STEMCELLS INC
Form 10-Q
November 02, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended: September 30, 2015

Commission File Number: 0-19871

STEMCELLS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**94-3078125**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer identification No)**

7707 Gateway Blvd

Newark, CA 94560

(Address of principal executive offices including zip code)

(510) 456-4000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

At October 22, 2015, there were 108,807,706 shares of Common Stock, $.01 par value, issued and outstanding.

STEMCELLS, INC.

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NOTE REGARDING REFERENCES TO US AND OUR COMMON STOCK

Throughout this Form 10-Q, the words we, us, our, and StemCells refer to StemCells, Inc., including our directly ar indirectly wholly-owned subsidiaries. Common stock refers to the common stock, $.01 par value, of StemCells, Inc.

PART I-FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
STEMCELLS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 21,185,263	$ 24,987,603
Trade receivables	2,625	159,466
Other receivables	138,645	256,166
Prepaid assets	917,796	1,017,726
Deferred financing costs, current	4,162	22,082
Other assets, current	24,189	64,928
Total current assets	22,272,680	26,507,971
Property, plant and equipment, net	5,441,329	5,186,958
Intangible assets, net	294,329	356,889
Deferred financing costs, non-current		1,224
Other assets, non-current	373,717	373,717
Total assets	$ 28,382,055	$ 32,426,759
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,391,716	$ 1,818,831
Accrued expenses and other current liabilities	5,627,486	4,869,710
Loan payable net of discount, current	2,453,451	4,686,388
Deferred revenue, current	16,826	16,826
Capital lease obligation, current	22,567	20,191
Deferred rent, current	123,333	85,925
Total current liabilities	9,635,379	11,497,871
Capital lease obligations, non-current	15,977	9,230
Loan payable net of discount, non-current	8,916,641	10,334,029
Fair value of warrant liability	615,925	1,684,551
Deferred rent, non-current	1,656,330	1,734,214
Deferred revenue, non-current	33,465	46,084
Other long-term liabilities	399,370	1,250,007
Total liabilities	21,273,087	26,555,986

Commitments and contingencies (Note 8)		
Stockholders equity:		
Common stock, $0.01 par value; 225,000,000 shares authorized; issued and outstanding 108,589,273 at September 30, 2015 and 68,729,774 at December 31, 2014	1,085,893	687,298
Additional paid-in capital	453,702,872	425,389,693
Accumulated deficit	(447,726,670)	(420,271,608)
Accumulated other comprehensive income	46,873	65,390
Total stockholders equity	7,108,968	5,870,773
Total liabilities and stockholders equity	$ 28,382,055	$ 32,426,759

See Notes to Condensed Consolidated Financial Statements.

STEMCELLS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Revenue:				
Revenue from licensing agreements, grants and other	$ 37,030	$ 82,406	$ 88,158	$ 129,469
Operating expenses:				
Research and development	7,719,720	4,396,873	21,250,896	14,865,874
General and administrative	2,305,241	2,065,117	7,058,166	6,444,786
Total operating expenses	10,024,961	6,461,990	28,309,062	21,310,660
Loss from operations	(9,987,931)	(6,379,584)	(28,220,904)	(21,181,192)
Other income (expense):				
Change in fair value of warrant liability	427,589	4,076,360	1,068,626	95,266
Interest income	2,171	2,223	5,704	6,097
Interest expense	(106,843)	(311,349)	(438,466)	(1,035,061)
Other income (expense), net	22,367	(7,244)	129,978	(38,128)
Total other income (expense), net	345,284	3,759,990	765,842	(971,826)
Net loss from continuing operations	(9,642,647)	(2,619,594)	(27,455,062)	(22,153,018)
Discontinued operations:				
Loss from discontinued operations		(137,592)		(339,648)
Net loss	$ (9,642,647)	$ (2,757,186)	$ (27,455,062)	$ (22,492,666)
Basic and diluted net loss per share:				
Basic and diluted net loss per share from continuing operations	$ (0.09)	$ (0.04)	$ (0.30)	$ (0.38)
Basic and diluted net loss per share from discontinued operations				
Basic and diluted net loss per share	$ (0.09)	$ (0.04)	$ (0.30)	$ (0.38)
Weighted average number of common shares outstanding, basic and diluted	108,478,361	66,535,000	91,106,853	59,224,989

See Notes to Condensed Consolidated Financial Statements.

