RAYOVAC CORP
Form 10-K
December 29, 2003

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

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

**For the Fiscal Year Ended September 30, 2003.**

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

**For the transition period from ____________ to ____________**

**Commission file No. 001-13615**

# RAYOVAC CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Wisconsin** | **22-2423556** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| **601 Rayovac Drive, Madison, WI** | **53711-2497** |
| (Address of principal executive offices) | (Zip Code) |

**Registrant's telephone number, including area code: (608) 275-3340**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, Par Value $.01 | New York Stock Exchange, Inc. |

**Securities registered pursuant to Section 12(g) of the Act:**

None

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

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

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

On March 28, 2003, the aggregate market value of the voting stock held by non-affiliates of the registrant was $357,914,171. As of December 19, 2003, there were outstanding 32,612,850 shares of the registrant's Common Stock, $0.01 par value.

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## PART I

### ITEM 1. BUSINESS

#### General

Rayovac Corporation is a global branded consumer products company with leading market positions in our two major product categories: consumer batteries and electric personal care products. We are a leading worldwide manufacturer and marketer of alkaline and zinc carbon batteries. We are also the leading worldwide manufacturer and marketer of hearing aid batteries, a leading worldwide designer and marketer of rechargeable batteries and a leading marketer of battery-powered lighting products. We are also a leading designer and marketer of electric shavers and accessories, electric grooming products and hair care appliances. Our products are sold on a global basis in over 100 countries through a variety of channels, including mass merchandisers, home centers and hardware stores, consumer electronics stores, warehouse clubs, food, drug and convenience stores, department stores, hearing aid professionals, industrial distributors and original equipment manufacturers. We 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. We became a Wisconsin corporation in 1986. We have 10 manufacturing and product development facilities located in the U.S., Europe and Latin America. We also purchase a significant portion of our products from third-party suppliers.

During fiscal 2003, we completed two major acquisitions: (1) the acquisition of substantially all of the consumer battery business of VARTA AG on October 1, 2002; and (2) the acquisition of Remington Products Company, L.L.C., on September 30, 2003. With the acquisition of VARTA in the fall of 2002, we became a truly global battery manufacturer and marketer and acquired additional low-cost manufacturing capacity and battery technology. By expanding our product line with the acquisition of Remington, we have become a diversified consumer products company no longer solely focused on the battery and lighting product markets. The results of the Remington business are excluded from our Consolidated Statement of Operations in this Annual Report on Form 10-K for fiscal year 2003 because Remington was acquired on the last day of the fiscal year.

Our business is organized and managed according to three geographic regions: (i) North America, which includes the U.S. and Canada, (ii) Latin America, which includes Mexico, Central America and South America and (iii) Europe/Rest of World (which we refer to as Europe/ROW), which includes continental Europe, the United Kingdom and all other countries in which we do business. Global and geographic strategic initiatives and financial objectives are determined at the corporate level. Each geographic region is responsible for implementing defined strategic initiatives and achieving certain financial objectives. Each geographic region has a general manager responsible for all the sales and marketing initiatives for all product lines within that region. Financial information pertaining to our geographic regions is contained in Note 12 of the Notes to Consolidated Financial Statements filed with this report.

**Our Products**

We compete in two major product categories within the consumer products industry: consumer batteries and electric personal care products. Our broad line of products includes:

- general batteries, including alkaline and zinc carbon;
- rechargeable batteries and chargers;
- hearing aid batteries;
- other specialty batteries;
- lighting products;
- electric shaver and grooming products; and
- other personal care products.



Net sales data for our products as a percentage of consolidated net sales is set forth below. During fiscal 2003, we had no sales in the electric personal care product lines because the Remington acquisition was consummated on the last day of the fiscal year. In addition, the fiscal 2001 and 2002 net sales data appearing below excludes VARTA's information for such periods because VARTA was acquired on October 1, 2002, during fiscal 2003.

| | Percentage of Company Net Sales Fiscal Year Ended September 30, |
| --- | --- |

| | 2001 | 2002 | 2003 |
|---|---|---|---|
| General batteries | 72% | 68% | 65% |
| Rechargeable batteries and chargers | 5 | 6 | 8 |
| Hearing aid batteries | 10 | 12 | 9 |
| Other specialty batteries | 3 | 3 | 8 |
| Lighting products | 10 | 11 | 10 |
| | 100% | 100% | 100% |

*General Batteries*

Our general batteries category includes alkaline and zinc carbon. We sell a full line of alkaline batteries (AA, AAA, C, D and 9-volt sizes) for both consumers and industrial customers. Our alkaline batteries are marketed and sold under the Rayovac Maximum Plus brand and the VARTA Universal, High Energy and MaxiTech brands. We also engage in limited private label manufacturing of alkaline batteries. Our zinc carbon batteries are designed for low- and medium-drain battery-powered devices such as flashlights.

*Rechargeable Batteries and Chargers*

We sell our rechargeable batteries and chargers under the Rayovac and VARTA brands. We sell NiMH and rechargeable alkaline batteries and a variety of chargers. In August 2003, we started shipping our new 15-minute I-$C^3$ NiMH rechargeable system.

*Hearing Aid Batteries*

We are currently the largest worldwide seller of hearing aid batteries. We sell our hearing aid batteries through retail trade channels and directly to professional audiologists under several brand names and under several private labels, including Beltone, Miracle Ear, Siemens and Starkey.

*Other Specialty Batteries*

Our specialty battery products include photo batteries, lithium batteries, silver oxide batteries and keyless entry batteries. We sell coin cells for use in watches, cameras, calculators, communications equipment and medical instrumentation. Our lithium coin cells are high-quality lithium batteries marketed for use in instrumentation, calculators and personal computer clocks and memory back-up systems.

*Lighting Products*

We sell our lighting products under the Rayovac and VARTA brand names, under other brand names and under licensing arrangements with third parties. We offer a broad line of battery-powered lighting products, including flashlights, lanterns and similar portable devices, for the retail and industrial markets.



*Electric Shaver and Grooming Products*

We market a broad line of shaver and grooming products, including men's rotary and foil shavers and women's shavers, beard and mustache trimmers, nose and ear trimmers, haircut kits and related accessories. We market electric shaver accessories consisting of shaver replacement parts (primarily foils and cutters), preshave products and cleaning agents. Remington is also the only brand of men's electric shavers to offer both a foil-design product line and a rotary-design product line.

*Other Personal Care Products*

Our hair care products consist of hair dryers, hairsetters, curling irons, hair crimpers and straighteners, hot air brushes and lighted mirrors. Our wellness products consist primarily of paraffin wax hand spas and foot spas. We plan to continue Remington's strategy of de-emphasizing wellness products.

**Sales and Distribution**

We sell our products to mass merchandisers, home centers and hardware stores, consumer electronics stores, warehouse clubs, food, drug and convenience stores, department stores, hearing aid professionals, industrial distributors and original equipment manufacturers. Our sales to Wal-Mart represented approximately 13% of consolidated net sales for fiscal 2003 and no other customer accounted for more than 10% of our consolidated net sales in fiscal 2003. Sales to Wal-Mart represented approximately 30% of Remington's consolidated net sales during its fiscal year ended December 31, 2002. Other major customers include Target, Sears, Carrefour, Ahold and Kmart. We sell Remington-branded products and accessories, and provide related product service, at approximately 80 service stores located in the U.S. and in the U.K.

*North America*

We align our internal sales force by distribution channel. We maintain separate sales forces primarily to service (i) our retail sales and distribution channels, (ii) our hearing aid professionals and (iii) our industrial distributors and original equipment manufacturer sales and distribution channels. In addition, we use a network of independent brokers to service participants in selected distribution channels.

*Latin America*

We align our internal sales force by distribution channel. We maintain two separate sales groups primarily to service (i) large retailers and food and drug chains located mainly in urban areas and (ii) other retailers located in both urban and rural areas through distributors and wholesalers.

*Europe/ROW*

We maintain a separate sales force in Europe and utilize an international network of distributors to promote the sale of all of our products. We have sales operations throughout Europe organized by three sales channels: (i) food/retail, which includes mass merchandisers, discounters, drug and food stores and non-food stores; (ii) special trade, which includes clubs (cash/carry), consumer electronics stores, department stores, photography stores, hearing aid professionals and wholesalers/distributors and (iii) industrial, government and original equipment manufacturers.

**Manufacturing, Raw Materials and Suppliers**

We manufacture alkaline batteries, zinc air hearing aid batteries and zinc carbon batteries. Raw materials comprise a significant portion of our cost of goods sold. Zinc powder, electrolytic manganese dioxide powder and steel are the most significant raw materials we use to manufacture batteries and a number of worldwide sources of such materials exist. We believe we will continue to have access to adequate quantities of these materials at competitive prices. We use commodity swaps, calls and puts in



an attempt to manage risks associated with fluctuations in market prices for purchases of zinc used in the manufacturing process.

All of our rechargeable batteries and chargers, lighting products and hair care, wellness and other personal care products, and a majority of our shaving and grooming products, are manufactured by third party suppliers, primarily located in China and Japan. We maintain ownership of tooling and molds used by many of our suppliers.

We continually evaluate our facilities' capacity and related utilization. As a result of such analyses, we have closed a number of manufacturing facilities during the past five years. In general, we believe our existing facilities are adequate for our present and currently foreseeable needs.

**Research and Development**

Our research and development strategy is to direct resources toward performance improvements of our existing products, cost reduction and new product development. Our battery research and development strategy is focused on alkaline, zinc air and NiMH rechargeable battery systems. Our alkaline product development groups in Madison, Wisconsin and Ellwangen, Germany work closely with both our alkaline manufacturing plant in Fennimore, Wisconsin as well as our plant in Dischingen, Germany. Our zinc air product development group is also located in Madison, Wisconsin and works closely with our zinc air plants in Portage, Wisconsin and Washington, U.K. Our rechargeable NiMH program has been enhanced by our strong working relationships with suppliers based in China and Japan. Both our Hong Kong and Bridgeport foil and rotary cutting system development groups work closely with our Asian suppliers to develop new features and innovative electric shaving products.

In fiscal years 2001, 2002 and 2003, Rayovac invested $12.2 million, $13.1 million and $14.4 million, respectively, in battery and lighting product research and development. These investments were supplemented by funds received from U.S. government contracts. These contracts enable us to investigate additional development opportunities. During calendar years 2001 and 2002, Remington invested approximately $4.3 million and $3.4 million, respectively, in research and development activities.

**Patents and Trademarks**

We own or license from third parties a considerable number of patents and patent applications throughout the world for battery product improvements, additional features and manufacturing equipment. We have a license through March 2022 to certain alkaline battery designs, technology and manufacturing equipment from Matsushita to whom we pay a royalty.

We also use and maintain a number of trademarks in our business, including Rayovac®, VARTA®, Remington®, Maximum®, Maximum Plus , I-Ĉ , Renewal®, Loud n Clear®, Pro Line®, Prodigy®, Microscreen®, Microflex®, Precision®, Remington Titanium and Smooth & Silky®. We rely on both registered and common law trademarks worldwide to protect our trademark rights. The Rayovac, VARTA and Remington trademarks are also registered in countries outside of the U.S., including countries in Europe, Latin America and Asia. We do not have any right to the Rayovac trademark in Brazil, where an independent third-party battery manufacturer owns the trademark.

As a result of the October 2002 sale by VARTA AG of substantially all of its consumer battery business to Rayovac and VARTA AG's subsequent sale of its automotive battery business to Johnson Controls, Inc., we became the owner of the VARTA trademark in the consumer battery category and Johnson Controls acquired ownership rights to the trademark in the automotive battery category. VARTA AG and its VARTA Microbatterie subsidiary continue to have ownership rights to use the trademark with travel guides, industrial batteries and micro batteries. The four owners of the VARTA trademark are parties to a Trademark and Domain Names Protection and Delimitation Agreement that governs ownership and usage rights and obligations of the parties relative to the trademark.



As a result of the common origins of our Remington subsidiary and Remington Arms Company, Inc., the Remington trademark is owned by us and by Remington Arms each with respect to its principal products as well as associated products. As a result of the acquisition of Remington, we own the Remington trademark for shavers, shaver accessories, grooming products and personal care products, while Remington Arms owns the trademark for firearms, sporting goods and products for industrial use, including industrial hand tools. The terms of a 1986 agreement between Remington and Remington Arms provides for the shared rights to use the Remington trademark on products which are not considered "principal products of interest" for either company. A separate company, Remington Licensing Corporation, owns the Remington trademark in the U.S. with respect to any overlapping uses and we and Remington Arms are each licensed to use the trademarks owned by Remington Licensing Corporation in the respective areas of interest. We retain the Remington trademark for nearly all products which we believe can benefit from the use of the brand name in our distribution channels.

**Competition**

In our retail markets, companies compete for limited shelf space and consumer acceptance. Factors influencing product sales are brand name recognition, perceived quality, price, performance, product packaging and design innovation, as well as creative marketing, promotion and distribution strategies.

Most consumer batteries manufactured throughout the world are sold by one of four global companies: Rayovac, Energizer, Duracell and Panasonic. We also face competition from the private label brands of major retailers, particularly in Europe. The offering of private-label batteries by retailers may create pricing pressure and may also increase consumer perceptions that batteries are a commodity product. Typically, private-label brands are not supported by advertising or promotion, and retailers sell these private label offerings at retail prices below competing brands. Significant new competitors are not anticipated due to significant costs to enter the marketplace. The main barriers to entry are investment in technology research, cost of building manufacturing capacity and the expense of building retail distribution channels.

In the U.S. alkaline battery category, Rayovac is positioned as the value brand while Duracell and Energizer are positioned as premium brands. In Europe, the VARTA brand has premium positioning in Germany and the Scandinavian countries, while it is positioned more as a value brand in Italy, France and Spain. In Latin America where lower disposable incomes prevail and zinc carbon batteries still outsell alkaline, Rayovac is positioned as a value brand.

The battery marketplace is highly competitive and has recently been affected by pricing promotions. In the U.S., Duracell announced in early calendar 2003 that it would lower prices on its AA and AAA alkaline batteries. Energizer reduced its prices with respect to certain retailers in response to Duracell's announcement. These pricing plans will affect the short term dollar growth of the overall U.S. battery category. In Latin America and in Europe, promotional pricing has not been as significant a factor in influencing the battery marketplace.

Our primary competitors in the foil and rotary shavers market are Philips/Norelco (which only sells and markets rotary shavers) and Braun (which only sells and markets foil shavers). Only Remington competes in both the foil and rotary segments. Our major competitors in the hair care market are Conair and Helen of Troy. Companies that are able to maintain or increase the amount of retail shelf space allocated to their respective products can gain competitive advantage.

Our major competitors in the consumer battery and electric shaver markets have greater financial and other resources and greater overall market share than we do. They have committed significant resources to protect their own market shares or to capture market share from us in the past and may continue to do so in the future. In some key product lines, our competitors may have lower production costs and higher profit margins than we do, which may enable them to compete more aggressively in offering retail discounts and other promotional incentives to retailers, distributors, wholesalers, and, ultimately, consumers.



**Seasonality**

Sales of our products are seasonal. Sales during the first and fourth quarters of the fiscal year are generally higher than other quarters due to the impact of the December holiday season. With our acquisition of Remington, we anticipate that our sales for the fiscal quarter ending in December will constitute a larger portion of our annual sales going forward. For a more detailed discussion of the seasonality of our product sales, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Seasonal Product Sales."

**Governmental Regulations and Environmental Matters**

Due to the nature of our operations, our facilities are subject to a broad range of federal, state, local and foreign legal and regulatory provisions relating to the environment, including those regulating the discharge of materials into the environment, the handling and disposal of solid and hazardous substances and wastes and the remediation of contamination associated with releases of hazardous substances at our facilities. We believe that compliance with the federal, state, local and foreign regulations to which we are subject will not have a material effect upon our capital expenditures, earnings and competitive position. See Item 3, "Legal Proceedings Environmental," for additional information regarding environmental matters.

**Employees**

We had approximately 5,000 full-time employees worldwide as of September 30, 2003.

**Available Information**

Our Internet website is http://www.rayovac.com and you may access, free of charge, through the Investor Relations portion of our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

**ITEM 2. PROPERTIES**

The following table lists our primary owned or leased manufacturing, packaging, and distribution facilities:

| Facility | Function | Square Footage |
|---|---|---|
| ***North America*** | | |
| Fennimore, Wisconsin(1) | Alkaline Battery Manufacturing | 176,000 |
| Portage, Wisconsin(1) | Zinc Air Button Cell & Lithium Coin Cell Battery Manufacturing | 101,000 |

| Facility | Function | Square Footage |
|---|---|---|
| Bridgeport, Connecticut(1) | Foil Cutting Systems and Accessories Manufacturing | 167,000 |
| Dixon, Illinois(2) | Packaging & Distribution of Batteries and Lighting Devices | 576,000 |
| McDonough, Georgia(3) | Distribution of Electric Personal Care Products | 315,000 |



| | | |
|---|---|---|
| ***Europe/ROW*** | | |
| Dischingen, Germany(2) | Alkaline Battery Manufacturing | 186,000 |
| Breitenbach, France(1) | Zinc Carbon Battery Manufacturing | 165,000 |
| Washington, UK(2) | Zinc Air Button Cell Battery Manufacturing | 63,000 |
| Ellwangen, Germany(2) | Battery Packaging | 187,000 |
| Ellwangen, Germany(2) | Battery Distribution | 125,000 |
| ***Latin America*** | | |
| Guatemala City, Guatemala(1) | Zinc Carbon Battery Manufacturing | 105,000 |
| Manizales, Colombia(1) | Zinc Carbon Battery Manufacturing | 91,000 |

(1) Facility is owned.

(2) Facility is leased.

(3) Facility is leased and staffed by a third-party logistics company.

We also own, operate or contract with third parties to operate distribution centers, sales offices and administrative offices throughout the world in support of our business. We lease our administrative headquarters and our primary battery research and development facility, which are both located in Madison, Wisconsin. We own our primary foil and rotary cutter research and development facility, which is located in Bridgeport, Connecticut. We also lease retail space for approximately 80 Remington service stores, most of which are located in the U.S.

