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RAYOVAC CORP
Form 10-K
December 20, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15() OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001
OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 001-13615

RAYOVAC CORPORATION

(Exact name of registrant as specified in its charter)

WISCONSIN
(State or other jurisdiction of
incorporation or organization)

22-2423556
(I.R.S. Employer
Identification Number)

601 RAYOVAC DRIVE
(Address of principal executive offices)

53711-2497
(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.

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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 /X/ No / /

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

On December 17, 2001, the aggregate market value of the voting stock held by non-affiliates of the registrant was \$434,780,654. As of December 17, 2001, there were outstanding 32,042,858 shares of the registrant's Common Stock, \$0.01 par value.

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PART 1

ITEM 1. BUSINESS

GENERAL

We are the leading value brand battery manufacturer and the fastest-growing manufacturer of general batteries in the U.S. We are also the leading worldwide manufacturer of hearing aid batteries and the leading manufacturer of zinc carbon household batteries marketed in North America and Latin America. In addition, we are a leading marketer of rechargeable batteries and battery-powered lighting products in the U.S.

RAYOVAC is a well-recognized brand name in the battery industry that was first used as a trademark for batteries in 1921. We attribute the longevity and strength of the RAYOVAC brand name to our high quality products and to the success of our marketing and merchandising initiatives. We market all of our branded products under the RAYOVAC name and selected products under sub-brand names, including MAXIMUM-Registered Trademark-, RENEWAL-Registered Trademark-, LOUD'N CLEAR-Registered Trademark-, PROLINE-Registered Trademark- and RAYOVAC ULTRA-Registered Trademark-.

We have established our position as the leading value brand in the North American general alkaline battery market by focusing on mass merchandisers. We believe we have enhanced our industry position by:

- offering consumers batteries with quality and performance characteristics that are competitive with those offered by other principal manufacturers, but at lower prices;
- partnering with our customers and providing category management support with innovative in-store merchandising, promotions and packaging; and
- offering retailers increased profit potential through lower inventory costs, attractive margins and more rapid product turnover.

Over the last several years, we have further penetrated the mass merchandiser channel while broadening our business in other distribution channels to include home centers; warehouse clubs; food, drug and convenience stores; electronics specialty stores and department stores; hardware and automotive centers; specialty retailers; hearing aid professionals; industrial distributors; government agencies; and original equipment manufacturers.

OPERATING SEGMENTS

Our business is organized according to three geographic regions: (1) North America, which includes the U.S. and Canada, (2) Latin America, which includes Mexico, Central America and South America and (3) Europe/Rest of World (which we refer to as Europe/ROW), which includes the United Kingdom, Europe and all other countries in which we do business. Global and geographic strategic initiatives and financial objectives are determined at the corporate level. Each operating segment is responsible for implementing the defined strategic initiatives and achieving the financial objectives. Each geographic region has a manager responsible for all the sales and marketing initiatives for all product lines within that region.

OUR BUSINESS STRATEGY

Our business strategy focuses on continuing to:

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- increase consumer awareness of the RAYOVAC brand name and the quality, performance and value of our products through focused marketing and advertising;

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- grow our market share by expanding distribution into new channels, increasing sales to under-penetrated channels and customers, launching new products and selectively pursuing acquisitions and alliances;
- reduce costs by rationalizing manufacturing and distribution, optimizing existing plant capacity, outsourcing products where appropriate, decreasing working capital and reducing corporate overhead; and
- concentrate research and development resources on our key products, while developing new technologies.

The success of our business strategy is evidenced by our consistent improvement in operating results over the past five years. From the year ended September 30, 1997 through the year September 30, 2001, we have grown net sales and income from operations before non-recurring charges from \$427.2 million to \$675.5 million and \$37.5 million to \$76.7 million, respectively. This growth represents a 12.1% compound annual growth rate in net sales and a 19.6% compound growth rate in income from operations before non-recurring charges, respectively. In addition, income from operations before non-recurring charge margins have improved by 260 basis points, from 8.8% for the year ended September 30, 1997 to 11.4% for the year ended September 30, 2001.

Our growth reflects, in part, our successful efforts to expand into new distribution channels and further penetrate existing channels. We have implemented this business strategy by aligning our marketing department, sales organization, supply chain and support functions into channel focused teams to better serve our diverse customer needs, utilizing channel-specific marketing strategies, sales promotions and customer service initiatives. We are focusing our advertising on the improved performance of our products and expanding our packaging designs that enhance customer convenience.

Our increasing profitability is, in part, the result of our success in rationalizing our costs and selectively outsourcing the manufacture or packaging of certain products. We have restructured our operations to improve our production and capacity efficiencies, reduce costs, upgrade technology and equipment and improve customer service. This year we completed the closure of our Wonewoc, Wisconsin and Tegucigalpa, Honduras facilities, which reduced the number of our manufacturing facilities to two in North America, to three in Latin America and to one in Europe. We also have consolidated our North American packaging operations to one location at our Madison, Wisconsin plant. We have discontinued the manufacture of certain products which we can more cost-effectively outsource to third-party manufacturers, allowing us to better maintain flexibility to meet changes in customer demand. We also have implemented additional restructuring programs designed to reduce costs and improve efficiency in general administrative functions. We believe that these restructuring programs have substantially reduced our manufacturing and administrative costs.

OUR GROWTH STRATEGY

We have developed strategies to increase our sales, profits and market share. To implement our growth strategy, we intend to:

CONTINUE TO STRENGTHEN THE RAYOVAC BRAND NAME. We are committed to further strengthening the RAYOVAC brand name. Our marketing and advertising initiatives are designed to increase consumer awareness of the RAYOVAC brand and to increase

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our retail sales by heightening customers' perceptions of the quality, performance and value of our products.

EXPAND RETAIL DISTRIBUTION. We believe that our value brand positioning and innovative merchandising programs make us an attractive supplier to all trade channels. Accordingly, we have expanded our traditional focus on mass merchandisers to include other retail channels, including hardware/home centers, warehouse clubs and food, drug and convenience stores. While we have

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successfully increased the number of our customer relationships in other retail channels, these channels continue to represent important and under-penetrated opportunities for us.

ADDRESS THE VARIED PERFORMANCE AND PRICING NEEDS OF BATTERY CONSUMERS AND RETAILERS. The general battery market is becoming increasingly segmented as premium batteries are introduced to target high-drain devices, standard alkaline batteries continue to address consumers' everyday needs and lower performance products are aimed at dollar stores and discount retailers. We offer consumers a variety of battery solutions across these segments, including our RAYOVAC ULTRA rechargeable nickel metal hydride batteries, our MAXIMUM alkaline batteries and our heavy duty batteries. We have focused and positioned our full range of offerings to appeal to the large segment of the population that desires value priced products that are similar in quality and performance to the products of our competitors. We also offer consumers innovative packaging solutions and provide retailers an attractive overall value proposition. Our customer solutions have allowed some of our retailers to grow their battery business faster than the industry category as a whole over the last year.

FURTHER CAPITALIZE ON OUR WORLDWIDE LEADERSHIP IN HEARING AID BATTERIES. We strive to increase our worldwide market share in the hearing aid battery category by leveraging our existing strength in the segment, maintaining our dedicated sales and marketing organization and capitalizing on our leading technology. In fiscal 2000, we launched the new RAYOVAC ULTRA zinc air hearing aid battery, which is currently the world's longest-lasting hearing aid battery in the most commonly-used battery sizes. These new product continues our history of innovation in the hearing aid industry.

INCREASE OUR PRESENCE IN LATIN AMERICA AND EUROPE We have a strong presence in Latin America and have made sizable distribution gains in the region over the last two years, adding approximately 1,000 retail accounts that represent more than 4,100 stores. We plan to continue our growth in Latin America by continuing our geographic expansion, increasing alkaline penetration, introducing lighting and specialty products and continuing to offer a full range of battery solutions.

In Europe, we continue to increase our presence by implementing retailer and consumer initiatives similar to those used in North America. We intend to increase our battery business in Europe by leveraging our strong relationships with global retailers, supporting our customers with innovative packaging and merchandising programs and selectively pursuing strategic acquisition opportunities.

ENTER NEW MARKETS. We intend to continue to expand our business into new markets for batteries and related products both domestically and internationally by developing new products internally or through selective acquisitions and by pursuing joint ventures or other strategic marketing opportunities. Our acquisitions may include expansion into new technologies, product lines or geographic markets and may be of significant size.

PRODUCTS

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We develop, manufacture and/or market a wide variety of batteries and battery-powered lighting devices. Our broad line of products includes:

- general batteries, including alkaline, heavy duty, rechargeable alkaline and nickel metal hydride batteries, and chargers for rechargeable batteries;
- hearing aid batteries;
- specialty batteries, including watch, photo, keyless entry, personal computer clock and memory back-up batteries and rechargeable batteries for cordless telephones; and
- lighting products and lantern batteries.

Our general batteries (D, C, AA, AAA and 9-volt sizes) are used in devices such as personal digital assistants, digital cameras, pocket televisions, radios, remote controls, personal radios, pagers,

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portable compact disc players, electronic and video games and battery-powered toys, as well as a variety of battery-powered industrial applications. Our button cell specialty batteries are used in smaller devices, such as hearing aids and watches. Our lithium coin cells are used in cameras, calculators, communication equipment, medical instrumentation and personal computer clocks and memory back-up systems. Our lantern batteries are used almost exclusively in battery-powered lanterns. Our lighting products include flashlights, lanterns and similar portable products.

Net sales data for our products as a percentage of net sales for fiscal 1999, fiscal 2000 and fiscal 2001 are set forth below.

| PRODUCT TYPE ----- | PERCENTAGE OF COMPANY NET SALES FISCAL YEAR ENDED SEPTEMBER 30, ----- | | |
|--|---|--------|--------|
| | 1999 | 2000 | 2001 |
| | ----- | ----- | ----- |
| Battery Products: | | | |
| Alkaline..... | 50.2% | 47.6% | 51.5% |
| Heavy Duty..... | 10.0 | 20.7 | 21.0 |
| Rechargeables..... | 4.5 | 4.6 | 4.9 |
| Hearing Aid..... | 13.0 | 9.4 | 10.4 |
| Specialty Batteries..... | 8.6 | 6.2 | 2.8 |
| | ----- | ----- | ----- |
| Total..... | 86.3 | 88.5 | 90.6 |
| Lighting Products and Lantern Batteries..... | 13.7 | 11.5 | 9.4 |
| | ----- | ----- | ----- |
| Total..... | 100.0% | 100.0% | 100.0% |
| | ===== | ===== | ===== |

A description of our major battery products including their typical uses is set forth below.

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| | GENERAL BATTERIES | | | HEARING AID BATTERIES | | SPECIALTY |
|-------------------------------|---|--|--|--|---|-----------------|
| Technology: | Alkaline | Zinc | Nickel Metal Hydride | Zinc Air | Lithium | Silver |
| Types/ Common Name: | --Disposable --Rechargeable | Heavy Duty (Zinc Chloride and Zinc Carbon) | Rechargeable | -- | -- | -- |
| Brand; Sub-brand Names: | RAYOVAC; MAXIMUM, RENEWAL | RAYOVAC | RAYOVAC, RAYOVAC ULTRA Rechargeable | RAYOVAC; LOUD "N CLEAR, PROLINE, EXTRA, RAYOVAC ULTRA, AIR 4000, XCELL and AIRPOWER | RAYOVAC | RAYOVA |
| Sizes: | D, C, AA, AAA, 9-volt for Alkaline, Zinc and Nickel Metal Hydride | | | 5 Sizes | 5 primary sizes | 10 pri sizes |
| Typical Uses: | All standard household applications including electronic toys, pagers, CD and cassette players, remote controls, digital cameras and a wide variety of industrial applications | | | Hearing aids | Personal computer clocks and memory back-up | Watche |

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ALKALINE BATTERIES. We market a full line of alkaline batteries, including D, C, AA, AAA and 9-volt size batteries for both consumer and industrial customers. Our alkaline batteries are marketed and sold primarily under the MAXIMUM brand, although we also engage in limited private label manufacture of alkaline batteries. AA and AAA size batteries are often used with smaller electronic devices such as remote controls, photography equipment, pagers, portable compact disc players and electronic and video games. C and D size batteries are generally used in devices such as flashlights, lanterns, radios, cassette players and battery-powered toys. 9-volt size batteries are generally used in fire alarms, smoke detectors and communication devices.

HEAVY DUTY BATTERIES. Heavy duty batteries include zinc chloride and zinc carbon batteries designed for low and medium-drain battery-powered devices such as lanterns, flashlights, radios and remote controls.

RECHARGEABLE BATTERIES. During fiscal 2001, we introduced a new, longer-lasting 1600 mAh rechargeable nickel metal hydride battery capable of being recharged 500 to 1,000 times. We believe that this new product lasts up to twice as long as alkaline products in selected high-drain devices and offers consumers a high quality product at an exceptional value. Also during fiscal 2001, we introduced the first one-hour nickel metal hydride battery charger for these 1600 mAh batteries. We also offer our RENEWAL rechargeable battery, which is the leading rechargeable alkaline battery in the U.S. market. RENEWAL batteries offer a value proposition to consumers because they can be recharged up to 100 times, providing many times the life of disposable alkaline batteries at a somewhat higher retail price. We market our rechargeable alkaline batteries based primarily on their money-saving benefits.

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HEARING AID BATTERIES. We are currently the largest worldwide seller of hearing aid batteries. Our strong market position is the result of the advanced technological capabilities and consistent product performance of our hearing aid battery products and our strong distribution system and extensive marketing program for these products. Hearing aid batteries are produced in several sizes and are designed for use with various types and sizes of hearing aids. We produce five sizes of zinc air button cells for use in hearing aids. Zinc air is a highly reliable, high energy density, lightweight battery system. Our RAYOVAC ULTRA zinc air hearing aid battery is the world's longest-lasting hearing aid battery in the most commonly-used battery sizes. We also sell these batteries under the LOUD'N CLEAR, PROLINE, EXTRA, XCELL, AIR 4000 and AIRPOWER brand names and under several private labels, including Beltone, Miracle Ear, Siemens and Starkey. We were the pioneer and currently are the leading manufacturer of the smallest (5A and 10A size) hearing aid batteries.

SPECIALTY BATTERIES. Our specialty battery products include non-hearing aid button cells, lithium coin cells, photo batteries and keyless entry batteries. We market button and coin cells for use in watches, cameras, calculators, communications equipment and medical instrumentation. We market our lithium coin cells, which are high-quality lithium batteries with certain performance advantages over other lithium battery systems, for use in calculators and personal computer clocks and memory back-up systems.

LIGHTING PRODUCTS AND LANTERN BATTERIES. We are a leading marketer of battery-powered lighting products, including flashlights, lanterns and similar portable devices for the retail and industrial markets.

MERCHANDISING AND ADVERTISING

Key elements of our merchandising and advertising strategies include:

- building the awareness and image of the RAYOVAC brand name;
 - focusing on our latest MAXIMUM alkaline product improvements;
 - improving consumer perceptions of the quality and performance of our products;
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- upgrading and unifying product packaging and extending our innovative new reclosable packaging features throughout our product line;
 - expanding on our position as the value brand; and
 - regularly introducing new products, especially rechargeable batteries and lighting products.

We position our products to appeal to the large segment of the population that desires value brand products which are of quality and performance similar to the products of our major competitors in the general battery market, but which are offered at a lower price. One pricing strategy we use to demonstrate our value positioning is offering more batteries than our brand name competitors for the same price. We also work with individual retail channel participants to develop unique merchandising programs and promotions and to provide retailers with attractive profit margins to encourage retailer brand support.

NORTH AMERICA. For the last five years we have focused our advertising efforts on our MAXIMUM alkaline products. This campaign has increased awareness of the RAYOVAC brand and heightened consumers' perceptions of the quality, performance and value of our products. We conduct annual advertising tracking

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studies which have demonstrated that we are significantly improving consumer perceptions on each of these measures, as well as overall awareness of the Rayovac brand.

To market our hearing aid battery products, we continue to use a campaign featuring Arnold Palmer, a binaural hearing aid wearer and user of RAYOVAC hearing aid batteries, as our spokesman. Mr. Palmer has been extremely effective in promoting the use of hearing aids, expanding the market and communicating the specific product benefits of our hearing aid batteries. To reach the largest potential market for hearing aid batteries, we have also developed a corporate print advertising campaign to be used in selected publications. We pioneered the use of multi-packs for hearing aid batteries and intend to further expand multi-pack distribution in additional professional and retail channels. We believe that we have developed strong relationships with hearing aid manufacturers and audiologists, the primary sellers of hearing aids, and will continue to seek opportunities to further penetrate the professional market for hearing aid products.

We have redesigned our product graphics and packaging of other specialty battery products to achieve a uniform brand appearance with our other products and to generate greater brand awareness and loyalty. In addition, we plan to continue to develop relationships with manufacturers of communications equipment and other products in an effort to expand our share of the non-hearing aid button cell market. We also believe there is significant opportunity for growth in the photo and keyless entry battery markets and we seek to further penetrate the replacement market for these products.

We have established our position in the lighting products market based on innovative product features, consistent product quality and creative product packaging. In addition, we endeavor to regularly introduce new products to stimulate consumer demand and promote impulse purchases.

LATIN AMERICA. We have accomplished a successful integration of the Latin America battery business that we acquired from ROV Limited in August 1999. We have followed our strategy employed in North America of product positioning, pricing and advertising and promotion programs in Latin America. Over the past two years, we have made distribution gains, adding approximately 1,000 retail accounts that represent more than 4,100 stores.

We believe that we can capitalize on significant growth opportunities in Latin America by offering additional Rayovac products through existing distribution channels and through geographic expansion. In addition, we have a manufacturing base in Latin America which allows us to produce batteries and service retailers in this region.

Currently less than 15% of our Latin America sales are from alkaline products. We believe approximately 30% of all batteries sold in Latin America are alkaline products, providing us with an

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opportunity to expand alkaline sales. We also believe there are growth opportunities within current distribution channels to sell additional products.

EUROPE/ROW. Our marketing strategy in Europe is to capitalize on our strength in hearing aid products, maintain our momentum in the northern European market and partner with our large global customers to expand distribution as they expand. We continue to evaluate initiatives that would allow us to expand our current distribution in other foreign markets via strategic alliances.

We continue to support our leading hearing aid battery position in Europe using our corporate advertising campaign featuring Arnold Palmer and our strong

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relationship with manufacturers of hearing aids. Our momentum in parts of Europe has been achieved through innovative packaging and merchandising solutions, including our unique alkaline reclosable packaging design, which we will use to further expand distribution.

SALES AND DISTRIBUTION

NORTH AMERICA. We align our sales force by distribution channel. We maintain separate sales forces primarily to service:

- our retail sales and distribution channels, and
- our hearing aid professionals, industrial distributor and original equipment manufacturer sales and distribution channel.

In addition, we use a network of independent brokers to service participants in selected distribution channels.

Wal-Mart Stores, our largest customer, represented 20%, 21% and 26% of our consolidated net sales in fiscal 1999, 2000 and 2001, respectively. Our sales to Wal-Mart Stores primarily occur in North America.

LATIN AMERICA. We align our sales force by distribution channel. We maintain two separate sales groups: one group that directly services large retailers and food and drug chains located mainly in urban areas and a second group that services through distributors and wholesalers, secondary channels, such as photo, grocery, hardware, stationary, industrial and other retailers located in both urban and rural areas. This sales structure enables us to focus on the rapid expansion of the alkaline category while consolidating our leadership position in the heavy duty category.

EUROPE/ROW. We maintain a separate sales force in Europe to promote the sale of all of our products. We have adopted the successful strategies, programs, unique products and category management expertise utilized in our North American business in our European business.

MANUFACTURING AND RAW MATERIALS

We manufacture batteries in the U.S., Latin America and the United Kingdom. Over the last five years, we have closed our Appleton, Wisconsin; Kinston, North Carolina; Newton Aycliffe, United Kingdom; Tegucigalpa, Honduras; Valencia, Venezuela; and Wonewoc, Wisconsin facilities and shifted their manufacturing operations to our other facilities. We have also converted our Madison, Wisconsin, manufacturing facility to a packaging operation and outsourced the manufacture of certain battery and lighting products. These efforts have increased our plant capacity utilization and eliminated some of our underused manufacturing capacity.

During the past five years, we have expended significant resources on capital improvements, including the modernization of many of our manufacturing lines and manufacturing processes. These manufacturing improvements have enabled us to increase the quality and service life of our alkaline and zinc air batteries and to increase our manufacturing capacity. In May 2001, we installed a new

high-speed alkaline battery production line at our Fennimore, Wisconsin plant. This line increased our production capacity for AA-size batteries and upgraded our product technology. Since fiscal 1997, our investment in new manufacturing technology, modernization and production capacity at our Fennimore plant has exceeded \$29 million.

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Zinc powder, electrolytic manganese dioxide powder and steel are the most significant raw materials we use to manufacture batteries. There are a number of worldwide sources for all necessary raw materials that we use to manufacture batteries. We believe that we will continue to have access to adequate quantities of these materials at competitive prices. Based on our anticipated production requirements of zinc powder, we regularly engage in forward purchases and hedging transactions to effectively manage raw material costs and inventory relative to anticipated production requirements. See "Quantitative and Qualitative Disclosures about Market Risk."

RESEARCH AND DEVELOPMENT

Our research and development strategy is to focus on alkaline and zinc air performance improvements and product development. In fiscal 2001, we also increased our emphasis on nickel metal hydride battery technology and related battery chargers, which resulted in our introduction of the first one-hour charger for 1600 mAh nickel metal hydride batteries.

We enhance our internal research and development efforts by purchasing or licensing state-of-the-art manufacturing technology from third parties. Our alkaline technology agreement with Matsushita Battery Industrial Co., Ltd. has resulted in significant performance improvements in addition to improvements and cost reductions generated by our own engineers and scientists. We also recently signed a license agreement with AER Energy Resources to license zinc air battery technology as well as to obtain design and development services. Our research contracts with the U.S. government to develop new battery technology provide us with additional development opportunities.

Our research and development group includes approximately 100 employees. Some of our research and development expenditures are funded by U.S. government contracts. In fiscal 2001, 2000 and 1999 we invested \$12.2 million, \$10.8 million and \$9.8 million, respectively, in research and development. We believe that these investments will allow us to continue to develop innovative battery solutions capable of providing consumers with greater power and longer battery life.

INFORMATION SYSTEMS

Our information technology strategy commits our Information Services (IS) group to being an internal business partner providing value-added to support our corporate initiatives. We align the IS activities with business teams and the strategic business plan to leverage the cost of information technology ownership and focus the resources where we can achieve the highest benefit.

SAP is our core business information system for North America. We use the Microsoft Office suite of office automation products on our desktop computers. Our information systems are in position to provide for a highly reliable, highly available computing environment. This infrastructure has been engineered with the capability to grow as the business grows, and to do so in a cost effective way.

PATENTS, TRADEMARKS AND LICENSES

Our success and ability to compete depends, in part, upon our technology. We rely upon a combination of patent, trademark and trade secret laws, together with licenses, confidentiality agreements and other contractual covenants, to establish and protect our technology and other intellectual property rights.

We own or license from third parties a considerable number of patents and patent applications throughout the world, primarily for battery product improvements, additional features and

manufacturing equipment. In March 1998, we announced the extension of our existing alkaline battery technology agreement with Matsushita. Under this agreement, we license Matsushita's highly advanced designs, technology and manufacturing equipment, including any related updates or innovations, through March 2003. After that time, we are entitled to license the designs, technology and manufacturing equipment as it exists at that date through March 2022.

We also use a number of trademarks in our business, including RAYOVAC, MAXIMUM, RENEWAL, LOUD 'N CLEAR, PROLINE, RAYOVAC ULTRA, WORKHORSE, ROUGHNECK, SPORTSMAN, AIR 4000, XCELL, EXTRA and AIRPOWER. We rely on both registered and common law trademarks in the U.S. to protect our trademark rights. The RAYOVAC mark is also registered in countries outside the U.S., including Europe, Latin America and Asia. We do not, however, have any right to the trademark RAYOVAC in Brazil, where the mark is owned by an independent third-party battery manufacturer.

We also have obtained a non-exclusive license to use certain technology underlying our rechargeable alkaline battery line to manufacture rechargeable alkaline batteries in the U.S., Puerto Rico and Mexico and to sell and distribute batteries worldwide based on this licensed technology. This license terminates in 2015 with the expiration of the last-expiring patent covering the licensed technology.

COMPETITION

We believe that the markets for our products are highly competitive. Duracell and Energizer are our primary battery industry competitors in the U.S. Both Duracell and Energizer have substantially greater market share and financial and other resources than we do. Because of their greater market size, they have advantages in distribution and in negotiating leverage with retailers. Private label offerings by major retailers, by which the retailers purchase batteries from existing manufacturers and sell them under their own brands at non-premium prices, may also be a source of competition.

Duracell and Energizer have introduced lines of premium-priced alkaline batteries positioned as providing increased performance over their respective regular branded products in certain high-drain battery-powered devices, including digital cameras and palm-sized computers. In this regard, Duracell introduced its Duracell Ultra product in May 1998, and Energizer introduced its Energizer e2 product in 2000. These products are priced at a significant premium to standard alkaline products, as well as to Duracell's and Energizer's regular battery brands. To date, Duracell's initiative does not appear to have increased the total Duracell brand market share as Duracell Ultra gains appear to have been offset by declines in the regular Duracell line, and Energizer's e2 product has captured a very small share of the U.S. alkaline battery market.

We compete in this premium battery segment with our rechargeable nickel metal hydride batteries. As these batteries can provide twice the performance of premium-priced alkaline batteries in selected high-drain devices, such as digital cameras, many manufacturers of these high-drain devices recommend nickel metal hydride batteries over alkaline. This has led to growth for the nickel metal hydride segment and for our batteries in particular.

Energizer has also increased efforts to obtain distribution behind a price brand marketed as Eveready Alkaline, which competes primarily on price. This initiative has been in place in Canada for a number of years with limited success, and the current effort to expand in the U.S. has gained only limited distribution and market share.

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Internationally, the general battery market is as highly competitive as, and has a greater number of competitors than, the U.S. market. Competition is centered around pricing, product performance, promotion and distribution strategies.

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Despite this competitive market, our unit and dollar general battery market share in the U.S. has increased over the 52-week period ended September 22, 2001, both in the mass merchant and total market. We also continue to upgrade and invest in our alkaline technology to remain competitive. We expect to continue to invest in new upgrades for our alkaline product line over the next several years to improve product performance and expand manufacturing capacity.