STEMCELLS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2015	**2014**	**2015**	**2014**
Net and comprehensive loss from continuing operations	$ (9,642,647)	$ (2,619,594)	$ (27,455,062)	$ (22,153,018)
Discontinued operations:				
Net loss from discontinued operations		(137,592)		(339,648)
Foreign currency translation adjustments	(2,927)	(182,933)	(18,517)	(72,364)
Comprehensive loss from discontinued operations	(2,927)	(320,525)	(18,517)	(412,012)
Comprehensive loss	$ (9,645,574)	$ (2,940,119)	$ (27,473,579)	$ (22,565,030)

See Notes to Condensed Consolidated Financial Statements.

STEMCELLS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Cash flows from operating activities:		
Net loss	$ (27,455,062)	$ (22,492,666)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	840,533	992,612
Stock-based compensation	4,086,710	1,543,577
Amortization of debt discount and issuance costs	98,988	192,117
(Gain) loss on disposal of fixed assets	(168,898)	8,845
Change in fair value of warrant liability	(1,068,626)	(95,266)
Changes in operating assets and liabilities:		
Trade receivables	152,877	37,121
Accrued interest and other receivables	113,746	277,173
Prepaid and other current assets	213,761	(483,178)
Accounts payable and accrued expenses	(511,188)	(911,327)
Deferred revenue	(12,619)	(52,291)
Deferred rent	(40,477)	5,500
Other assets non-current		17,207
Net cash used in operating activities	(23,750,255)	(20,960,576)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,005,273)	(598,432)
Proceeds from sale of property, plant and equipment	168,713	
Net cash used in investing activities	(836,560)	(598,432)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance costs	24,942,963	18,952,721
Proceeds from exercise of warrants, net of issuance costs		1,974,931
Proceeds from loan payable, net of issuance costs		5,775,543
Repayment of loan payable	(3,730,168)	(2,996,204)
Repayment of capital lease obligations	(17,764)	(15,842)
Payments related to net share issuance of stock based awards	(392,587)	(499,333)
Net cash provided by financing activities	20,802,444	23,191,816
Increase (decrease) in cash and cash equivalents	(3,784,371)	1,632,808
Effects of foreign exchange rate changes on cash	(17,969)	(5,643)
Cash and cash equivalents, beginning of period	24,987,603	30,585,424
Cash and cash equivalents, end of period	$ 21,185,263	$ 32,212,589

Supplemental disclosure of cash flow information:				
Interest paid	$	191,895	$	384,545
Supplemental schedule of non-cash investing and financing activities:				
Equipment acquired under a capital lease (1)	$	28,882	$	

(1) Represents the present value of future minimum capital lease payments for equipment leased.

See Notes to Condensed Consolidated Financial Statements.

Notes to Condensed Consolidated Financial Statements (Unaudited)

September 30, 2015 and 2014

Note 1. Summary of Significant Accounting Policies

Nature of Business.

StemCells, Inc., a Delaware corporation, is a biopharmaceutical company that operates in one segment, the research, development, and commercialization of stem cell therapeutics and related technologies.

The accompanying financial data as of September 30, 2015 and for the three and nine months ended September 30, 2015 and 2014 have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been condensed or omitted pursuant to these rules and regulations. The unaudited condensed consolidated financial statements have been prepared on the same basis as the annual financial statements and in the opinion of management reflect all adjustments, which include only normal recurring adjustments, necessary for a fair presentation of the periods presented. The December 31, 2014 condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. However, we believe that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

We have incurred significant operating losses since inception. We expect to incur additional operating losses over the foreseeable future. We have very limited liquidity and capital resources and must obtain significant additional capital and other resources in order to provide funding for our product development efforts, the acquisition of technologies, businesses and intellectual property rights, preclinical and clinical testing of our products, pursuit of regulatory approvals, acquisition of capital equipment, laboratory and office facilities, establishment of production capabilities, general and administrative expenses and other working capital requirements. We rely on our cash reserves, proceeds from equity and debt offerings, credit facilities, proceeds from the transfer or sale of intellectual property rights, equipment, facilities or investments, government grants and funding from collaborative arrangements, to fund our operations. If we exhaust our cash reserves and are unable to obtain adequate financing, we may be unable to meet our operating obligations and we may be required to initiate bankruptcy proceedings. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of StemCells, Inc., and our wholly-owned subsidiaries, including StemCells California, Inc., Stem Cell Sciences Holdings Ltd, and Stem Cell Sciences (UK) Ltd . All significant intercompany accounts and transactions have been eliminated.