## ITEM 3. LEGAL PROCEEDINGS

### Litigation

We are subject to litigation from time to time in the ordinary course of business. The amount of any liability with respect to any litigation to which we are now subject cannot currently be determined. Other than the matters set forth below, we are not party to any pending legal proceedings which, in the opinion of management, are material to our business or financial condition.

Three class action lawsuits brought against Rayovac Corporation and several of its current and former officers and directors have been consolidated into one suit, *Eli Friedman v. Rayovac Corporation, Thomas H. Lee Partners, LP, Kenneth V. Biller, Kent J. Hussey, David A. Jones, Scott A. Schoen, Stephen P. Shanesy, Thomas R. Shepherd, Randall J. Steward, Warren C. Smith, Jr., and Merrell Tomlin* (Case No. 02 C 0308 C, United States District Court, Western District of Wisconsin), which generally alleges that the defendants made various false and misleading statements, which had the alleged effect of artificially inflating the price of Rayovac stock during the period from April 26, 2001 until September 19, 2001. Plaintiffs allege that statements by Rayovac during this period were false and misleading due to alleged failures to disclose, among other things: (a) alleged improper sales practices in purported violation of generally accepted accounting principles; (b) failure to establish sufficient reserves for doubtful receivables; (c) declining demand; and (d) risks of doing business in Latin America.

Rayovac and the individual defendants filed a motion to dismiss the consolidated amended class action complaint in its entirety on February 10, 2003, and in May 2003, the Court issued an order denying our motion to dismiss as to claims made under the Securities Act and granting the motion to dismiss as to claims made under the Exchange Act, with leave to amend the Complaint to attempt to state a claim upon which relief could be granted under the Exchange Act. On June 19, 2003, plaintiffs filed the second consolidated amended class action complaint and on July 9, 2003, Rayovac and the individual defendants filed a motion to dismiss the complaint. On October 20, 2003, the Court granted defendants' motion and dismissed plaintiffs' claims under the Exchange Act with prejudice. The trial date with respect to the remaining claims under the Securities Act has been tentatively set for



November 15, 2004. Rayovac and the individual defendants believe the remaining claims under the Securities Act to be wholly without merit and intend to vigorously defend themselves in this litigation.

Our Remington subsidiary is involved in a number of legal proceedings with Philips with respect to intellectual property rights, including trademarks owned by Philips, relating to the shape of the head portion of Philips' three-headed rotary shaver.

In *Koninklijke Philips Electrics N.V. v. Remington Consumer Products Limited (U.K.),* the High Court of Justice of the United Kingdom rejected Philips' claim that Remington's sale of rotary shavers in the United Kingdom infringed Philips' design patent and trademark and held that Philips' trademark was invalid. On appeal, the Court of Appeal, in a "provisional view," upheld the decision of the High Court but found that the issues between the parties raised difficult questions of construction of the Trademark Directive of the European Community and referred questions relating to the construction of this Directive to the European Court of Justice (the "ECJ") for its opinion which will govern the trademark laws of each of the fifteen member countries of the European Union. On June 18, 2002, the ECJ rendered its decision that a shape consisting exclusively of the shape of a product is unregistrable as a trademark (or is subject to being declared invalid if it had been registered as a trademark) if it is established that the essential functional features of that shape are attributable only to the technical result. The ECJ further ruled that the inability to register such a shape as a trademark (or the trademark being subject to being declared invalid) cannot be overcome by establishing that there are other shapes which allow the same result to be obtained. On April 9, 2003, the Court of Appeal determined to cancel the Philips trademark at issue in this litigation.

On February 15, 2000, Philips commenced a second action against Remington in the High Court of Justice of the United Kingdom. This second case differs from the first action described above only in that it involves a registered trademark which differs in minor respects from the registered trademark at issue in the first action. The second suit had been stayed by agreement of the parties pending the determination of the ECJ in the first action. It is currently expected that this second action will proceed to trial in the High Court in 2004. There is also pending a proceeding before the Trademarks Office of the United Kingdom relative to Philips' efforts to register a trademark similar to those at issue in the above-mentioned litigation. This matter has been stayed pending a hearing before the Court of Appeal.

In *Remington Consumer Products Limited v. Koninklijke Philips Electrics N.V. (France),* Remington filed a preemptive claim against Philips in the Paris First Instance Court on May 17, 2000, seeking the nullification of Philips' rotary shaver head trademarks in France. Following a hearing on the merits in April 2003, the Court found in favor of Remington and cancelled Philips rotary shaver head trademarks at issue. Philips has filed a notice of appeal in this action.

In *Remington Consumer Products Limited v. Koninklijke Philips Electrics NV (Italy),* Remington filed a preemptive claim against Philips in the Tribunal of the City of Milan on May 15, 2000 seeking the nullification of Philips' rotary shaver head trademarks in Italy and a declaration that the sale of Remington's rotary shavers does not constitute trademark infringement or unfair competition on the part of Remington. On or about November 15, 2000, Philips filed a Writ of Summons with the court asserting trademark infringement against Remington and seeking damages with respect to all rotary shavers sold by Remington. A hearing on the merits in the principal action is currently expected to occur in 2004.

In *Koninklijke Philips Electrics N.V. v Remington Products GmbH (Germany),* on August 20, 2002, the District Court of Cologne granted an injunction to Philips under the German Unfair Competition Act against Remington Products, GmbH, a subsidiary of Remington, prohibiting the sale of Remington's rotary shavers in Germany. Remington has appealed this decision and on May 9, 2003, the Cologne Second Instance Court rejected Remington's appeal, indicating that the court was not competent to determine matters of trademark validity which lie within the exclusive jurisdiction of other administrative and judicial bodies. On September 5, 2002, Philips commenced a main action against Remington Products, GmbH in the District Court of Cologne to accompany the suit for an injunction described above. This action seeks to enjoin the sale of Remington rotary shavers, money damages and other relief. A hearing on the merits of the principal action has not yet been scheduled.

In *Koninklijke Philips Electrics N.V. v River International, S.A. (Spain),* on December 5, 2002, Philips commenced an action against River International, S.A. ("River"), the distributor of Remington's rotary shavers in Spain in the Court of First Instance of Barcelona to enjoin the sale of Remington rotary shavers in Spain and other relief. Pursuant to an indemnity agreement, Remington has undertaken to indemnify River for all of River's costs and expenses associated with this litigation. On January 27, 2003, the court granted an injunction to Philips. River appealed this decision and on July 31, 2003, the appellate court reversed the decision of the lower court and ordered the lifting of the injunction. A hearing on the merits in the principal action was held on May 20, 2003. On March 12, 2003, Remington commenced an action against Philips in the Court of First Instance of Barcelona seeking to cancel Philips' registered trademark in Spain. No hearings have been scheduled as yet in this litigation. The first action has been stayed pending the outcome of the second action.

In addition, The Gillette Company and its subsidiary, Braun GmbH, filed a complaint against Remington in the federal district court in Massachusetts on December 2, 2003 alleging that Remington's "Smart Cleaner" automatic cleaning device on Remington's Titanium Smart System shaving product infringes United States patent numbers 5,711,328 and 5,649,556 allegedly held by Braun (*The Gillette Company and Braun GmbH v. Remington Consumer Products Company, LLC., Case No. 03 CV 12428 WGY*). The complaint, which has not yet been served on Remington, seeks injunctive relief and monetary damages. Should it be served with the complaint, Remington will deny the allegations and vigorously defend itself in this case.

Further, on December 10, 2003, Norelco Consumer Products Company filed a complaint against Remington in federal district court for the southern district of New York alleging that a Remington television advertisement referred to as "Slice" or "A Close Shave" and airing in the United States was false and misleading thereby violating certain provisions of the Lanham Act and the Connecticut Unfair Trade Practices Act (*Norelco Consumer Products Company v. Remington Products Company, LLC., Case No. 03 CV 979*). The lawsuit seeks injunctive relief as well as monetary damages. On December 12, 2003, the court granted Norelco's request for a temporary restraining order and enjoined Remington from airing the advertisement pending resolution of the lawsuit. Remington denies the allegations brought by Norelco and will vigorously defend itself in this matter.

**Environmental**

We are subject to various federal, state and local environmental laws and regulations. We believe we are in substantial compliance with all such environmental laws which are applicable to our operations. We are also involved in the environmental remediation activities as described below.

Rayovac's former manganese processing facility in Covington, Tennessee was accepted into the Voluntary Cleanup, Oversight and Assistance Program of the Tennessee Department of Environment and Conservation (the "TDEC") in February 1999. Under Tennessee's voluntary cleanup program, we negotiated a Consent Order and Agreement with the TDEC, dated February 12, 1999, covering investigation, and if necessary, remediation of the facility. Groundwater monitoring conducted with respect to a capped non-hazardous landfill at the facility, and groundwater testing beneath former process areas of the facility, indicated elevated levels of certain inorganic contaminants, particularly (but not exclusively) manganese, in the groundwater underneath the facility. We have completed closure of lagoons on the property and have completed the remediation of a stream that borders the



facility. Upon successful completion of the requirements of the Consent Order and Agreement, we expect that no further action will be required at the facility. While remediation costs are uncertain at this time, we do not expect the matter to have a material adverse financial impact on us.

In addition, as part of routine reporting requirements in connection with past property transfers, our Remington subsidiary has reported to the Connecticut Department of Environmental Protection (the "CTDEP") that it has detected petroleum, metals and solvent compounds in soil and ground water samples taken from its Bridgeport, Connecticut facility. The general remedial strategies have been selected by Remington and those strategies which require CTDEP approvals have been submitted for approval. All other strategies do not require approval for implementation. While costs for the remediation activities which will eventually be undertaken are uncertain at this time, we do not expect that these activities will have a material adverse financial impact on us.

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

Rayovac's Annual Meeting of Shareholders was held on July 23, 2003. The directors standing for election were elected in an uncontested election. The directors elected were William P. Carmichael, Kent J. Hussey and Philip F. Pellegrino. Mr. Carmichael received 25,218,657 votes in favor of his election and 1,738,492 votes were withheld. Mr. Hussey received 25,738,625 votes in favor of his election and 1,218,524 votes were withheld. Mr. Pellegrino received 24,755,058 votes in favor of his election and 2,202,091 votes were withtheld. In addition to the election of directors, the Company submitted the ratification of the appointment of KPMG LLP as our independent auditors to a vote of the shareholders. The vote in favor of ratification was: For: 25,050,013; Against: 1,887,525; Abstained: 19,612.



## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock, $0.01 par value per share (the "Common Stock"), is traded on the New York Stock Exchange (the "NYSE") under the symbol "ROV." The Common Stock commenced public trading on November 21, 1997. As of December 1, 2003, there were 244 holders of record of Common Stock based upon data provided by the transfer agent for the Common Stock. 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 Transaction Tape for the fiscal periods indicated:

| | High | Low |
|---|---|---|
| **Fiscal 2003** | | |
| Quarter ended December 29, 2002 | $ 16.28 | $ 11.20 |
| Quarter ended March 30, 2003 | $ 14.49 | $ 10.50 |
| Quarter ended June 29, 2003 | $ 13.84 | $ 9.93 |
| Quarter ended September 30, 2003 | $ 15.75 | $ 12.68 |
| **Fiscal 2002** | | |
| Quarter ended December 30, 2001 | $ 18.05 | $ 13.60 |
| Quarter ended March 31, 2002 | $ 17.93 | $ 12.81 |
| Quarter ended June 30, 2002 | $ 19.10 | $ 14.80 |
| Quarter ended September 30, 2002 | $ 18.52 | $ 11.75 |

We have not declared or paid any cash dividends on the Common Stock since it commenced public trading in 1997 and we do not anticipate paying cash dividends in the foreseeable future, but 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 $8^1/2$% senior subordinated notes due 2013 restrict our ability to pay dividends to our shareholders. Any future determination to pay cash dividends will be at the discretion of the Board of Directors and will be dependent upon our financial condition, results of operations, capital requirements, contractual restrictions and such other factors as the Board of Directors deems relevant.

Information regarding our equity compensation plans is set forth in Item 12 hereof under the caption "Equity Compensation Plan Information."



### ITEM 6. SELECTED FINANCIAL DATA

The following selected historical financial data is derived from our audited consolidated financial statements. Only the most recent three fiscal years audited statements are included elsewhere in this Annual Report on Form 10-K. 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, | | | | |
|---|---|---|---|---|---|
| | 1999(4) | 2000 | 2001(5) | 2002(6) | 2003(7)(8) |
| | (In millions, except per share data) | | | | |
| **Statement of Operations Data:** | | | | | |
| Net sales(1) | $ 504.2 | $ 630.9 | $ 616.2 | $ 572.7 | $ 922.1 |
| Gross profit(1) | 198.2 | 259.4 | 232.9 | 237.4 | 351.5 |
| Income from operations(2) | 53.6 | 89.3 | 54.4 | 63.0 | 59.6 |
| Income before income taxes(3) | 37.6 | 58.0 | 17.5 | 45.7 | 23.0 |
| Net income | 24.1 | 38.4 | 11.5 | 29.2 | 15.5 |
| Restructuring and related charges cost of goods sold | $ 1.3 | $ | $ 22.1 | $ 1.2 | $ 21.1 |
| Restructuring and related charges operating expenses | 8.1 | | 0.2 | | 11.5 |
| Non-operating expense(3) | | | 8.6 | | 3.1 |
| Interest expense | $ 16.3 | $ 30.6 | $ 27.2 | $ 16.0 | $ 37.2 |
| Per Share Data: | | | | | |
| Net income per common share: | | | | | |
| Basic | $ 0.88 | $ 1.39 | $ 0.40 | $ 0.92 | $ 0.49 |
| Diluted | 0.83 | 1.32 | 0.39 | 0.90 | 0.48 |
| Average shares outstanding: | | | | | |
| Basic | 27.5 | 27.5 | 28.7 | 31.8 | 31.8 |
| Diluted | 29.2 | 29.1 | 29.7 | 32.4 | 32.6 |
| **Cash Flow and Related Data:** | | | | | |
| Net cash provided by operating activities | $ 13.3 | $ 32.8 | $ 18.0 | $ 66.8 | $ 76.2 |
| Capital expenditures | 24.1 | 19.0 | 19.7 | 15.6 | 26.1 |
| Depreciation and amortization (excluding amortization of debt issuance costs)(2) | 13.5 | 20.0 | 21.1 | 19.0 | 31.6 |
| **Balance Sheet Data (at period end):** | | | | | |
| Cash and cash equivalents | $ 11.1 | $ 9.8 | $ 11.4 | $ 9.9 | $ 107.8 |
| Working capital(9) | 104.4 | 104.7 | 158.5 | 140.5 | 269.8 |
| Total assets(1) | 513.1 | 549.6 | 566.5 | 533.2 | 1,576.5 |
| Total long-term debt, net of current maturities | 307.4 | 272.8 | 233.5 | 188.5 | 870.5 |
| Total debt | 330.3 | 317.6 | 258.0 | 201.9 | 943.4 |
| Total shareholders' equity | 46.5 | 80.7 | 157.6 | 174.8 | 202.0 |

(1)

Certain reclassifications have been made to reflect the adoption of EITF 01-09 (which codified certain provisions of EITF 00-14, 00-22 and 00-25) for periods prior to adoption in fiscal 2002. EITF 01-09 addresses the recognition, measurement and income statement classification of various types of sales incentives, either as a reduction to revenue or as an expense. Concurrent with the



adoption of EITF 00-25, we reclassified certain accrued trade incentives as a contra receivable versus our previous presentation as a component of accounts payable.

(2)

Pursuant to FASB Statement No. 142, *Goodwill and Other Intangible Assets,* we ceased amortizing goodwill on October 1, 2001. Upon initial application of Statement No. 142, we reassessed the useful lives of its intangible assets and deemed only the trade name to have an indefinite useful life because it is expected to generate cash flows indefinitely. Based on this, we ceased amortizing the trade name on October 1, 2001. Goodwill and tradename amortization expense for 1999, 2000 and 2001 included in depreciation and amortization in income from operations are as follows:

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| | | (in millions) | |
| Goodwill amortization | $ 0.8 | $ 1.2 | $ 1.1 |
| Trade name amortization | 0.4 | 2.3 | 2.3 |
| | $ 1.2 | $ 3.5 | $ 3.4 |

(3)

The FASB issued Statement No. 145, which addresses, among other things, the income statement presentation of gains and losses related to debt extinguishments, requiring such expenses to no longer be treated as extraordinary items, unless the items meet the definition of extraordinary per APB Opinion No. 30. We adopted this statement on October 1, 2002. As a result, we recorded non-operating expenses within income before income taxes as follows during the fiscal years ended September 30, 2001 and 2003:

In fiscal 2001, a non-operating expense of $8.6 million was recorded for the premium on the repurchase of $65.0 million of our senior subordinated notes and related write-off of unamortized debt issuance costs in connection with a primary offering of our common stock in June 2001.

In fiscal 2003, a non-operating expense of $3.1 million was recorded for the write-off of unamortized debt issuance costs associated with the replacement of our previous credit facility in October 2002.

(4)

Fiscal 1999 includes restructuring and related charges cost of goods sold of $1.3 million, and restructuring and related charges operating expenses of $8.1 million.

(5)

Fiscal 2001 includes restructuring and related charges cost of goods sold of $22.1 million, and restructuring and related charges operating expenses of $0.2 million. Fiscal 2001 also includes a non-operating expense of $8.6 million discussed in (3) above. See Notes 15 and 2(x), respectively, in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further discussion.

(6)

Fiscal 2002 includes restructuring and related charges cost of goods sold of $1.2 million. See Note 15 in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further discussion.

(7)

Fiscal 2003 includes a net sales reduction of $6.2 million related to North American retailer inventory repricing programs associated with the launch of our comprehensive new alkaline pricing program announced in 2003. These programs were launched in response to Duracell's price reduction in the U.S. market on certain AA and AAA batteries.

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 (3) above. See Notes 15 and 2(x), respectively, in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further discussion.