ENVIRONMENTAL COMPLIANCE

Due to the nature of the operations we conduct, 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 and off-site disposal locations. Except as discussed in Item 3, "Legal Proceedings," 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 hereof for certain additional information regarding environmental matters involving us included in the description of legal proceedings.

EMPLOYEES

As of September 30, 2001, we had approximately 2,750 full-time employees. A significant number of our factory employees are represented by eight labor unions. We believe our relationship with our employees is good. There has not been a work stoppage at a domestic facility since 1981 and since 1991 in the United Kingdom. See Note 2(e) of the Notes to Consolidated Financial Statements filed herewith and incorporated by reference into Item 8 hereof.

SEASONALITY

Sales of our products are seasonal, with the highest sales typically occurring in the fiscal quarter ending on or about December 31, during the holiday season. During the past three completed fiscal years, our sales for the quarter ending on or about December 31 have represented an average of 29% of our annual net sales. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Seasonality."

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FINANCIAL INFORMATION ABOUT BUSINESS SEGMENTS

Financial information pertaining to our business segments is set forth in Note 12 of Notes to Consolidated Financial Statements filed herewith and incorporated by reference into Item 8 hereof.

FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS

Financial information pertaining to our foreign and domestic operations is set forth in Note 12 of Notes to Consolidated Financial Statements filed herewith and incorporated by reference into Item 8 hereof.

FORWARD LOOKING STATEMENTS

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Certain of the information contained in this Annual Report on Form 10-K or otherwise made from time to time by Rayovac, including without limitation those statements made under this Part I, Item 1, "Business" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" which are not historical facts, may include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by such forward-looking language as "expects," "anticipates," "intends," "believes," "will," "estimate," "should," "may," or other similar terms. In reviewing such information, you should note that our actual results may differ materially from those set forth in such forward-looking statements.

Important factors that could cause our actual results to differ materially from those included in the forward-looking statements made herein include, without limitation, (1) significant changes in consumer demand and buying practices for household batteries, hearing aid batteries or other products we manufacture or sell in North America, Latin America or Europe/ROW; (2) the loss of, or a significant reduction in, sales through a significant retail customer; (3) the successful introduction or expansion of competitive brands into the marketplace, including private label offerings; (4) the introduction of new product features or new battery technologies by a competitor; (5) promotional campaigns and spending by a competitor; (6) difficulties or delays in the integration of operations of acquired companies; (7) our ability to successfully implement manufacturing and distribution cost efficiencies and improvements; (8) delays in manufacturing or distribution due to work stoppages, problems with suppliers, natural causes or other factors; (9) the enactment or imposition of unexpected environmental regulations negatively impacting consumer demand for certain of our battery products or increasing our cost of manufacture or distribution; (10) the costs and effects of unanticipated legal, tax or regulatory proceedings; (11) the effects of competitors' patents or other intellectual property rights; (12) interest rate, exchange rate and raw material price fluctuations; (13) impact of unusual items resulting from evaluation of business strategies, acquisitions and divestitures and organizational structure; (14) changes in accounting standards applicable to our business; and (15) the effects of changes in trade, monetary or fiscal policies and regulations by governments in countries where we do business.

Additional factors and assumptions that could generally cause our actual results to differ materially from those included in the forward-looking statements made herein include, without limitation, (1) our ability to develop and introduce new products; (2) the effects of general economic conditions in North America, Europe, Latin America or other countries where we do business, including inflation, labor costs and stock market volatility; (3) the effects of political or economic conditions, unrest or volatility in Latin America and other international markets; (4) the sufficiency of our production and distribution capacity to meet future demand for our products; (5) our ability to keep pace with the product and manufacturing technological standards in our industry; and (6) our ability to continue to penetrate and develop new distribution channels for our products. Other factors and assumptions not identified above were also involved in the derivation of the forward-looking statements contained in this Annual Report on Form 10-K and the failure of such other assumptions to be realized, as well as other factors, may

also cause actual results to differ materially from those projected. We assume no obligations to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

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ITEM 2. PROPERTIES

The following table sets forth information regarding our manufacturing sites:

| LOCATION ----- | PRODUCT MANUFACTURED ----- | OWNED/LEASED ----- | SQUARE FEET ----- |
|--|---|-----------------------|----------------------|
| NORTH AMERICA: | | | |
| Fennimore, WI..... | Alkaline batteries and RENEWAL rechargeable batteries | Owned | 176,000 |
| Portage, WI..... | Zinc air button cells; Lithium coin cells and alkaline computer batteries | Owned | 101,000 |
| Wonewoc, WI(1)..... | Battery-powered lighting products and lantern batteries | Leased | 90,000 |
| LATIN AMERICA: | | | |
| Mexico City, Mexico..... | Zinc carbon batteries | Owned | 103,000 |
| Guatemala City, Guatemala..... | Zinc carbon batteries | Owned | 105,000 |
| Santo Domingo, Dominican Republic..... | Zinc carbon batteries | Owned | 57,000 |
| Tegucigalpa, Honduras(2)..... | Zinc carbon batteries | Owned | 32,000 |
| EUROPE/ROW: | | | |
| Washington, UK..... | Zinc air button cells | Leased | 63,000 |

(1) In January 2001, we announced that we would be closing our lantern battery and flashlight assembly plant in Wonewoc, Wisconsin. This plant shutdown was completed in July 2001.

(2) In January 2001, we announced we would be closing our zinc carbon manufacturing plant in Tegucigalpa, Honduras. This plant shutdown was completed in March 2001 and the facility was sold in September 2001.

We also lease approximately 250,000 square feet of space in Madison, Wisconsin for our corporate headquarters and technology center.

From fiscal 1997 through fiscal 2001 we have invested in improvements to our major battery facilities. During this period, we invested over \$29 million for new technology, modernization and capacity expansion at our Fennimore, Wisconsin, plant. In addition, in late 1999 and 2001 we installed new AA high speed manufacturing lines in our Fennimore, Wisconsin, manufacturing plant. Additional investments in zinc air battery production have helped us to increase output and precision of assembly as well as to increase the capacity of critical component manufacturing. Our investments in lithium battery production have been used to build capacity for certain lithium coin cells. As part of our 1998 restructuring plans, our Madison, Wisconsin, plant phased out the manufacture of heavy duty batteries, which are now sourced instead from Rayovac Latin American manufacturing facilities and outside suppliers. During fiscal 1999, we closed our Appleton, Wisconsin, plant and moved the operations to Portage, Wisconsin. The Appleton facilities were sold during fiscal 2000 and fiscal 2001. In November 1999 we discontinued the manufacturing operations at our Valencia, Venezuela, facility and transferred the production to our Mexico facility. The Valencia, Venezuela, plant facility is currently held for sale. In March 2001 we discontinued the manufacturing operations at our Tegucigalpa, Honduras manufacturing facility and sold the property in September 2001. During fiscal

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2001, we discontinued lantern battery and flashlight assembly at our Wonewoc, Wisconsin, facility.

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The following table sets forth information regarding Rayovac's packaging and distribution sites by segment:

| LOCATION ----- | OWNED/LEASED ----- | SQUARE FEET ----- |
|-----------------------------------|-----------------------|----------------------|
| NORTH AMERICA: | | |
| Madison, WI..... | Owned | 158,000 |
| Middleton, WI..... | Leased | 220,000 |
| Lavergne, TN..... | Leased | 65,000 |
| Hayward, CA..... | Leased | 38,000 |
| Mississauga, Ontario, Canada..... | Leased | 32,000 |
| LATIN AMERICA: | | |
| Chiquimula, Guatemala..... | Leased | 6,000 |
| Guatemala City, Guatemala..... | Leased | 30,000 |
| Quetzaltenango, Guatemala..... | Leased | 5,000 |
| San Jose, Costa Rica..... | Leased | 11,000 |
| San Miguel, El Salvador..... | Leased | 10,000 |
| San Pedro Sula, Honduras..... | Leased | 13,000 |
| Santa Tecla, El Salvador..... | Leased | 15,000 |
| Tegucigalpa, Honduras..... | Leased | 14,000 |
| EUROPE/ROW: | | |
| Billinghausen, Germany..... | Owned | 5,000 |

We believe that our facilities, in general, are adequate for our present and currently foreseeable needs.

ITEM 3. LEGAL PROCEEDINGS

We are subject to litigation from time to time in the ordinary course of business. Although the amount of any liability with respect to such litigation 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.

Our facilities are subject to a broad range of federal, state, local and foreign laws and regulations relating to the environment, including those governing discharges to the air and water and land, 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 and at off-site disposal locations. We have a proactive environmental management program that includes the use of periodic environmental audits to detect and correct practices that may violate environmental laws or that are inconsistent with best management practices. Based on information currently available to our management, we believe that we are substantially in compliance with applicable environmental regulations at our facilities. There are no pending proceedings against us alleging that we are or have been in violation of environmental laws, and we are not aware of any such proceedings contemplated by governmental authorities. We are, however, subject to certain proceedings under CERCLA or analogous state laws, as described below.

We have from time to time been required to address the effect of historic

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activities on the environmental condition of our properties, including without limitation, the effect of releases from underground storage tanks. Several of our facilities have been in operation for decades and are constructed on fill that includes, among other materials, used batteries containing various heavy metals. 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

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investigative or remedial projects at a few of our facilities, we do not expect that such projects will cause us to incur material expenditures.

Our former manganese processing facility in Covington, Tennessee was accepted into TDEC's Voluntary Cleanup, Oversight and Assistance Program 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 pursuant to the post-closure maintenance of solid waste at the facility, and recent 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, on February 9, 2001, the Wisconsin Department of Natural Resources approved our request to proceed under Wisconsin's Voluntary Party Liability Exemption program to investigate and, if necessary, remediate environmental matters at our Wonewoc, Wisconsin, manufacturing facility. Investigative work to date suggests there may be battery materials containing various heavy metals in fill on the property. However, we do not expect this matter to result in material expenditures.

We are also subject to proceedings related to our disposal of industrial and hazardous waste at off-site disposal locations, under CERCLA or analogous state laws that hold persons who "arranged for" the disposal or treatment of such substances strictly liable for the costs incurred in responding to the release or threatened release of hazardous substances from such sites. Current and former owners and operators of such sites, and transporters of waste who participated in the selection of such sites, are also strictly liable for such costs. Liability under CERCLA is "joint and several," so that a responsible party under CERCLA theoretically may be held liable for all of the costs incurred at a particular site. However, as a practical matter, liability at such sites generally is allocated among all of the viable responsible parties. Some of the most significant factors for allocating liabilities to persons that disposed of wastes at Superfund sites are the relative volume of waste such persons sent to the site and the toxicity of such waste. We do not believe that any of our pending proceedings under CERCLA or analogous state laws will have a material impact on our operations, financial condition or liquidity, and we are not aware of any such matters contemplated by governmental agencies that will have such an impact.

As of September 30, 2001, we have reserved approximately \$2.0 million for known on-site and off-site environmental liabilities. We believe these reserves are adequate, although there can be no assurance that this amount will ultimately be adequate to cover such environmental liabilities. We may also be named as a potentially responsible party at additional sites in the future, and

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the costs associated with such additional or existing sites may be material. In addition, certain of our facilities have been in operation for decades and, over such time, we and other prior operators of such facilities have generated and disposed of wastes utilized in the battery manufacturing process which are or may be considered hazardous, such as cadmium and mercury.

On April 11, 2001, Eveready Battery Company, Inc. filed a complaint against us in U.S. District Court for the Northern District of Ohio, Eastern Division, alleging that we have infringed on a patent held by Eveready relating to alkaline batteries that are substantially free of mercury. We were served with the complaint in August 2001. Eveready is seeking injunctive relief as well as treble damages and other costs and expenses. We have answered the complaint and have denied all material allegations as we believe we have meritorious defenses. The case is in its early stages with trial scheduled in

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February 2003, and we intend to vigorously defend our position. We cannot estimate at this time the effect, if any, that this claim may have on our business or financial condition.

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

The Annual Meeting of Shareholders of the Company was held on July 31, 2001. The directors standing for election were elected in an uncontested election. The directors elected were John S. Lupo and Thomas R. Shepherd. Mr. Lupo received 24,285,270 votes in favor of his election and 604,761 votes were withheld. Mr. Shepherd received 24,258,227 votes in favor of his election and 631,804 votes were withheld. 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: 24,834,763; Against: 52,583; Abstained; 2,685. Finally, the Company submitted for approval the 1997 Rayovac Incentive Plan, as amended. The vote in favor of approval was: For: 16,754,583; Against: 6,467,158; Abstained 5,993.

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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 November 30, 2001, there were approximately 259 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 2001 | | |
| Quarter ended December 31, 2000..... | \$18.81 | \$11.69 |
| Quarter ended April 1, 2001..... | \$20.78 | \$13.63 |
| Quarter ended July 1, 2001..... | \$25.25 | \$16.93 |
| Quarter ended September 30, 2001..... | \$23.50 | \$12.60 |
| FISCAL 2000 | | |

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| | | |
|---------------------------------------|---------|---------|
| Quarter ended January 2, 2000..... | \$26.75 | \$16.88 |
| Quarter ended April 2, 2000..... | \$26.00 | \$17.25 |
| Quarter ended July 2, 2000..... | \$24.50 | \$16.88 |
| Quarter ended September 30, 2000..... | \$29.13 | \$16.88 |

We have not declared or paid and 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 Amended Credit Agreement restricts 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.

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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 the information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

| | FISCAL YEAR ENDED SEPTEMBER 30, | | | |
|--|--------------------------------------|---------|----------|---------|
| | 1997 | 1998 | 1999 | 2000 |
| | (IN MILLIONS, EXCEPT PER SHARE DATA) | | | |
| STATEMENT OF OPERATIONS DATA: | | | | |
| Net sales..... | \$427.2 | \$487.4 | \$ 555.1 | \$693.3 |
| Cost of goods sold(1)..... | 235.0 | 258.3 | 295.2 | 358.2 |
| Gross profit..... | 192.2 | 229.1 | 259.9 | 335.1 |
| Selling expense..... | 116.7 | 140.6 | 151.0 | 184.5 |
| General and administrative expense..... | 28.6 | 32.4 | 37.4 | 50.5 |
| Research and development expense..... | 9.4 | 9.4 | 9.8 | 10.8 |
| Recapitalization and other special charges (2) (3) (4) (5)..... | 3.0 | 6.2 | 8.1 | -- |
| Income from operations(6)..... | 34.5 | 40.5 | 53.6 | 89.3 |
| Interest expense..... | 24.5 | 15.7 | 16.3 | 30.6 |
| Other expense (income), net..... | 0.4 | (0.2) | (0.3) | 0.7 |
| Income before income taxes and extraordinary item..... | 9.6 | 25.0 | 37.6 | 58.0 |
| Income tax expense..... | 3.4 | 8.6 | 13.5 | 19.6 |
| Income before extraordinary item..... | 6.2 | 16.4 | 24.1 | 38.4 |
| Extraordinary item(7)..... | -- | (2.0) | -- | -- |
| Net income..... | \$ 6.2 | \$ 14.4 | \$ 24.1 | \$ 38.4 |
| Basic net income per common share before extraordinary item..... | \$ 0.30 | \$ 0.62 | \$ 0.88 | \$ 1.39 |

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| | | | | |
|---|---------|---------|---------|---------|
| Diluted net income per common share before extraordinary item..... | \$ 0.30 | \$ 0.58 | \$ 0.83 | \$ 1.32 |
| | ===== | ===== | ===== | ===== |
| Basic net income per common share..... | \$ 0.30 | \$ 0.54 | \$ 0.88 | \$ 1.39 |
| | ===== | ===== | ===== | ===== |
| Diluted net income per common share..... | \$ 0.30 | \$ 0.51 | \$ 0.83 | \$ 1.32 |
| | ===== | ===== | ===== | ===== |
| Weighted average common shares..... | 20.5 | 26.5 | 27.5 | 27.5 |
| Weighted average common and common equivalent shares..... | 20.6 | 28.1 | 29.2 | 29.1 |
| OTHER FINANCIAL DATA: | | | | |
| Depreciation..... | \$ 11.3 | \$ 10.9 | \$ 11.9 | \$ 16.0 |
| Capital expenditures..... | 10.9 | 15.9 | 24.1 | 19.0 |
| Cash flows from operating activities..... | 35.9 | (1.9) | 13.3 | 32.8 |
| Cash flows from investing activities..... | (10.8) | (23.4) | (169.2) | (17.9) |
| Cash flows from financing activities..... | (28.2) | 25.8 | 165.3 | (16.0) |
| EBITDA(8)..... | 45.5 | 53.0 | 67.4 | 108.6 |

FISCAL YEAR ENDED SEPTEMBER 30,

| ----- | ----- | ----- | ----- | ----- |
|-------|-------|-------|-------|-------|
| 1997 | 1998 | 1999 | 2000 | |
| ----- | ----- | ----- | ----- | ----- |

(IN MILLIONS)

BALANCE SHEET DATA:

| | | | | |
|-------------------------------------|---------|---------|---------|---------|
| Working capital..... | \$ 33.8 | \$ 81.6 | \$104.4 | \$104.7 |
| Total assets..... | 236.3 | 283.9 | 532.9 | 569.0 |
| Total debt..... | 207.3 | 152.3 | 330.3 | 317.6 |
| Shareholders' (deficit) equity..... | (80.6) | 21.9 | 46.5 | 80.7 |

-
- (1) In the fiscal year ended September 30, 1999, the Company recorded \$1.3 million in special charges in cost of goods sold related to the discontinuation of silver cell manufacturing at the Company's

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Portage, Wisconsin facility. In the fiscal year ended September 30, 2001, the Company recorded \$22.1 million in special charges in cost of goods sold related to (i) an organizational restructuring in the U.S, (ii) manufacturing and distribution cost rationalization initiatives in the Company's Tegucigalpa, Honduras and Mexico City, Mexico manufacturing facilities and in our European operations, (iii) the closure of the Company's Wonewoc, Wisconsin, manufacturing facility, (iv) and the rationalization of uneconomic manufacturing processes at the Company's Fennimore, Wisconsin, manufacturing facility, and rationalization of packaging operations and product lines. The amount recorded includes \$10.1 million of employee termination benefits for approximately 570 employees, \$10.2 million of equipment, inventory, and other asset write-offs, and \$1.8 million of other expenses.

- (2) In the fiscal year ended September 30, 1997, the Company recorded other special charges of \$5.9 million offset by a special credit of \$2.9 million which was related to the curtailment of the Company's defined benefit pension plan covering all domestic non-union employees. The special charges related to organizational restructuring in the United States, the discontinuation of certain manufacturing operations at the Company's Newton

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Aycliffe, United Kingdom facility and the discontinuation of operations at the Company's facility in Kinston, North Carolina.

- (3) In the fiscal year ended September 30, 1998, the Company recorded net special charges of \$6.2 million including (i) \$2.0 million associated with consolidating domestic battery packaging operations and outsourcing the manufacture of heavy duty batteries, (ii) \$2.2 million associated with closing the Company's Appleton, Wisconsin manufacturing plant and consolidating it into its Portage, Wisconsin manufacturing plant, (iii) \$5.3 million associated with closing the Company's Newton Aycliffe, United Kingdom facility, phasing out direct distribution in the United Kingdom and closing one of the Company's German sales offices, (iv) a \$2.4 million gain on the sale of the Company's previously closed Kinston, North Carolina facility, (v) income of \$1.2 million in connection with the settlement of deferred compensation agreements with certain former employees, (vi) \$0.8 million associated with the secondary offering of Common Stock (the "Secondary Offering") which was completed in June 1998, and (vii) miscellaneous credits of \$0.4 million.
- (4) In the fiscal year ended September 30, 1999, the Company recorded special charges of \$8.1 million including (i) \$2.5 million of employee termination benefits related to organizational restructuring, (ii) \$2.1 million of charges associated with the termination of non-performing foreign distributors and exiting the respective territory, (iii) \$1.9 million of costs related to the previously announced closing of the Appleton, Wisconsin facility, (iv) \$0.8 million related to the closing of the Newton Aycliffe, United Kingdom facility, and (v) \$0.8 million of one-time expenses associated with the Latin American acquisition.
- (5) In the fiscal year ended September 30, 2001, the Company recorded special charges of \$0.2 million attributable to our secondary offering of Common Stock in June 2001.
- (6) Income from operations includes expenses related to other special charges in the fiscal years ended September 30, 1997, 1998, 1999 and 2001. Income from operations before these non-recurring charges was as follows:

| | FISCAL YEAR ENDED SEPTEMBER 30, | | | |
|--|---------------------------------|--------|--------|--------|
| | 1997 | 1998 | 1999 | 2000 |
| | (IN MILLIONS) | | | |
| Income from operations..... | \$34.5 | \$40.5 | \$53.6 | \$89.3 |
| Other special charge portion of cost of goods sold..... | -- | -- | 1.3 | -- |
| Recapitalization and other special charges..... | 3.0 | 6.2 | 8.1 | -- |
| | ----- | ----- | ----- | ----- |
| Income from operations before non-recurring charges..... | \$37.5 | \$46.7 | \$63.0 | \$89.3 |
| | ===== | ===== | ===== | ===== |

- (7) In the fiscal year ended September 30, 1998, the Company recorded extraordinary expense of \$2.0 million, net of income taxes, for the premium on the repurchase or redemption of the senior term notes in connection with the Company's initial public offering ("IPO") completed in November 1997. In the fiscal year ended September 30, 2001, the Company recorded extraordinary

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expense of \$5.4 million, net of income taxes, for the premium on the repurchase of \$64.8 million Senior B Subordinated Notes and related write-off of unamortized debt issuance costs.

- (8) EBITDA represents income from operations plus other (income) expense, net plus depreciation and amortization (excluding amortization of debt issuance costs). The Company believes that EBITDA and related measures are commonly used by certain investors and analysts to analyze and compare, and provide useful information regarding, the Company's ability to service its indebtedness. However, the following factors should be considered in evaluating such measures: EBITDA and related measures (i) should not be considered in isolation, (ii) are not measures of performance calculated in accordance with generally accepted accounting principles ("GAAP"), (iii) should not be construed as alternatives or substitutes for income from operations, net income or cash flows from operating activities in analyzing the Company's operating performance, financial position or cash flows (in each case, as determined in accordance with GAAP) and (iv) should not be used as indicators of the Company's operating performance or measures of its liquidity. Additionally, because all companies do not calculate EBITDA and related measures in a uniform fashion, the calculations presented herein may not be comparable to other similarly titled measures of other companies.

EBITDA includes expenses related to other special charges in the fiscal years ended September 30, 1997, 1998, 1999 and 2001. EBITDA before these non-recurring charges was as follows:

| | FISCAL YEAR ENDED SEPTEMBER 30, | | | | |
|--|---------------------------------|--------|--------|---------|--------|
| | 1997 | 1998 | 1999 | 2000 | 2001 |
| | (IN MILLIONS) | | | | |
| EBITDA..... | \$45.5 | \$53.0 | \$67.4 | \$108.6 | \$74.5 |
| Other special charges portion of cost of goods sold..... | -- | -- | 1.3 | -- | 22.1 |
| Recapitalization and other special charges..... | 3.0 | 6.2 | 8.1 | -- | 0.2 |
| EBITDA before non-recurring charges..... | \$48.5 | \$59.2 | \$76.8 | \$108.6 | \$96.8 |

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

You should read the following discussion in conjunction with the "Selected Financial Data" and our consolidated financial statements and the related notes thereto in the "Financial Statements" section of this report. Certain prior year amounts have been reclassified to conform to current year presentation.

INTRODUCTION

Our operating performance depends upon a number of factors. The most important of these factors are:

- general economic conditions, specifically how it may impact the consumer product category;
- general retailing trends, especially in the mass merchandiser segment of

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the retail market;

- our overall product mix among various specialty and general household batteries and battery-powered lighting devices, which sell at different price points and profit margins;
- our overall competitive position, which is affected by both our and our competitors' introduction of new products and promotions and our relative pricing and battery performance; and
- changes in operating expenses.

We manage our business according to the following geographic areas:
(1) North America, which includes the United States and Canada (2) Latin America, which includes Mexico, Central America,

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South America and the Caribbean and (3) Europe/Rest of World ("Europe/ROW"), which includes the United Kingdom, Europe, and all other countries in which we do business.

Set forth below are specific developments that have affected and may continue to affect our performance.

INVESTMENT IN FUTURE GROWTH OPPORTUNITIES. Since our 1996 recapitalization, we have undertaken significant measures to pursue growth opportunities and increase market share for our products worldwide. These measures include (1) acquiring the consumer battery operations of ROV Limited in Latin America and the Rayovac brand rights for battery products worldwide, with the exception of Brazil, (2) developing new markets for our hearing aid battery products through the acquisitions of Brisco and the battery distribution business of Best Labs in 1998, (3) expanding distribution by gaining new customers and increasing products sold to existing customers.

RESTRUCTURING OPERATIONS AND OTHER COST RATIONALIZATION INITIATIVES. In December 2000, we announced a series of initiatives to improve operational efficiencies, match manufacturing capacity to market demands, and better utilize the Company's resources. These initiatives included (1) the closure of our lantern battery and flashlight assembly plant in Wonewoc, Wisconsin, (2) the outsourcing of certain manufacturing operations at the Company's Fennimore, Wisconsin plant to accommodate the installation of a new high speed AA size alkaline battery line, (3) rationalization of certain packaging operations and product lines, (4) the closure of our zinc carbon manufacturing operations in Tegucigalpa, Honduras, (5) restructuring of our Mexico and European manufacturing and distribution operations and (6) the implementation of an administrative realignment, primarily in the U.S. and Latin America.

EXPANSION OF PRODUCTION CAPACITY. In fiscal 1999 and 2001, we installed new high speed manufacturing lines to increase our capacity for alkaline AA size batteries at a cost of approximately \$21.0 million. In fiscal 1999, we also completed a 39,000 square foot expansion of our Portage, Wisconsin facility and consolidated our Appleton, Wisconsin manufacturing operations into it. We continue to compare our global production requirements against our global manufacturing capacity to improve the efficiency of our operations.