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order to conform to the current year s presentation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make judgments, assumptions and estimates that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. Actual results could differ materially from these estimates.

Significant estimates include the following:

- the grant date fair value of stock-based awards recognized as compensation expense (see Note 6, Stock-Based Compensation); and

- the fair value of warrants recorded as a liability (see Note 9, Warrant Liability).

Discontinued Operations

The results of operations of a business that either has been disposed of or is classified as held-for-sale are reported in discontinued operations if the operations and cash flows of the component have been or will be eliminated from our ongoing operations as a result of the disposal transaction and we will not have any significant continuing involvement in the operations of the component after the disposal transaction. We present the operations of a business that meet this criteria as a discontinued operation, and retrospectively reclassify operating results for all prior periods presented. In the fourth quarter of 2014, as part of our strategy to focus on our clinical operations, we sold our SC Proven reagent and cell culture business and wound-down our business operations at our Stem Cell Sciences Subsidiary in Cambridge, UK (SCS). The results of operations for this component have been classified as discontinued operations for all periods in our Consolidated Statement of Operations.

Financial Instruments

Cash and Cash Equivalents

Cash equivalents are money market accounts, money market funds and investments with maturities of 90 days or less from the date of purchase.

Receivables

Our receivables generally consist of interest income on our financial instruments and royalties due from licensing agreements.

Warrant Liability

We account for our warrants in accordance with U.S. GAAP which defines how freestanding contracts that are indexed to and potentially settled in a company s own stock should be measured and classified. Authoritative accounting guidance prescribes that only warrants issued by us under contracts that cannot be net-cash settled, and are both indexed to and settled in our common stock, can be classified as equity. As part of our December 2011 financing, we issued Series A Warrants with a five year term to purchase 8,000,000 shares at $1.40 per share and Series B Warrants with a ninety trading day term to purchase 8,000,000 units at $1.25 per unit. Each unit underlying the Series B Warrants consisted of one share of our common stock and one Series A Warrant. In the first and second quarter of 2012, an aggregate of 2,700,000 Series B Warrants were exercised. For the exercise of these warrants, we issued 2,700,000 shares of our common stock and 2,700,000 Series A Warrants. The remaining 5,300,000 Series B Warrants expired unexercised by their terms on May 2, 2012. The Series A Warrants contain full ratchet anti-dilution price protection so that, in most situations, upon the issuance of any common stock or securities convertible into common stock at a price below the then-existing exercise price of the Series A Warrants, the Series A exercise price will be reset to the lower common stock sales price As a result of our April 2015 financing, the exercise price of the outstanding Series A warrants were reduced from $1.40 per share to $0.6999999 per share. As terms of the Series A Warrants do not meet the specific conditions for equity classification, we are required to classify the fair value of these warrants as a liability, with subsequent changes in fair value to be recorded as income (loss) due to change in fair value of warrant liability. The fair value of the Series A Warrants is determined using a Monte Carlo simulation model (see Note 9, Warrant Liability). The fair value is affected by changes in inputs to these models including our stock price, expected stock price volatility, the contractual term, and the risk-free interest rate. The use of a Monte Carlo simulation model requires input of additional assumptions including the progress of our R&D programs and its affect on potential future financings. We will continue to classify the fair value of the warrants as a liability until the warrants are exercised, expire or are amended in a way that would no longer require these warrants to be classified as a liability. The estimated fair value of our warrant liability at September 30, 2015, was approximately $616,000.

Intangible Assets

Prior to fiscal year 2001, we capitalized certain patent costs, which are being amortized over the estimated life of the patent and would be expensed at the time such patents are deemed to have no continuing value. Since 2001, all patent costs are expensed as incurred. License costs are capitalized and amortized over the estimated life of the related license agreement.

Revenue Recognition

We currently recognize revenue resulting from the licensing and use of our technology and intellectual property. Licensing agreements may contain multiple elements, such as upfront fees, payments related to the achievement of particular milestones and royalties. Revenue from upfront fees for licensing agreements that contain multiple elements are generally deferred and recognized on a straight-line basis over the term of the agreement. Fees associated with substantive at risk performance-based milestones are recognized as revenue upon completion of the scientific or regulatory event specified in the agreement, and royalties received are recognized as earned. Revenue from licensing agreements is recognized net of a fixed percentage due to licensors as royalties.