(8)

Fiscal 2003 selected financial data is 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. See further discussion of acquisitions in Item 1: Business, and in Note 16 in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

(9)
Working capital is defined as current assets less current liabilities.



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

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 in the "Financial Statements" section of this Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to current year presentation. All references to 2001, 2002, and 2003 refer to fiscal year periods ended September 30, 2001, 2002, and 2003, respectively.

**INTRODUCTION**

On October 1, 2002, we acquired substantially all of the consumer battery business of VARTA AG. The acquisition consisted of the purchase of all of VARTA AG's consumer battery subsidiaries and business outside of Germany, excluding Brazil, and a controlling ownership and management interest in a new joint venture entity that will operate the VARTA AG consumer battery business in Germany. The residual interest in the joint venture is held by VARTA AG. With the acquisition of VARTA, we became a truly global battery manufacturer and marketer and acquired additional low-cost manufacturing capacity and battery technology.

In addition, on September 30, 2003, we acquired all of the equity interests of Remington Products Company, L.L.C. Remington is a leading consumer products company focusing on the development and marketing of personal care products. Remington designs and distributes electric shavers and accessories, grooming products, hair care appliances and other small electrical consumer products. The acquisition of Remington allowed us to become a diversified consumer products company no longer solely focused on the battery and lighting product markets. Remington was attractive due to its position as a strong branded company, its new product pipeline and its use of distribution channels similar to those employed by Rayovac in the United States.

Following the acquisitions of VARTA and Remington, we are a global branded consumer products company with leading market positions in our two major product categories: consumer batteries and electric personal care products. We are a leading worldwide manufacturer and marketer of alkaline and zinc carbon batteries. We are also the leading worldwide manufacturer and marketer of hearing aid batteries, a leading worldwide designer and marketer of rechargeable batteries and a leading marketer of battery-powered lighting products. With the acquisition of Remington, we are also a leading designer and marketer of electric shavers and accessories, electric grooming products and hair care appliances. Our products are sold on a global basis in over 100 countries through a variety of channels, including mass merchandisers, home centers and hardware stores, consumer electronics stores, warehouse clubs, food, drug and convenience stores, department stores, hearing aid professionals, industrial distributors and original equipment manufacturers ("OEMs"). We 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.

Our financial performance is influenced by a number of factors including: general economic conditions and trends in consumer markets; our overall product line mix, including sales prices and gross margins which vary by product line; and our general competitive position, especially as impacted by our competitors' promotional activities and pricing strategies. These influencing factors played significant roles in our financial results during fiscal 2001, 2002 and 2003.

We manage our business based upon three geographic regions. The regions are as follows: North America, which includes the United States and Canada; Latin America, which includes Mexico, Central America, South America and the Caribbean; and Europe/Rest of World ("Europe/ROW"), which includes continental Europe, the United Kingdom, and all other countries in which we do business.



Our Consolidated Results of Operations for the twelve months ended September 30, 2003 do not include the impacts of the Remington acquisition, as the transaction occurred on the close of business on September 30, 2003. Our Consolidated Balance Sheet, as of September 30, 2003, and Consolidated Statement of Cash Flows for the year then ended do incorporate the impacts of the Remington transaction.

*Cost Reduction Initiatives*

We continually seek to improve our operational efficiencies, match our manufacturing capacity and product costs to market demand and better utilize our manufacturing resources. Since the beginning of fiscal 2001, we have undertaken various initiatives to reduce manufacturing, operating and other costs. We believe that we can continue to drive down our cost of goods manufactured with continued focus on cost reduction initiatives.

*Fiscal 2001.* In fiscal 2001, we closed our Wonewoc, Wisconsin plant and now source lighting products previously made at this plant from third party suppliers. With this closure, we now outsource all of our lighting products. In addition, we outsourced certain manufacturing operations at our Fennimore, Wisconsin plant to accommodate the installation of a new high speed AA-size alkaline battery line and discontinued inefficient packaging operations.

Also in fiscal 2001, we closed our zinc carbon battery plants in Tegucigalpa, Honduras and rationalized our manufacturing and distribution processes in our Mexico City, Mexico manufacturing facilities and in our European operations by discontinuing or outsourcing uneconomic product lines or production processes, including the outsourcing of zinc carbon rod manufacturing, and by changing uneconomical modes of distribution.

Finally, in fiscal 2001, we engaged in an organizational restructuring in North America and Latin America. As part of this initiative, sales and marketing functions were eliminated and/or consolidated. These cost reduction initiatives reduced our global workforce by approximately 570 employees.

*Fiscal 2002.* In fiscal 2002, we closed our Santo Domingo, Dominican Republic manufacturing facility and transferred production of zinc carbon batteries to our Guatemala City, Guatemala manufacturing facility. We also outsourced a portion of our zinc carbon battery production previously manufactured at our Mexico City, Mexico facility.

The impact of the fiscal 2001 and fiscal 2002 cost reduction initiatives on our operations is described below under the heading "Fiscal Year Ended September 30, 2002 Compared to Fiscal Year Ended September 30, 2001 Restructuring and Related Charges."

*Fiscal 2003.* In October 2002, in conjunction with the acquisition of the VARTA consumer battery business described above, we announced a series of initiatives designed to position our consumer battery business for future growth opportunities and to optimize the combined global resources of Rayovac and VARTA. These initiatives, which are expected to provide significant benefits to the combined organization, include the renegotiation of certain sourcing arrangements, the elimination of duplicate costs in our consumer battery business and the consolidation of sales and marketing functions.

In October 2002, we closed our Mexico City, Mexico manufacturing facility. With the closure of the Mexico City, Mexico plant, the plants in Guatemala City, Guatemala, Breitenbach, France, and Manizales, Colombia became our remaining zinc carbon manufacturing plants. The consolidation of our zinc carbon capacity within Latin America is consistent with the global market trend away from zinc carbon toward alkaline batteries, and is intended to allow us to more closely match our manufacturing capacity to anticipated market demands.



We also announced the closure of operations at our Madison, Wisconsin packaging center and Middleton, Wisconsin distribution center in October 2002. These facilities were closed during fiscal 2003 and their operations were combined into a new leased complex in Dixon, Illinois. Transition to the new facility was completed in June 2003. We anticipate that the relocation to the new leased packaging and distribution center will result in operational changes that are intended to reduce freight and inventory handling costs.

We expect that all geographies will benefit from decreased costs and expenses resulting from the VARTA initiatives. These initiatives are anticipated to create long-term opportunities for procurement savings resulting from renegotiated raw material and finished good sourcing arrangements and lower operating costs as duplicative administrative support and sales and marketing functions are consolidated and overlapping functions are eliminated.

The benefits of the VARTA initiatives are expected to positively impact future gross profit and operating margins, but were partially offset during fiscal 2003 and in the near-term by exit and integration costs, including employee termination benefits and asset impairments associated with the elimination of duplicative functions, an increase in interest expense associated with the acquisition, and increased exposure to foreign currency movements reflecting our expanded global presence. In addition, the acquisition of the VARTA consumer battery business is expected to negatively impact our effective tax rate, as we estimate a larger percentage of our income will be generated in higher tax jurisdictions.

Annual savings associated with the VARTA initiatives are projected to be in the range of $40-45 million when fully realized by the end of fiscal 2005. Costs associated with certain cost reduction initiatives are discussed in Note 15, Restructuring and Related Charges, to our Notes to

Consolidated Financial Statements.

The impact of the fiscal 2003 cost reduction initiatives on our operations is described below under the heading "Fiscal Year Ended September 30, 2003 Compared to Fiscal Year Ended September 30, 2002 Restructuring and Related Charges."

In conjunction with the acquisition of the Remington business, we identified annual savings opportunities of approximately $23.5 million when fully realized, which we currently expect by 2006. These savings are primarily related to purchasing, supply chain management, manufacturing and back office functions. We estimate we will incur total costs (cash and non-cash) of approximately $35.0 million over the next two years to achieve these savings. Integration activities are currently underway and savings and cost estimates will be further refined during fiscal 2004. We expect the North America and Europe/ROW geographies to benefit from decreased costs and expenses resulting from these Remington initiatives to optimize the combined resources of Rayovac and Remington.

*Meeting Consumer Needs through Technology and Development*

We continue to focus our efforts on meeting consumer needs for portable power, personal care, and lighting products through new product development and technology innovations. Prior to the Remington acquisition, we announced improvements and new developments in our rechargeable, alkaline, hearing aid, and lighting products product lines.

During fiscal 2001, we introduced a one-hour charger for nickel metal hydride (NiMH) batteries, and began selling higher performing NiMH batteries. In fiscal 2002, we announced the development of a revolutionary rechargeable NiMH battery system capable of recharging batteries in as little as 15 minutes which was introduced in the retail market during fiscal 2003. These technological advancements provide consumers with portable, rechargeable power as the use of digital cameras and other high drain devices continues to grow.

In fiscal 2002, we launched our new, more powerful Rayovac Maximum Plus alkaline batteries, with bold new graphics. Also during fiscal 2001 and fiscal 2002, we increased the performance of our



hearing aid batteries, and launched innovative packaging allowing consumers to more easily dispense the hearing aid batteries. In Europe during fiscal 2003, we launched our High Energy alkaline batteries and upgraded our graphic designs for our MaxiTech and LongLife batteries, all marketed under the VARTA brand name. Finally, we rejuvenated our lighting products product line through a series of new product launches designed to reach unique markets within the mass and retail channels.

During fiscal 2003, we introduced to the United States marketplace a comprehensive pricing strategy for our alkaline battery product portfolio. We simplified the battery buying decision process for consumers by offering fifty percent more of our AA and AAA batteries for the same price as the competition. We believe this "fifty percent more" strategy will help redefine the value position of our Maximum Plus alkaline products. This strategy will also match up with the consumer trend of buying larger pack size of batteries.

Research and development efforts at Remington allow us to maintain our unique manufacturing process in cutting systems for shavers. Remington is continuously pursuing new innovations for its line of shavers including foil improvements and new cutting and trimmer configurations. Remington also devotes resources to the development of new technologies for its other products. During fiscal 2003 and prior to the acquisition, Remington introduced the Remington Titanium line of men's MicroScreen® and MicroFlex® shavers, a line of personal grooming products that utilize titanium-coated blades and trimmers.

We believe that our products are well poised to meet the portable power, lighting and electric personal care needs of consumers. We will continue to focus on identifying new technologies necessary to meet consumer and retailer needs within the marketplace.

*Competitive Landscape*

The alkaline battery business is highly competitive on a global scale. Within North America, Europe and Latin America, there are four primary branded providers of alkaline batteries and a few local manufacturers within each geographic region. The alkaline marketplace has seen changes in recent years related to product line segmentation, with attempts to segment the category into high-performance, regular and value positions, combined with the introduction of private label batteries at certain retailers. In addition, market participants continue to engage in high levels of promotional and pricing activities to gain market share. In the United States in 2003, Duracell, one of our competitors, announced they were lowering the prices of their alkaline batteries. This action, in conjunction with our and Energizer's responses, is expected to have a short-term impact on the overall United States battery category growth.

Within Latin America, poor economic conditions have dramatically impacted battery sales especially within the zinc carbon product line. Zinc carbon batteries continue to be the largest share of the battery market in Latin America in unit terms. In North America and Europe, the majority of consumers purchase alkaline batteries.

Within North America and Europe, the rechargeable battery business has experienced dramatic changes over the past three years. Primary rechargeable alkaline sales have declined over this period with a shift towards rechargeable batteries, such as NiMH, which are higher performing in high drain devices. Our development of a one-hour charger and an innovative 15-minute rechargeable battery technology help us maintain the number one market position within the rechargeable category in the United States, as estimated by management.

Within the hearing aid battery category, we continue to hold the number one global market position based on management estimates. 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.



*Seasonal Product Sales*

Our quarterly results are impacted by our seasonal sales. Sales during the first and fourth fiscal quarters of the year are generally higher than other quarters due to the impact of the December holiday season. The seasonality of our sales during the last three fiscal years is as follows:

**Percentage of Annual Sales**

| | **Fiscal Year Ended September 30,** | | |
|---|---|---|---|
| **Fiscal Quarter Ended** | **2001** | **2002** | **2003** |
| December | 27% | 28% | 28% |
| March | 22% | 21% | 22% |
| June | 24% | 24% | 23% |
| September | 27% | 27% | 27% |

Remington also experiences seasonal sales. During calendar 2002, Remington's sales for the quarters ended March 31, June 30, September 30, and December 31 were 15%, 19%, 22%, and 44%, respectively. We anticipate our sales for the fiscal quarter ending in December will be a larger portion of our annual sales going forward.

**Fiscal Year Ended September 30, 2003 Compared to Fiscal Year Ended September 30, 2002**

**Highlights of consolidated operating results**

Year over year historical comparisons are influenced by our October 1, 2002 acquisition of substantially all of the consumer battery business of VARTA AG, which is included in our current year but not prior year results. See Note 16, Acquisitions and Divestitures, of Notes to the Consolidated Financial Statements for additional information regarding the VARTA acquisition. The acquisition of Remington, had no effect on fiscal 2003 operating results, as the transaction was completed after the close of business on September 30, 2003.

*Net Sales.* Our net sales increased $349.4 million to $922.1 million in fiscal 2003 from $572.7 million the previous year. The sales increase is attributable to the VARTA acquisition partially offset by sales decreases in the North America segment.

*Operating Income.* Our income from operations decreased $3.4 million to $59.6 million in fiscal 2003 from $63.0 million the previous year. The decrease was primarily attributable to $32.6 million in restructuring charges reflecting a series of restructuring initiatives announced and implemented during fiscal 2003 and a $20.7 million decrease in North America segment profitability discussed below. These decreases were mostly offset by the profitability associated with the VARTA acquisition. For further discussion of restructuring and related charges see Note 15, Restructuring and Related Charges, of Notes to the Consolidated Financial Statements.

*Net Income.* Our net income in fiscal 2003 decreased $13.7 million to $15.5 million from $29.2 million the previous year. The decrease was due to restructuring and related charges of $20.2 million, after tax, an increase in interest expense of $13.1 million, after tax, North America retailer markdown programs of $3.8 million, after tax, non-operating expense of $1.9 million, after tax, reflecting the write-off of unamortized debt issuance costs associated with the replacement of our previous credit facility, and the decline in North America profitability, partially offset by the profitability of the VARTA acquisition. Fiscal 2002 includes a $7.5 million, after tax, net bad debt expense related to the bankruptcy filing of a North America segment customer.



*Segment Results.* We evaluate segment profitability based on income from operations before corporate expense and restructuring and related charges. Corporate expense includes corporate purchasing expense, general and administrative expense, and certain research and development expenses.

| **Europe/ROW** | **2002** | **2003** |
|---|---|---|
| Net sales from external customers | $ 52.5 | $ 421.1 |
| Segment profit | 5.1 | 49.7 |
| Segment profit as a % of net sales | 9.7% | 11.8% |
| Assets | $ 31.4 | $ 537.4 |

The Europe/ROW segment was the segment most dramatically impacted by the VARTA acquisition. Increases in sales, segment profitability and assets all reflect the significance of VARTA within the region and the favorable impact of foreign currency movements. Intense sales, marketing, operational and administrative integration activities were implemented and substantially completed within the region making identification of factors causing year-over-year variation difficult.

Profitability as a percent of net sales increased to 11.8% in fiscal 2003 from 9.7% in the previous year primarily reflecting the impact of the VARTA acquisition and improved gross profit margins.

Intangible assets of $240.6 million, primarily related to the VARTA acquisition, now make up a substantial portion of the asset base within the segment. The segment's asset base as of September 30, 2003, includes the international operations of Remington.

| **North America** | **2002** | **2003** |
|---|---|---|
| Net sales from external customers | $ 435.6 | $ 376.0 |
| Segment profit | 85.5 | 64.8 |
| Segment profit as a % of net sales | 19.6% | 17.2% |
| Assets | $ 256.4 | $ 625.5 |

Our sales to external customers decreased $59.6 million, or 13.7%, to $376.0 million in fiscal 2003 from $435.6 million the previous year due primarily to weakness in alkaline, zinc carbon, and rechargeable product line sales. Alkaline sales decreases of $54.3 million were caused by intense competitive promotional pricing activity in this battery category, a $9.7 million decline in post-bankruptcy sales to a customer, approximately $6.2 million in retailer markdown programs associated with the Company's new alkaline pricing program, and our inability to replace $4.0 million in sales to a discontinued low-margin OEM customer in the prior year. Zinc carbon sales decreased $9.6 million compared to last year due to reduced distribution and general marketplace trends away from the use of this type of battery. Rechargeable battery sales also decreased $2.6 million compared to last year due to lower sales in advance of the I-$C^3$ rechargeable battery system launched in the fourth quarter of fiscal 2003. Hearing aid battery sales increased $3.7 million, or 9.0% due to overall category strength.

Our profitability decreased $20.7 million to $64.8 million from $85.5 million the previous year. The decrease in profitability was primarily attributable to lower gross profit due to the current year sales decrease partially offset by a $12.0 million net bad debt expense related to the bankruptcy filing of a key customer recorded in the prior year. Due to the reasons mentioned above, our profitability margins decreased 240 basis points to 17.2% from 19.6% the previous year.

Our assets increased to $625.5 million from $256.4 million the previous year primarily reflecting the impacts of the Remington acquisition and intangible assets of approximately $283.0 million



attributable to the transaction. The purchase price allocation for the Remington acquisition is not yet final.

| Latin America | 2002 | 2003 |
|---|---|---|
| Net sales from external customers | $ 84.7 | $ 125.0 |
| Segment profit | 5.3 | 17.7 |
| Segment profit as a % of net sales | 6.3% | 14.2% |
| Assets | $ 191.0 | $ 203.9 |

Our sales to external customers increased $40.3 million, or 47.6% to $125.0 million in fiscal 2003 from $84.7 million the previous year. The increase in sales is due to the impact of the VARTA acquisition and sales increases within Central America of $7.6 million primarily reflecting improvements in our wholesaler and distributor channels. These increases were partially offset by currency devaluations in the Dominican Republic contributing to a sales decrease of $4.3 million, declines caused by unfavorable economic conditions and political uncertainties in Venezuela resulting in a sales decline of $2.3 million, and the unfavorable impacts of foreign currency movements impacting other geographies within the region.

