal Year Ended September 30,		
	2007	2006	2005
December	28%	30%	28%
March	22%	22%	20%
June	22%	22%	25%
September	28%	26%	27%

Fiscal Year Ended September 30, 2007, Compared to Fiscal Year Ended September 30, 2006

Highlights Of Consolidated Operating Results

During Fiscal 2007, we approved and initiated a plan to sell our Home and Garden Business and as a result, we have designated our Home and Garden Business as discontinued operations. Consequently, the results of our Home and Garden Business for Fiscal 2007 are presented in our Consolidated Statements of Operations as discontinued operations. The results of our Home and Garden Business in Fiscal 2006 and 2005 have been reclassified to conform to the Fiscal 2007 classification. In addition, during Fiscal 2006, we designated Nu-Gro Pro and Tech as discontinued operations consistent with our decision to sell these businesses. Consequently, the results of Nu-Gro Pro and Tech for Fiscal 2006 are reflected in our Consolidated Statements of Operations as discontinued operations. The results of Nu-Gro Pro and Tech in Fiscal 2005 have been reclassified to conform to the Fiscal 2006 classification. Unless specifically stated otherwise, all discussions in this section regarding Fiscal 2007, 2006 and 2005 operating results reflect results only from our continuing operations. See Note 11, Discontinued Operations, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information on our discontinued Home and Garden Business and Nu-Gro Pro and Tech businesses.

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Net Sales. Net sales for Fiscal 2007 increased to \$1,995 million from \$1,895 million in Fiscal 2006, a 5% increase. The following table details the principal components of the change in net sales from Fiscal 2006 to Fiscal 2007 (in millions):

	Net Sales
Fiscal 2006 Net Sales	\$1,895
Increase in Global Pet Supplies sales	11
Increase in Global Batteries & Personal Care Remington branded product sales	37
Decrease in Global Batteries & Personal Care alkaline battery sales	(17)
Foreign currency impact, net	66
Other, net	3
Fiscal 2007 Net Sales	\$1,995

Consolidated net sales by product line for Fiscal 2007 and 2006 are as follows (in millions):

	Fiscal Year	
	2007	2006
Product Line Net Sales		
Consumer batteries	\$ 882	\$ 861
Pet supplies	563	543
Electric shaving and grooming	268	252
Electric personal care	187	151
Portable lighting	95	88
Total net sales to external customers	\$1,995	\$1,895

Global consumer battery sales increased \$21 million, or 2%, primarily driven by a favorable foreign exchange impact of \$37 million coupled with growth in Latin America due to favorable pricing, volume growth and product mix. This increase was tempered by declines in alkaline battery sales in North America, as a result of lost distribution, coupled with declines in alkaline battery sales in Europe which were driven by (i) the continued shift in distribution channels from electronic specialty and photo stores to deep discount and food retail channels and (ii) the continued shift in product mix due to consumer preferences for lower-priced private label batteries. Both issues are more fully discussed in "Segment Results" below. Sales of portable lighting products in Fiscal 2007 increased \$7 million, or 8%, driven by new product launches. The increase in electric shaving and grooming sales of \$16 million, or 6%, is primarily attributable to distribution expansion in our Latin America and European markets. The strong increase in electric personal care sales of \$37 million, or 25%, was due to our increased market share. We experienced double digit percentage growth in electric personal care sales in all geographic regions. The \$20 million, or 4%, increase in pet supplies sales was primarily due to growth in companion animal sales, driven by our Dingo brand, coupled with the introduction of companion animal products to the European market.

Gross Profit. Gross profit for Fiscal 2007 was \$736 million versus \$707 million for Fiscal 2006. Our gross profit margin for Fiscal 2007 decreased to 36.9% from 37.3% in Fiscal 2006.

Higher zinc prices, a key raw material in the production of our batteries, reduced Fiscal 2007 gross profit by approximately \$13 million, net of our hedges, when compared to Fiscal 2006. Included in Fiscal 2007 and Fiscal 2006 were restructuring and related charges of approximately \$31 million, and \$23 million, respectively. These restructuring and related charges were associated with the various cost cutting initiatives in connection with our global realignment announced in January 2007, ongoing integration activities of our Global Pet Supplies, which are substantially complete, and the rationalization of our Global Batteries & Personal Care European and Latin American manufacturing organizations. See "Restructuring and Related Charges" below, as well as Note 16, Restructuring and Related Charges, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information regarding our restructuring and related charges. Higher battery pricing in North America and Latin America contributed positively to gross profit margin but was offset by higher commodity costs. We do not currently anticipate additional restructuring charges.

Operating Expense. Operating expenses for Fiscal 2007 totaled \$898 million versus \$1,026 million for Fiscal 2006. This \$128 million decrease in operating expenses for Fiscal 2007 versus Fiscal 2006 was primarily driven by a decrease of \$195 million in impairment charges. Impairment charges in Fiscal 2007 were \$238 million versus \$433 million in Fiscal 2006. In both Fiscal 2007 and Fiscal 2006 the impairment charges were non-cash charges and related to the write down of the carrying value of goodwill and indefinite-lived intangible assets to fair value in accordance with SFAS 142. See "Goodwill and Intangibles Impairment" below, as well as Note 2(c), Significant Accounting Policies and Practices - Intangible Assets, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information regarding these non-cash impairment charges. Offsetting the decrease in impairment charges were (i) increases in advertising and marketing expenses in Fiscal 2007 of approximately \$8 million to support our new Remington, Rayovac and VARTA marketing campaigns, (ii) increases in restructuring and related charges of approximately \$48 million, rising to \$60 million in Fiscal 2007 from \$12 million in Fiscal 2006 and (iii) increases resulting from the write off of professional fees during Fiscal 2007, which totaled approximately \$4 million and are included in general and administrative expense, in connection with our strategic decision to dispose of our Home and Garden Business. The restructuring and related charges incurred in Fiscal 2007 were primarily attributable to various cost reduction initiatives in connection with our global realignment announced in January 2007, ongoing integration of our Global Pet Supplies and rationalization of our Global Batteries & Personal Care European and Latin America manufacturing support, sales and marketing organizations. The restructuring and related charges incurred in Fiscal 2006 were primarily attributable to the ongoing integration of our Global Pet Supplies and rationalization of our Global

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Batteries & Personal Care European manufacturing, support, sales and marketing organization. See “*Restructuring and Related Charges*” below, as well as Note 16, Restructuring and Related Charges, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information regarding our restructuring and related charges.

Operating Loss. An operating loss of approximately \$162 million was recognized in Fiscal 2007, as compared to an operating loss in Fiscal 2006 of \$319 million. The Fiscal 2007 operating loss is directly attributable to the impact of the previously discussed non-cash impairment charge of \$238 million, coupled with restructuring and related charges of \$91 million. The Fiscal 2006 operating loss is directly attributable to the previously discussed non-cash impairment charge of approximately \$433 million coupled with restructuring and related charges of \$35 million.

Segment Results. As discussed above in Item 1, Business, in Fiscal 2007, we manage our business in three reportable segments: (i) Global Batteries & Personal Care, (ii) Global Pet Supplies; and (iii) Home and Garden Business. The presentation of all historical segment reporting herein has been reclassified to conform to this segment reporting.

However, we do not present results of our Home and Garden Business in “Segment Results” because we have designated it as discontinued operations. For additional information about the results of operations for our Home and Garden Business in Fiscal 2007, Fiscal 2006 and Fiscal 2005, please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Discontinued Operations” and Note 11, Discontinued Operations, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Operating segment profits do not include restructuring and related charges, interest expense, interest income, impairment charges and income tax expense. In connection with the realignment of our operating segments discussed above, in Fiscal 2007 expenses associated with global operations, consisting of research and development, manufacturing management, global purchasing, quality operations and inbound supply chain, which were previously reflected in corporate expenses, are now included in the determination of operating segment profits. In addition, certain general and administrative expenses necessary to reflect the operating segments on a standalone basis and which were previously reflected as corporate expenses, have been included in the determination of operating segment profits. Accordingly, corporate expenses include primarily general and administrative expenses associated with corporate overhead and global long-term incentive compensation plans. Segment reporting results for Fiscal 2006 and 2005 have been reclassified to conform to the changes described above.

All depreciation and amortization included in income from operations is related to operating segments or corporate expense. Costs are allocated to operating segments or corporate expense

according to the function of each cost center. All capital expenditures are related to operating segments. Variable allocations of assets are not made for segment reporting.

Global strategic initiatives and financial objectives for each reportable segment are determined at the corporate level. Each reportable segment is responsible for implementing defined strategic initiatives and achieving certain financial objectives and has a general manager responsible for the sales and marketing initiatives and financial results for product lines within that segment. Financial information pertaining to our reportable segments is contained in Note 13, Segment Information, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Global Batteries & Personal Care

<i>(in millions)</i>	2007	2006
Net sales to external customers	\$ 1,431	\$1,352
Segment profit	\$ 144	\$ 117
Segment profit as a % of net sales	10.0%	8.7%
Assets as of September 30,	\$1,329	\$1,549

Segment net sales to external customers in Fiscal 2007 increased \$79 million to \$1,431 million from \$1,352 million during Fiscal 2006, representing a 6% increase. Favorable foreign currency exchange translation impacted net sales in Fiscal 2007 by approximately \$58 million. Battery sales for Fiscal 2007 were up slightly to \$881 million when compared to Fiscal 2006 sales of \$861 million, principally due to increases in Latin America of \$24 million, which were driven by favorable pricing, volume growth and product mix. These increases were tempered by declines in North America sales of \$8 million associated with lost distribution as well as in Europe of \$25 million driven by (i) our continued exit from low-margin private label battery businesses, (ii) the continued shift in European distribution channels from electronic specialty stores and photo stores to discount channels and (iii) the continued shift in product mix due to consumer preferences for lower-priced private label batteries. Net sales of electric shaving and grooming products in Fiscal 2007 increased by \$16 million, or 6%, as the result of the growth in our Latin America and European markets. Electric personal care sales increased by \$37 million, an increase of 26% over Fiscal 2006, driven by our expanded global distribution in conjunction with our investments in brand development. Net sales of portable lighting products for Fiscal 2007 increased to \$95 million as compared to sales of \$88 million for Fiscal 2006. The sales increase was driven by new product launches and occurred in all geographic regions.

Segment profitability in Fiscal 2007 increased to \$144 million from \$117 million in Fiscal 2006. Segment profitability as a percentage of net sales increased to 10.0% in Fiscal 2007 as compared with 8.7% in Fiscal 2006. The increase in segment profitability for Fiscal 2007 was the result of higher gross profit,

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driven by sales increases, which more than offset increases in raw material commodity costs, coupled with savings from our Fiscal 2006 Global Batteries & Personal Care restructuring initiatives and our global realignment announced in January 2007. See "Restructuring and Related Charges" below, as well as Note 16, Restructuring and Related Charges, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information regarding our restructuring and related charges. The cost reductions noted above were slightly offset by our increased investment in marketing and advertising expenses of \$8 million associated with our new Rayovac, VARTA and Remington marketing campaigns.

Segment assets at September 30, 2007 decreased to \$1,329 million from \$1,549 million at September 30, 2006. The decrease is primarily attributable to the non-cash impairment of goodwill and certain trade name intangible assets in Fiscal 2007. See "Goodwill and Intangibles Impairment" below as well Note 2(i), Significant Accounting Policies and Practices - Intangible Assets, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information regarding this impairment charge and the amount attributable to Global Batteries & Personal Care. Goodwill and intangible assets at September 30, 2007 total approximately \$525 million and primarily relate to the ROV Ltd., VARTA AG, Remington Products and Microlite acquisitions. Included in long-term liabilities assumed in connection with the acquisition of Microlite is a provision for "presumed" credits applied to the Brazilian excise tax on manufactured products, or "IPI taxes." Although a previous ruling by the Brazilian Federal Supreme Court had been issued in favor of a specific Brazilian taxpayer with similar tax credits, on February 15, 2007, the Brazilian Federal Supreme Court ruled against certain Brazilian taxpayers with respect to the legality and constitutionality of the IPI "presumed" tax credits. This decision is applicable to all similarly situated taxpayers. At September 30, 2007, these amounts totaled approximately \$33 million and are included in Other long-term liabilities in the Consolidated Balance Sheets included in this Annual Report on Form 10-K.

Global Pet Supplies

<i>(in millions)</i>	2007	2006
Net sales to external customers	\$ 563	\$ 543
Segment profit	\$ 71	\$ 72
Segment profit as a % of net sales	12.6%	13.3%
Assets as of September 30,	\$1,202	\$1,171

Segment net sales to external customers in Fiscal 2007 increased to \$563 million from \$543 million in Fiscal 2006, representing an increase of \$20 million or 4%. Favorable foreign

currency exchange translation impacted net sales in Fiscal 2007 by approximately \$8 million. The increase in net sales in Fiscal 2007 was primarily driven by growth of 10% in our companion animal products, principally due to sales increases of our Dingo brand, coupled with the introduction of companion animal products in Europe. Worldwide aquatic sales increased approximately \$3 million, or 1%, as 17% growth in European aquatic sales was tempered by sales declines in the North American aquatic market.

Segment profitability in Fiscal 2007 decreased to \$71 million from \$72 million in Fiscal 2006. Segment profitability as a percentage of sales in Fiscal 2007 decreased to 12.6% from 13.3% in the same period last year. This decrease in segment profitability was due to increased spending on marketing and advertising coupled with increases in manufacturing and distribution costs, primarily resulting from challenges encountered in our initiative to consolidate distribution and manufacturing facilities. These costs were somewhat tempered by a curtailment gain of approximately \$3 million related to the termination of a postretirement benefit plan.

Segment assets as of September 30, 2007 increased to \$1,202 million from \$1,171 million at September 30, 2006. The increase is primarily due to the impact of foreign currency translation. Goodwill and intangible assets as of September 30, 2007 total approximately \$964 million and primarily relate to the acquisitions of Tetra and the United Pet Group division of United.

Corporate Expense. Our corporate expenses in Fiscal 2007 increased to \$47 million from \$41 million in Fiscal 2006. The increase in expense for Fiscal 2007 is due to professional fees incurred in connection with our strategic decision to dispose of the Home and Garden Business, increased management incentive compensation expense accruals related to the achievement of current year bonus targets and increased compensation expense related to certain global long-term incentive plans. No such accruals for management incentive compensation expense were included in corporate expense in Fiscal 2006 as performance measures were not achieved. These increases in Fiscal 2007 were somewhat offset by savings associated with the global realignment announced in January 2007 and a curtailment gain of approximately \$2 million related to the termination of a U.S. postretirement benefit plan. Our corporate expense as a percentage of net sales in Fiscal 2007 increased to 2.4% from 2.2% in Fiscal 2006.

Restructuring and Related Charges. See Note 16, Restructuring and Related Charges of Notes to Consolidated Financial Statements, included in this Annual Report on Form 10-K for additional information regarding our restructuring and related charges.

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The following table summarizes all restructuring and related charges we incurred in 2007 and 2006 (in millions):

	2007	2006
Costs included in cost of goods sold:		
Breitenbach, France facility closure:		
Termination benefits	\$ -	\$ 0.3
Other associated costs	0.5	-
United & Tetra integration:		
Termination benefits	0.2	5.4
Other associated costs	13.0	1.8
European initiatives:		
Termination benefits	7.5	15.0
Other associated costs	0.3	-
Latin America initiatives:		
Termination benefits	0.7	-
Other associated costs	9.8	-
Global Realignment initiatives:		
Termination benefits	(0.7)	-
Total included in cost of goods sold	\$ 31.3	\$ 22.5
Costs included in operating expenses:		
United & Tetra integration:		
Termination benefits	\$ 1.0	\$ 2.5
Other associated costs	8.4	1.8
European initiatives:		
Termination benefits	-	7.9
Other associated costs	(1.3)	-
Latin America initiatives:		
Termination benefits	0.4	-
Other associated costs	-	-
Global Realignment:		
Termination benefits	47.6	-
Other associated costs	3.6	-
Total included in operating expenses	\$ 59.7	\$ 12.2
Total restructuring and related charges	\$ 91.0	\$ 34.7

As discussed above, our integration activities within Global Pet Supplies are substantially complete as of September 30, 2007. Global Pet Supplies integration activities consisted primarily of the rationalization of manufacturing facilities and the optimization of the distribution network. One pet supply facility was closed in 2006, in Hauppauge, New York, and one pet supply facility was closed in Fiscal 2007 in Moorpark, California. We incurred approximately \$22 million and \$9 million of pretax restructuring and related charges during Fiscal 2007 and 2006, respectively in connection with these integration activities. Costs associated with these integration initiatives totaled approximately \$32 million.

In connection with the European Initiatives, we incurred approximately \$7 million and \$21 million of pretax restructuring and related charges during Fiscal 2007 and 2006, respectively. Costs associated with these initiatives, primarily cash severance, totaled approximately \$28 million, and have been fully accrued.

In connection with the Latin America initiatives, we incurred approximately \$11 million of pretax restructuring and related charges during Fiscal 2007. Costs associated with these initiatives are fully accrued.

As a result of the Global Realignment initiatives, we incurred approximately \$51 million of pretax restructuring and related charges during Fiscal 2007. Costs associated with the Global Realignment Initiatives, which for the most part represent cash costs, relate primarily to severance and are projected to total approximately \$59 million.

Goodwill and Intangibles Impairment. SFAS 142 requires companies to test goodwill and indefinite-lived intangible assets for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have been incurred. In Fiscal 2007 and 2006, we, with the assistance of independent third-party valuation specialists, tested our goodwill and indefinite-lived intangible assets. As a result of this testing, we recorded a non-cash pretax impairment charge of \$238 million and \$433 million in Fiscal 2007 and 2006, respectively. The \$238 million impairment charge incurred in Fiscal 2007 reflects goodwill associated with our North America reporting unit, which is included as part of our Global Batteries & Personal Care reportable segment, coupled with an impairment of trade name intangible assets primarily associated with our Global Batteries & Personal Care business segment. The \$433 million non-cash pretax impairment charge incurred in Fiscal 2006 reflects impaired goodwill of \$353 million of which \$235 million relates to our Global Pet Supplies business segment and \$118 million relates to our Latin America reporting unit, which is included as part of our Global Batteries & Personal Care reportable segment. The remaining charge of \$80 million relates to impaired trade name intangible assets of which \$35 million is associated with our Global Pet Supplies business segment and \$45 million is associated with our Latin America and Europe/ROW reporting units, both of which are included as part of our Global Batteries & Personal Care reportable segment. Future cash expenditures will not result from these impairment charges. See Note 2(i), Significant Accounting Policies and Practices – Intangible Assets, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further details on these impairment charges.

Interest Expense. Interest expense in Fiscal 2007 increased to \$195 million from \$123 million in Fiscal 2006. The increase was partly due to the write-off of debt issuance costs of \$25 million and prepayment penalties of \$12 million. These charges were incurred in connection with the refinancing of our previously existing senior credit facilities and the exchange of our 8½% Senior Subordinated Notes due 2013 for the New Notes, pursuant to the terms of an exchange offer, both of which occurred on March 30, 2007 described below in "Liquidity and Capital Resources." In addition, interest expense in Fiscal 2007 was higher due to higher interest rates and higher average debt balances.

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See Note 7, Debt, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information regarding the refinancing and the Exchange Offer.

Other Income, net. Other income, net for Fiscal 2007 includes foreign exchange loss of \$5 million offset by interest income of \$3 million and other miscellaneous income. Fiscal 2006 other income, net includes the benefit of two asset sales. We recognized a net gain of approximately \$8 million on the sale of our Bridgeport, Connecticut manufacturing facility, which was acquired as part of the Remington Products acquisition, and subsequently closed in our fiscal year ended September 30, 2004, and our Madison, Wisconsin packaging facility, which was closed in our fiscal year ended September 30, 2003. Prior to these sales, these assets were included in assets held for sale in our Consolidated Balance Sheets included in this Annual Report on Form 10-K.

Income Taxes. Our effective tax rate on losses from continuing operations is approximately (15.7%) for Fiscal 2007. Our effective tax rate on income from continuing operations was approximately 5% for Fiscal 2006. The primary drivers of the change in our effective tax rate consist of additional tax expense recorded related to an increase in the valuation allowance associated with our U.S. deferred tax assets and the tax impact of the impairment charges recorded in Fiscal 2007 for certain non-deductible goodwill.

As of September 30, 2007, we have U.S. federal and state net operating loss carryforwards of approximately \$763 and \$1,141 million, respectively, which will expire between 2008 and 2027, and we have foreign net operating loss carryforwards of approximately \$117 million, which will expire beginning in 2008. Certain of the foreign net operating losses have indefinite carryforward periods. As of September 30, 2006 we had U.S. federal, foreign and state net operating loss carryforwards of approximately \$464, \$110 and \$852 million, respectively, which, at that time, were scheduled to expire between 2008 and 2026. Certain of the foreign net operating losses have indefinite carryforward periods. Limitations apply to a portion of these net operating loss carryforwards in accordance with Internal Revenue Code Section 382.

The ultimate realization of our deferred tax assets depends on our ability to generate sufficient taxable income of the appropriate character in the future and in the appropriate taxing jurisdictions. We establish valuation allowances for deferred tax assets when we estimate it is more likely than not that the tax assets will not be realized. We base these estimates on projections of future income, including tax planning strategies, in certain jurisdictions. Changes in industry conditions and other economic conditions may impact our ability to project future income. SFAS No. 109 "Accounting for Income Taxes" ("SFAS 109") requires the establishment of a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In accordance with SFAS 109, we periodically assess the likelihood that our deferred tax assets will be realized and determine if adjustments to the valuation allowance are appropriate. As a result of this

assessment, we recorded an approximately \$157 million non-cash deferred income tax charge related to a valuation allowance against U.S. net deferred tax assets during the fourth quarter of Fiscal 2007. In addition, we recorded a non-cash deferred income tax charge of approximately \$7 million in the fourth quarter of Fiscal 2007 related to an increase in the valuation allowance against our net deferred tax assets in Mexico. In addition to these valuation allowances, we have also recorded valuation allowances, primarily related to net operating loss carryforwards, in Brazil, Argentina, Chile and Canada. Our total valuation allowance, established for the tax benefit of deferred tax assets that may not be realized, is approximately \$307 million at September 30, 2007. Of this amount, approximately \$235 million relates to U.S. net deferred tax assets and approximately \$72 million relates to foreign net deferred tax assets.

SFAS No. 142 "Goodwill and Other Intangible Assets" (SFAS 142) requires companies to test goodwill and indefinite-lived assets for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have been incurred. During Fiscal 2007 and 2006, the Company recorded non-cash pretax impairment charges of approximately \$238 million and \$433 million, respectively. The tax impact, prior to consideration of the current year valuation allowance, of the impairment charges was limited to a deferred tax benefit of approximately \$30 million and \$43 million respectively, because a significant portion of the impaired assets are not deductible for tax purposes.

Discontinued Operations. In the third quarter of Fiscal 2007, we engaged advisors to assist us in exploring possible strategic options, including divesting certain assets in order for us to sharpen our focus on strategic growth businesses, reduce our outstanding indebtedness and maximize long-term shareholder value. In connection with this undertaking, during the first quarter of Fiscal 2007 we approved and initiated a plan to sell our Home and Garden Business. Accordingly, we have designated our Home and Garden Business as discontinued operations. Fiscal 2007 reflects a loss from discontinued operations of approximately \$185 million, net of tax, which includes a non-cash pretax charge of \$169 million to reduce the carrying value of certain assets, principally consisting of goodwill and intangible assets, related to the Home and Garden Business in order to reflect the estimated fair value of this business. Such estimated fair value was based on a range of estimated sales values, taking into account current market conditions provided by independent third-party advisors. If and when a sale is consummated, the actual fair value at that time may vary from the estimated fair value reflected herein. Net sales related to discontinued operations totaled \$659 million in Fiscal 2007.

Our Fiscal 2007 loss from discontinued operations includes an income tax benefit of \$6 million, which includes a \$54 million non-cash deferred income tax charge related to increasing the valuation allowance against U.S. deferred tax assets related

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to our Home and Garden Business, coupled with an income tax benefit of \$53 million, which was recorded in connection with the non-cash impairment charge to reduce the carrying value of certain assets, principally goodwill and intangible assets related to the Home and Garden Business. See Note 11, Discontinued Operations, of Notes to Consolidated Financial Statements included in this Annual Report of Form 10-K for additional information regarding the income tax benefit.

Our loss from discontinued operations of approximately \$19 million, net of tax, for Fiscal 2006 reflects (i) a loss from discontinued operations of \$6 million, net of tax, relating to the sale of Nu-Gro Pro and Tech, which closed in January 2006, and includes a loss on sale of \$4 million, and (ii) a loss from discontinued operations of \$13 million, net of tax, relating to our Home and Garden Business. Net sales related to discontinued operations totaled \$673 million in Fiscal 2006. See Note 11, Discontinued Operations, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information regarding these discontinued operations.

Fiscal Year Ended September 30, 2006, Compared to Fiscal Year Ended September 30, 2005

Highlights Of Consolidated Operating Results

Year-over-year historical comparisons are influenced by our acquisitions of United, Tetra and Jungle Labs acquired on February 7, 2005, April 29, 2005 and September 1, 2005, respectively. The results of these acquisitions are included in our Fiscal 2006 Consolidated Statement of Operations for the full fiscal year but only in prior year results for the period subsequent to their respective dates of acquisition. See Note 17, Acquisitions, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information regarding these acquisitions.

During Fiscal 2007, we designated our Home and Garden Business as discontinued operations consistent with our plan to sell the business. Consequently, the results of operations of our Home and Garden Business are reflected in our Consolidated Statements of Operations as discontinued operations. The results of our Home and Garden Business in Fiscal 2006 and Fiscal 2005 have been reclassified to conform to the Fiscal 2007 classification. In addition, during Fiscal 2006, Nu-Gro Pro and Tech was presented as discontinued operations consistent with our decision to sell this business. Consequently, the results of these operations are reflected in our Consolidated Statements of Operations as discontinued operations. The results of Nu-Gro Pro and Tech in Fiscal 2005 have been reclassified to conform to the Fiscal 2006 classification. As a result, and unless specifically stated otherwise, all discussions regarding Fiscal 2006 and Fiscal 2005 operating results reflect results from our continuing operations. See Note 11, Discontinued Operations, of Notes to Consolidated Financial Statements included in this Annual

Report on Form 10-K for additional information on our discontinued Home and Garden Business and Nu-Gro Pro and Tech.

Net Sales. Net sales for Fiscal 2006 increased to \$1,895 million from \$1,762 million in Fiscal 2005, reflecting an 8% increase. Businesses acquired in Fiscal 2005 contributed \$244 million to 2006 net sales during the months these businesses were included in Fiscal 2006 but not included in Fiscal 2005 net sales. The following table details the principal components of the change in net sales from Fiscal 2005 to Fiscal 2006 (in millions):

	Net Sales
Fiscal 2005 Net Sales	\$ 1,762
Impact of United acquisition from October 2005 - January 2006	100
Impact of Tetra acquisition from October 2005 - April 2006	132
Impact of Jungle Labs acquisition from October 2005 - August 2006	12
Increase in Pet products sales, excluding impact of Tetra, United and Jungle Labs acquisitions	14
Decline in Global Batteries & Personal Care Remington branded product sales	(14)
Decline in Global Batteries & Personal Care battery sales	(107)
Foreign currency impact, net	(3)
Other, net	(1)
Fiscal 2006 Net Sales	\$ 1,895

Consolidated net sales by product line for Fiscal 2006 and Fiscal 2005 are as follows (in millions):

	Fiscal Year	
	2006	2005
Product Line Net Sales		
Consumer batteries	\$ 861	\$ 968
Pet supplies	543	286
Electric shaving and grooming	252	273
Electric personal care	151	141
Portable lighting	88	94
Total net sales to external customers	\$1,895	\$1,762

Segment net sales to external customers in Fiscal 2006 increased to \$1,895 million from \$1,762 million during Fiscal 2005. Consumer battery sales for Fiscal 2006 were down to \$861 million when compared to Fiscal 2005 sales of \$968 million. The decline in consolidated consumer battery sales was due primarily to an \$89 million decline in Europe/ROW battery sales and an \$18 million decline in North America alkaline battery sales. Europe/ROW battery sales declined in Fiscal 2006 as we experienced a product mix shift from branded batteries to lower-priced private label batteries and exited some low-margin private label alkaline business. In addition, in Fiscal 2006 European consumers began to shift their purchasing habits from high-end electronic specialty stores and photo stores, where we enjoy strong market shares, to deep discount and food retail channels where we do not have as strong a presence. The decline in our North America alkaline battery sales was driven by a number of

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factors, but primarily due to a reduction of inventory levels at certain retailers in North America, lost distribution and the completion of our transition to a new alkaline marketing strategy in North America, centered around an improved value position, which took longer than anticipated. Our previous alkaline marketing strategy of "50% More" focused on the cost of our product to the customer while our current alkaline marketing strategy, "Same Performance, Better Price," introduced in Fiscal 2006, was designed to highlight the fact that battery performance tests show that our alkaline batteries perform as well as the leading alkaline battery brands and are offered at better prices. We experienced decreased battery sales as a result of the change in packaging and pricing from the "50% More" strategy to the "Same Performance, Better Price" strategy as customers and consumers adjusted to the new message and the related changes in our pricing and package sizes. During this transition, some of the existing inventories of "50% More" alkaline battery products were heavily promoted to sell and others were sold to discounters at prices lower than the prices we would have typically received in the marketplace. The decline in consolidated electric shaving and grooming sales was primarily attributable to a \$28 million decline in North America sales driven by lower than expected sales of Remington men's shaving products, primarily during the 2006 Father's Day holiday and 2005 Christmas holiday. These declines were partly offset by a \$14 million increase in sales of Remington branded products in Latin America as we continued the introduction of Remington branded products throughout that region.