COMPETITIVE POSITION. Duracell and Energizer have introduced new lines of premium-priced alkaline batteries positioned as providing increased performance over their respective regular branded products in certain high-drain battery-powered devices, including digital cameras and palm-sized computers. In this regard, Duracell introduced its Duracell Ultra product in 1998 and Energizer introduced its Energizer e2 product in 2000. These products are priced

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at a significant premium to standard alkaline products, as well as to Duracell's and Energizer's regular battery brands. To date, Duracell's initiative does not appear to have increased total Duracell market share as Duracell Ultra gains appear to have been offset by losses in the regular Duracell line, and Energizer's e2 product has captured a very small share of the U.S. alkaline battery market.

We compete in this premium battery segment with our rechargeable nickel metal hydride batteries. As these batteries can provide twice the performance of premium-priced alkaline batteries in selected high-drain devices, such as digital cameras, many manufacturers of these high-drain devices recommend nickel metal hydride batteries over alkaline. This has led to growth for the nickel metal hydride segment and for our batteries in particular.

Energizer has also increased efforts to obtain distribution behind a price brand marketed as Eveready Alkaline, which competes primarily on price. This initiative has been in place in Canada for a number of years with limited success, and the current effort to expand in the U.S. has gained only limited distribution and market share.

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Internationally, the general battery market is as highly competitive as, and has a greater number of competitors than the U.S. market. Competition is centered around pricing, product performance, and promotion and distribution strategies.

SEASONAL PRODUCT SALES

Our sales are seasonal. Our highest sales typically occur in the fiscal quarter ending on or about December 31 during the holiday season. In the quarter ending September 30, 1999, our sales, for the first time, included approximately \$15.8 million of sales from the consumer battery business we acquired from ROV Limited. Our lowest sales occur in the fiscal quarter ending on or about March 31. During the past three completed fiscal years, our sales in the quarter ended on or about December 31 have represented an average of 29% of annual net sales. As a result of this seasonality, our working capital requirements and revolving credit borrowings are typically higher in the third and fourth calendar quarters of each year. The following table sets forth our net sales for each of the periods presented.

| FISCAL QUARTER ENDED | FISCAL YEAR (IN MILLIONS) | | |
|----------------------|------------------------------|---------|---------|
| ----- | 1999 | 2000 | 2001 |
| December..... | \$157.5 | \$211.4 | \$183.6 |
| March..... | 108.9 | 140.1 | 145.2 |
| June..... | 118.8 | 150.3 | 159.1 |
| September..... | 169.9 | 191.5 | 187.6 |

RESULTS OF OPERATIONS

The following table sets forth the percentage relationship of certain items in our statement of operations to net sales for the periods presented:

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| | FISCAL YEAR ENDED SEPTEMBER 30 | | |
|---|-----------------------------------|--------|--------|
| | 1999 | 2000 | 2001 |
| Net Sales..... | 100.0% | 100.0% | 100.0% |
| Cost of goods sold..... | 53.0 | 51.7 | 51.2 |
| Special charges..... | 0.2 | -- | 3.3 |
| Gross profit..... | 46.8 | 48.3 | 45.5 |
| Selling expenses..... | 27.2 | 26.6 | 28.5 |
| General and administrative expense..... | 6.7 | 7.3 | 7.1 |
| Research and development expenses..... | 1.8 | 1.5 | 1.8 |
| Special charges..... | 1.4 | -- | -- |
| Income from operations..... | 9.7% | 12.9% | 8.1% |

FISCAL YEAR ENDED SEPTEMBER 30, 2001 COMPARED TO FISCAL YEAR ENDED
SEPTEMBER 30, 2000

HIGHLIGHTS OF CONSOLIDATED OPERATING RESULTS

NET SALES. Our net sales decreased \$17.8 million, or 2.6%, to \$675.5 million in fiscal 2001 from \$693.3 million the prior year. Increases in alkaline and hearing aid battery sales were offset by decreased specialty battery sales and lighting products sales.

NET INCOME. Our net income for fiscal 2001 decreased \$26.9 million, or 70.0%, to \$11.5 million from \$38.4 million the previous year. The decrease reflects the impact of a \$22.3 million pretax restructuring charge, a \$5.4 million extraordinary loss, net of tax, and sales softness in North America and Europe/ROW.

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SEGMENT RESULTS. We evaluate segment profitability based on income from operations before special charges and corporate expense, which includes corporate purchasing expense, general and administrative expense and research and development expense. All depreciation and amortization included in income from operations is related to a segment. Total segment assets are set forth in Note 12 of Notes to Consolidated Financial Statements filed herewith.

NORTH AMERICA

| | 2000 | 2001 |
|--|---------|---------|
| | ----- | ----- |
| Revenue from external customers..... | \$528.3 | \$505.0 |
| Profitability..... | 95.3 | 83.1 |
| Profitability as a % of net sales..... | 18.0% | 16.5% |

Our revenue from external customers decreased \$23.3 million, or 4.4%, to \$505.0 million in fiscal 2001 from \$528.3 million the previous year due primarily to increased sales of alkaline batteries and hearing aid batteries offset by decreased sales of lighting products and specialty batteries.

Alkaline sales increases of \$9.8 million, or 3.2% were driven by distribution gains, product line expansion, and strong sales in the mass merchandiser and OEM trade channels partially offset by the impacts of Y2K on

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sales volumes and lower promotional activity at certain food retailers this year. Hearing aid battery sales increases of \$5.6 million, or 13.8%, were driven by strength in the professional channel and expanded retail distribution in fiscal 2001. Lighting product sales decreases of \$16.1 million, or 21.5%, were driven by weakness in the lights and lantern battery category reflecting the lingering impact of the Y2K phenomenon and a quiet hurricane season compared to the previous year. Specialty battery sales decreases versus last year primarily reflect softness in camcorder and lithium battery sales reflecting general softness in lithium battery demand from OEM customers in the PC, telecommunications, and electronics industries and the transition to the camcorder battery licensing agreement.

Our profitability decreased \$12.2 million, or 12.8%, to \$83.1 million in fiscal 2001 from \$95.3 million the previous year. This decrease was primarily attributable to sales volume decreases and operating expense increases partially offset by improved gross profit margins. The operating expense increases were primarily driven by increased distribution costs reflecting fuel surcharges, higher shipping and handling costs and bad debt write-offs due to customer bankruptcies. The improvement in gross profit margins was primarily the result of previously announced cost rationalization initiatives and a favorable shift in product mix away from lower margin lithium, camcorder, and lighting products to more profitable alkaline and hearing aid batteries.

LATIN AMERICA

| | 2000 | 2001 |
|--|---------|---------|
| Revenue from external customers..... | \$112.2 | \$119.7 |
| Profitability..... | 20.3 | 16.9 |
| Profitability as a % of net sales..... | 18.1% | 14.1% |

Our revenue from external customers increased \$7.5 million, or 6.7%, to \$119.7 million in fiscal 2001 from \$112.2 million the previous year due primarily to increased sales of alkaline batteries partially offset by lower sales of zinc carbon batteries and unfavorable impacts of currency devaluation of \$1.7 million.

The alkaline sales growth in Latin America primarily reflects new distribution in mass merchandiser chains compounded by the expansion into the Southern region of South America. Heavy duty sales were affected by a slowing economic environment and the impact of currency devaluation.

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Our profitability decreased \$3.4 million, or 16.8%, to \$16.9 million in fiscal 2001 from \$20.3 million the previous year. This decrease was primarily attributable to operating expense increases partially offset by improved gross profit margins. The operating expense increases were primarily driven by increased promotional and marketing support associated with new distribution initiatives in the Southern region and higher operating expenses associated with our expansion at larger mass merchandiser chains in Mexico.

EUROPE/ROW

| | 2000 | 2001 |
|--|------|------|
|--|------|------|

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| | | |
|--|--------|--------|
| Revenue from external customers..... | \$52.8 | \$50.8 |
| Profitability..... | 6.1 | 4.1 |
| Profitability as a % of net sales..... | 11.6% | 8.1% |

Our revenue from external customers decreased \$2.0 million, or 3.8%, to \$50.8 million in fiscal 2001 from \$52.8 million the previous year, due primarily to the unfavorable impacts of currency devaluation of \$3.4 million. Excluding the negative impact of currency devaluation net sales increased 2.7% reflecting sales increases in hearing aid and alkaline batteries. Alkaline battery sales increases were driven primarily by new distribution.

Our profitability decreased \$2.0 million, or 32.8%, due primarily to lower gross profit margins attributable to an unfavorable product mix and increased operating expenses attributable to our new distribution.

CORPORATE EXPENSE. Our corporate expense decreased \$5.0 million, or 15.4%, to \$27.4 million in fiscal 2001 from \$32.4 million the prior year. As a percentage of total sales, our corporate expense was 4.0% compared to 4.8% in the previous year. These decreases were primarily due to lower management incentives and legal expenses partially offset by higher research and development expenses reflecting an increase in technology spending.

SPECIAL CHARGES. We recorded special charges related to: (i) an organizational restructuring in the U.S, (ii) manufacturing and distribution cost rationalization initiatives in the Company's Tegucigalpa, Honduras and Mexico City, Mexico manufacturing facilities and in our European operations, (iii) the closure of the Company's Wonewoc, Wisconsin, manufacturing facility, (iv) the rationalization of uneconomic manufacturing processes at the Company's Fennimore, Wisconsin, manufacturing facility, and rationalization of packaging operations and product lines, (v) and costs associated with our public stock offering in June 2001. The amount recorded includes \$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

INCOME FROM OPERATIONS. Our income from operations decreased \$34.9 million, or 39.1%, to \$54.4 million in fiscal 2001 from \$89.3 million the previous year. This decrease was primarily due to special charges of \$22.3 million and decreased profitability attributable to sales volume decreases.

INTEREST EXPENSE. Interest expense decreased \$3.4 million, or 11.1%, to \$27.2 million in fiscal 2001 from \$30.6 million in the prior year primarily due to lower effective interest rates and the redemption of the majority of our subordinated debt in June 2001.

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INCOME TAX EXPENSE. Our effective tax rate for fiscal 2001 was 35.4% compared to 33.8% for fiscal 2000. The higher rate for fiscal 2001 primarily reflects a higher foreign tax rate attributable to increased tax rates in certain Latin America countries and startup losses in the Southern region of South America not fully benefited.

EXTRAORDINARY ITEM. We recorded extraordinary expense of \$5.4 million, net of tax, resulting from the premium on the repurchase of \$64.8 million of Senior B Subordinated Notes and the related write-off of unamortized debt issuance costs.

FISCAL YEAR ENDED SEPTEMBER 30, 2000 COMPARED TO FISCAL YEAR ENDED

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SEPTEMBER 30, 1999

HIGHLIGHTS OF CONSOLIDATED OPERATING RESULTS

NET SALES. Our net sales increased \$138.2 million, or 24.9%, to \$693.3 million in fiscal 2000 from \$555.1 million in the prior year. Significant sales gains reflected the full year impact of the ROV Limited acquisition and strong sales increases in alkaline and rechargeable batteries in North America partially offset by decreased sales of hearing aid batteries.

NET INCOME. Our net income for fiscal 2000 increased \$14.3 million, or 59.3%, to \$38.4 million from \$24.1 million the previous year. This increase is due primarily to the impact of increased sales, primarily reflecting the full year impact of the ROV Limited acquisition, improved gross profit margins, lower operating expenses as a percentage of net sales partially offset by higher interest expense and unfavorable foreign exchange. The improvement in gross profit margins is primarily attributed to previously announced cost rationalization initiatives, a favorable shift in product mix, and absence of special charges in fiscal 2000.

NORTH AMERICA

| | 1999 | 2000 |
|--|---------|---------|
| Revenue from external customers..... | \$471.6 | \$528.3 |
| Profitability..... | 77.8 | 95.3 |
| Profitability as a % of net sales..... | 16.5% | 18.0% |

Our revenue from external customers increased \$56.7 million, or 12.0%, to \$528.3 million in fiscal 2000 from \$471.6 million the previous year due primarily to increased sales of alkaline, rechargeable, and heavy duty batteries partially offset by softness in hearing aid battery sales. Alkaline sales increases of \$50.5 million, or 19.8%, were driven by strong promotional programs, new customers, expanded distribution with existing customers, and the favorable impact of price increases. Rechargeable sales increases of \$6.9 million, or 30.2%, were primarily driven by the introduction of nickel metal hydride (NiMh) rechargeable batteries at a major mass merchandiser. Heavy duty sales increases of \$3.1 million, or 8.7%, reflect the full year impact of gaining exclusivity at a major mass merchandiser. Sales of hearing aid batteries decreased \$3.3 million, or 7.6%, primarily as the result of planned inventory reduction at several professional and retail distribution accounts, a reduction in promotional programs, and softness in the hearing aid device market.

Our profitability increased \$17.5 million, or 22.5%, to \$95.3 million in fiscal 2000 from \$77.8 million the previous year. This increase was primarily attributed to sales volume increases, improved gross profit margins and operating expenses that decreased as a percentage of sales. The improvement in gross profit margins was primarily the result of previously announced cost rationalization initiatives and a shift in product mix. Operating expenses decreased as a percentage of sales primarily reflecting a gain recognized on the sale of certain camcorder battery assets and corresponding license to utilize the "Rayovac" trade name offset by higher promotional and distribution expenses.

LATIN AMERICA

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| | 1999 | 2000 |
|--|--------|---------|
| | ----- | ----- |
| Revenue from external customers..... | \$19.3 | \$112.2 |
| Profitability..... | 3.5 | 20.3 |
| Profitability as a % of net sales..... | 18.1% | 18.1% |

In August 1999, we acquired the consumer battery business of ROV Limited in Latin America. ROV Limited was our customer before the acquisition. Total revenue for the region for fiscal 1999 includes two months of sales for the Latin American business and ten months of sales to ROV Limited as an external customer. The fiscal 1999 and fiscal 2000 sales in the region are predominantly heavy duty batteries.

The sales growth in Latin America primarily reflects the full year impact of the Latin America business, new distribution in Mexico, Central America, and the southern region of South America, price increases in certain countries implemented in the second quarter, and distribution of alkaline batteries and lighting products in mass merchandiser chains.

Our profitability was \$20.3 million, which was 18.1% of net sales for fiscal 2000. Our operating expense in Latin America was lower, as a percent of sales, than in North America. This difference is attributed primarily to spending less in marketing and advertising as a result of selling less alkaline and more heavy duty batteries.

EUROPE/ROW

| | 1999 | 2000 |
|--|--------|--------|
| | ----- | ----- |
| Revenue from external customers..... | \$64.2 | \$52.8 |
| Profitability..... | 9.9 | 6.1 |
| Profitability as a % of net sales..... | 15.4% | 11.6% |

Our revenue from external customers decreased \$11.4 million, or 17.8%, to \$52.8 million in fiscal 2000 from \$64.2 million the previous year due primarily to the impacts of currency devaluation, the exit of certain private label alkaline battery business in Europe, the termination of certain non-performing foreign distributors, and sales volume softness in Europe negatively impacting our hearing aid and watch battery business.

Our profitability decreased \$3.8 million, or 38.4%, to \$6.1 million reflecting the impact of currency devaluation and higher operating expenses as a percentage of sales partially offset by a favorable shift in product mix away from our lower margin private label alkaline battery business.

CORPORATE EXPENSE. Our corporate expense increased \$4.2 million, or 14.9%, to \$32.4 million in fiscal 2000 from \$28.2 million the prior year. These increases were primarily due to increased travel expense, higher legal fees primarily attributable to our patent infringement lawsuit, higher professional expenses, and increased research and development expenses. As a percentage of total sales, our corporate expense was 4.7% compared to 5.1% in the previous year.

SPECIAL CHARGES. In fiscal 2000 we recorded no special charges.

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In fiscal 1999, we recorded special charges of \$8.1 million in addition to the \$1.3 million recorded in cost of sales. The \$8.1 million includes (1) \$2.5 million associated with restructuring the organization to streamline and better serve global markets and operating efficiencies, (2) \$2.1 million associated with the termination of non-performing foreign distributors and exiting the respective territory, (3) \$1.9 million of cost associated with the previously announced closing of our Appleton, Wisconsin plant and its consolidation into our Portage, Wisconsin facility, (4) \$0.8 million of cost associated with

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the closing of our Newton Aycliffe, United Kingdom, facility, and (5) \$0.8 million of one-time expenses associated with the Latin American acquisition.

INCOME FROM OPERATIONS. Our income from operations increased \$35.7 million, or 66.6%, to \$89.3 million in fiscal 2000 from \$53.6 million the previous year. This increase was primarily due to increased sales primarily reflecting the Latin America acquisition and a strong North America business, increased gross profit, and lower special charges partially offset by increased operating expenses.

INTEREST EXPENSE. Interest expense increased \$14.2 million, or 86.6%, to \$30.6 million in fiscal 2000 from \$16.4 million in the prior year primarily due to financing costs associated with the Latin America acquisition and higher general market interest rates.

INCOME TAX EXPENSE. Our effective tax rate for fiscal 2000 was 33.8% compared to 35.8% for fiscal 1999. The rate in the current year was impacted by a lower foreign tax rate primarily reflecting the impact of the Latin America business.

LIQUIDITY AND CAPITAL RESOURCES

For fiscal 2001, our operating activities generated \$18.0 million of cash, compared to \$32.8 million in fiscal 2000, a decrease of \$14.8 million. Operating cash flow before working capital requirements decreased \$7.2 million, or 11.5%, to \$55.7 million from \$62.9 million in the prior year primarily reflecting the sales volume shortfall and cash restructuring costs. Working capital increases in fiscal 2001 were \$7.6 million more than in the previous year primarily reflecting higher receivables attributable to Latin America and North America partially offset by lower inventory investment attributable to a reduction in production attributable to sales volume shortfalls. Cash costs associated with our previously announced restructuring activities have been, and are expected to be, funded with cash provided from operating activities.

Capital expenditures for fiscal 2001 were \$19.7 million, an increase of \$0.7 million from fiscal 2000. Capital expenditures for fiscal 2001 primarily reflect spending for a new alkaline line installed in fiscal 2001. Capital expenditures for fiscal 2002 are expected to be approximately \$20.0 million which will include continued performance upgrades to our alkaline and zinc air manufacturing and packaging operations and continued investment in technology.

The amended credit facilities we obtained in August 1999 replaced our existing credit facilities with a \$250.0 million five-year revolving credit facility and a \$75.0 million five-year amortizing term loan. The term facility provides for quarterly amortization totaling \$10.0 million in 2000, \$15.0 million in 2001, 2002, and 2003, and \$20.0 million in 2004. The term facility also provides for annual prepayments, over and above the normal amortization. Such payments would be a portion of "Excess Cash Flow" (EBITDA, as defined in the amended Second Amended and Restated Credit Agreement ("Third

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Amendment"), less certain operating expenditures including scheduled principal payments of long-term debt). The quarterly amortization is reduced prorata for the effect of prepayments made as a result of Excess Cash Flow. The fees associated with these amended facilities have been capitalized along with the fees for the existing facility and are being amortized over the term of the amended facilities. Indebtedness under these amended facilities is secured and is guaranteed by certain of our subsidiaries.

During fiscal 2001, our board of directors granted 857,250 options to purchase shares of our common stock to various members of management under the 1997 Rayovac Incentive Plan. All grants were at an exercise price equal to the market price of our common stock on the date of grant with prices ranging from \$14.06 to \$21.90 per share. We also granted approximately 277,000 shares of restricted stock on October 1, 2000, from the 1997 Rayovac Incentive Plan, to certain members of management. Restrictions as to approximately 210,000 of these shares will lapse on September 30, 2003 provided the recipient is still employed by us. The restrictions on the remaining shares lapse one third

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each September 30 of 2001, 2002, and 2003. The total market value of the restricted shares on date of grant totaled approximately \$4.7 million and has been recorded as unearned compensation as a separate component of shareholders' equity. Unearned compensation is being amortized to expense over the three-year vesting period.

We believe our cash flow from operating activities and periodic borrowings under our amended 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 facilities include a revolving credit facility of \$250.0 million and a \$75.0 million term loan. As of September 30, 2001, \$34.4 of the term loan was outstanding and \$213.2 million was outstanding under the revolving facility, with approximately \$11.1 million of the remaining availability utilized for outstanding letters of credit.

We are subject to various federal, state, local and foreign environmental laws and regulations in the jurisdictions in which we operate, including laws and regulations relating to discharges to air, water and land, the handling and disposal of solid and hazardous waste and the cleanup of properties affected by hazardous substances. We do not currently anticipate any material adverse effect on our operations or financial condition or any material capital expenditure as a result of our efforts to comply with environmental laws. As of September 30, 2001, we had reserved \$2.0 million for known on-site and off-site environmental liabilities. Some risk of environmental liability is inherent in our business; however, we cannot assure you that material environmental costs will not arise in the future. See "Legal Proceedings".

We engage in hedging transactions in the ordinary course of our business. See Note 2(r) to our consolidated financial statements.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2000, the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) reached a consensus on Issue No. 00-14, "Accounting for Certain Sales Incentives". This Issue addresses the recognition, measurement, and income statement classification for various types of sales incentives including discounts, coupons, rebates and free products. In July 2001, the EITF delayed the implementation of EITF 00-14 until no later than quarters beginning after December 15, 2001. We are required to adopt this consensus in the second fiscal quarter of 2002. The impact of this consensus on our consolidated financial statements is still being evaluated. We do not currently believe its

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adoption will have a material impact on the consolidated financial statements other than the reclassification of certain selling expenses to cost of sales or a reduction of revenue.

In April 2001, the EITF reached a consensus on Issue No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products". This Issue addresses when consideration from a vendor to a retailer or distributor in connection with the purchase of the vendor's products to promote sales of the vendor's products should be classified in the vendor's income statement as a reduction of revenue or expense. We are required to adopt this consensus in the second fiscal quarter of 2002. We do not currently believe its adoption will have a material impact on the consolidated financial statements, other than the reclassification of certain selling expenses to cost of sales or a reduction in revenue.

In July 2001, the FASB issued Statement of Financial Accounting Standards (Statement) 141, BUSINESS COMBINATIONS, and Statement 142, GOODWILL AND OTHER INTANGIBLE ASSETS. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for

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impairment at least annually in accordance with the provisions of Statement 142. Statement 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with FASB Statement 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF.

We are required to adopt the provisions of Statement 141 immediately, and will adopt Statement 142 effective October 1, 2001. Statement 141 requires that we evaluate our existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill.

Adoption of Statement 142 requires us to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments by December 31, 2001. In addition, to the extent an intangible asset is identified as having an indefinite useful life, we will be required to test the intangible asset for impairment in accordance with the provisions of Statement 142.

As of October 1, 2001, we have unamortized goodwill in the amount of approximately \$30.4 million and unamortized identifiable intangible assets in the amount of approximately \$88.7 million, all of which is subject to the transition provisions of Statements 141 and 142. Amortization expense related to goodwill was approximately \$1.0, \$1.6, and \$0.8 million for fiscal 2001, 2000, and 1999, respectively. Amortization expense related to tradenames was approximately \$2.3, \$2.3, and \$0.4 million for fiscal 2001, 2000, and 1999, respectively. Management is currently evaluating the impact of adoption on the consolidated financial statements.

In August 2001, FASB issued Statement No. 143, ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS. Statement No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. We are required to adopt no

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later than our fiscal year beginning October 1, 2002. We are currently evaluating the impact of adoption on the consolidated financial statements.

In October 2001, the FASB Issued Statement No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS. This statement supersedes FASB Statement No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF, and the accounting and reporting provisions of APB Opinion No. 30, REPORTING THE RESULTS OF OPERATIONS--REPORTING THE EFFECTS OF DISPOSAL OF A SEGMENT OF A BUSINESS, AND EXTRAORDINARY, UNUSUAL AND INFREQUENTLY OCCURRING EVENTS AND TRANSACTIONS, for the disposal of a segment of a business. We are required to adopt no later than our fiscal year beginning October 1, 2002. We are currently evaluating the impact of adoption on the consolidated financial statements

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.

A discussion of our accounting policies for derivative financial instruments is included in Note 2 "Significant Accounting Policies and Practices" in Notes to our consolidated financial statements.

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INTEREST RATE RISK

We have bank lines of credit at variable interest rates. The general level of U.S. interest rates, LIBOR, IBOR, and to a lesser extent European Base rates, 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 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 Pounds Sterling, Canadian Dollars, Euro, German Marks, French Francs, Italian Lira, Spanish Pesetas, Dutch Guilders, Mexican Pesos, Guatemalan Quetzals, Dominican Pesos, Venezuelan Bolivars, Argentine Pesos, Chilean Pesos and Honduran Lempira. Foreign currency purchases are made primarily in Pounds Sterling, German Marks, French Francs, Mexican Pesos, Dominican Pesos, Guatemalan Quetzals and Honduran Lempira. We manage our foreign exchange exposure from anticipated sales, accounts receivable, intercompany 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

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We are exposed to fluctuation 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, 2001, 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 \$0.8 million. The net impact on reported earnings, after also including the reduction in one year's interest expense on the related debt due to the same shift in interest rates, would be a net gain of \$1.7 million.

As of September 30, 2001, the potential change in fair value of outstanding foreign exchange rate derivative instruments, assuming a 10% unfavorable change in the underlying foreign exchange rates would be a loss of \$0.2 million. The net impact on future cash flows, after also including the gain in value on the related accounts receivable and contractual payment obligations outstanding at September 30, 2001 due to the same change in exchange rates, would be a net gain of \$1.1 million.

As of September 30, 2001, the potential change in fair value of outstanding commodity price derivative instruments, assuming a 10% unfavorable change in the underlying commodity prices would

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be a loss of \$0.7 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 \$0.1 million.

ITEM 8. INANCIAL 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-41, inclusive and is incorporated herein by reference.

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

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is certain information, as of December 1, 2001, regarding each of our directors and executive officers.

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| NAME | AGE | POSITION AND OFFICE(S) |
|----------------------|-------|---|
| ----- | ----- | ----- |
| David A. Jones | 52 | Chairman of the Board and Chief Executive Officer |
| Kent J. Hussey | 55 | President and Chief Financial Officer and Director |
| Stephen P. Shanesy | 45 | Executive Vice President of Global Brand Management |
| Merrell M. Tomlin | 49 | Executive Vice President of Sales |
| Randall J. Steward* | 47 | Executive Vice President of Administration and Chief Financial Officer |
| Kenneth V. Biller | 53 | Executive Vice President of Operations |
| Luis A. Cancio | 61 | Executive Vice President--Latin America |
| Paul G. Cheeseman | 43 | Senior Vice President--Technology |
| John S. Lupo | 55 | Director |
| Scott A. Schoen | 43 | Director |
| Thomas R. Shepherd | 71 | Director |
| Warren C. Smith, Jr. | 45 | Director |
| Philip F. Pellegrino | 61 | Director |

Mr. Jones has served as Chairman of our Board of Directors and our Chief Executive Officer since September 12, 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, he 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 SCI Systems, Inc. Mr. Jones has over 30 years of experience working in the consumer products industry.