Our profitability increased $12.4 million to $17.7 million and was primarily the result of the VARTA acquisition, improved profitability in Central America partially offset by profit declines in Venezuela and Dominican Republic.

Our assets increased $12.9 million, or 6.8%, to $203.9 million from $191.0 million the previous year. The acquisition of the VARTA business in Latin America resulted in asset increases across all asset categories, except for a reduction in accounts receivable reflecting improvements in collections, a decrease in property, plant and equipment reflecting the closure of the Mexico manufacturing facility. The closure and subsequent write-off of the Mexico manufacturing related assets are included in restructuring and related charges in our Consolidated Statement of Operations (see Note 15, Restructuring and Related Charges, of Notes to the Consolidated Financial Statements) and are not included in our Latin America segment results. The Remington acquisition had no effect on Latin America segment assets.

*Corporate Expense.* Our corporate expenses increased $8.3 million to $40.0 million from $31.7 million in the previous year. As a percentage of sales, our corporate expense was 4.3% in fiscal 2003, compared with 5.5% in the previous year. Fiscal 2003 corporate expense includes higher legal expense associated with patent infringement litigation, a $1.5 million net charge associated with the settlement of such litigation, generally higher costs associated with the integration of the VARTA businesses and other increases in compensation expense, primarily reflecting an increase in unearned restricted stock compensation of $2.1 million. Fiscal 2002 included a loss of $1.5 million related to the bankruptcy filing of a freight payment service provider.

*Restructuring and Related Charges.* In fiscal 2003, we recorded restructuring and related charges of $32.6 million associated with our cost reduction initiatives, as more fully described above under the heading "Cost Reduction Initiatives Fiscal 2003", relating to: (i) approximately $13.0 million of employee termination benefits for approximately 650 notified employees and non cash costs of approximately $0.7 million associated with the write-off of pension intangible assets reflecting the curtailment of our Madison, Wisconsin packaging facility pension plan, (ii) approximately $12.8 million of equipment, inventory and other asset write-offs primarily reflecting the abandonment of equipment and inventory associated with the closure of our Mexico City, Mexico plant and inventory and fixed asset impairments related to the closure of our Wisconsin packaging and distribution locations, (iii) approximately $6.1 million of other expenses which include, distributor termination costs of approximately $0.9 million, research and development contract termination costs of approximately



$0.5 million, and other legal and facility shutdown expenses of approximately $4.7 million, net of a $0.3 million change in estimate reducing our anticipated costs to close our Wonewoc, Wisconsin facility.

In fiscal 2003, we recorded restructuring and related charges in cost of goods sold of approximately $21.1 million including amounts related to: (i) the closure in October 2002 of our Mexico City, Mexico plant and integration of production into our Guatemala City, Guatemala manufacturing location, resulting in charges of approximately $6.2 million, including termination payments of approximately $1.4 million, fixed asset and inventory impairments of approximately $4.3 million, and other shutdown related expenses of approximately $0.5 million, (ii) the closure of operations at our Madison, Wisconsin packaging facility and combination with the Company's Middleton, Wisconsin distribution center into a new leased complex in Dixon, Illinois resulting in charges of approximately $12.4 million, including termination costs of approximately $2.4 million and non cash pension curtailment costs of approximately $0.7 million, fixed asset and inventory impairments of approximately $6.9 million, and relocation expenses and other shutdown related expenses of approximately $2.4 million, (iii) a series of restructuring initiatives impacting our manufacturing functions in Europe, North America, and Latin America resulting in charges of approximately $2.8 million, including termination benefits of approximately $1.8 million and inventory and asset impairments of approximately $1.0 million, and (iv) a change in estimate relating to our anticipated costs to close our Wonewoc, Wisconsin facility resulting in a credit of $0.3 million.

In fiscal 2003, we recorded restructuring and related charges in operating expenses of approximately $11.5 million including amounts related to: (i) the closure of operations at our Middleton, Wisconsin distribution center and combination with our Madison, Wisconsin packaging facility into a new leased complex in Dixon, Illinois resulting in charges of approximately $1.4 million, including termination costs of approximately $0.3 million, fixed asset impairments of approximately $0.3 million, and relocation expenses and other shutdown related expenses of approximately $0.8 million, and (ii) a series of restructuring initiatives impacting our sales, marketing, and administrative functions in Europe, North America, and Latin America resulting in charges of approximately $10.1 million, including termination costs of approximately $7.1 million, distributor termination costs of approximately $0.9 million, research and development contract termination costs of approximately $0.5 million, fixed asset impairments of $0.3 million, and legal and other expenses of approximately $1.3 million. The carrying value of assets held for sale under restructuring plans is approximately $8.7 million, and is included in Prepaid expense and other in our Consolidated Balance Sheets.

In fiscal 2002, we recorded net restructuring and related charges in cost of goods sold of $1.2 million related to: (i) the closure of our manufacturing facility in Santo Domingo, Dominican Republic and transfer of production to our Guatemala City, Guatemala manufacturing facility and the outsourcing of a portion of our zinc carbon battery production previously manufactured at our Mexico City, Mexico manufacturing facility, as more fully described above under the heading "Cost Reduction Initiatives Fiscal 2002" and (ii) the reversal of $1.3 million of expenses related to the December 2000 restructuring announcement which were not realized, primarily reflecting a change in estimated termination benefits of $1.0 million, due to lower estimates of outplacement costs and costs attributable to fringe benefits, and the retention of selected employees.

The closure of the Dominican Republic manufacturing facility and outsourcing of Mexico zinc carbon production, in fiscal 2002, resulted in $1.2 million of employee termination benefits for approximately 115 manufacturing employees, $0.9 million of charges from the abandonment of equipment and inventory, net of a change in estimate of $0.4 million, associated with the closing of the manufacturing facility and $0.3 million of other expenses. The change in estimate reflected our ability to utilize more inventory and manufacturing equipment at our Guatemala City, Guatemala manufacturing location than originally anticipated.



*Interest Expense.* Interest expense increased $21.1 million to $37.2 million in fiscal 2003 due to the increase in debt to finance the VARTA acquisition.

*Non-Operating expense.* In fiscal 2003, we recorded non-operating expense of $3.1 million relating to the write-off of unamortized debt fees associated with our previous credit facility, replaced in conjunction with the VARTA acquisition. There was no non-operating expense in fiscal 2002.

*Other (Income) Expense.* Other (income) expense, net, improved $4.9 million to income of $3.6 million in fiscal 2003, primarily attributable to foreign exchange transaction gains.

*Income Tax Expense.* Our effective tax rate was 32.8% for fiscal 2003, a decrease from 36.0% during the previous year. The decrease in the effective tax rate from the prior year primarily reflects the net impact of certain tax credits realized during fiscal 2003, favorable adjustments to prior year deferred taxes, adjustments to prior year tax reserves reflecting the expiration of certain statute of limitations, partially offset by non-deductible interest expense associated with our acquisition of VARTA.

**Fiscal Year Ended September 30, 2002 Compared to Fiscal Year Ended September 30, 2001**

**Highlights of consolidated operating results**

*Net Sales.* Our net sales decreased $43.5 million, or 7.1%, to $572.7 million in fiscal 2002 from $616.2 million the previous year. Increases in hearing aid battery and lighting product sales were unable to offset declines in zinc carbon and alkaline sales.

*Income from Operations.* Our income from operations increased $8.6 million, or 15.8%, to $63.0 million in fiscal 2002 from $54.4 million the previous year. This increase was primarily due to reduction in restructuring charges of $21.1 million offset by a $12.0 million bad debt reserve, net of recoveries, resulting from the bankruptcy filing of a key customer.

*Net Income.* Our net income for fiscal 2002 increased $17.7 million, or 153.9%, to $29.2 million from $11.5 million the previous year. The increase reflects a reduction in interest expense attributable to the retirement of $65.0 million of senior subordinated notes following our June 2001 common stock offering, plus a $56.1 million reduction in debt during fiscal 2002 due to strong cash flow from operations. In addition, fiscal 2001 results reflect a $22.3 million pretax restructuring charge and an $8.6 million pretax non-operating expense. These improvements were partially offset by a bad debt reserve of $7.5 million, net of tax, recognized in fiscal 2002 related to the bankruptcy filing of a key customer.

*North America*

| | 2001 | 2002 |
|---|---|---|
| Net sales from external customers | $ 448.8 | $ 435.6 |
| Segment profit | 80.8 | 85.5 |
| Segment profit as a % of net sales | 18.0% | 19.6% |

Our revenue from external customers decreased $13.2 million, or 2.9%, to $435.6 million in fiscal 2002 from $448.8 million the previous year. Zinc carbon sales decreases of $12.3 million reflect the trend in the industry toward alkaline and the discontinuation of certain products at selected stores of a major retailer. Alkaline sales decreases of $4.8 million were attributable to the decline in sales to a key customer in bankruptcy, a cautious retail inventory environment and continued promotional activity, and our inability to replace sales to an OEM customer in the previous year. Increases in lighting products of $4.3 million resulted from new product launches and distribution gains.



Our profitability increased $4.7 million to $85.5 million in fiscal 2002 from $80.8 million the previous year. This increase was primarily attributable to the benefits of the 2001 plant closures and organizational restructurings as more fully described under the heading "Cost Reduction Initiatives", that lowered operating expenses and improved gross profit margins. This was partially offset by a $12.0 million bad debt reserve, net of recoveries, resulting from the bankruptcy filing of a North America segment customer.

*Latin America*

| | 2001 | 2002 |
|---|---|---|
| Net sales from external customers | $ 118.7 | $ 84.7 |
| Segment profit | 16.9 | 5.3 |
| Segment profit as a % of net sales | 14.2% | 6.3% |

Our revenue from external customers decreased $34.0 million, or 28.6%, to $84.7 million in fiscal 2002 from $118.7 million the previous year due primarily to decreased sales of zinc carbon batteries. Net sales were impacted by unfavorable economic conditions in Mexico, Argentina, and Venezuela, primarily due to general weakened market conditions. Also impacting net sales were curtailments of shipments to certain distributors and wholesalers who were delinquent on payments, general political uncertainties and instability in Argentina and Venezuela, and the unfavorable impacts of currency devaluation which contributed approximately $9.3 million of the sales decline versus fiscal 2001.

We have a business presence in approximately 100 countries throughout the world, all of which are subject to varying degrees of political and economic risk. In fiscal 2002, changes in the economic and political environments in Mexico, Argentina and Venezuela subjected us to varying degrees of political and economic risks. While these markets collectively represent approximately 40.0% and 23.3% of our Latin America segment revenue and total assets, respectively, they collectively represent approximately 6.0% and 8.4% of our consolidated revenue and total assets, respectively.

In spite of the sales decline, the segment remained profitable, with profit of $5.3 million in fiscal 2002. However, this was a decrease of $11.6 million from the previous year. This decrease was primarily attributable to the impact of the sales decline, partially offset by lower advertising expenses and a reduction in other operating expenses in the region. As of October 1, 2001, we adopted FASB Statement No. 142 and were no longer required to amortize goodwill and certain intangibles with indefinite lives. This resulted in a reduction of amortization expense of $3.0 million, within the segment, for the year. Segment profit margins decreased primarily due to an unfavorable customer mix compounded by relatively fixed operating expenses spread over lower sales.

*Europe/ROW*

| | 2001 | 2002 |
|---|---|---|
| Net sales from external customers | $ 48.7 | $ 52.5 |
| Segment profit | 4.1 | 5.1 |
| Segment profit as a % of net sales | 8.4% | 9.7% |

Our revenue from external customers increased $3.8 million, or 7.8%, to $52.5 million in fiscal 2002 from $48.7 million the previous year, primarily reflecting increased sales of alkaline and hearing aid batteries, and favorable impacts of foreign currency movements.

Our profitability increased $1.0 million, or 24.4%, due primarily to sales gains and a reduction in operating expenses due to the cost reduction initiatives described above under the heading "Cost



Reduction Initiatives Fiscal 2001" and the adoption of FASB Statement No. 142, which resulted in lower amortization expense.

*Corporate Expenses.* Our corporate expenses increased $6.6 million, or 26.3%, to $31.7 million in fiscal 2002 from $25.1 million the previous year. The increase was primarily due to higher legal expenses, technology spending, and compensation expense.

*Restructuring and Related Charges.* In fiscal 2002, we recorded net restructuring and related charges of $1.2 million related to: (i) the closure of our manufacturing facility in Santo Domingo, Dominican Republic and transfer of production to our Guatemala City, Guatemala manufacturing facility and the outsourcing of a portion of our zinc carbon battery production previously manufactured at our Mexico City, Mexico manufacturing facility, as more fully described above under the heading "Cost Reduction Initiatives Fiscal 2002" and (ii) the reversal of $1.3 million of expenses related to the December 2000 restructuring announcement which were not realized, primarily reflecting a change in estimated termination benefits of $1.0 million, due to lower estimates of outplacement costs and costs attributable to fringe benefits, and the retention of selected employees.

The closure of the Dominican Republic manufacturing facility and outsourcing of Mexico zinc carbon production resulted in $1.2 million of employee termination benefits for approximately 115 manufacturing employees, $0.9 million of charges from the abandonment of equipment and inventory, net of a change in estimate of $0.4 million, associated with the closing of the manufacturing facility and $0.3 million of other expenses. The change in estimate reflected our ability to utilize more inventory and manufacturing equipment at our Guatemala City, Guatemala manufacturing location than originally anticipated.

The cost reduction initiatives undertaken in fiscal 2002 and described above are complete as of September 30, 2002. The remaining accrued termination benefits were paid before December 2002. We believe cost reduction initiatives generated annual savings approximating the cash costs of the restructuring initiatives.

We recorded restructuring and related charges of $22.3 million in fiscal 2001, reflecting $10.1 million of employee termination benefits for approximately 570 employees, $10.2 million of equipment, inventory, and other asset write-offs and $2.0 million of other expenses associated with the cost reduction initiatives described above under the heading "Cost Reduction Initiatives Fiscal 2001," including: (i) an organizational restructuring in the U.S., (ii) the closure of the Tegucigalpa, Honduras facility and the rationalization of our manufacturing and distribution processes in our Tegucigalpa, Honduras and Mexico City, Mexico manufacturing facilities and in our European operations, (iii) the closure of our Wonewoc, Wisconsin manufacturing facility and (iv) the rationalization of inefficient manufacturing processes, packaging operations and product lines at our Fennimore, Wisconsin manufacturing facility and Madison, Wisconsin packaging location. In addition, "Restructuring and Related Charges" also reflected costs associated with our June 2001 common stock offering.

The cost reduction initiatives undertaken in fiscal 2001 are complete and we do not anticipate any further material charges to result from such initiatives.

*Interest Expense.* Interest expense decreased $11.2 million, or 41.2%, to $16.0 million in fiscal 2002 from $27.2 million in the previous year primarily due to the retirement of $65.0 million of senior subordinated notes in June 2001 using proceeds from our common stock offering and the repayment of $56.1 million in debt from our strong cash flow from operations.

*Non-Operating Expense.* In fiscal 2001, we recorded non-operating expense of $8.6 million resulting from the premium on the repurchase of $65.0 million of Senior Subordinated Notes and the related write-off of unamortized debt issuance costs.



*Income Tax Expense.* Our effective tax rate for fiscal 2002 was 36.0% compared to 34.1% for fiscal 2001. The higher rate for fiscal 2002 primarily reflects a change in geographic profitability away from lower tax jurisdictions, primarily within Latin America, and proportionately higher income in the United States.

**Liquidity and Capital Resources**

For fiscal 2003, operating activities provided $76.2 million in net cash, an increase of $9.4 million over the previous year. Within operating cash flow, we recognized lower net income of $13.8 million reflecting the impacts of the fiscal 2003 restructuring activities partially offset by the impacts of the VARTA acquisition. We also experienced an increase in other non-cash adjustments primarily reflecting non-cash restructuring charges of $13.6 million, depreciation expense of $12.3 million primarily reflecting the impacts of the VARTA acquisition, the write-off of the unamortized debt issuance costs of $3.1 million, and amortization of unearned restricted stock compensation of $2.1 million partially offset by increases in deferred taxes of $13.8 million. Operating cash flow from changes in working capital was essentially unchanged from the previous year.

Net cash used by investing activities increased to $446.4 million for fiscal 2003, primarily reflecting payments associated with the VARTA and Remington acquisitions, net of cash acquired, of $420.4 million. Capital expenditures of $26.1 million were primarily for improvements to alkaline battery manufacturing and leasehold improvements on the Dixon, Illinois leased packaging and distribution center. Capital expenditures for fiscal 2004 are expected to be approximately $25.0 million, which are expected to include spending for continued investment in our alkaline and hearing aid manufacturing operations, continued technology investments, and spending associated with our recent Remington acquisition.

During fiscal 2003 we granted approximately 1.2 million options to purchase shares of common stock to various employees of the company. All grants have been at an exercise price equal to the market price of the common stock on the date of the grant. We also granted approximately 0.4 million shares of restricted stock on October 1, 2002, from the 1997 incentive plan, to certain members of management. The majority of these shares will vest on September 30, 2005, with the remainder vesting on September 30, 2006, provided the recipient is still employed by us. The total market value of the restricted shares on date of grant totaled approximately $4.8 million and has been recorded as unearned restricted stock compensation as a separate component of shareholders' equity. Unearned compensation is being amortized to expense over the vesting period. During fiscal 2003, restricted shares with a value of approximately $0.3 million on the grant date were forfeited.