During the fourth quarter of Fiscal 2006, the North American consumer battery business showed some signs of improvement. Fourth quarter Fiscal 2006 battery sales in North America increased by approximately 16% over the prior year's fourth quarter due primarily to the nonreoccurrence of certain retailer inventory reductions which began in the fourth quarter of 2005. In the fourth quarter of Fiscal 2006, we benefited from strong customer acceptance of our new Rayovac marketing campaign referenced above.

Gross Profit. Gross profit margin for Fiscal 2006 decreased slightly to 37.3%, compared to our Fiscal 2005 gross profit margin of 38.3%. Our Fiscal 2006 gross profit margin was impacted by approximately \$22 million of restructuring and related charges, primarily related to a series of initiatives in Europe to reduce operating costs and rationalize our manufacturing structure as well as the costs associated with our integration of United and Tetra. Our Fiscal 2005 gross margin was impacted by charges recognized in cost of goods sold related to inventory acquired as part of the Tetra and United acquisitions. In accordance with generally accepted accounting principles in the United States of America, this inventory was revalued as part of the purchase price allocation.

For Fiscal 2005, this accounting treatment resulted in an increase in acquired inventory of \$8 million and \$29 million for

Tetra and United, respectively. These inventory valuation adjustments were non-cash charges. We also incurred approximately \$10 million of restructuring and related charges during Fiscal 2005 related to the closing of a zinc carbon manufacturing facility in Breitenbach, France. See "Restructuring and Related Charges" below as well as Note 16, Restructuring and Related Charges, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information regarding our restructuring and related charges.

In addition to the items discussed above, our gross profit margin in Fiscal 2006 included a seven-month benefit from higher margin Tetra pet product sales during the comparable months not owned in Fiscal 2005. This benefit, however, was more than offset by declines in gross margins on our consumer battery, electric shaving and grooming and electric personal care products. The decline in consumer battery gross margins was driven by higher raw material costs, primarily zinc, reduced utilization of our manufacturing facilities due to volume declines and the previously mentioned shift in European product mix and distribution channels. Higher prices of zinc negatively impacted Fiscal 2006 gross profit by approximately \$18 million. Electric shaving and grooming and electric personal care margins declined primarily as a result of consumers purchasing lower-margin products.

Operating (Loss) Income. An operating loss of approximately \$319 million was recognized in Fiscal 2006 as compared to operating income in Fiscal 2005 of \$154 million. The Fiscal 2006 operating loss is directly attributable to a non-cash pretax impairment charge of approximately \$433 million for certain trade name intangible assets and goodwill written down to fair value in accordance with SFAS 142. See "Goodwill and Intangibles Impairment" below for further details on this impairment charge. Also included in operating expenses in Fiscal 2006 were approximately \$12 million of restructuring and related charges primarily related to a series of initiatives in Europe to reduce operating costs and rationalize our manufacturing structure as well as the costs associated with our integration of United and Tetra. Included in operating expenses in Fiscal 2005 were approximately \$6 million of restructuring and related charges primarily incurred in connection with United integration initiatives. See "Restructuring and Related Charges" below as well as Note 16, Restructuring and Related Charges, of Notes to Consolidated Financial Statements included in this Annual Report on form 10-K for additional information regarding our restructuring and related charges. In addition to the items discussed above, operating expenses as a percentage of net sales in Fiscal 2006 increased due to increased distribution costs which totaled approximately \$216 million, or 8.5% of sales, in Fiscal 2006 versus \$162 million, or 7.0% of sales, in the prior year. Fiscal 2006 distribution costs were well above historical levels as we incurred increased fuel costs and above normal shipping and delivery costs in North America in our Global Batteries & Personal Care and Global Pet Supplies segment during the peak selling season to meet customer needs. All

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other operating expenses as a percentage of net sales in Fiscal 2006 were in line with Fiscal 2005 percentages.

Segment Results. As discussed above in Item 1, Business, as of January 1, 2007, we began managing our business in three reportable segments: (i) Global Batteries & Personal Care, (ii) Global Pet Supplies; and (iii) the Home and Garden Business. The presentation of all historical segment reporting herein has been changed to conform to this segment reporting. However, we will not present results of our Home and Garden Business in "Segment Results" because it has been designated as discontinued operations. For additional information about the results of operations for our Home and Garden Business please see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Discontinued Operations" and Note 11, Discontinued Operations, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Global strategic initiatives and financial objectives for each reportable segment are determined at the corporate level. Each reportable segment is responsible for implementing defined strategic initiatives and achieving certain financial objectives and has a general manager responsible for the sales and marketing initiatives and financial results for product lines within that segment. See Note 13, Segment Information, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information relating to our business segments.

Operating segment profits do not include restructuring and related charges, interest expense, interest income, impairment charges and income tax expense. In connection with the realignment of our operating segments discussed above, in Fiscal 2007, expenses associated with global operations, consisting of research and development, manufacturing management, global purchasing, quality operations and inbound supply chain, which were previously reflected in corporate expenses, are now included in the determination of operating segment profits. In addition, certain general and administrative expenses necessary to reflect the operating segments on a standalone basis and which were previously reflected as corporate expenses, have been included in the determination of operating segment profits. Accordingly, corporate expenses include primarily general and administrative expenses associated with corporate overhead and global long-term incentive compensation plans. Segment reporting results for Fiscal 2006 and 2005 have been reclassified to conform to the changes described above.

Global Batteries & Personal Care

<i>(in millions)</i>	2006	2005
Net sales to external customers	\$ 1,352	\$ 1,477
Segment profit	\$ 117	\$ 176
Segment profit as a % of net sales	8.7%	11.9%
Assets as of September 30,	\$ 1,549	\$ 1,504

Segment net sales to external customers in Fiscal 2006 decreased to \$1,352 million from \$1,477 million during Fiscal 2005. Unfavorable foreign currency exchange translation impacted net sales in Fiscal 2006 by approximately \$9 million. Consumer battery sales for Fiscal 2006 were down to \$861 million when compared to Fiscal 2005 sales of \$968 million. The decline in consolidated consumer battery sales was due primarily to an \$89 million decline in Europe/ROW battery sales and an \$18 million decline in North America alkaline battery sales. The entire \$89 million decline in Europe/ROW battery sales occurred in continental Europe as a result of: (i) our decision to exit certain low-margin private label alkaline battery businesses; (ii) a shift in European distribution channels from electronic specialty stores and photo stores, where we enjoy strong market shares, to deep discount and food retail channels where we have not established as strong a presence; and (iii) a shift in product mix due to consumer preferences for lower-priced private label batteries. The decline in our North America alkaline battery sales was driven by a number of factors, primarily a reduction of inventory levels at certain retailers in North America, lost distribution and the completion of our transition to a new alkaline marketing strategy in North America centered around an improved value position, as described above, which took longer than anticipated.

Consolidated electric shaving and grooming sales were also down in Fiscal 2006 as compared to Fiscal 2005. The sales decline was primarily attributable to a \$28 million decline in North America sales, which was driven by lower than expected sales of Remington men's shaving products, primarily during the 2006 Father's Day holiday and 2005 Christmas holiday. European sales of our Remington branded shaving, grooming and personal care products increased by approximately 1%, excluding the impact of currency. Excluding Remington branded sales in the United Kingdom and the impact of currency, net sales of Remington branded products in the remainder of the Europe/ROW segment increased 26% in Fiscal 2006, as compared to Fiscal 2005 as we continued to expand distribution across continental Europe, driven by our investments in brand development. In the United Kingdom, net sales decreased \$22 million during the year, as result of our inability to sustain increased sales levels which resulted from the successful launch of a line of personal care products in Fiscal 2005. In Latin America, sales of Remington branded products increased by approximately \$14 million as we continued the introduction of Remington branded products throughout that region.

Segment profitability in Fiscal 2006 decreased to \$117 million from \$176 million in Fiscal 2005. Segment profitability as a percentage of net sales decreased to 8.7% in Fiscal 2006 as compared with 11.9% in Fiscal 2005. The decrease in segment profitability for Fiscal 2006 was the result of increased commodity costs and reduced utilization of our manufacturing facilities due to sales volume declines, which reduced our gross profit and gross profit

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margins as compared to Fiscal 2005. As a result of our ongoing concern regarding the European battery market, we announced a series of initiatives in 2006 to reduce operating costs and rationalize our operating structure in Europe.

Segment assets at September 30, 2006 increased to \$1,549 million from \$1,504 million at September 30, 2005. The increase is primarily attributable to the impairment of goodwill and certain trade name intangible assets in Fiscal 2006. See "Goodwill and Intangibles Impairment" below as well as Note 6, Intangible Assets, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information regarding this impairment charge. Goodwill and intangible assets at September 30, 2006 total approximately \$668 million and primarily relate to the ROV Ltd., VARTA AG, Remington Products and Microlite acquisitions. Included in long-term liabilities assumed in connection with the acquisition of Microlite is a provision for "presumed" tax credits applied to the Brazilian excise tax on Manufactured Products, or "IPI taxes". Although a previous ruling by the Brazilian Federal Supreme Court had been issued in favor of a specific Brazilian taxpayer with similar tax credits, on February 15, 2007 the Brazilian Federal Supreme Court ruled against certain Brazilian taxpayers with respect to the legality and constitutionality of the IPI "presumed" tax credits. This decision is applicable to all similarly situated taxpayers. At September 30, 2006, these amounts totaled approximately \$39 million and are included in Other long-term liabilities in the Consolidated Balance Sheets included in this Annual Report on Form 10-K.

Global Pet Supplies

(in millions)	2006	2005
Net sales to external customers	\$ 543	\$ 286
Segment profit	\$ 72	\$ 23
Segment profit as a % of net sales	13.3%	7.9%
Assets as of September 30,	\$1,171	\$ 791

Segment net sales to external customers in Fiscal 2006 were \$543 million. This represents a \$257 million increase from Fiscal 2005. This increase is due to the inclusion of the acquired businesses of Tetra, the United Pet Group division of United and Jungle Labs for all of Fiscal 2006, versus only a portion of Fiscal 2005. These acquired businesses contributed \$243 million to net sales in Fiscal 2006 in the comparable periods during which they were not owned in Fiscal 2005. Comparing the period during Fiscal 2005 when these acquired businesses were owned to the same time period in Fiscal 2006, net sales increased \$13 million. This increase is primarily the result of strong growth of 6% in specialty pet products sales, while aquatic product sales were approximately the same as in Fiscal 2005. During Fiscal 2006, we experienced growth in sales of pet supplies products in North America and Europe, offset by weakness in Japan. Unfavorable foreign currency exchange translation impacted sales by approximately \$3 million.

Segment profitability in Fiscal 2006 was \$72 million, or 13.3% of net sales. Our profitability in Fiscal 2005 was \$23 million, or 7.9% of net sales. The aforementioned inventory purchase accounting charge in Fiscal 2005, \$14 million of which related to Global Pet Supplies, reduced Fiscal 2005 segment profit as a percent of net sales by approximately 4.9%. Operating expenses as a percentage of net sales increased to approximately 30.7% in Fiscal 2006 from 28.4% in Fiscal 2005, due primarily to increased distribution costs. Distribution costs increased as we incurred increased fuel costs and other unexpected costs to meet customer needs.

Segment assets at September 30, 2006 increased to \$1,171 million from \$791 million at September 30, 2005. The increase in assets is primarily attributable to allocations of goodwill resulting from the acquisition of United, partly offset by the impairment of goodwill and certain trade name intangible assets in Fiscal 2006. See Note 2(i), Significant Accounting Policies and Practices – Intangible Assets, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information on the impairment. Goodwill and intangible assets represent \$930 million of total assets and arose from our acquisition of the United Pet Group division of United as part of the United acquisition on February 7, 2005 and the acquisition of Tetra on April 29, 2005. The purchase price allocations for the United and Tetra acquisitions were finalized in Fiscal 2006. See Note 17, Acquisitions, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information on these acquisitions.

Corporate Expense. Our corporate expenses in Fiscal 2006 increased to \$41 million from \$28 million in the prior fiscal year. The increase was primarily due to higher amortization of unearned restricted stock during Fiscal 2006. Our corporate expense as a percentage of net sales in Fiscal 2006 increased to 2.0% from 1.6% in Fiscal 2005.

Restructuring and Related Charges. We incurred approximately \$12 million and \$7 million of pretax restructuring and related charges during Fiscal 2006 and Fiscal 2005, respectively, in connection with the integration of United and Tetra. In Fiscal 2005, we also announced the closure of a zinc carbon manufacturing facility in France. In connection with this initiative we incurred \$10 million of pretax restructuring and related charges in Fiscal 2005.

As a result of the European Initiatives we incurred approximately \$21 million of pretax restructuring and related charges during Fiscal 2006.

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The following table summarizes all pretax restructuring and related charges we incurred in 2006 and 2005 (in millions):

	2006	2005
Costs included in cost of goods sold:		
Breitenbach, France facility closure:		
Termination benefits	\$ 0.3	\$ 8.3
Other associated costs	-	1.9
United & Tetra integration:		
Termination benefits	5.4	0.3
Other associated costs	1.8	-
European initiatives:		
Termination benefits	15.0	-
Total included in cost of goods sold	\$22.5	\$10.5
Costs included in operating expenses:		
United & Tetra integration:		
Termination benefits	\$ 2.5	\$ 3.1
Other associated costs	1.8	4.5
European initiatives:		
Termination benefits	7.9	-
Other initiatives:		
Termination benefits	-	0.2
Other associated costs	-	(1.6)
Total included in operating expenses	\$ 12.2	\$ 6.2
Total restructuring and related charges	\$ 34.7	\$ 16.7

Goodwill and Intangibles Impairment. SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), requires companies to test goodwill and indefinite-lived intangible assets for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have been incurred. In accordance with SFAS 142, we, with the assistance of independent third-party valuation specialists, conducted our annual impairment testing of goodwill and indefinite-lived intangible assets. As a result of these analyses we recorded a non-cash pretax impairment charge of approximately \$433 million in the fourth quarter of Fiscal 2006. The impairments will not result in future cash expenditures. See "Critical Accounting Policies – Valuation of Assets and Asset Impairment" below as well as Note 2(i), Significant Accounting Policies and Practices – Intangible Assets, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information on the impairment charge.

Interest Expense. Interest expense in Fiscal 2006 increased to \$123 million from \$108 million in Fiscal 2005. This increase was primarily due to the timing of debt incurred in connection with the United and Tetra acquisitions, as an increase in LIBOR (which affected the interest rate on term loans denominated in Euros under our then existing senior credit facilities) and an increase in the interest rate spread on loans under our then existing senior credit facilities. Interest expense in Fiscal 2005 included \$12 million of debt issuance costs written off in connection with our acquisitions and related debt financings.

Other Income, net. Other income, net for Fiscal 2006 includes the benefit of two asset sales which occurred during the fiscal

year. We recognized a net gain of approximately \$8 million on the sale of our Bridgeport, Connecticut manufacturing facility, acquired as part of the Remington Products acquisition and subsequently closed in Fiscal 2004, and our Madison, Wisconsin packaging facility, which was closed in Fiscal 2003. Prior to these sales, these assets were included in assets held for sale in our Consolidated Balance Sheets included in this Annual Report on Form 10-K. Fiscal 2005 other income, net of \$1 million was related primarily to foreign currency exchange gains.

Income Tax (Benefit) Expense. Our full-year effective tax rate was a tax benefit of approximately 5% in 2006 as compared with a tax expense of approximately 34% in 2005. The change in tax rate for Fiscal 2005 to 2006 was primarily a result of a significant portion of the \$433 million impairment charge not being deductible for tax purposes as well as approximately \$29 million of increased valuation allowances.

Discontinued Operations. Our loss from discontinued operations of approximately \$19 million, net of tax, for Fiscal 2006 reflects (i) a loss from discontinued operations of \$6 million, net of tax, relating to the sale of Nu-Gro Pro and Tech, which closed in January 2006 and includes a loss on sale of \$4 million, and (ii) a loss from discontinued operations of \$13 million, net of tax, relating to our Home and Garden Business. Net sales related to discontinued operations totaled \$673 million in Fiscal 2006.

Our income from discontinued operations of approximately \$17 million, net of tax, for Fiscal 2005 reflects (i) income from discontinued operations of \$5 million, net of tax, related to Nu-Gro Pro and Tech from February 7, 2005, the date of acquisition, and (ii) income from discontinued operations of \$12 million, net of tax, relating to our Home and Garden Business. Net sales related to discontinued operations totaled \$597 million in Fiscal 2005. See Note 11, Discontinued Operations, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information regarding these discontinued operations.

Liquidity and Capital Resources

Operating Activities

For Fiscal 2007, operating activities used cash of \$36 million as compared to \$45 million provided in Fiscal 2006. This change is partly due to a \$15 million decrease in income from continuing operations when adjusted for non-cash items and a year-over-year increase in cash restructuring and related charges. In addition, unfavorable changes in operating assets and liabilities reduced operating cash flow by an additional \$9 million as compared to Fiscal 2006. This is primarily due to an increase during Fiscal 2007 in accounts receivable and other assets and decreases in other liabilities, tempered by a decrease in inventory, accounts payable and accrued liabilities. Net cash used by operating activities of discontinued operations was \$17 million in Fiscal 2007 as compared to \$40 million provided in Fiscal 2006. This change is

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due to an increase during Fiscal 2007, in accounts receivable coupled with a decrease in accounts payable.

Investing Activities

Net cash used by investing activities was \$23 million for Fiscal 2007. For Fiscal 2006 investing activities provided cash of \$21 million. The \$43 million decline was primarily due to the non-recurrence in Fiscal 2007 of proceeds received in connection with the January 2006 sale of Nu-Gro Pro and Tech of \$83 million and the sale of certain assets held for sale of \$11 million. Tempering this decline was the nonrecurrence in Fiscal 2007 of payments for acquisitions of \$19 million and a reduction of capital expenditures related to continuing operations. In Fiscal 2007 continuing operations capital expenditures totaled \$22 million versus \$55 million in Fiscal 2006. Capital expenditures associated with discontinued operations in Fiscal 2007 and Fiscal 2006 were \$2 million and \$5 million, respectively. Capital expenditures for Fiscal 2008 are expected to be approximately \$32 million.

Debt Financing Activities

Senior Credit Facilities

During Fiscal 2007, we refinanced our outstanding senior credit facilities with new senior credit facilities pursuant to a new senior credit agreement (the "Senior Credit Agreement") consisting of a \$1,000 million U.S. Dollar Term B Loan, a \$200 million U.S. Dollar Term B II Loan (the "U.S. Dollar Term B II Loan"), a €262 million Term Loan (collectively referred to as the "Term Loan Facilities"), and a \$50 million synthetic letter of credit facility. The proceeds of borrowings under the Senior Credit Agreement were used to repay all outstanding obligations under our Fourth Amended and Restated Credit Agreement, dated as of February 7, 2005, to pay fees and expenses in connection with the refinancing and the Exchange Offer, described below, and for general corporate purposes.

On September 28, 2007, pursuant to the terms of the Senior Credit Agreement, we entered into a \$225 million U.S. Dollar Asset Based Revolving Loan Facility (the "ABL Facility" and together with the credit facilities pursuant to the Senior Credit Agreement, the "Senior Credit Facilities") pursuant to a new credit agreement (the "ABL Credit Agreement"). The ABL Facility replaced the U.S. Dollar Term B II Loan under the new senior credit facilities, which was simultaneously prepaid using cash from operations coupled with a portion of the cash on hand resulting from the refinancing in Fiscal 2007. References to our "Senior Credit Facilities" in this Annual Report on Form 10-K refer to the new senior credit facilities discussed above as modified by the replacement of the U.S. Dollar Term B II Loan with the ABL Facility. As a result of the prepayment of the U.S. Dollar Term B II Loan, under the terms of the ABL Credit Agreement, as of September 30, 2007, the Company has aggregate borrowing availability of approximately \$171 million under the ABL Facility. We may increase the existing \$225 million ABL Facility up to \$300 million at our option upon request to our lenders under the

ABL Facility and upon meeting certain criteria specified in the ABL Credit Agreement.

As of September 30, 2007, the Senior Credit Facilities aggregated to a U.S. Dollar equivalent of \$1,642 million and consisted of a \$998 million U.S. Dollar Term B Loan, a €261 million Term Loan (USD \$370 million at September 30, 2007), a \$225 million U.S. Dollar ABL Facility and a \$50 million synthetic letter of credit facility.

As of September 30, 2007, the Company had not made any borrowings under the ABL Credit Facility. Approximately \$47 million of letters of credit were outstanding under the synthetic letter of credit facility at September 30, 2007.

In addition to principal payments, we have annual interest payment obligations of approximately \$41 million associated with our debt offering of the \$347 million Variable Rate Toggle Senior Subordinated Notes due 2013 and annual interest payment obligations of approximately \$52 million associated with our debt offering of the \$700 million 7³/₈% Senior Subordinated Notes due in 2015 (together, the "Senior Subordinated Notes"). We also incur interest on our borrowings associated with the Senior Credit Facilities, and such interest would increase borrowings under the ABL Facility if cash were not otherwise available for such payments. Based on amounts currently outstanding under the Senior Credit Facilities, and using market interest rates and foreign exchange rates in effect as of September 30, 2007, we estimate annual interest payments of approximately \$128 million would be required, assuming no further principal payments were to occur and excluding any payments associated with outstanding interest rate swaps. In addition, we are required to pay a quarterly commitment fee of 0.375% on the unused portion of the ABL Facility and a quarterly fee on the lender's commitments to the \$50 million synthetic letter of credit facility of 4.15%.

Approximately \$39 million of fees and expenses incurred in association with the Senior Credit Facilities have been capitalized and will be amortized over the term of the facilities. In addition, in connection with the March 30, 2007 refinancing, approximately \$16 million of debt issuance costs associated with the previously outstanding senior credit facilities were written off and are included in Interest expense in the Consolidated Statements of Operations for Fiscal 2007. Approximately \$12 million of prepayment premiums in connection with repayment of the previously outstanding senior credit facilities were included in interest expense in the Consolidated Statements of Operations for the fiscal year ended September 30, 2007. In addition, approximately \$1 million of fees and expenses were incurred in connection with the fourth amendment to our senior credit facilities outstanding prior to the refinancing undertaken in Fiscal 2007. As a result of the refinancing in Fiscal 2007, these fees and expenses were included in interest expense in the Consolidated Statements of Operations for Fiscal 2007.

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The Term Loan Facilities are subject to repayment according to a scheduled amortization, with the final payment of all amounts outstanding, plus accrued interest, due on March 30, 2013. Beginning with the fiscal year ended September 30, 2007, the Senior Credit Agreement provides for annual mandatory prepayments, over and above the normal amortization as a result of excess cash flow, as defined in the Senior Credit Agreement. The Senior Credit Agreement also provides for other mandatory prepayments, subject to certain exceptions and reinvestment provisions, of net proceeds as a result of certain events, including the issuance of debt, sales of certain assets above a specified threshold, receipt of proceeds from certain casualty events and the issuance of equity interests by us or any of our subsidiaries.

The Senior Credit Agreement contains financial covenants with respect to debt which include a maximum senior secured leverage ratio. In accordance with the agreement, the limits imposed by such ratio become more restrictive over time. In addition, the Senior Credit Agreement contains customary restrictive covenants, including, but not limited to, restrictions on our ability to incur additional indebtedness, create liens, make investments or specified payments, give guarantees, pay dividends, make capital expenditures and merge or acquire or sell assets.

The Senior Credit Agreement also contains customary events of default and is secured by substantially all of our domestic assets pursuant to a Guarantee and Collateral Agreement entered into on March 30, 2007.

The ABL Credit Facility includes a \$60 million U.S. Dollar Letter of Credit sub-facility and a \$30 million U.S. Dollar swingline loan sub-facility within the \$225 million overall facility amount. The ABL Facility is subject to repayment with the final payment of all amounts outstanding, plus accrued interest, due on September 28, 2011. The ABL Facility provides for mandatory prepayments of net proceeds to the extent the borrowing base is reduced or in connection with sales of business assets.

The ABL Agreement is secured by certain of our liquid assets, including, among other things, deposit accounts and substantially all of our domestic trade receivables and inventory and contains customary restrictive covenants, including, but not limited to, restrictions on our ability to incur additional indebtedness, create liens, make investments or specified payments, give guarantees, pay dividends, make capital expenditures and merge or acquire or sell assets.

As of September 30, 2007, we were in compliance with all covenants associated with the Senior Credit Facilities.

Senior Subordinated Notes

Beginning on March 16, 2007, we conducted an offer to exchange the entire \$350 million of outstanding principal amount of our 8½% Senior Subordinated Notes due 2013 (the "Existing Notes") for the same aggregate principal amount of Variable Rate Toggle Senior Subordinated Notes due 2013 (the "New Notes") pursuant

to the terms of an exchange offer (the "Exchange Offer"). The terms of the Exchange Offer further provided that holders of Existing Notes who tendered their Existing Notes for exchange following the expiration of a consent solicitation period, which ended on March 29, 2007, would receive a reduced principal amount of New Notes in exchange for tendered Existing Notes. As of the expiration of the Exchange Offer on April 13, 2007, holders of Existing Notes had tendered \$347 million of Existing Notes, which were accepted by us and exchanged, pursuant to the terms of the Exchange Offer, for \$347 million of New Notes. At September 30, 2007, \$3 million principal amount of Existing Notes remained outstanding.

In connection with the Exchange Offer, on March 30, 2007, we and certain of our domestic subsidiaries, as guarantors, entered into an indenture (the "Indenture") with Wells Fargo Bank, N.A., as trustee (the "Trustee"), governing the New Notes.

Approximately \$4 million of fees and expenses incurred in association with the Exchange Offer have been capitalized and will be amortized over the term of the New Notes. In addition, in connection with the Exchange Offer approximately \$9 million of debt issuance costs associated with the Existing Notes were written off and included in Interest expense in the Consolidated Statements of Operations for the fiscal year ended September 30, 2007.

Subject to certain conditions, we have the option to pay interest on the New Notes entirely in cash or by increasing the principal amount of the New Notes. The New Notes are subject to a variable rate of interest that increases semi-annually, varying depending on whether interest is paid in cash or increased principal. As of September 30, 2007, the New Notes bore interest at 11.25%. Interest will be payable semi-annually in arrears on October 2 and April 2. We made the first interest payment in cash on October 2, 2007. At such time as the Fixed Charge Coverage Ratio test under the Indenture governing the New Notes is above 2:1, we are required to pay interest of 1% over the scheduled rates referred to above. We will make each interest payment to the holders of record of the New Notes as of the immediately preceding March 15 and September 15, respectively. The New Notes are general unsecured obligations of us. The New Notes are subordinated in right of payment to all existing and future senior debt by us, including our indebtedness pursuant to the Senior Credit Facilities. The New Notes are equal in right of payment with all existing and any future senior subordinated indebtedness of ours, including, without limitation, our 7⅔% Senior Subordinated Notes due 2015 and our Existing Notes, which remain outstanding following the closing of the Exchange Offer. The New Notes are also senior in right of payment to any future subordinated indebtedness of ours.

The terms of the New Notes are governed by the Indenture. The Indenture contains customary covenants that limit our ability to, among other things, incur additional indebtedness, pay dividends on or redeem or repurchase our equity interests, make certain investments, expand into unrelated businesses, create

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liens on assets, merge or consolidate with another company, transfer or sell all or substantially all of our assets, and enter into transactions with affiliates. Upon the occurrence of a "change of control," as defined in the Indenture, we are required to make an offer to repurchase the outstanding New Notes for a specified redemption price, beginning at 110% of the principal amount being repurchased and declining to 100% on October 1, 2010, in each case plus accrued and unpaid interest on such principal.

We may redeem all or a part of the New Notes upon not less than 30 nor more than 60 days notice, at specified redemption prices beginning at 110% of the principal amount being redeemed and declining to 100% on October 1, 2010, in each case plus accrued and unpaid interest on such principal.

In addition, the Indenture is subject to customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to make payments on or acceleration of certain other indebtedness, and certain events of bankruptcy and insolvency. Events of default under the Indenture arising from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the New Notes. If any other event of default under the Indenture occurs and is continuing, the Trustee, or the registered holders of at least 25% in aggregate principal amount of the then outstanding New Notes, may declare the acceleration of the amounts due under the New Notes.