Mr. Hussey is a director of Rayovac and has served as our President and Chief Financial Officer since December 1, 2001. From April 1998 until November 30, 2001, Mr. Hussey served as President and Chief Operating Officer. Prior to April 1998 and since joining us in October 1996, Mr. Hussey was our Executive Vice President of Finance and Administration, our Chief Financial Officer and a director. 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 he served as Vice President and Chief Financial Officer of The Regina Company. Mr. Hussey also serves as a director of American Woodmark Corporation.

Mr. Shanesy has been our Executive Vice President of Global Brand Management since April 1998. Prior to that time and 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 the Senior Vice President of Marketing and the General Manager of General Batteries of the Company. Prior to joining us, from 1993 to 1996, Mr. Shanesy was Vice President of Marketing of Oscar Mayer.

Mr. Tomlin has been our Executive Vice President of Sales since October 1998. Mr. Tomlin joined Rayovac in October 1996 as Senior Vice President of Sales. From March 1996 to September 1996, Mr. Tomlin served as Vice President of Sales of Braun of North America/Thermoscan and from August 1995 to March 1996, he served as Vice President Sales of Thermoscan, Inc. Prior to that time, Mr. Tomlin was Vice President of Sales of various divisions of Casio Electronics.

*Mr. Steward resigned as Executive Vice President of Administration and

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Chief Financial Officer effective November 30, 2001. Mr. Steward was named our Executive Vice President of Administration and Chief Financial Officer in October 1999. Mr. Steward 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 he 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, he served as Executive Vice President of Finance and Administration and Chief Financial Officer of Thermoscan, Inc.

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

Mr. Cancio was named our Executive Vice President-Latin America on October 2000. He joined Rayovac in August 1999 as our Senior Vice President and General Manager of Latin America and served in that position until October 2000. In April 1997, Mr. Cancio became a founding principal of XCELL Group LLC, a private investment firm, and remains a director of that firm. From 1980 to 1996, he 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.

Dr. Cheeseman was named our Senior Vice President-Technology on November 15, 2001. He joined Rayovac in June 1998 as our Vice President-Technology and has led all major technology initiatives at Rayovac since that time. Dr. Cheeseman came to Rayovac from Duracell, Inc., a division of Gillette, where he held various positions of increasing responsibility including Director of Operations from 1992 to 1995 and Director of Technology from 1995 to June, 1998.

Mr. Lupo has been a director of Rayovac since July 1998 and is a principal in the consulting firm Renaissance Partners, LLC, which he joined in February 2000. From October 1998 until November 1999, he 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. Schoen has been a director of Rayovac since our September 1996 recapitalization. He is a Managing Director of Thomas H. Lee Partners, L.P., which he joined in 1986. In addition, Mr. Schoen is a Vice President of Thomas H. Lee Advisors I and Thomas H. Lee Advisors II. Mr. Schoen is also a Trustee of THL Equity Trust III, the general partner of THL Equity Advisors Limited Partnership III, which is the general partner of Thomas H. Lee Equity Fund III L.P. He is also a Managing Director and Member of THL Equity Advisors IV, LLC, which is the general partner of Thomas H. Lee Equity Fund IV, L.P. Mr. Schoen is also a director of Syratech Corporation, TransWestern Communications Corp., United Industries Corp., Wyndham International Inc. and several private corporations.

Mr. Shepherd has been a director of Rayovac since our September 1996

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recapitalization. Mr. Shepherd is Chairman of TSG Equity Partners, LLC and is also a director of The Vermont Teddy Bear Company Inc. and various private corporations. He currently serves as a Special Partner of

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Thomas H. Lee Partners, L.P. and has been engaged as a consultant to Thomas H. Lee Co. since 1986. From 1986 through 1998, Mr. Shepherd served as a Managing Director of Thomas H. Lee Company. In addition, Mr. Shepherd is an officer of various other affiliates of Thomas H. Lee Company.

Mr. Smith has been a director of Rayovac since our September 1996 recapitalization. He is a managing Director of Thomas H. Lee Partners, L.P., which he joined in 1990. Mr. Smith also serves as a Managing Director of TH Lee.Putnam Internet Fund Advisors, LLC, the general partner of TH Lee.Putnam Internet Fund Advisors, L.P., the general partner of TH Lee.Putnam Internet Partners, L.P. In addition, Mr. Smith is a Managing Director of TH Lee Global Internet Advisors, LLC, the general partner of TH Lee Global Internet Managers, L.P., which in turn serves as manager to TH Lee.Putnam Internet Partners, L.P. In addition, Mr. Smith is a Vice President of Thomas H. Lee Advisor I and T.H. Lee Mezzanine II. Mr. Smith is also a Managing Director and Member of THL Equity Advisors Limited Partnership III, which is the general partner of Thomas H. Lee Equity Fund III L.P. and a Managing Director and Member of THL Equity Advisors IV, LLC, which is the general partner of Thomas H. Lee Equity Fund IV, L.P. He is also a director of Finlay Enterprises, Inc., Finlay Fine Jewelry Corporation, Eye Care Centers of America, Inc. and various private corporations.

Mr. Pellegrino has served as a director since November 2000. He currently serves as Senior Vice President and President of Sales for Kraft Foods Inc, and has held that position since September 2000. From 1995 to September 2000, he served as Senior Vice President of Sales and Customer Service for Kraft Foods. He has been employed by Kraft Foods or its subsidiary, Oscar Mayer, since 1964 in various management and executive positions.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's directors, officers and persons who own more than 10% of a registered class of the Company's 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, 2001, 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.

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ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth compensation paid to our Chief Executive Officer and the other four most highly compensated executive officers during fiscal 2001, fiscal 2000 and fiscal 1999 (the "Named Executive Officers") for services rendered in all capacities to us. Certain prior year amounts have been reclassified to conform with current year presentation.

| NAME AND PRINCIPAL POSITION | FISCAL YEAR | SALARY (\$) | BONUS (\$) | OTHER ANNUAL COMPENSATION (\$) |
|-----------------------------|----------------|-------------|------------|--------------------------------------|
| ----- | ----- | ----- | ----- | ----- |
| David A. Jones, | 2001 | \$550,000 | \$400,000 | \$361,200 (2) |

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| | | | | |
|--|----------------------|-------------------------------|---------|----------------------------|
| Chairman of the Board and Chief Executive Officer..... | 2000 1999 | 500,000 500,000 | 250,000 | 278,700 (4) 272,800 (5) |
| Kent J. Hussey, President and Chief Operating Officer..... | 2001 2000 1999 | 385,000 350,000 325,000 | 412,500 | 125,200 (7) 56,500 (8) |
| Luis A. Cancio, Executive Vice President-Latin America..... | 2001 2000 1999 | 293,000 286,000 47,700 | | 80,000 (9) 33,200 (10) |
| Stephen P. Shanesy, Executive Vice President of Global Brand Management..... | 2001 2000 1999 | 290,000 265,000 250,000 | 100,000 | 84,700 (12) |
| Merrell M. Tomlin, Executive Vice President of Sales..... | 2001 2000 1999 | 290,000 250,000 230,000 | 114,000 | 70,800 (12) 32,500 (14) |

| NAME AND PRINCIPAL POSITION | ALL OTHER COMPENSATION (\$) |
|--|--------------------------------|
| David A. Jones, Chairman of the Board and Chief Executive Officer..... | \$5,741,400 (3) 4,700 (6) |
| Kent J. Hussey, President and Chief Operating Officer..... | 1,418,500 (3) 4,700 (6) |
| Luis A. Cancio, Executive Vice President-Latin America..... | 10,000 (11) |
| Stephen P. Shanesy, Executive Vice President of Global Brand Management..... | 796,200 (13) 1,800 (6) |
| Merrell M. Tomlin, Executive Vice President of Sales..... | 924,600 (3) 143,100 (15) |

(1) At September 30, 2001 an aggregate of 277,137 restricted shares were outstanding valued at \$4,226,355. Vesting is scheduled for September 30, 2003 on 210,423 shares. The remaining 66,714 shares are scheduled to vest one third each year beginning September 30, 2001. The Company has the discretion to pay or defer dividends, if declared, until the expiration of restrictions.

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

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

(4) Includes approximately \$70,000 related to a Company provided residence, \$70,000 related to interest on the Executive Note (as defined herein) and \$90,000 related to personal use of the Company aircraft.

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- (5) Includes approximately \$120,000 related to a Company provided residence, \$70,000 related to interest on the Executive Note (as defined herein) and \$50,000 related to personal use of the Company aircraft.
- (6) Represents pension plan termination benefits.
- (7) Includes approximately \$70,000 related to a supplemental executive retirement program.
- (8) Includes approximately \$20,000 related to personal use of the Company aircraft and \$20,000 related to personal use of a Company provided vehicle.
- (9) Includes approximately \$50,000 related to a supplemental executive retirement program.
- (10) Represents personal use of a Company provided vehicle and contributions to 401K plan.
- (11) Represents relocation payments.
- (12) Includes approximately \$55,000 related to a supplemental executive retirement program.
- (13) Represents compensation from the exercise of stock options and the purchase of a company vehicle.

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- (14) Includes approximately \$20,000 related to personal use a company provided vehicle.
- (15) Represents pension plan termination benefits and approximately \$140,000 of relocation payments.

OPTION GRANTS AND EXERCISES

In connection with the 1996 recapitalization, the Board 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 2,318,127 shares of Common Stock. At September 30, 2001 an aggregate of 1,287,867 options to purchase shares of Common Stock at a weighted average exercise price of \$7.42 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 Agreement". In September 1997, the Board adopted the 1997 Rayovac Incentive Plan ("Incentive Plan"). Pursuant to the Incentive Plan, we may grant stock-based awards, including options and restricted stock, to purchase up to 5,000,000 shares of Common Stock. At September 30, 2001 an aggregate of 1,978,413 options at a weighted average exercise price of \$18.48 were outstanding under the Incentive Plan.

The following table discloses the grants of stock options during fiscal 2001 to the Named Executive Officers.

OPTION GRANTS IN FISCAL 2001

| INDIVIDUAL GRANTS | | |
|---------------------------------------|---|---------------------|
| NUMBER OF SECURITIES UNDERLYING | PERCENT OF TOTAL OPTIONS GRANTED TO | EXERCISE OR BASE |
| | | |

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| NAME | OPTIONS GRANTED (#) | EMPLOYEES IN FISCAL YEAR | PRICE (\$/SHARE) | EXPIRATION DATE | |
|-------------------------|---------------------|--------------------------|------------------|-----------------|-----|
| David A. Jones..... | 50,000 | 5.8 | \$14.50 | 9/30/2010 | \$4 |
| Kent J. Hussey..... | 50,000 | 5.8 | \$14.50 | 9/30/2010 | \$4 |
| Luis A. Cancio..... | 50,000 | 5.8 | \$14.50 | 9/30/2010 | \$4 |
| Stephen P. Shanesy..... | 50,000 | 5.8 | \$14.50 | 9/30/2010 | \$4 |
| Merrell M. Tomlin..... | 50,000 | 5.8 | \$14.50 | 9/30/2010 | \$4 |

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

AGGREGATED OPTION EXERCISES IN FISCAL 2001 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 IN-THE-OPTION FISCAL YEAR-END (EXERCISABLE) |
|-------------------------|-----------------------------|-------------------|--|--|
| David A. Jones..... | 403,396 | \$5,722,200 | 325,865/232,316 | \$3,538,894 |
| Kent J. Hussey..... | 100,000 | \$1,418,500 | 106,747/149,112 | 523,181/ |
| Luis A. Cancio..... | -- | -- | 53,125/146,875 | 0/37 |
| Stephen P. Shanesy..... | 55,355 | \$ 785,200 | 53,553/115,039 | 388,821/ |
| Merrell M. Tomlin..... | 65,184 | \$ 924,600 | 43,724/115,039 | 282,078/ |

(1) These values are calculated using the \$15.25 per share closing price of the Common Stock as quoted on the NYSE on September 30, 2001.

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PENSION PLAN

In fiscal 1997 we contributed to a defined benefit pension plan covering all domestic non-union employees (the "Pension Plan"). On August 1, 1997 the Pension Plan accruals were frozen and the Pension Plan was officially terminated on October 1, 1997. We made no contributions to the Pension Plan during fiscal 1999, 2000 or 2001. Distribution of benefits due to participating employees under the Pension Plan was made during fiscal 1999. In fiscal 1999, 2000 and 2001, we contributed to a defined contribution 401(k) plan covering domestic non-union employees (the "401(k) Plan"). We made contributions allocated on the basis of compensation and age as identified in the summary compensation table.

DIRECTOR COMPENSATION

Directors who are employees of the Company receive no compensation for serving on the Board of Directors. Non-employee directors of the Company are reimbursed for their out-of-pocket expenses in attending meetings of the Board of Directors. Messrs. Lupo and Pellegrino received \$5,000 per quarterly meeting in their capacities as directors for fiscal year 2001, plus \$1,000 for each of the four Board of Director meetings they attended. In addition, each received \$500 for each Board Committee meetings he attended. Commencing July 2001, Mr. Shepherd began receiving the same compensation as Messrs. Lupo and Pellegrino for attending Board of Director and Board Committee meetings.

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Messrs. Schoen and Smith receive no fees in their capacities as directors. However, as described in "Certain Relationships and Related Transactions", Thomas H. Lee Company, an affiliate of Thomas H. Lee Partners, L.P., of which Messrs. Schoen and Smith are managing directors and Mr. Shepherd is formerly a managing director and currently a special partner, receives fees from us for consulting and management advisory services.

EMPLOYMENT AGREEMENTS

We have an employment agreement with each of the Named Executive Officers. On October 1, 2000, 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 employment agreements with each of Luis A. Cancio, Stephen P. Shanesy and Merrell M. Tomlin (together with the Jones Employment Agreement and the Hussey Employment Agreement, the "Executive Employment Agreements").

Each of the Executive Employment Agreements:

- has a term of three years, expiring on September 30, 2003, 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;

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- 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 is entitled to a base salary of \$550,000 per annum, Mr. Hussey is entitled to a base salary of \$385,000 per annum, Mr. Shanesy and Mr. Tomlin are each entitled to a base salary of \$290,000 per annum and Mr. Cancio is entitled to a base salary of \$275,000 per annum (such base salaries may be increased 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.

In addition, pursuant to the Jones Employment Agreement, Mr. Jones was paid a bonus of \$400,000 in October 2000 as compensation for past services and will be paid an additional bonus of \$400,000 on September 30, 2003. In addition, the

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Jones Employment Agreement provides that Mr. Jones will be granted the option to purchase his Rayovac-owned home for a nominal amount on April 30, 2003. In the event of a "sale" of Rayovac (as defined in the Jones Employment Agreement), Mr. Jones' right to receive the September 30, 2003 bonus and his right to acquire his Rayovac-owned home shall accelerate to the date of the "sale". Pursuant to the Jones Employment Agreement, Mr. Jones purchased 227,895 shares of Common Stock at approximately \$4.39 per share in connection with our 1996 recapitalization. One-half of the purchase price for those shares was paid in cash and one-half was paid with a promissory note from Mr. Jones will receive additional salary at an initial rate of \$35,000 annually as long as the Jones Equity Note remains outstanding.

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 next 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 his additional salary at an initial rate of \$35,000 annually, as long as the Jones Equity Note is outstanding, 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 at an initial rate of \$35,000 annually, as long as the Jones Equity Note is outstanding, 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 2001, the Compensation Committee of the Board of Directors was comprised of Scott A. Schoen, Thomas R. Shepherd and Warren C. Smith, Jr. No member of our Compensation Committee is currently or has been, at any time since our formation, one of our officers or employees. No member of our Compensation Committee serves a member of the board of directors or compensation committee of any entity that has one of more executive officers serving as a member of our Board of Directors or Compensation Committee.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our Common Stock as of October 31, 2001 by:

- each person who is known by us to beneficially own more than five percent of the outstanding shares of our Common Stock;
- each of our directors and each named executive officer (as defined herein); and
- all of our current directors and executive officers as a group.

This information is based upon information received from or on behalf of the individuals named herein.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. Except as otherwise indicated, we believe 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 32,042,446 shares of Common

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Stock outstanding as of the close of business on October 31, 2001. 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 October 31, 2001, are deemed outstanding. These shares are not, however, deemed outstanding for the purpose of computing the percentage ownership of any other person.

| NAMES AND ADDRESS OF BENEFICIAL OWNER ----- | NUMBER OF SHARES ----- | NUMBER OF SHARES SUBJECT TO OPTIONS (1) ----- | PERC ----- |
|--|------------------------------|--|---------------|
| Thomas H. Lee Equity Fund III, L.P.(2) 75 State Street, Ste. 2600 Boston, MA 02109..... | 6,350,259 | -- | 19 |
| Thomas H. Lee Foreign Fund III, L.P.(2) 75 State Street, Ste. 2600 Boston, MA 02109..... | 393,383 | -- | 1 |
| THL-CCI Limited Partnership(3) 75 State Street, Suite 2600 Boston, MA 02109..... | 666,717 | -- | 2 |
| David A. Jones..... | 74,997 (4) | 516,431 | 1 |
| Kent J. Hussey..... | 82,091 (5) | 165,075 | |
| Stephen P. Shanesy..... | 33,138 (6) | 90,967 | |
| Merrell M. Tomlin..... | 32,700 (7) | 81,138 | |
| Luis A. Cancio..... | 35,424 (8) | 61,375 | |
| Scott A. Schoen(2) (9)..... | 33,271 | -- | |
| Thomas R. Shepherd(2) (9)..... | 16,750 | 5,000 | |
| Warren C. Smith, Jr.(2) (9)..... | 27,942 | -- | |
| John S. Lupo..... | 2,500 | 10,000 | |
| Philip F. Pellegrino..... | 2,000 | 7,000 | |
| All directors and executive officers of the Company as a group (13 persons)..... | 422,931(10) | 1,191,537 | 4 |

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

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- (1) Reflects the number of shares issuable upon the exercise of options exercisable within 60 days of October 31, 2001.
- (2) THL Equity Advisors III Limited Partnership ("Advisors"), the general partner of the THL Fund and Thomas H. Lee Foreign Fund III, L.P., THL Equity Trust III ("Equity Trust"), the general partner of Advisors, Thomas H. Lee, Scott A. Schoen, Warren C. Smith, Jr. and other managing directors of Thomas H. Lee Co., as Trustees of Equity Trust, and Thomas H. Lee as sole shareholder of Equity Trust, may be deemed to be beneficial owners of the shares of Common Stock held by such Funds. Each of these persons disclaims beneficial ownership of all shares.
- (3) THL Investment Management Corp., the general partner of THL-CCI Limited Partnership, and Thomas H. Lee, as director and sole shareholder of THL Investment Management Corp., may also be deemed to be beneficial owners of the shares of Common Stock held by THL-CCI Limited Partnership. THL Investment Management Corp. disclaims beneficial ownership of such shares.

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Thomas H. Lee disclaims beneficial ownership of such shares except to the extent of his direct pecuniary interest.

- (4) Includes 68,904 restricted shares of which restrictions have lapsed on 5,839 shares as of October 31, 2001 and 4,102 shares held in the Company's 401(k) plan. It also includes 1,891 shares representing Mr. Jones' proportional interest in the THL Fund, shares of which Mr. Jones disclaims beneficial ownership.
- (5) Includes 48,234 restricted shares of which restrictions have lapsed on 4,088 shares as of October 31, 2001 and 914 shares held in the Company's 401(k) plan.
- (6) Represents restricted shares of which restrictions have lapsed on 2,579 shares as of October 31, 2001.
- (7) Represents restricted shares of which restrictions have lapsed on 2,433 shares as of October 31, 2001.
- (8) Includes 31,387 restricted shares of which restrictions have lapsed on 2,433 shares as of October 31, 2001 and 1,137 shares held in the Company 401(k) plan.
- (9) Represents the proportional interest of such individual in THL-CCI Limited Partnership. In the case of Mr. Smith, share amounts also include 6,258 shares which Mr. Smith may be deemed to beneficially own as a result of Mr. Smith's childrens' proportional beneficial interest in THL-CCI Limited Partnership.
- (10) Includes 277,137 restricted shares of which restrictions have lapsed on 22,238 shares as of October 31, 2001 and 11,097 shares held in the Company's 401(k) plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In connection with our recapitalization in 1996, we entered into a Management Agreement with Thomas H. Lee Company (which, together with its affiliates, owns approximately 23.1% of the outstanding Common Stock as of October 31, 2001) pursuant to which Thomas H. Lee Company provides consulting and management advisory services to us for an initial period of five years through September 12, 2001 with the term renewable on a year to year basis thereafter. In consideration of the consulting and management advisory services provided under the Management Agreement, we pay Thomas H. Lee Company a management fee. We believe that the Management Agreement is on terms no less favorable to us than could have been obtained from an independent third party.

In addition to the Jones Equity Note, we hold various promissory notes described below (together with the Jones Equity Note, the "Executive Notes") from each of the Named Executive Officers.

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In connection with their purchase of shares of Common Stock upon joining Rayovac, Messrs. Tomlin and Shanesy executed five-year promissory notes dated March 17, 1997 in principal amounts of \$60,000 and \$80,000, respectively, with interest payable at 8% per annum. In connection with the exercise of options to purchase shares of our Common Stock, Messrs. Tomlin and Shanesy executed five-year promissory notes dated July 31 and August 1, 1997, respectively, in principal amounts of \$50,000, and \$20,000, respectively, with interest payable at 8% per annum. In connection with the exercise of options to purchase shares of our Common Stock Mr. Shanesy executed a five-year promissory note dated September 16, 1997 in the principal amount of \$30,002, with interest payable at

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8% per annum.

On July 20, 2000, the Board of Directors authorized additional loans to Messrs. Jones, Hussey, Shanesy, Tomlin and Cancio of up to the aggregate principal amounts of \$1,950,000, \$800,000, \$200,000, \$500,000 and \$200,000, respectively. As of September 30, 2001, Messrs. Jones, Hussey and Cancio had each executed a promissory note and had drawn aggregate principal amounts of \$1,700,000, \$500,000 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. 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.

The largest aggregate amount of indebtedness outstanding at any time during fiscal 2001 for each of the Named Executive Officers was as follows: Mr. Jones, \$2,200,000; Mr. Hussey, \$700,000; Mr. Shanesy, \$130,002; Mr. Tomlin, \$110,000; and Mr. Cancio, \$200,000. The aggregate amount of indebtedness outstanding as of September 30, 2001, for each of the Named Executive Officers is as follows: Mr. Jones, \$2,200,000; Mr. Hussey, \$500,000; Mr. Shanesy, \$130,002; Mr. Tomlin, \$110,000; and Mr. Cancio, \$200,000.

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PART IV

ITEM 14. 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, 2001:

1. On June 14, 2001, the Company filed with the Commission a Report on Form 8-K to report issuance of a press release regarding the expiration of its consent solicitation and receipt of consents sufficient to amend the indenture relating to the Company's 10 1/4% Series B Senior Subordinated Notes due 2006.
2. On June 19, 2001, the Company filed with the Commission a Report on Form 8-K to report that a supplemental indenture incorporating the amendments to the indenture referenced in the Company's June 14, 2001, Form 8-K was executed on June 17, 2001, and will become operative when the tendered notes are accepted for payment.
3. On June 20, 2001, the Company filed with the Commission a Report on Form 8-K for the purpose of filing the Purchase Agreement dated June 20, 2001, by and among the Company, certain shareholders identified in the Purchase Agreement ("Selling Shareholders") and Salomon Smith Barney Inc., and certain other underwriters identified in the Purchase Agreement ("Underwriters") as an exhibit to the

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Company's shelf registration statement on Form S-3 (Registration No. 333-59086).

4. On June 25, 2001, the Company filed with the Commission a Report on Form 8-K to report issuance of a press release announcing the pricing terms for the tender offer for all of its outstanding \$65 million principal amount of 10 1/4% Series B Senior Subordinated Notes due 2006.
5. On June 28, 2001, the Company filed with the Commission a Report on Form 8-K to report issuance of a press release announcing the closing of the offer to purchase for cash and consent solicitation with respect to its outstanding \$65 million principal amount of 10 1/4% Series B Senior Subordinated Notes due 2006.