Stock-Based Compensation

Compensation expense for stock-based payment awards to employees is based on their grant date fair value as calculated and amortized over their vesting period. See Note 6, Stock-Based Compensation for further information.

We use the Black-Scholes model to calculate the fair value of stock-based awards.

Per Share Data

Basic net income or loss per share is computed by dividing net income or loss by the weighted average number of shares of common stock outstanding during the period. Diluted net income or loss per share is computed based on the weighted average number of shares of common stock and other dilutive securities. To the extent these securities are anti-dilutive, they are excluded from the calculation of diluted earnings per share.

The following is a reconciliation of the numerators and denominators of the basic and diluted net loss per share computations:

	Three months ended September 30,		**Nine months ended September 30,**	
	2015	**2014**	**2015**	**2014**
Net loss from continuing operations	$ (9,642,647)	$ (2,619,594)	$ (27,455,062)	$ (22,153,018)
Net loss from discontinued operations		(137,592)		(339,648)

Other	20.2	21.2

Total liabilities	4,738.3	4,426.2
Commitments and contingencies		
Shareholders' equity:		
Common stock, $.01 par value, authorized 200.0 shares; issued 54.7 and 54.1 shares, respectively; outstanding 53.2 and 52.7 shares	0.5	0.5
Additional paid-in capital	1,446.3	1,433.4
Accumulated deficit	(249.4)	(283.1)

Accumulated other comprehensive loss	(94.6)	(63.1)
	1,102.8	1,087.7
Less treasury stock, at cost, 1.5 and 1.4 shares, respectively	(52.7)	(44.3)
Total shareholders' equity	1,050.1	1,043.4
Noncontrolling interest	43.6	43.4
Total equity	1,093.7	1,086.8
Total liabilities and equity	$ 5,832.0	$ 5,513.0

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

(Unaudited).

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SPECTRUM BRANDS HOLDINGS, INC.

Condensed Consolidated Statements of Operations

For the three month periods ended December 28, 2014 and December 29, 2013

(Unaudited)

(Amounts in millions, except per share figures)

	THREE MONTHS ENDED	
	2015	2014
Net sales	$ 1,067.8	$ 1,100.6
Cost of goods sold	697.4	717.7
Restructuring and related charges	0.2	1.7
Gross profit	370.2	381.2
Selling	159.8	164.2
General and administrative	68.3	73.0
Research and development	11.2	10.8
Acquisition and integration related charges	8.1	5.5
Restructuring and related charges	7.2	2.8
Total operating expenses	254.6	256.3
Operating income	115.6	124.9
Interest expense	44.4	57.0
Other expense, net	0.7	0.8
Income from continuing operations before income taxes	70.5	67.1
Income tax expense	20.5	12.7
Net income	50.0	54.4
Less: Net income attributable to non-controlling interest	0.2	0.1
Net income attributable to controlling interest	$ 49.8	$ 54.3
Basic earnings per share:		
Weighted average shares of common stock outstanding	52.8	52.4
Net income per share attributable to controlling interest	$ 0.94	$ 1.04
Diluted earnings per share:		
Weighted average shares and equivalents outstanding	53.1	52.7
Net income per share attributable to controlling interest	$ 0.94	$ 1.03
Cash dividends declared per common share	$ 0.30	$ 0.25

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

(Unaudited).

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SPECTRUM BRANDS HOLDINGS, INC.

Condensed Consolidated Statements of Comprehensive Income (Loss)

For the three month periods ended December 28, 2014 and December 29, 2013

(Unaudited)

(Amounts in millions)

	THREE MONTHS ENDED	
	2015	2014
Net income	$ 50.0	$ 54.4
Other comprehensive income (loss), net of tax:		
Foreign currency translation loss	(34.5)	(0.2)
Unrealized gain on derivative hedging instruments	1.9	1.4
Defined benefit pension gain (loss)	1.1	—
Other comprehensive income (loss), net of tax	(31.5)	1.2
Comprehensive income	18.5	55.6
Less: Comprehensive income attributable to non-controlling interest	0.2	0.2
Comprehensive income attributable to controlling interest	$ 18.3	$ 55.4

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

(Unaudited).

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SPECTRUM BRANDS HOLDINGS, INC.