We were in compliance with all covenants associated with our \$347 million principal amount of New Notes, our \$3 million principal amount of Existing Notes that remain outstanding and our \$700 million principal amount of 7³/₈% Senior Subordinated Notes due 2015 (collectively referred to as the "Senior Subordinated Notes"), with the exception of the Fixed Charge Coverage Ratio test relating to the indebtedness under the Senior Subordinated Notes, that were in effect as of and during the fiscal year ended September 30, 2007. Due to significant restructuring charges and reduced business performance, we have not met the minimum requirement of 2:1 for the Fixed Charge Coverage Ratio test under the indentures governing our Senior Subordinated Notes. Until we satisfy such test, we are limited in our ability to make significant acquisitions or incur significant additional senior debt beyond our Senior Credit

Facilities. We do not expect our inability to meet the Fixed Charge Coverage Ratio test to impair our ability to provide adequate liquidity to meet the short-term and long-term liquidity requirements of our existing businesses, although no assurance can be given in this regard.

Equity Financing Activities

During Fiscal 2007, we granted approximately 1.7 million shares of restricted stock. Of these grants, approximately 0.2 million shares are time-based and vest on a pro rata basis over a three year period and 1.5 million shares are performance-based and vest upon achievement of certain performance goals. All vesting dates are subject to the recipient's continued employment with us. The total market value of the restricted shares on the date of grant was approximately \$12.8 million which has been recorded as unearned restricted stock compensation. Unearned compensation is amortized to expense over the appropriate vesting period.

During Fiscal 2007, we also issued a minimal number of shares of Common Stock associated with the exercise of stock options with an aggregate cash exercise value of approximately \$0.7 million.

Off-Balance Sheet Arrangements

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

Contractual Obligations & Other Commercial Commitments

Contractual Obligations

The following table summarizes our contractual obligations as of September 30, 2007 and the effect such obligations are expected to have on our liquidity and cash flow in future periods. The table excludes other obligations we have reflected on our Consolidated Balance Sheets included in this Annual Report on Form 10-K, such as pension obligations. See Note 12, Employee Benefit Plans, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for a more complete discussion of our employee benefit plans. (in millions):

	Contractual Obligations						
	Payments due by Fiscal Year						
	2008	2009	2010	2011	2012	Thereafter	Total
Debt:							
Debt, excluding capital lease obligations	\$ 42	\$ 14	\$ 14	\$ 14	\$ 14	\$ 2,348	\$ 2,446
Capital lease obligations ⁽¹⁾	2	2	1	1	1	14	21
	44	16	15	15	15	2,362	2,467
Operating lease obligations	22	20	17	15	15	54	143
Purchase obligations/other ⁽²⁾	198	-	-	-	-	-	198
Total Contractual Obligations	\$ 264	\$ 36	\$ 32	\$ 30	\$ 30	\$ 2,416	\$ 2,808

(1) Capital lease payments due by fiscal year include executory costs and imputed interest not reflected in the Consolidated Balance Sheets included in this Annual Report on Form 10-K.

(2) Primarily represents obligations to purchase specified quantities of raw materials and finished products.

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Other Commercial Commitments

The following table summarizes our other commercial commitments as of September 30, 2007, consisting entirely of standby letters of credit that back the performance of certain of our entities under various credit facilities and lease arrangements (in millions):

	Other Commercial Commitments						Total
	Amount of Commitment Expiration by Fiscal Year						
	2008	2009	2010	2011	2012	Thereafter	
Letters of credit	\$ 40	\$ 7	\$ -	\$ -	\$ -	\$ -	\$ 47
Total Other Commercial Commitments	\$ 40	\$ 7	\$ -	\$ -	\$ -	\$ -	\$ 47

Critical Accounting Policies

Our Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America and fairly present our financial position and results of operations. We believe the following accounting policies are critical to an understanding of our financial statements. The application of these policies requires management's judgment and estimates in areas that are inherently uncertain.

Valuation of Assets and Asset Impairment

We evaluate certain long-lived assets to be held and used, such as property, plant and equipment and definite-lived intangible assets for impairment, based on the expected future cash flows or earnings projections associated with such assets. Impairment reviews are conducted at the judgment of management when it believes that a change in circumstances in the business or external factors warrants a review. Circumstances such as the discontinuation of a product or product line, a sudden or consistent decline in the sales forecast for a product, changes in technology or in the way an asset is being used, a history of operating or cash flow losses or an adverse change in legal factors or in the business climate, among others, may trigger an impairment review. An asset's value is deemed impaired if the discounted cash flows or earnings projections generated do not substantiate the carrying value of the asset. The estimation of such amounts requires management's judgment with respect to revenue and expense growth rates, changes in working capital and selection of an appropriate discount rate, as applicable. The use of different assumptions would increase or decrease discounted future operating cash flows or earnings projections and could, therefore, change impairment determinations.

SFAS 142 requires companies to test goodwill and indefinite-lived intangible assets for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have been incurred. In Fiscal 2007 and 2006, we, with the assistance of independent third-party valuation specialists, tested our goodwill and indefinite-lived intangible assets. As a result of this testing, we recorded a non-cash pretax impairment charge of \$238 million and \$433 million in Fiscal 2007 and 2006, respectively. The \$238 million impairment charge incurred in Fiscal 2007 reflects goodwill associated with our North America reporting unit, which is part of our Global Batteries & Personal

Care reportable segment, coupled with an impairment of trade name intangible assets primarily associated with our Global Batteries & Personal Care reportable segment. The \$433-million, non-cash pretax impairment charge incurred in Fiscal 2006 reflects impaired goodwill of \$353 million of which \$235 million relates to our Global Pet Supplies reportable segment and \$118 million relates to our Latin America reporting unit, which is included as part of our Global Batteries & Personal Care reportable segment. The remaining charge of \$80 million relates to impaired trade name intangible assets of which \$35 million is associated with our Global Pet Supplies business segment and \$45 million is associated with our Latin America and Europe/ROW reporting units, both of which are part of our Global Batteries & Personal Care reportable segment. Future cash expenditures will not result from these impairment charges. There were no impairment charges recognized in Fiscal 2005 as a result of our testing.

We used a discounted estimated future cash flows methodology to determine the fair value of our reporting units (goodwill). Fair value of indefinite-lived intangible assets, which represent trade names, was determined using a relief from royalty methodology. Assumptions critical to our fair value estimates were: (i) the present value factors used in determining the fair value of the reporting units and trade names or third-party indicated fair values for assets expected to be disposed; (ii) royalty rates used in our trade name valuations; (iii) projected average revenue growth rates used in the reporting unit and trade name models; and (iv) projected long-term growth rates used in the derivation of terminal year values. We also tested fair value for reasonableness by comparison to the market capitalization of the Company. These and other assumptions are impacted by economic conditions and expectations of management and will change in the future based on period-specific facts and circumstances.

As previously discussed, we have designated our Home and Garden Business as discontinued operations. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144) long-lived assets to be disposed of by sale are recorded at the lower of their carrying value or fair value less costs to sell. During Fiscal 2007, we recorded a non-cash pretax charge of \$169 million in discontinued operations to reduce the carrying value of certain assets, principally consisting of goodwill and intangible assets, related to the Home and Garden

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Business in order to reflect the estimated fair value of this business. Such estimated fair value was based on a range of estimated sales values, taking into account current market conditions, provided by independent third-party advisors. If and when a sale is consummated, the actual fair value at that time may vary from the estimated fair value reflected herein.

In accordance with SFAS No. 109 "Accounting for Income Taxes" (SFAS 109), we establish valuation allowances for deferred tax assets when we estimate it is more likely than not that the tax assets will not be realized. We base these estimates on projections of future income, including tax-planning strategies, by individual tax jurisdictions. Changes in industry and economic conditions and the competitive environment may impact the accuracy of our projections. In accordance with SFAS 109, during each reporting period we assess the likelihood that our deferred tax assets will be realized and determine if adjustments to the valuation allowance are appropriate. As a result of this assessment, during Fiscal 2007 and Fiscal 2006 we recorded a non-cash deferred income tax charge of approximately \$180 million and \$29 million, respectively, related to increasing the valuation allowance against our net deferred tax assets.

See Note 2(h), Significant Accounting Policies and Practices – Property, Plant and Equipment; Note 2(i), Significant Accounting Policies and Practices – Intangible Assets; Note 4, Property, Plant and Equipment; Note 5, Assets Held for Sale; Note 6, Intangible Assets; Note 10, Income Taxes; and Note 11, Discontinued Operations, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for more information about these assets.

Revenue Recognition and Concentration of Credit Risk

We recognize revenue from product sales generally upon delivery to the customer or the shipping point in situations where the customer picks up the product or where delivery terms so stipulate. This represents the point at which title and all risks and rewards of ownership of the product are passed, provided that: there are no uncertainties regarding customer acceptance; there is persuasive evidence that an arrangement exists; the price to the buyer is fixed or determinable; and collectibility is deemed reasonably assured. We are generally not obligated to allow for, and our general policy is not to accept, product returns for battery sales. We do accept returns in specific instances related to our electric shaving and grooming, electric personal care, lawn and garden, household insect control and pet supply products. The provision for customer returns is based on historical sales and returns and other relevant information. We estimate and accrue the cost of returns, which are treated as a reduction of net sales.

We enter into various promotional arrangements, primarily with retail customers, including arrangements entitling such retailers to cash rebates from us based on the level of their purchases, which require us to estimate and accrue the costs of the

promotional programs. These costs are generally treated as a reduction of net sales.

We also enter into promotional arrangements that target the ultimate consumer. Such arrangements are treated as either a reduction of net sales or an increase in cost of sales, based on the type of promotional program. The income statement presentation of our promotional arrangements complies with Emerging Issues Task Force ("EITF") No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." Cash consideration, or an equivalent thereto, given to a customer is generally classified as a reduction of net sales. If we provide a customer anything other than cash, the cost of the consideration is classified as an expense and included in cost of sales.

For all types of promotional arrangements and programs, we monitor our commitments and use statistical measures and past experience to determine the amounts to be recorded for the estimate of the earned, but unpaid, promotional costs. The terms of our customer-related promotional arrangements and programs are tailored to each customer and are generally documented through written contracts, correspondence or other communications with the individual customers.

We also enter into various arrangements, primarily with retail customers, which require us to make an upfront cash, or "slotting" payment, to secure the right to distribute through such customer. We capitalize slotting payments, provided the payments are supported by a time or volume-based arrangement with the retailer, and amortize the associated payment over the appropriate time or volume-based term of the arrangement. The amortization of slotting payments is treated as a reduction in net sales and a corresponding asset is reported in Deferred charges and other in our Consolidated Balance Sheets included in this Annual Report on Form 10-K.

Our trade receivables subject us to credit risk which is evaluated based on changing economic, political and specific customer conditions. We assess these risks and make provisions for collectibility based on our best estimate of the risks presented and information available at the date of the financial statements. The use of different assumptions may change our estimate of collectibility. We extend credit to our customers based upon an evaluation of the customer's financial condition and credit history and generally do not require collateral. Our credit terms generally range between 30 and 90 days from invoice date, depending upon the evaluation of the customer's financial condition and history. We monitor our customers' credit and financial conditions in order to assess whether the economic conditions have changed and adjust our credit policies with respect to any individual customer as we determine appropriate. These adjustments may include, but are not limited to, restricting shipments to customers, reducing credit limits, shortening credit terms, requiring cash payments in advance of shipment or securing credit insurance.

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See Note 2(b), Significant Accounting Policies and Practices – Revenue Recognition; Note 2(c), Significant Accounting Policies and Practices – Use of Estimates; and Note 2(e), Significant Accounting Policies and Practices – Concentrations of Credit Risk and Major Customers and Employees, of Notes to Consolidated Financial Statements of this Annual Report on Form 10-K for more information about our revenue recognition and credit policies.

Pensions

Our accounting for pension benefits is primarily based on discount rate, expected and actual return on plan assets and other assumptions made by management, and is impacted by outside factors such as equity and fixed income market performance. Pension liability is principally the estimated present value of future benefits, net of plan assets. In calculating the estimated present value of future benefits, net of plan assets, for both Fiscal 2007 and 2006, we used discount rates of 4.50% to 6.25% in Fiscal 2007 and 4.55% to 6.25% in Fiscal 2006. In adjusting the discount rates from Fiscal 2006 to 2007, we considered the change in the general market interest rates of debt and solicited the advice of our actuary. We believe the discount rates used are reflective of the rates at which the pension benefits could be effectively settled.

Pension expense is principally the sum of interest and service cost of the plan, less the expected return on plan assets and the amortization of the difference between our assumptions and actual experience. The expected return on plan assets is calculated by applying an assumed rate of return to the fair value of plan assets. We used expected returns on plan assets of 4.5% to 8.0% in Fiscal 2007 and 4.0% to 8.0% in Fiscal 2006. Based on the advice of our independent actuary, we believe the expected rates of return are reflective of the long-term average rate of earnings expected on the funds invested. If such expected returns were overstated, it would ultimately increase future pension expense. Similarly, an understatement of the expected return would ultimately decrease future pension expense. If plan assets decline due to poor performance by the markets and/or interest rate declines, our pension liability will increase, ultimately increasing future pension expense.

Effective September 30, 2007, we adopted SFAS No. 158, *“Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)”* (“SFAS 158”). The recognition and disclosure provisions of this statement require recognition of the overfunded or underfunded status of defined benefit pension and postretirement plans as an asset or liability in the statement of financial position, and recognition of changes in that funded status in Accumulated other comprehensive income in the year in which the adoption occurs. We measure plan assets and obligations of our domestic pension plans as of June 30 each year and September 30 each year for our foreign pension plans and our other domestic postretirement plans. The measurement

date provisions of SFAS 158, which will become effective for us in our fiscal year ended September 30, 2009 (“Fiscal 2009”), will require us to measure all of our defined benefit pension and postretirement plan assets and obligations as of September 30 which is our fiscal yearend.

See Note 12, Employee Benefit Plans, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for a more complete discussion of our employee benefit plans.

Restructuring and Related Charges

Restructuring charges are recognized and measured according to the provisions of SFAS No. 146, *“Accounting for Costs Associated with Exit or Disposal Activities”* (“SFAS 146”). Under SFAS 146, restructuring charges include, but are not limited to, termination and related costs consisting primarily of severance costs and retention bonuses, and contract termination costs consisting primarily of lease termination costs. Related charges, as defined by us, include, but are not limited to, other costs directly associated with exit and integration activities, including impairment of property and other assets, departmental costs of full-time incremental integration employees, and any other items related to the exit or integration activities. Costs for such activities are estimated by us after evaluating detailed analyses of the cost to be incurred. We present restructuring and related charges on a combined basis.

Liabilities from restructuring and related charges are recorded for estimated costs of facility closures, significant organizational adjustment and measures undertaken by management to exit certain activities. Costs for such activities are estimated by management after evaluating detailed analyses of the cost to be incurred. Such liabilities could include amounts for items such as severance costs and related benefits (including settlements of pension plans), impairment of property and equipment and other current or long-term assets, lease termination payments and any other items directly related to the exit activities. While the actions are carried out as expeditiously as possible, restructuring and related charges are estimates. Changes in estimates resulting in an increase to or a reversal of a previously recorded liability may be required as management executes a restructuring plan.

We report restructuring and related charges associated with manufacturing and related initiatives in cost of goods sold. Restructuring and related charges reflected in cost of goods sold include, but are not limited to, termination and related costs associated with manufacturing employees, asset impairments relating to manufacturing initiatives and other costs directly related to the restructuring initiatives implemented.

We report restructuring and related charges associated with administrative functions in operating expenses, such as initiatives impacting sales, marketing, distribution or other non-manufacturing related functions. Restructuring and related

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charges reflected in operating expenses include, but are not limited to, termination and related costs, any asset impairments relating to the administrative functions and other costs directly related to the initiatives implemented.

The costs of plans to (i) exit an activity of an acquired company, (ii) involuntarily terminate employees of an acquired company or (iii) relocate employees of an acquired company are measured and recorded in accordance with the provisions of the EITF Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination" ("EITF 95-3"). Under EITF 95-3, if certain conditions are met, such costs are recognized as a liability assumed as of the consummation date of the purchase business combination and included in the allocation of the acquisition cost. Costs related to terminated activities or employees of the acquired company that do not meet the conditions prescribed in EITF 95-3 are treated as restructuring and related charges and expensed as incurred.

See Note 16, Restructuring and Related Charges, of Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K for a more complete discussion of our restructuring initiatives and related costs.

Loss Contingencies

Loss contingencies are recorded as liabilities when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The outcome of existing litigation, the impact of environmental matters and pending or potential examinations by various taxing authorities are examples of situations evaluated as loss contingencies. Estimating the probability and magnitude of losses is often dependent upon management's judgment of potential actions by third parties and regulators. It is possible that changes in estimates or an increased probability of an unfavorable outcome could materially affect future results of operations.

See further discussion in Item 3, "Legal Proceedings," and Note 14, Commitments and Contingencies, of Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

Other Significant Accounting Policies

Other significant accounting policies, primarily those with lower levels of uncertainty than those discussed above, are also critical to understanding the Consolidated Financial Statements. The Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K contain additional information related to our accounting policies and should be read in conjunction with this discussion.

Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 provides guidance for using fair value to measure assets and liabilities. The FASB

believes SFAS 157 also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. Under SFAS 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. In SFAS 157, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, SFAS 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, e.g., the reporting entity's own data. Under SFAS 157, fair value measurements would be separately disclosed by level within the fair value hierarchy. The provisions of SFAS 157 for financial assets and liabilities, as well as any other assets and liabilities that are carried at fair value on a recurring basis in financial statements, are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The FASB did, however, provide a one year deferral for the implementation of SFAS 157 for other non-financial assets. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. We are currently evaluating the impact that SFAS 157 will have on our financial condition, results of operations or cash flows.

In July 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition, whereby the enterprise determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is measurement whereby a

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Spectrum Brands, Inc.

tax position that meets the more-likely-than-not recognition threshold is calculated to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. Earlier application is permitted as long as the enterprise has not yet issued financial statements, including interim financial statements, in the period of adoption. The provisions of FIN 48 are to be applied to all tax positions upon initial adoption of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. The cumulative effect of applying the provisions of FIN 48 should be reported as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year. The Company is required to adopt FIN 48 in the first quarter of Fiscal 2008, and does not believe such adoption will have a material effect on its financial condition, results of operation or cash flows.

In June 2006, the EITF issued EITF 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation)* ("EITF 06-3") to clarify diversity in practice on the presentation of different types of taxes in the financial statements. The EITF concluded that, for taxes within the scope of the issue, a company may adopt a policy of presenting taxes either gross within revenue or net. That is, it may include charges to customers for taxes within revenues and the charge for the taxes from the taxing authority within cost of sales, or, alternatively, it may net the charge to the customer and the charge from the taxing authority. If taxes are reported on a gross basis, and are significant, an entity should disclose the amounts of those taxes subject to EITF 06-3. The guidance is effective for interim and annual reporting periods beginning after December 15, 2006. We currently record our sales net of any value added or sales tax. Accordingly, the adoption of EITF 06-3 will not have a material impact on our financial position, results of operations or cash flows.

Quantitative And Qualitative Disclosures About Market Risk

Market Risk Factors

We have market risk exposure from changes in interest rates, foreign currency exchange rates and commodity prices. We use derivative financial instruments for purposes other than trading to mitigate the risk from such exposures.

A discussion of our accounting policies for derivative financial instruments is included in Note 2(r), Significant Accounting Policies and Practices – Derivative Financial Instruments, of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Interest Rate Risk

We have bank lines of credit at variable interest rates. The general level of U.S. interest rates, LIBOR and Euro LIBOR affect interest expense. We use interest rate swaps to manage such risk. The net amounts to be paid or received under interest rate swap agreements are accrued as interest rates change, and are recognized over the life of the swap agreements as an adjustment to interest expense from the underlying debt to which the swap is designated. The related amounts payable to, or receivable from, the contract counter-parties are included in accrued liabilities or accounts receivable.

Foreign Exchange Risk

We are subject to risk from sales and loans to and from our subsidiaries as well as sales to, purchases from and bank lines of credit with, third-party customers, suppliers and creditors, respectively, denominated in foreign currencies. Foreign currency sales and purchases are made primarily in Euro, Pounds Sterling, Brazilian Reals and Canadian Dollars. We manage our foreign exchange exposure from anticipated sales, accounts receivable, intercompany loans, firm purchase commitments, accounts payable and credit obligations through the use of naturally occurring offsetting positions (borrowing in local currency), forward foreign exchange contracts, foreign exchange rate swaps and foreign exchange options. The related amounts payable to, or receivable from, the contract counterparties are included in accounts payable or accounts receivable.

Commodity Price Risk

We are exposed to fluctuations in market prices for purchases of zinc, urea and di-ammonium phosphates used in the manufacturing process. We use commodity swaps, calls and puts to manage such risk. The maturity of, and the quantities covered by, the contracts are closely correlated to our anticipated purchases of the commodities. The cost of calls, and the premiums received from the puts, are amortized over the life of the contracts and are recorded in cost of goods sold, along with the effects of the swap, put and call contracts. The related amounts payable to, or receivable from, the counterparties are included in accounts payable or accounts receivable.

Sensitivity Analysis

The analysis below is hypothetical and should not be considered a projection of future risks. Earnings projections are before tax.

As of September 30, 2007, the potential change in fair value of outstanding interest rate derivative instruments, assuming a 1 percentage point unfavorable shift in the underlying interest rates would be a loss of \$8.3 million. The net impact on reported earnings, after also including the reduction in one year's interest expense on the related debt due to the same shift in interest rates, would be a net gain of \$5.3 million. The same hypothetical shift in interest rates as of September 30, 2006 would have

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Spectrum Brands, Inc.

resulted in a loss of \$13.6 million in the fair value of outstanding interest rate derivative instruments, and the net impact on reported earnings, after also including the reduction in one year's interest expense on the related debt due to the shift in interest rates, would have been a net loss of \$2.9 million.

As of September 30, 2007, the potential change in fair value of outstanding foreign exchange derivative instruments, assuming a 10% unfavorable change in the underlying exchange rates would be a loss of \$30.0 million. The net impact on reported earnings, after also including the effect of the change in the underlying foreign currency-denominated exposures, would be a net gain of \$0.8 million. The same hypothetical shift in exchange rates as of September 30, 2006 would have resulted in a loss of \$22.8 million in the fair value of outstanding foreign exchange derivative instruments, and the net impact on reported earnings, after also including the effect of the change in the underlying foreign currency-denominated exposures, would have been a net gain of \$6.0 million.

As of September 30, 2007, the potential change in fair value of outstanding commodity price derivative instruments, assuming a 10% unfavorable change in the underlying commodity prices would be a loss of \$6.2 million. The net impact on reported earnings, after also including the reduction in cost of one year's purchases of the related commodities due to the same change in commodity prices, would be a net gain of \$2.7 million. The same hypothetical shift in commodity prices as of September 30, 2006 would have resulted in a loss of \$5.0 million in the fair value of outstanding commodity price derivative instruments, and the net impact on reported earnings, after also including the reduction in cost of one year's purchases of the related commodities due to the same change in commodity prices, would have been a net gain of \$2.9 million.

CONSOLIDATED BALANCE SHEETS

Spectrum Brands, Inc.

September 30, 2007 and 2006

(In thousands, except per share amounts)

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 69,853	\$ 28,430
Receivables:		
Trade accounts receivable, net of allowances of \$16,891 and \$21,394, respectively	311,043	329,280
Other	45,102	36,252
Inventories	317,469	460,672
Deferred income taxes	22,208	50,401
Assets held for sale	572,859	3,499
Prepaid expenses and other	47,034	51,281
Total current assets	1,385,568	959,815
Property, plant and equipment, net	249,802	311,839
Deferred charges and other	37,164	49,028
Goodwill	664,649	1,130,184
Intangible assets, net	829,297	1,061,087
Debt issuance costs	44,906	37,367
Total assets	\$3,211,386	\$3,549,320
Liabilities and Shareholders' Equity		
Current liabilities:		
Current maturities of long-term debt	\$ 43,438	\$ 42,713
Accounts payable	253,480	309,111
Accrued liabilities:		
Wages and benefits	62,120	40,951
Income taxes payable	18,345	22,498
Restructuring and related charges	55,793	45,526
Accrued interest	51,122	36,974
Liabilities held for sale	47,688	-
Other	74,170	64,840
Total current liabilities	606,156	562,613
Long-term debt, net of current maturities	2,416,916	2,234,458
Employee benefit obligations, net of current portion	54,469	76,893
Deferred income taxes	169,088	156,578
Other	68,585	66,561
Total liabilities	3,315,214	3,097,103
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$.01 par value, authorized 150,000 shares; issued 69,062 and 67,422 shares, respectively; outstanding 52,765 and 51,491 shares, respectively	690	674
Additional paid-in capital	669,274	651,644
Accumulated deficit	(763,370)	(166,657)
Accumulated other comprehensive income	65,664	39,639
Less treasury stock, at cost, 16,297 and 15,931 shares, respectively	(27,742)	525,300
Total shareholders' (deficit) equity	(103,828)	452,217
Total liabilities and shareholders' (deficit) equity	\$3,211,386	\$3,549,320

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Spectrum Brands, Inc.

Years Ended September 30, 2007, 2006 and 2005

(In thousands, except per share amounts)

	2007	2006	2005
Net sales	\$1,994,522	\$1,894,741	\$1,762,179
Cost of goods sold	1,226,950	1,165,055	1,076,365
Restructuring and related charges	31,315	22,452	10,496
Gross profit	736,257	707,234	675,318
Operating expenses:			
Selling	420,294	394,020	365,453
General and administrative	154,170	157,892	120,175
Research and development	25,122	29,209	29,339
Restructuring and related charges	59,725	12,218	6,243
Goodwill and intangibles impairment	238,439	432,978	-
	897,750	1,026,317	521,210
Operating (loss) income	(161,493)	(319,083)	154,108
Interest expense	195,230	122,988	107,624
Other income, net	(331)	(3,934)	1,350
(Loss) income from continuing operations before income taxes	(356,392)	(438,137)	45,134
Income tax expense (benefit)	55,716	(22,694)	15,508
(Loss) income from continuing operations	(412,108)	(415,443)	29,626
(Loss) income from discontinued operations, net of tax	(184,605)	(18,529)	17,206
Net (loss) income	\$ (596,713)	\$ (433,972)	\$ 46,832
Basic net income per common share:			
(Loss) income from continuing operations	\$ (8.09)	\$ (8.40)	\$ 0.68
(Loss) income from discontinued operations	(3.63)	(0.37)	0.39
Net (loss) income	\$ (11.72)	\$ (8.77)	\$ 1.07
Weighted average shares of common stock outstanding	50,909	49,459	43,716
Diluted net income per common share:			
(Loss) income from continuing operations	\$ (8.09)	\$ (8.40)	\$ 0.65
(Loss) income from discontinued operations	(3.63)	(0.37)	0.38
Net (loss) income	\$ (11.72)	\$ (8.77)	\$ 1.03
Weighted average shares of common stock and equivalents outstanding	50,909	49,459	45,631

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT) AND COMPREHENSIVE INCOME (LOSS)

Spectrum Brands, Inc.

Years Ended September 30, 2007, 2006 and 2005

(In thousands)	Common Stock		Additional Paid-In Capital	Retained Earnings, (Accumulated Deficit)	Accumulated Other Comprehensive Income, Net of tax	Notes Receivable from Officers/Shareholders	Treasury Stock	Total Shareholders' Equity (Deficit)
	Shares	Amount						
Balances at September 30, 2004	34,683	\$642	\$ 217,973	\$ 220,483	\$ 10,621	\$(3,605)	\$(130,070)	\$ 316,044
Net income	-	-	-	46,832	-	-	-	46,832
Adjustment of additional minimum pension liability	-	-	-	-	(6,741)	-	-	(6,741)
Translation adjustment	-	-	-	-	4,696	-	-	4,696
Net gain on derivative instruments	-	-	-	-	1,684	-	-	1,684
Comprehensive income								46,471
Issuance of restricted stock	1,242	12	(12)	-	-	-	-	-
Forfeiture of restricted stock	(112)	(1)	1	-	-	-	-	-
Exercise of stock options	1,276	13	29,019	-	-	-	-	29,032
Treasury shares issued	13,708	-	378,819	-	-	-	59,250	438,069
Note payments from officers/shareholders	-	-	-	-	-	3,605	-	3,605
Amortization of unearned compensation	-	-	9,509	-	-	-	-	9,509
Balances at September 30, 2005	50,797	\$666	\$635,309	\$ 267,315	\$10,260	\$ -	\$ (70,820)	\$ 842,730
Net loss	-	-	-	(433,972)	-	-	-	(433,972)
Adjustment of additional minimum pension liability	-	-	-	-	7,034	-	-	7,034
Translation adjustment	-	-	-	-	14,261	-	-	14,261
Net gain on derivative instruments	-	-	-	-	8,084	-	-	8,084
Comprehensive loss								(404,593)
Issuance of restricted stock	965	10	(10)	-	-	-	-	-
Forfeiture of restricted stock	(196)	(2)	2	-	-	-	-	-
Exercise of stock options	28	-	445	-	-	-	-	445
Stock option expense	-	-	729	-	-	-	-	729
Treasury shares surrendered	(103)	-	-	-	-	-	(2,263)	(2,263)
Amortization of unearned compensation	-	-	15,169	-	-	-	-	15,169
Balances at September 30, 2006	51,491	\$ 674	\$ 651,644	\$(166,657)	\$39,639	\$ -	\$ (73,083)	\$ 452,217
Net loss	-	-	-	(596,713)	-	-	-	(596,713)
Adjustment of additional minimum pension liability	-	-	-	-	1,016	-	-	1,016
Translation adjustment	-	-	-	-	44,489	-	-	44,489
Other unrealized gains and losses	-	-	-	-	(17,580)	-	-	(17,580)
Comprehensive loss								(568,788)
Adoption of FAS 158, net of tax	-	-	-	-	(1,900)	-	-	(1,900)
Issuance of restricted stock	1,689	15	(15)	-	-	-	-	-
Forfeiture of restricted stock	(199)	-	-	-	-	-	-	-
Exercise of stock options	149	1	690	-	-	-	-	691
Stock option expense	-	-	115	-	-	-	-	115
Adjustment for tax benefit realized	-	-	(4,374)	-	-	-	-	(4,374)
Treasury shares surrendered	(365)	-	-	-	-	-	(3,003)	(3,003)
Amortization of unearned compensation	-	-	21,214	-	-	-	-	21,214
Balances at September 30, 2007	52,765	\$690	\$669,274	\$(763,370)	\$65,664	\$ -	\$ (76,086)	\$(103,828)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Spectrum Brands, Inc.