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RAYOVAC CORPORATION AND SUBSIDIARIES INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

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F-1

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, 2000 and 2001, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2001. 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

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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, 2000 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2001 in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP
KPMG LLP

Milwaukee, Wisconsin
November 2, 2001

F-2

RAYOVAC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2000 AND 2001

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | 2000 | 2001 |
|---|------------|------------|
| | ----- | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents..... | \$ 9,757 | \$ 11,358 |
| Receivables: | | |
| Trade accounts receivable, net of allowance for doubtful receivables of \$1,020 and \$2,139, respectively..... | 147,767 | 182,326 |
| Other..... | 5,900 | 7,802 |
| Inventories..... | 100,676 | 91,311 |
| Deferred income taxes..... | 6,074 | 9,831 |
| Prepaid expenses and other..... | 20,996 | 21,843 |
| | ----- | ----- |
| Total current assets..... | 291,170 | 324,471 |
| | ----- | ----- |
| Property, plant and equipment, net..... | 111,897 | 107,257 |
| Deferred charges and other..... | 33,781 | 32,617 |
| Intangible assets..... | 122,114 | 119,074 |
| Debt issuance costs..... | 10,054 | 4,463 |
| | ----- | ----- |
| Total assets..... | \$ 569,016 | \$ 587,882 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current maturities of long-term debt..... | \$ 44,815 | 24,436 |
| Accounts payable..... | 97,857 | 103,373 |
| Accrued liabilities: | | |
| Wages and benefits..... | 12,012 | 7,178 |

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| | | |
|--|------------|------------|
| Accrued interest..... | 5,790 | 1,930 |
| Other special charges..... | 978 | 5,883 |
| Other..... | 25,028 | 23,124 |
| | ----- | ----- |
| Total current liabilities..... | 186,480 | 165,924 |
| Long-term debt, net of current maturities..... | 272,815 | 233,541 |
| Employee benefit obligations, net of current portion..... | 15,365 | 19,648 |
| Deferred income taxes..... | 8,242 | 7,428 |
| Other..... | 5,418 | 3,756 |
| | ----- | ----- |
| Total liabilities..... | 488,320 | 430,297 |
| | ----- | ----- |
| Shareholders' equity: | | |
| Common stock, \$.01 par value, authorized 150,000 shares; issued 57,101 and 61,579 shares, respectively; outstanding 27,570 and 32,043 shares, respectively..... | 571 | 616 |
| Additional paid-in capital..... | 104,197 | 180,752 |
| Retained earnings..... | 108,450 | 119,984 |
| Accumulated other comprehensive income (loss)..... | 650 | (6,868) |
| Notes receivable from officers/shareholders..... | (3,190) | (3,665) |
| | ----- | ----- |
| | 210,678 | 290,819 |
| Less treasury stock, at cost, 29,531 and 29,536 shares, respectively..... | (129,982) | (130,070) |
| Less unearned restricted stock compensation..... | -- | (3,164) |
| | ----- | ----- |
| Total shareholders' equity..... | 80,696 | 157,585 |
| | ----- | ----- |
| Total liabilities and shareholders' equity..... | \$ 569,016 | \$ 587,882 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

F-3

RAYOVAC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED SEPTEMBER 30, 1999, 2000 AND 2001

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | 1999 | 2000 | 2001 |
|---------------------------------|-----------|-----------|-----------|
| | ----- | ----- | ----- |
| Net sales..... | \$555,064 | \$693,339 | \$675,492 |
| Cost of goods sold..... | 293,858 | 358,226 | 346,010 |
| Special charges..... | 1,300 | -- | 22,103 |
| | ----- | ----- | ----- |
| Gross profit..... | 259,906 | 335,113 | 307,379 |
| Operating expenses: | | | |
| Selling..... | 150,985 | 184,473 | 192,264 |
| General and administrative..... | 37,366 | 50,546 | 48,351 |
| Research and development..... | 9,785 | 10,763 | 12,191 |
| Special charges..... | 8,132 | -- | 204 |
| | ----- | ----- | ----- |
| | 206,268 | 245,782 | 253,010 |
| | ----- | ----- | ----- |

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| | | | |
|--|-----------|-----------|-----------|
| Income from operations..... | 53,638 | 89,331 | 54,369 |
| Interest expense..... | 16,354 | 30,626 | 27,189 |
| Other (income) expense, net..... | (314) | 753 | 1,094 |
| | ----- | ----- | ----- |
| Income before income taxes and extraordinary item..... | 37,598 | 57,952 | 26,086 |
| Income tax expense..... | 13,462 | 19,602 | 9,225 |
| | ----- | ----- | ----- |
| Income before extraordinary item..... | 24,136 | 38,350 | 16,861 |
| Extraordinary item, loss on early extinguishment of debt, net of income tax benefit of \$3,260..... | -- | -- | (5,327) |
| | ----- | ----- | ----- |
| Net income..... | \$ 24,136 | \$ 38,350 | \$ 11,534 |
| | ===== | ===== | ===== |
| Basic net income per common share: | | | |
| Income before extraordinary item..... | \$ 0.88 | \$ 1.39 | \$ 0.59 |
| Extraordinary item..... | -- | -- | (0.19) |
| | ----- | ----- | ----- |
| Net income..... | \$ 0.88 | \$ 1.39 | \$ 0.40 |
| | ===== | ===== | ===== |
| Weighted average shares of common stock outstanding..... | 27,486 | 27,504 | 28,746 |
| | ----- | ----- | ----- |
| Diluted net income per common share: | | | |
| Income before extraordinary item..... | \$ 0.83 | \$ 1.32 | \$ 0.57 |
| Extraordinary item..... | -- | -- | (0.18) |
| | ----- | ----- | ----- |
| Net income..... | \$ 0.83 | \$ 1.32 | \$ 0.39 |
| | ===== | ===== | ===== |
| Weighted average shares of common stock and equivalents outstanding..... | 29,233 | 29,069 | 29,702 |
| | ----- | ----- | ----- |

See accompanying notes to consolidated financial statements.

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RAYOVAC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED SEPTEMBER 30, 1999, 2000 AND 2001

(IN THOUSANDS)

| | 1999 | 2000 | 2001 |
|--|----------|----------|----------|
| | ----- | ----- | ----- |
| Net income..... | \$24,136 | \$38,350 | \$11,534 |
| Other comprehensive income: | | | |
| Foreign currency translation adjustment..... | 166 | (1,964) | (1,141) |
| Cumulative effect of accounting change, net of tax effect of (\$167)..... | -- | -- | (150) |
| Loss on derivative instruments and available for sale securities, net of tax effect of (\$1,973)..... | -- | -- | (2,929) |
| Minimum pension liability adjustment, net of tax effect of \$120, \$223, and (\$1,776), respectively..... | 222 | 415 | (3,298) |
| | ----- | ----- | ----- |
| Comprehensive income, net of tax..... | \$24,524 | \$36,801 | \$ 4,016 |
| | ===== | ===== | ===== |

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See accompanying notes to consolidated financial statements.

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RAYOVAC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 30, 1999, 2000 AND 2001
(IN THOUSANDS)

| | COMMON STOCK | | ADDITIONAL | RETAINED | ACCUMULATED |
|--|--------------|--------|--------------------|-----------|--|
| | SHARES | AMOUNT | PAID-IN CAPITAL | EARNINGS | FOREIGN CURRENCY TRANSLATION ADJUSTMENT |
| Balances at September 30, 1998..... | 27,471 | \$569 | \$103,304 | \$ 45,964 | \$2,500 |
| Net income..... | -- | -- | -- | 24,136 | -- |
| Sale of common stock by trust..... | -- | -- | -- | -- | -- |
| Treasury stock acquired..... | (20) | -- | -- | -- | -- |
| Exercise of stock options..... | 39 | 1 | 273 | -- | -- |
| Adjustment of additional minimum pension liability..... | -- | -- | -- | -- | -- |
| Translation adjustment..... | -- | -- | -- | -- | 166 |
| Unrealized (gain)/loss on stock held in trust..... | -- | -- | -- | -- | -- |
| Balances at September 30, 1999..... | 27,490 | 570 | 103,577 | 70,100 | 2,666 |
| Net income..... | -- | -- | -- | 38,350 | -- |
| Treasury stock acquired..... | (51) | -- | -- | -- | -- |
| Exercise of stock options..... | 131 | 1 | 620 | -- | -- |
| Notes receivable from officers/ shareholders..... | -- | -- | -- | -- | -- |
| Adjustment of additional minimum pension liability..... | -- | -- | -- | -- | -- |
| Translation adjustment..... | -- | -- | -- | -- | (1,964) |
| Balances at September 30, 2000..... | 27,570 | 571 | 104,197 | 108,450 | 702 |
| Net income..... | -- | -- | -- | 11,534 | -- |
| Sale of common stock..... | 3,500 | 35 | 64,144 | -- | -- |
| Issuance of restricted stock..... | 277 | 3 | 4,743 | -- | -- |
| Treasury stock acquired..... | (5) | -- | -- | -- | -- |
| Exercise of stock options..... | 701 | 7 | 7,668 | -- | -- |
| Notes receivable from officers/ shareholders..... | -- | -- | -- | -- | -- |
| Amortization of unearned compensation..... | -- | -- | -- | -- | -- |
| Adjustment of additional minimum pension liability..... | -- | -- | -- | -- | -- |
| Translation adjustment..... | -- | -- | -- | -- | (1,141) |
| Cumulative effect of accounting change..... | -- | -- | -- | -- | -- |
| Net loss on derivative instruments and available for sale securities..... | -- | -- | -- | -- | -- |

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| | | | | | |
|-------------------------------------|--------|-------|-----------|-----------|----------|
| Balances at September 30, 2001..... | 32,043 | \$616 | \$180,752 | \$119,984 | \$ (439) |
| | ===== | ===== | ===== | ===== | ===== |

ACCUMULATED OTHER COMPREHENSIVE INCOME

| | MINIMUM PENSION LIABILITY ADJUSTMENT | TOTAL | NOTES RECEIVABLE FROM OFFICERS/ SHAREHOLDERS |
|--|---|------------|--|
| | ----- | ----- | ----- |
| Balances at September 30, 1998..... | | \$ 1,811 | \$ (890) |
| Net income..... | | -- | -- |
| Sale of common stock by trust..... | | -- | -- |
| Treasury stock acquired..... | | -- | -- |
| Exercise of stock options..... | | -- | -- |
| Adjustment of additional minimum pension liability..... | | 222 | -- |
| Translation adjustment..... | | 166 | -- |
| Unrealized (gain)/loss on stock held in trust..... | | -- | -- |
| | | ----- | ----- |
| Balances at September 30, 1999..... | | 2,199 | (890) |
| Net income..... | | -- | -- |
| Treasury stock acquired..... | | -- | -- |
| Exercise of stock options..... | | -- | -- |
| Notes receivable from officers/ shareholders..... | | -- | (2,300) |
| Adjustment of additional minimum pension liability..... | | 415 | -- |
| Translation adjustment..... | | (1,964) | -- |
| | | ----- | ----- |
| Balances at September 30, 2000..... | | 650 | (3,190) |
| Net income..... | | -- | -- |
| Sale of common stock..... | | -- | -- |
| Issuance of restricted stock..... | | -- | -- |
| Treasury stock acquired..... | | -- | -- |
| Exercise of stock options..... | | -- | -- |
| Notes receivable from officers/ shareholders..... | | -- | (475) |
| Amortization of unearned compensation..... | | -- | -- |
| Adjustment of additional minimum pension liability..... | | (3,298) | -- |
| Translation adjustment..... | | (1,141) | -- |
| Cumulative effect of accounting change..... | | (150) | -- |
| Net loss on derivative instruments and available for sale securities..... | | (2,929) | -- |
| | | ----- | ----- |
| Balances at September 30, 2001..... | | \$ (6,868) | \$ (3,665) |
| | | ===== | ===== |

TREASURY TOTAL SHAREHOLDERS'

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| | STOCK ----- | EQUITY ----- |
|--|-----------------------|--------------------|
| Balances at September 30, 1998..... | \$ (128,472) | \$ 21,874 |
| Net income..... | -- | 24,136 |
| Sale of common stock by trust..... | -- | 394 |
| Treasury stock acquired..... | (624) | (624) |
| Exercise of stock options..... | -- | 274 |
| Adjustment of additional minimum pension liability..... | -- | 222 |
| Translation adjustment..... | -- | 166 |
| Unrealized (gain)/loss on stock held in trust..... | -- | 18 |
| | ----- | ----- |
| Balances at September 30, 1999..... | (129,096) | 46,460 |
| Net income..... | -- | 38,350 |
| Treasury stock acquired..... | (886) | (886) |
| Exercise of stock options..... | -- | 621 |
| Notes receivable from officers/ shareholders..... | -- | (2,300) |
| Adjustment of additional minimum pension liability..... | -- | 415 |
| Translation adjustment..... | -- | (1,964) |
| | ----- | ----- |
| Balances at September 30, 2000..... | (129,982) | 80,696 |
| Net income..... | -- | 11,534 |
| Sale of common stock..... | -- | 64,179 |
| Issuance of restricted stock..... | -- | -- |
| Treasury stock acquired..... | (88) | (88) |
| Exercise of stock options..... | -- | 7,675 |
| Notes receivable from officers/ shareholders..... | -- | (475) |
| Amortization of unearned compensation..... | -- | 1,582 |
| Adjustment of additional minimum pension liability..... | -- | (3,298) |
| Translation adjustment..... | -- | (1,141) |
| Cumulative effect of accounting change..... | -- | (150) |
| Net loss on derivative instruments and available for sale securities..... | -- | (2,929) |
| | ----- | ----- |
| Balances at September 30, 2001..... | \$ (130,070) ===== | \$157,585 ===== |

See accompanying notes to consolidated financial statements.

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RAYOVAC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 1999, 2000 AND 2001

(IN THOUSANDS)

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| | 1999 | 2000 | 2001 |
|---|-----------|-----------|-----------|
| | ----- | ----- | ----- |
| Cash flows from operating activities: | | | |
| Net income..... | \$ 24,136 | \$ 38,350 | \$ 11,534 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | | |
| Extraordinary item, loss on early retirement of debt..... | -- | -- | 8,587 |
| Amortization..... | 3,079 | 6,309 | 5,608 |
| Depreciation..... | 11,890 | 16,024 | 17,667 |
| Deferred income taxes..... | 1,038 | 2,905 | (3,751) |
| Non-cash restructuring charges..... | -- | -- | 9,958 |
| Stock option income tax benefit..... | 171 | 625 | 4,348 |
| Amortization of unearned restricted stock compensation.... | -- | -- | 1,582 |
| Loss (gain) on disposal of fixed assets..... | 162 | (1,297) | 187 |
| Changes in assets and liabilities, net of businesses acquired: | | | |
| Accounts receivable..... | (29,267) | (15,697) | (37,814) |
| Inventories..... | (4,667) | (20,344) | 5,168 |
| Prepaid expenses and other assets..... | (9,075) | (5,416) | (1,657) |
| Accounts payable and accrued liabilities..... | 14,816 | 16,530 | (8,253) |
| Accrued special charges..... | 999 | (5,147) | 4,883 |
| | ----- | ----- | ----- |
| Net cash provided by operating activities..... | 13,282 | 32,842 | 18,047 |
| | ----- | ----- | ----- |
| Cash flows from investing activities: | | | |
| Purchases of property, plant and equipment..... | (24,113) | (18,996) | (19,693) |
| Investments in available for sale securities..... | -- | -- | (797) |
| Proceeds from sale of property, plant and equipment..... | 26 | 1,051 | 863 |
| Proceeds from sale of investments..... | -- | -- | 1,354 |
| Payment for acquisitions, net of cash acquired..... | (145,076) | -- | -- |
| | ----- | ----- | ----- |
| Net cash used by investing activities..... | (169,163) | (17,945) | (18,273) |
| | ----- | ----- | ----- |
| Cash flows from financing activities: | | | |
| Reduction of debt..... | (102,974) | (215,394) | (416,699) |
| Proceeds from debt financing..... | 275,125 | 203,189 | 421,914 |
| Debt issuance costs..... | (5,904) | -- | -- |
| Proceeds from direct financing lease..... | 200 | -- | -- |
| Loans of notes receivable from officers/shareholders..... | -- | (2,300) | (475) |
| Issuance of stock..... | -- | -- | 64,179 |
| Acquisition of treasury stock..... | (390) | (886) | (88) |
| Exercise of stock options..... | 40 | 621 | 3,327 |
| Extinguishment of debt..... | -- | -- | (69,652) |
| Payments on capital lease obligation..... | (794) | (1,233) | (837) |
| | ----- | ----- | ----- |
| Net cash provided (used) by financing activities..... | 165,303 | (16,003) | 1,669 |
| | ----- | ----- | ----- |
| Effect of exchange rate changes on cash and cash equivalents..... | 49 | (202) | 158 |
| | ----- | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents..... | 9,471 | (1,308) | 1,601 |
| Cash and cash equivalents, beginning of period..... | 1,594 | 11,065 | 9,757 |
| | ----- | ----- | ----- |
| Cash and cash equivalents, end of period..... | \$ 11,065 | \$ 9,757 | \$ 11,358 |
| | ===== | ===== | ===== |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for interest..... | \$ 12,837 | \$ 27,691 | \$ 28,938 |
| Cash paid for income taxes..... | 11,114 | 14,318 | 8,166 |

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See accompanying notes to consolidated financial statements.

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(1) DESCRIPTION OF BUSINESS

Rayovac Corporation and its wholly owned subsidiaries (Company) manufacture and market batteries. Products include general (alkaline, rechargeables, heavy duty, lantern and general purpose), button cell and lithium batteries. The Company also produces a variety of battery powered lighting devices such as flashlights and lanterns. The Company's products are sold primarily to retailers in the United States, Canada, Latin America, Europe, and the Far East.

(2) SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

(A) PRINCIPLES OF CONSOLIDATION AND FISCAL YEAR END

The consolidated financial statements include the financial statements of Rayovac Corporation and its wholly owned subsidiaries and are prepared in accordance with accounting principles generally accepted in the United States of America. All intercompany transactions have been eliminated. The Company's fiscal year ends September 30. References herein to 1999, 2000 and 2001 refer to the fiscal years ended September 30, 1999, 2000 and 2001.

(B) REVENUE RECOGNITION

The Company recognizes revenue from product sales upon shipment to the customer which is the point at which all risks and rewards of ownership of the product is passed. The Company is not obligated to allow for returns.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition". An amendment in June 2000 delayed the effective date until the Company's fourth quarter of fiscal 2001. The adoption of SAB 101 did not have an impact on the consolidated financial statements.

(C) USE OF ESTIMATES

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

At the beginning of 2000, the Company made certain changes in accounting estimates including a change in the estimated useful life of permanent fixtures provided to retail outlets which will now be amortized over an estimated useful life of one to two years rather than expensed when shipped. In addition, the Company began expensing maintenance materials when used rather than when purchased. These changes in estimates increased 2000 and 2001 net income by \$2,500 and \$3,200 versus 1999, respectively.

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(D) CASH EQUIVALENTS

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

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(2) SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

(E) CONCENTRATIONS OF CREDIT RISK, MAJOR CUSTOMERS AND EMPLOYEES

The Company has one customer that represented over 10% of its net sales. The Company derived 20%, 21% and 26% of its net sales from this customer during 1999, 2000 and 2001, respectively.

A significant number of the Company's factory employees are represented by labor unions. The Company believes its relationship with its employees is good and there have been no work stoppages involving Company employees since 1981 in North America and since 1991 in the United Kingdom.

The Company has entered into collective bargaining agreements with expiration dates as follows:

| LOCATION ----- | EXPIRATION DATE ----- |
|--------------------------------|--------------------------|
| Washington, UK Production..... | November 2001 |
| Mexico City, Mexico..... | February 2002 |
| Portage, WI..... | July 2002 |
| Hayward, CA..... | June 2002 |
| Madison, WI..... | August 2003 |
| Guatemala City, Guatemala..... | March 2004 |
| Fennimore, WI..... | March 2005 |

Approximately 45% of the total labor force is covered by collective bargaining agreements. Bargaining agreements that expire in 2002 represent approximately 16% of the total labor force. Negotiations are ongoing to extend the agreement covering approximately 90 employees at our Washington, UK production facility. The existing agreement provides for automatic weekly renewals and the Company anticipates an agreement will be finalized in the second quarter of fiscal 2002.

(F) DISPLAYS AND FIXTURES

The costs of temporary displays are capitalized and recorded as a prepaid asset and charged to expense when shipped to a customer location. Permanent fixtures are capitalized as deferred charges and amortized over an estimated useful life of one to two years.

(G) INVENTORIES

Inventories are stated at lower of cost or market. Cost is determined

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using the first-in, first-out (FIFO) method for approximately 78% and 83% of the inventories at September 30, 2000 and 2001, respectively. Costs for other inventories have been determined primarily using the average cost method.

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(2) SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

(H) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. Depreciation on plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets. Depreciable lives by major classification are as follows:

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

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

(I) INTANGIBLE ASSETS

Intangible assets are recorded at cost and are amortized, using the straight-line method, over their estimated useful lives. Excess cost over fair value of net assets acquired (goodwill) is amortized over 15 to 40 years. The trade name is being amortized over 40 years. Other intangibles are amortized over 3 to 17 years. The Company assesses the recoverability of its intangible assets by determining whether the amortization of the remaining balance over its remaining life can be recovered through projected undiscounted future cash flows. If projected future cash flows indicate that the unamortized carrying value of intangible assets will not be recovered, an adjustment would be made to reduce the carrying value to an amount equal to projected future cash flows discounted at the Company's incremental borrowing rate. Cash flow projections are based on trends of historical performance and management's estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions.

(J) DEBT ISSUANCE COSTS

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

(K) ACCOUNTS PAYABLE

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Included in accounts payable at September 30, 2000 and 2001, is approximately \$2,546 and \$16,464, respectively, of book overdrafts on disbursement accounts which were replenished when checks were presented for payment.

(L) INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(2) SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(M) FOREIGN CURRENCY TRANSLATION

Assets and liabilities of the Company's foreign subsidiaries are translated at the rate of exchange existing at year-end, with revenues, expenses, and cash flows translated at the average of the monthly exchange rates. Adjustments resulting from translation of the financial statements are recorded as a component of accumulated other comprehensive income. Exchange losses on foreign currency transactions aggregating \$708, \$1,334 and \$2,091 for 1999, 2000 and 2001, respectively, are included in other (income) expense, net, in the Consolidated Statements of Operations.

(N) SHIPPING AND HANDLING COSTS

The Company incurred shipping and handling costs of \$20,455, \$27,040 and \$30,054 in 1999, 2000 and 2001, respectively, which are included in selling expense.

(O) ADVERTISING COSTS

The Company incurred expenses for advertising of \$33,292, \$34,011 and \$33,416 in 1999, 2000 and 2001, respectively. The Company expenses advertising production costs the first time the advertising takes place.

(P) RESEARCH AND DEVELOPMENT COSTS

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

(Q) NET INCOME PER COMMON SHARE

Basic net income per common share is computed by dividing net income available to common shareholders by the weighted-average number of

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common shares outstanding for the period. Basic net income per common share does not consider common stock equivalents. Diluted net income per common share reflects the dilution that would occur if convertible debt securities and employee stock options were exercised or converted into common shares or resulted in the issuance of common shares that then shared in the net income of the entity. The computation of diluted net income per common share uses the "if converted" and "treasury stock" methods to reflect dilution. The difference between the numbers of shares used in the two calculations is due to assumed conversion of employee stock options where the exercise price is less than the market price of the underlying stock.

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(2) SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

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

| | 1999 | 2000 | 2001 |
|---|--------|--------|--------|
| | ----- | ----- | ----- |
| Basic..... | 27,486 | 27,504 | 28,746 |
| Effect of restricted stock and assumed conversion of stock options..... | 1,747 | 1,565 | 956 |
| | ----- | ----- | ----- |
| Diluted..... | 29,233 | 29,069 | 29,702 |
| | ===== | ===== | ===== |

(R) DERIVATIVE FINANCIAL INSTRUMENTS

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

The Company uses interest rate swaps to manage its interest rate risk. The swaps are designated as cash flow hedges with the fair value recorded in Other Comprehensive Income ("OCI") and as a hedge asset or liability, as applicable. The swaps settle periodically in arrears with the related amounts for the current settlement period payable to, or receivable from, the counter-parties included in accrued liabilities or accounts receivable and recognized in earnings as an adjustment to interest expense from the underlying debt to which the swap is designated. During the twelve month period ended September 30, 2001, \$925 of pretax derivative losses from such hedges were recorded as an adjustment to interest expense. At September 30, 2001, the Company had a series of interest rate swap agreements outstanding which effectively fix the interest rate on floating rate debt at a rate of 6.404% for a notional principal amount of \$75,000 through October 2002 and a series of interest rate swap agreements outstanding which effectively fix the interest rate on floating rate debt at a rate of 4.99% for a notional principal amount of \$25,000 through December 2001. The derivative net losses on these contracts recorded in OCI at September 30, 2001 was an after-tax loss of

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\$1,780.

The Company enters into forward and swap foreign exchange contracts, to hedge the risk from forecasted settlement in local currencies of intercompany purchases and sales, trade sales, and trade purchases. These contracts generally require the Company to exchange foreign currencies for U.S. dollars or Pounds Sterling. These contracts are designated as cash flow hedges with the fair value recorded in OCI and as a hedge asset or liability, as applicable. Once the forecasted transaction has been recognized as a purchase or sale and a related liability or asset recorded in the balance sheet, the gain or loss on the related derivative hedge contract is reclassified from OCI into earnings as an offset to the change in value of the liability or asset. During the twelve month period ended September 30, 2001, \$17 of pretax derivative gains were recorded as an adjustment to earnings for cash flow hedges related to an asset or liability. During the twelve month period ended September 30, 2001, \$994 of pretax derivative losses were recorded as an adjustment to earnings for forward and swap contracts settled at maturity. At September 30, 2001, the Company had a series of forward and swap contracts outstanding with a contract value of \$2,236. The derivative net gain on these contracts recorded in OCI at September 30, 2001 was an after-tax gain of \$40.

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(2) SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

The Company periodically enters into forward foreign exchange contracts, to hedge the risk from changes in fair value from unrecognized firm purchase commitments. These firm purchase commitments generally require the Company to exchange U.S. dollars for foreign currencies. These hedge contracts are designated as fair value hedges with the fair value recorded in earnings on a pretax basis and as a hedge asset or liability, as applicable. To the extent effective, changes in the value of the forward contracts recorded in earnings will be offset by changes in the value of the hedged item, also recorded in earnings on a pretax basis and as an asset or liability, as applicable. Once the firm purchase commitment has been consummated, the firm commitment asset or liability balance will be reclassified as an addition to or subtraction from, the carrying value of the purchased asset. The Company has entered into a series of forward contracts through October 2001 to hedge the exposure from a firm commitment to purchase certain battery manufacturing equipment denominated in Japanese Yen. During the twelve month period ended September 30, 2001, \$63 of pretax derivative losses were recorded as an adjustment to earnings for fair value hedges of this firm purchase commitment and \$63 of pretax gains were recorded as an adjustment to earnings for changes in fair value of this firm purchase commitment. During the twelve month period ended September 30, 2001 \$505 of pretax derivative losses were recorded as an adjustment to earnings for fair value hedges of this firm purchase commitment that were settled at maturity and \$505 of pretax gains were recorded as an adjustment to earnings for payments made against this firm purchase commitment. At September 30, 2001, the outstanding forward contract for this firm purchase commitment had a contract value of \$1,065.

The Company is exposed to risk from fluctuating prices for zinc used in the manufacturing process. The Company hedges a portion of this risk

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through the use of commodity swaps. The swaps are designated as cash flow hedges with the fair value recorded in OCI and as a hedge asset or liability, as applicable. The fair value of the swaps is reclassified from OCI into earnings when the hedged purchase of zinc metal-based items also affects earnings. The swaps effectively fix the floating price on a specified quantity of a commodity through a specified date. During the twelve month period ended September 30, 2001, \$1,399 of pretax derivative losses were recorded as an adjustment to cost of sales for swap contracts settled at maturity. At September 30, 2001, the Company had a series of swap contracts outstanding through September 2002 with a contract value of \$10,870. The derivative net losses on these contracts recorded in OCI at September 30, 2001 was an after-tax loss of \$1,352.