Condensed Consolidated Statements of Cash Flows

For the three month periods ended December 28, 2014 and December 29, 2013

(Unaudited)

(Amounts in millions)

	THREE MONTHS ENDED	
	2015	2014
Cash flows from operating activities:		
Net income	$ 50.0	$ 54.4
Adjustments to reconcile net income to net cash used by operating activities, net of effects of acquisitions:		
Depreciation	18.4	17.9
Amortization of intangibles	20.5	20.2
Amortization of unearned restricted stock compensation	5.6	6.6
Amortization of debt issuance costs	2.5	2.6
Non-cash increase to cost of goods sold due to Tell acquisition inventory step up	0.8	—
Write off unamortized discount on retired debt	—	2.8
Write off of debt issuance costs	—	6.4
Other non-cash adjustments	4.2	1.4
Net changes in operating assets and liabilities	(248.6)	(248.3)
Net cash used by operating activities	(146.6)	(136.0)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(14.2)	(15.9)
Acquisition of Tell Manufacturing, net of cash acquired	(29.2)	—
Proceeds from sales of property, plant and equipment	1.1	—
Other investing activities	(0.9)	—
Net cash used by investing activities	(43.2)	(15.9)
Cash flows from financing activities:		
Proceeds from issuance of Term Loan, net of discount	—	523.7
Proceeds from issuance of 6.125% Notes	250.0	—
Proceeds from Euro Term Loan Tranche B	185.4	—
Payment of senior credit facilities, excluding ABL revolving credit facility	—	(513.3)
Debt issuance costs	(6.1)	(4.7)
Other debt financing, net	8.5	4.1
Reduction of other debt	(1.8)	(0.5)
ABL revolving credit facility, net	—	110.0
Cash dividends paid	(15.9)	(13.2)

Treasury stock purchases	(8.5)	(4.5)
Share based tax withholding payments, net of proceeds upon vesting	(1.7)	(24.7)
Net cash provided by financing activities	409.9	76.9
Effect of exchange rate changes on cash and cash equivalents	(6.3)	(0.5)
Net increase (decrease) in cash and cash equivalents	213.8	(75.5)
Cash and cash equivalents, beginning of period	194.6	207.3
Cash and cash equivalents, end of period	$ 408.4	$ 131.8

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

(Unaudited).

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SPECTRUM BRANDS HOLDINGS, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Amounts in millions of dollars, except per share figures or as otherwise specified)

1 DESCRIPTION OF BUSINESS

Spectrum Brands Holdings, Inc., a Delaware corporation (“SB Holdings” or the “Company”), is a diversified global branded consumer products company. SB Holdings' common stock trades on the New York Stock Exchange (the “NYSE”) under the symbol “SPB.”

The Company’s operations include the worldwide manufacturing and marketing of alkaline, zinc carbon and hearing aid batteries, as well as aquariums and aquatic health supplies and the designing and marketing of rechargeable batteries, battery-powered lighting products, electric shavers and accessories, grooming products and hair care appliances. The Company’s operations also include the manufacturing and marketing of specialty pet supplies. The Company also manufactures and markets herbicides, insecticides and insect repellents in North America. The Company also designs, markets and distributes a broad range of branded small appliances and personal care products. The Company also designs, markets, distributes and sells certain hardware, home improvement and plumbing products. The Company’s operations utilize manufacturing and product development facilities located in the United States (“U.S.”), Europe, Latin America and Asia.

The Company sells its products in approximately 160 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and original equipment manufacturers and enjoys name recognition in its markets under the Rayovac, VARTA and Remington brands, each of which has been in existence for more than 80 years, and under the Tetra, 8-in-1, Dingo, Nature's Miracle, Spectracide, Cutter, Hot Shot, Black & Decker, George Foreman, Russell Hobbs, Farberware, Black Flag, FURminator, Kwikset, Weiser, Baldwin, National Hardware, Stanley, FANAL and Pfister brands.

The Company’s global branded consumer products have positions in six major product categories: consumer batteries, small appliances, personal care, hardware and home improvement, pet supplies and home and garden controls.

The Company manages the businesses in four vertically integrated, product-focused reporting segments: (i) Global Batteries & Appliances, which consists of the Company's worldwide battery, personal care and small appliances primarily in the kitchen and home product categories (“Global Batteries & Appliances”); (ii) Hardware & Home Improvement, which consists of the Company's worldwide hardware, home improvement and plumbing business (“Hardware & Home Improvement”); (iii) Global Pet Supplies, which consists of the Company's worldwide pet supplies business (“Global Pet Supplies”); and (iv) Home and Garden, which consists of the Company's home and garden and insect control business (“Home and Garden”). Management reviews the performance of the Company based on these segments, which also reflect the manner in which the Company's management monitors performance and allocates resources. For information pertaining to our business segments, see Note 12, “Segment Results.”