Years Ended September 30, 2007, 2006 and 2005

(In thousands)

	2007	2006	2005
Cash flows from operating activities:			
(Loss) income from continuing operations	\$ (412,108)	\$(415,443)	\$ 29,626
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	42,365	41,524	40,108
Amortization of intangibles	13,846	13,819	7,664
Amortization of debt issuance costs	11,855	6,872	6,023
Amortization of unearned restricted stock compensation	21,214	15,169	9,509
Impairment of goodwill and intangibles	238,439	432,978	-
Gain on sale of assets	-	(8,876)	-
Loss on debt extinguishment	-	-	12,033
Inventory valuation purchase accounting charges	-	204	37,533
Deferred income taxes	57,145	(52,581)	(12,265)
Writeoff of debt issuance costs	24,576	-	-
Non-cash restructuring and related charges	62,408	41,235	10,426
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable	(45,654)	(6,433)	51,588
Inventories	25,039	6,749	(23,709)
Prepaid expenses and other current assets	(7,957)	(1,989)	(3,404)
Accounts payable and accrued liabilities	(25,849)	(88,334)	(9,256)
Other assets and liabilities	(21,638)	22,351	17,836
Net cash (used) provided by operating activities of continuing operations	(16,319)	7,245	173,712
Net cash (used) provided by operating activities of discontinued operations	(16,662)	39,548	43,989
Net cash (used) provided by operating activities	(32,981)	46,793	217,701
Cash flows from investing activities:			
Purchases of property, plant and equipment	(22,101)	(54,945)	(56,742)
Proceeds from sale of property, plant and equipment	1,572	5,439	177
Proceeds from sale of assets held for sale	-	10,641	-
Payments for acquisitions, net of cash acquired	-	(18,501)	(1,630,155)
Net cash used by investing activities of continuing operations	(20,529)	(57,366)	(1,686,720)
Net cash (used) provided by investing activities of discontinued operations	(2,200)	78,007	(7,108)
Net cash (used) provided by investing activities	(22,729)	20,641	(1,693,828)
Cash flows from financing activities:			
Reduction of debt	(2,028,549)	(956,068)	(1,080,951)
Proceeds from debt financing	2,176,623	898,520	2,581,378
Debt issuance costs	(43,969)	(5,236)	(31,713)
Payments on capital lease obligations	(8,730)	(4,131)	(8,874)
Proceeds from exercise of stock options	655	365	18,413
Stock option income tax benefit	37	80	10,732
Treasury stock purchases	(3,003)	(2,263)	(1,106)
Payments from officers/shareholders	-	-	3,605
Net cash provided (used) by financing activities	93,064	(68,733)	1,491,484
Effect of exchange rate changes on cash and cash equivalents	4,069	(122)	524
Net increase (decrease) in cash and cash equivalents	41,423	(1,422)	15,881
Cash and cash equivalents, beginning of period	28,430	29,852	13,971
Cash and cash equivalents, end of period	\$ 69,853	\$ 28,430	\$ 29,852
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 197,745	\$ 164,639	\$ 100,770
Cash paid for income taxes, net	20,596	43,231	21,973
Issuance of Treasury shares for the United acquisition	-	-	439,175
Sale of Mexican manufacturing facility:			
Reduction in deferred proceeds	-	-	9,440
Reduction in assets held for sale	-	-	7,874

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spectrum Brands, Inc.

(In thousands, except per share amounts)

(1) Description of Business

Spectrum Brands, Inc. and its subsidiaries (the “Company”) is a global branded consumer products company with positions in seven major product categories: consumer batteries; pet supplies; lawn and garden care; electric shaving and grooming; electric personal care; household insect control; and portable lighting. In the third quarter of the Company’s fiscal year ended September 30, 2006, the Company engaged advisors to assist it in exploring possible strategic options, including a potential sale of various assets in order to reduce its outstanding indebtedness. In connection with this undertaking, during the first quarter of Fiscal 2007, the Company approved and initiated a plan to sell the assets related to its lawn and garden and household insect control product offerings (the “Home and Garden Business”). As a result, the Company has designated certain assets and liabilities related to its Home and Garden Business as held for sale and has designated the Home and Garden Business as discontinued operations. Therefore, the presentation herein of the results of continuing operations has been reclassified to exclude the Home and Garden Business for all periods presented. (See also Note 5, Assets Held for Sale, and Note 11, Discontinued Operations, for additional information on assets held for sale and discontinued operations).

In Fiscal 2007, the Company began managing its business in three reportable segments: (i) Global Batteries & Personal Care, which consists of the Company’s worldwide battery, shaving and grooming, personal care and portable lighting business (“Global Batteries & Personal Care”); (ii) Global Pet Supplies, which consists of the Company’s worldwide pet supplies business (“Global Pet Supplies”); and (iii) the Home and Garden Business, which has been designated as discontinued operations. The presentation of all historical segment reporting herein has been reclassified to conform to this segment structure.

The Company’s continuing operations include the worldwide manufacturing and marketing of alkaline, zinc carbon and hearing aid batteries, as well as aquariums and aquatic supplies and the design and marketing of rechargeable batteries, battery-powered lighting products, electric shavers and accessories, grooming products and hair care appliances. The Company’s continuing operations also include the manufacturing and marketing of specialty pet supplies. The Company’s continuing operations utilize manufacturing and product development facilities located in the United States, Europe, China and Latin America. Through the Company’s Home and Garden Business, presented here as discontinued operations, it manufactures and markets lawn fertilizers, herbicides, insecticides and repellants in North America.

During 2005, the Company made two significant acquisitions designed to diversify the Company’s business and leverage the Company’s distribution strengths. On April 29, 2005, the Company acquired all of the outstanding equity interests of Tetra Holding GmbH and its affiliates and subsidiaries in the aquatics business (“Tetra”) for a purchase price of approximately \$550,000, net of

cash acquired of approximately \$13,000 and inclusive of a final working capital payment of \$2,400, made in July 2005. The aggregate purchase price also included acquisition related expenditures of approximately \$16,100. The acquisition was financed with borrowings under an Incremental Term Loan Facility and existing Revolving Credit Facility. Tetra manufactures, distributes and markets a comprehensive line of foods, equipment and care products for fish and reptiles, along with accessories for home aquariums and ponds. Subsequent to the acquisition, the financial results of Tetra are included in the Global Pet Supplies business segment within the Company’s consolidated results. (See also Note 17, Acquisitions, for additional information on the Tetra acquisition).

On February 7, 2005, the Company completed the acquisition of all of the outstanding equity interests of United Industries Corporation (“United”), a leading manufacturer and marketer of products for the consumer lawn and garden and household insect control markets in North America and a leading supplier of specialty pet supplies in the United States. The aggregate purchase price was approximately \$1,490,000, net of cash acquired of approximately \$14,000. The purchase price consisted of cash consideration of approximately \$1,051,000 and common stock totaling approximately \$439,000. The aggregate purchase price included acquisition related expenditures of approximately \$22,000. (See also Note 17, Acquisitions, for additional information on the United acquisition). Subsequent to the acquisition, the financial results of the lawn and garden and household insect control business of United are included in the Home and Garden Business, which is designated as discontinued operations, and the financial results of the pet business of United are included in the Global Pet Supplies business segment within the Company’s consolidated results.

The Company also completed the acquisition of Jungle Laboratories Corporation (“Jungle Labs”) during the fourth quarter of 2005. (See also Note 17, Acquisitions, for additional information on the Jungle acquisitions).

The Company sells its products in approximately 120 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and original equipment manufacturers (“OEMs”) and enjoys name recognition in its markets under the Rayovac, VARTA and Remington brands, each of which has been in existence for more than 80 years, and under the Tetra, 8in1 and various other brands. The Company’s Home and Garden Business has name recognition under the Spectracide and Cutter brands, among others.

(2) Significant Accounting Policies and Practices

(a) Principles of Consolidation and Fiscal Yearend

The consolidated financial statements include the financial statements of Spectrum Brands, Inc. and its subsidiaries and are prepared in accordance with generally accepted accounting principles in the United States of America. All intercompany

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spectrum Brands, Inc.

transactions have been eliminated. The Company's fiscal year ends September 30. References herein to 2007, 2006 and 2005 refer to the fiscal years ended September 30, 2007, 2006 and 2005, respectively.

The Company's Consolidated Financial Statements presented herein include the results of Jungle Labs subsequent to the September 1, 2005 date of acquisition, the results of operations for Tetra subsequent to the April 29, 2005 date of acquisition, and the results of operations for United subsequent to the February 7, 2005 date of acquisition. (See also Note 17, Acquisitions, for additional information on the Jungle Labs, Tetra, and United acquisitions).

(b) Revenue Recognition

The Company recognizes revenue from product sales generally upon delivery to the customer or the shipping point in situations where the customer picks up the product or where delivery terms so stipulate. This represents the point at which title and all risks and rewards of ownership of the product are passed, provided that: there are no uncertainties regarding customer acceptance; there is persuasive evidence that an arrangement exists; the price to the buyer is fixed or determinable; and collectibility is deemed reasonably assured. The Company is not obligated to allow for, and the Company's general policy is not to accept, product returns associated with battery sales. The Company does accept returns in specific instances related to its shaving, grooming, personal care, lawn and garden, household and pet products. The provision for customer returns is based on historical sales and returns and other relevant information. The Company estimates and accrues the cost of returns, which are treated as a reduction of Net sales.

The Company enters into various promotional arrangements, primarily with retail customers, including arrangements entitling such retailers to cash rebates from the Company based on the level of their purchases, which require the Company to estimate and accrue the estimated costs of the promotional programs. These costs are treated as a reduction of Net sales.

The Company also enters into promotional arrangements that target the ultimate consumer. Such arrangements are treated as either a reduction of Net sales or an increase of Cost of goods sold, based on the type of promotional program. The income statement presentation of the Company's promotional arrangements complies with the Emerging Issues Task Force (EITF) No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)."

For all types of promotional arrangements and programs, the Company monitors its commitments and uses various measures, including past experience, to determine amounts to be recorded for the estimate of the earned, but unpaid, promotional costs. The terms of the Company's customer-related promotional

arrangements and programs are tailored to each customer and are documented through written contracts, correspondence or other communications with the individual customers.

The Company also enters into various arrangements, primarily with retail customers, which require the Company to make upfront cash, or "slotting" payments, to secure the right to distribute through such customers. The Company capitalizes slotting payments, provided the payments are supported by a time or volume-based arrangement with the retailer, and amortizes the associated payment over the appropriate time or volume-based term of the arrangement. The amortization of slotting payments is treated as a reduction in Net sales and a corresponding asset is reported in Deferred charges and other in the accompanying Consolidated Balance Sheets.

(c) Use of Estimates

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

(d) Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, the Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

(e) Concentrations of Credit Risk, Major Customers and Employees

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

The Company has a broad range of customers, including many large retail outlet chains, one of which accounts for a significant percentage of its sales volume. This major customer represented approximately 19%, 20% and 19% of net sales during 2007, 2006 and 2005, respectively. This major customer also represented approximately 11% and 11%, respectively, of Trade account receivables, net as of September 30, 2007 and 2006.

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Approximately 57% of the Company's sales occur outside of the United States. These sales and related receivables are subject to varying degrees of credit, currency, and political and economic risk. The Company monitors these risks and makes appropriate provisions for collectibility based on an assessment of the risks present.

(f) Displays and Fixtures

Temporary displays are generally disposable cardboard displays shipped to customers to facilitate display of the Company's products. Temporary displays are generally disposed of after a single use by the customer.

Permanent fixtures are permanent in nature, generally made from wire or other permanent racking, which are shipped to customers for display of the Company's products. These permanent fixtures are restocked with the Company's product multiple times over the fixture's useful life.

The costs of both temporary and permanent displays are capitalized as a prepaid asset and are included in Prepaid expenses and other in the Consolidated Balance Sheets. The costs of temporary displays are expensed in the period in which they are shipped to customers and the costs of permanent fixtures are amortized over an estimated useful life of one to two years once they are shipped to customers and are reflected in Deferred charges and other in the Consolidated Balance Sheets.

(g) Inventories

The Company's inventories are valued at the lower of cost or market. Cost of inventories is determined using the first-in, first-out (FIFO) method.

(h) Property, Plant and Equipment

Property, plant and equipment are stated at lower of cost or at fair value if acquired in a purchase business combination. Depreciation on plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets. Depreciable lives by major classification are as follows:

Building and improvements	20-30 years
Machinery, equipment and other	2-15 years

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company evaluates recoverability of assets to be held and used by comparing the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell (See Note 6, Intangible Assets, for additional information on goodwill and intangible assets and Note 5, Assets Held for Sale, for additional information on assets expected to be disposed).

(i) Intangible Assets

Intangible assets are recorded at cost or at fair value if acquired in a purchase business combination. Customer lists and proprietary technology intangibles are amortized, using the straight-line method, over their estimated useful lives of 5 to 19 years. Excess of cost over fair value of net assets acquired (goodwill) and trade name intangibles are not amortized. Goodwill is tested for impairment at least annually at the reporting unit level. If impairment is indicated, a write down to fair value (normally measured by discounting estimated future cash flows) is recorded. Trade name intangibles are tested for impairment at least annually by comparing the fair value with the carrying value. Any excess of carrying value over fair value is recognized as an impairment loss in income from operations. (See Note 6, Intangible Assets, for additional information on goodwill and intangible assets).

Intangibles with Indefinite Lives

Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") requires that goodwill and indefinite-lived intangible assets be tested for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have been incurred. For Fiscal 2007, 2006 and 2005, the Company's goodwill and trade name intangibles were tested for impairment as of the Company's August financial period end, the date of testing for the Company. In addition, during Fiscal 2007, the Company's goodwill and trade name intangibles were also tested for impairment as of April 1, 2007, in conjunction with the Company's realignment of reportable segments.

In accordance with SFAS 142, the Company, with the assistance of independent third-party valuation specialists, conducted impairment testing on the Company's goodwill. The Company used the discounted estimated future cash flows methodology to determine the fair value of its reporting units. Assumptions critical to the Company's fair value estimates were: (i) the present value factors used in determining the fair value of the reporting units and trade names or third-party indicated fair values for assets expected to be disposed; (ii) royalty rates used in the Company's trade name valuations; (iii) projected average revenue growth rates used in the reporting unit and trade name models; and (iv) projected long-term growth rates used in the derivation of terminal year values. These and other assumptions are impacted by economic conditions and expectations of management and will change in the future based on period-specific facts and circumstances. The Company also tested fair value for reasonableness by comparison to the market capitalization of the Company. The Company first compared the fair value of its reporting units with their carrying amounts, including goodwill. In Fiscal 2007, this first step indicated that the fair value of the Company's North America reporting unit, which is included in the Global Batteries & Personal Care reportable segment, was less than the Company's North America reporting unit's carrying

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amount and, accordingly, further testing of goodwill was required to determine the impairment charge required by SFAS 142. In Fiscal 2006, this first step indicated that the fair value of the Latin America reporting unit, which is included in the Global Batteries & Personal Care reportable segment, and the Global Pet Supplies reporting unit were less than their carrying amounts and, accordingly, further testing of goodwill was required to determine the impairment charge required by SFAS 142.

In Fiscal 2007, management then compared the carrying amount of the North America reporting unit's goodwill against the implied fair value of goodwill. The carrying amount of the North America reporting unit's goodwill was determined to exceed implied fair value and, therefore, management recorded an impairment charge equal to the excess of the carrying amount of the reporting unit's goodwill over the implied fair value of such goodwill. As a result, the Company recorded a non-cash pretax impairment charge of approximately \$214,039 in Fiscal 2007. In Fiscal 2006, management then compared the carrying amount of the Latin America and Global Pet Supplies reporting units' goodwill against their respective implied fair values of goodwill. The carrying amounts of the reporting units' goodwill were determined to exceed their implied fair values and, therefore, management recorded an impairment charge equal to the excess of the carrying amounts of the reporting units' goodwill over the implied fair values of such goodwill. As a result of this goodwill impairment analysis, the Company recorded a non-cash pretax goodwill impairment charge of approximately \$352,878 in Fiscal 2006. There were no impairment losses related to goodwill recognized in Fiscal 2005.

In addition, in accordance with SFAS 142, the Company, with the assistance of independent third-party valuation specialists, also compared the carrying amount of trade name intangible assets with their respective fair values. Fair value was determined using a relief from royalty methodology. In Fiscal 2007 and 2006 management concluded that the fair values of certain trade name intangible assets were less than the carrying amounts of those assets. As a result, in Fiscal 2007 and 2006 the Company recorded non-cash pretax impairment charges of approximately \$24,400 and \$80,100, respectively, equal to the excess of the carrying amounts of the intangible assets over the fair value of such assets. There were no impairment losses related to trade names recognized in Fiscal 2005.

The recognition of the total non-cash pretax impairment of certain goodwill and indefinite-lived intangible assets of \$238,439 in Fiscal 2007 and \$432,978 in Fiscal 2006, which are recorded as a separate component of Operating expenses, has had a material negative effect on the Company's financial condition and results of operations for the fiscal years ended September 30, 2007 and 2006. The impairments will not result in future cash expenditures.

Management uses its judgment in assessing whether assets may have become impaired between annual impairment tests. Indicators

such as unexpected adverse business conditions, economic factors, unanticipated technological change or competitive activities, loss of key personnel, and acts by governments and courts may signal that an asset has become impaired. The above impairment of goodwill and indefinite-lived intangibles is primarily attributed to lower current and forecasted profits versus those assumed by the Company at the time of acquisition.

Intangibles with Definite or Estimable Useful Lives

The Company assesses the recoverability of intangible assets with definite or estimable useful lives in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") by determining whether the carrying value can be recovered through projected undiscounted future cash flows. If projected undiscounted future cash flows indicate that the unamortized carrying value of intangible assets with finite useful lives will not be recovered, an adjustment would be made to reduce the carrying value to an amount equal to projected future cash flows discounted at the Company's incremental borrowing rate. The cash flow projections used are based on trends of historical performance and management's estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions.

Impairment reviews are conducted at the judgment of management when it believes that a change in circumstances in the business or external factors warrants a review. Circumstances such as the discontinuation of a product or product line, a sudden or consistent decline in the sales forecast for a product, changes in technology or in the way an asset is being used, a history of operating or cash flow losses, or an adverse change in legal factors or in the business climate, among others, may trigger an impairment review. The Company's initial impairment review to determine if an impairment test is required is based on an undiscounted cash flow analysis for asset groups at the lowest level for which identifiable cash flows exist. The analysis requires management judgment with respect to changes in technology, the continued success of product lines and future volume, revenue and expense growth rates, and discount rates.

In accordance with SFAS 144, long-lived assets to be disposed of by sale are recorded at the lower of their carrying value or fair value less costs to sell. During Fiscal 2007, the Company recorded a non-cash pretax charge of \$168,520 in discontinued operations to reduce the carrying value of certain assets, principally consisting of goodwill and intangible assets, related to the Home and Garden Business in order to reflect the estimated fair value of this business. Included in such non-cash pretax impairment charge was \$4,249 related to definite-lived intangible assets related to the Canadian division of the Home and Garden Business, which operates under the name Nu-Gro. (See Note 5, Assets Held for Sale, for additional information regarding this impairment charge). There were no impairment charges for definite-lived intangible assets recorded during Fiscal 2006 and 2005.

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(j) Debt Issuance Costs

Debt issuance costs are capitalized and amortized to interest expense using the effective interest method over the lives of the related debt agreements.

(k) Accounts Payable

Included in accounts payable are bank overdrafts, net of deposits on hand, on disbursement accounts that are replenished when checks are presented for payment.

(l) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period of the enactment date.

(m) Foreign Currency Translation

Assets and liabilities of the Company's foreign subsidiaries are translated at the rate of exchange existing at year end, with revenues, expenses, and cash flows translated at the average of the monthly exchange rates. Adjustments resulting from translation of the financial statements are recorded as a component of Accumulated other comprehensive income ("AOCI"). Also included in AOCI are the effects of exchange rate changes on intercompany balances of a long-term nature.

As of September 30, 2007 and 2006, foreign currency translation adjustment balances of \$83,483 and \$39,031, respectively, were reflected in the Consolidated Balance Sheets in AOCI.

Exchange losses on foreign currency transactions aggregating \$4,749, \$3,898, and \$2,301 for Fiscal 2007, 2006 and 2005, respectively, are included in Other income, net, in the Consolidated Statements of Operations.

(n) Shipping and Handling Costs

The Company incurred shipping and handling costs of \$134,112, \$120,219 and \$99,462 in Fiscal 2007, 2006 and 2005, respectively, which are included in Selling expenses. Shipping and handling costs include costs incurred with third-party carriers to transport products to customers and salaries and overhead costs related to activities to prepare the Company's products for shipment at the Company's distribution facilities.

(o) Advertising Costs

The Company incurred expenses for advertising of \$49,071, \$43,366 and \$59,504 in Fiscal 2007, 2006 and 2005, respectively, which are included in Selling expenses.

(p) Research and Development Costs

Research and development costs are charged to expense in the period they are incurred.

(q) Net Income Per Common Share

Basic net income per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Basic net income per common share does not consider common stock equivalents. Diluted net income per common share reflects the dilution that would occur if employee stock options and restricted stock awards were exercised or converted into common shares or resulted in the issuance of common shares that then shared in the net income of the entity. The computation of diluted net income per common share uses the "if converted" and "treasury stock" methods to reflect dilution. The difference between the basic and diluted number of shares is due to the effects of restricted stock and assumed conversion of employee stock options awards.

Net income per common share is calculated based upon the following shares:

	2007	2006	2005
Basic	50,909	49,459	43,716
Effect of restricted stock and assumed conversion of stock options	-	-	1,915
Diluted	50,909	49,459	45,631

The Company has not assumed the exercise of common stock equivalents in either Fiscal 2007 or 2006, as the impact would be antidilutive.

(r) Derivative Financial Instruments

Derivative financial instruments are used by the Company principally in the management of its interest rate, foreign currency and raw material price exposures. The Company does not hold or issue derivative financial instruments for trading purposes. When entered into, the Company formally designates the financial instrument as a hedge of a specific underlying exposure if such criteria are met, and documents both the risk management objectives and strategies for undertaking the hedge. The Company formally assesses, both at the inception and at least quarterly thereafter, whether the financial instruments that are used in hedging transactions are effective at offsetting changes in either the fair value or cash flows of the related underlying exposure. Because of the high degree of effectiveness between the hedging instrument and the underlying exposure being

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hedged, fluctuations in the value of the derivative instruments are generally offset by changes in the fair values or cash flows of the underlying exposures being hedged. Any ineffective portion of a financial instrument's change in fair value is immediately recognized in earnings.

The Company uses interest rate swaps to manage its interest rate risk. The swaps are designated as cash flow hedges with the changes in fair value recorded in AOCI and as a derivative hedge asset or liability, as applicable. The swaps settle periodically in arrears with the related amounts for the current settlement period payable to, or receivable from, the counterparties included in accrued liabilities or receivables, respectively, and recognized in earnings as an adjustment to interest expense from the underlying debt to which the swap is designated. During Fiscal 2007, 2006 and 2005, \$9,043 and \$1,914 of pretax derivative gains and \$2,166 of derivative losses, respectively, from such hedges were recorded as an adjustment to Interest expense. During Fiscal 2007, 2006 and 2005, \$0 and \$431 of pretax derivative gains and \$140 of pretax derivative losses, respectively, were recorded as adjustments to interest expense for ineffectiveness from such hedges and included in the amounts above. At September 30,

2007 the Company had a portfolio of USD-denominated interest rate swaps outstanding which effectively fixes the interest rates on floating rate debt, exclusive of lender spreads, at rates as follows: 4.46% for a notional principal amount of \$170,000 through October 2008 and 5.49% for a notional principal amount of \$225,000 through March 2010. In addition, the Company had a portfolio of EUR-denominated interest rate swaps outstanding which effectively fixes the interest rates on floating rate debt, exclusive of lender spreads, at rates as follows: 2.68% for a notional principal amount of €185,000 through September 2008. The derivative net gain on these contracts recorded in AOCI at September 30, 2007 was \$163, net of tax expense of \$100. The derivative net gain on these contracts recorded in AOCI at September 30, 2006 was \$6,385, net of tax expense of \$3,913. The derivative net gain on these contracts recorded in AOCI at September 30, 2005 was \$1,671, net of tax expense of \$940. At September 30, 2007, the portion of derivative net gains estimated to be reclassified from AOCI into earnings over the next 12 months is \$2,013, net of tax.

The Company's interest rate swap derivative financial instruments are summarized as follows:

	2007		2006		2005	
	Notional Amount	Remaining Term	Notional Amount	Remaining Term	Notional Amount	Remaining Term
Interest rate swaps – fixed	\$ 175,000	0.03 years	\$ 100,000	0.58 years	\$ 70,000	0.03 years
Interest rate swaps – fixed	\$ 70,760	0.07 years	\$ 251,200	1.00 years	\$ 100,000	0.13 years
Interest rate swaps – fixed	\$ 261,812	1.07 years	\$ 279,400	2.00 years	\$ 175,000	2.03 years
Interest rate swaps – fixed	\$ 170,000	1.11 years	\$ 170,000	2.08 years	\$ 100,000	3.04 years
Interest rate swaps – fixed	\$225,000	2.52 years				

The Company periodically enters into forward foreign exchange contracts to hedge the risk from forecasted foreign denominated third-party and intercompany sales or payments. These obligations generally require the Company to exchange foreign currencies for U.S. Dollars, Euros, Pounds Sterling, Australian Dollars, Brazilian Reals, Canadian Dollars or Japanese Yen. These foreign exchange contracts are cash flow hedges of fluctuating foreign exchange related to sales or product or raw material purchases. Until the sale or purchase is recognized, the fair value of the related hedge is recorded in AOCI and as a derivative hedge asset or liability, as applicable. At the time the sale or purchase is recognized, the fair value of the related hedge is reclassified as an adjustment to Net sales or purchase price variance in Cost of goods sold. During Fiscal 2007, 2006 and 2005, \$319, \$51 and \$0, respectively, of pretax derivative gains from such hedges were recorded as an adjustment to Net sales. During Fiscal 2007, 2006 and 2005, \$2,944 and \$334 of pretax derivative losses and \$445 of pretax derivative gains, respectively, from such hedges were recorded as an adjustment to Cost of

goods sold. Following the sale or purchase, subsequent changes in the fair value of the derivative hedge contracts are recorded as a gain or loss in earnings as an offset to the change in value of the related asset or liability recorded in the Consolidated Balance Sheet. During Fiscal 2007, 2006 and 2005, \$1,295 and \$258 of pretax derivative losses and \$149 of pretax derivative gains, respectively, from such hedges were recorded as an adjustment to earnings in Other income, net. The pretax derivative adjustment to earnings for ineffectiveness from these contracts for 2007, 2006 and 2005 was \$0. At September 30, 2007 and 2006 and 2005, respectively, the Company had \$157,520 and \$97,932 and \$0 of such foreign exchange derivative contracts outstanding. The derivative net loss on these contracts recorded in AOCI at September 30, 2007 was \$6,010, net of tax benefit of \$3,318. The derivative net gain on these contracts recorded in AOCI at September 30, 2006 was \$647, net of tax expense of \$326. The derivative net gain on these contracts recorded in AOCI at September 30, 2005 was \$0. At September 30, 2007, the portion of derivative net losses estimated to be reclassified from AOCI into earnings over the next 12 months is \$4,907, net of tax.

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The Company periodically enters into forward and swap foreign exchange contracts to hedge the risk from third-party and inter-company payments resulting from existing obligations. These obligations generally require the Company to exchange foreign currencies for U.S. Dollars, Euros, Pounds Sterling, Brazilian Reals or Canadian Dollars. These foreign exchange contracts are fair value hedges of a related liability or asset recorded in the Consolidated Balance Sheet. The gain or loss on the derivative hedge contracts is recorded in earnings as an offset to the change in value of the related liability or asset at each period end. During Fiscal 2007, 2006 and 2005, \$16,485 of pretax derivative losses, \$2,128 of pretax derivative gains and \$1,331 of pretax derivative losses, respectively, from such hedges were recorded as an adjustment to earnings in Other income, net. At September 30, 2007, 2006 and 2005, \$125,771 and \$129,663 and \$0, respectively, of such foreign exchange derivative contracts were outstanding.

The Company is exposed to risk from fluctuating prices for raw materials, including zinc, urea and di-ammonium phosphates used in its manufacturing processes. The Company hedges a portion of the risk associated with these materials through the use of commodity call options and swaps. The hedge contracts are designated as cash flow hedges with the fair value changes recorded in AOCI and as a hedge asset or liability, as applicable. The unrecognized changes in fair value of the hedge contracts are reclassified from AOCI into earnings when the hedged purchase of raw materials also affects earnings. The call options effectively cap the floating price on a specified quantity of raw materials through a specified date. The swaps effectively fix the floating price on a specified quantity of raw materials through a specified date. During Fiscal 2007, 2006 and 2005, \$14,012, \$2,290 and \$4,215, respectively, of pretax derivative gains were recorded as an adjustment to Cost of goods sold for swap or option contracts settled at maturity. The hedges are generally highly effective; however, during Fiscal 2007, 2006 and 2005, \$583 and \$24 of pretax derivative losses and \$162 of pretax derivative gains, respectively, were recorded as an adjustment to Cost of goods sold for ineffectiveness. At September 30, 2007 the Company had a series of such swap contracts outstanding through September 2009, with a contract value of \$64,043. At September 30, 2006, \$43,614 of such commodity contracts were outstanding. At September 30, 2005, \$5,591 of such commodity contracts were outstanding. The derivative net loss on these contracts recorded in AOCI at September 30, 2007 was \$1,107, net of tax benefit of \$529. The derivative net gain on these contracts recorded in AOCI at September 30, 2006 was \$3,495, net of tax expense of \$1,852. The derivative net gain on these contracts recorded in AOCI at September 30, 2005 was \$299, net of tax expense of \$179. At September 30, 2007, the portion of derivative net losses estimated to be reclassified from AOCI into earnings over the next 12 months is \$874, net of tax.

(s) Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, accounts and notes receivable, accounts payable and short-term debt approximate fair value. The fair values of long-term debt and derivative financial instruments are generally based on quoted market prices.

The carrying value of financial instruments approximate the fair value of those instruments due to the applicable interest rates being substantially at market ("floating"), except for \$2,873 of Senior Subordinated Notes due September 30, 2013 with interest payable semiannually at 8.5%, \$347,012 of Senior Subordinated Notes due October 2, 2013 with interest payable semiannually at 11.25% and \$700,000 of Senior Subordinated Notes due February 1, 2015 with interest payable semiannually at 7.375%. The total fair value of these Notes at September 30, 2007 was approximately \$845,733. (See also Note 2(r), Significant Accounting Policies – Derivative Financial Instruments, and Note 7, Debt).

The carrying amounts and fair values of the Company's financial instruments are summarized as follows ((liability)/asset):

	September 30,			
	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Total debt	\$(2,460,354)	\$(2,256,202)	\$(2,277,171)	\$(2,121,454)
Interest rate swap agreements	1,986	1,986	11,584	11,584
Commodity swap and option agreements	(1,636)	(1,636)	5,347	5,347
Foreign exchange forward agreements	(8,974)	(8,974)	963	963

(t) Environmental Expenditures

Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations are expensed or capitalized as appropriate. The Company determines its liability on a site-by-site basis and records a liability at the time when it is probable that a liability has been incurred and such liability can be reasonably estimated. The estimated liability is not reduced for possible recoveries from insurance carriers. Estimated environmental remediation expenditures are included in the determination of the net realizable value recorded for assets held for sale.

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(u) Reclassifications

In Fiscal 2007, the Company began managing its business in three reportable segments: (i) Global Batteries & Personal Care, which consists of the Company's worldwide battery, shaving and grooming, personal care and portable lighting business ("Global Batteries & Personal Care"); (ii) Global Pet Supplies, which consists of the Company's worldwide pet supplies business ("Global Pet Supplies"); and (iii) the Home and Garden Business, which is reflected as discontinued operations. The presentation of all historical segment reporting herein has been reclassified to conform to this segment structure.

Effective October 1, 2006, the Company reflected the operations of its Home and Garden Business as discontinued operations. In addition, as of October 1, 2005, the Company began reporting the results of operations of its fertilizer technology and Canadian professional fertilizer products businesses of Nu-Gro ("Nu-Gro Pro and Tech") as discontinued operations. The presentation of continuing operations has been reclassified to exclude the Home and Garden Business and Nu-Gro Pro and Tech.

On October 1, 2005, the Company adopted SFAS No. 123 (Revised 2004), "Share-Based Payment" ("SFAS 123(R)") requiring the Company to recognize expense related to the fair value of its employee stock option awards. Prior to the adoption of SFAS 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the statement of cash flows. Beginning on October 1, 2005, the Company changed its cash flow presentation in accordance with SFAS 123(R) and Financial Accounting Standards Board ("FASB") Staff Position ("FSP") FAS 123(R)-3, "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards" ("FSP FAS 123(R)-3") which require the cash flows resulting from the tax benefits for these options to be classified as financing cash flows. The Company has reclassified the benefit of deductions resulting from the exercise of stock options from operating cash flows to financing cash flows to conform to this presentation.

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or accumulated deficit.

(v) Comprehensive Income

Comprehensive income includes foreign currency translation of assets and liabilities of foreign subsidiaries, effects of exchange rate changes on intercompany balances of a long-term nature and transactions designated as a hedge of net foreign investments, derivative financial instruments designated as cash flow hedges and additional minimum pension liabilities associated with the Company's pension. Except for the currency translation impact of the Company's intercompany debt of a long-term

nature, the Company does not provide income taxes on currency translation adjustments, as earnings from international subsidiaries are considered to be indefinitely reinvested.

Amounts recorded in AOCI on the Consolidated Statements of Shareholders' Equity (Deficit) and Comprehensive Income for the years ended September 30, 2007, 2006 and 2005 are net of the following tax expense (benefit) amounts:

	Pension Adjustment	Cash Flow Hedges	Adjustment to Adopt SFAS 158	Translation Adjustments	Total
2007	\$(1,307)	\$(3,747)	\$431	\$1,217	\$(3,406)
2006	2,791	6,091	-	266	9,148
2005	(5,968)	1,119	-	(559)	(5,408)

(w) Stock Compensation

In connection with the adoption of SFAS 123(R), the Company is required to recognize expense related to the fair value of its employee stock option awards. Total stock compensation expense associated with both stock options and restricted stock awards recognized by the Company during Fiscal 2007 and 2006 was \$21,329 and \$13,168 or \$14,290 and \$10,650, net of taxes, respectively. The amounts before tax are included in General and administrative expenses and Restructuring and related charges in the Consolidated Statements of Operations, of which \$7,788 or \$5,218, net of taxes, was included in Restructuring and related charges during Fiscal 2007 for the accelerated vesting of certain awards. The Company expects that total stock compensation expense for 2008 will be approximately \$6,887 before the effect of income taxes. As of September 30, 2007, there was \$15,286 of unrecognized compensation cost related to restricted stock that is expected to be recognized over a weighted average period of approximately three years.

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

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

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Spectrum Brands, Inc.

Restricted stock shares granted in Fiscal 2007 generally have vesting periods which can range from one to five years. Approximately 89% of the shares granted are purely performance-based and vest only upon the achievement of certain performance goals. Such performance goals consist of reportable segment and consolidated Company Earnings Before Interest Taxes Depreciation and Amortization (“EBITDA”) and cash flow components. The remaining shares granted in Fiscal 2007 are time-based, which vest either 100% after three years or on a pro rata basis over three years.

Restricted stock shares granted through Fiscal 2006 generally have vesting periods of three to five years. Approximately 50% of the restricted stock shares are purely time-based and vest on a pro rata basis over either a three- or four-year vesting period and approximately 50% are time-based and performance-based. Vesting of such performance based restricted stock will occur upon achievement of certain performance goals established by the Board of Directors of the Company. Generally, performance targets consist of Earnings Per Share (“EPS”), segment Earnings Before Interest and Taxes (“EBIT”) and cash flow components. If such performance targets are not met, the performance component of a restricted stock award will not vest in the year that the performance targets applied to and instead will automatically vest one year after the originally scheduled vesting date, effectively making the award time-based. The Company recognizes amortization on the time-based component on a straight-line basis over the vesting period. The Company recognizes amortization on the performance-based component over the vesting period, assuming performance targets will not be met, unless and until it is probable that the performance targets will be met. At the point in time when it is probable that the performance target will be met, the recognition period is shortened by one year to account for the accelerated vesting requirement of the performance-based component.

The Company currently has one active incentive plan under which additional shares may be issued to employees as equity compensation. In 2004, the Board adopted the 2004 Rayovac Incentive Plan (“2004 Plan”). Up to 3,500 shares of common stock, net of forfeitures and cancellations, may be issued under the 2004 Plan, which expires in July 2014. As of September 30, 2007, 3,369 restricted shares had been granted and 1,709 restricted shares were outstanding under the 2004 Plan. No options have been granted under the 2004 Plan.

The Company also has two expired plans under which there remain equity-based awards outstanding; the 1997 Rayovac Incentive Plan (“1997 Plan”), which expired on August 31, 2007, and the 1996 Rayovac Corporation Stock Option Plan (“1996 Plan”), which expired on September 12, 2006. As of September 30, 2007, there were options with respect to 1,301 shares of common stock and 556 restricted shares outstanding under the 1997 Plan, and options with respect to 209 shares of common stock outstanding under the 1996 Plan.

The fair value of restricted stock is determined based on the market price of the Company’s shares on the grant date. A summary of the status of the Company’s non-vested restricted stock as of September 30, 2007 is as follows:

Restricted Stock	Shares	Weighted Average Grant Date	
		Fair Value	Fair Value
Restricted stock at September 30, 2006	2,046	\$25.91	\$ 53,021
Granted	1,689	7.55	12,750
Vested	(1,271)	19.39	(24,642)
Forfeited	(199)	29.65	(5,887)
Restricted stock at September 30, 2007	2,265	\$15.56	\$35,242

Prior to October 1, 2005, the Company accounted for its stock option plans under the recognition and measurement provisions of Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”) and related Interpretations, as permitted by SFAS No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”). No stock option-based employee compensation cost was recognized in the income statement prior to that date, as all stock options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective October 1, 2005, the Company adopted the fair value recognition provisions of SFAS 123(R), using the modified-prospective transition method. Under that transition method, compensation cost recognized in Fiscal 2007 and 2006 includes: (i) compensation cost for all share-based payments granted prior to, but not yet vested as of October 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (ii) compensation cost for all share-based payments granted subsequent to October 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated. As a result of adopting SFAS 123(R) on October 1, 2005, the Company’s income from continuing operations before income taxes and net income during Fiscal 2007 was \$115 and \$71 lower, respectively, and for Fiscal 2006 was \$729 and \$488 lower, respectively, than if the Company had continued to account for share-based compensation under APB 25.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spectrum Brands, Inc.

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

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123(R) during 2005 to options granted under the Company's stock option plans. For purposes

of this pro forma disclosure, the value of the options is amortized to expense on a straight-line basis over a three year vesting period, and forfeitures are recognized as they occur. The Company's pro forma information follows for 2005:

	2005
Net income, as reported	\$46,832
Add: Stock-based compensation expense included in reported net income, net of tax	5,801
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of tax	(7,562)
Pro forma net income	\$45,071
Basic earnings per share as reported	\$ 1.07
Basic earnings per share pro forma	\$ 1.03
Diluted earnings per share as reported	\$ 1.03
Diluted earnings per share pro forma	\$ 0.99

The following table summarizes the stock option transactions:

	2007		2006		2005	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding, beginning of period	1,911	\$14.65	1,988	\$14.64	3,300	\$14.56
Granted	-	-	-	-	-	-
Exercised	(149)	4.39	(28)	13.08	(1,276)	14.44
Forfeited	(252)	13.68	(49)	15.46	(36)	14.03
Outstanding, end of period	1,510	\$15.82	1,911	\$14.65	1,988	\$14.64
Options exercisable, end of period	1,384	\$15.98	1,659	\$14.74	1,467	\$14.97

The following table summarizes information about options outstanding and options outstanding and exercisable as of September 30, 2007:

Range of Exercise Prices	Options Outstanding			Options Outstanding and Exercisable	
	Number of Shares	Weighted average Remaining Contractual Life	Weighted average Exercise Price	Number of Shares	Weighted average Exercise Price
\$11.32 - \$14.60	1,041	4.61 years	\$13.48	925	\$13.53
\$16.19 - \$21.50	202	0.86	18.75	199	18.73
\$21.63 - \$28.70	267	1.74	22.72	260	22.57
	<u>1,510</u>	<u>3.60</u>	<u>\$15.82</u>	<u>1,384</u>	<u>\$15.98</u>

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Spectrum Brands, Inc.

(x) Restructuring and Related Charges

The costs of plans to (i) exit an activity of an acquired company, (ii) involuntarily terminate employees of an acquired company, or (iii) relocate employees of an acquired company are measured and recorded in accordance with the provisions of EITF 95-3, “*Recognition of Liabilities in Connection with a Purchase Business Combination*” (“EITF 95-3”). Under EITF 95-3, if certain conditions are met, such costs are recognized as a liability assumed as of the consummation date of the purchase business combination and included in the allocation of the acquisition cost. Costs related to activities or employees of the acquired company that do not meet the conditions prescribed in EITF 95-3 are treated as restructuring and related charges and expensed as incurred.

Restructuring charges are recognized and measured according to the provisions of SFAS No. 146, “*Accounting for Costs Associated with Exit or Disposal Activities*” (“SFAS 146”). Under SFAS 146, restructuring charges include, but are not limited to, termination and related costs consisting primarily of severance costs and retention bonuses, and contract termination costs consisting primarily of lease termination costs. Related charges, as defined by the Company, include, but are not limited to, other costs directly associated with exit and integration activities, including impairment of property and other assets, departmental costs of full-time incremental integration employees, and any other items related to the exit or integration activities. Costs for such activities are estimated by management after evaluating detailed analyses of the cost to be incurred. The Company presents restructuring and related charges on a combined basis. (See Note 16, Restructuring and Related Charges, for a more complete discussion of restructuring initiatives and related costs).

(y) Adoption of New Accounting Pronouncements

In June 2006, the Emerging Issues Task Force (“EITF”) issued EITF 06-3, “*How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation)*,” to clarify diversity in practice on the presentation of different types of taxes in the financial statements. The EITF concluded that, for taxes within the scope of the issue, a company may adopt a policy of presenting taxes as either gross within revenue or net. That is, it may include charges to customers for taxes within revenues and the charge for the taxes from the taxing authority within cost of sales, or, alternatively, it may net the charge to the customer and the charge from the taxing authority. If taxes are reported on a gross basis, and are significant, an entity should disclose the amounts of those taxes subject to EITF 06-3. The guidance is effective for interim and annual reporting periods beginning after December 15, 2006. The Company currently records its sales net of any value added or sales tax accordingly; the adoption of EITF 06-3 will not have a material impact on its financial position, results of operations or cash flows.

In July 2006, the FASB issued FASB Interpretation (“FIN”) No. 48, “*Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109*” (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with Statement of Financial Accounting Standards No. 109, “*Accounting for Income Taxes*”. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition, whereby the enterprise determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is measurement, whereby a tax position that meets the more-likely-than-not recognition threshold is calculated to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. Earlier application is permitted as long as the enterprise has not yet issued financial statements, including interim financial statements, in the period of adoption. The provisions of FIN 48 are to be applied to all tax positions upon initial adoption of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. The cumulative effect of applying the provisions of FIN 48 should be reported as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year. The Company does not expect the adoption of FIN 48 to have a material effect on its financial condition, results of operation and cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “*Fair Value Measurements*” (“SFAS 157”). SFAS 157 provides guidance for using fair value to measure assets and liabilities. The FASB believes SFAS 157 also responds to investors’ requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities

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to be measured at fair value but does not expand the use of fair value in any new circumstances. Under SFAS 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. In SFAS 157, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, SFAS 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. Under SFAS 157, fair value measurements would be separately disclosed by level within the fair value hierarchy. The provisions of SFAS 157 for financial assets and liabilities, as well as any other assets and liabilities that are carried at fair value on a recurring basis in financial statements, are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The FASB did, however, provide a one-year deferral for the implementation of SFAS 157 for other non-financial assets. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. The Company is currently evaluating the impact that SFAS 157 will have on its financial condition, results of operations and cash flows.

(3) Inventories

Inventories consist of the following:

	September 30,	
	2007	2006
Raw materials	\$ 76,082	\$ 121,793
Work-in-process	28,821	36,205
Finished goods	212,566	302,674
	\$317,469	\$460,672

(4) Property, Plant and Equipment

Property, plant and equipment consist of the following:

	September 30,	
	2007	2006
Land, buildings and improvements	\$ 105,660	\$102,147
Machinery, equipment and other	379,660	423,862
Construction in progress	8,382	24,046
	493,702	550,055
Less accumulated depreciation	243,900	238,216
	\$249,802	\$311,839

(5) Assets Held for Sale

At September 30, 2007, assets totaling \$572,859 were included in Assets held for sale in the Consolidated Balance Sheets. At September 30, 2007, the Company had \$564,188 and \$47,688 related to certain assets and liabilities, respectively, of the Company's Home and Garden Business included in Assets held for sale and Liabilities held for sale, respectively, in its Consolidated Balance Sheets. (See Note 11, Discontinued Operations, for additional information relating to discontinued operations). All relevant criteria of SFAS 144 allowing for the classification of assets held for sale have been met for the assets and liabilities of the Home and Garden Business. The following table details the components of the assets and liabilities held for sale related to the Company's Home and Garden Business at September 30, 2007:

	Amount
Receivables, net of allowance for doubtful accounts	\$ 50,596
Inventories	92,721
Other current assets	6,932
Property, plant and equipment, net	36,538
Goodwill	161,078
Intangible assets, net	212,747
Other assets	3,576
Total assets held for sale	564,188
Accounts payable	32,705
Other current liabilities	14,983
Total liabilities held for sale	47,688
Total Home and Garden Business net assets held for sale	\$516,500

In accordance with SFAS 144, long-lived assets to be disposed of by sale are recorded at the lower of their carrying value or fair value less costs to sell. During Fiscal 2007, the Company recorded a non-cash pretax charge of \$168,520 in discontinued operations to reduce the carrying value of certain assets, principally consisting of goodwill and intangible assets, related to the Home and Garden Business in order to reflect the estimated fair value of this business. Such estimated fair value was based on a range of estimated sales values, taking into account current market conditions, provided by independent third-party advisors. If and when a sale is consummated the actual fair value at that time may vary from the estimated fair value as reflected herein.

On September 27, 2007 we signed a definitive agreement to sell the Canadian division of the Home and Garden Business, which operates under the name Nu-Gro, to a new company formed by RoyCap Merchant Banking Group and Clarke Inc. The transaction closed on November 1, 2007. (See also Note 18, Subsequent Events for additional information regarding this divestiture).

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The remaining balance in Assets held for sale in the Consolidated Balance Sheets as of September 30, 2007 and 2006 consists primarily of a distribution facility in the Dominican Republic and a manufacturing facility in France. During 2006, an \$8,876 gain on sale of assets is included in the Consolidated Statements of Cash Flows. This gain includes an \$8,260 gain on the sale of a Bridgeport, Connecticut facility, previously included in Assets held for sale.

(6) Intangible Assets

Intangible assets consist of the following:

	Global Batteries & Personal Care	Home & Garden	Global Pet Supplies	Total
Goodwill:				
Balance as of September 30, 2005	\$ 416,889	\$ 912,404	\$ 99,724	\$1,429,017
Goodwill recognized during period	7,614	5,798	14,880	28,292
Purchase price allocation during period	17,943	(618,592)	600,649	-
Impairment charge	(117,489)	-	(235,389)	(352,878)
Effect of translation	5,508	(2,280)	22,525	25,753
Balance as of September 30, 2006	\$ 330,465	\$ 297,330	\$ 502,389	\$1,130,184
Asset held for sale	-	(161,078)	-	(161,078)
Purchase price allocation during period	5,000	-	-	5,000
Impairment charge	(214,039)	(138,135)	-	(352,174)
Effect of translation	13,473	1,883	27,361	42,717
Balance as of September 30, 2007	\$ 134,899	\$ -	\$ 529,750	\$ 664,649
Intangible assets:				
Trade names not subject to amortization				
Balance as of September 30, 2005, net	\$ 428,532	\$ 146,100	\$ 332,696	\$ 907,328
Additions	-	-	-	-
Purchase price allocation during period	-	-	-	-
Impairment charge	(44,700)	-	(35,400)	(80,100)
Effect of translation	9,278	534	(96)	9,716
Balance as of September 30, 2006, net	\$ 393,110	\$ 146,634	\$ 297,200	\$ 836,944
Additions	-	-	37	37
Asset held for sale	-	(138,427)	-	(138,427)
Purchase price allocation during period	(8,236)	-	-	(8,236)
Impairment charge	(23,400)	(9,136)	(1,000)	(33,536)
Effect of translation	21,315	929	14,400	36,644
Balance as of September 30, 2007, net	\$ 382,789	\$ -	\$ 310,637	\$ 693,426
Intangible assets subject to amortization				
Balance as of September 30, 2005, net	12,603	87,804	143,471	243,878
Additions	-	(227)	292	65
Amortization during period	(927)	(9,589)	(12,957)	(23,473)
Effect of translation	628	180	92	900
Balance as of September 30, 2006, net	\$ 12,304	\$ 78,168	\$ 130,898	\$ 221,370
Additions	-	-	582	582
Assets held for sale	-	(74,320)	-	(74,320)
Amortization during period	(997)	-	(12,849)	(13,846)
Impairment charge	-	(4,249)	-	(4,249)
Effect of translation	1,259	401	4,674	6,334
Balance as of September 30, 2007, net	\$ 12,566	\$ -	\$ 123,305	\$ 135,871
Pension intangible assets				
Balance as of September 30, 2006	\$ 2,773	\$ -	\$ -	\$ 2,773
Balance as of September 30, 2007	\$ -	\$ -	\$ -	\$ -
Total Intangible Assets, net	\$ 395,355	\$ -	\$ 433,942	\$ 829,297

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The Company completed the acquisitions of United, Tetra and Jungle during 2005. The purchase price allocations for United, Tetra and Jungle have been finalized. (See also Note 17, Acquisitions, for additional information on the United, Tetra and Jungle acquisitions).

The carrying value of technology assets was \$35,635, net of accumulated amortization of \$10,726 at September 30, 2007, and \$37,305, net of accumulated amortization of \$7,126 at September 30, 2006. The trade names subject to amortization relate to the United acquisition. The carrying value of these trade names was \$4,851, net of accumulated amortization of \$5,846 at September 30, 2007, and \$5,359 net of accumulated amortization of \$5,338 at September 30, 2006. Remaining intangible assets subject to amortization include customer relationship intangibles. Of the intangible assets acquired in the United and Jungle acquisitions, customer relationships and technology assets have been assigned a life of approximately 12 years and other intangibles have been assigned lives of one year to four years. Of the intangible assets acquired in the Tetra acquisition, customer relationships have been assigned a life of approximately 12 years and technology assets have been assigned a six-year life.

The additional goodwill recognized in the Global Batteries & Personal Care segment during Fiscal 2007 and 2006 principally related to incremental earn-out payments associated with the May 2004 acquisition of Microlite in Brazil and deferred tax liability adjustments in Europe. (See Note 14, Commitments and Contingencies, for additional information regarding the earn-out payments associated with the Microlite acquisition). The additional goodwill recognized in the Global Pet Supplies segment during Fiscal 2006 principally related to the finalization of accruals for shutdown reserve costs at certain facilities, acquired as part of the United acquisition, offset by deferred tax liability adjustments.

The purchase price allocation decrease to Global Batteries & Personal Care trade names not subject to amortization during Fiscal 2007 relates to the reversal of a portion of a deferred tax valuation allowance established in connection with the acquisition of Microlite in May, 2004. In accordance with SFAS No. 109, "Accounting for Income Taxes," intangible assets were reduced as all prior goodwill related to the Microlite acquisition had been previously written off.

SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), requires companies to test goodwill and indefinite-lived intangible assets for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have been incurred. In Fiscal 2007 and 2006, the Company, with

the assistance of independent third-party valuation specialists, conducted its impairment testing of goodwill and indefinite-lived intangible assets. As a result of these analyses the Company recorded a non-cash pretax impairment charge of approximately \$238,439 and \$432,978 in Fiscal 2007 and Fiscal 2006, respectively. Of the Fiscal 2007 impairment, approximately \$214,039 of the charge related to impaired goodwill related to continuing operations, and \$24,400 related to impaired trade name intangible assets related to continuing operations. Of the Fiscal 2006 impairment, approximately \$352,878 of the charge related to impaired goodwill related to continuing operations and approximately \$80,100 related to impaired trade name intangible assets related to continuing operations. (See Note 2(i), Significant Accounting Policies—Intangible Assets, for further details on the impairment charges).

As previously disclosed, the Company has designated the Home and Garden Business as discontinued operations. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144), long-lived assets to be disposed of by sale are recorded at the lower of their carrying value or fair value less costs to sell. During Fiscal 2007, the Company recorded a non-cash pretax charge of approximately \$168,520 in discontinued operations to reduce the carrying value of certain assets, principally consisting of goodwill and intangible assets related to the Home and Garden Business, in order to reflect the estimated fair value of this business. Approximately \$138,135 of this charge related to impaired goodwill, approximately \$9,136 related to impaired trade name intangible assets, and approximately \$4,249 related to impaired customer relationship intangibles. (See Note 5, Assets Held for Sale, and Note 11, Discontinued Operations, for additional information relating to assets held for sale and discontinued operations).

The amortization expense related to intangibles subject to amortization for Fiscal 2007, 2006 and 2005 is as follows:

	2007	2006 ⁽¹⁾	2005 ⁽¹⁾
Proprietary technology amortization	\$ 3,601	\$ 3,600	\$ 2,449
Customer list amortization	9,737	16,421	9,693
Trade names amortization	508	3,452	1,886
	\$13,846	\$23,473	\$14,028

(1) Fiscal 2006 and 2005 include amortization of \$9,654 and \$6,364, respectively, associated with the Home and Garden Business.

The Company estimates annual amortization expense for the next five fiscal years will approximate \$13,000 per year.

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(7) Debt

Debt consists of the following:

	September 30, 2007		September 30, 2006	
	Amount	Rate ⁽¹⁾	Amount	Rate ⁽¹⁾
Senior Subordinated Notes, due February 1, 2015	\$ 700,000	7.4%	\$ 700,000	7.4%
Senior Subordinated Notes, due October 2, 2013	347,012	11.3%	-	-
Term Loan B, U.S. Dollar, expiring March 30, 2013	997,500	9.6%	-	-
Term Loan B II, U.S. Dollar, expiring March 30, 2013	-	-	-	-
Term Loan, Euro, expiring March 30, 2013	369,855	8.8%	-	-
Senior Subordinated Notes, due October 1, 2013	2,873	8.5%	350,000	8.5%
Revolving Credit Facility, expiring September 28, 2011	-	-	-	-
Term Loan, U.S. Dollar, expiring February 6, 2012	-	-	604,827	8.6%
Term Loan, Canadian Dollar, expiring February 6, 2012	-	-	72,488	7.4%
Term Loan, Euro, expiring February 6, 2012	-	-	134,721	6.3%
Term Loan, Euro Tranche B, expiring February 6, 2012	-	-	332,315	6.2%
Revolving Credit Facility, expiring February 6, 2011	-	-	26,200	10.3%
Other notes and obligations	28,719	5.6%	42,698	5.7%
Capitalized lease obligations	14,395	5.0%	13,922	5.0%
	2,460,354		2,277,171	
Less current maturities	43,438		42,713	
Long-term debt	\$ 2,416,916		\$ 2,234,458	

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

Senior Credit Facilities

During Fiscal 2007, the Company refinanced its outstanding senior credit facilities with new senior credit facilities pursuant to a new senior credit agreement (the "Senior Credit Agreement") consisting of a \$1,000,000 U.S. Dollar Term B Loan, a \$200,000 U.S. Dollar Term B II Loan (the "U.S. Dollar Term B II Loan"), a €262,000 Term Loan (collectively referred to as the "Term Loan Facilities"), and a \$50,000 synthetic letter of credit facility. The proceeds of borrowings under the Senior Credit Agreement were used to repay all outstanding obligations under the Company's Fourth Amended and Restated Credit Agreement, dated as of February 7, 2005, to pay fees and expenses in connection with the refinancing and the Exchange Offer, described below, and for general corporate purposes.

On September 28, 2007, pursuant to the terms of the Senior Credit Agreement, the Company entered into a \$225,000 U.S. Dollar Asset Based Revolving Loan Facility (the "ABL Facility" and together with the credit facilities pursuant to the Senior Credit Agreement, the "Senior Credit Facilities") pursuant to a new credit agreement (the "ABL Credit Agreement"). The ABL Facility replaced the U.S. Dollar Term B II Loan under the new senior credit facilities, which was simultaneously prepaid using cash from operations coupled with a portion of the cash on hand resulting from the refinancing in Fiscal 2007. References to "Senior Credit Facilities" in this Annual Report on Form 10-K, refer to the new senior credit facilities discussed above as modified by the replacement of the U.S. Dollar Term B II Loan with the ABL Facility. As a result of the prepayment of the U.S. Dollar Term B II Loan, under the terms of the ABL Credit Agreement, as of September 30, 2007, the Company has aggregate borrowing

availability of approximately \$171,005 under the ABL Facility. The Company may increase the existing \$225,000 U.S. Dollar ABL Facility up to \$300,000 at its option upon request to its lenders under the ABL Facility and upon meeting certain criteria specified in the ABL Credit Agreement.