(S) FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments approximate the fair value of those instruments due to their nature.

(T) ENVIRONMENTAL EXPENDITURES

Environmental expenditures which relate to current ongoing operations or to conditions caused by past operations are expensed. The Company determines its liability on a site-by-site basis and records a liability at the time when it is probable and can be reasonably estimated. The estimated liability is not reduced for possible recoveries from insurance carriers.

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(2) SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

(U) RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with the current year presentation.

(V) ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

Effective October 1, 2000, the Company adopted Financial Accounting Standards Board Statement (FASB) No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the change in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income (OCI) and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings.

The adoption of Statement No. 133 resulted in a pre-tax reduction to OCI of \$317 (\$150 after tax). The reduction to OCI is primarily attributable to losses of approximately \$500 for foreign exchange forward cash flow

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hedges partially offset by gains of approximately \$200 on interest rate swap cash flow hedges. (See also footnote 2(r)).

In January 2001, the FASB's Emerging Issues Task Force (EITF) reached a consensus on Issue 3 of EITF 00-22, "Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future". Issue 3 addresses the recognition, measurement, and income statement classification for offers to a customer to rebate or refund a specified amount of cash that may be redeemed if the customer completes a specified volume of transactions. The consensus was effective for quarters ending after February 15, 2001. The Company adopted the consensus reached on Issue 3, in the second fiscal quarter of 2001. The adoption and subsequent restatement of the 1999 and 2000 periods resulted in the reclassification of certain selling expenses as a reduction in revenue of \$9,238 and \$10,594, respectively. The reclassifications had no impact on pre-tax income, net income, or earnings per share.

In September 2000, the EITF reached a consensus on Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs". The Company adopted this consensus in the fourth quarter of Fiscal 2001. The adoption of EITF Issue No. 00-10 did not have a material impact on the consolidated financial statements. (See also footnote 2(n)).

(W) IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2000, the EITF reached a consensus on Issue No. 00-14, "Accounting for Certain Sales Incentives". This Issue addresses the recognition, measurement, and income statement classification for various types of sales incentives including discounts, coupons, rebates and

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(2) SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

free products. In July 2001, the EITF delayed the implementation of EITF 00-14 until no later than quarters beginning after December 15, 2001. The Company is required to adopt this consensus in the second fiscal quarter of 2002. The impact of this consensus on the Company's consolidated financial statements is still being evaluated. The Company does not currently believe its adoption will have a material impact on the consolidated financial statements other than the reclassification of certain selling expenses to cost of sales or a reduction of revenue.

In April 2001, the EITF reached a consensus on Issue No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products". This Issue addresses when consideration from a vendor to a retailer or distributor in connection with the purchase of the vendor's products to promote sales of the vendor's products should be classified in the vendor's income statement as a reduction of revenue or expense. The Company is required to adopt this consensus in the second fiscal quarter of 2002. The Company does not currently believe its adoption will have a material impact on the consolidated financial statements, other than the reclassification of certain selling expenses to cost of sales or a reduction in revenue.

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In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (Statement) 141, BUSINESS COMBINATIONS, and Statement 142, GOODWILL AND OTHER INTANGIBLE ASSETS. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with FASB Statement 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF.

The Company is required to adopt the provisions of Statement 141 immediately, and will adopt Statement 142 effective October 1, 2001. Statement 141 requires that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. Adoption of Statement 142 requires the Company to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments by December 31, 2001. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of Statement 142.

As of October 1, 2001, the Company has unamortized goodwill of approximately \$30,400 million and unamortized identifiable intangible assets of approximately \$88,700 million, all of which is subject to the transition provisions of Statements 141 and 142. Amortization expense related to goodwill was approximately \$1,000, \$1,600, and \$800 for fiscal

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(2) SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

2001, 2000, and 1999, respectively. Amortization expense related to tradenames was approximately \$2,300, \$2,300, and \$400 for fiscal 2001, 2000, and 1999, respectively. Management is currently evaluating the impact of adoption on the consolidated financial statements.

In August 2001, FASB issued Statement No. 143, ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS. Statement No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company is required to adopt no later than its fiscal year beginning October 1, 2002. Management is currently evaluating the impact of adoption on the consolidated financial statements.

In October 2001, the FASB Issued Statement No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS. This statement supersedes

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FASB Statement No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF, and the accounting and reporting provisions of APB Opinion No. 30, REPORTING THE RESULTS OF OPERATIONS--REPORTING THE EFFECTS OF DISPOSAL OF A SEGMENT OF A BUSINESS, AND EXTRAORDINARY, UNUSUAL AND INFREQUENTLY OCCURRING EVENTS AND TRANSACTIONS, for the disposal of a segment of a business. The Company is required to adopt no later than its fiscal year beginning October 1, 2002. Management is currently evaluating the impact of adoption on the consolidated financial statements.

(3) INVENTORIES

Inventories consist of the following:

| | SEPTEMBER 30, | |
|----------------------|---------------|----------|
| | 2000 | 2001 |
| Raw material..... | \$ 31,355 | \$24,271 |
| Work-in-process..... | 11,650 | 14,015 |
| Finished goods..... | 57,671 | 53,025 |
| | \$100,676 | \$91,311 |
| | ===== | ===== |

(4) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

| | SEPTEMBER 30, | |
|--------------------------------------|---------------|-----------|
| | 2000 | 2001 |
| Land, building and improvements..... | \$ 37,638 | \$ 34,350 |
| Machinery, equipment and other..... | 168,068 | 175,724 |
| Construction in process..... | 23,159 | 11,271 |
| | 228,865 | 221,345 |
| Less accumulated depreciation..... | 116,968 | 114,088 |
| | \$111,897 | \$107,257 |
| | ===== | ===== |

Machinery, equipment and other includes capitalized leases, net of amortization, totaling \$1,283 and \$1,242 at September 30, 2000 and 2001, respectively.

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

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(5) INTANGIBLE ASSETS

Intangible assets consist of the following:

| | SEPTEMBER 30, | |
|--|---------------|-----------|
| | 2000 | 2001 |
| | ----- | ----- |
| Excess cost over fair value of assets acquired (goodwill)... | \$ 33,878 | \$ 33,878 |
| Trade name..... | 90,000 | 90,000 |
| Non-competition agreement..... | 730 | 700 |
| Underfunded pension..... | 2,660 | 3,081 |
| Proprietary technology..... | 525 | 525 |
| | ----- | ----- |
| | 127,793 | 128,184 |
| Less: Accumulated amortization..... | 5,679 | 9,110 |
| | ----- | ----- |
| | \$122,114 | \$119,074 |
| | ===== | ===== |

(6) DEBT

Debt consists of the following:

| | SEPTEMBER 30, | |
|--|---------------|-----------|
| | 2000 | 2001 |
| | ----- | ----- |
| Revolving credit facility..... | \$175,700 | \$213,200 |
| Term loan facility..... | 62,830 | 34,365 |
| Series B Senior Subordinated Notes, due November 1, 2006, with interest at 10 1/4% payable semi-annually..... | 65,000 | 239 |
| Capitalized lease obligations..... | 1,019 | 1,098 |
| Notes and obligations, weighted average interest rate of 4.90% at September 30, 2001..... | 13,081 | 9,075 |
| | ----- | ----- |
| | 317,630 | 257,977 |
| Less current maturities..... | 44,815 | 24,436 |
| | ----- | ----- |
| Long-term debt..... | \$272,815 | \$233,541 |
| | ===== | ===== |

In 1999, the Company entered into an Amended and Restated Credit Agreement ("Second Restated Agreement"). The Second Restated Agreement provides for senior bank facilities, including term and revolving credit facilities in an aggregate amount of \$325,000. Interest on borrowings is computed, at the Company's option, based on the base rate, as defined ("Base Rate"), or the Interbank Offering Rate ("IBOR"). The Company recorded \$3,700 of fees paid as a result of the amendments as a debt issuance cost which is being amortized over the remaining life of the Second Restated Agreement.

The term facility included in the Second Restated Agreement initially totaled \$75,000. The facility provides for quarterly amortization totaling

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\$10,000 in 2000, \$15,000 in 2001, 2002 and 2003, and \$20,000 in 2004. The term facility also provides for annual prepayments, over and above the normal amortization. Such payments would be a portion of "Excess Cash Flow" (EBITDA less certain operating expenditures including scheduled principal payments of long-term debt). The quarterly

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(6) DEBT (CONTINUED)

amortization is reduced prorata for the effect of prepayments made as a result of Excess Cash Flow. The revolving credit facility provides for aggregate working capital loans up to \$250,000 reduced by outstanding letters of credit (initially limited to \$20,000) and other existing credit facilities and outstanding obligations.

On July 28, 2000, the Company amended the Second Restated Agreement ("First Amendment"). This First Amendment provides for letters of credit of up to \$40,000, loans to employees in the ordinary course of business of up to \$10,000 and capital expenditures of up to \$40,000 in fiscal years 2001, 2002 and 2003. The Company recorded \$25 of fees paid as a result of the amendment as a debt issuance cost which is being amortized over the remaining life of the Second Restated Agreement.

On December 31, 2000, the Company amended the Second Restated Agreement ("Second Amendment"). This Second Amendment authorizes the Company's majority-owned foreign subsidiaries to invest in other Company majority-owned foreign subsidiaries. No fees were paid as a result of the amendment.

On June 11, 2001, the Company amended the Second Restated Agreement ("Third Amendment"). This Third Amendment authorizes the Company to apply the net proceeds of an equity offering to redemption of its Senior Subordinated Notes, provides for investments by the Company and its domestic subsidiaries in its majority-owned foreign subsidiaries of up to \$40,000 and amends the definition of EBITDA for the twelve month periods ended July 1, and September 30, 2001 respectively, to include, non-cash charges related to write-off of un-amortized debt issuance costs associated with issuance of the Senior Subordinated Notes and up to \$15,000 and \$12,000 respectively of non-cash charges associated with restructuring charges recorded in the previous twelve month periods. The Company recorded \$50 of fees paid as a result of the amendment as a debt issuance cost which is being amortized over the remaining life of the Second Restated Agreement.

Interest on these borrowings is at the Base Rate plus a margin (0.00% to 0.75%) per annum (6.25% at September 30, 2001) or IBOR plus a margin (0.75% to 1.75%) per annum (4.90% at September 30, 2001). The Company had outstanding letters of credit of approximately \$11,080 at September 30, 2001. A fee (0.75% to 1.75%) per annum (1.25% at September 30, 2001) is payable on the outstanding letters of credit. The Company also incurs a fee of 0.25% per annum of the average daily maximum amount available to be drawn on each letter of credit issued.

The Second Restated Agreement contains financial covenants with respect to borrowings which include maintaining minimum interest coverage and maximum leverage ratios. In accordance with the Agreement, the limits imposed by such ratios became more restrictive following the June, 2001 equity offering. In addition, the Second Restated Agreement restricts the Company's ability to incur

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additional indebtedness, create liens, make investments or specified payments, give guarantees, pay dividends, make capital expenditures, and merge or acquire or sell assets. The Company is in compliance with the restrictive covenants of the Second Restated Agreement. The Company is required to pay a commitment fee (0.25% to 0.50%) per annum (0.375% at September 30, 2001) on the average daily-unused portion of the facilities. The facilities' margin and commitment fee may be adjusted if the Company's leverage ratio, as defined, increases or decreases. Borrowings under the Second Restated Agreement are collateralized by substantially all of the assets of the Company.

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(6) DEBT (CONTINUED)

The Series B Senior Subordinated Notes ("Notes") were scheduled to mature on November 1, 2006. In connection with the Company's initial public offering of common stock, \$35,000 of the outstanding Notes were redeemed in December 1997. The remaining Notes were redeemable at the option of the Company, in whole or in part, at prescribed redemption prices plus accrued and unpaid interest on or after November 1, 2001.

In connection with the acquisition of the consumer battery business of ROV Limited ("Acquisition"), the Company obtained the consent of the holders of the Notes to certain amendments to the Indenture governing these Notes. The First Supplemental Indenture expired in April 1999 without becoming effective. A Second Supplemental Indenture became effective on August 9, 1999. The Company recorded \$2,200 of fees paid as a result of the amendments as a debt issuance cost which was amortized over the remaining life of the Notes.

On June 13, 2001, the Company entered into a Third Supplemental Indenture ("Third Supplemental Indenture") in connection with the Company's offer to redeem all of the \$65,000 of remaining outstanding Notes prior to their scheduled redemption dates. As a result of the Third Supplemental Indenture, the Company received consents to eliminate or modify substantially all of the covenants and certain events of default in the indenture. \$64,761 of the Notes were redeemed in June 2001. In connection with the early redemption the Company recorded, as an extraordinary item, \$4,891 for the premium and related expenses paid or incurred and \$3,696 for the write-off of un-amortized debt issuance costs. As of September 30, 2001, the Company has given notice to the holders of the \$239 of remaining Notes of its intention to redeem them on November 1, 2001. Payment obligations under the Notes are fully and unconditionally guaranteed on a joint and several basis by the Company's directly and wholly owned subsidiaries, ROV Holding, Inc., Rovcal, and Vidor Battery Company, each a guarantor. Vidor Battery Company was dissolved and transferred to the Company on September 2, 1999. The foreign subsidiaries of the Company currently do not guarantee the payment obligations under the Notes (Nonguarantor Subsidiaries), and are wholly owned directly or indirectly by ROV Holding, Inc. (See note 18).

The aggregate scheduled maturities of debt are as follows:

| | |
|-----------|-----------|
| 2002..... | \$ 24,436 |
| 2003..... | 10,902 |
| 2004..... | 222,639 |
| | ----- |
| | \$257,977 |

=====

In 2001, the Company entered into capital leases with an aggregate obligation of \$939. Aggregate capitalized lease obligations are payable in installments of \$618 in 2002, \$357 in 2003 and \$123 in 2004.

(7) SHAREHOLDERS' EQUITY

In January 1997, the Company established a trust to fund future payments under a deferred compensation plan. Certain employees eligible to participate in the plan assigned stock options to the plan. The trust exercised the options and purchased 160 shares of the Company's common stock. In

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(7) SHAREHOLDERS' EQUITY (CONTINUED)

June 1998, the trust sold 136 shares in connection with a secondary offering of common stock. The remaining 24 shares held by the trust at September 30, 1998, valued at \$412, were sold during 1999.

On October 1, 2000, the Company granted approximately 277 shares of restricted stock to certain members of management. Approximately 210 of these shares will vest on September 30, 2003 provided the recipient is still employed by the Company. The remainder vests one third each year for the next three years. The total market value of the restricted shares on date of grant was approximately \$4,746 and has been recorded as unearned compensation as a separate component of shareholders' equity. Unearned compensation is being amortized to expense over the three-year vesting period.

On June 22, 2001, the Company completed a primary offering of 3,500 shares of Common Stock. The net proceeds of approximately \$64,200 after deducting the underwriting discounts and offering expenses, were used to repurchase approximately \$64,800 principal amount of 10 1/4% Series B Senior Subordinated Notes.

Concurrently, the Thomas H. Lee Group and its affiliates sold approximately 4,200 shares and certain Rayovac officers and employees sold approximately 900 shares in a secondary offering of common stock. The Company did not receive any proceeds from the sales of the secondary offering shares but incurred expenses for the offering of approximately \$200 which are included in Special Charges.

(8) STOCK OPTION PLANS

In 1996, the Company's Board of Directors ("Board") approved the Rayovac Corporation 1996 Stock Option Plan ("1996 Plan"). Under the 1996 Plan, stock options to acquire up to 2,318 shares of common stock, in the aggregate, may be granted to select employees and directors of the Company under either or both a time-vesting or a performance-vesting formula at an exercise price equal to the market price of the common stock on the date of grant. The time-vesting options become exercisable primarily in equal 20% increments over a five-year period. The performance-vesting options become exercisable at the end of ten years with accelerated vesting over each of the first five years if the Company achieves certain performance goals. Accelerated vesting may occur upon sale of the Company, as defined in the 1996 Plan. As of September 30, 2001, there were options with respect to 1,288, shares of common stock outstanding under the 1996

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Plan.

In 1997, the Board adopted the 1997 Rayovac Incentive Plan ("Incentive Plan"). The Incentive Plan replaces the 1996 Plan and no further awards will be granted under the 1996 Plan other than awards of options for shares up to an amount equal to the number of shares covered by options that terminate or expire prior to being exercised. Under the Incentive Plan, the Company may grant to employees and non-employee directors stock options, stock appreciation rights ("SARs"), restricted stock, and other stock-based awards, as well as cash-based annual and long-term incentive awards. Accelerated vesting will occur in the event of a change in control, as defined in the Incentive Plan. Up to 5,000 shares of common stock may be issued under the Incentive Plan. The Incentive Plan expires in August 2007. As of September 30, 2001, there were options with respect to 1,978, shares of common stock outstanding under the Incentive Plan.

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(8) STOCK OPTION PLANS (CONTINUED)

A summary of the status of the Company's plans is as follows:

| | 1999 | | 2000 | | OPTIONS |
|---|---------|---------------------------------|---------|---------------------------------|---------|
| | OPTIONS | WEIGHTED-AVERAGE EXERCISE PRICE | OPTIONS | WEIGHTED-AVERAGE EXERCISE PRICE | |
| Outstanding, beginning of period..... | 2,561 | \$7.17 | 2,832 | \$ 9.14 | 3,276 |
| Granted..... | 452 | 18.72 | 729 | 21.62 | 857 |
| Exercised..... | (39) | 4.39 | (132) | 4.71 | (701) |
| Forfeited..... | (142) | 5.18 | (153) | 8.39 | (166) |
| Outstanding, end of period..... | 2,832 | \$9.16 | 3,276 | \$12.15 | 3,266 |
| Options exercisable, end of period..... | 876 | \$6.05 | 1,325 | \$ 7.67 | 1,304 |

The Company also granted approximately 277 shares of restricted stock during 2001 under the Incentive Plan. The restrictions lapse over the next three years. As of September 30, 2001, the restrictions had lapsed on 22 of these shares.

The following table summarizes information about options outstanding and outstanding and exercisable as of September 30, 2001:

| RANGE OF | OPTIONS OUTSTANDING | | OPTIONS OUTSTANDING AND EXERCISABLE | |
|----------|---------------------|----------------------------|-------------------------------------|------------------|
| | NUMBER OF | WEIGHTED-AVERAGE REMAINING | NUMBER OF | WEIGHTED-AVERAGE |

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| EXERCISE PRICES ----- | SHARES ----- | CONTRACTUAL LIFE ----- | EXERCISE PRICE ----- | SHARES ----- | EXE ----- |
|--------------------------|-----------------|---------------------------|-------------------------|-----------------|--------------|
| \$4.39 | 1,018 | 5 years | \$ 4.39 | 696 | |
| \$14.06 - \$20.935 | 1,376 | 8.3 | 16.13 | 274 | |
| \$21.25 - \$29.50 | 872 | 7.6 | 22.25 | 334 | |

The Company has adopted the provisions of SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, and continues to apply Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock plans. Accordingly, the Company recognized \$1,582 of compensation cost related to restricted stock and no compensation cost related to options for the stock plans. If the Company had elected to recognize compensation cost for all of the plans based upon the fair value at the grant dates for awards under those plans, consistent with the method prescribed by SFAS No. 123, net income per common share would have been reduced to the pro forma amounts indicated below:

| | 1999 ----- | 2000 ----- | 2001 ----- |
|--|---------------|---------------|---------------|
| Net income reported..... | \$24,136 | \$38,350 | \$11,534 |
| Pro forma net income..... | \$22,697 | \$35,887 | \$ 7,932 |
| Pro forma basic net income per common share..... | \$ 0.83 | \$ 1.30 | \$ 0.28 |
| Pro forma diluted net income per common share..... | \$ 0.78 | \$ 1.23 | \$ 0.27 |

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(8) STOCK OPTION PLANS (CONTINUED)

The fair value of the Company's stock options used to compute pro forma net income and diluted net income per common share disclosures is the estimated fair value at grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

| | 1999 ----- | 2000 ----- | 2001 ----- |
|--|---------------|---------------|---------------|
| Assumptions used: | | | |
| Volatility..... | 28.0% | 28.6% | 34.7% |
| Risk-free interest rate..... | 6.22% | 6.17% | 4.48% |
| Expected life..... | 8 years | 8 years | 8 years |
| Dividend yield..... | -- | -- | -- |
| Weighted-average grant-date fair value of options granted during period..... | \$9.15 | \$10.49 | \$7.27 |

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because

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the Company's options have characteristics significantly different from traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single value of its options and may not be representative of the future effects on reported net income or the future stock price of the Company. For purposes of proforma disclosure, the estimated fair value of the options is amortized to expense over the option's vesting period.

(9) INCOME TAXES

Pretax income (income before income taxes and extraordinary item) and income tax expense consist of the following:

| | 1999 | 2000 | 2001 |
|--------------------------------|----------|----------|----------|
| | ----- | ----- | ----- |
| Pretax income: | | | |
| United States..... | \$26,929 | \$30,383 | \$13,660 |
| Outside the United States..... | 10,669 | 27,569 | 12,426 |
| | ----- | ----- | ----- |
| Total pretax income..... | \$37,598 | \$57,952 | \$26,086 |
| | ===== | ===== | ===== |
| Income tax expense (benefit): | | | |
| Current: | | | |
| Federal..... | \$ 7,908 | \$ 7,850 | \$ 6,617 |
| Foreign..... | 3,988 | 8,142 | 6,217 |
| State..... | 528 | 705 | 142 |
| | ----- | ----- | ----- |
| Total current..... | 12,424 | 16,697 | 12,976 |
| | ----- | ----- | ----- |
| Deferred: | | | |
| Federal..... | 784 | 2,032 | (1,977) |
| Foreign..... | 55 | 731 | (1,638) |
| State..... | 199 | 142 | (136) |
| | ----- | ----- | ----- |
| Total deferred..... | 1,038 | 2,905 | (3,751) |
| | ----- | ----- | ----- |
| | \$13,462 | \$19,602 | \$ 9,225 |
| | ===== | ===== | ===== |

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(9) INCOME TAXES (CONTINUED)

In 2001, a tax benefit of \$3,260 was recorded in conjunction with the loss on early extinguishment of debt.

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

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| | 1999 ----- | 2000 ----- | 2001 ----- |
|---|---------------|---------------|---------------|
| Statutory Federal income tax rate..... | 35.0% | 35.0% | 35.0% |
| Foreign Sales Corporation benefit..... | (0.7) | (0.6) | (1.4) |
| Effect of foreign items and rate differentials..... | 1.6 | (0.9) | 0.8 |
| State income taxes and other..... | 1.2 | 1.0 | 1.3 |
| Adjustment of prior year taxes..... | (2.0) | (1.3) | (1.4) |
| Other..... | 0.7 | 0.6 | 1.1 |
| | ----- | ----- | ----- |
| | 35.8% | 33.8% | 35.4% |
| | ===== | ===== | ===== |

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

| | SEPTEMBER 30, ----- | |
|--|------------------------|---------------|
| | 2000 ----- | 2001 ----- |
| Current deferred tax assets: | | |
| Restructuring and asset impairments..... | \$ 1,898 | \$ 3,151 |
| Inventories and receivables..... | 2,815 | 3,019 |
| Marketing and promotional accruals..... | 3,492 | 2,113 |
| Tax loss carry forwards..... | -- | 2,348 |
| Currency hedges..... | -- | 1,731 |
| Other..... | 1,572 | 1,856 |
| | ----- | ----- |
| Total current deferred tax assets..... | 9,777 | 14,218 |
| | ----- | ----- |
| Current deferred tax liabilities: | | |
| Inventories..... | (4,395) | (2,494) |
| Other..... | (670) | (1,389) |
| | ----- | ----- |
| Total current deferred tax liabilities..... | (5,065) | (3,883) |
| | ----- | ----- |
| Net current deferred tax assets..... | \$ 4,712 | \$ 10,335 |
| | ===== | ===== |
| Noncurrent deferred tax assets: | | |
| Employee benefits..... | 2,725 | 3,462 |
| Operating loss and credit carry forwards..... | 1,096 | 1,328 |
| Property, plant and equipment..... | -- | 477 |
| Other..... | 2,344 | 3,626 |
| | ----- | ----- |
| Total noncurrent deferred tax assets..... | 6,165 | 8,893 |
| | ----- | ----- |
| Noncurrent deferred tax liabilities: | | |
| Property, plant, and equipment..... | (11,548) | (12,178) |
| Intangibles..... | -- | (2,240) |
| Other..... | (1,111) | (903) |
| | ----- | ----- |
| Total noncurrent deferred tax liabilities..... | (12,659) | (15,321) |
| | ----- | ----- |
| Net noncurrent deferred tax liabilities..... | \$ (6,494) | \$ (6,428) |
| | ===== | ===== |

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(9) INCOME TAXES (CONTINUED)

At September 30, 2001, net noncurrent deferred tax assets of \$1,505 are included in Deferred charges and other and net current deferred tax liabilities of \$1 are included in Other accrued liabilities on the Consolidated Balance Sheets. At September 30, 2000, net noncurrent deferred tax assets of \$1,748 are included in Deferred charges and other and net current deferred tax liabilities of \$1,362 are included in other accrued liabilities on the Consolidated Balance Sheets.

The Company believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

Provision has not been made for United States income taxes on a portion of the undistributed earnings of the Company's foreign subsidiaries (approximately \$25,115 and \$33,366 at September 30, 2000 and 2001, respectively), either because any taxes on dividends would be offset substantially by foreign tax credits or because the Company intends to reinvest those earnings. Such earnings would become taxable upon the sale or liquidation of these foreign subsidiaries or upon remittance of dividends. It is not practicable to estimate the amount of the deferred tax liability on such earnings.

(10) LEASES

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

| | |
|-----------------|----------|
| 2002..... | \$ 6,433 |
| 2003..... | 5,610 |
| 2004..... | 4,408 |
| 2005..... | 4,315 |
| 2006..... | 3,624 |
| Thereafter..... | 17,525 |
| | ----- |
| | \$41,915 |
| | ===== |

The leases on the properties require annual lease payments of \$3,084 subject to annual inflationary increases. All of the leases expire during the years 2002 through 2014.

Total rental expenses were \$6,902, \$6,924 and \$7,137 for 1999, 2000, and 2001 respectively.

(11) EMPLOYEE BENEFIT PLANS

PENSION BENEFITS

The Company has various defined benefit pension plans covering substantially all of its domestic hourly employees and union members. Plans generally provide benefits of stated amounts for each year of service. The Company's practice is to fund pension costs at amounts within the acceptable ranges established by the

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Employee Retirement Income Security Act of 1974, as amended.

The Company also has various nonqualified deferred compensation agreements with certain of its employees. Under certain agreements, the Company has agreed to pay certain amounts annually for the first 15 years subsequent to retirement or to a designated beneficiary upon death. It is management's intent that life insurance contracts owned by the Company will fund these agreements. Under the other

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(11) EMPLOYEE BENEFIT PLANS (CONTINUED)

agreements the Company has agreed to pay such deferral amounts in up to 15 annual installments beginning on a date specified by the employee, subsequent to retirement or disability, or to designated beneficiary upon death. The Company established a rabbi trust to fund these agreements.

OTHER BENEFITS

The Company provides certain health care and life insurance benefits to eligible retired employees. Participants earn retiree health care benefits after reaching age 45 over the next 10 succeeding years of service and remain eligible until reaching age 65. The plan is contributory; retiree contributions have been established as a flat dollar amount with contribution rates expected to increase at the active medical trend rate. The plan is unfunded. The Company is amortizing the transition obligation over a 20-year period.

| | PENSION BENEFITS | | OTHER BENEFITS | |
|---|------------------|------------|----------------|------------|
| | 2000 | 2001 | 2000 | 2001 |
| CHANGE IN BENEFIT OBLIGATION | | | | |
| Benefit obligation at beginning of year..... | \$16,838 | \$17,731 | \$ 2,878 | 2,930 |
| Service cost..... | 506 | 616 | 335 | 335 |
| Interest cost..... | 1,239 | 1,415 | 209 | 209 |
| Amendments..... | 860 | 371 | (94) | (94) |
| Actuarial (gain) loss..... | (1,039) | 1,180 | (230) | (730) |
| Benefits paid..... | (673) | (694) | (173) | (173) |
| | \$17,731 | \$20,619 | \$ 2,925 | \$ 2,600 |
| CHANGE IN PLAN ASSETS | | | | |
| Fair value of plan assets at beginning of year..... | \$ 9,955 | 11,258 | \$ -- | \$ -- |
| Actual return on plan assets..... | 604 | (1,252) | -- | -- |
| Employer contribution..... | 1,493 | 3,114 | 173 | 173 |
| Benefits paid..... | (673) | (694) | (173) | (173) |
| Plan expenses paid..... | (121) | (110) | -- | -- |
| | \$11,258 | \$12,316 | \$ -- | \$ -- |
| Funded status..... | \$ (6,473) | \$ (8,303) | \$ (2,925) | \$ (2,600) |
| Unrecognized net transition obligation..... | 257 | 213 | 375 | 375 |
| Unrecognized prior service cost..... | 2,861 | 2,917 | -- | -- |

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| | | | | |
|---|------------|------------|------------|---------|
| Unrecognized net actuarial (gain) loss..... | (410) | 3,297 | 609 | (1 |
| Adjustment for minimum liability..... | (2,712) | (6,431) | -- | |
| | ----- | ----- | ----- | ----- |
| Accrued benefit cost..... | \$ (6,477) | \$ (8,307) | \$ (1,941) | \$ (2,4 |
| | ===== | ===== | ===== | ===== |

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(11) EMPLOYEE BENEFIT PLANS (CONTINUED)

| | PENSION BENEFITS | | OTHER BENEFITS | |
|-------------------------------------|------------------|------|----------------|------|
| | 2000 | 2001 | 2000 | 2001 |
| Weighted-average assumptions: | | | | |
| Discount rate..... | 8.0% | 7.5% | 7.5% | 7.5% |
| Expected return on plan assets..... | 8.5% | 8.5% | N.A. | N.A. |

| | PENSION BENEFITS | | | OTHER BENEFITS | |
|---|------------------|---------|----------|----------------|-------|
| | 1999 | 2000 | 2001 | 1999 | 2001 |
| COMPONENTS OF NET PERIODIC BENEFIT COST | | | | | |
| Service cost..... | \$ 495 | \$ 506 | \$ 616 | \$236 | \$ |
| Interest cost..... | 1,431 | 1,239 | 1,415 | 156 | |
| Actual return on assets..... | (735) | (604) | 1,252 | -- | |
| Amortization of prior service cost..... | 233 | 234 | 311 | -- | |
| Recognized net actuarial (gain) loss..... | (347) | (272) | (2,368) | 63 | |
| | ----- | ----- | ----- | ----- | ----- |
| Net periodic benefit cost..... | \$1,077 | \$1,103 | \$ 1,226 | \$455 | \$ |
| | ===== | ===== | ===== | ===== | ===== |

Pension plan assets and obligations are measured at June 30 each year. The contributions to the pension plans between July 1 and September 30 were \$2,338 and \$495 in 2000 and 2001, respectively.

The Company has recorded an additional minimum pension liability of \$2,712 and \$6,431 at September 30, 2000 and 2001, respectively, to recognize the underfunded position of certain of its benefit plans. An intangible asset of \$2,660 and \$3,081 at September 30, 2000 and 2001, respectively, equal to the unrecognized prior service cost of these plans, has also been recorded. The excess of the additional minimum liability over the unrecognized prior service cost of \$52 at September 30, 2000 and \$3,350 at September 30, 2001, has been recorded as a component of accumulated other comprehensive income.

The Company sponsors a defined contribution pension plan for its domestic salaried employees, which allows participants to make contributions by salary

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reduction pursuant to Section 401(k) of the Internal Revenue Code. The Company contributes annually from 3% to 6% of participants' compensation based on age, and may make additional discretionary contributions. The Company also sponsors defined contribution pension plans for employees of certain foreign subsidiaries. Company contributions charged to operations, including discretionary amounts, for 1999, 2000 and 2001, were \$2,013, \$2,171 and \$2,147, respectively.

For measurement purposes, annual rates of increase of 8.0% in the per capita costs of covered health care benefits were assumed for 1999, 2000 and 2001, respectively, gradually decreasing to 5.5%. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of September 30, 2001, by \$170 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended September 30, 2001, by \$59. Decreasing the assumed health care cost trend rates by one percentage point in each year would decrease the accumulated postretirement benefit

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(11) EMPLOYEE BENEFIT PLANS (CONTINUED)

obligation as of September 30, 2001, by \$156 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended September 30, 2001, by \$52.

(12) SEGMENT INFORMATION

The Company manages operations in three reportable segments based upon geographic area. North America includes the United States and Canada; Latin America includes Mexico, Central America, and South America; Europe/Rest of World ("Europe/ROW") includes the United Kingdom, Europe and all other countries in which the Company does business.

The Company manufactures and markets dry cell batteries including alkaline, zinc carbon, alkaline rechargeable, hearing aid, and other specialty batteries and lighting products throughout the world. These product lines are sold in all geographic areas except Latin America where revenues have historically been derived primarily from zinc carbon and some alkaline batteries.

Net sales and cost of sales to other segments have been eliminated. The gross contribution of inter segment sales is included in the segment selling the product to the external customer. Segment revenues are based upon the geographic area in which the product is sold.

The reportable segment profits do not include interest expense, interest income, and income tax expense. Also, not included in the reportable segments, are corporate expenses including corporate purchasing expense, general and administrative expense and research and development expense. All depreciation and amortization included in income from operations is related to reportable segments. Costs are identified to reportable segments or corporate, according to the function of each cost center.

The reportable segment assets do not include cash, deferred tax benefits, investments, long-term intercompany receivables, most deferred charges, and

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

Wal-Mart Store, Inc., the Company's largest mass merchandiser customer, represented 20%, 21% and 26% of its net sales during 1999, 2000, and 2001, respectively, primarily in North America.

REVENUES FROM EXTERNAL CUSTOMERS

| | 1999 | 2000 | 2001 |
|---------------------|-----------|-----------|-----------|
| | ----- | ----- | ----- |
| North America..... | \$471,566 | \$528,298 | \$504,981 |
| Latin America..... | 19,273 | 112,179 | 119,670 |
| Europe/ROW..... | 64,225 | 52,862 | 50,841 |
| | ----- | ----- | ----- |
| Total segments..... | \$555,064 | \$693,339 | \$675,492 |
| | ===== | ===== | ===== |

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(12) SEGMENT INFORMATION (CONTINUED)

INTER SEGMENT REVENUES

| | 1999 | 2000 | 2001 |
|---------------------|----------|----------|----------|
| | ----- | ----- | ----- |
| North America..... | \$17,162 | \$23,563 | \$30,634 |
| Latin America..... | -- | 1,293 | 9,518 |
| Europe/ROW..... | 1,096 | 1,058 | 2,593 |
| | ----- | ----- | ----- |
| Total segments..... | \$18,258 | \$25,914 | \$42,745 |
| | ===== | ===== | ===== |

DEPRECIATION AND AMORTIZATION

| | 1999 | 2000 | 2001 |
|---------------------|----------|----------|----------|
| | ----- | ----- | ----- |
| North America..... | \$11,430 | \$13,266 | \$14,253 |
| Latin America..... | 703 | 5,253 | 5,393 |
| Europe/ROW..... | 1,324 | 1,504 | 1,573 |
| | ----- | ----- | ----- |
| Total segments..... | \$13,457 | \$20,023 | \$21,219 |
| | ===== | ===== | ===== |

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SEGMENT PROFIT

| | 1999 | 2000 | 2001 |
|---|----------|----------|----------|
| | ----- | ----- | ----- |
| North America..... | \$77,785 | \$95,351 | \$83,066 |
| Latin America..... | 3,535 | 20,273 | 16,913 |
| Europe/ROW..... | 9,942 | 6,085 | 4,061 |
| | ----- | ----- | ----- |
| Total segments..... | 91,262 | 121,709 | 104,040 |
| Corporate expenses..... | 28,192 | 32,378 | 27,364 |
| Special charges..... | 9,432 | -- | 22,307 |
| Interest expense..... | 16,354 | 30,626 | 27,189 |
| Other (income) expense net..... | (314) | 753 | 1,094 |
| | ----- | ----- | ----- |
| Income before income taxes and extraordinary items..... | \$37,598 | \$57,952 | \$26,086 |
| | ===== | ===== | ===== |

SEGMENT ASSETS

| | SEPTEMBER 30, | | |
|-------------------------------|---------------|-----------|-----------|
| | 1999 | 2000 | 2001 |
| | ----- | ----- | ----- |
| North America..... | \$280,394 | \$294,210 | \$309,411 |
| Latin America..... | 177,135 | 199,865 | 207,120 |
| Europe/ROW..... | 33,790 | 31,233 | 31,692 |
| | ----- | ----- | ----- |
| Total segments..... | 491,319 | 525,308 | 548,223 |
| Corporate..... | 41,582 | 43,708 | 39,659 |
| | ----- | ----- | ----- |
| Total assets at year end..... | \$532,901 | \$569,016 | \$587,882 |
| | ===== | ===== | ===== |

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(12) SEGMENT INFORMATION (CONTINUED)
EXPENDITURES FOR SEGMENT ASSETS

| | 1999 | 2000 | 2001 |
|--------------------|----------|----------|----------|
| | ----- | ----- | ----- |
| North America..... | \$22,678 | \$14,668 | \$17,521 |
| Latin America..... | 622 | 3,448 | 1,761 |
| Europe/ROW..... | 813 | 880 | 411 |
| | ----- | ----- | ----- |

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| | | | |
|---------------------|----------|----------|----------|
| Total segments..... | \$24,113 | \$18,996 | \$19,693 |
| | ===== | ===== | ===== |

PRODUCT LINE REVENUES

| | 1999 | 2000 | 2001 |
|--|-----------|-----------|-----------|
| | ----- | ----- | ----- |
| Alkaline..... | \$278,500 | \$329,900 | \$348,000 |
| Heavy Duty..... | 55,300 | 143,700 | 141,800 |
| Rechargeables..... | 25,200 | 31,800 | 33,000 |
| Hearing Aid batteries..... | 72,300 | 65,300 | 69,900 |
| Specialty batteries..... | 47,900 | 43,100 | 19,100 |
| Lighting products and Lantern batteries..... | 75,900 | 79,500 | 63,700 |
| | ----- | ----- | ----- |
| Total revenues from external customers..... | \$555,100 | \$693,300 | \$675,500 |
| | ===== | ===== | ===== |

(13) COMMITMENTS AND CONTINGENCIES

In March 1998, the Company entered into an agreement to purchase certain equipment and to pay annual royalties. In connection with this 1998 agreement the Company committed to pay royalties of \$2,000 in 1999, \$3,000 in 2000 through 2002, and \$500 in each year thereafter, as long as the related equipment patents are enforceable (2022). The Company incurred royalty expenses of \$2,000 for 1999, \$2,250 for 2000 and \$3,000 for 2001. Additionally, the Company has commitments of approximately \$1,065 for the acquisition of manufacturing equipment, all of which is expected to be incurred in calendar 2001.

The Company has provided for the estimated costs associated with environmental remediation activities at some of its current and former manufacturing sites. In addition, the Company, together with other parties, has been designated a potentially responsible party of various third-party sites on the United States EPA National Priorities List (Superfund). The Company provides for the estimated costs of investigation and remediation of these sites when such losses are probable and the amounts can be reasonably estimated. The actual cost incurred may vary from these estimates due to the inherent uncertainties involved. The Company believes that any additional liability in excess of the amounts provided of \$1,971, which may result from resolution of these matters, will not have a material adverse effect on the financial condition, liquidity, or cash flow of the Company.

The Company has certain other contingent liabilities with respect to litigation, claims and contractual agreements arising in the ordinary course of business. In the opinion of management, such contingent liabilities are not likely to have a material adverse effect on the financial condition, liquidity or cash flow of the Company.

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(14) RELATED PARTY TRANSACTIONS

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The Company and Thomas H. Lee Company (THL Co.) are parties to a Management Agreement pursuant to which the Company engaged THL Co. to provide consulting and management advisory services for an initial period of five years through September 2001. The agreement has been renewed for another year. In consideration of ongoing consulting and management advisory services, the Company will pay THL Co. an aggregate annual fee of \$360 plus expenses. The Company paid THL Co. aggregate fees and expenses of \$437, \$458 and \$473 for 1999, 2000 and 2001, respectively.

The Company has notes receivable from officers in the amount of \$3,190 and \$3,665 at September 30, 2000 and 2001, respectively, generally payable in FY2002 through FY2005, which bear interest at 6.6% to 8.0%. Since the officers utilized the proceeds of the notes to purchase common stock of the Company, directly or through the exercise of stock options, the notes have been recorded as a reduction of shareholders' equity.

(15) SPECIAL CHARGES

During 1998, the Company recorded special charges and credits as follows: (i) a credit of \$1,243 related to the settlement of deferred compensation agreements with certain former employees, (ii) charges of \$5,280 related to (a) the September 1998 closing of the Company's Newton Aycliffe, United Kingdom, packaging facility, (b) the phasing out of direct distribution through June 1998 in the United Kingdom, and (c) the September 1998 closing of one of the Company's German sales offices, which amounts include \$1,771 of employee termination benefits for 73 employees, \$1,457 of lease cancellation costs, and \$1,032 of equipment and intangible asset write-offs, and \$1,020 of other costs, (iii) charges of \$2,184 related to the closing of the Company's Appleton, Wisconsin, manufacturing facility, which amount includes \$1,449 of employee termination benefits for 153 employees, \$200 of fixed asset write-offs and \$535 of other costs, (iv) charges of \$1,963 related to the exit of certain manufacturing operations at the Company's Madison, Wisconsin, facility, which amount includes \$295 of employee termination benefits for 29 employees, \$1,256 of fixed asset write-offs, and \$412 of other costs, (v) a \$2,435 gain on the sale of the Company's previously closed Kinston, North Carolina, facility,

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(15) SPECIAL CHARGES (CONTINUED)

(vi) charges of \$854 related to the secondary offering of the Company's common stock, and (vii) miscellaneous credits of \$420. A summary of the 1998 restructuring activities follows:

1998 RESTRUCTURING SUMMARY

| | TERMINATION BENEFITS | OTHER COSTS | TOTAL |
|---------------------------|-------------------------|----------------|---------|
| Expense accrued..... | \$3,700 | \$3,800 | \$7,500 |
| Change in estimate..... | (100) | 500 | 400 |
| Expensed as incurred..... | 200 | 1,300 | 1,500 |
| Cash expenditures..... | (1,500) | (1,400) | (2,900) |
| Non-cash charges..... | -- | (1,600) | (1,600) |

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| | | | |
|---------------------------------|---------|---------|---------|
| Balance September 30, 1998..... | \$2,300 | \$2,600 | \$4,900 |
| Change in estimate..... | (500) | -- | (500) |
| Expensed as incurred..... | 300 | 2,800 | 3,100 |
| Cash expenditures..... | (2,000) | (4,500) | (6,500) |
| Non-cash charges..... | -- | (900) | (900) |
| Balance September 30, 1999..... | \$ 100 | \$ -- | \$ 100 |
| Cash expenditures..... | (100) | -- | (100) |
| Balance September 30, 2000..... | \$ -- | \$ -- | \$ -- |
| | ===== | ===== | ===== |

During 1999, the Company recorded special charges as follows: (i) \$2,528 of employee termination benefits for 43 employees related to organizational restructuring in the U.S. and Europe, (ii) \$1,300 of charges related to the discontinuation of the manufacturing of silver-oxide cells at the Company's Portage, Wisconsin, facility, and (iii) \$2,100 of charges related to the termination of non-performing foreign distributors. The Company also recognized special charges of \$803 related to the investigation of financing options and developing organizational strategies for the Latin American acquisition. A summary of the 1999 restructuring activities follows:

1999 RESTRUCTURING SUMMARY

| | TERMINATION BENEFITS | OTHER COSTS | TOTAL |
|---------------------------------|-------------------------|----------------|---------|
| | ----- | ----- | ----- |
| Expense accrued..... | \$2,500 | \$3,400 | \$5,900 |
| Cash expenditures..... | (200) | -- | (200) |
| Balance September 30, 1999..... | \$2,300 | \$3,400 | \$5,700 |
| Change in estimate..... | -- | 100 | 100 |
| Cash expenditures..... | (2,200) | -- | (2,200) |
| Non cash charges..... | -- | (3,300) | (3,300) |
| Balance September 30, 2000..... | \$ 100 | \$ 200 | \$ 300 |
| Cash expenditures..... | (100) | -- | (100) |
| Non cash charges..... | -- | (200) | (200) |
| Balance September 30, 2001..... | \$ -- | \$ -- | \$ -- |
| | ===== | ===== | ===== |

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(15) SPECIAL CHARGES (CONTINUED)

During Fiscal 2001, the Company recorded special charges related to: (i) an organizational restructuring in the U.S, (ii) manufacturing and distribution cost rationalization initiatives in the Company's Tegucigalpa, Honduras and Mexico City, Mexico manufacturing facilities and in our European operations, (iii) the closure of the Company's Wonewoc, Wisconsin, manufacturing facility,

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(iv) the rationalization of uneconomic manufacturing processes at the Company's Fennimore, Wisconsin, manufacturing facility, and rationalization of packaging operations and product lines, and (v) costs associated with our June 2001 secondary offering. The amount recorded includes \$10,100 of employee termination benefits for approximately 570 employees, \$10,200 of equipment, inventory, and other asset write-offs, and \$2,000 of other expenses. A summary of the 2001 restructuring activities follows:

2001 RESTRUCTURING SUMMARY

| | TERMINATION BENEFITS | OTHER COSTS | TOTAL |
|---------------------------------|-------------------------|----------------|----------|
| Expense accrued..... | \$5,000 | \$11,000 | \$16,000 |
| Change in estimate..... | 4,400 | 100 | 4,500 |
| Expense as incurred..... | 700 | 1,100 | 1,800 |
| Cash expenditures..... | (5,800) | (1,300) | (7,100) |
| Non cash charges..... | -- | (9,300) | (9,300) |
| | ----- | ----- | ----- |
| Balance September 30, 2001..... | \$4,300 | \$ 1,600 | \$ 5,900 |
| | ===== | ===== | ===== |

(16) ACQUISITIONS AND DIVESTITURES

On August 9, 1999, the Company acquired the consumer battery business of ROV Limited for approximately \$145,100, net of cash. These operations market and manufacture a line of general batteries under the Rayovac name in many Latin American countries. They also market and distribute batteries to other countries in South America, the Middle East, Africa and selected Asian countries. These operations had calendar 1998 sales of \$97,000. This acquisition provides Rayovac with control of the Rayovac brand rights for battery products worldwide, except for Brazil. The acquisition has been accounted for by the purchase method and, accordingly, the results of operations of the acquired business for the period from August 9, 1999 through September 30, 1999 have been included in Rayovac Corporation's consolidated financial statements. The trade name, valued at \$90,000, was recorded as an intangible asset. The excess of the purchase price over the fair value of the net identifiable assets acquired of \$28,424 has been recorded as goodwill. The trade name and goodwill are being amortized on a straight-line basis over the estimated useful life of 40 years.

In September 2000, the Company entered into an asset purchase agreement and a license agreement with a Hong Kong company to sell certain inventory and for the exclusive right to use the Rayovac trade name for the manufacture, sale and distribution of the Company's camcorder battery product line. In exchange for the license, the Company received a \$6,000 promissory note, payable over five years, and will receive a royalty on future sales of camcorder batteries. The Company will receive a minimum royalty of \$100 over the balance of the license arrangement and will receive a variable royalty on sales of camcorder batteries. The company has no substantive future obligation relative to this agreement. As a result of this transaction, the Company recognized a pre-tax gain on the sale of the trade name licensing rights of \$1,997, net of write-off of related tangible and intangible assets.

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(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(17) QUARTERLY RESULTS (UNAUDITED)

| | QUARTER ENDED | | | |
|--|----------------------|------------------|-----------------|-------------------|
| | DECEMBER 31, 2000 | APRIL 1, 2001 | JULY 1, 2001 | SEPTEMBER 2001 |
| Net sales..... | \$183,559 | \$145,192 | \$159,132 | \$187,609 |
| Gross profit..... | 76,023 | 69,159 | 74,902 | 87,295 |
| (Loss) income before extraordinary item..... | (1,766) | 4,125 | 8,072 | 6,430 |
| Net (loss) income..... | (1,766) | 4,125 | 2,722 | 6,453 |
| Basic net income per common share..... | (0.06) | 0.15 | 0.10 | 0.20 |
| Diluted net income per common share..... | (0.06) | 0.14 | 0.09 | 0.20 |

| | QUARTER ENDED | | | |
|--|--------------------|------------------|-----------------|-------------------|
| | JANUARY 2, 2000 | APRIL 2, 2000 | JULY 2, 2000 | SEPTEMBER 2000 |
| Net sales..... | \$211,370 | \$140,118 | \$150,351 | \$191,500 |
| Gross profit..... | 100,541 | 67,386 | 73,049 | 94,137 |
| Net income..... | 13,919 | 3,651 | 8,078 | 12,702 |
| Basic net income per common share..... | 0.51 | 0.13 | 0.29 | 0.46 |
| Diluted net income per common share..... | 0.48 | 0.13 | 0.28 | 0.44 |

(18) CONSOLIDATING FINANCIAL STATEMENTS

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

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(18) CONSOLIDATING FINANCIAL STATEMENTS (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2001

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| | PARENT | GUARANTOR SUBSIDIARIES | NONGUARANTOR SUBSIDIARIES | ELIMINATIONS |
|--|------------|---------------------------|------------------------------|--------------|
| | ----- | ----- | ----- | ----- |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents..... | \$ 2,849 | \$ 46 | \$ 8,463 | \$ -- |
| Receivables: | | | | |
| Trade accounts receivables, net of allowance for doubtful accounts..... | 75,107 | 40,150 | 67,069 | -- |
| Other..... | 17,965 | 7,637 | 2,579 | (20,379) |
| Inventories..... | 68,094 | -- | 24,619 | (1,402) |
| Deferred income taxes..... | 7,748 | 342 | 1,741 | -- |
| Prepaid expenses and other..... | 14,177 | -- | 7,666 | -- |
| | ----- | ----- | ----- | ----- |
| Total current assets..... | 185,940 | 48,175 | 112,137 | (21,781) |
| Property, plant and equipment, net..... | 78,436 | 33 | 28,788 | -- |
| Deferred charges and other..... | 49,575 | 631 | 2,717 | (20,306) |
| Intangible assets..... | 89,889 | -- | 29,373 | (188) |
| Debt issuance costs..... | 4,463 | -- | -- | -- |
| Investments in subsidiaries..... | 145,872 | 97,299 | -- | (243,171) |
| | ----- | ----- | ----- | ----- |
| Total assets..... | \$ 554,175 | \$146,138 | \$173,015 | \$ (285,446) |
| | ===== | ===== | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current liabilities: | | | | |
| Current maturities of long-term debt..... | \$ 22,412 | \$ -- | \$ 9,223 | \$ (7,199) |
| Accounts payable..... | 90,451 | 26 | 27,459 | (14,563) |
| Accrued liabilities: | | | | |
| Wages and benefits..... | 4,812 | -- | 2,366 | -- |
| Accrued interest..... | 1,801 | -- | 129 | -- |
| Other special charges..... | 4,938 | -- | 945 | -- |
| Other..... | 13,413 | -- | 9,711 | -- |
| | ----- | ----- | ----- | ----- |
| Total current liabilities..... | 137,827 | 26 | 49,833 | (21,762) |
| Long-term debt, net of current maturities..... | 234,271 | -- | 17,900 | (18,630) |
| Employee benefit obligations, net of current portion..... | 19,086 | -- | 562 | -- |
| Deferred income taxes..... | 1,694 | 240 | 5,494 | -- |
| Other..... | 1,829 | -- | 1,927 | -- |
| | ----- | ----- | ----- | ----- |
| Total liabilities..... | 394,707 | 266 | 75,716 | (40,392) |
| Shareholders' equity: | | | | |
| Common stock..... | 615 | 1 | 12,072 | (12,072) |
| Additional paid-in capital..... | 180,634 | 62,788 | 54,904 | (117,574) |
| Retained earnings..... | 122,022 | 84,151 | 31,089 | (117,278) |
| Accumulated other comprehensive loss..... | (6,904) | (1,068) | (766) | 1,870 |
| Notes receivable from officers/ shareholders..... | (3,665) | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| | 292,702 | 145,872 | 97,299 | (245,054) |
| Less treasury stock, at cost..... | (130,070) | -- | -- | -- |
| Less unearned restricted stock compensation..... | (3,164) | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Total shareholders' equity..... | 159,468 | 145,872 | 97,299 | (245,054) |
| | ----- | ----- | ----- | ----- |
| Total liabilities and shareholders' | | | | |

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| | | | | |
|-------------|------------|-----------|-----------|--------------|
| equity..... | \$ 554,175 | \$146,138 | \$173,015 | \$ (285,446) |
| | ===== | ===== | ===== | ===== |

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(18) CONSOLIDATING FINANCIAL STATEMENTS (CONTINUED)
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED SEPTEMBER 30, 2001

| | PARENT | GUARANTOR SUBSIDIARIES | NONGUARANTOR SUBSIDIARIES | ELIMINATIONS | CON |
|---|-----------|---------------------------|------------------------------|--------------|-------|
| | ----- | ----- | ----- | ----- | ----- |
| Net sales..... | \$486,766 | \$ 45,223 | \$198,313 | \$ (54,810) | \$ |
| Cost of goods sold..... | 237,591 | 43,866 | 118,365 | (53,812) | |
| Special charges..... | 17,399 | -- | 4,704 | -- | |
| | ----- | ----- | ----- | ----- | |
| Gross profit..... | 231,776 | 1,357 | 75,244 | (998) | |
| Operating expenses: | | | | | |
| Selling..... | 147,584 | 681 | 44,278 | (279) | |
| General and administrative..... | 45,209 | (11,640) | 14,782 | -- | |
| Research and development..... | 12,191 | -- | -- | -- | |
| Special charges..... | 204 | -- | -- | -- | |
| | ----- | ----- | ----- | ----- | |
| | 205,188 | (10,959) | 59,060 | (279) | |
| Income from operations..... | 26,588 | 12,316 | 16,184 | (719) | |
| Interest expense..... | 25,860 | -- | 3,033 | (1,704) | |
| Equity income..... | (20,008) | (6,640) | -- | 26,648 | |
| Other (income) expense, net..... | (1,491) | (584) | 1,465 | 1,704 | |
| | ----- | ----- | ----- | ----- | |
| Income before income taxes and extraordinary item..... | 22,227 | 19,540 | 11,686 | (27,367) | |
| Income tax expense (benefit)..... | 4,647 | (468) | 5,046 | -- | |
| | ----- | ----- | ----- | ----- | |
| Income before extraordinary item.... | 17,580 | 20,008 | 6,640 | (27,367) | |
| Extraordinary item, loss on early extinguishment of debt, net of income tax benefit of \$3,260..... | (5,327) | -- | -- | -- | |
| | ----- | ----- | ----- | ----- | |
| Net income..... | \$ 12,253 | \$ 20,008 | \$ 6,640 | \$ (27,367) | \$ |
| | ===== | ===== | ===== | ===== | |

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(18) CONSOLIDATING FINANCIAL STATEMENTS (CONTINUED)

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2001

| | PARENT | GUARANTOR SUBSIDIARIES | NONGUARANTOR SUBSIDIARIES | ELIMINATIONS | CON |
|---|-----------|---------------------------|------------------------------|--------------|-------|
| | ----- | ----- | ----- | ----- | ----- |
| Net cash provided by operating activities..... | \$ 12,293 | \$ 2 | \$ 5,752 | \$ -- | \$ |
| Cash flows from investing activities: | | | | | |
| Purchases of property, plant and equipment..... | (17,475) | -- | (2,218) | -- | |
| Purchases of investments..... | (500) | -- | (297) | -- | |
| Proceeds from sale of investments..... | -- | -- | 1,354 | -- | |
| Proceeds from sale of property, plant, and equipment..... | 78 | -- | 785 | -- | |
| | ----- | ----- | ----- | ----- | ----- |
| Net cash used by investing activities..... | (17,897) | -- | (376) | -- | |
| Cash flows from financing activities: | | | | | |
| Reduction of debt..... | (412,815) | -- | (3,884) | -- | |
| Extinguishment of debt..... | (69,652) | -- | -- | -- | |
| Proceeds from debt financing.... | 421,914 | -- | -- | -- | |
| Issuance of stock and exercise of stock options..... | 67,506 | -- | -- | -- | |
| Other..... | (1,191) | -- | (209) | -- | |
| | ----- | ----- | ----- | ----- | ----- |
| Net cash provided (used) by financing activities..... | 5,762 | -- | (4,093) | -- | |
| Effect of exchange rate changes on cash and cash equivalents..... | -- | -- | 158 | -- | |
| | ----- | ----- | ----- | ----- | ----- |
| Net increase in cash and cash equivalents..... | 158 | 2 | 1,441 | -- | |
| Cash and cash equivalents, beginning of period..... | 2,691 | 44 | 7,022 | -- | |
| | ----- | ----- | ----- | ----- | ----- |
| Cash and cash equivalents, end of period..... | \$ 2,849 | \$46 | \$ 8,463 | \$ -- | \$ |
| | ===== | ===== | ===== | ===== | ===== |

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(18) CONSOLIDATING FINANCIAL STATEMENTS (CONTINUED)
CONDENSED CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2000

GUARANTOR NONGUARANTOR

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| | PARENT | SUBSIDIARIES | SUBSIDIARIES | ELIMINATIONS |
|---|-----------|--------------|--------------|--------------|
| | ----- | ----- | ----- | ----- |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents..... | \$ 2,691 | \$ 44 | \$ 7,022 | \$ -- |
| Receivables: | | | | |
| Trade accounts receivable, net of allowance for doubtful receivables... | 91,053 | 36,131 | 46,662 | (26,079) |
| Other..... | 4,368 | -- | 1,532 | -- |
| Inventories..... | 67,447 | -- | 33,354 | (125) |
| Deferred income taxes..... | 4,544 | 342 | 1,188 | -- |
| Prepaid expenses and other..... | 14,509 | -- | 6,487 | -- |
| | ----- | ----- | ----- | ----- |
| Total current assets..... | 184,612 | 36,517 | 96,245 | (26,204) |
| Property, plant and equipment, net..... | 79,348 | 48 | 32,501 | -- |
| Deferred charges and other..... | 29,997 | 274 | 4,367 | (857) |
| Intangible assets..... | 91,981 | -- | 30,321 | (188) |
| Debt issuance costs..... | 10,054 | -- | -- | -- |
| Investment in subsidiaries..... | 127,635 | 92,121 | -- | (219,756) |
| | ----- | ----- | ----- | ----- |
| Total assets..... | \$523,627 | \$128,960 | \$163,434 | \$ (247,005) |
| | ===== | ===== | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current liabilities: | | | | |
| Current maturities of long-term debt... | \$ 31,588 | \$ -- | \$ 13,362 | \$ (135) |
| Accounts payable..... | 88,560 | -- | 34,450 | (25,153) |
| Accrued liabilities: | | | | |
| Wages and benefits..... | 9,556 | -- | 2,456 | -- |
| Accrued Interest..... | 5,703 | -- | 87 | -- |
| Recapitalization and other special charges..... | 978 | -- | -- | -- |
| Other..... | 12,710 | 1,325 | 10,953 | 40 |
| | ----- | ----- | ----- | ----- |
| Total current liabilities..... | 149,095 | 1,325 | 61,308 | (25,248) |
| Long-term debt, net of current maturities..... | 273,445 | -- | 171 | (801) |
| Employee benefit obligations, net of current portion..... | 15,365 | -- | -- | -- |
| Deferred income taxes..... | 2,558 | -- | 5,684 | -- |
| Other..... | 1,268 | -- | 4,150 | -- |
| | ----- | ----- | ----- | ----- |
| Total liabilities..... | 441,731 | 1,325 | 71,313 | (26,049) |
| Shareholders' equity: | | | | |
| Common stock..... | 570 | 1 | 12,072 | (12,072) |
| Additional paid-in capital..... | 104,079 | 62,788 | 54,898 | (117,568) |
| Retained earnings..... | 109,769 | 64,144 | 24,449 | (89,912) |
| Accumulated other comprehensive income..... | 650 | 702 | 702 | (1,404) |
| Notes receivable from officers/shareholders..... | (3,190) | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| | 211,878 | 127,635 | 92,121 | (220,956) |
| Less treasury stock, at cost..... | (129,982) | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Total shareholders' equity..... | 81,896 | 127,635 | 92,121 | (220,956) |
| | ----- | ----- | ----- | ----- |
| Total liabilities and shareholders' equity..... | \$523,627 | \$128,960 | \$163,434 | \$ (247,005) |
| | ===== | ===== | ===== | ===== |

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(18) CONSOLIDATING FINANCIAL STATEMENTS (CONTINUED)
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED SEPTEMBER 30, 2000

| | PARENT | GUARANTOR SUBSIDIARIES | NONGUARANTOR SUBSIDIARIES | ELIMINATIONS | CON |
|-------------------------------------|-----------|---------------------------|------------------------------|--------------|-------|
| | ----- | ----- | ----- | ----- | ----- |
| Net sales..... | \$502,990 | \$43,479 | \$183,590 | \$ (36,720) | \$ |
| Cost of goods sold..... | 248,581 | 42,175 | 103,962 | (36,492) | |
| | ----- | ----- | ----- | ----- | |
| Gross profit..... | 254,409 | 1,304 | 79,628 | (228) | |
| Operating expenses: | | | | | |
| Selling..... | 149,559 | 662 | 34,413 | (161) | |
| General and administrative..... | 46,517 | (11,791) | 16,753 | (933) | |
| Research and development..... | 10,646 | -- | 117 | -- | |
| Special charges..... | (250) | -- | 250 | -- | |
| | ----- | ----- | ----- | ----- | |
| | 206,472 | (11,129) | 51,533 | (1,094) | |
| | ----- | ----- | ----- | ----- | |
| Income from operations..... | 47,937 | 12,433 | 28,095 | 866 | |
| Interest expense..... | 30,109 | -- | 548 | (31) | |
| Equity in profit of subsidiary..... | (29,685) | (17,354) | -- | 47,039 | |
| Other (income) expense, net..... | (844) | (134) | 1,556 | 175 | |
| | ----- | ----- | ----- | ----- | |
| Income before income taxes..... | 48,357 | 29,921 | 25,991 | (46,317) | |
| Income tax expense..... | 10,729 | 236 | 8,637 | -- | |
| | ----- | ----- | ----- | ----- | |
| Net income..... | \$ 37,628 | \$29,685 | \$ 17,354 | \$ (46,317) | \$ |
| | ===== | ===== | ===== | ===== | ===== |

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(18) CONSOLIDATING FINANCIAL STATEMENTS (CONTINUED)
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2000

| | PARENT | GUARANTOR SUBSIDIARIES | NONGUARANTOR SUBSIDIARIES | ELIMINATIONS | CON |
|--|--------|---------------------------|------------------------------|--------------|-------|
| | ----- | ----- | ----- | ----- | ----- |

Net cash provided (used) by

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| | | | | | |
|---|-----------|--------|----------|------------|-------|
| operating activities..... | \$ 41,211 | \$ (3) | \$ 4,453 | \$ (7,848) | \$ |
| Cash flows from investing activities: | | | | | |
| Purchases of property, plant and equipment..... | (14,668) | -- | (4,328) | -- | |
| Proceeds from sale of property, plant, and equipment..... | 1,051 | -- | -- | -- | |
| | ----- | ----- | ----- | ----- | |
| Net cash used by investing activities..... | (13,617) | -- | (4,328) | -- | |
| Cash flows from financing activities: | | | | | |
| Reduction of debt..... | (199,970) | -- | (15,424) | -- | |
| Proceeds from debt financing..... | 182,274 | -- | 12,966 | 7,949 | |
| Cash overdraft and other..... | (8,578) | -- | (91) | (100) | |
| | ----- | ----- | ----- | ----- | |
| Net cash used by financing activities..... | (26,274) | -- | (2,549) | 7,849 | |
| Effect of exchange rate changes on cash and cash equivalents..... | -- | -- | (202) | -- | |
| | ----- | ----- | ----- | ----- | |
| Net increase (decrease) in cash and cash equivalents..... | 1,320 | (3) | (2,626) | 1 | |
| Cash and cash equivalents, beginning of year..... | 1,371 | 47 | 9,648 | (1) | |
| | ----- | ----- | ----- | ----- | |
| Cash and cash equivalents, end of year..... | \$ 2,691 | \$ 44 | \$ 7,022 | \$ -- | \$ |
| | ===== | ===== | ===== | ===== | ===== |

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(18) CONSOLIDATING FINANCIAL STATEMENTS (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED SEPTEMBER 30, 1999

| | PARENT | GUARANTOR SUBSIDIARIES | NONGUARANTOR SUBSIDIARIES | ELIMINATIONS | CON |
|---------------------------------|-----------|---------------------------|------------------------------|--------------|-------|
| | ----- | ----- | ----- | ----- | ----- |
| Net sales..... | \$454,168 | \$37,848 | \$91,561 | \$ (28,513) | \$ |
| Cost of goods sold..... | 231,818 | 36,712 | 53,531 | (28,203) | |
| Special charges..... | 1,300 | -- | -- | -- | |
| | ----- | ----- | ----- | ----- | |
| Gross profit..... | 221,050 | 1,136 | 38,030 | (310) | |
| Operating expenses: | | | | | |
| Selling..... | 133,121 | 646 | 17,218 | -- | |
| General and administrative..... | 39,747 | (10,879) | 8,570 | (72) | |
| Research and development..... | 9,765 | -- | 20 | -- | |
| Special charges..... | 7,344 | -- | 788 | -- | |
| | ----- | ----- | ----- | ----- | |
| | 189,977 | (10,233) | 26,596 | (72) | |
| | ----- | ----- | ----- | ----- | |

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| | | | | |
|-------------------------------------|-----------|----------|----------|-------------|
| Income from operations..... | 31,073 | 11,369 | 11,434 | (238) |
| Interest expense..... | 15,727 | -- | 996 | (369) |
| Equity in profit of subsidiary..... | (16,797) | (5,693) | -- | 22,490 |
| Other (income) expense, net..... | (1,126) | (347) | 790 | 369 |
| | ----- | ----- | ----- | ----- |
| Income before income taxes..... | 33,269 | 17,409 | 9,648 | (22,728) |
| Income tax expense..... | 8,895 | 612 | 3,955 | -- |
| | ----- | ----- | ----- | ----- |
| Net income..... | \$ 24,374 | \$16,797 | \$ 5,693 | \$ (22,728) |
| | ===== | ===== | ===== | ===== |

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RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(18) CONSOLIDATING FINANCIAL STATEMENTS (CONTINUED)
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 1999

| | PARENT | GUARANTOR SUBSIDIARIES | NONGUARANTOR SUBSIDIARIES | ELIMINATIONS | CON |
|---|-----------|---------------------------|------------------------------|--------------|-------|
| | ----- | ----- | ----- | ----- | ----- |
| Net cash provided by operating activities..... | \$ 4,230 | \$ 2 | \$ 7,542 | \$ (1,237) | \$ |
| Cash flows from investing activities: | | | | | |
| Purchases of property, plant and equipment..... | (22,671) | -- | (1,442) | -- | |
| Proceeds from sale of property, plant, and equipment..... | 26 | -- | -- | -- | |
| Payment for acquisitions, net of cash acquired..... | (149,145) | -- | (100,076) | 104,145 | |
| | ----- | ----- | ----- | ----- | |
| Net cash used by investing activities..... | (171,790) | -- | (101,518) | 104,145 | |
| Cash flows from financing activities: | | | | | |
| Reduction of debt..... | (96,310) | -- | (7,900) | 1,236 | |
| Proceeds from debt financing..... | 267,673 | -- | 111,597 | (104,145) | |
| Other..... | (3,786) | -- | (317) | -- | |
| | ----- | ----- | ----- | ----- | |
| Net cash provided by financing activities..... | 167,577 | -- | 103,380 | (102,909) | |
| Effect of exchange rate changes on cash and cash equivalents..... | -- | -- | 49 | -- | |
| | ----- | ----- | ----- | ----- | |
| Net increase in cash and cash equivalents..... | 17 | 2 | 9,453 | (1) | |
| Cash and cash equivalents, beginning of year..... | 1,354 | 45 | 195 | -- | |
| | ----- | ----- | ----- | ----- | |
| Cash and cash equivalents, end of year..... | \$ 1,371 | \$47 | \$ 9,648 | \$ (1) | \$ |
| | ===== | ===== | ===== | ===== | ===== |

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Rayovac Corporation:

On November 2, 2001, we reported on the consolidated balance sheets of Rayovac Corporation and subsidiaries as of September 30, 2000 and 2001, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2001, which are included in the 2001 Annual Report on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related financial statement schedule as listed in Item 14(a)2. The financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP
KPMG LLP

Milwaukee, Wisconsin
November 2, 2001

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RAYOVAC CORPORATION AND SUBSIDIARIES

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED SEPTEMBER 30, 2001, 2000 AND 1999

(IN THOUSANDS)

| COLUMN A ----- DESCRIPTIONS ----- | COLUMN B ----- BALANCE AT BEGINNING OF PERIOD ----- | COLUMN C ----- ADDITIONS CHARGED TO COSTS AND EXPENSES ----- | COLUMN D ----- DEDUCTIONS ----- | COLUMN E ----- BALANCE AT END OF PERIOD ----- |
|--|--|--|--|---|
| September 30, 2001: | | | | |
| Allowance for doubtful accounts..... | \$1,020 | \$5,149 | \$4,030 | \$2,139 |
| September 30, 2000: | | | | |
| Allowance for doubtful accounts..... | \$1,253 | \$ 583 | \$ 816 | \$1,020 |
| September 30, 1999: | | | | |
| Allowance for doubtful accounts..... | \$1,356 | \$ 750 | \$ 853 | \$1,253 |

See accompanying Independent Auditors' Report

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: December 19, 2001

| SIGNATURE ----- | TITLE ----- |
|--|--|
| <p style="text-align: center;">/s/ DAVID A. JONES ----- David A. Jones</p> | <p>Chairman of the Board and Chief Executive Officer (PRINCIPAL EXECUTIVE OFFICER)</p> |
| <p style="text-align: center;">/s/ KENT J. HUSSEY ----- Kent J. Hussey</p> | <p>President and Chief Financial Officer and Director (PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER)</p> |
| <p style="text-align: center;">/s/ JOHN S. LUPO ----- John S. Lupo</p> | <p>Director</p> |
| <p style="text-align: center;">/s/ PHILIP F. PELLEGRINO ----- Philip F. Pellegrino</p> | <p>Director</p> |
| <p style="text-align: center;">/s/ SCOTT A. SCHOEN ----- Scott A. Schoen</p> | <p>Director</p> |
| <p style="text-align: center;">/s/ THOMAS R. SHEPHERD ----- Thomas R. Shepherd</p> | <p>Director</p> |
| <p style="text-align: center;">/s/ WARREN C. SMITH JR. ----- Warren C. Smith, Jr.</p> | <p>Director</p> |

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EXHIBIT INDEX

| EXHIBIT NUMBER ----- | DESCRIPTION ----- |
|----------------------------|--|
| <p>2.1++++</p> | <p>Share Purchase Agreement made as of June 11, 1994 among the Company, Vidor Battery Company, Rayovac America, Ltd., the shareholders of ROV Limited, ESB ROV Ltd., Duranmas, S.A., certain second-tier subsidiaries of ROV Limited, Ray-O-Vac Overseas and Alfredo J. Diez and Richard T. Doyle, Jr., a group representatives.</p> |
| <p>2.2++++</p> | <p>Form of Stock Purchase Agreement entered into on</p> |

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| | |
|----------|---|
| 3.1+ | June 11, 1999, by and among the Company, Rayovac America, Ltd. and certain persons who hold minor interests in certain of the operating subsidiaries Ray-O-Vac Overseas Corporation. |
| 3.2***** | Amended and Restated Articles of Incorporation of the Company. |
| 4.1** | Amended and Restated By-laws of the Company, as through May 17, 1999. |
| 4.2***** | Indenture, dated as of October 22, 1996, by and among the Company, ROV Holding, Inc. and Marine Midland Bank, trustee, relating to the Company's 10 1/4% Senior Subordinated Notes due 2006. |
| 4.3++++ | First Supplemental Indenture, dated as of February 1, 1999, by and among the Company, ROV Holding, Inc. and HSBC Bank USA (formerly known as Marine Midland Bank) as trustee, relating to the Company's 10 1/4% Senior Subordinated Notes due 2006. |
| 4.4***** | Second Supplemental Indenture, dated as of August 9, 1999, by and among the Company, ROV Holding, Inc. and HSBC Bank USA (formerly known as Marine Midland Bank) as trustee, relating to the Company's 10 1/4% Senior Subordinated Notes due 2006. |
| 4.5** | Third Supplemental Indenture, dated as of June 11, 2001, by and among the Company, ROV Holding, Inc., ROVCAL Bank USA (formerly known as Marine Midland Bank) as trustee, relating to the Company's 10 1/4% Senior Subordinated Notes due 2006. |
| 4.6**** | Specimen of the Notes (included as an exhibit to Exhibit 4.1) |
| 4.7++++ | Amended and Restated Credit Agreement, dated as of December 30, 1997, by and among the Company, the party thereto and Bank of America National Trust and Savings Association ("BofA"), as Administrative Agent. |
| 4.8++++ | Second Amended and Restated Credit Agreement, dated as of August 9, 1999, by and among the Company, the party thereto and Bank of America, NA as Administrative Agent. The First Amendment dated as of July 28, 2000 to the Amended and Restated Credit Agreement, dated as of August 9, 1999, by and among the Company, the party thereto and Bank of America, NA as Administrative Agent. |
| 4.9+++++ | The Second Amendment dated as of December 31, 2000 to the Amended and Restated Credit Agreement, dated as of August 9, 1999, by and among the Company, various financial institutions, and Bank of America, N.A. as Administrative Agent. |

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| EXHIBIT NUMBER | DESCRIPTION |
|-------------------|---|
| 4.10+++++ | The Third Amendment dated as of June 11, 2001, to the Amended and Restated Credit Agreement, dated as of August 9, 1999, by and among the Company, various financial institutions, and Bank of America, NA as Administrative Agent. |
| 4.11** | The Security Agreement, dated as of September 12, 1999, by and among the Company, various financial institutions, and Bank of America, N.A. as Administrative Agent. |

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| | |
|------------|---|
| | and among the Company, ROV Holding, Inc. and Bank of America, NA. |
| 4.12** | The Company Pledge Agreement, dated as of September 1996, by and between the Company and Bank of America. |
| 4.13*** | Shareholders Agreement, dated as of September 12, 1996, and among the Company and the shareholders of the Company referred to therein. |
| 4.14*** | Amendment No. 1 to Rayovac Shareholders Agreement, dated August 1, 1997, by and among the Company and the shareholders of the Company referred to therein. |
| 4.15***** | Amendment No. 2 to Rayovac Shareholders Agreement, dated of January 8, 1999, by and among the Company and the Shareholders of the Company referred to therein. |
| 4.16+++++ | Amendment No. 3 to Rayovac Shareholders Agreement, dated January 1, 2001, by and among the Company and the shareholders of the Company referred to therein. |
| 4.17* | Specimen certificate representing the Common Stock of the Company. |
| 10.1** | Management Agreement, dated as of September 12, 1996, between the Company and Thomas H. Lee Company. |
| 10.2** | Confidentiality, Non-Competition and No-Hire Agreement, dated as of September 12, 1996, by and between the Company and Thomas F. Pyle. |
| 10.3+++++ | Amended and Restated Employment Agreement, dated October 1, 2000, by and between the Company and Thomas F. Jones. |
| 10.4+++++ | Amended and Restated Employment Agreement, dated October 1, 2000, by and between the Company and Thomas F. Hussey. |
| 10.5+++++ | Employment Agreement, dated as of October 1, 2000, between the Company and Kenneth V. Biller. |
| 10.6+++++ | Employment Agreement, dated as of October 1, 2000, between the Company and Stephen P. Shanesy. |
| 10.7+++++ | Employment Agreement, dated as of October 1, 2000, between the Company and Merrell M. Tomlin. |
| 10.8+++++ | Employment Agreement, dated as of October 1, 2000, between the Company and Luis A. Cancio. |
| 10.9** | Technology, License and Service Agreement between Rayovac Technologies (International) Limited and the Company, dated June 1, 1991, as amended April 19, 1993, and December 1995. |
| 10.10** | Building Lease between the Company and SPG Partners, dated May 14, 1985, as amended June 24, 1986, and June 1998. |
| 10.11***** | Amendment, dated December 31, 1998, between the Company and SPG Partners, to the Building Lease, between the Company and SPG Partners, dated May 14, 1985. |
| 10.12*** | Rayovac Corporation 1996 Stock Option Plan. |
| 10.13* | 1997 Rayovac Incentive Plan. |
| 10.14* | Rayovac Profit Sharing and Savings Plan. |

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| EXHIBIT NUMBER | DESCRIPTION |
|-------------------|---|
| ----- 10.15+++ | Technical Collaboration, Sale and Supply Agreement between the Company and Matsushita Electric Industrial Co., Ltd. dated March 5, 1998, by and among the Company, Matsushita Electric Industrial Co., Ltd. and Matsushita Elec |

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Industrial Co., Ltd.
Subsidiaries of the Company.
Consent of KPMG LLP.

- * Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-35181) filed with the Commission.
- ** Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-17895) filed with the Commission.
- *** Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 29, 1997, filed with the Commission on August 13, 1997.
- **** Incorporated by reference to the Company's Registration Statement on Form S-3 (Registration No. 333-49281) filed with the Commission.
- ***** Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended January 3, 1999, filed with the Commission on February 17, 1999.
- ***** Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended April 4, 1999, filed with the Commission on May 17, 1999.
- ***** Incorporated by reference to the Company's Report on Form 8-K filed with the Commission on June 19, 2001.
- + Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1997, filed with the Commission on December 23, 1997.
- ++ Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarterly period ended June 27, 1998, filed with the Commission on August 4, 1998.
- +++ Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 28, 1998, filed with the Commission on May 5, 1998.
- ++++ Incorporated by reference to the Company's Current Report on Form 8-K filed with the Commission on August 24, 1999, as subsequently amended on October 26, 1999.
- +++++ Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2000, filed with the Commission on December 19, 2000.
- +++++ Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2000, filed with the Commission on February 14, 2001.
- +++++ Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001,

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filed with the Commission on May 14, 2001.

+++++++ Incorporated by reference to the Company's Quarterly Report
on Form 10-Q for the quarterly period ended July 1, 2001,
filed with the Commission on August 9, 2001.

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