The Third Amended and Restated Credit Agreement ("Third Restated Agreement"), undertaken to acquire substantially all of the consumer battery business of VARTA AG, and subsequently amended on January 29, 2003 ("First Amendment"), required, among other provisions, that the recording and incurrence of restructuring charges meet certain definitions and time constraints to qualify as additions in calculating Adjusted EBITDA, as defined, that we were to transform the German subsidiary acquired from VARTA AG from a GmbH legal structure to a KGaA legal structure (the "Transformation") on or before June 30, 2003, and that we obtain consent of the Required Lenders to effect releases or substitutions of collateral pledges. Effective June 27, 2003, the Third Restated Agreement was amended ("Second Amendment"): (i) to re-define and permit acceleration, recording, and incurrence of certain Restructuring Charges, as defined in the Third Restated Agreement, (ii) to extend the deadline for the Transformation to on or before March 31, 2004, and (iii) to consent to certain organizational restructurings ("Restructurings"), including releases and substitutions of collateral pledges, and disregarding application of certain basket amounts as necessary to effect the Restructurings. Effective September 30, 2003, the Third Restated Agreement was amended ("Third Amendment") to (i) permit the Remington acquisition (the "Acquisition") including issuance of $350.0 million of senior subordinated debt, increase the Dollar-denominated revolver by $20.0 million,

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decrease the Euro-denominated revolver by €10.0 million and increase the Dollar-denominated Term B facility by $50.0 million, (ii) permit incurrence of certain Restructuring Charges related to the Acquisition, (iii) amend certain covenant ratios to allow for the effect of financing of the Acquisition, (iv) allow for organizational restructurings related to the Acquisition including necessary releases and substitutions of collateral pledges, and (v) increase certain covenant basket amounts to allow for operation of the resulting larger business entity.

We believe our cash flow from operating activities and periodic borrowings under our credit facilities will be adequate to meet the short-term and long-term liquidity requirements of our existing business prior to the expiration of those credit facilities, although no assurance can be given in this regard. Our current senior secured credit facilities include a revolving credit facility of $120.0 million, a revolving credit facility of €40.0 million, a term loan of $350.0 million, a term loan of €125.0 million and a term loan of €50.0 million. As of September 30, 2003, the following amounts were outstanding under the senior secured facilities: $317.0 million of the term loan and, €119.3 million and €42.5 million, respectively, of the Euro term loans. Approximately $6.0 million of the availability under the U.S. Dollar revolver was utilized for outstanding letters of credit. As of September 30, 2003, our senior subordinated debt issued and outstanding includes $350.0 million of 8.5% notes issued by Rayovac and $56.0 million of 11.0% notes issued by Remington (the "Remington Notes"). The Remington Notes were called for redemption, effective September 30, 2003, and redeemed effective October 29, 2003, and consequently were reflected as current obligations at September 30, 2003. As of September 30, 2003, we were in compliance with the provisions of our senior loan covenants and respective subordinated debt indentures. We believe our future results from operations will be adequate to maintain compliance with such provisions although no assurance can be given in this regard.

**Off-Balance Sheet Arrangements**

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

**Critical Accounting Policies**

Our Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States 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 judgment and estimates in areas that are inherently uncertain.

***Valuation of Assets and Asset Impairment***

We evaluate certain long-lived assets, such as property, plant and equipment, and certain intangibles for impairment based on the expected future cash flows or earnings projections. 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 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 determination.

We adopted FASB Statement No. 142, *Goodwill and Other Intangible Assets*, effective October 1, 2001. FASB Statement No. 142 requires goodwill and other intangible assets with indefinite useful lives not be amortized, and that impairment of such assets be evaluated as discussed above at least annually.



We evaluate deferred tax assets based on future earnings projections. An asset's value is deemed impaired if the earnings projections do not substantiate the carrying value of the asset. The estimation of such amounts requires significant management judgment with respect to revenue and expense growth rates, changes in working capital, and other assumptions, as applicable. The use of different assumptions would increase or decrease future earnings projections and could, therefore, change the determination of whether an asset is realizable.

See Note 2(h), Note 2(i), Note 2(x), Note 4, Note 5, and Note 9 to the Consolidated Financial Statements for more information about these assets.

***Revenue Recognition and Concentration of Credit Risk***

We recognize revenue from product sales upon shipment to the customer, which is the point at which all risks and rewards of ownership of the product are passed, provided that: there are no uncertainties regarding customer acceptance; persuasive evidence of 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.

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

We also enter into promotional arrangements targeted to the 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 characterization of our promotional arrangements complies with EITF 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 individualized to each customer and are generally documented through written contracts, correspondence or other communications with the individual customers.

We also enter into various contractual 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 contractual arrangement with the retailer, and will amortize the associated payment over the appropriate time or volume based term of the contractual arrangement. The amortization of the slotting payment is treated as a reduction in net sales and the corresponding asset is included in "Deferred charges and other" in our Consolidated Balance Sheets.

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 the 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 based on changing economic conditions 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. Our adjustments to our credit policies may not be effective in reducing our credit risk associated with any particular customer. In 2002, we experienced a significant loss resulting from the bankruptcy filing of a large retailer in the United States to which we had extended credit in accordance with our credit policy. In the future, we may experience additional losses due to changing economic, political and specific customer conditions that may adversely affect collectibility of trade receivables.

See Notes (2b), (2c), and (2e) to the Consolidated Financial Statements 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 2002 and 2003, we used a discount rate of 7.0% and 5.0% to 6.0%, respectively. In lowering the discount rate from 2002 to 2003, we considered the change in the general market interest rates of debt rated Aaa or Aa by Moody's Investors Service from June 2002 to June 2003 and solicited the advice of its independent actuary. We believe the discount rate used is reflective of the rate at which the pension benefits could be effectively settled. The decrease in our discount rate in fiscal 2003 contributed to an increase in our projected benefit obligation from the end of fiscal 2002 to the end of fiscal 2003.

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. In 2002 and 2003, we used an expected return on plan assets of 8.5% and 4.0% to 8.5%, respectively. Based on the advice of our independent actuary, we believe the expected rate of return is reflective of the long-term average rate of earnings expected on the funds invested. An increase in the expected return on plan assets used by us would have the effect of decreasing future pension expense. If such expected return 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 would increase, ultimately increasing future pension expense.

See Note 11 to the Consolidated Financial Statements for a more complete discussion of our employee benefit plans.

***Restructuring***

Restructuring liabilities are recorded for estimated costs of facility closures, significant organizational adjustments, 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, plus any other items directly related to the exit activities. While the actions are carried out as expeditiously as possible, restructuring 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 the restructuring plan. During fiscal 2003, we adopted the



requirements of FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which impacts the timing of recognition of certain exit or disposal costs.

We report restructuring charges relating to 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 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 area described above, and other costs directly related to the initiatives implemented.

See Note 2(x) and Note 15 to the Consolidated Financial Statements for a more complete discussion of recent 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 and the impact of environmental matters 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 13 to the Consolidated Financial Statements.

***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. Notes to the Consolidated Financial Statements contain additional information related to our accounting policies and should be read in conjunction with this discussion.

## ITEM 7A. 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.

### 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 primarily affects 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 are made primarily in Euros, Pounds Sterling, Colombian Pesos, and Mexican Pesos. Foreign currency purchases are made primarily in Euros, Pounds Sterling, Guatemalan Quetzals, Colombian Pesos, and Mexican Pesos. We also have foreign currency sales and purchases in other currencies throughout the world. We manage our foreign exchange exposure from anticipated sales, accounts receivable, inter-company loans, firm purchase commitments 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 counter parties are included in accounts payable or accounts receivable.

**Commodity Price Risk**

We are exposed to fluctuations in market prices for purchases of zinc 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, 2003, the potential change in fair value of outstanding interest rate derivative instruments, assuming a 1% unfavorable shift in the underlying interest rates would be a loss of $3.9 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 loss of $0.8 million.

As of September 30, 2003, the potential change in fair value of outstanding foreign exchange derivative instruments, assuming a 10% unfavorable shift in the underlying foreign exchange rates would be a loss of $1.4 million. The net impact on future cash flows, after also including the gain in value on the related accounts receivable and accounts payable outstanding at September 30, 2003 due to the same change in exchange rates, would be zero.

As of September 30, 2003, 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 $1.0 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 $0.6 million.

A discussion of our accounting policies for derivative financial instruments is included in Note 2(r) to the Consolidated Financial Statements.

**Forward-Looking Statements**

We have made or implied certain forward-looking statements in this Annual Report on Form 10-K. All statements other than statements of historical facts included in this Annual Report, including the statements under "Management's Discussion and Analysis of Financial Condition and Results of



Operations" and "Business," regarding our business strategy, future operations, financial position, estimated revenues, projected costs, projected synergies, prospects, plans and objectives of management, as well as information concerning expected actions of third parties, are forward-looking statements. When used in this Annual Report, the words "anticipate," "intend," "plan," "estimate," "believe," "expect," "project," "could," "will," "should," "may" and similar expressions are also intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words.

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

- competitive promotional activity or spending by competitors or price reductions by competitors;
- the loss of, or a significant reduction in, sales to a significant retail customer;
- difficulties or delays in the integration of operations of acquired businesses;
- the introduction of new product features or technological developments by competitors and/or the development of new competitors or competitive brands;
- the effects of general economic conditions, including inflation, labor costs and stock market volatility or changes in trade, monetary or fiscal policies in the countries where we do business;
- our ability to develop and successfully introduce new products and protect our intellectual property;
- our ability to successfully implement, achieve and sustain manufacturing and distribution cost efficiencies and improvements, and fully realize anticipated cost savings;
- the impact of unusual items resulting from the implementation of new business strategies, acquisitions and divestitures or current and proposed restructuring activities;
- the cost and effect of unanticipated legal, tax or regulatory proceedings or new laws or regulations (including environmental regulations);
- changes in accounting policies applicable to our business;
- interest rate, exchange rate and raw materials price fluctuations; and
- the effects of political or economic conditions or unrest in international markets.

Some of the above-mentioned factors are described in further detail in "Risk Factors" beginning on page 32. You should assume the information appearing in this Annual Report is accurate only as of September 30, 2003 or as otherwise specified, as our business, financial condition, results of operations and prospects may have changed since that date. Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the Securities and Exchange Commission, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise to reflect actual results or changes in factors or assumptions affecting such forward-looking statement.



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**RISK FACTORS**

*Any of the following risks could materially and adversely affect our business, financial condition and results of operations and the risks described below are not the only risks that we may face. Additional risks and uncertainties not currently known to us or that we currently view as immaterial may also materially and adversely affect our business, financial condition or results of operations.*

**We participate in very competitive markets and we may not be able to compete successfully.**

The consumer battery and electric personal care product markets in which we participate are very competitive. In the consumer battery market, our primary competitors are Duracell (a brand of Gillette), Energizer and Panasonic (a brand of Matsushita). In the electric personal care products market, our primary competitors are Braun (a brand of Gillette) and Philips/Norelco. We and our competitors compete for consumer acceptance and limited shelf space based upon brand name recognition, perceived quality, price, performance, product packaging and design innovation, as well as creative marketing, promotion and distribution strategies. For example, in response to Duracell lowering its prices, we are currently introducing a comprehensive pricing strategy for our alkaline product portfolio in the U.S. There can be no assurance that such program will achieve our objectives. Our ability to compete in these consumer product markets may be adversely affected by a number of factors, including, but not limited to, the following:

- Our primary competitors in both the battery markets and electric personal care product markets are well established companies that have substantially greater financial and other resources and greater overall market share than we do.

- In some key product lines, our competitors may have lower production costs and higher profit margins than we do, which may enable them to compete more aggressively in offering retail discounts and other promotional incentives.

- Product improvements or effective advertising campaigns by competitors may weaken consumer demand for our products.

- Consumer preferences may change to products other than those we market.

**Consolidation of retailers and our dependence on a small number of key customers for a significant percentage of our sales may negatively affect our profits.**

During the past decade, retail sales of consumer products, including battery, electric shaver and lighting products, have been increasingly consolidated into a small number of regional and national mass merchandisers and warehouse clubs. This trend towards consolidation is occurring on a worldwide basis. As a result of this consolidation, a significant percentage of our sales are attributable to a very limited group of retailer customers. Wal-Mart, our largest retailer customer, alone accounted for approximately 13% of our consolidated net sales in fiscal 2003. Sales to Wal-Mart represented approximately 30% of Remington's consolidated net sales during its fiscal year ended December 31, 2002. Our sales generally are made through the use of individual purchase orders, consistent with industry practice. Because of the importance of these key customers, price or promotional demands by such customers, reductions in their purchases, change in their financial condition or loss of their accounts could have a material adverse effect on our business, financial condition and results of operations.

**We cannot assure you that Remington will be successfully integrated.**

If we cannot successfully integrate Remington's operations, we may experience material adverse consequences to our business, financial condition and results of operations. The integration of



companies operating in two distinctly different markets that have previously been operated separately involves a number of risks, including, but not limited to, the following:

- the risks of entering markets in which we have no prior experience;

- the diversion of management's attention from the management of daily operations to the integration of operations;

- demands on management related to the significant increase in our size after the acquisition;

difficulties in the assimilation and retention of employees;

difficulties in the assimilation of different corporate cultures and practices, as well as in the assimilation of broad and geographically dispersed personnel and operations;

difficulties in the integration of departments, systems, including accounting systems, technologies, books and records and procedures, as well as in maintaining uniform standards and controls, including internal accounting controls, procedures and policies; and

expenses of any undisclosed or potential legal liabilities.

Prior to the acquisition, Rayovac and Remington operated as separate entities. We may not be able to maintain the levels of revenue, earnings or operating efficiency that Rayovac or Remington had achieved or might achieve separately. Successful integration of Remington's operations will depend on our ability to manage those operations, realize opportunities for revenue growth presented by strengthened product offerings and expanded geographic market coverage and, to some degree, eliminate redundant and excess costs.

**If we are unable to improve existing products and develop new, innovative products, our sales and market share may suffer.**

We believe that our future success in both our battery and electric personal care product markets will depend, in part, upon our ability to continue making innovations in our existing products and to develop, manufacture and market new products. If we fail to successfully introduce, market and manufacture new products or product innovations, our ability to maintain or grow our market share may be adversely affected, which in turn could materially adversely affect our business, financial condition or results of operations.

We have made and continue to make significant investments in research and development, as have our competitors. If our competitors successfully introduce new or enhanced products that eliminate technological advantages our products may have in a certain market segment or otherwise outperform our products, or are perceived by consumers as doing so, we may be unable to compete successfully in market segments affected by these changes. In the battery market, we may be unable to compete if our competitors develop or apply technology which permits them to manufacture batteries at a lower relative cost. The fact that our principal competitors have substantially greater resources than us increases this risk. Pre-emptive patent rights, restrictions on our ability to expand or modify manufacturing capacity or constraints on our research and development activity may also limit our ability to introduce products that are competitive on a performance basis.

**We may make other strategic acquisitions which may divert the attention of management and which may not be successfully integrated into our existing business.**

We intend to pursue increased market penetration through additional strategic acquisitions. We cannot assure you that we will identify suitable acquisition candidates, that acquisitions will be completed on acceptable terms or that we will be able to successfully integrate the operations of any acquired business into our existing business. Such acquisitions could be of significant size and involve either domestic or international parties. To acquire and integrate a separate organization would divert



management attention from other business activities. This diversion, together with other difficulties we may encounter in integrating an acquired business, could have a material adverse effect on our business, financial condition and results of operations. In addition, we may borrow money to finance acquisitions. Such funds might not be available on terms as favorable to us as our current borrowing terms and will increase our leveraged position.

**Our foreign operations may expose us to a number of risks related to conducting business in foreign countries.**

Our international operations and exports and imports to and from foreign markets are subject to a number of special risks. These risks include, but are not limited to:

economic and political destabilization, governmental corruption and civil unrest;

restrictive actions by foreign governments (*e.g.*, duties, quotas and restrictions on transfer of funds);

changes in foreign labor laws and regulations affecting our ability to hire and retain employees;

changes in U.S. and foreign laws regarding trade and investment;

changes in the economic conditions in these markets; and

difficulty in obtaining distribution and support.

In many of the developing countries in which we operate, there has not been significant governmental regulation relating to the environment, occupational safety, employment practices or other business matters routinely regulated in the U.S. As such economies develop, it is possible that new regulations may increase the expense and risk of doing business in such countries. In addition, social legislation in many countries in which our business operates may result in significantly higher expenses associated with labor costs, terminating employees or distributors and with closing manufacturing facilities.

**We may face a number of risks related to foreign currencies.**

Our foreign sales and certain of our expenses are transacted in foreign currencies. In fiscal 2003, approximately 61% of our revenues and 65% of our expenses were denominated in currencies other than U.S. dollars. Significant increases in the value of the U.S. dollar in relation to foreign currencies could have a material adverse effect on our business, financial condition and results of operations. While we generally hedge a portion of our foreign currency exposure, we are still vulnerable to the effects of currency exchange rate fluctuations. Changes in currency exchange rates may also affect our sales to, purchases from and loans to our subsidiaries as well as sales to, purchases from and bank lines of credit with our customers, suppliers and creditors that are denominated in foreign currencies. We expect that the amount of our revenues and expenses transacted in foreign currencies will increase as our Latin American and European operations grow and our exposure to risks associated with foreign currencies could increase accordingly.

**Sales of our products are seasonal and may cause our quarterly operating results and working capital requirements to fluctuate.**

Sales of our products are highly seasonal, with a large percentage of net sales occurring during the fiscal quarters ending on or about September 30 and December 31 due to the impact of the December holiday season. As a result of this seasonality, our inventory and working capital needs fluctuate significantly during the year. In addition, orders from retailers are often made late in the year, making forecasting of production schedules and inventory purchases difficult. Furthermore, adverse business or economic conditions during these quarters could materially adversely affect results of operations for the



full year. For a more detailed discussion of the seasonality of our product sales, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Seasonal Product Sales."

**We may not be able to adequately protect our intellectual property.**

To establish and protect our technology and other intellectual property rights, we rely upon a combination of patent, trademark and trade secret laws, together with licenses, confidentiality agreements and other contractual covenants. The measures we take to protect our technology and other intellectual property rights may prove inadequate to prevent misappropriation of our technology or other intellectual property. In addition, our competitors may independently develop technologies that are substantially equivalent or superior to our technology. Moreover, the laws of certain foreign countries in which we operate or may operate in the future do not protect intellectual property rights to the same extent as do the laws of the U.S. which may negate our competitive or technological advantages in such markets. Also, some of the technology underlying our products is the subject of nonexclusive licenses from third parties. As a result, this technology could be made available to our competitors at any time. If this technology were licensed to a competitor, it could have a material adverse effect on our business, financial condition and results of operations.

We do not have any right to the Rayovac trademark in Brazil, where the mark is owned by another battery manufacturer; this may negatively affect our ability to pursue growth opportunities in Brazil.

**Third-party infringement claims against us could adversely affect our business.**

From time to time we have been subject to claims that we are infringing upon the intellectual property of others and it is possible that third parties will assert infringement claims against us in the future. Any such claims, with or without merit, could be time-consuming, result in costly litigation, cause product delays or require us to enter into licensing or other agreements in order to secure continued access to required technology. Licensing or other agreements, if required, may not be available on terms acceptable to us or at all. If claims of infringement against us are successful, they may also require us to pay significant damages or subject us to an injunction against the sale or use of our products. In the event of a ruling against us on any such claim, a license or similar agreement may not be available to us on reasonable terms.

Remington is involved in a number of legal proceedings with Philips with respect to trademarks owned by Philips relating to the shape of the head portion of Philips' three-head rotary shaver. An adverse finding against us in these or similar litigations may have a material adverse effect on our business, financial condition and results of operations. For more information, see "Legal Proceedings Litigation."

**We are dependent on a few suppliers located in Asia for many of our electric personal care products; certain of our razor products are manufactured at one U.S. facility.**

The vast majority of our electric personal care products are manufactured by suppliers located in China and Japan. Although we have long-established relationships with many of these suppliers, we do not have long-term contracts with them. Any adverse change in any of the following could have a material adverse effect on our business, financial condition and results of operations:

- relationships with our suppliers;
- the financial condition of our suppliers;
- the ability to import outsourced products; or
- our suppliers' ability to manufacture and deliver outsourced products on a timely basis.



If our relationship with one of our key suppliers is adversely affected, we may not be able to quickly or effectively replace such supplier and may not be able to retrieve tooling and molds possessed by such supplier.

In addition, we manufacture the majority of our foil cutting systems for our razor product lines, using specially designed machines and proprietary cutting technology, at our manufacturing facility in Bridgeport, Connecticut. This manufacturing facility is subject to the normal hazards that could result in any material damage to any such facility. Damage to this facility, or prolonged interruption in the operations of this facility for repairs or other reasons, would have a material adverse effect on our ability to manufacture and sell our razor products.

**Our dependence on, and the price of, raw materials may adversely affect our profits.**

The principal raw materials used to produce our products including zinc powder, electrolytic manganese dioxide powder and steel are sourced on a global or regional basis, and the prices of those raw materials are susceptible to price fluctuations due to supply/demand trends, transportation costs, government regulations and tariffs, changes in currency exchange rates, price controls, the economic climate and other unforeseen circumstances. We regularly engage in forward purchase and hedging transactions to effectively manage our raw materials costs for the next six to twelve months. These efforts may not be effective and, if we are unable to pass on raw materials price increases to our customers, our future profitability may be materially adversely affected.

**We depend on key personnel and may not be able to retain those employees or recruit additional qualified personnel.**

We are highly dependent on the continuing efforts of our current executive officers and we likely will depend on the senior management of any business we acquire in the future. Our business, financial condition or results of operations could be materially adversely affected by the loss of any of these persons and the inability to attract and retain qualified replacements.

**Class action lawsuits, regardless of their merits, could have an adverse effect on our business, financial condition and results of operations.**

Rayovac and certain of its officers and directors have been named, and we may be named in the future, as defendants of class action lawsuits. For more information, see "Legal Proceedings Litigation." Regardless of their subject matter or the merits, class action lawsuits may result in significant cost to us, divert the attention of management or otherwise have an adverse effect on our business, financial condition and results of operations.

**We may incur material capital and other costs due to environmental liabilities.**

Because of the nature of our operations, our facilities are subject to a broad range of federal, state, local and foreign laws and regulations relating to the environment. These include laws and regulations that govern:

- discharges to the air, water and land;
- the handling and disposal of solid and hazardous substances and wastes; and
- remediation of contamination associated with release of hazardous substances at our facilities and at off-site disposal locations.

Risk of environmental liability is inherent in our business. As a result, material environmental costs may arise in the future. In particular, we may incur capital and other costs to comply with increasingly stringent environmental laws and enforcement policies. Although we believe that we are substantially in compliance with applicable environmental regulations at our facilities, we may not be in compliance



with such regulations in the future, which could have a material adverse effect upon our business, financial condition and results of operations.

We have facilities that have been in operation by us or prior operators for decades and are constructed on fill that includes, among other things, battery materials containing various heavy metals. From time to time, we have been required to address the effect of historic activities on the environmental condition of our properties, including without limitation, the effect of the generation and disposal of wastes such as manganese, cadmium and mercury, which are or may be considered hazardous, and releases from underground storage tanks. We have not conducted invasive testing to identify all potential environmental liability risks. Given the age of our facilities and the nature of our operations, we cannot assure you that material liabilities will not arise in the future in connection with our current or former facilities. If previously unknown contamination of property underlying or in the vicinity of our manufacturing facilities is discovered, we could be required to incur material unforeseen expenses. If this occurs, it may have a material adverse effect on our business, financial condition and results of operations. We have accepted a deed restriction on one such property in lieu of conducting remedial activities, and may consider similar actions at other properties if appropriate. Although we are currently engaged in investigative or remedial projects at a few of our facilities, we do not expect that such projects will cause us to incur material expenditures, however, we cannot assure you that our liability will not be material.

We have been, and in the future may be, subject to proceedings related to our disposal of industrial and hazardous material at off-site disposal locations. These proceedings are under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA") or similar state laws that hold persons who "arranged for" the disposal or treatment of such substances strictly liable for costs incurred in responding to the release or threatened release of hazardous substances from such sites, regardless of fault or the lawfulness of the original disposal. Liability under CERCLA is typically joint and several, meaning that a liable party may be responsible for all of the costs incurred in investigating and remediating contamination at a site. As a practical matter, liability at CERCLA sites is shared by all of the viable responsible parties. While we currently have no pending CERCLA or similar state matters, we may be named as a potentially responsible party at sites in the future and the costs and liabilities associated with these sites may be material.

**Our substantial indebtedness could adversely affect our business, financial condition and results of operations and prevent us from fulfilling our obligations under the terms of our indebtedness.**

We have, and we will continue to have, a significant amount of indebtedness. As of September 30, 2003, we had total indebtedness of $943.4 million.

Our substantial indebtedness could have important consequences. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to the terms of our indebtedness;
- require us to dedicate a large portion of our cash flow to pay principal and interest on our indebtedness, which will reduce the availability of our cash flow to fund working capital, capital expenditures, research and development expenditures and other business activities;
- increase our vulnerability to general adverse economic and industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- restrict us from making strategic acquisitions or exploiting business opportunities;
- place us at a competitive disadvantage compared to our competitors that have less debt; and



- limit our ability to borrow additional funds (even when necessary to maintain adequate liquidity) or dispose of assets.

In addition, a substantial portion of our debt bears interest at variable rates. If market interest rates increase, variable-rate debt will create higher debt service requirements, which would adversely affect our cash flow. While we may enter into agreements limiting our exposure to higher debt service requirements, any such agreements may not offer complete protection from this risk.

**We will require a significant amount of cash to service our indebtedness. Our ability to generate cash depends on many factors beyond our control.**

Our ability to make payments on and to refinance our indebtedness and to fund planned capital expenditures and research and development efforts, will depend on our ability to generate cash in the future. This is subject to general economic, financial, competitive, legislative, regulatory and other factors that may be beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our senior credit facilities or otherwise in an amount sufficient to enable us to pay our debt or to fund our other liquidity needs. We may need to refinance all or a portion of our debt on or before maturity. We cannot assure you that we will be able to refinance any of our debt on commercially reasonable terms or at all.

**Despite our current significant level of indebtedness, we may still be able to incur substantially more indebtedness. This could further exacerbate the risks associated with our substantial indebtedness.**

We may be able to incur substantial additional indebtedness in the future. Although the terms governing our senior credit facility and the indenture governing our outstanding senior subordinated notes contain restrictions on the incurrence of additional indebtedness, debt incurred in compliance with these restrictions could be substantial. As of September 30, 2003, our senior credit facilities would have permitted additional borrowing of up to approximately $160.6 million. If new indebtedness is added to our and our subsidiaries' current indebtedness levels, the related risks that we face would be magnified. In addition, the indenture does not prevent us from incurring obligations that do not constitute indebtedness.

**The terms of our indebtedness impose, or will impose, restrictions on us that may affect our ability to successfully operate our business and our ability to make payments on our debt.**

The agreement governing our senior credit facilities and the indenture governing our outstanding senior subordinated notes each contain covenants that, among other things, limit our ability to:

- borrow money or sell preferred stock;
- create liens;
- pay dividends on or redeem or repurchase stock;
- make certain types of investments;
- sell stock in our restricted subsidiaries;
- restrict dividends or other payments from restricted subsidiaries;
- enter into transactions with affiliates;
- issue guarantees of debt; and
- sell assets or merge with other companies.



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Our senior credit facilities also require us to comply with specified financial ratios and tests, including, but not limited to, minimum interest coverage ratio, maximum leverage ratio and minimum fixed charge coverage ratio.

These covenants could materially and adversely affect our ability to finance our future operations or capital needs and to engage in other business activities that may be in our best interest. These covenants may also restrict our ability to expand or pursue our business strategies. Our ability to comply with these covenants may be affected by events beyond our control, such as prevailing economic conditions and changes in regulations, and if such events occur, we cannot be sure that we will be able to comply. A breach of these covenants could result in a default under the indenture governing our senior subordinated notes and/or the agreement governing our senior credit facilities. If there were an event of default under the indenture for the notes and/or the agreement governing our senior credit facilities, holders of such defaulted debt could cause all amounts borrowed under these instruments to be due and payable immediately. Additionally, if we fail to repay the debt under the senior credit facilities when it becomes due, the lenders under the senior credit facilities could proceed against certain of our assets and capital stock which we have pledged to them as security. We cannot assure you that our assets or cash flow will be sufficient to repay borrowings under the outstanding debt instruments in the event of a default thereunder.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required for this Item is included in this Annual Report on Form 10-K on pages F-1 through F-51, inclusive and is incorporated herein by reference.

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures.* Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) pursuant to Rule 13a-15(c) under the Exchange Act as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms.

*Changes in Internal Control Over Financial Reporting.* There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this Annual Report on Form 10-K that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



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**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The following table sets forth the name, age and position of each of our executive officers and directors as of December 1, 2003:

| Name | Age | Position |
|---|---|---|
| David A. Jones | 54 | Chairman of the Board and Chief Executive Officer |
| Kent J. Hussey | 57 | President and Chief Operating Officer and Director |
| Randall J. Steward | 49 | Executive Vice President and Chief Financial Officer |
| Kenneth V. Biller | 55 | Executive Vice President of Operations |
| Remy E. Burel | 52 | Executive Vice President-Europe |
| Luis A. Cancio | 63 | Executive Vice President-Latin America |
| Lester C. Lee | 43 | President, Remington North America |
| Stephen P. Shanesy | 47 | Executive Vice President-North America |
| Paul G. Cheeseman | 45 | Senior Vice President-Technology |
| William P. Carmichael | 60 | Director |
| Neil P. DeFeo | 57 | Director |
| John S. Lupo | 57 | Director |
| Philip F. Pellegrino | 63 | Director |
| Thomas R. Shepherd | 73 | Director |
| Barbara S. Thomas | 54 | Director |

Mr. Jones has served as Chairman of our Board of Directors and our Chief Executive Officer since September 1996. From September 1996 to April 1998, Mr. Jones also served as our President. Between February 1995 and March 1996, Mr. Jones was Chief Operating Officer, Chief Executive Officer and Chairman of the Board of Directors of Thermoscan, Inc., a manufacturer and marketer of infrared ear thermometers for consumer and professional use. From 1989 to September 1994, Mr. Jones served as President and Chief Executive Officer of The Regina Company, a manufacturer of vacuum cleaners and other floor care equipment. In addition, Mr. Jones serves as a director of United Industries Corp., Tyson Foods, Inc. and Pentair, Inc. Mr. Jones has over 30 years of experience working in the consumer products industry.

Mr. Hussey has served as a director of Rayovac since October 1996 and has served as our President and Chief Operating Officer since August 2002 and from April 1998 until November 30, 2001. From December 1, 2001 through July 2002, Mr. Hussey served as our President and Chief Financial Officer. From October 1996 to April 1998, Mr. Hussey served as our Executive Vice President of Finance and Administration and our Chief Financial Officer. From 1994 to 1996, Mr. Hussey was Vice President and Chief Financial Officer of ECC International, a producer of industrial minerals and specialty chemicals, and from 1991 to July 1994 Mr. Hussey served as Vice President and Chief Financial Officer of The Regina Company. Mr. Hussey also serves as a director of American Woodmark Corporation.

Mr. Steward rejoined us as our Executive Vice President and Chief Financial Officer in August 2002, after leaving for personal family reasons in December 2001. He served as our Executive Vice President of Administration and Chief Financial Officer from October 1999 to

December 2001. Mr. Steward initially joined us in March of 1998 as our Senior Vice President of Corporate Development and was named Senior Vice President of Finance and Chief Financial Officer in April 1998, a position Mr. Steward held until October 1999. From October 1997 to March 1998, Mr. Steward worked as an independent consultant, primarily with Thermoscan, Inc. and Braun AG, assisting with financial and operational issues. From March 1996 to September 1997, Mr. Steward served as President and General Manager of Thermoscan, Inc. From January 1992 to March 1996,



Mr. Steward served as Executive Vice President of Finance and Administration and Chief Financial Officer of Thermoscan, Inc.

Mr. Biller has served as our Executive Vice President of Operations since October 1999, as our Senior Vice President of Operations from August 1998 to October 1999, as our Senior Vice President of Manufacturing/Supply Chain from January 1998 to August 1998, as our Senior Vice President and General Manager of Lighting Products & Industrial from 1996 to January 1998 and as our Vice President and General Manager of Lighting Products & Industrial from 1995 to 1996. Mr. Biller joined us in 1972 and has held numerous other positions with us, including Director of Technology/Battery Products and Vice President of Manufacturing.

Mr. Burel joined us as our Executive Vice President-Europe in October 2002 upon our acquisition of substantially all of the consumer battery division of VARTA AG. Before the acquisition, Mr. Burel had been Chief Executive Officer of VARTA Geratebatterie GmbH since January 2, 2000. From May 1990 to December 1999, Mr. Burel held positions of increasing responsibility at VARTA as International Marketing Manager, Geographical Area Manager (France, Spain and Portugal), Profit Center Manager (general purpose batteries) and Divisional Board Member. Mr. Burel started his career at Gillette/Braun and held six different positions in controlling and marketing in the U.S., France and Germany from 1975 to 1988.

Mr. Cancio has served as our Executive Vice President-Latin America since October 2000 and as our Senior Vice President and General Manager of Latin America from August 1999 to October 2000. From 1980 to 1996, Mr. Cancio held positions of increasing responsibility at Duracell International Inc., beginning as Vice President in Latin America and ending his tenure as Senior Vice President in other international markets.

Mr. Lee joined us as our President, Remington North America in October 2003 upon our acquisition of Remington and he held this same position with Remington since January 2002. Effective January 1, 2004, Mr. Lee will assume the position of President of Rayovac's North American business unit. Previously, Mr. Lee held the position of President, U.S. Shaver & Grooming Division at Remington since January 2000 and was Senior Vice President Sales and Integrated Logistics of Remington since July 1997. From 1995 until 1997, Mr. Lee was employed by Pacific Bell Mobile Services, a Division of Pacific Telesis, most recently as Vice President of Sales, and from 1989 until 1995, he was employed by Norelco Consumer Products Company in various sales positions, including Director of Sales, Western Division.

Mr. Shanesy has served as our Executive Vice President-North America since October 2002 and previously served as Executive Vice President of Global Brand Management since April 1998. Effective January 1, 2004, Mr. Shanesy will assume the position of Executive Vice President Strategic Initiatives. From December 1997, Mr. Shanesy served as our Senior Vice President of Marketing and the General Manager of General Batteries and Lights. From December 1996 to December 1997, Mr. Shanesy was our Senior Vice President of Marketing and General Manager of General Batteries. Prior to joining us, from 1993 to 1996, Mr. Shanesy was Vice President of Marketing of Oscar Mayer.

Dr. Cheeseman has served as our Senior Vice President-Technology since November 2001 and as our Vice President-Technology from June 1998 to November 2001 and has led all of our major technology initiatives since that time. From 1992 to 1998, Dr. Cheeseman held various positions of increasing responsibility at Duracell, Inc., a division of Gillette, including Director of Operations from 1992 to 1995 and Director of Technology from 1995 to June 1998.

Mr. Carmichael has served as a director of Rayovac since August 2002. From 1999 to 2001, Mr. Carmichael served as Senior Managing Director of the Succession Fund, a company that provides strategic financial and tax consulting to closely held private companies. Mr. Carmichael also served as Senior Vice President of Sara Lee Corporation from 1991 to 1993, Vice President from 1985 to 1990



and Chief Financial Officer from 1987 to 1990 of Beatrice Foods Company, Vice President of E-II Holdings from 1987 to 1988 and Vice President of Esmark, Inc. from 1976 to 1984. Mr. Carmichael is a director of Cobra Electrics Corporation, Nations Funds and The Finish Line, Inc. Mr. Carmichael is the Chairperson of our Audit Committee.

Mr. DeFeo has served as a director of Rayovac since September 30, 2003. Mr. DeFeo most recently served as President and Chief Executive Officer of Remington from 1997 to September 30, 2003 and as Chairman of the Board of Remington from 2001 to September 30, 2003. From 1993 to 1996, Mr. DeFeo served as Group Vice President of U.S. Operations of the Clorox Company, and from 1968 to 1993 he held positions of increasing responsibility at Procter & Gamble. Mr. DeFeo also serves as a director of Cluett America, Inc., Driscoll Strawberry Association, Inc. and American Woodmark Corporation.

Mr. Lupo has served as a director of Rayovac since July 1998 and is a principal in the consulting firm Renaissance Partners, LLC, which Mr. Lupo joined in February 2000. From October 1998 until November 1999, Mr. Lupo served as Executive Vice President for Sales and Marketing for Bassett Furniture Industries, Inc. From April 1998 to October 1998, Mr. Lupo served as a consultant in the consumer products industry. Prior to that time and since August 1996, Mr. Lupo served as Senior Vice President and Chief Operating Officer for the international division of Wal-Mart Stores, Inc. From October 1990 to August 1996, Mr. Lupo served as Senior Vice President General Merchandise Manager of Wal-Mart Stores, Inc. Mr. Lupo is a member of our Corporate Governance and Nominating Committee.

Mr. Pellegrino has served as a director of Rayovac since November 2000. Mr. Pellegrino currently serves as President of North American Sales for Kraft Foods, and has held that position since April 1, 2003. From September 2000 to April 2003, he served as Senior Vice President and President of Sales for Kraft Foods. From 1995 to September 2000, Mr. Pellegrino served as Senior Vice President of Sales and Customer Service for Kraft Foods. Mr. Pellegrino has been employed by Kraft Foods or its subsidiary, Oscar Mayer, since 1964 in various management and executive positions. Mr. Pellegrino is a member of both our Audit Committee and our Compensation Committee.

Mr. Shepherd has served as a director of Rayovac since our September 1996 recapitalization. Mr. Shepherd is Chairman of TSG Equity Partners, LLC, a private equity investment firm, and is also a director of The Vermont Teddy Bear Company Inc. and various private corporations. Mr. Shepard currently serves as a Special Partner of Thomas H. Lee Partners, L.P. From 1986 through 1998, Mr. Shepherd served as a Managing Director of Thomas H. Lee Company. Mr. Shepherd is our Presiding Director, the Chairperson of our Compensation Committee and a member of our Audit Committee.

Ms. Thomas has served as a director of Rayovac since May 2002. Ms. Thomas most recently served as Interim Chief Executive Officer of The Ocean Spray Company from November 2002 to April 2003. Previously, Ms. Thomas was President of Warner-Lambert Consumer Healthcare, the over-the-counter pharmaceuticals business of the Warner-Lambert Company, until its purchase by Pfizer Inc. in July 2000. From 1993 to 1997, Ms. Thomas was employed by the Pillsbury Company, serving last as President of Pillsbury Canada Ltd. Prior to joining Pillsbury, Ms. Thomas served as Senior Vice President of Marketing for Nabisco Brands, Inc. Ms. Thomas also serves as a director of Dial Corporation. Ms. Thomas is the Chairperson of our Corporate Governance and Nominating Committee.

**Code of Ethics and Financial Expert**

*Code of Ethics.* We have adopted the Code of Ethics for Principal Executive Officer and Senior Financial Officers, a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer and other senior finance organization employees. The Code of Ethics for Principal Executive Officer



and Senior Financial Officers is publicly available on our website at www.rayovac.com. If we make any substantive amendments to this code of ethics or grant any waiver, including any implicit waiver, from a provision of the code to our Chief Executive Officer or Chief Financial Officer, we will disclose the nature of such amendment or waiver on that website or in a report on Form 8-K.

We have also adopted a new Rayovac Corporation Code of Business Conduct and Ethics, a code of ethics that applies to all of our directors, officers and employees. The Rayovac Corporation Code of Business Conduct and Ethics is publicly available on our website at www.rayovac.com. Any waiver of this code of ethics for executive officers or directors may be made only by our Board of Directors or a committee of the Board of Directors and will be promptly disclosed to our shareholders.

*Audit Committee Financial Expert.* Our Board of Directors has determined that William P. Carmichael, Director, is our Audit Committee Financial Expert, as defined under Section 407 of the Sarbanes-Oxley Act of 2002 and the rules promulgated by the Securities and Exchange Commission in furtherance of Section 407. Mr. Carmichael is independent of our management.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires our directors, officers and persons who own more than 10% of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Based solely upon review of Forms 3, 4 and 5 (and amendments thereto) furnished to us during or in respect of the fiscal year ended September 30, 2003, we are not aware of any director or executive officer who has not timely filed reports required by Section 16(a) of the Exchange Act during or in respect of such fiscal year, except for the inadvertent late reporting by Merrell M. Tomlin of one forfeiture of restricted stock, the inadvertent late reporting by Kent J. Hussey of one purchase of stock and the inadvertent late reporting by Randall J. Steward of one grant of stock options.

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**ITEM 11. EXECUTIVE COMPENSATION**

The following table sets forth the fiscal 2003, fiscal 2002 and fiscal 2001 compensation paid to our Chief Executive Officer, each of the other four most highly compensated executive officers serving as of September 30, 2003 and one former executive officer who would have otherwise been included in this table (the "Named Executive Officers"). Certain prior year amounts have been reclassified to conform with current year presentation.

| Name and Principal Position | Fiscal Year | Salary($) | Bonus($) | Other Annual Compensation($) | Restricted Stock Awards($) | Securities Underlying Options(#) | All Other Compensation($) |
|---|---|---|---|---|---|---|---|
| David A. Jones, | 2003 | $ 718,500 | $ 565,000 | $ 407,000(1) | $ 1,400,000(2) | 175,000 | |
| Chairman of the Board and | 2002 | 568,500 | 186,000(3) | 349,000(4) | | 175,000 | |
| Chief Executive Officer | 2001 | 568,500 | | 343,000(5) | 1,180,000(6) | 50,000 | $ 5,741,000(7) |
| Kent J. Hussey, | 2003 | 435,000 | 116,000 | 198,000(8) | 761,000(2) | 75,000 | |
| President and Chief Operating | 2002 | 385,000 | 42,000(3) | 154,000(9) | | 75,000 | |
| Officer | 2001 | 385,000 | | 125,000(10) | 826,000(6) | 50,000 | 1,419,000(7) |
| Luis A. Cancio, | 2003 | 325,000 | 69,000 | 115,000(11) | 347,000(2) | 50,000 | |
| Executive Vice President Latin | 2002 | 290,000 | 42,000(3) | 93,00(12) | | 50,000 | |
| America | 2001 | 293,000 | | 80,000(13) | 538,000(6) | 50,000 | |
| Stephen P. Shanesy, | 2003 | 325,000 | 73,000 | 120,000(14) | 347,000(2) | 50,000 | |
| Executive Vice President | 2002 | 290,000 | 48,000(3) | 89,000(15) | | 50,000 | |
| North America | 2001 | 290,000 | | 85,000(16) | 568,000(6) | 50,000 | 796,000(17) |
| Kenneth V. Biller | 2003 | 325,000 | 73,000 | 120,000(18) | 347,000(2) | 50,000 | |
| Executive Vice President of | 2002 | 290,000 | 48,000(3) | 91,000(19) | | 50,000 | |
| Operations | 2001 | 275,000 | | 87,000(20) | 538,000(6) | 50,000 | 521,000(7) |
| Merrell M. Tomlin, | 2003 | 135,000 | 73,000 | 51,000(22) | 347,000(23) | 50,000 | 261,000(24) |
| Former Executive Vice | 2002 | 290,000 | 48,000(3) | 92,000(25) | | 50,000 | |
| President of Sales(21) | 2001 | 290,000 | | 71,000(16) | 560,000(6) | 50,000 | 925,000(7) |

(1) Includes approximately $186,000 related to a supplemental retirement program, $52,000 related to personal use of a Rayovac aircraft, $57,000 related to interest on the Jones Equity Note (as defined in Item 13 herein) and $63,000 related to a Rayovac provided residence.

(2) At September 30, 2003, an aggregate of 364,172 restricted shares granted October 1, 2002 were outstanding valued at $5,316,911. Vesting is scheduled for September 30, 2004, 2005, and 2006 on 114,754 shares, 228,619 shares, and 20,799 shares, respectively, of which no shares have vested as of September 30, 2003. We may, at our discretion, pay or defer dividends, if declared, until the expiration of restrictions.

(3) Special cash bonus based on our performance during the Named Executive Officer's term of employment.

(4) Includes approximately $127,000 related to a supplemental retirement program, $42,000 related to personal use of a Rayovac aircraft, $70,000 related to interest on the Jones Equity Note (as defined in Item 13 herein) and $63,000 related to a Rayovac provided residence.

(5) Includes approximately $104,000 related to a supplemental executive retirement program, $80,000 related to personal use of a Rayovac aircraft, $70,000 related to interest on the Executive Note (as defined in Item 13 herein) and $60,000 related to a Rayovac provided residence.

(6) As of September 30, 2003, an aggregate of 277,137 shares originally granted with restrictions on October 1, 2000 were outstanding valued at $4,046,200. All shares have vested as of September 30, 2003. We may, at our discretion, pay or defer dividends, if declared, until the expiration of restrictions.

(7) Represents compensation from the exercise of stock options.

(8) Includes approximately $121,000 related to a supplemental executive retirement program.

(9) Includes approximately $84,000 related to a supplemental executive retirement program.

(10) Includes approximately $70,000 related to a supplemental executive retirement program.

(11) Includes approximately $89,000 related to a supplemental executive retirement program.

(12) Includes approximately $62,000 related to a supplemental executive retirement program.

(13) Includes approximately $50,000 related to a supplemental executive retirement program.

(14) Includes approximately $91,000 related to a supplemental executive retirement program.



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(15) Includes approximately $63,000 related to a supplemental executive retirement program.

(16) Includes approximately $55,000 related to a supplemental executive retirement program.

(17) Includes approximately $785,000 in compensation from the exercise of stock options and approximately $11,000 related to the purchase of a Rayovac vehicle.

(18) Includes approximately $89,000 related to a supplemental executive retirement program.

(19) Includes approximately $62,000 related to a supplemental executive retirement program.

(20) Includes approximately $52,000 related to a supplemental executive retirement program and $24,000 related to personal use of a Rayovac provided vehicle.

(21) Mr. Tomlin resigned from his position as Executive Vice President of Global Sales in February 2003.

(22) Includes approximately $38,000 related to a supplemental executive retirement program.

(23)

Restricted stock award was forfeited during fiscal 2003.

(24) Includes $261,000 in amounts paid to and benefits received by Mr. Tomlin in connection with his resignation.

(25) Includes approximately $63,000 related to a supplemental executive retirement program.

**Option Grants and Exercises**

In connection with our 1996 recapitalization, the Board of Directors adopted the Rayovac Corporation 1996 Stock Option Plan (the "1996 Plan"). Pursuant to the 1996 Plan, options may be granted with respect to an aggregate of 2,318,000 shares of Common Stock. At September 30, 2003 an aggregate of 1,186,367 options to purchase shares of Common Stock at a weighted average exercise price of $7.04 per share, 508,181 of which relate to the 911,577 granted to David A. Jones in accordance with the terms of his employment agreement, were outstanding. See "Employment Agreements". In September 1997, the Board of Directors adopted the 1997 Rayovac Incentive Plan (the "Incentive Plan"). Pursuant to the Incentive Plan, stock-based awards may be granted, including options and restricted stock, to purchase up to 5,000,000 shares of Common Stock. At September 30, 2003 an aggregate of 3,736,854 options at a weighted average exercise price of $15.61 were outstanding under the Incentive Plan.

The following table discloses the grants of stock options during fiscal 2003 to the Named Executive Officers.

**Option Grants in Fiscal 2003**

| | Individual Grants | | | | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term | |
|---|---|---|---|---|---|---|
| **Name** | **Number of Securities Underlying Options Granted (#)** | **Percent of Total Options Granted to Employees in Fiscal Year** | **Exercise or Base Price ($/share)** | **Expiration Date** | **5% ($)** | **10% ($)** |
| David A. Jones | 175,000 | 14.5% | $ 12.20 | 9/30/2012 | $ 1,342,690 | $ 3,402,640 |
| Kent J. Hussey | 75,000 | 6.2% | $ 12.20 | 9/30/2012 | $ 575,439 | $ 1,458,274 |
| Luis A. Cancio | 50,000 | 4.1% | $ 12.20 | 9/30/2012 | $ 383,626 | $ 972,183 |
| Stephen P. Shanesy | 50,000 | 4.1% | $ 12.20 | 9/30/2012 | $ 383,626 | $ 972,183 |
| Kenneth V. Biller | 50,000 | 4.1% | $ 12.20 | 9/30/2012 | $ 383,626 | $ 972,183 |
| Merrell M. Tomlin (1) | 50,000 | 4.1% | $ 12.20 | 9/30/2012 | $ 383,626 | $ 972,183 |

(1) Mr. Tomlin resigned as Executive Vice President of Global Sales in February 2003.

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The following table sets forth information concerning options to purchase Common Stock held by the Named Executive Officers.

**Aggregated Option Exercises In Fiscal 2003 And Fiscal Year-End Option Values**

| **Name** | **Shares Acquired on Exercise** | **Value Realized $** | **Number of Securities Underlying Unexercised Options at Fiscal Year End (#) (Exercisable/Unexercisable)** | **Value of Unexercised In-the-money Options at Fiscal Year End ($)(1) (Exercisable/Unexercisable)** |
|---|---|---|---|---|
| David A. Jones | | | 576,243/331,938 | $ 5,195,334/$435,694 |
| Kent J. Hussey | | | 224,911/180,948 | $ 961,549/$188,169 |
| Luis A. Cancio | | | 152,750/147,250 | $ 3,712/$126,288 |
| Stephen P. Shanesy | | | 132,592/136,000 | $ 601,937/$126,288 |
| Kenneth V. Biller | | | 151,225/136,000 | $ 792,180/$126,288 |
| Merrell M. Tomlin (2) | | | 122,763/58,625 | $ 501,583/$62,525 |

(1) These values are calculated using the $14.60 per share closing price of the Common Stock as quoted on the NYSE on September 30, 2003.

(2) Mr. Tomlin resigned as Executive Vice President of Global Sales in February 2003.

**Supplemental Executive Retirement Plan**

We provide a supplemental executive retirement plan for eligible employees. Our Board of Directors determines which of our employees are eligible to participate in this plan. Currently, only our Named Executive Officers and certain other executive officers participate in this plan. Pursuant to the plan, we establish an account for each plan participant. Each October 1, we credit the account of each participant by an amount equal to 15% of the participant's salary. In addition, each quarter we credit each account 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 Rayovac.

**Director Compensation**

For fiscal 2004, Messrs. Carmichael, DeFeo, Lupo, Pellegrino and Shepherd and Ms. Thomas will each receive $7,500 per quarter for their service as directors, plus $1,000 for each meeting of the Board of Directors that they attend ($500 if participating telephonically) and $1,000 for each meeting of a committee of the Board of Directors that they attend ($500 if participating telephonically). Committee chairpersons will receive an additional $1,000 for attendance at each such committee meeting ($500 if participating telephonically). Mr. Shepherd will receive an additional $1,250 per quarter starting the first calendar quarter of 2004 for service in the role of Presiding Director. Further, each of Messrs. Carmichael, DeFeo, Lupo, Pellegrino and Shepherd and Ms. Thomas were each granted fully vested options to purchase 5,000 shares of our Common Stock on October 1, 2003 at an exercise price of $14.60 per share and, on October 1, 2004, the Company expects to grant each of them fully vested options to purchase 5,000 shares of Common Stock (provided each director is still serving on our Board of Directors) at an exercise price equal to the closing price of our Common Stock on the New York Stock Exchange on the trading day immediately preceding such grant. Also for serving in the role of Presiding Director, Mr. Shepherd was granted 301 shares of our Restricted Common Stock on November 13, 2003, which restrictions lapse one year from the grant date provided he is still serving in such capacity.

For the first quarter of fiscal 2003, Messrs. Carmichael, Lupo, Pellegrino and Shepherd and Ms. Thomas each received $6,250 for their service as directors, plus $1,000 for the meeting of the Board of Directors that they attended and $500 for each meeting of a committee of the Board of Directors that they attended, provided that committee chairpersons received an additional $500 for attendance at each such committee meeting. For the other three quarters of fiscal 2003, Messrs. Carmichael, Lupo, Pellegrino and Shepherd and Ms. Thomas each received $7,500 per quarter for their



service as directors, plus $1,000 for each meeting of the Board of Directors that they attended and $1,000 for each meeting of a committee of the Board of Directors that they attended, provided that committee chairpersons received and additional $1,000 for attendance of each such committee meeting. Mr. Carmichael received $38,750, Mr. Shepherd received $37,750, Mr. Lupo received $36,750, Mr. Pellegrino received $36,750 and Ms. Thomas received $39,750 for their service as our directors and for attending meetings of our Board of Directors and committees in fiscal 2003. In addition, on October 1, 2002, each of Messrs. Carmichael, Lupo, Pellegrino and Shepherd and Ms. Thomas were granted fully vested options to purchase 5,000 shares of our Common Stock at an exercise price of $12.20 per share. Our non-employee directors were also reimbursed for their out-of-pocket expenses in attending meetings of the Board of Directors. Directors who are also our employees receive no compensation for serving on the Board of Directors.

**Employment Agreements**

On October 1, 2002, we entered into amended and restated employment agreements with David A. Jones (the "Jones Employment Agreement") and Kent J. Hussey (the "Hussey Employment Agreement"), as well as amended and restated employment agreements with each of Kenneth V. Biller, Luis A. Cancio and Stephen P. Shanesy (together with the Jones Employment Agreement and the Hussey Employment Agreement, the "Executive Employment Agreements").

Each of the Executive Employment Agreements:

- except in the case of the Hussey Employment Agreement (which has a term of four years and expires on September 30, 2006), has a term of three years, expiring on September 30, 2005, and, except for the Jones Employment Agreement, provides for automatic renewal for successive one-year periods unless terminated earlier upon 90-days' written notice by either the respective Named Executive Officer or us;

provides that the Named Executive Officer has the right to resign and terminate his respective Executive Employment Agreement at any time upon 60-days' notice. Upon such resignation, we must pay any unpaid base salary through the date of termination to the resigning Named Executive Officer;

except in the case of the Jones Employment Agreement, provides that upon termination of the Named Executive Officer's employment without cause or for death or disability, we will pay to the terminated Named Executive Officer, or such Named Executive Officer's estate, two times the Named Executive Officer's base salary and annual bonus, to be paid out over the following twelve months. In addition, each Named Executive Officer shall be entitled to receive insurance and other benefits for the greater of 24 months or the remainder of the term;

provides us with the right to terminate the Named Executive Officer's employment for "cause" (as defined therein), in which event we shall be obligated to pay to the terminated Named Executive Officer any unpaid base salary accrued through the date of termination; and

provides that, during the term of the agreement or the period of time served as an employee or director, and for one year thereafter, the Named Executive Officer shall not engage in or have any business which is involved in the industries in which we are engaged.

Under their respective employment agreements, Mr. Jones became entitled to a base salary of $700,000 per annum beginning October 1, 2002, Mr. Hussey became entitled to a base salary of $435,000 per annum beginning October 1, 2002, Mr. Biller, Mr. Shanesy and Mr. Cancio each became entitled to a base salary of $325,000 per annum beginning October 1, 2002 (such base salaries may be adjusted from time to time at the discretion of the Board of Directors) and each Named Executive Officer is entitled to an annual bonus based upon our achieving certain annual performance goals established by the Board of Directors. Effective October 1, 2003, the Board of Directors approved a $25,000 increase in Mr. Hussey's annual base salary under his employment agreement.

In addition, pursuant to the Jones Employment Agreement, Mr. Jones was paid a bonus of $400,000 on September 30, 2003 and will be paid an additional bonus of $2,200,000 on October 1, 2005, should he remain with the Company as of such date. The Jones Employment Agreement grants Mr. Jones the option to purchase his Rayovac-owned home for one dollar. Mr. Jones receives additional salary at a rate of $18,500 annually for miscellaneous expenses.



The Jones Employment Agreement further provides that, upon termination of Mr. Jones' employment due to death or disability, we will pay him or his estate his base salary for the 24 months following termination and we will continue to pay him or his estate two times the pro rata portion of his annual bonus. In addition, we will continue to pay him additional salary of $18,500 annually for the duration of the term of his agreement, and he shall be entitled to insurance and other specified benefits for the greater of 24 months or the remainder of the term. In the event Mr. Jones is terminated "without cause" (as defined in the Jones Employment Agreement), he shall continue to be paid his annual bonus for the greater of 24 months or the remainder of the term. Mr. Jones shall also be entitled to receive additional salary of $18,500 annually for miscellaneous expenses and insurance and other benefits for the greater of 24 months or the remainder of the term.

**Compensation Committee Interlocks and Insider Participation**

During fiscal 2003, the Compensation Committee of the Board of Directors was comprised of Thomas R. Shepherd and Philip F. Pellegrino. No member of our Compensation Committee is currently or has been, at any time since our formation, one of our officers or employees. None of our executive officers serves a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our Board of Directors or Compensation Committee.

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

The following table sets forth information regarding beneficial ownership of our Common Stock as of December 1, 2003, by:

each person who is known by us to beneficially own more than 5% of the outstanding shares of our Common Stock (each, a "5% Shareholder");

each of our directors and Named Executive Officers; and

all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. Determinations as to the identity of 5% Shareholders are based upon filings with the SEC and other publicly available information. Except as otherwise indicated, we believe, based on the information furnished or otherwise available to us, that each person or entity named in the table has sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them, subject to applicable community property laws. The percentage of beneficial ownership set forth below is based upon 32,599,016 shares of Common Stock outstanding as of the close of business on December 1, 2003. In computing the number of shares of Common Stock beneficially owned by a person and the percentage ownership of that person, shares of Common Stock that are subject to options held by that person that are currently exercisable or exercisable within 60 days of December 1, 2003, are deemed outstanding. These shares are not, however, deemed outstanding for the purpose of computing the percentage



ownership of any other person. Unless otherwise noted below, the address of each beneficial owner listed in the table is c/o Rayovac Corporation, 601 Rayovac Drive, Madison, Wisconsin 53711.

| **Names and Address of Beneficial Owner** | **Number of Shares** | **Number of Shares Subject to Options(1)** | **Percent** |
|---|---|---|---|
| Wachovia Corporation(2)<br>One Wachovia Center<br>Charlotte, NC 28288-0137 | 2,396,455 | | 7.4% |
| Awad Asset Management, Inc.(3)<br>250 Park Avenue, 2nd Floor<br>New York, NY 10177 | 1,747,575 | | 5.4 |
| David A. Jones | 260,249(4) | 731,431 | 3.0 |
| Kent J. Hussey | 183,952(5) | 326,109 | 1.5 |
| Kenneth V. Biller | 88,894(6) | 232,725 | * |
| Luis A. Cancio | 85,757(7) | 240,125 | * |
| Stephen P. Shanesy | 75,364(8) | 155,500 | * |
| Merrell M. Tomlin(9) | 24,800 | 154,138 | * |
| William P. Carmichael | 5,000 | 10,000 | * |
| Neil P. DeFeo | | 5,000 | * |
| Thomas R. Shepherd | 301(10) | 15,000 | * |
| John S. Lupo | 2,500 | 20,000 | * |
| Philip F. Pellegrino | 2,000 | 17,000 | * |
| Barbara S. Thomas | | 10,000 | * |
| All directors and executive officers of the Company as a group (15 persons) | 913,869(11) | 1,164,252 | 6.2% |

* Indicates less than 1% of the total number of outstanding shares of our Common Stock.

(1) Reflects the number of shares issuable upon the exercise of options exercisable within 60 days of December 1, 2003.

(2)

Information is based on a Form 13F filed with the SEC on November 7, 2003, as amended on November 21, 2003. The Form 13F, as amended, reports that as of September 30, 2003, Wachovia Corporation, as the parent company of Evergreen Investment Management Company, J.L. Kaplan Associates LLC, Wachovia Securities, Inc., and Wachovia Securities Financial Network, Inc., had shared dispositive power with respect to 2,396,455 shares and sole voting power with respect to 1,928,552 shares.

(3)
Information is based on a Form 13F filed with the SEC on November 3, 2003. The Form 13F reports that as of September 30, 2003, Awad Asset Management, Inc. had sole dispositive power with respect to 1,747,575 shares and sole voting power with respect to 1,747,575 shares.

(4)
Includes 251,287 restricted shares of which restrictions have lapsed on 52,629 of such shares as of December 1, 2003 and 7,609 shares held in our 401(k) plan.

(5)
Includes 150,015 restricted shares of which restrictions have lapsed on 48,234 of such shares as of December 1, 2003 and 894 shares held in our 401(k) plan.

(6)
Includes 82,062 restricted shares of which restrictions have lapsed on 31,387 of such shares as of December 1, 2003 and 4,832 shares held in our 401(k) plan.

(7)
Includes 82,062 restricted shares of which restrictions have lapsed on 31,387 of such shares as of December 1, 2003 and 2,795 shares held in our 401(k) plan.

(8)
Represents restricted shares of which restrictions have lapsed on 24,689 of such shares as of December 1, 2003.

(9)
Mr. Tomlin resigned as Executive Vice President of Global Sales in February 2003.



(10)
Represents restricted shares of which none of the restrictions have lapsed as of December 1, 2003.

(11)
Includes 847,513 restricted shares of which restrictions have lapsed on 219,713 shares as of December 1, 2003 and 16,130 shares held in our 401(k) plan.

**Equity Compensation Plan Information**

The following table sets forth information regarding our equity compensation plans as of September 30, 2003:

| **Plan category** | **Number of securities to be issued upon the exercise of outstanding options, warrants and rights** | **Weighted-average exercise price of outstanding options, warrants and rights** | **Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(1)** |
|---|---|---|---|
| | **(a)** | **(b)** | **(c)** |
| Equity compensation plans approved by security holders | 4,923,221 | $ 13.55 | 744,833(2) |
| Equity compensation plans not approved by security holders | None | Not Applicable | None |

| Plan category | Number of securities to be issued upon the exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(1) |
|---|---|---|---|
| **Total** | **4,923,221** | **$ 13.55** | **744,833(2)** |

(1) Includes 548,751 shares of common stock available for future issuance under the 1997 Rayovac Incentive Plan. In addition to stock options, awards under the 1997 Rayovac Incentive Plan may take the form of restricted stock and other stock-based awards specified in the 1997 Rayovac Incentive Plan. If such awards are granted, they will reduce the number of shares available for issuance pursuant to future stock option awards.

(2) This amount excludes an aggregate of 364,172 shares of restricted stock awards outstanding as of September 30, 2003 for which the restrictions have not lapsed.



**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

We hold various promissory notes described below (the "Executive Notes") from each of the Named Executive Officers.

Mr. Jones previously executed a promissory note in the aggregate principal amount of $500,000 (the "Jones Equity Note") with an annual interest rate of 7% to partially fund his purchase of certain shares of our common stock in connection with our 1996 recapitalization. The note matured and was paid in full in September 2003. Mr. Shanesy previously executed three five-year promissory notes dated March 17, 1997, August 1, 1997, and September 16, 1997, in connection with his purchase of shares of Common Stock and exercise of options to purchase shares of Common Stock for a total of $130,002. On May 1, 2002, Mr. Shanesy executed a promissory note replacing the three previous notes and in the amount of $130,002. Interest on this promissory note is to be adjusted annually to the Internal Revenue Service minimum rate for 3-5 year maturities. This promissory note is secured by a security interest in shares of our Common Stock (including vested options) owned by Mr. Shanesy.

On July 20, 2000, the Board of Directors authorized loans to Messrs. Jones, Hussey, Shanesy, Biller and Cancio of up to the aggregate principal amounts of $1,950,000, $800,000, $200,000, $400,000 and $200,000, respectively. As of August 11, 2000, Messrs. Jones, Hussey, Shanesy, Biller and Cancio had each executed a promissory note and, as of September 30, 2003, had drawn aggregate principal amounts of $1,700,000, $750,000, $200,000, $400,000 and $200,000, respectively, under the authorized loan program. Interest on these promissory notes is to be adjusted annually to the Internal Revenue Service minimum rate for 3-5 year maturities. The annual interest rate on each of these notes was 3.5% in fiscal year 2003. Each of these promissory notes is secured by a security interest in shares of our Common Stock (including vested options) owned by the respective borrower.

Payments of interest on the Executive Notes are due annually and the outstanding principal amount and any unpaid interest on the Executive Notes is payable at maturity. The Executive Notes mature in September 2005.

The purpose of the loans authorized by the Board of Directors in July 2000 was to provide the executive officers receiving the loans with access to funds as a component of their compensation program. In July 2000, a significant percentage of the stock options and our Common Stock held by such executive officers was subject to transfer restrictions imposed by a shareholders agreement among Rayovac, the executive officers and the Thomas H. Lee Company (which agreement expired on September 12, 2002). The loans provided the executive officers with access to alternative funds in light of the restrictions imposed by the shareholders agreement on the equity component of the executives' compensation.

The largest aggregate amount of indebtedness outstanding at any time during fiscal 2003 for each of the executive officers was as follows: Mr. Jones, $2,200,000; Mr. Hussey, $750,000; Mr. Shanesy, $330,002; Mr. Biller, $400,000; and Mr. Cancio, $200,000. The aggregate amount of indebtedness outstanding as of December 1, 2003, for each of the executive officers was as follows: Mr. Jones, $1,700,000; Mr. Hussey, $750,000; Mr. Shanesy, $330,002; Mr. Biller, $400,000; and Mr. Cancio, $200,000.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of or are included in this Annual Report on Form 10-K:

1. The financial statements listed in the Index to Consolidated Financial Statements and Financial Statement Schedule, filed as part of this Annual Report on Form 10-K.

2. The financial statement schedule listed in the Index to Consolidated Financial Statements and Financial Statement Schedule, filed as part of this Annual Report on Form 10-K.

3. The exhibits listed in the Exhibit Index filed as part of this Annual Report on Form 10-K.

(b) Reports on Form 8-K: The Company has filed the following reports on Form 8-K during the fiscal year ended September 30, 2003:

1. The Form 8-K dated October 1, 2002 and filed on October 16, 2002 reporting the Company's acquisition of substantially all of the consumer battery business of VARTA AG.

2. Amendment No. 1 to Form 8-K/A dated October 1, 2002 and filed on December 16, 2002 amending the Form 8-K filed on October 16, 2002 to include the financial statements and pro forma financial information required by Item 7 of the form.

3. The Form 8-K dated April 23, 2003 and filed on April 24, 2003 reporting the press release issued by the Company, dated April 23, 2003, announcing certain financial results for its second fiscal quarter ended March 30, 2003.

4. The Form 8-K dated April 24, 2003 and filed on April 30, 2003 furnishing the transcript of a webcast hosted by the Company on April 24, 2003 announcing certain financial results for its second fiscal quarter ended March 30, 2003, among other matters.

5. The Form 8-K dated and filed on July 24, 2003 reporting the press release issued by the Company, dated July 24, 2003, announcing certain financial results for its third fiscal quarter ended June 29, 2003.

6. The Form 8-K dated August 22, 2003 and filed on September 3, 2003 reporting the press release issued by the Company, dated August 22, 2003, announcing the Company's entry into an agreement to purchase Remington Products Company, L.L.C.

7. The Form 8-K dated September 15, 2003 and filed on September 16, 2003 reporting the fact that the Company provided certain summary condensed consolidated financial, summary consolidated financial and other data and certain unaudited pro forma condensed consolidated financial data to potential financing sources and furnishing such information by setting it forth in such report.

8.

The Form 8-K dated September 11, 2003 and filed on September 19, 2003 reporting the press release issued by the Company, dated September 11, 2003, announcing the Company's intention to offer through a private placement up to $300 million aggregate principal amount of new Senior Subordinated Notes due 2013.

9. The Form 8-K dated and filed on September 26, 2003 reporting the press release issued by the Company, dated September 26, 2003, announcing certain financial results for its fourth fiscal quarter and fiscal year ended September 30, 2003.



10. The Form 8-K dated and filed on September 30, 2003 reporting the press release issued by the Company, dated September 30, 2003 announcing (a) the Company's acquisition of Remington Products Company, L.L.C., (b) the closing of its previously announced private placement of $350 million of 8$^{1}/_{2}$% senior subordinated notes due 2013 and (c) the calling for redemption of all of the 11% Series B and Series D Senior Subordinated Notes issued by Remington Products Company, L.L.C. and Remington Capital Corp. that had not been tendered by the close of the Company's outstanding offer to purchase the notes.



**RAYOVAC CORPORATION AND SUBSIDIARIES**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE**





**Independent Auditors' Report**

The Board of Directors and Shareholders
Rayovac Corporation:

We have audited the accompanying consolidated balance sheets of Rayovac Corporation and subsidiaries as of September 30, 2002 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Rayovac Corporation and subsidiaries as of September 30, 2002 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2(x) to the consolidated financial statements, the Company revised its presentation of loss on early extinguishment of debt in the accompanying consolidated statement of operations for the year ended September 30, 2001 as required by Statement of Financial Accounting Standards No. 145, *Recession of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections,* and in 2002 the Company changed its method of accounting for goodwill and indefinite-lived intangible assets to conform with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

/s/ KPMG LLP
KPMG LLP

Chicago, Illinois
November 7, 2003



**RAYOVAC CORPORATION AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**September 30, 2002 and 2003**

**(In thousands, except per share amounts)**

| | 2002 | 2003 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 9,881 | $ 107,774 |
| Receivables: | | |
| Trade accounts receivable, net of allowance for doubtful receivables of $3,293, and $22,911, respectively | 128,927 | 255,205 |
| Other | 7,683 | 15,376 |
| Inventories | 84,275 | 219,254 |
| Deferred income taxes | 8,586 | 27,012 |
| Prepaid expenses and other | 19,970 | 50,705 |
| Total current assets | 259,322 | 675,326 |
| Property, plant and equipment, net | 102,586 | 150,412 |
| Deferred charges and other | 36,350 | 40,160 |
| Goodwill | 30,567 | 398,380 |
| Intangible assets, net | 88,858 | 253,067 |
| Deferred income taxes | 12,343 | 31,036 |
| Debt issuance costs | 3,207 | 28,111 |

| | 2002 | 2003 |
|---|---|---|
| Total assets | $ 533,233 | $ 1,576,492 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Current maturities of long-term debt | $ 13,400 | $ 72,852 |
| Accounts payable | 76,155 | 172,632 |
| Accrued liabilities: | | |
| Wages and benefits | 8,910 | 36,580 |
| Income taxes payable | 7,143 | 20,569 |
| Restructuring charges | 1,701 | 5,750 |
| Accrued interest | 1,664 | 4,894 |
| Other | 9,811 | 83,737 |
| Deferred income taxes | | 8,511 |
| Total current liabilities | 118,784 | 405,525 |
| Long-term debt, net of current maturities | 188,471 | 870,540 |
| Employee benefit obligations, net of current portion | 24,009 | 63,044 |
| Deferred income taxes | 20,957 | 22,694 |
| Other | 6,219 | 12,687 |
| Total liabilities | 358,440 | 1,374,490 |
| Shareholders' equity: | | |
| Common stock, $.01 par value, authorized 150,000 shares; issued 61,594 and 61,999 shares, respectively; outstanding 32,058 and 32,463 shares, respectively | 616 | 620 |
| Additional paid-in capital | 180,823 | 185,561 |
| Retained earnings | 149,221 | 164,703 |
| Accumulated other comprehensive loss | (19,859) | (12,457) |
| Notes receivable from officers/shareholders | (4,205) | (3,605) |
| | 306,596 | 334,822 |
| Less treasury stock, at cost, 29,536 shares | (130,070) | (130,070) |
| Less unearned restricted stock compensation | (1,733) | (2,750) |
| Total shareholders' equity | 174,793 | |