As of September 30, 2007, the Senior Credit Facilities aggregated to a U.S. Dollar equivalent of \$1,642,355 and consisted of a \$997,500 U.S. Dollar Term B Loan, a €261,345 Term Loan (USD \$369,855 at September 30, 2007), a \$225,000 U.S. Dollar ABL Revolver and a \$50,000 synthetic letter of credit facility.

As of September 30, 2007, the Company had not made any borrowings under the ABL Credit Facility. Approximately \$46,967 of letters of credit were outstanding under the synthetic letter of credit facility at September 30, 2007.

The aggregate scheduled maturities of debt as of September 30, 2007 are as follows:

2008	\$ 43,438
2009	14,800
2010	14,382
2011	14,332
2012	14,301
Thereafter	2,359,101
	\$2,460,354

Aggregate capitalized lease obligations included in the amounts above are payable in installments of \$1,135 in 2008, \$968 in 2009, \$674 in 2010, \$624 in 2011, \$593 in 2012 and \$10,401 thereafter.

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Approximately \$38,781 of fees and expenses incurred in association with the Senior Credit Facilities have been capitalized and will be amortized over the term of the facilities. In addition, in connection with the March 30, 2007 refinancing, approximately \$15,651 of debt issuance costs associated with the previously outstanding senior credit facilities were written off and are included in Interest expense in the Consolidated Statements of Operations for the fiscal year ended September 30, 2007. Approximately \$11,649 of prepayment premiums in connection with repayment of the previously outstanding senior credit facilities were included in interest expense in the Consolidated Statements of Operations for the fiscal year ended September 30, 2007. In addition, approximately \$1,285 of fees and expenses were incurred in connection with the fourth amendment to the Company's senior credit facilities outstanding prior to the refinancing undertaken in Fiscal 2007. As a result of the refinancing in Fiscal 2007, these fees and expenses were included in interest expense in the Consolidated Statements of Operations for the fiscal year ended September 30, 2007.

The Term Loan Facilities are subject to repayment according to a scheduled amortization, with the final payment of all amounts outstanding, plus accrued interest, due on March 30, 2013. Beginning with the fiscal year ended September 30, 2007, the Senior Credit Agreement provides for annual mandatory prepayments, over and above the normal amortization as a result of excess cash flow, as defined in the Senior Credit Agreement. The Senior Credit Agreement also provides for other mandatory prepayments, subject to certain exceptions and reinvestment provisions, of net proceeds as a result of certain events, including, the issuance of debt, sales of certain assets above a specified threshold, receipt of proceeds from certain casualty events and the issuance of equity interests by the Company or any of its subsidiaries.

The Senior Credit Agreement contains financial covenants with respect to debt which include a maximum senior secured leverage ratio. In accordance with the agreement, the limits imposed by such ratio become more restrictive over time. In addition, the Senior Credit Agreement contains customary restrictive covenants, including, but not limited to, restrictions on the Company's ability to incur additional indebtedness, create liens, make investments or specified payments, give guarantees, pay dividends, make capital expenditures and merge or acquire or sell assets.

The Senior Credit Agreement also contains customary events of default and is secured by substantially all of the Company's domestic assets pursuant to a Guarantee and Collateral Agreement entered into on March 30, 2007.

The ABL Credit Facility includes a \$60,000 U.S. Dollar Letter of Credit subfacility and a \$30,000 U.S. Dollar swingline loan subfacility within the \$225,000 overall facility amount. The

ABL Facility is subject to repayment with the final payment of all amounts outstanding, plus accrued interest, due on September 28, 2011. The ABL Facility provides for mandatory prepayments of net proceeds to the extent the borrowing base is reduced or in connection with sales of business assets.

The ABL Credit Agreement is secured by certain of the Company's liquid assets, including, among other things, deposit accounts and substantially all of the Company's domestic trade receivables and inventory and contains customary restrictive covenants, including, but not limited to, restrictions on the Company's ability to incur additional indebtedness, create liens, make investments or specified payments, give guarantees, pay dividends, make capital expenditures and merge or acquire or sell assets.

As of September 30, 2007, the Company was in compliance with all covenants associated with the Senior Credit Facilities.

Senior Subordinated Notes

Beginning on March 16, 2007, the Company conducted an offer to exchange the entire \$350,000 of outstanding principal amount of its 8½% Senior Subordinated Notes due 2013 (the "Existing Notes") for the same aggregate principal amount of Variable Rate Toggle Senior Subordinated Notes due 2013 (the "New Notes") pursuant to the terms of an exchange offer (the "Exchange Offer"). The terms of the Exchange Offer further provided that holders of Existing Notes who tendered their Existing Notes for exchange following the expiration of a consent solicitation period, which ended on March 29, 2007, would receive a reduced principal amount of New Notes in exchange for tendered Existing Notes. As of the expiration of the Exchange Offer on April 13, 2007, holders of Existing Notes had tendered \$347,127 of Existing Notes, which were accepted by the Company, and exchanged, pursuant to the terms of the Exchange Offer, for \$347,012 of New Notes. As a result of the terms of the Exchange Offer, the Company recorded a gain from early extinguishment of debt of \$75 net of tax expense of \$40 for the fiscal year ended September 30, 2007. At September 30, 2007, \$2,873 principal amount of Existing Notes remain outstanding.

In connection with the Exchange Offer, on March 30, 2007, the Company and certain of its domestic subsidiaries, as guarantors, entered into an indenture (the "Indenture") with Wells Fargo Bank, N.A., as trustee (the "Trustee"), governing the New Notes.

Approximately \$3,903 of fees and expenses incurred in association with the Exchange Offer have been capitalized and will be amortized over the term of the New Notes. In addition, in connection with the Exchange Offer approximately \$8,925 of debt issuance costs associated with the Existing Notes were written off and included in Interest expense in the Consolidated Statements of Operations for the fiscal year ended September 30, 2007.

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Subject to certain conditions, the Company has the option to pay interest on the New Notes entirely in cash or by increasing the principal amount of the New Notes. The New Notes are subject to a variable rate of interest that increases semi-annually, varying depending on whether interest is paid in cash or increased principal. As of September 30, 2007, the New Notes bore interest at 11.25%. Interest will be payable semi-annually in arrears on October 2 and April 2. The Company made the first interest payment in cash on October 2, 2007. At such time as the Fixed Charge Coverage Ratio test under the Indenture governing the New Notes is above 2:1, the Company is required to pay interest of 1% over the scheduled rates referred to above. The Company will make each interest payment to the holders of record of the New Notes as of the immediately preceding March 15 and September 15, respectively. The New Notes are general unsecured obligations of the Company. The New Notes are subordinated in right of payment to all existing and future senior debt by the Company, including our indebtedness pursuant to the Senior Credit Facilities. The New Notes are equal in right of payment with all existing and any future senior subordinated indebtedness of the Company's, including, without limitation, its 7 $\frac{3}{8}$ % Senior Subordinated Notes due 2015 and the Existing Notes which remain outstanding following the closing of the Exchange Offer, and are senior in right of payment to any future subordinated indebtedness of the Company's.

The terms of the New Notes are governed by the Indenture. The Indenture contains customary covenants that limit the Company's ability to, among other things, incur additional indebtedness, pay dividends on or redeem or repurchase its equity interests, make certain investments, expand into unrelated businesses, create liens on assets, merge or consolidate with another company, transfer or sell all or substantially all of its assets, and enter into transactions with affiliates. Upon the occurrence of a "change of control," as defined in the Indenture, the Company is required to make an offer to repurchase the outstanding New Notes for a specified redemption price, beginning at 110% of the principal amount being repurchased and declining to 100% on October 1, 2010, in each case plus accrued and unpaid interest on such principal.

The Company may redeem all or a part of the New Notes upon not less than 30 nor more than 60 days notice, at specified redemption prices beginning at 110% of the principal amount being redeemed and declining to 100% on October 1, 2010, in each case plus accrued and unpaid interest on such principal.

In addition, the Indenture is subject to customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to make payments on or acceleration of certain other indebtedness, and certain events of bankruptcy and insolvency. Events of default under the Indenture arising from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the New Notes. If any other event of default

under the Indenture occurs and is continuing, the Trustee, or the registered holders of at least 25% in aggregate principal amount of the then outstanding New Notes, may declare the acceleration of the amounts due under the New Notes.

The Company was in compliance with all covenants associated with its \$347,012 principal amount of New Notes, its \$2,873 principal amount of Existing Notes that remain outstanding and the \$700,000 principal amount of 7 $\frac{3}{8}$ % Senior Subordinated Notes due 2015 (collectively referred to as the "Senior Subordinated Notes"), with the exception of the Fixed Charge Coverage Ratio test relating to the indebtedness under the Senior Subordinated Notes, that were in effect as of and during the fiscal year ended September 30, 2007. Due to significant restructuring charges and reduced business performance, the Company has not met the minimum requirement of 2:1 for the Fixed Charge Coverage Ratio test under the indentures governing its Senior Subordinated Notes. Until the Company satisfies such test, it is limited in its ability to make significant acquisitions or incur significant additional senior debt beyond its Senior Credit Facilities. The Company does not expect its inability to meet the Fixed Charge Coverage Ratio test to impair its ability to provide adequate liquidity to meet the short-term and long-term liquidity requirements of its existing businesses, although no assurance can be given in this regard.

(8) Shareholders' Equity

The Company granted approximately 1,689 shares of restricted stock during 2007. Of these grants, approximately 194 shares are time-based and vest either 100% after three years or on a pro rata basis over a three-year period and 1,495 shares are purely performance-based and vest only upon achievement of certain performance goals. The total market value of the restricted shares on the date of grant was approximately \$12,750. Unearned compensation is being amortized to expense over the appropriate vesting period.

The Company granted approximately 965 shares of restricted stock during 2006. Of these grants, approximately 415 shares are time-based and vest on a pro rata basis over either a three- or four-year period and 390 shares are performance-based and vest upon achievement of certain performance goals. If the performance targets are not met, the performance component of a restricted stock award will automatically vest one year after the originally scheduled vesting date, effectively making the award time-based. The remaining 160 shares vest at specific dates throughout 2008 and 2009. The total market value of the restricted shares on the date of grant was approximately \$18,875. Unearned compensation is being amortized to expense over the appropriate vesting period.

The Company granted approximately 1,242 shares of restricted stock during 2005. Of these grants, approximately 538 shares will vest over a three-year period, with 50% of the shares vesting on a pro rata basis over the three-year period and the remaining 50%

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vesting based on the Company's performance during the three-year period or one year after, if performance criteria are not met. Approximately 317 shares granted will be 100% vested on February 7, 2008, if specified performance targets are met. If those performance targets are not met, the shares will vest on February 7, 2012. The remaining 387 shares vest at varying dates through 2009, including 293 that vest in 2008. The total market value of the restricted shares on the date of grant was approximately \$41,924. Unearned compensation is being amortized to expense over the appropriate vesting period.

In addition, in 2005, the Company issued 13,750 shares of common stock from treasury as partial consideration for the United acquisition. (See Note 17, Acquisitions, where the United acquisition is further discussed). The value of these shares was calculated at a share price of \$31.94. The share price of \$31.94 was based on a five-day average beginning on December 30, 2004.

(See also Note 2(w), Significant Accounting Policies—Stock Compensation, for additional information on grants and forfeitures of restricted shares during 2007, 2006 and 2005).

(9) Stock Option Plans

In 1996, the Company's Board of Directors ("Board") approved the Rayovac Corporation 1996 Stock Option Plan ("1996 Plan"). Under the 1996 Plan, stock options to acquire up to 2,318 shares of common stock, in the aggregate, may be granted to select employees and directors of the Company under either or both a time-vesting or a performance-vesting formula at an exercise price equal to the market price of the common stock on the date of grant. As of September 30, 2007, there were options with respect to 209 shares of common stock outstanding under the 1996 Plan. The 1996 Plan expired on September 12, 2006.

In 1997, the Board adopted the 1997 Rayovac Incentive Plan ("1997 Plan"). Under the 1997 Plan, the Company could grant to employees and non-employee directors stock options, stock appreciation rights ("SARs"), restricted stock, and other stock-based awards, as well as cash-based annual and long-term incentive awards. Accelerated vesting will occur in the event of a change in control, as defined in the 1997 Plan. Up to 5,000 shares of Common stock may be issued under the 1997 Plan. The 1997 Plan expired in August 31, 2007. As of September 30, 2007, there were options with respect to 1,301 shares of common stock and 556 restricted shares outstanding under the 1997 Plan.

In 2004, the Board adopted the 2004 Rayovac Incentive Plan ("2004 Plan"). The 2004 Plan supplements the 1997 Plan. Under the 2004 Plan, the Company may grant to employees and non-employee directors stock options, SARs, restricted stock, and other stock-based awards, as well as cash-based annual and long-term incentive awards. Accelerated vesting will occur in the event of a change in control, as defined in the 2004 Plan. Up to 3,500

shares of common stock, net of forfeitures and cancellations, may be issued under the 2004 Plan. At September 30, 2007, 3,369 restricted shares had been granted and 1,709 restricted shares were outstanding under the 2004 Plan. No options have been granted under the 2004 Plan. The 2004 Plan expires on July 31, 2014.

See also Note 2(w), Significant Accounting Policies—Stock Compensation, and Note 8, Shareholders' Equity, for information on grants and forfeitures of restricted shares during 2007, 2006 and 2005.

(10) Income Taxes

Income tax (benefit) expense was calculated based upon the following components of income from continuing operations before income tax:

	2007	2006	2005
Pretax (loss) income:			
United States	\$(394,104)	\$(223,958)	\$(26,071)
Outside the United States	37,712	(214,179)	71,205
Total pretax (loss) income	\$(356,392)	\$(438,137)	\$ 45,134

The components of income tax expense (benefit) are as follows:

	2007	2006	2005
Current:			
Federal	\$ (219)	\$ 819	\$ -
Foreign	15,445	23,678	32,152
State	1,245	450	1,700
Total current	16,471	24,947	33,852
Deferred:			
Federal	57,329	(43,890)	(11,982)
Foreign	(16,140)	3,690	(4,128)
State	(1,944)	(7,441)	(2,234)
Total deferred	39,245	(47,641)	(18,344)
Income tax expense (benefit)	\$ 55,716	\$(22,694)	\$ 15,508

The following reconciles the Federal statutory income tax rate with the Company's effective tax rate:

	2007	2006	2005
Statutory federal income tax rate	35.0%	35.0%	35.0%
Non U.S. permanent items	(3.3)	(0.7)	3.0
Revaluation of Deferred Taxes	7.9	(0.3)	1.5
Foreign statutory rate vs.			
U.S. statutory rate	1.2	0.5	(1.4)
State income taxes, net of federal benefit	2.7	1.5	(1.8)
Net nondeductible (deductible) interest expense	1.8	1.5	(4.3)
SFAS 142 Impairment	(14.6)	(23.7)	-
Valuation allowance	(46.0)	(6.5)	2.3
Other	(0.4)	(2.1)	0.1
	(15.7)%	5.2%	34.4%

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The tax effects of temporary differences, which give rise to significant portions of the deferred tax assets and deferred tax liabilities, are as follows:

	September 30,	
	2007	2006
Current deferred tax assets:		
Employee benefits	\$ 2,774	\$ 4,270
Restructuring	9,847	18,606
Inventories and receivables	16,870	17,503
Marketing and promotional accruals	3,776	3,192
Net operating loss and capital loss carryforwards	-	1,710
Other	14,689	9,455
Valuation allowance	(24,315)	(1,163)
Total current deferred tax assets	23,641	53,573
Current deferred tax liabilities:		
Inventory	(1,433)	(1,839)
Other	0	(1,333)
Total current deferred tax liabilities	(1,433)	(3,172)
Net current deferred tax assets	\$ 22,208	\$ 50,401
Noncurrent deferred tax assets:		
Employee benefits	\$ 18,920	\$ 21,533
Net operating loss and credit carryforwards	354,506	237,922
Other	41,363	31,482
Valuation allowance	(283,062)	(65,692)
Total noncurrent deferred tax assets	131,727	225,245
Noncurrent deferred tax liabilities:		
Property, plant, and equipment	(30,080)	(20,809)
Unrealized (gains)/losses	(4,631)	(7,966)
Intangibles	(169,704)	(299,428)
Other	(96,400)	(53,620)
Total noncurrent deferred tax liabilities	(300,815)	(381,823)
Net noncurrent deferred tax liabilities	\$(169,088)	\$(156,578)
Net current and noncurrent deferred tax (liabilities) assets	\$(146,880)	\$(106,177)

Undistributed earnings of the Company's foreign operations amounting to approximately \$329,952 and \$272,072 at September 30, 2007 and 2006, respectively, are intended to remain permanently invested. Accordingly, no U.S. income taxes have been provided on those earnings at September 30, 2007 and 2006. The tax liability that would result from the distribution of these earnings via a dividend distribution is not practicable to determine.

The Company, as of September 30, 2007, has U.S. federal and state net operating loss carryforwards of approximately \$763,308 and \$1,141,205, respectively, which will expire between 2008 and 2027. The Company has foreign net operating loss carryforwards of approximately \$117,116 which will expire beginning in 2008. Certain of the foreign net operating losses have indefinite carryforward periods. As of September 30, 2006, the Company has U.S. federal and state net operating loss carryforwards of

approximately \$463,644 and \$851,621, respectively. The Company has had a change of ownership, as defined under Internal Revenue Code Section 382, that subjects the Company's U.S. net operating losses to certain limitations. These limitations include an overall annual limitation and a limitation related to gains generated upon the divestiture of certain assets.

A valuation allowance is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the future and in the appropriate taxing jurisdictions. As of September 30, 2007 and September 30, 2006, the Company's valuation allowance, established for the tax benefit that may not be realized, totaled approximately \$307,376 and \$66,855, respectively. As of September 30, 2007 and September 30, 2006, approximately \$235,181 and \$20,413, respectively, related to U.S. net deferred tax assets, and approximately \$72,195 and \$46,442, respectively, related to foreign net deferred tax assets. The increase in the allowance during 2007 totaled approximately \$240,521, of which approximately \$214,768 related to an increase in the valuation allowance against U.S. net deferred tax assets, and approximately \$25,753 related to an increase in the valuation allowance against foreign net deferred tax assets. Included in the total change in the valuation allowance related to foreign net deferred tax assets, approximately \$4,600 was recorded as a reduction in other identified intangible assets. As of September 30, 2007, the remaining portion of the Brazil valuation allowance that, upon reversal, would reduce other identified intangible assets was approximately \$16,200.

The Company is continuously undergoing examination by various taxing authorities. The IRS and other state and foreign taxing authorities routinely challenge certain deductions and credits reported by the Company on its income tax returns. In accordance with SFAS No. 109, "Accounting for Income Taxes," and SFAS No. 5, "Accounting for Contingencies," the Company establishes reserves for tax contingencies that reflect its best estimate of the deductions and credits that it may be unable to sustain, or that it could be willing to concede as part of a broader tax settlement. As of September 30, 2007 and 2006 the Company has recorded tax contingency reserves of approximately \$8,786 and \$10,927, respectively. The decrease of approximately \$2,141 was primarily due to the closure of the IRS examination for the periods ended September 30, 2001 through September 30, 2004 in the fourth quarter of Fiscal 2007 and settlement of certain foreign examinations.

SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), requires companies to test goodwill and indefinite-lived intangible assets for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have been incurred. During 2007 and 2006, the Company, as a result of its testing, recorded non-cash pretax impairment charges of \$238,439 and \$432,978, respectively. The tax impact,

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prior to consideration of the current year valuation allowance, of the impairment charges was limited to a deferred tax benefit of \$29,597 and \$43,424 in Fiscal 2007 and 2006, respectively, as a result of a significant portion of the impaired assets not being deductible for tax purposes.

(11) Discontinued Operations

In the third quarter of the Company's fiscal year ended September 30, 2006, the Company engaged advisors to assist in exploring possible strategic options, including a potential sale of various assets in order to reduce its outstanding indebtedness. In connection with this undertaking, during the first quarter of Fiscal 2007, the Company approved and initiated a plan to sell the assets related to its Home and Garden Business. (See Note 5, Assets Held for Sale, where the specific assets and liabilities to be sold are further discussed.)

As a result, effective October 1, 2006, the Company reflected the operations of its Home and Garden Business as discontinued operations. Therefore, the presentation herein of the results of continuing operations has been changed to exclude the Home and Garden Business for all periods presented. The following amounts have been segregated from continuing operations and are reflected as discontinued operations for the years ended September 30, 2007, 2006 and 2005, respectively:

	2007	2006	2005
Net sales	\$ 658,888	\$657,011	\$544,975
(Loss) income from discontinued operations before income taxes	\$ (190,752)	\$ (17,949)	\$ 17,742
Provision for income tax (benefit) expense	(6,147)	(4,940)	6,005
(Loss) income from discontinued operations, net of tax	\$ (184,605)	\$ (13,009)	\$ 11,737

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144), requires that long-lived assets to be disposed of by sale are recorded at the lower of their carrying value or fair value less costs to sell. Accordingly, the Fiscal 2007 loss from discontinued operations before income taxes includes a non-cash pretax charge of \$168,520 to reduce the carrying value of certain assets, principally consisting of goodwill and intangible assets, related to the Home and Garden Business in order to reflect the estimated fair value of this business. Such estimated fair value was based on a range of estimated sales values, taking into account current market conditions, provided by independent third-party advisors. If and when a sale is consummated, the actual fair value at that time may vary from the estimated fair value as reflected herein. The Home and Garden Business (loss) income from discontinued operations before income taxes includes the allocation of interest expense, where such allocation

is based on the amount of the Company's debt that would be reduced as a result of any such sale. The income tax benefit of \$6,147 in Fiscal 2007 includes a \$54,154 non-cash deferred income tax charge related to increasing the valuation allowance against U.S. deferred tax assets related to the Home and Garden Business. In addition, an income tax benefit of \$52,699, prior to consideration of the current year valuation allowance, was recorded related to the SFAS 144 impairment charge (See Note 5, Assets Held for Sale, for additional information on this impairment charge).

On September 28, 2007, the Company signed a definitive agreement to sell the Canadian division of its Home and Garden Business, which operates under the name Nu-Gro, to a new company formed by RoyCap Merchant Banking Group and Clarke Inc. The transaction closed November 1, 2007. (See Note 18, Subsequent Events, for additional information regarding this divestiture).

On January 25, 2006, the Company sold its fertilizer technology and Canadian professional fertilizer products businesses of Nu-Gro to Agrium Inc. Proceeds from the sale were used to reduce outstanding debt. Nu-Gro Pro and Tech Fiscal 2005 revenue approximated \$80,000 from sales of high-end specialty controlled-release nitrogen fertilizer and other products to professional turf markets and specialty wholesale fertilizer customers. As part of the transaction, the Company signed strategic multi-year reciprocal supply agreements with Agrium. Proceeds from the sale totaled approximately \$83,000 after selling expenses and contractual working capital adjustments which were finalized on October 30, 2006.

Effective October 1, 2005, the Company reflected the operations of Nu-Gro Pro and Tech as discontinued operations. Therefore, the presentation herein of the results of continuing operations has been changed to exclude Nu-Gro Pro and Tech for all periods presented. The Company discontinued these operations as part of the United integration initiatives. (See also Note 16, Restructuring and Related Charges, for additional discussion of United integration initiatives). The following amounts have been segregated from continuing operations and are reflected as discontinued operations for the years ended September 30, 2006 and 2005, respectively:

	2006 ⁽¹⁾	2005
Net sales	\$ 16,314	\$ 52,293
(Loss) income from discontinued operations before income taxes	\$ (6,388)	\$ 8,407
Provision for income tax (benefit) expense	(868)	2,938
(Loss) income from discontinued operations (including loss on disposal of \$3,901 in 2006), net of tax	\$ (5,520)	\$ 5,469

(1) Represents results for the discontinued operations for October 2005 through January 2006.

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(12) Employee Benefit Plans

Pension Benefits

The Company has various defined benefit pension plans covering some of its employees in the United States and certain employees in other countries, primarily the United Kingdom and Germany. Plans generally provide benefits of stated amounts for each year of service. The Company funds its U.S. pension plans at a level to maintain, within established guidelines, the IRS-defined 90% current liability funded status. At January 1, 2007, the date of the most recent calculation, all U.S. funded defined benefit pension plans reflected a current liability funded status equal to or greater than 90%. Additionally, in compliance with the Company's funding policy, annual contributions to non-U.S. defined benefit plans are equal to the actuarial recommendations or statutory requirements in their respective countries.

The Company also sponsors or participates in a number of other non-U.S. pension arrangements, including various retirement and termination benefit plans, some of which are covered by local law or coordinated with government-sponsored plans, which are not significant in the aggregate and therefore are not included in the information presented below. The Company also has various nonqualified deferred compensation agreements with certain of its employees. Under certain of these agreements, the Company has agreed to pay certain amounts annually for the first 15 years subsequent to retirement or to a designated beneficiary upon death. It is management's intent that life insurance contracts owned by the Company will fund these agreements. Under the remaining agreements, the Company has agreed to pay such deferred amounts in up to 15 annual installments beginning on a date specified by the employee, subsequent to retirement or disability, or to a designated beneficiary upon death.

Other Benefits

Under the Rayovac postretirement plan the Company provides certain health care and life insurance benefits to eligible retired employees. Participants earn retiree health care benefits after reaching age 45 over the next 10 succeeding years of service and remain eligible until reaching age 65. The plan is contributory; retiree contributions have been established as a flat dollar amount with contribution rates expected to increase at the active medical trend rate. The plan is unfunded. The Company is amortizing the transition obligation over a 20-year period. During Fiscal 2007, the Company recognized a curtailment gain of approximately \$2,417 associated with this plan as retirees now pay the full actuarial cost for health care benefits offered under this plan.

Under the Tetra U.S. postretirement plan, the Company provides postretirement medical benefits to full-time employees who meet minimum age and service requirements. The plan is contributory

with retiree contributions adjusted annually and contains other cost-sharing features such as deductibles, coinsurance and copayments. During Fiscal 2007 the Company terminated this plan, which resulted in a gain of approximately \$2,730.

For measurement purposes, the Rayovac and Tetra U.S. postretirement plans assumed annual rates of increase of 10.0% in the per capita costs of covered health care benefits for Fiscal 2006 and 2005. The projected annual rates of increase were assumed to decline incrementally in future years from 11.0% to 4.0% in Fiscal 2006 and 10.0% to 3.5% in Fiscal 2005.

Effective September 30, 2007, the Company adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158"). The recognition and disclosure provisions of this statement requires recognition of the overfunded or underfunded status of defined benefit pension and postretirement plans as an asset or liability in the statement of financial position, and to recognize changes in that funded status in AOCI in the year in which the adoption occurs. The Company measures plan assets and obligations of its domestic pension plans as of June 30 each year and September 30 each year for its foreign pension plans and its domestic other postretirement plans. The measurement date provisions of SFAS 158, which for the Company become effective Fiscal 2009, will require the Company to measure all of its defined benefit pension and postretirement plan assets and obligations as of September 30, its fiscal yearend.

The adoption of SFAS 158 had no impact on the Company's results of operations or its cash flows. SFAS 158 did have an incremental effect on individual line items in the Company's Consolidated Balance Sheet as of September 30, 2007, as reflected in the following table. Had the Company not been required to adopt SFAS 158 at September, 30, 2007, an additional minimum liability would have been recognized pursuant to the provisions SFAS No. 87, "Employers' Accounting for Pensions." The effect of recognizing the additional minimum liability is included in the table below in the column labeled "Prior to Adopting SFAS 158."

	At September 30, 2007		
	Prior to Adopting SFAS 158	Effect of Adopting SFAS 158	As Reported at Sept 30, 2007
Deferred Tax Asset-Long-term	\$ 431	\$ (431)	\$ -
Intangible Assets	831,122	(1,824)	829,297
Other Assets	1,967,986	319	1,968,305
Total Employee Benefit Obligation	(58,306)	3,836	(54,469)
AOCI	(62,764)	(1,900)	(64,664)

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The following tables provide additional information on the Company's pension and other postretirement benefit plans:

	Pension and Deferred Compensation Benefits		Other Benefits	
	2007	2006	2007	2006
Change in benefit obligation				
Benefit obligation, beginning of year	\$ 113,391	\$ 116,140	\$ 5,298	\$ 5,823
Liabilities assumed with acquisitions	-	-	-	-
Service cost	3,197	4,686	223	614
Interest cost	6,294	5,215	163	299
Other events	-	(571)	-	-
Actuarial loss (gain)	(8,975)	(11,855)	157	(1,204)
Gain on curtailment	694	-	(5,147)	-
Participant contributions	119	115	-	-
Benefits paid	(4,414)	(4,410)	(236)	(234)
Foreign currency exchange rate changes	8,283	4,071	-	-
Benefit obligation, end of year	\$ 118,589	\$ 113,391	\$ 458	\$ 5,298
Change in plan assets				
Fair value of plan assets, beginning of year	\$ 63,133	\$ 54,884	\$ -	\$ -
Assets acquired with acquisitions	-	-	-	-
Actual return on plan assets	5,864	3,974	-	-
Employer contributions	4,882	6,886	236	233
Employee contributions	119	115	-	1
Benefits paid	(4,414)	(4,410)	(236)	(234)
Assets transferred out	(216)	(156)	-	-
Plan expenses paid	(198)	(75)	-	-
Foreign currency exchange rate changes	4,252	1,915	-	-
Fair value of plan assets, end of year	\$ 73,422	\$ 63,133	\$ -	\$ -
Funded status before fourth quarter contributions	\$ (45,167)	\$ (50,258)	\$ (458)	\$ (5,298)
Fourth quarter contributions	4,352	-	-	-
Funded status after fourth quarter contributions	(40,815)	(50,258)	(458)	(5,298)
Unrecognized net transition obligation	-	-	-	161
Unrecognized prior service cost	-	2,773	-	-
Unrecognized net actuarial loss (gain)	-	15,999	-	(1,320)
Adjustment for minimum liability	-	(19,409)	-	-
Accrued benefit cost	\$ (40,815)	\$ (50,895)	\$ (458)	\$ (6,457)
Weighted average assumptions:				
Discount rate	4.50%-6.25%	4.55%-6.25%	6.25%	6.25%
Expected return on plan assets	4.5%-8.0%	4.0%-8.0%	N/A	N/A
Rate of compensation increase	0%-4.4%	0%-4.1%	N/A	N/A

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spectrum Brands, Inc.

The net underfunded status of \$40,815 is recognized in the accompanying Consolidated Balance Sheet as \$1,157 within Other Assets for our overfunded plans and \$41,972 within Total Employee Benefit Obligations for our underfunded plans. Included in AOCI as of September 30, 2007 are the following amounts that have not yet been recognized as components of net periodic pension cost: unrecognized net losses of \$6,580 and unrecognized net prior service costs of \$1,799. The net loss, and net prior services costs in AOCI expected to be recognized during Fiscal 2008 are \$275 and \$249, respectively.

At September 30, 2007, the Company's total pension and deferred compensation benefit obligation of \$118,589 consisted of \$38,069 associated with U.S. plans and \$80,520 associated with international plans. The fair value of the Company's assets of \$73,422 consisted of \$28,012 associated with U.S. plans and \$45,410 associated with international plans. The weighted aver-

age discount rate used for the Company's domestic plans was approximately 6.3% and approximately 5.6% for its international plans. The weighted average expected return on plan assets used for the Company's domestic plans was approximately 8.0% and approximately 5.4% for its international plans.

At September 30, 2006, the Company's total pension and deferred compensation benefit obligation of \$113,391 consisted of \$37,223 associated with U.S. plans and \$76,168 associated with international plans. The fair value of the Company's assets of \$63,133 consisted of \$25,197 associated with U.S. plans and \$37,936 associated with international plans. The weighted average discount rate used for the Company's domestic plans was approximately 6.3% and approximately 4.6% for its international plans. The weighted average expected return on plan assets used for the Company's domestic plans was approximately 8.0% and approximately 5.5% for its international plans.

	Pension and Deferred Compensation Benefits			Other Benefits		
	2007	2006	2005	2007	2006	2005
Components of net periodic benefit cost						
Service cost	\$ 3,197	\$ 4,686	\$ 2,319	\$ 223	\$ 614	\$ 293
Interest cost	6,294	5,215	4,695	163	299	186
Expected return on assets	(4,146)	(3,838)	(2,724)	-	-	-
Amortization of prior service cost	703	404	319	-	22	28
Amortization of transition obligation	-	34	-	-	-	-
(Gain) loss on curtailments	-	-	(92)	-	-	-
Recognized net actuarial loss (gain)	208	1,607	501	(58)	-	-
Net periodic benefit cost	\$ 6,256	\$ 8,108	\$ 5,018	\$ 328	\$ 935	\$ 507

The contributions to the domestic pension plans between July 1 and September 30 were \$2,153 in 2007, and \$839 in 2006. All of the Company's plans individually have accrued benefit costs.

The discount rate is used to calculate the projected benefit obligation. The discount rate used is based on the rate of return on government bonds of the respective countries as well as current market conditions.

Below is a summary allocation of all pension plan assets along with expected long-term rates of return by asset category as of the measurement date.

Asset Category	Weighted Average Allocation		
	Target	Actual	
	2008	2007	2006
Equity Securities	25-60%	32%	27%
Fixed Income Securities	40%	15%	15%
Other	75-100%	53%	58%
Total	100%	100%	100%

The weighted average expected long-term rate of return on total assets is 6.4%.

The Company has established formal investment policies for the assets associated with these plans. Policy objectives include maximizing long-term return at acceptable risk levels, diversifying among asset classes, if appropriate, and among investment managers, as well as establishing relevant risk parameters within each asset class. Specific asset class targets are based on the results of periodic asset liability studies. The investment policies permit variances from the targets within certain parameters. The weighted average expected long-term rate of return is based on a Fiscal 2007 review of such rates. The plan assets currently do not include holdings of Spectrum common stock.

The Company's Fixed Income Securities portfolio is invested primarily in commingled funds and managed for overall return expectations rather than matching duration against plan liabilities; therefore, debt maturities are not significant to the plan performance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spectrum Brands, Inc.

The Company's Other portfolio consists of all pension assets in the United Kingdom, Germany and the Netherlands.

The Company expects to make minimal contributions to its pension plans in 2008. The Company's expected future pension benefit payments for Fiscal 2008 through Fiscal 2017 are as follows:

2008	\$ 3,949
2009	3,845
2010	4,040
2011	4,279
2012	4,466
2013 to 2017	\$27,986

Prior to the adoption of SFAS No. 158 "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)*" (SFAS 158), the Company recorded an additional minimum pension liability of \$19,409 at September 30, 2006 to recognize the underfunded position of its benefit plans. An intangible asset of \$2,773 at September 30, 2006 equal to the unrecognized prior service cost and net transition obligation of these plans had also been recorded. The excess of the additional minimum liability over the unrecognized prior service cost, net of tax, of \$9,668 at September 30, 2006 was recorded as a component of AOCI.

The Company sponsors a supplemental executive retirement plan for eligible employees. Each October 1, the account of each participant is credited by an amount equal to 15% of the participant's salary. In addition, each quarter each account is credited by an amount equal to 2% of the participant's account value. Each participant vests 20% per year in his account, with immediate full vesting occurring upon death, disability or a change in control of the Company. During Fiscal 2007, the Company began funding this plan; however, prior to Fiscal 2007 the plan was unfunded. As of September 30, 2007 and 2006, the Company had recorded an obligation of \$468 and \$3,848, respectively, related to the plan.

The Company sponsors a defined contribution pension plan for its domestic salaried employees, which allows participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. The Company contributes annually from 3% to 6% of participants' compensation based on age or service, and may make additional discretionary contributions. The Company also sponsors defined contribution pension plans for employees of certain foreign subsidiaries. Company contributions charged to operations, including discretionary amounts, for 2007, 2006 and 2005 were \$4,109, \$5,900 and \$4,193, respectively.

(13) Segment Information

In Fiscal 2007, the Company began managing its business in three operating segments: (i) Global Batteries & Personal Care, (ii) Global Pet Supplies; and (iii) the Home and Garden Business. The presentation of all historical segment reporting herein has been reclassified to conform to this segment structure.

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

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

The operating segment profits do not include restructuring and related charges, interest expense, interest income, impairment charges and income tax expense. In connection with the realignment of operating segments discussed above in Fiscal 2007 expenses associated with the Company's global operations group, which consisted of research and development, manufacturing management, global purchasing, quality operations and inbound supply chain, which were previously reflected in corporate expenses, are now included in the determination of operating segment profits. In addition, certain general and administrative expenses necessary to reflect the operating segments on a stand-alone basis and which were previously reflected as corporate expenses, have been included in the determination of operating segment profits. Accordingly, corporate expenses include primarily general and administrative expenses associated with corporate overhead and global long-term incentive compensation plans. Segment reporting results for Fiscal 2006 and 2005 have been reclassified to conform to the changes described above. All depreciation and amortization included in income from operations is related to operating segments or corporate expense. Costs are identified to operating segments or corporate expense according to the function of each cost center.

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

Segment information for Fiscal 2007, 2006 and 2005 is as follows:

Net Sales to External Customers

	2007	2006	2005
Global Batteries & Personal Care	\$ 1,431,475	\$ 1,351,518	\$ 1,476,536
Global Pet Supplies	563,047	543,223	285,643
Total segments	\$1,994,522	\$1,894,741	\$ 1,762,179

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spectrum Brands, Inc.

Depreciation and Amortization

	2007	2006	2005
Global Batteries & Personal Care	\$ 33,660	\$ 34,462	\$ 36,183
Global Pet Supplies	22,269	21,709	11,589
Total segments	55,929	56,171	47,772
Corporate	21,496	14,341	9,509
Total Depreciation and amortization	\$ 77,425	\$ 70,512	\$ 57,281

Segment Profit

	2007	2006	2005
Global Batteries & Personal Care ⁽¹⁾	\$ 143,850	\$ 117,409	\$ 176,376
Global Pet Supplies ⁽¹⁾⁽²⁾	71,038	72,471	22,613
Total segments	214,888	189,880	198,989
Corporate expenses ⁽¹⁾	46,902	41,315	28,142
Restructuring and related charges	91,040	34,670	16,739
Goodwill and intangibles impairment	238,439	432,978	-
Interest expense ⁽³⁾	195,230	122,988	107,624
Other income, net	(331)	(3,934)	1,350
(Loss) income from continuing operations before income taxes	\$ (356,392)	\$ (438,137)	\$ 45,134

(1) In connection with the realignment of operating segments in Fiscal 2007, certain expenses previously reflected in corporate expenses are now included in the determination of operating segment profit. Segment reporting results for Fiscal 2006 and 2005 have been reclassified to conform to this change. Accordingly, previously reported Global Batteries & Personal Care segment profit for Fiscal 2006 and 2005 has been decreased by approximately \$46,914 and \$50,404, respectively, and previously reported Global Pet Supplies segment profit for Fiscal 2006 and 2005 has been decreased by approximately \$11,140 and \$6,097, respectively. As a result of these reclassifications, previously reported Corporate expenses for Fiscal 2006 and 2005 has been reduced by approximately \$58,054 and \$56,501, respectively.

(2) Fiscal 2006 and 2005 include a non-cash charge to Cost of goods sold of \$204 and \$14,398, respectively, related to the fair value adjustment that was applied to acquired inventory.

(3) Fiscal 2007 includes \$24,576 in debt issuance costs and \$11,649 in prepayment penalties in connection with the refinancing of the Company's previously existing senior credit facilities and the exchange of the Company's 8½% Senior Subordinated Notes due 2013 for Variable Rate Toggle Senior Subordinated Notes due 2013 pursuant to the terms of an exchange offer, both of which occurred on March 30, 2007. Fiscal 2005 includes \$12,033 in debt issuance costs written off in connection with the debt refinancing that occurred at the time of the United Acquisition.

Segment Total Assets

	September 30,	
	2007	2006
Global Batteries & Personal Care	\$1,328,802	\$ 1,549,197
Global Pet Supplies	1,202,263	1,170,841
Home & Garden	564,188	745,363
Total segments	3,095,253	3,465,401
Corporate	116,133	83,919
Total assets at yearend	\$ 3,211,386	\$ 3,549,320

Segment Long-lived Assets

	September 30,	
	2007	2006
Global Batteries & Personal Care	\$ 685,326	\$ 955,004
Global Pet Supplies	1,033,133	1,000,897
Home & Garden	-	566,212
Total segments	1,718,459	2,522,113
Corporate	107,359	67,392
Long-lived assets at yearend	\$ 1,825,818	\$ 2,589,505

Capital Expenditures for Segment

	2007	2006	2005
Global Batteries & Personal Care	\$ 13,137	\$ 41,764	\$ 48,497
Global Pet Supplies	8,964	13,181	8,245
Total segments	\$ 22,101	\$ 54,945	\$ 56,742

Geographic Disclosures - Net Sales to External Customers

	2007	2006	2005
United States	\$ 806,316	\$ 910,607	\$ 800,050
Outside the United States	1,188,206	984,134	962,129
Total net sales to external customers	\$ 1,994,522	\$ 1,894,741	\$ 1,762,179

Geographic Disclosures - Long-Lived Assets

	September 30,	
	2007	2006
United States	\$ 864,600	\$ 1,938,330
Outside the United States	961,218	651,175
Long-lived assets at yearend	\$ 1,825,818	\$ 2,589,505

(14) Commitments and Contingencies

The Company has provided for the estimated costs associated with environmental remediation activities at some of its current and former manufacturing sites. The Company believes that any additional liability in excess of the amounts provided of approximately \$3,762, which may result from resolution of these matters, will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

Included in long-term liabilities assumed in connection with the acquisition of Microlite is a provision for "presumed" credits applied to the Brazilian excise tax on Manufactured Products, or "IPI taxes." Although a previous ruling by the Brazilian Federal Supreme Court has been issued in favor of a specific Brazilian taxpayer with similar tax credits, on February 15, 2007 the Brazilian Federal Supreme Court ruled against certain Brazilian taxpayers with respect to the legality and constitutionality of the IPI "presumed" credits. This decision is applicable to all similarly-situated taxpayers. At September 30, 2007, these amounts totaled approximately \$32,747 and are included in Other long-term liabilities in the Consolidated Balance Sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spectrum Brands, Inc.

The Company is a defendant in various other matters of litigation generally arising out of the normal course of business. Such litigation includes legal proceedings with Philips in Europe and Latin America with respect to trademark or other intellectual property rights. The Company does not believe that any other matters or proceedings presently pending will have a material adverse effect on the results of operations, financial condition, liquidity or cash flow of the Company.

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

Future minimum rental commitments under noncancelable operating leases, principally pertaining to land, buildings and equipment, are as follows:

2008	\$ 22,085
2009	20,275
2010	17,199
2011	15,360
2012	14,497
Thereafter	53,498
Total minimum lease payments	\$142,914

All of the leases expire during the years 2008 through 2020. Total rental expenses were \$19,004, \$19,431, and \$11,656 for 2007, 2006 and 2005, respectively.

(15) Related Party Transactions

On February 7, 2005, the Company acquired all of the equity interests of United pursuant to the Agreement and Plan of Merger (as amended, the "Merger Agreement") by and among the Company, Lindbergh Corporation and United dated as of January 3, 2005 filed as an exhibit to the Current Report on Form 8-K filed by the Company on January 4, 2005. Pursuant to the terms of the Merger Agreement, Lindbergh Corporation merged with and into United, with United continuing as the surviving corporation (the "Merger"). The purchase price for the acquisition, excluding fees and expenses, consisted of \$70,000 in cash, 13,750 shares of the Company's Common Stock and the assumption of outstanding United indebtedness, which was \$911,500 as of January 21, 2005. The purchase price was determined through negotiations between representatives of the Company, who were operating under supervision and direction of an acquisition committee of the Board of Directors of the Company, and representatives of United.

Certain affiliates of Thomas H. Lee Partners, L.P. were the majority shareholders of United as of immediately prior to the consummation of the Company's acquisition of United, and as a result of the Company's acquisition of United, are significant shareholders of the Company. In addition, two of the Company's directors are members of Thomas H. Lee Advisors, LLC, which is the general partner of Thomas H. Lee Partners, L.P., which is the manager of THL Equity Advisors IV, LLC, which, in turn, is the general partner of each of the Thomas H. Lee related funds that were shareholders of United immediately prior to the Merger and now are significant shareholders of the Company.

Mr. Jones, the Company's former Chairman of the Board and Chief Executive Officer, and trusts for his family members, collectively owned approximately 203 shares of United common stock as of immediately prior to the Merger, which shares were converted into an aggregate of approximately 36 shares of Company Common Stock pursuant to the Merger. Mr. Jones was a member of the Board of Directors of United from January 20, 1999 to December 31, 2003, and provided consulting services to United under an agreement that was terminated on September 28, 2004. A member of the Company's Board of Directors is an investor in Thomas H. Lee Equity Fund IV, L.P., a large shareholder of United immediately prior to the Merger, and, as a result of the Merger, currently is a large shareholder of the Company.

In connection with the acquisition of United, the Company entered into certain agreements with UIC Holdings, L.L.C. ("Holdings"), the majority stockholder of United as of the date the Company entered into the definitive agreement to acquire United, Thomas H. Lee Partners, L.P. and certain of its affiliates and certain former stockholders of United. The agreements are described further below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spectrum Brands, Inc.

On February 7, 2005, the Company entered into a registration rights agreement (the "Registration Rights Agreement") with certain former stockholders of United, including certain affiliates of Thomas H. Lee Partners, L.P. and an affiliate of Banc of America Securities LLC, pursuant to which the Company agreed to prepare and file with the SEC, not later than nine months following the consummation of the acquisition of United on February 7, 2005, a registration statement to permit the public offering and resale under the Securities Act of 1933 on a continuous basis of shares of Common Stock issued in connection with its acquisition of United (the "Shelf Registration Statement"). As of December 4, 2007, the Company has not so registered these shares. Pursuant to the Registration Rights Agreement, the Company also granted to the former stockholders of United certain rights to require the Company, on not more than three occasions, to amend the Shelf Registration Statement or prepare and file a new registration statement to permit an underwritten offering of shares of the Company's stock received by them in the acquisition of United as well as certain rights to include those shares in any registration statement proposed to be filed by the Company.

On February 7, 2005, the Company entered into a standstill agreement (the "Standstill Agreement") with Thomas H. Lee Equity Fund IV, L.P., THL Equity Advisors IV, LLC, Thomas H. Lee Partners, L.P. and Thomas H. Lee Advisors, L.L.C. (the "Restricted Parties"). Pursuant to the Standstill Agreement, the Restricted Parties are prohibited until February 7, 2010 from acquiring ownership in excess of 28% of the Company's outstanding voting capital stock, on a fully-diluted basis, soliciting proxies or consents with respect to the Company's voting capital stock, soliciting or encouraging third parties to acquire or seek to acquire the Company, a significant portion of the Company's assets or more than 5% of the Company's outstanding voting capital stock or joining or participating in a pooling agreement, syndicate, voting trust or other similar arrangement with respect to the Company's voting capital stock for the purpose of acquiring, holding, voting or disposing of such voting capital stock.

The Company is the lessee of several operating facilities from Rex Realty, Inc., a company owned by certain of the Company's stockholders and operated by a former United executive and past member of United's Board of Directors. These affiliate leases expire at various dates through December 31, 2010. The Company has options to terminate the leases by giving advance notice of at least one year. The Company also leases a portion of its operating facilities from the same company under a sublease agreement expiring on December 31 each year with minimum annual rentals of \$700. The term of the sublease agreement shall automatically be extended on a year-to-year basis from January 1 through December 31 of each year through and until December 31, 2010, unless either party elects to terminate such year-to-year extension by giving termination notice in which case, the term shall terminate at the end of the year following the year during which such termination notice is given.

(16) Restructuring and Related Charges

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

The Company reports restructuring and related charges relating to administrative functions in Operating expenses, such as initiatives impacting sales, marketing, distribution, or other non-manufacturing-related functions. Restructuring and related charges reflected in Operating expenses include, but are not limited to, termination and related costs, any asset impairments relating to the functional areas described above, and other costs directly related to the initiatives implemented.

The following table summarizes restructuring and related charges incurred by segment:

	2007	2006	2005
Cost of goods sold:			
Global Batteries & Personal Care	\$ 18,126	\$ 16,597	\$10,241
Global Pet Supplies	13,154	5,855	255
Corporate	35	-	-
Total restructuring and related charges in cost of goods sold	31,315	22,452	10,496
Operating expense:			
Global Batteries & Personal Care	29,600	9,452	6,045
Global Pet Supplies	9,292	2,766	198
Corporate	20,833	-	-
Total restructuring and related charges in operating expense	59,725	12,218	6,243
Total restructuring and related charges	\$91,040	\$34,670	\$16,739

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spectrum Brands, Inc.

The following table summarizes restructuring and related charges incurred by type of charge:

	2007	2006	2005
Costs included in cost of goods sold:			
Breitenbach, France facility closure:			
Termination benefits	\$ 18	\$ 259	\$ 8,276
Other associated costs	468	-	1,965
United & Tetra integration:			
Termination benefits	149	5,430	255
Other associated costs	13,005	1,810	-
European initiatives:			
Termination benefits	7,494	14,953	-
Other associated costs	308	-	-
Latin America initiatives:			
Termination benefits	712	-	-
Other associated costs	9,847	-	-
Global Realignment initiatives:			
Termination benefits	(686)	-	-
Total included in cost of goods sold	31,315	22,452	10,496
Costs included in operating expenses:			
United & Tetra integration:			
Termination benefits	988	2,491	3,165
Other associated costs	8,435	1,791	4,495
European initiatives:			
Termination benefits	(1,298)	7,936	-
Other associated costs	-	-	-
Latin America initiatives:			
Termination benefits	363	-	-
Global Realignment:			
Termination benefits	47,617	-	194
Other associated costs	3,620	-	(1,611)
Total included in operating expenses	59,725	12,218	6,243
Total restructuring and related charges	\$ 91,040	\$ 34,670	\$ 16,739

2007 Restructuring Initiatives

The Company has implemented a series of initiatives within the Global Batteries & Personal Care segment in Latin America to reduce operating costs (the "Latin American Initiatives"). These initiatives include the reduction of certain manufacturing operations in Brazil and the restructuring of management, sales, marketing and support functions. The Company incurred \$10,923 of pretax restructuring and related charges during the year September 30, 2007 of which approximately \$1,177 represent cash costs. Costs associated with the Latin America Initiatives are fully accrued.

In Fiscal 2007, the Company began managing its business in three vertically integrated, product-focused reporting segments; Global Batteries & Personal Care, Global Pet Supplies and the Home and Garden Business. As part of this realignment, the Company's Global Operations organization, previously included in corporate expense, consisting of research and development, manufacturing management, global purchasing, quality operations and inbound supply chain, is now included in each of the operating segments. (See also Note 13, Segment Information, for additional discussion on the Company's realignment of its operating segments). In connection with these changes the Company undertook a number of cost reduction initiatives, primarily headcount reductions, at the corporate and operating segment levels (the "Global Realignment Initiatives"). The Company incurred \$50,550 of pretax restructuring and related charges in connection with these initiatives during the year ended September 30, 2007. Costs associated with these initiatives, which are expected to be incurred through December 31, 2008, relate primarily to severance and are projected at approximately \$59,000, the majority of which will be cash costs.

The following table summarizes the remaining accrual balance associated with the 2007 initiatives and activity that occurred during Fiscal 2007:

2007 Restructuring Initiatives Summary

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2006	\$ -	\$ -	\$ -
Provisions	27,884	13,645	41,529
Cash expenditures	(6,445)	(1)	(6,446)
Non-cash expenditures	6,162	(9,025)	(2,863)
Accrual balance at September 30, 2007	\$ 27,601	\$ 4,619	\$ 32,220
Expensed as incurred ⁽¹⁾	\$ 20,124	\$ (180)	\$ 19,944

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

2006 Restructuring Initiatives

The Company implemented a series of initiatives within the Global Batteries & Personal Care segment in Europe to reduce operating costs and rationalize the Company's manufacturing structure (the "European Initiatives"). These initiatives include the relocation of certain operations at the Ellwangen, Germany packaging center to the Dischingen, Germany battery plant, transferring private label battery production at the Company's Dischingen, Germany battery plant to the Company's manufacturing facility in China and restructuring its sales, marketing and support functions. The Company incurred \$6,504 and \$21,242 of pretax restructuring and related charges in Fiscal 2007 and 2006, respectively, in connection with the European Initiatives. Costs associated with these initiatives are fully accrued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spectrum Brands, Inc.

The following table summarizes the remaining accrual balance associated with the 2006 initiatives and activity that occurred during Fiscal 2007:

2006 Restructuring Initiatives Summary

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2006	\$ 12,922	\$ -	\$ 12,922
Provisions	7,549	-	7,549
Cash expenditures	(12,793)	-	(12,793)
Non-cash expenditures	(2,454)	-	(2,454)
Accrual balance at September 30, 2007	\$ 5,224	\$ -	\$ 5,224
Expensed as incurred ⁽¹⁾	\$ (1,352)	\$ 307	\$ (1,045)

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

2005 Restructuring Initiatives

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

Effective October 1, 2006, the Company reflected the operations of its Home and Garden Business as discontinued operations. (See Note 5, Assets Held for Sale, and Note 11, Discontinued Operations, for further details on the discontinued Home and Garden Business). As a result, as of October 1, 2006, initiatives to integrate the activities of the Home and Garden Business into the Company's operations in Madison, Wisconsin were suspended. In connection with the integration of the United home and garden business, the Company recorded \$131, \$2,901 and \$6,075 in Fiscal 2007, 2006 and 2005, respectively.

Integration activities within Global Pet Supplies are substantially complete as of September 30, 2007. Global Pet Supplies integration activities consisted primarily of the rationalization of manufacturing facilities and the optimization of the distribution network. As a result of these integration initiatives, two pet supplies facilities were closed in 2005, one in Brea, California and the other in Hazleton, Pennsylvania; one pet supply facility was closed in 2006, in Hauppauge, New York; and one pet supply facility was closed in 2007, in Moorpark, California. The Company recorded \$22,446, \$8,622 and \$453 of pretax restructuring and related charges during Fiscal 2007, 2006 and 2005, respectively, primarily in connection with its integration activities within the Global Pet Supplies business.

In Fiscal 2005, the Company also announced the closure of a zinc carbon manufacturing facility in France. The Company incurred \$485, \$259 and \$10,211 in Fiscal 2007, 2006 and 2005, respectively. Costs associated with this initiative totaled \$10,955.

The following table summarizes the remaining accrual balance associated with the 2005 initiatives and activity that occurred during Fiscal 2007:

2005 Restructuring Initiatives Summary

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2006	\$ 8,945	\$ 2,735	\$ 11,680
Provisions	405	597	1,002
Cash expenditures	(6,004)	(911)	(6,915)
Non-cash expenditures	(729)	(153)	(882)
Accrual balance at September 30, 2007	\$ 2,617	\$ 2,268	\$ 4,885
Expensed as incurred ⁽¹⁾	\$ 750	\$ 21,310	\$ 22,060

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

2005 Restructuring Initiatives Summary - Pursuant to Acquisitions⁽¹⁾

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2006	\$ 4,515	\$ 15,278	\$ 19,793
Cash expenditures	(3,437)	(4,666)	(8,103)
Non-cash expenditures	(978)	1,158	180
Accrual balance at September 30, 2007	\$ 100	\$ 11,770	\$ 11,870

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

(17) Acquisitions

Acquisition of Jungle Labs

On September 1, 2005, the Company acquired Jungle Labs for approximately \$29,000, which included \$26,000 cash consideration at closing, \$1,280 paid after closing and \$2,000 of non-compete arrangements which were earned and paid through August 31, 2007. The aggregate purchase price included acquisition-related expenditures of approximately \$200. Such amounts paid were recorded as additional acquisition consideration. Cash acquired totaled approximately \$600. Based in San Antonio, Texas, Jungle Labs is a leading manufacturer and marketer of premium water and fish care products, including water conditioners, plant and fish foods, fish medications and other products designed to maintain an optimal environment in aquariums or ponds. Jungle Labs generates annual revenues of approximately \$14,000. The financial results of Jungle Labs are

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spectrum Brands, Inc.

included in the Global Pet Supplies business segment within the Company's consolidated results.

	As of September 1, 2005
Current assets	\$ 3,000
Property, plant, and equipment	1,000
Intangible assets	10,000
Goodwill	19,000
Total assets acquired	33,000
Current liabilities	3,000
Long-term liabilities	3,000
Total liabilities assumed	6,000
Net assets acquired	\$ 27,000
Less: Cash acquired	(600)
Payments for acquisitions	\$ 26,400

None of the goodwill acquired in this transaction is deductible for tax purposes. (See Note 6, Intangible Assets, for additional information on the intangible assets acquired in the Jungle Labs acquisition).

Acquisition of Tetra

On April 29, 2005, the Company acquired all of the outstanding equity interests of Tetra for a purchase price of approximately \$550,000, net of cash acquired of approximately \$13,000 and inclusive of a final working capital payment of \$2,400, made in July 2005. The aggregate purchase price also included acquisition-related expenditures of approximately \$16,100. Tetra manufactures, distributes and markets a comprehensive line of foods, equipment and care products for fish and reptiles, along with accessories for home aquariums and ponds. Tetra operates in over 90 countries and holds leading market positions in Europe, North America and Japan. The financial results of Tetra are included in the Global Pet Supplies business segment within the Company's consolidated results. The following table summarizes the fair value of the assets acquired and liabilities assumed as of the date of the acquisition using the exchange rates in effect as of that date.

	As of April 29, 2005
Current assets	\$ 89,000
Property, plant, and equipment	35,000
Intangible assets	234,000
Goodwill	326,000
Other assets	9,000
Total assets acquired	693,000
Current liabilities	34,000
Long-term liabilities	96,000
Total liabilities assumed	130,000
Net assets acquired	\$ 563,000
Less: Cash acquired	(13,000)
Payments for acquisitions	\$ 550,000

None of the goodwill acquired in this transaction is deductible in the determination of income taxes. (See Note 6, Intangible Assets, for additional information on the intangible assets acquired in the Tetra acquisition).

Acquisition of United

On February 7, 2005, the Company completed the acquisition of all of the outstanding equity interests of United, a leading manufacturer and marketer of products for the consumer lawn and garden care and household insect control markets in North America and a leading supplier of specialty pet products to the pet supply industry in the United States. The acquisition of United allows the Company to gain significant presence in several new consumer products markets, including categories that significantly diversify the Company's revenue base. Subsequent to the acquisition, the financial results of the lawn and garden and household insect control business of United are included in the Home and Garden Business, which has been designated as discontinued operations, and the financial results of the pet business of United are included in the Global Pet Supplies business segment within the Company's consolidated results.

The aggregate purchase price was approximately \$1,490,000, net of cash acquired of approximately \$14,000. The purchase price consisted of cash consideration of approximately \$1,051,000 and common stock totaling approximately \$439,000. The aggregate purchase price included acquisition-related expenditures of approximately \$22,000. The value of common stock was determined based on 13,750 shares at \$31.94 per share.

The share price of \$31.94 used in the calculation of the purchase price is based on a five-day average beginning on December 30, 2004. The following table summarizes the fair value of the assets acquired and liabilities assumed as of the date of the acquisition using the exchange rates in effect as of that date.

	As of February 7, 2005
Current assets	\$ 401,000
Property, plant, and equipment	91,000
Intangible assets	500,000
Goodwill	780,000
Other assets	61,000
Total assets acquired	1,833,000
Current liabilities	149,000
Short-term debt	14,000
Long-term liabilities	166,000
Total liabilities assumed	329,000
Net assets acquired	\$ 1,504,000
Less: Cash acquired	(14,000)
Payments for acquisitions	\$ 1,490,000

Approximately \$433,000 of the total goodwill acquired in this transaction is expected to be deductible in the determination of income taxes. (See also Note 6, Intangible Assets, for additional information on the intangible assets acquired in the United acquisition).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spectrum Brands, Inc.

Supplemental Pro Forma Information (unaudited): The following reflects the Company's pro forma results had the results of the Tetra and United businesses been included for all periods beginning after September 30, 2004. The results of Jungle Labs are not included in the pro forma results as they are not significant. Adjustments to the number of shares used to calculate earnings per share have also been made to present shares as if the 13,750 treasury shares issued in connection with the United acquisition were outstanding on October 1, 2004.

	2007	2006	2005
Net sales			
Reported net sales	\$ 1,994,522	\$1,894,741	\$ 1,762,179
United pro forma adjustments	-	-	109,732
Tetra pro forma adjustments	-	-	137,003
Pro forma net sales	\$ 1,994,522	\$1,894,741	\$2,008,914
Income from continuing operations			
Reported (loss) income from continuing operations	\$ (412,108)	\$ (415,443)	\$ 4,774 ⁽¹⁾
United pro forma adjustments	-	-	6,437 ⁽²⁾
Tetra pro forma adjustments	-	-	6,460
Pro forma (loss) income from continuing operations	\$ (412,108)	\$ (415,443)	\$ 17,671
Pro forma basic earnings per share			
(Loss) income from continuing operations	\$ (8.09)	\$ (8.40)	\$ 0.11
United pro forma adjustments	-	-	0.15
Tetra pro forma adjustments	-	-	0.13
Pro forma (loss) income from continuing operations	\$ (8.09)	\$ (8.40)	\$ 0.41
Pro forma diluted earnings per share			
(Loss) income from continuing operations	\$ (8.09)	\$ (8.40)	\$ 0.10
United pro forma adjustments	-	-	0.13
Tetra pro forma adjustments	-	-	0.13
Pro forma (loss) income from continuing operations	\$ (8.09)	\$ (8.66)	\$ 0.37

(1) Reported income from continuing operations includes certain charges and other items related to the Tetra and United acquisitions that are not expected to recur. For 2005, these charges include approximately \$14,400 charged to Cost of goods sold related to the fair value adjustment applied to acquired inventory for United and Tetra and the write-off of approximately \$12,000 of debt issuance costs charged to interest expense related to the debt refinancing that occurred in connection with the acquisition.

(2) United pro forma adjustments in 2005 represent the United Pet Group division of United's income from continuing operations in Fiscal 2005 in the period prior to the Company's ownership, from October 1, 2004 through February 6, 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spectrum Brands, Inc.

(18) Subsequent Events

On September 28, 2007, the Company signed a definitive agreement to sell the Canadian division of its discontinued Home and Garden Business, which operates under the name Nu-Gro, to a new company formed by RoyCap Merchant Bank Group and Clarke Inc. The transaction closed on November 1, 2007.

(19) Quarterly Results (unaudited)

	Quarter Ended			
	September 30, 2007	July 1, 2007	April 1, 2007	December 31, 2006
Net sales	\$ 548,237	\$442,000	\$ 439,734	\$ 564,551
Gross profit	198,551	164,166	164,616	208,924
Net (loss) income	(333,001)	(7,388)	(237,515)	(18,809)
Basic net (loss) income per common share	\$ (6.60)	\$ (0.15)	\$ (4.77)	\$ (0.38)
Diluted net (loss) income per common share	\$ (6.60)	\$ (0.15)	\$ (4.77)	\$ (0.38)

	Quarter Ended			
	September 30, 2006	July 2, 2006	April 2, 2006	January 1, 2006
Net sales	\$ 486,282	\$ 427,517	\$ 414,690	\$ 566,252
Gross profit	168,043	156,357	158,895	223,940
Net (loss) income	(439,397)	2,545	563	2,317
Basic net (loss) income per common share	\$ (8.88)	\$ 0.05	\$ 0.01	\$ 0.05
Diluted net (loss) income per common share	\$ (8.88)	\$ 0.05	\$ 0.01	\$ 0.05

(20) Consolidating Financial Statements

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spectrum Brands, Inc.

Consolidating Balance Sheet

September 30, 2007

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 11,602	\$ 1,473	\$ 56,778	\$ -	\$ 69,853
Receivables:					
Trade accounts receivables, net of allowances	207,068	290,833	209,766	(396,624)	311,043
Other	15,675	1,665	(72,440)	100,202	45,102
Inventories	66,990	74,832	176,601	(954)	317,469
Deferred income taxes	9,680	6,923	4,137	1,468	22,208
Assets held for sale	516,816	47,688	8,355	-	572,859
Prepaid expenses and other	24,087	2,382	20,565	-	47,034
Total current assets	851,918	425,796	403,762	(295,908)	1,385,568
Property, plant and equipment, net	33,661	64,351	151,790	-	249,802
Deferred charges and other	699,358	426,867	23,446	(1,112,507)	37,164
Goodwill	(152,780)	435,603	379,502	2,324	664,649
Intangible assets, net	8,768	433,842	386,874	(187)	829,297
Debt issuance costs	44,906	-	-	-	44,906
Investments in subsidiaries	5,097,465	4,326,785	3,559,881	(12,984,131)	-
Total assets	\$ 6,583,296	\$ 6,113,244	\$ 4,905,255	\$ (14,390,409)	\$ 3,211,386
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current maturities of long-term debt	\$ 72,134	\$ 30	\$ 29,628	\$ (58,354)	\$ 43,438
Accounts payable	414,678	236,438	191,634	(589,270)	253,480
Accrued liabilities:					
Wages and benefits	21,177	6,820	34,123	-	62,120
Income taxes payable	7,537	1,218	9,590	-	18,345
Restructuring and related charges	30,537	4,924	20,332	-	55,793
Accrued interest	50,778	-	344	-	51,122
Liabilities held for sale	-	47,688	-	-	47,688
Other	10,767	7,972	55,431	-	74,170
Total current liabilities	607,608	305,090	341,082	(647,624)	606,156
Long-term debt, net of current maturities	2,403,531	609,706	66,730	(663,051)	2,416,916
Employee benefit obligations, net of current portion	10,531	(513)	44,451	-	54,469
Deferred income taxes	4,973	101,496	62,618	1	169,088
Other	4,997	-	63,589	(1)	68,585
Total liabilities	3,031,640	1,015,779	578,470	(1,310,675)	3,315,214
Shareholders' equity:					
Common stock	690	547	537,944	(538,491)	690
Additional paid-in capital	669,156	1,438,763	4,303,169	(5,741,814)	669,274
(Accumulated deficit) Retained earnings	(721,829)	57,938	(597,425)	497,946	(763,370)
Accumulated other comprehensive income (loss)	3,679,725	3,600,217	83,097	(7,297,375)	65,664
	3,627,742	5,097,465	4,326,785	(13,079,734)	(27,742)
Less treasury stock, at cost	(76,086)	-	-	-	(76,086)
Total shareholders' equity (deficit)	3,551,656	5,097,465	4,326,785	(13,079,734)	(103,828)
Total liabilities and shareholders' equity (deficit)	\$ 6,583,296	\$ 6,113,244	\$ 4,905,255	\$ (14,390,409)	\$ 3,211,386

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spectrum Brands, Inc.

Consolidating Statement of Operations

Year Ended September 30, 2007

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	\$ 398,474	\$ 578,971	\$ 1,145,238	\$ (128,161)	\$ 1,994,522
Cost of goods sold	252,715	427,338	675,200	(128,303)	1,226,950
Restructuring and related charges	540	12,941	17,834	-	31,315
Gross profit	145,219	138,692	452,204	142	736,257
Operating expenses:					
Selling	70,296	80,176	270,256	(434)	420,294
General and administrative	(371,865)	151,332	374,703	-	154,170
Research and development	16,031	4,654	4,437	-	25,122
Restructuring and related charges	30,352	8,018	21,355	-	59,725
Goodwill and intangibles impairment	214,039	1,000	23,400	-	238,439
	(41,147)	245,180	694,151	(434)	897,750
Operating income (loss)	186,366	(106,488)	(241,947)	576	(161,493)
Interest expense	139,124	(18,744)	24,785	50,065	195,230
Other expense (income), net	377,889	214,490	(5,753)	(586,957)	(331)
(Loss) income from continuing operations before income taxes	(330,647)	(302,234)	(260,979)	537,468	(356,392)
Income tax expense (benefit)	88,086	23,403	(16,894)	(38,879)	55,716
(Loss) income from continuing operations	(418,733)	(325,637)	(244,085)	576,347	(412,108)
(Loss) income from discontinued operations, net of tax	(167,684)	(1,400)	(15,521)	-	(184,605)
Net (loss) income	\$ (586,417)	\$ (327,037)	\$ (259,606)	\$ 576,347	\$ (596,713)

Consolidating Statement of Cash Flows

Year Ended September 30, 2007

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net cash provided (used) by operating activities	\$ 339,184	\$ (99,685)	\$ (121,297)	\$ (151,183)	\$ (32,981)
Cash flows from investing activities:					
Purchases of property, plant and equipment	(7,806)	(3,010)	(11,285)	-	(22,101)
Proceeds from sale of property, plant, and equipment	-	-	1,572	-	1,572
Intercompany investments	(27,758)	22,758	5,000	-	-
Net cash (used) provided by investing activities of continuing operations	(35,564)	19,748	(4,713)	-	(20,529)
Net cash (used) provided by investing activities of discontinued operations	-	(2,200)	-	-	(2,200)
Net cash (used) provided by investing activities	(35,564)	17,548	(4,713)	-	(22,729)
Cash flows from financing activities:					
Reduction of debt	(1,181,027)	-	(847,522)	-	(2,028,549)
Proceeds from debt financing	1,547,500	-	629,123	-	2,176,623
Debt issuance costs	(43,969)	-	-	-	(43,969)
Payments of capital lease obligations	-	-	(8,730)	-	(8,730)
Proceeds from exercise of stock options	655	-	-	-	655
Stock option income tax benefit	37	-	-	-	37
Treasury stock purchases	(3,003)	-	-	-	(3,003)
(Advances related to) proceeds from intercompany transactions	(614,887)	82,234	381,470	151,183	-
Net cash (used) provided by financing activities	(294,694)	82,234	154,341	151,183	93,064
Effect of exchange rate changes on cash and cash equivalents	-	-	4,069	-	4,069
Net increase (decrease) in cash and cash equivalents	8,926	97	32,400	-	41,423
Cash and cash equivalents, beginning of period	2,676	1,376	24,378	-	28,430
Cash and cash equivalents, end of period	\$ 11,602	\$ 1,473	\$ 56,778	\$ -	\$ 69,853

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spectrum Brands, Inc.

Consolidating Balance Sheet

September 30, 2006

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 2,676	\$ 1,376	\$ 24,378	\$ -	\$ 28,430
Receivables:					
Trade accounts receivables, net of allowances	99,605	42,360	187,315	-	329,280
Other	40,203	201,810	23,847	(229,608)	36,252
Inventories	221,545	53,633	192,688	(7,194)	460,672
Deferred income taxes	33,787	10,565	4,294	1,755	50,401
Assets held for sale	337	-	3,162	-	3,499
Prepaid expenses and other	25,601	3,288	22,392	-	51,281
Total current assets	423,754	313,032	458,076	(235,047)	959,815
Property, plant and equipment, net	80,809	63,506	167,524	-	311,839
Deferred charges and other	782,811	(307,735)	(115,389)	(310,659)	49,028
Goodwill	306,639	452,526	368,695	2,324	1,130,184
Intangible assets, net	167,755	676,236	217,284	(188)	1,061,087
Debt issuance costs	37,367	-	-	-	37,367
Investments in subsidiaries	5,170,220	4,399,464	3,763,656	(13,333,340)	-
Total assets	\$ 6,969,355	\$ 5,597,029	\$ 4,859,846	\$ (13,876,910)	\$ 3,549,320
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current maturities of long-term debt	\$ 29,715	\$ -	\$ 36,082	\$ (23,084)	\$ 42,713
Accounts payable	401,385	186,406	173,280	(451,960)	309,111
Accrued liabilities:					
Wages and benefits	7,641	7,028	26,282	-	40,951
Income taxes payable	10,797	2,753	8,948	-	22,498
Restructuring and related charges	17,258	14,435	13,833	-	45,526
Accrued interest	36,333	-	641	-	36,974
Liabilities held for sale	-	-	-	-	-
Other	18,241	4,882	41,717	-	64,840
Total current liabilities	521,370	215,504	300,783	(475,044)	562,613
Long-term debt, net of current maturities	2,214,332	(13,215)	70,232	(36,891)	2,234,458
Employee benefit obligations, net of current portion	26,556	5,386	44,951	-	76,893
Deferred income taxes	(41,143)	219,134	(21,413)	-	156,578
Other	732	-	65,829	-	66,561
Total liabilities	2,721,847	426,809	460,382	(511,935)	3,097,103
Shareholders' equity:					
Common stock	674	547	537,237	(537,784)	674
Additional paid-in capital	651,526	1,488,337	4,413,930	(5,902,149)	651,644
(Accumulated deficit) Retained earnings	(126,084)	35,527	(115,942)	39,842	(166,657)
Accumulated other comprehensive income (loss)	3,794,475	3,645,809	(435,761)	(6,964,884)	39,639
Total shareholders' equity	4,320,591	5,170,220	4,399,464	(13,364,975)	525,300
Less treasury stock, at cost	(73,083)	-	-	-	(73,083)
Total shareholders' equity	4,247,508	5,170,220	4,399,464	(13,364,975)	452,217
Total liabilities and shareholders' equity	\$ 6,969,355	\$ 5,597,029	\$ 4,859,846	\$ (13,876,910)	\$ 3,549,320

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spectrum Brands, Inc.

Consolidating Statement of Operations

Year Ended September 30, 2006

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	\$ 410,697	\$ 522,960	\$ 1,106,467	\$ (145,383)	\$ 1,894,741
Cost of goods sold	251,982	372,198	685,413	(144,538)	1,165,055
Restructuring and related charges	-	4,682	17,770	-	22,452
Gross profit	158,715	146,080	403,284	(845)	707,234
Operating expenses:					
Selling	77,183	70,444	246,505	(112)	394,020
General and administrative	159,753	(62,378)	60,517	-	157,892
Research and development	19,610	5,252	4,347	-	29,209
Restructuring and related charges	1,369	2,766	8,083	-	12,218
Goodwill and intangibles impairment	-	142,919	290,059	-	432,978
	257,915	159,003	609,511	(112)	1,026,317
Operating (loss) income	(99,200)	(12,923)	(206,227)	(733)	(319,083)
Interest expense	58,883	40,028	23,409	668	122,988
Other expense (income), net	330,053	246,844	(1,274)	(579,557)	(3,934)
(Loss) income from continuing operations before income taxes	(488,136)	(299,795)	(228,362)	578,156	(438,137)
Income tax (benefit) expense	(39,239)	22,032	(6,068)	581	(22,694)
(Loss) income from continuing operations	(448,897)	(321,827)	(222,294)	577,575	(415,443)
Income (loss) from discontinued operations, net of tax	16,186	11,100	(45,815)	-	(18,529)
Net (loss) income	\$ (432,711)	\$ (310,727)	\$ (268,109)	\$ 577,575	\$ (433,972)

Consolidating Statement of Cash Flows

Year Ended September 30, 2006

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net cash (used) provided by operating activities	\$ (512,077)	\$ 198,632	\$ 291,172	\$ 69,066	\$ 46,793
Cash flows from investing activities:					
Purchases of property, plant and equipment	(17,465)	(5,427)	(32,053)	-	(54,945)
Proceeds from sale of property, plant, and equipment	4,831	-	608	-	5,439
Proceeds from sale of assets held for sale	10,641	-	-	-	10,641
Payments for acquisitions, net of cash acquired	(7,363)	(1,728)	(9,410)	-	(18,501)
Intercompany investments	(337,386)	178,635	158,751	-	-
Net cash (used) provided by investing activities of continuing operations	(346,742)	171,480	117,896	-	(57,366)
Net cash provided by investing activities of discontinued operations	(5,424)	-	83,430	-	78,007
Net cash (used) provided by investing activities	(352,165)	171,480	201,326	-	20,641
Cash flows from financing activities:					
Reduction of debt	(817,498)	-	(138,570)	-	(956,068)
Proceeds from debt financing	817,719	-	80,801	-	898,520
Debt issuance costs	(5,236)	-	-	-	(5,236)
Payments of capital lease obligations	-	-	(4,131)	-	(4,131)
Proceeds from exercise of stock options	365	-	-	-	365
Stock option income tax benefit	80	-	-	-	80
Treasury stock purchases	(2,263)	-	-	-	(2,263)
Proceeds from (advances related to) intercompany transactions	857,996	(371,393)	(417,537)	(69,066)	-
Net cash provided (used) by financing activities	851,163	(371,393)	(479,437)	(69,066)	(68,733)
Effect of exchange rate changes on cash and cash equivalents	-	-	(122)	-	(122)
Net (decrease) increase in cash and cash equivalents	(13,079)	(1,281)	12,939	-	(1,422)
Cash and cash equivalents, beginning of period	15,756	2,657	11,439	-	29,852
Cash and cash equivalents, end of period	\$ 2,677	\$ 1,376	\$ 24,378	\$ -	\$ 28,430

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spectrum Brands, Inc.

Consolidating Statement of Operations

Year Ended September 30, 2005

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	\$ 565,707	\$ 276,431	\$ 1,031,320	\$ (111,279)	\$ 1,762,179
Cost of goods sold	339,367	219,133	628,210	(110,345)	1,076,365
Restructuring and related charges	-	255	10,241	-	10,496
Gross profit	226,340	57,043	392,869	(934)	675,318
Operating expenses:					
Selling	114,850	29,109	221,924	(430)	365,453
General and administrative	57,224	810	62,141	-	120,175
Research and development	22,760	3,507	3,072	-	29,339
Restructuring and related charges	6,074	(337)	506	-	6,243
	200,908	33,089	287,643	(430)	521,210
Operating income	25,432	23,954	105,226	(504)	154,108
Interest expense	103,019	177	4,428	-	107,624
Other (income) expense, net	(143,484)	20,116	24,172	100,546	1,350
Income from continuing operations before income taxes	65,897	3,661	76,626	(101,050)	45,134
Income tax expense	(14,447)	(1,132)	31,175	(88)	15,508
Income from continuing operations	80,344	4,793	45,451	(100,962)	29,626
Income from discontinued operations, net of tax	(32,434)	44,171	5,469	-	17,206
Net income	\$ 47,910	\$ 48,964	\$ 50,920	\$ (100,962)	\$ 46,832

Consolidating Statement of Cash Flows

Year Ended September 30, 2005

	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net cash provided (used) by operating activities	\$ 168,838	\$ (21,391)	\$ 70,254	\$ -	\$ 217,701
Cash flows from investing activities:					
Purchases of property, plant and equipment	(16,795)	(3,645)	(36,302)	-	(56,742)
Proceeds from sale of property, plant, and equipment	15	9	153	-	177
Payments for acquisitions, net of cash acquired	(1,152,283)	(26,000)	(451,872)	-	(1,630,155)
Intercompany investments	(523,789)	332,358	191,431	-	-
Net cash used by investing activities of continuing operations	(1,692,852)	302,722	(296,590)	-	(1,686,720)
Net cash used by investing activities of discontinued operations	-	(6,008)	(1,100)	-	(7,108)
Net cash used by investing activities	(1,692,852)	296,714	(297,690)	-	(1,693,828)
Cash flows from financing activities:					
Reduction of debt	(1,080,951)	-	-	-	(1,080,951)
Proceeds from debt financing	2,563,132	-	18,246	-	2,581,378
Debt issuance costs	(31,713)	-	-	-	(31,713)
Payments of capital lease obligations	(1,174)	-	(7,700)	-	(8,874)
Proceeds from exercise of stock options	18,413	-	-	-	18,413
Stock option income tax benefit	10,732	-	-	-	10,732
Treasury stock purchases	(1,106)	-	-	-	(1,106)
Payments from officers/shareholders	3,605	-	-	-	3,605
Proceeds from (advances related to) intercompany transactions	58,656	(272,719)	214,063	-	-
Net cash provided (used) by financing activities	1,539,594	(272,719)	224,609	-	1,491,484
Net used by discontinued operations	-	-	-	-	-
Effect of exchange rate changes on cash and cash equivalents	-	-	524	-	524
Net increase (decrease) in cash and cash equivalents	15,580	2,604	(2,303)	-	15,881
Cash and cash equivalents, beginning of period	176	53	13,742	-	13,971
Cash and cash equivalents, end of period	\$ 15,756	\$ 2,657	\$ 11,439	\$ -	\$ 29,852

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders Spectrum Brands, Inc.:

We have audited the accompanying consolidated balance sheets of Spectrum Brands, Inc. and subsidiaries (the Company) as of September 30, 2007 and 2006, and the related consolidated statements of operations, shareholders' equity (deficit) and comprehensive income (loss) and cash flows for each of the years in the three-year period ended September 30, 2007. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in Item 15(a)2. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Spectrum Brands, Inc. and subsidiaries as of September 30, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2007, 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 consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Effective September 30, 2007, the Company adopted Statement of Financial Accounting Standards No. 158 "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.*"

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Spectrum Brands, Inc. and subsidiaries' internal control over financial reporting as of September 30, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated December 14, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Atlanta, Georgia
December 14, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders Spectrum Brands, Inc.:

We have audited management's assessment, included in the accompanying "Management's Annual Report on Internal Controls Over Financial Reporting" as set forth in Item 9A of Spectrum Brands, Inc. Annual Report on Form 10-K for the year ended September 30, 2007, that Spectrum Brands, Inc. and subsidiaries (the Company) maintained effective internal control over financial reporting as of September 30, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company'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 the Company maintained effective internal control over financial reporting as of September 30, 2007, is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Spectrum Brands, Inc. and subsidiaries as of September 30, 2007 and 2006, and the related consolidated statements of operations, shareholders' equity (deficit) and comprehensive income (loss) and cash flows for each of the years in the three-year period ended September 30, 2007, and our report dated December 14, 2007 expressed an unqualified opinion on those consolidated financial statements. Our report refers to the Company's adoption of Statement of Financial Accounting Standards No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," effective September 30, 2007.

KPMG LLP

Atlanta, Georgia
December 14, 2007

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders Spectrum Brands, Inc.:

We consent to the incorporation by reference in the registration statement (No. 333-135274) on Form S-3 and (Nos. 333-39239, 333-41815, 333-42443, 333-68250, and 333-117567) on Forms S-8, of Spectrum Brands, Inc. of our reports dated December 14, 2007, with respect to the consolidated balance sheets of Spectrum Brands, Inc. and subsidiaries (the Company) as of September 30, 2007 and 2006, and the related consolidated statements of operations, shareholders' equity (deficit) and comprehensive income (loss) and cash flows and the related financial statement schedule for each of the years in the three-year period ended September 30, 2007, and management's assessment of the effectiveness of internal control over financial reporting as of September 30, 2007, and the effectiveness of internal control over financial reporting as of September 30, 2007, which reports appear in the annual report on Form 10-K of Spectrum Brands, Inc.

Our report refers to the Company's adoption of Statement of Financial Accounting Standards No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*," as of September 30, 2007.

KPMG LLP

Atlanta, Georgia
December 14, 2007

CERTIFICATIONS

I, Kent J. Hussey, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Spectrum Brands, Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
- c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: December 14, 2007

/s/ Kent J. Hussey
Kent J. Hussey
Chief Executive Officer

I, Anthony L. Genito, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Spectrum Brands, Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
- c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: December 14, 2007

/s/ Anthony L. Genito
Anthony L. Genito
Chief Financial Officer

CERTIFICATIONS

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Spectrum Brands, Inc. (the “Company”) for the fiscal year ended September 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Kent J. Hussey, as Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Name: /s/ Kent J. Hussey
Kent J. Hussey
Title: Chief Executive Officer

Date: December 14, 2007

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section. This certification shall not be deemed incorporated by reference in any filing under the Securities Act or Exchange Act, except to the extent that the Company specifically incorporates it by reference.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Spectrum Brands, Inc. (the “Company”) for the fiscal year ended September 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Anthony L. Genito, as Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Name: /s/ Anthony L. Genito
Anthony L. Genito
Title: Chief Financial Officer

Date: December 14, 2007

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section. This certification shall not be deemed incorporated by reference in any filing under the Securities Act or Exchange Act, except to the extent that the Company specifically incorporates it by reference.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.



Corporate and Shareholder Information

Executive Offices

Six Concourse Parkway
Suite 3300
Atlanta, GA 30328
(770) 829-6200

Transfer Agent/Shareholder Services

BNY Shareowner Services is the transfer agent for the Company's common stock and is responsible for maintaining shareholder account records. Inquiries regarding account records, address changes, stock transfers, lost certificates, or other related issues should be directed to:

BNY Shareowner Services
480 Washington Blvd.
Jersey City, NJ 07310
(800) 777-3694
www.bnymellon.com/shareowner

Certifications

On May 23, 2007, in accordance with Section 303A.12 of the Listed Company Manual, our Chief Executive Officer certified to the New York Stock Exchange that he was not aware of any violation by the Company of NYSE corporate governance listing standards as of such date. In addition, on December 14, 2007, our Chief Executive Officer and Chief Financial Officer each filed a certification under Section 302 of the Sarbanes-Oxley Act relating to the quality of the Company's public disclosure as exhibits to the Company's Annual Report on Form 10-K for Fiscal year 2007.

Forward-Looking Information

This Annual Report contains forward-looking statements which are subject to change. Actual results could differ materially. Risks and uncertainties which could cause results to differ are detailed in Item 1A in the Company's Annual Report on Form 10-K for the year ended September 30, 2007, and other filings with the Securities and Exchange Commission.

Additional Information

Financial and other information about Spectrum Brands, including a direct link to the Company's filings with the Securities and Exchange Commission, is available on Spectrum Brands' website at www.spectrumbrands.com. Investors may also request information about Spectrum Brands or printed copies of documents at (770) 829-6200 or at investorrelations@spectrumbrands.com.

Stock Exchange Listing

Spectrum Brands' common stock is listed on the New York Stock Exchange under the symbol "SPC." The following table sets forth the reported high and low prices per share of the common stock as reported on the New York Stock Exchange composite transactions reporting system for each fiscal quarter of 2007 and 2006:

Fiscal 2007	High	Low
Quarter ended September 30, 2007	\$ 6.93	\$ 3.77
Quarter ended July 1, 2007	\$ 8.64	\$ 6.26
Quarter ended April 1, 2007	\$ 12.50	\$ 4.62
Quarter ended December 31, 2006	\$ 11.33	\$ 7.59

Fiscal 2006	High	Low
Quarter ended September 30, 2006	\$ 12.82	\$ 6.00
Quarter ended July 2, 2006	\$ 21.84	\$ 11.85
Quarter ended April 2, 2006	\$ 22.42	\$ 17.34
Quarter ended January 1, 2006	\$ 23.70	\$ 16.00

We have not declared or paid, and do not anticipate paying, cash dividends in the foreseeable future. We intend to retain any future earnings for reinvestment in our business. In addition, the terms of our credit facility and the indentures governing our outstanding senior subordinated notes restrict our ability to pay dividends to our shareholders.



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