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The condensed consolidated financial statements include the accounts of SB Holdings and its subsidiaries and are prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”). All intercompany transactions have been eliminated.

These condensed consolidated financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of the Company, include all adjustments (which are normal and recurring in nature) necessary to present fairly the financial position of the Company at December 28, 2014, the results of operations for the three month periods ended December 28, 2014 and December 29, 2013, the comprehensive income (loss) for the three month periods ended December 28, 2014 and December 29, 2013 and the cash flows for the three month periods ended December 28, 2014 and December 29, 2013. Certain information and note disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such SEC rules and regulations. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

SPECTRUM BRANDS HOLDINGS, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited) – (Continued)
(Amounts in millions of dollars, except per share figures or as otherwise specified)

Use of Estimates: The preparation of financial statements in conformity with GAAP 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.

Intangible Assets: Intangible assets are recorded at cost or at fair value if acquired in a purchase business combination. Customer relationships and proprietary technology intangibles are amortized, using the straight-line method, over their estimated useful lives. Excess of cost over fair value of net assets acquired (goodwill) and indefinite lived trade name intangibles are not amortized. GAAP 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. Goodwill is tested for impairment at the reporting unit level, with such groupings being consistent with the Company's reportable segments. If impairment is indicated, a write-down to fair value (normally measured by discounting estimated future cash flows) is recorded. Indefinite lived trade name intangibles are tested for impairment at least annually by comparing the fair value with the carrying value. Any excess of carrying value over fair value is recognized as an impairment loss in income from operations.

The Company's annual impairment testing is completed at the August financial period end. 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.

Shipping and Handling Costs: The Company incurred shipping and handling costs of $64.7 and $64.6 for the three month periods ended December 28, 2014 and December 29, 2013, respectively. These costs are included in Selling expenses in the accompanying Condensed Consolidated Statements of Operations (Unaudited). Shipping and handling costs include costs incurred with third-party carriers to transport products to customers as well as salaries and overhead costs related to activities to prepare the Company's products for shipment from its distribution facilities.

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

The Company has a broad range of customers including many large retail outlet chains, one of which accounts for a significant percentage of its sales volume. This customer represented approximately 15% and 17% of the Company's Net sales during the three month periods ended December 28, 2014 and December 29, 2013, respectively. This customer also represented approximately 10% and 14% of the Company's Trade accounts receivable, net at December 28, 2014 and September 30, 2014, respectively.

Approximately 45% and 46% of the Company's Net sales during the three month periods ended December 28, 2014 and December 29, 2013, respectively, occurred outside the U.S. These sales and related receivables are subject to varying degrees of credit, currency, political and economic risk. The Company monitors these risks and makes appropriate provisions for ability to collect based on an assessment of the risks present.

Stock-Based Compensation: The Company measures the cost of its stock-based compensation plans based on the fair value of its employee stock awards and recognizes these costs over the requisite service period of the awards.

Total stock compensation expense associated with restricted stock units recognized by the Company during the three month periods ended December 28, 2014 and December 29, 2013 was $5.6 and $6.6, respectively. The remaining unrecognized pre-tax compensation cost related to restricted stock units at December 28, 2014 was $17.1.

The Company granted approximately 0.2 million restricted stock units during the three month period ended December 28, 2014. The 0.2 million restricted stock units granted during the three months ended December 28, 2014 include 0.1 million

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restricted stock units that vested immediately and 0.1 million time-based restricted stock units that vest over a period ranging from one to three years. The total market value of the restricted stock units on the dates of the grants was approximately $21.1.

The Company granted approximately 0.4 million restricted stock units during the three month period ended December 29, 2013. Of these grants, 0.1 million restricted stock units vested immediately. The remaining 0.3 million restricted stock units are performance and time-based and vest over a two year period. The total market value of the restricted stock units on the dates of the grants was approximately $29.0.

The fair value of restricted stock units is determined based on the market price of the Company's shares of common stock on the grant date. A summary of the activity in the Company's non-vested restricted stock units during the three months ended December 28, 2014 is as follows: