

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3  
REGISTRATION STATEMENT  
Under  
THE SECURITIES ACT OF 1933

RAYOVAC CORPORATION  
(Exact name of registrant as specified in its charter)

Wisconsin 22-2423556  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

601 Rayovac Drive  
Madison, Wisconsin 53711-2497  
(608) 275-3340  
(Address, including zip code, and telephone number, including area code, of  
registrant's principal executive offices)

JAMES A. BRODERICK, ESQ.  
Vice President and General Counsel  
Rayovac Corporation  
601 Rayovac Drive  
Madison, Wisconsin 53711-2497  
(608) 275-3340

(Name, address, including zip code, and telephone number,  
including area code, of agent for service)

Copies of Communications to:

LOUIS A. GOODMAN, ESQ. VALERIE FORD JACOB, ESQ.  
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Boston, Massachusetts 02108 New York, New York 10004  
(617) 573-4800 (212) 859-8000

Approximate date of commencement of proposed sale to the public:  
As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered  
pursuant to dividend or interest reinvestment plans, please check the following  
box. [ ]

If any of the securities being registered on this Form are to be offered  
on a delayed or continuous basis pursuant to Rule 415 under the Securities Act  
of 1933, other than securities offered only in connection with dividend or  
interest reinvestment plans, check the following box. [ ]

If this Form is filed to register additional securities for an offering  
pursuant to Rule 462(b) under the Securities Act, please check the following  
box and list the Securities Act registration statement number of the earlier  
effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c)  
under the Securities Act, check the following box and list the Securities Act  
registration statement number of the earlier effective registration statement  
for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434,  
please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Amount to Be Registered	Proposed Maximum Offering Price per Unit	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
Common Stock, par value \$.01 per share	7,475,000	\$ 23.13	\$172,896,750	\$51,005

(1) Estimated solely for the purpose of calculating the registration fee  
pursuant to Rule 457(o) under the Securities Act of 1933, as amended, and  
includes shares of Common Stock that may be purchased by the Underwriters  
pursuant to an over-allotment option.  
(2) Calculated based upon the average of the high and low prices reported on

the New York Stock Exchange for March 31, 1998, in accordance with Rule 457(c) under the Securities Act of 1933, as amended.

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The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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#### EXPLANATORY NOTE

This Registration Statement contains two separate prospectuses. The first prospectus relates to a public offering of shares of common stock of Rayovac Corporation (the "Company"), par value \$.01 per share (the "Common Stock"), in the United States and Canada (the "U.S. Offering"). The second prospectus relates to a concurrent offering of Common Stock outside the United States and Canada (the "International Offering," and together with the U.S. Offering, the "Offerings"). The prospectuses for the U.S. Offering and the International Offering will be identical in all respects, other than the front cover page, the "Underwriting" section and the back cover page. Such alternate pages for the International Offering appear in this Registration Statement immediately following the complete prospectus for the U.S. Offering.

SUBJECT TO COMPLETION  
PRELIMINARY PROSPECTUS DATED APRIL 2, 1998

[RED HERRING]

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

[/RED HERRING]

PROSPECTUS

6,500,000 Shares

RAYOVAC(R)

Common Stock

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All of the 6,500,000 shares of Common Stock of Rayovac Corporation ("Rayovac" or the "Company") offered hereby are being sold by certain shareholders (the "Selling Shareholders") of the Company. See "Principal and Selling Shareholders." The Company is not selling any shares of Common Stock in this Offering and will not receive any of the proceeds from the sale of shares of Common Stock offered hereby.

Of the 6,500,000 shares of Common Stock offered hereby, 5,200,000 shares are being offered for sale initially in the United States and Canada by the U.S. Underwriters and 1,300,000 shares are being offered for sale initially in a concurrent offering outside the United States and Canada by the International Managers. The initial public offering price and the underwriting discount per share will be identical for both Offerings. See "Underwriting."

The Common Stock is listed on the New York Stock Exchange under the symbol "ROV." On March 31, 1998, the last sale price of the Common Stock as reported on the New York Stock Exchange was \$23-9/16 per share. See "Price Range of Common Stock and Dividend Policy."

See "Risk Factors" beginning on page 11 for a discussion of certain factors that should be considered by prospective purchasers of the Common Stock offered hereby.

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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discount (1)	Proceeds to Selling Shareholders (2)
Per Share.....	\$	\$	\$
Total(3) .....	\$	\$	\$

- (1) The Company and the Selling Shareholders have agreed to indemnify the several Underwriters against certain liabilities, including certain liabilities under the Securities Act of 1933, as amended. See "Underwriting."
- (2) Before deducting expenses payable by the Company estimated at \$800,000.
- (3) The Selling Shareholders have granted the U.S. Underwriters and the International Managers options to purchase up to an additional 780,000 shares and 195,000 shares of Common Stock, respectively, in each case exercisable within 30 days after the date hereof, solely to cover over-allotments, if any. If such options are exercised in full, the total Price to Public, Underwriting Discount and Proceeds to the Selling Shareholders will be \$ , \$ and \$ , respectively. See "Underwriting."

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The shares of Common Stock are offered by the several Underwriters, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of certain legal matters by counsel for the Underwriters and certain other conditions. The Underwriters reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that delivery of the shares of Common Stock will be made in New York, New York on or about , 1998.

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Merrill Lynch & Co.

Bear, Stearns & Co. Inc.  
Donaldson, Lufkin & Jenrette  
Securities Corporation

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The date of this Prospectus is \_\_\_\_\_, 1998.

[Inside Front Cover]

[RAYOVAC Logo](R)

[Picture of Five Rayovac  
Maximum Alkaline Battery  
Packs on Gray Background]

[Picture of Michael Jordan  
holding a Rayovac Maximum  
Alkaline Battery Pack]

[Picture of Six Rayovac  
Rechargeable Battery  
Products on Gray Background]

[Picture of Rayovac  
Battery Store Display  
on Gray Background]

[Picture of Arnold Palmer  
Advertisement for Rayovac  
Hearing Aid Batteries]

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RAYOVAC[RegTM], RENEWAL[RegTM], LOUD'N CLEAR[RegTM], POWER STATION[RegTM],  
PROLINE[RegTM], WORKHORSE[RegTM], ROUGHNECK[RegTM] and SMART PACK[RegTM] are  
registered trademarks of the Company. MAXIMUM[TM], LIFEX[TM] and SMART[TM]  
STRIP are trademarks of the Company. All other trademarks or tradenames  
referred to in this Prospectus are the property of their respective owners.

Certain persons participating in the Offerings may engage in transactions  
that stabilize, maintain or otherwise affect the price of the Common Stock.  
Such transactions may include stabilizing and the purchase of Common Stock to  
cover syndicate short positions. For a description of these activities, see  
"Underwriting."

## PROSPECTUS SUMMARY

The following summary information is qualified in its entirety by reference to the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this Prospectus. Unless otherwise indicated, the information in this Prospectus assumes that the Underwriters' over-allotment options have not been exercised. Upon consummation of the Recapitalization (as defined herein) on September 12, 1996, the Company changed its fiscal year end from June 30 to September 30. For clarity of presentation and comparison, references to fiscal 1995 and fiscal 1996 are to the Company's fiscal years ended June 30, 1995 and June 30, 1996, respectively, references to the "Transition Period ended September 30, 1996" and the "Transition Period" are to the period from July 1, 1996 to September 30, 1996 and references to fiscal 1997 are to the Company's fiscal year ended September 30, 1997.

### The Company

The Company is the leading value brand and the third largest domestic manufacturer of general batteries, and is the leading worldwide manufacturer of hearing aid batteries. The Company is also the leading domestic manufacturer of rechargeable household batteries and certain other specialty batteries, including lantern batteries. In addition, the Company is a leading marketer of heavy duty batteries and battery-powered lighting products and also markets rechargeable batteries for cellular phones and video camcorders. Originally introduced in 1921, the Rayovac brand is a well recognized name in the battery industry. The Company attributes the longevity and strength of its brand name to its high-quality products and to the success of its marketing and merchandising initiatives.

The Company has established its position as the leading value brand in the U.S. general alkaline battery market by focusing on the mass merchandiser channel. The Company achieved this position by (i) offering batteries with quality and performance substantially equivalent to batteries offered by its principal competitors at a lower price, (ii) emphasizing innovative in-store merchandising programs, and (iii) offering retailers attractive margins. The Company has established its position as the leader in various specialty battery niche markets through (i) continuous technological advances, (ii) creative distribution and marketing, and (iii) strong relationships with industry professionals and manufacturers. The Company sells and distributes its products in several channels, including mass merchandisers and warehouse clubs; food, drug and convenience stores; electronics specialty stores and department stores; hardware and automotive centers; specialty retailers; hearing aid professionals; and industrial and government/OEM. The Company markets all of its branded products under the Rayovac[RegTM] name and selected products under sub-brand names such as MAXIMUM[TM], Renewal[RegTM], Loud'n Clear[RegTM], ProLine[RegTM], Life[TM], Power Station[RegTM], Workhorse[RegTM], and Roughneck[RegTM].

### Business Strategy

In September 1996, pursuant to the Recapitalization, affiliates of Thomas H. Lee Company acquired beneficial ownership of approximately 80% of the outstanding Common Stock of Rayovac. David A. Jones was hired as Chief Executive Officer of the Company to implement a new business strategy focused on (i) reinvigorating the Rayovac brand name by raising consumer brand awareness through, among other things, focused marketing and advertising, (ii) growing Rayovac's 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, (iii) reducing costs by rationalizing manufacturing and distribution, better utilizing existing plant capacity, outsourcing products where appropriate, reducing working capital, and downsizing corporate overhead, and (iv) improving employee productivity by increasing training and education, upgrading information systems and implementing a pay-for-performance culture.

To implement its new strategy, the Company has undergone a significant transformation since the Recapitalization.

Strengthened Senior Management Team. In addition to Mr. Jones, experienced senior managers have been recruited to fill key positions: Kent J. Hussey, Executive Vice President of Finance and Administration and Chief Financial Officer; Merrell M. Tomlin, Senior Vice President of Sales; Stephen P. Shanesy, Senior Vice President of Marketing and General Manager of General Batteries and Lights; and Randall J. Steward, Senior Vice President of Corporate Development. The new senior managers have over 75 years of collective experience in the consumer

products industry. In addition, the current management team includes several key members who served the Company prior to the Recapitalization, providing continuity and retaining significant battery industry expertise. After giving effect to the Offerings, the nine executive officers of the Company will beneficially own 9.7% of the outstanding Common Stock (without giving effect to the Underwriters' over-allotment options) on a fully diluted basis.

**Restructured Operations.** In March 1998, the Company announced restructuring plans for its domestic and international operations designed to maximize production and capacity efficiencies, reduce fixed costs, upgrade existing technology and equipment, and improve customer service. Major elements of the restructuring include (i) consolidating the Company's packaging operations, (ii) outsourcing manufacturing of heavy duty batteries, and (iii) closing certain of the Company's existing manufacturing, packaging and distribution facilities. The Company will record a charge of \$7.5 million in the second quarter of the current fiscal year in connection with the restructuring program and expects to record an additional \$2.0 million of costs in subsequent periods. The Company currently anticipates annual aggregate cost savings of the restructuring program, after full implementation (currently expected in early 1999), to be approximately \$5.0 million. The restructuring is in addition to prior actions taken by the Company following the Recapitalization to rationalize manufacturing and other costs, which the Company estimates have an annual aggregate cost savings of approximately \$8.6 million. The Company believes that its current manufacturing capacity remains sufficient to meet its production requirements for the foreseeable future.

**Reorganized Sales, Marketing and Administration by Distribution Channel.** Rayovac has realigned its marketing department, sales organization, supply chain and support functions to better serve the diverse customer needs within major distribution channels. Customer-focused teams are now organized to serve the following distribution channels: mass merchandisers and warehouse clubs; food, drug and convenience stores; electronics specialty stores and department stores; hardware and automotive centers; specialty retailers; hearing aid professionals; and industrial and government/OEM. The Company believes that sales to under-penetrated channels should increase as the dedicated teams focus on implementing channel-specific marketing strategies, sales promotions and customer service initiatives.

**Launched New Sales and Marketing Programs.** Rayovac has developed and continues to implement broad new marketing initiatives designed to reinvigorate the Rayovac brand name. Major steps completed to date include (i) selecting Young & Rubicam as the Company's new advertising agency and developing its first major national advertising campaign for its full line of general batteries, (ii) launching a new and improved alkaline product line under the MAXIMUM<sup>TM</sup> sub-brand, (iii) redesigning all product graphics and packaging to convey a high-quality image and emphasize the Rayovac brand name, (iv) extending the Company's existing contract with Michael Jordan to include his representation for all Rayovac products, and (v) restructuring the Company's sales representative network along distribution channels.

**Reorganized Information Systems.** The Company has completed an initial overhaul of its information systems by (i) hiring an experienced Chief Information Officer, (ii) outsourcing mainframe computer operations, (iii) completing an enterprise software system analysis, and (iv) retaining outside consultants to upgrade its data processing and telecommunications infrastructure. The Company has purchased from SAP and begun implementing an enterprise-wide, integrated information system to upgrade its business operations, the majority of which is expected to be substantially completed by mid-1999. When fully implemented, this system, along with efforts by the Company's internal project team, is expected to reduce cycle times, lower manufacturing and administrative costs, improve both asset and employee productivity and substantially address the Year 2000 issue.

## Growth Strategy

Rayovac believes it has significant growth opportunities in its businesses and has developed strategies to increase sales, profits and market share. Key elements of the Company's growth strategy are as follows:

**Reinvigorate the Rayovac Brand Name.** The Company is committed to reinvigorating the Rayovac brand name after many years of underdevelopment. The brand, originally introduced in 1921, has wide recognition in all markets where the Company competes, but has lower awareness than the more highly advertised Duracell and Energizer brands. The Company has initiated an integrated advertising campaign using significantly higher levels of TV and print media. In 1997, the Company launched a reformulated alkaline battery, Rayovac MAXIMUM<sup>TM</sup>, supported by new graphics, new packaging, a new advertising campaign, and aggressive introductory retail promotions. The Company's marketing and advertising initiatives are designed to increase awareness of the Rayovac brand and to increase retail sales by heightening customers' perceptions of the quality, performance and value of Rayovac products.

**Leverage Value Brand Position.** Rayovac believes it has a unique position in the general battery market as the value brand in an industry in which the leading three brands (Duracell, Energizer and Rayovac) account for approximately 90% of sales. The Company's strategy is to provide products of quality and performance equal to its major competitors in the general battery market at a lower price to appeal to a large segment of the population desiring a value brand. To demonstrate its value positioning, Rayovac offers comparable battery packages at a lower price or, in some cases, more batteries for the same price.

**Expand Retail Distribution.** Historically the Company had focused its sales and marketing efforts on the mass merchandiser channel which accounted for 44% of industry sales growth in the domestic alkaline battery market on a unit basis over the past five years and has achieved a 19% unit share. The Company believes its value brand positioned products and innovative merchandising programs also make it an attractive supplier to other retail channels, which represent a market of \$1.7 billion or 69% of the general battery market. The Company has reorganized its marketing, sales, and sales representative organizations by channel in order to grow market share by (i) gaining new customers, (ii) penetrating existing customers with a larger assortment of products, (iii) offering a selection of products with high sell-through, and (iv) utilizing more aggressive and channel specific promotional programs. The Company believes that these initiatives have resulted in significant success over the past fiscal year in gaining access to new accounts and expanding product offerings to existing accounts and the Company intends to continue to pursue these strategies.

**Further Capitalize on Worldwide Leadership in Hearing Aid Batteries.** The Company seeks to increase its 52% worldwide market share in the hearing aid battery segment, as it has done consistently for the past 10 years, by leveraging its leading technology and dedicated sales and marketing organizations. Rayovac is the only hearing aid battery manufacturer to advertise its products and plans to continue to utilize Arnold Palmer as its spokesperson in its print media campaign. Rayovac also markets large multi-packs of hearing aid batteries which have rapidly gained consumer favor. In November 1997, the Company acquired Brisco GmbH in Germany and Brisco B.V. in Holland (collectively, "Brisco"). Brisco packages and distributes hearing aid batteries in customized packaging to hearing health care professionals in Germany and Holland as well as other European countries. The Company believes that the Brisco acquisition will enable the Company to further penetrate European markets for hearing aid batteries.

**Develop New Markets.** The Company intends to expand its business into new markets for batteries and related products both domestically and internationally by developing new products internally or selective acquisitions. These acquisitions may focus on expansion into new technologies, product lines or geographic markets and may be of significant size. In March 1998, the Company acquired the retail portion of the business of Direct Power Plus of New York (the business acquired being referred to herein as "DPP"), a full line marketer of rechargeable batteries and accessories for cellular phones and video camcorders. In conjunction with the acquisition of DPP, the Company has announced the launch of a new line of rechargeable batteries for cordless telephones. The Company may also pursue joint ventures or other strategic marketing opportunities where appropriate to expand its markets or product offerings. See "Risk Factors--Risks Associated with Future Acquisitions."

**Introduce New Niche Products.** The Company has developed leading positions in several important niche markets, including those for lantern batteries and lithium coin cells. The Company intends to continue selectively



pursuing opportunities to exploit under-served niche markets and to enter high-growth specialty battery markets. In 1997, the Company entered the market for photo and keyless entry batteries and recently introduced a line of products to serve the medical instrument and health services markets. In the lighting products segment, where market share is driven by new product introductions, the Company is introducing a number of attractively designed new products over the next twelve months and intends to bring new products to the market in the future on a six-month cycle.

**Reposition the Renewal Rechargeable Alkaline Battery.** The Company's Renewal rechargeable battery is the only rechargeable alkaline battery in the U.S. market, commanding a 68% market share of the rechargeable household battery market through mass merchandisers, food and drug stores for the 52 weeks ended February 14, 1998. Since the Recapitalization, the Company has lowered the price of Renewal rechargers by 33% to encourage consumers to purchase the system and promoted Renewal's money-saving benefits. Renewal batteries present a value proposition to consumers because Renewal batteries can be recharged over 25 times, providing 10 times the energy of disposable alkaline batteries at only twice the retail price. In addition, alkaline rechargeables are superior to nickel cadmium rechargeables (the primary competing technology) because they provide more energy between charges, are sold fully charged, retain their charge longer and are environmentally safer. The Company has focused sales efforts for this product on distribution channels which the Company believes to be more suited for this product, such as electronics specialty stores, and has recently begun shipments to Radio Shack.

#### Recent Developments

**Restructuring of Domestic and International Operations.** In March 1998, the Company announced restructuring plans for its domestic and international operations designed to maximize production and capacity efficiencies, reduce fixed costs, upgrade existing technology and equipment and improve customer service. Major elements of the restructuring include (i) consolidating the Company's packaging operations at its Madison, Wisconsin plant, (ii) outsourcing the manufacture of heavy duty batteries, (iii) closing the Company's Appleton, Wisconsin plant and relocating the affected manufacturing operations for lithium batteries to the Company's Portage, Wisconsin facility, and (iv) closing the Company's Newton Aycliffe, United Kingdom packaging and distribution facility. The Company will record a charge of \$7.5 million in the second quarter of the current fiscal year in connection with the restructuring program and expects to record an additional \$2.0 million of costs in subsequent periods. The Company anticipates annual aggregate cost savings of the restructuring program, after full implementation (currently expected in early 1999), to be approximately \$5.0 million.

**Sale of Idled Facility.** In March 1998, the Company sold its Kinston, North Carolina facility and will record a gain of \$2.5 million in the quarter.

**Acquisitions.** In November 1997, the Company acquired Brisco which packages and distributes hearing aid batteries in customized packaging to hearing health care professionals in Germany, Holland and several other European countries. Brisco had sales of \$4.5 million in calendar year 1997. In March 1998, the Company acquired DPP, a full line marketer of rechargeable batteries and accessories for cellular phones and video camcorders, with retail sales of \$14 million in calendar year 1997. Also in March 1998, the Company acquired the hearing aid battery distribution portion of Best Labs, a St. Petersburg, Florida distributor of hearing aid batteries and a manufacturer of hearing instruments. The battery distribution portion of Best Labs had net sales of \$2.6 million in 1997.

**Amended Credit Agreement.** On December 30, 1997, the Company entered into an Amended and Restated Credit Agreement (the "Amended Credit Agreement") which includes a five-year revolving facility of \$90 million (the "Revolving Facility"), and a five-year amortizing acquisition facility of \$70 million (the "Acquisition Facility"). The Revolving Facility is reduced by \$10.0, \$15.0 and \$15.0 million, respectively, on December 31, 1999, 2000 and 2001, and expires on December 31, 2002. The Acquisition Facility provides up to \$70.0 million in loans for qualifying acquisitions during a one-year commitment period expiring December 31, 1998. Debt obtained under the Acquisition Facility is subject to quarterly amortization commencing March 31, 1999 through December 31, 2002. As of March 28, 1998, \$56.1 million was outstanding on the Revolving Facility, with approximately \$5.8 million utilized for outstanding letters of credit, and \$4.2 million was outstanding under the Acquisition Facility. As of December 30, 1997, all of the Company's senior term debt was replaced by revolving debt under the Revolving Facility. See "Description of Certain Indebtedness."

Extension of Technology Agreement; New Manufacturing Line. In March 1998, the Company announced the extension of its existing alkaline battery technology agreement with Matsushita Battery Industrial Co. of Japan ("Matsushita"), pursuant to which the Company is entitled to license Matsushita's highly advanced designs, technology and manufacturing equipment, including all developments and innovations thereto, through 2003. Thereafter, the Company is entitled to license such technology existing as of such date through 2023. The Company has also agreed to purchase from Matsushita a new high speed alkaline battery manufacturing production line for its Fennimore, Wisconsin plant and to source certain finished products, battery parts and material from Matsushita to continue to supplement the Company's existing domestic production capacity. This new high speed manufacturing line is anticipated to increase capacity for production of AA size batteries by up to 50%.

#### The Offerings

The offering of 5,200,000 shares of the Company's Common Stock in the United States and Canada (the "U.S. Offering") and the offering of 1,300,000 shares of the Common Stock outside the United States and Canada (the "International Offering") are collectively referred to herein as the "Offerings."

Common Stock offered by the Selling Shareholders .....	6,500,000 shares
Common Stock to be outstanding after the Offerings(1) .....	27,439,238 shares
Use of proceeds .....	The Company will not receive any proceeds from the sale of Common Stock by the Selling Shareholders.
New York Stock Exchange symbol .....	"ROV"

(1) Excludes 5,261,127 shares of Common Stock reserved for sale or issuance under the Company's employee benefit plans, of which options to purchase 2,236,127 shares have been granted and 3,025,000 shares remain available for issuance or sale.

## Industry Market Data

External market information in this Prospectus is provided by the Company, based on data licensed from A.C. Nielsen. The two primary sources of market data are Nielsen Scanner Data (obtained from checkout scanners in selected food stores, drug stores and mass merchandisers) and Nielsen Consumer Panel Data (obtained from a group of representative households selected by A.C. Nielsen equipped with in-home scanners). Except as set forth below, specific market share references are based on Nielsen Scanner Data. Specific hearing aid battery market share references are obtained from Nielsen Scanner Data, as supplemented by National Family Opinion Purchase Diary Data. Information regarding the size (in terms of both dollars and unit sales) of the total U.S. retail battery market is based upon Nielsen Scanner Data, as supplemented by Nielsen Consumer Panel Data. The Company has derived worldwide hearing aid market share data and specialty battery market share data based on data from the above noted sources, together with information relating to the Company's sales of hearing aid batteries in Europe, the Company's estimates of manufacturers' production levels of hearing aid products or other devices which utilize specialty batteries and market price data.

Other industry data used throughout this Prospectus has been obtained from a variety of industry surveys (including surveys forming a part of primary research studies conducted by the Company) and publications but has not been independently verified by the Company. The Company believes that information contained in such surveys and publications has been obtained from reliable sources, but there can be no assurance as to the accuracy and completeness of such information.

Unless otherwise indicated, all market share estimates are Company estimates based on the foregoing, are for the U.S. market and reflect units sold.

## Risk Factors

Purchasers of Common Stock in the Offerings should carefully consider the risk factors set forth under the caption "Risk Factors" and the other information included in this Prospectus prior to making an investment decision. See "Risk Factors."

## Forward-Looking Statements

This Prospectus contains certain forward-looking statements relating to, among other things, future results of operations, growth plans, sales, capital requirements and general industry and business conditions applicable to the Company. These forward-looking statements are based largely on the Company's current expectations and are subject to a number of risks and uncertainties. Actual results could differ materially from those implied by these forward-looking statements. Important factors to consider in evaluating such forward-looking statements include changes in external competitive market factors, changes in the Company's business strategy or an inability to execute its strategy due to unanticipated changes in the Company's industry or the economy in general and various competitive factors that may prevent the Company from competing successfully in existing or new markets. In light of these risks and uncertainties, many of which are described in further detail under the caption "Risk Factors," there can be no assurance that the forward-looking statements contained in this Prospectus will in fact be realized.

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Established in 1906, the Company is a Wisconsin corporation with its principal executive offices at 601 Rayovac Drive, Madison, Wisconsin, 53711-2497. The Company's telephone number is (608) 275-3340.



(1) Income (loss) from operations includes expenses incurred during the Fennimore Expansion (as defined herein) and the Recapitalization and other special charges in fiscal 1994, the Transition Period ended September 30, 1996, the fiscal year ended September 30, 1997 and the three months ended December 28, 1996 and December 27, 1997. Income from operations before these non-recurring charges was as follows:

	Fiscal Year Ended June 30,				Transition	Twelve	Fiscal	Three Months	
	1993	1994	1995	1996	Period Ended September 30, 1996	Months Ended September 30, 1996	Year Ended September 30, 1997	December 28, 1996	December 27, 1997
	(In millions)								
Income (loss) from operations ....	\$ 31.2	\$ 10.9	\$ 31.5	\$ 30.3	\$ (23.7)	\$ (1.4)	\$ 34.5	\$ 11.7	\$ 18.6
Fennimore Expansion .....	--	9.5	--	--	--	--	--	--	--
Recapitalization and other special charges (income) .....	--	1.5	--	--	28.4	28.4	3.0	3.0	( 1.2)
Income from operations before non-recurring charges .....	\$ 31.2	\$ 21.9	\$ 31.5	\$ 30.3	\$ 4.7	\$ 27.0	\$ 37.5	\$ 14.7	\$ 17.4
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- (2) Income from operations in fiscal 1994 was impacted by increased selling expenses due to higher advertising and promotion expenses related to the Renewal Introduction (as defined herein). In addition, income from operations was impacted by non-recurring costs of \$9.5 million in connection with the Fennimore Expansion, including \$8.4 million of increased cost of goods sold and \$1.1 million of increased general and administrative expenses, and other special charges of approximately \$1.5 million related to a plan to reduce the Company's cost structure and to improve productivity through an approximate 2.5% reduction in headcount on a worldwide basis. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Introduction."
- (3) During the Transition Period, the Company recorded charges of \$12.3 million directly related to the Recapitalization and other special charges of \$16.1 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."
- (4) 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 Aycliffe, United Kingdom facility and the discontinuation of operations at the Company's facility in Kinston, North Carolina.
- (5) In the three months ended December 27, 1997, the Company recorded additional income of \$1.2 million in connection with the buyout of deferred compensation agreements with certain former employees.
- (6) The Recapitalization of the Company included repayment of certain outstanding indebtedness, including prepayment fees and penalties. Such prepayment fees and penalties of \$2.4 million, net of income tax benefit of \$0.8 million, has been recorded as an extraordinary item in the Combined Consolidated Statement of Operations for the Transition Period and the twelve months ended September 30, 1996. In the three months ended December 27, 1997, the Company recorded extraordinary expense of \$2.0 million net of income taxes for the premium on the repurchase or redemption of the Notes from the proceeds of the IPO.
- (7) From fiscal 1993 through fiscal 1995 the Company invested an aggregate of \$32.7 million in connection with the Fennimore Expansion, including \$19.7 million incurred in fiscal 1993. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Introduction."
- (8) EBITDA represents income from operations plus depreciation and amortization (excluding amortization of debt issuance costs) and reflects an adjustment of income from operations to eliminate the establishment and subsequent reversal of two reserves (\$0.7 million established in fiscal 1993 and reversed in fiscal 1995, and \$0.5 million established in fiscal 1992 and reversed in fiscal 1995). 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 in this Prospectus may not be comparable to other similarly titled measures of other companies.

EBITDA includes expenses incurred during the Fennimore Expansion (as defined herein) and the Recapitalization and other special charges in fiscal

1994, the Transition Period ended September 30, 1996, the fiscal year ended September 30, 1997 and the three months ended December 28, 1996 and December 27, 1997. EBITDA before these non-recurring charges was as follows:

	Fiscal Year Ended June 30,				Transition	Twelve	Fiscal	Three Months	
	1993	1994	1995	1996	Period Ended September 30, 1996	Months Ended September 30, 1996	Year Ended September 30, 1997	December 28, 1996	December 27, 1997
	(In millions)								
EBITDA .....	\$ 39.3	\$ 21.2	\$ 41.3	\$ 42.2	\$ (20.4)	\$ 10.7	\$ 45.8	\$ 14.8	\$ 21.4
Fennimore Expansion .....	--	9.5	--	--	--	--	--	--	--
Recapitalization and other special charges (income) .....	--	1.5	--	--	28.4	28.4	3.0	3.0	( 1.2)
EBITDA before non-recurring charges .....	\$ 39.3	\$ 32.2	\$ 41.3	\$ 42.2	\$ 8.0	\$ 39.1	\$ 48.5	\$ 17.8	\$ 20.2
	=====	=====	=====	=====	=====	=====	=====	=====	=====

## RISK FACTORS

Prospective investors should carefully consider all of the information set forth in this Prospectus, including the risk factors set forth below.

### Competition

The industries in which the Company participates are very competitive. Competition is based upon brand name recognition, perceived quality, price, performance, product packaging and product innovation, as well as creative marketing, promotion and distribution strategies. In the U.S. battery industry, the Company competes primarily with two well established companies, Duracell International Inc. ("Duracell"), a subsidiary of The Gillette Company, and Eveready Battery Company, Inc., a subsidiary of Ralston Purina Company and producer of Energizer brand batteries ("Energizer"), each of which has substantially greater financial and other resources and greater overall market share than the Company. In addition, the Company believes that Duracell and Energizer may have lower costs of production and higher profit margins in certain key product lines than the Company. The Company competes with these competitors for the limited shelf space that retailers allot to battery products and for the promotional efforts of such retailers.

In February 1998, Duracell announced the introduction of a new line of alkaline batteries under the name Duracell Ultra in the AA and AAA size category which is being marketed as providing increased performance in certain high-tech devices, including cellular phones, digital cameras and palm-sized computers. Duracell has indicated that this new line of alkaline battery will begin shipping to retailers in May 1998. There can be no assurance that there will not be a reduction in purchases of the Company's products by consumers or certain key customers of the Company as a result of competition from this new alkaline battery line, which could have a material adverse effect on the Company's business, financial condition or results of operations.

Although foreign battery manufacturers historically have not been successful in penetrating the U.S. retail market to any significant extent, they have, from time to time, attempted to establish a significant presence in the U.S. battery market. There can be no assurance that these attempts will not be successful in the future or that the Company will be able to compete effectively with current or prospective participants in the U.S. battery industry. In addition, the battery-powered lighting device industry is highly competitive and includes a greater number of competitors than the U.S. battery industry, some of which have greater financial and other resources than the Company. See "Business--Competition."

### Dependence on Key Customers

Wal-Mart Stores, Inc. ("Wal-Mart"), the Company's largest retailer customer, accounted for 20% of the Company's net sales in fiscal 1997. In addition, the Company's three largest retailer customers, including Wal-Mart, together accounted for 29% of the Company's net sales in fiscal 1997. The Company does not have long-term agreements with any of its major customers, and sales are generally made to them through the use of individual purchase orders, consistent with industry practice. There can be no assurance that there will not be a significant reduction in purchases by any of the Company's three largest retailer customers, which could have a material adverse effect on the Company's business, financial condition or results of operations. See "Business--Sales and Distribution."

### Risks Associated with Future Acquisitions

An element of the Company's growth strategy is to pursue increased market penetration through strategic acquisitions, which could be of significant size and involve either domestic or international parties. The diversion of management attention required by the acquisition and integration of a separate organization, including integration of information systems, as well as other difficulties which may be encountered in the transition and integration process, including but not limited to the integration of Brisco, DPP and Best Labs, could have a material adverse effect on the revenue and operating results of the Company. There can be no assurance that the Company will identify suitable acquisition candidates, that acquisitions will be consummated on acceptable terms or that the Company will be able to successfully integrate the operations of any acquisition. In addition, the Company may incur additional indebtedness in connection with acquisitions, which might not be available on terms as favorable to the Company as current terms and which would increase the leveraged position of the Company. See "--Substantial Leverage." Further, acquisitions utilizing equity may be dilutive to shareholders.

## Environmental Matters

The Company's 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 Company facilities and at off-site disposal locations. Risk of environmental liability is inherent in the Company's business, however, and there can be no assurance that material environmental costs will not arise in the future. In particular, the Company might incur capital and other costs to comply with increasingly stringent environmental laws and enforcement policies. Based on currently available information, the Company believes that it is substantially in compliance with applicable environmental regulations at its facilities, although no assurance can be provided with respect to such compliance in the future.

The Company has been identified as a potentially responsible party ("PRP") under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") or similar state laws with respect to the past disposal of waste. Such laws may impose liability on certain statutory classes of persons that are considered jointly and severally liable for the costs of investigation and remediation of contaminated properties, regardless of fault or the legality of the original disposal. These persons include the present or former owner or operator of a facility and companies that generated, disposed or arranged for the disposal of hazardous substances found at the facility. The Company may be named as a PRP at additional sites in the future, and the costs associated with such additional or existing sites may be material. In addition, certain of the Company's battery manufacturing facilities have been in operation for decades and, over such time, the Company and other prior operators of such facilities have generated and disposed of wastes such as manganese, cadmium and mercury which are or may be considered hazardous. The Company has not conducted invasive testing to identify all potential risks, and given the age of the Company's facilities and the nature of the Company's operations, there can be no assurance that material liabilities will not arise in the future in connection with its current or former facilities. The discovery of previously unknown contamination of property underlying or in the vicinity of the Company's manufacturing facilities could require the Company to incur material unforeseen expenses. Occurrences of any such events may have a material adverse effect on the Company's financial condition.

In addition, the Company has been notified that its former manganese processing facility in Covington, Tennessee is being evaluated by the Tennessee Department of Environment and Conservation ("TDEC") for a determination as to whether the facility should be added to the National Priorities List as a Superfund site. Groundwater monitoring at the site conducted pursuant to the post-closure maintenance of solid waste lagoons on site, and recent groundwater testing beneath former process areas on site, indicate that there are elevated levels of certain inorganic contaminants, particularly (but not exclusively) manganese, in the groundwater underneath the site. The Company cannot predict the outcome of TDEC's investigation of the site. See "Business--Environmental Matters."

The Company has been and is subject to several proceedings related to its disposal of industrial and hazardous material 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. Except for the Velsicol Chemical and Morton International proceedings described below (as to which there is insufficient information to make a judgment as to their impact on the Company at this time), the Company does not believe that any of its pending CERCLA or analogous state matters, either individually or in the aggregate, will have a material impact on the Company's operations, financial condition or liquidity.

The Company has been named as a defendant in two lawsuits in connection with a Superfund site located in Bergen County, New Jersey (Velsicol Chemical Corporation, et al. v. A.E. Staley Manufacturing Company, et al., and Morton International, Inc. v. A.E. Staley Manufacturing Company, et al., United States District Court for the District of New Jersey, filed July 29, 1996). These lawsuits involve contamination at a former mercury processing facility and the watershed of a nearby creek (the "Bergen County Site"). The Company is one of approximately 100 defendants named in these lawsuits. The cost to remediate the Bergen County Site has not been determined and the Company cannot predict the outcome of these proceedings. See "Business--Environmental Matters."



#### Substantial Leverage

As of December 27, 1997, the Company had total indebtedness of \$138.8 million and total shareholders' equity of \$14.3 million. Subject to the restrictions contained in the Company's Amended Credit Agreement and the indenture (the "Indenture") relating to the Company's 10-1/4% Series B Senior Subordinated Notes due 2006 (the "Notes"), the Company may incur additional indebtedness from time to time to finance acquisitions or capital expenditures or for other corporate purposes. A significant portion of cash flow from operations must be dedicated to the payment of principal of and interest on the Company's indebtedness, thereby reducing the amount of funds available for working capital, capital expenditures and other purposes. The Company's ability to make scheduled payments on its outstanding indebtedness will depend on its future operating performance which, in turn, will be affected by prevailing economic conditions and financial, competitive, regulatory and similar factors. The Amended Credit Agreement and the Indenture impose operational and financial restrictions on the Company. See "Description of Certain Indebtedness." Although the Company believes that, based on current levels of operations, its cash flow from operations, together with external sources of liquidity, will be adequate to make required payments on its debt, whether at or prior to maturity, finance anticipated capital expenditures and fund working capital requirements, there can be no assurance in this regard.

#### Battery Technology

The battery industry generally involves continually evolving technology with individual advances typically resulting in modest increases in product life. There can be no assurance that, as existing battery products and technologies improve and new, more advanced products and technologies are introduced, the Company's products will be able to compete effectively in any of its targeted market segments. The development and successful introduction of new and enhanced products and other competing technologies that may outperform the Company's batteries and technological developments by competitors or consumer perceptions as to improved product offerings of competitors may have a material adverse effect on the Company's business, financial condition or results of operations, particularly in the context of the substantially greater resources of the Company's two principal competitors in the general battery market, Duracell and Energizer. See "-- Competition." Similarly, in those market segments where the Company's battery products currently have technological advantages there can be no assurance that the Company's products will maintain such advantages.

The general battery industry historically has sustained unit sales growth even as battery life has increased with innovation (largely due to expansion in the use of and the number of applications for batteries); however, there can be no assurance that continued enhancements of battery performance (including rechargeable battery performance) will not have an adverse effect on unit sales.

#### Risks of Foreign Sales; Exchange Rate Fluctuations

The Company's foreign sales and certain expenses are transacted in foreign currencies. In fiscal 1997, approximately 19% of the Company's revenues and 18% of the Company's expenses were denominated in currencies other than U.S. dollars. International operations and exports and imports to and from foreign markets are subject to a number of special risks including, but not limited to, risks with respect to currency exchange rates, economic and political destabilization, restrictive actions by foreign governments (e.g. duties and quotas and restrictions on transfer of funds), changes in United States and foreign laws regarding trade and investment and difficulty in obtaining distribution and support. Significant increases in the value of the U.S. dollar relative to certain foreign currencies could have a material adverse effect on the Company's results of operations. The Company generally hedges a portion of its foreign currency exposure and will, in the future, be vulnerable to the effects of currency exchange rate fluctuations. For a description of the Company's operations in different geographic areas, including the Company's sales, revenue and profit or loss and identifiable assets attributable to each of the Company's geographic areas, see Note 12 of Notes to Combined Consolidated Financial Statements.

#### Raw Materials

The Company's principal raw material for the production of its battery products is zinc and the Company expects to spend approximately \$7.5 million for zinc in fiscal 1998. Prices for zinc are subject to market forces beyond the control of the Company. The Company regularly engages in forward purchases and hedging transactions to effectively manage raw material costs and inventory relative to anticipated production requirements for the next six to twelve months. However, the Company's future profitability may be materially adversely affected by increased

zinc prices to the extent it is unable to pass on higher raw material costs to its customers. See Note 2.o. of Notes to Combined Consolidated Financial Statements.

#### Limited Intellectual Property Protection

The Company relies upon a combination of patent, trademark and trade secret laws, together with licenses, confidentiality agreements and other contractual covenants, to establish and protect its technology and other intellectual property rights. There can be no assurance that the steps taken by the Company or its licensors will be adequate to prevent misappropriation of their technology or other intellectual property or that the Company's competitors will not independently develop technologies that are substantially equivalent or superior to the Company's or its licensors technology. Moreover, although the Company believes that its current products do not infringe upon the valid proprietary rights of others, there can be no assurance that third parties will not assert infringement claims against the Company or its licensors and that, in the event of an unfavorable ruling on any such claim, a license or similar agreement will be available to the Company on reasonable terms. Moreover, the laws of certain foreign countries do not protect intellectual property rights to the same extent as do the laws of the United States.

Certain technology underlying the Company's rechargeable line of alkaline batteries is the subject of a non-exclusive license from a third party and could be made available to the Company's competitors. The licensing of that technology to a competitor could have an adverse effect on the Company's business, financial condition or results of operations. The Company does not believe, however, that this effect would be material to the Company because revenues from sales of the Company's rechargeable alkaline batteries and rechargers account for less than 10% of the Company's total revenues.

The Company does not have any right to the trademark "Rayovac" in Brazil, where the mark is owned by an independent third-party battery manufacturer. In addition, ROV Limited, a third party unaffiliated with the Company, has an exclusive, perpetual, royalty-free license for the use on general batteries (but not hearing aid or other specialty batteries) and lighting devices of the Rayovac trademark in a number of countries, including in Latin America. See "Business--Patents, Licenses and Trademarks."

#### Seasonality

Sales of the Company's products are seasonal, with the highest sales occurring in the fiscal quarter ending on or about December 31, during the holiday season. During the past four fiscal years, the Company's sales in the quarter ending on or about December 31 have represented an average of 33% of annual net sales. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Seasonality."

#### Control by Existing Shareholders

Upon completion of the Offerings, Thomas H. Lee Equity Fund III, L.P. ("THL Fund") and certain other affiliates of Thomas H. Lee Company ("THL Co."; the THL Fund and such other affiliates being referred to herein as "THL Group") will beneficially own 41.4% of the Company's outstanding Common Stock (38.7% if the Underwriters' over-allotment options are exercised in full). Consequently, THL Group will exercise significant control over the Company and in electing the board of directors of the Company (the "Board of Directors") and approving any action requiring shareholder approval, including the adoption of amendments to the Company's Amended and Restated Articles of Incorporation and the approval of mergers or sales of all or substantially all of the Company's assets. See "Principal and Selling Shareholders." The Company's ability to take certain of these actions is limited by certain terms of its outstanding indebtedness. See "Description of Certain Indebtedness."

#### Shares Eligible for Future Sale; Potential for Adverse Effect on Stock Price; Registration Rights

Sales of a substantial number of shares of Common Stock in the public market or the perception that such sales could occur could materially adversely affect prevailing market prices for the Common Stock. Upon completion of the Offerings, the Company will have outstanding 27,439,238 shares of Common Stock, excluding 2,236,127 shares of Common Stock which have been granted under the Company's stock incentive plans. Of these shares, the 7,827,507 shares of Common Stock previously sold in the Company's initial public offering of Common Stock in November 1997 (the "IPO") and the 6,500,000 shares of Common Stock to be sold in the Offerings will be freely tradable without restriction under the Securities Act of 1933, as amended (the "Securities Act"), except for any such shares which may be acquired by an "affiliate" of the Company. In connection with the Offerings, the Selling Shareholders, certain existing shareholders, the Company, its executive officers and directors and the

THL Group (holding an aggregate of approximately 13.7 million shares of Common Stock upon consummation of the Offerings) have agreed, subject to certain exceptions, not to dispose of any shares of Common Stock for a period of 90 days from the date of the Offerings (the "Lockup Period") without the consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") on behalf of the Underwriters. Upon expiration of the Lockup Period, substantially all of such shares will be eligible for sale in the public market subject to compliance with the volume limitations and other restrictions of Rule 144 under the Securities Act.

Following the consummation of the Offerings, the THL Group will hold approximately 11.4 million shares of Common Stock (without giving effect to the Underwriters' over-allotment options) and will be entitled to certain registration rights with respect to the registration of such shares under the Securities Act. Under the terms of a shareholders agreement between the Company and certain shareholders, dated as of September 12, 1996, as amended as of August 1, 1997 (the "Shareholders Agreement"), at any time when the THL Group and their permitted transferees own in the aggregate at least 10% of the shares acquired in the Recapitalization, the THL Group has the right to require the Company to file a registration statement under the Securities Act in order to register the sale of all or any part of its shares of Common Stock. These Offerings are made pursuant to the provisions of the Shareholders Agreement. Following these Offerings, the THL Group is entitled to demand that the Company register their shares of Common Stock on three occasions at the Company's expense; provided, however, that if the THL Group owns at least 10%, but not more than 25%, of the shares acquired in the Recapitalization, then the Company shall be obligated to effect only one such registration. Additionally, the THL Group and shareholders party to the Shareholders Agreement have the right, subject to certain limitations, to include their shares in certain offerings initiated by the Company whether for its own account or for other shareholders. The Company may in certain circumstances defer such registrations, and the underwriters with respect to such sale have the right, subject to certain limitations, to limit the number of shares included in such registrations. In the event that the Company proposes to register the sale of any of its securities under the Securities Act, the Company is required to promptly give such shareholders written notice no later than 10 days before the effective date of the registration statement, at which point such shareholders will have five days to make a written request of the Company to include their shares of Common Stock in such registration, subject to the underwriters' right to limit such shares and certain other limitations. In general, the Company is required to bear the expense of all such registrations except for transfer taxes. The sale of such shares could have an adverse effect on the Company's ability to raise equity capital in the public markets. The shares held by the THL Group are subject to the Lockup Period referred to in the preceding paragraph. See "Shares Eligible for Future Sale."

#### Anti-Takeover and Other Provisions of Wisconsin Law

Certain provisions of the Company's Amended and Restated Articles of Incorporation, the Amended and Restated By-laws (the "By-laws") and of Wisconsin corporation law may have the effect of discouraging, delaying or preventing a change in control of the Company or unsolicited acquisition proposals. Under certain provisions of Wisconsin law, shareholders may have certain liabilities with respect to liabilities of a the Company with respect to unpaid wages under certain circumstances.

## THE RECAPITALIZATION

Effective as of September 12, 1996, the Company, all of the shareholders of the Company, the THL Fund and other affiliates of THL Co. completed a recapitalization (the "Recapitalization") pursuant to which, among other things: (i) the Company obtained senior financing under a Credit Agreement dated as of September 12, 1996 by and among the Company, Bank of America National Trust and Savings Association and DLJ Capital Funding, Inc. (the "Credit Agreement") in an aggregate amount of \$170.0 million, of which \$131.0 million was borrowed at the closing of the Recapitalization, including \$26.0 million under the Revolving Credit Facility; (ii) the Company obtained \$100.0 million in financing through the issuance of bridge notes (the "Bridge Notes"); (iii) the Company redeemed a portion of the shares of Common Stock held by Thomas F. Pyle, Jr., the former President and Chief Executive Officer of the Company; (iv) the THL Group purchased for cash shares of Common Stock owned by shareholders of the Company (a group consisting of current and former directors and management of the Company and the Thomas Pyle and Judith Pyle Charitable Remainder Trust) which resulted in a change of control of the Company; and (v) the Company repaid certain of its outstanding indebtedness, including prepayment fees and penalties. The Bridge Notes were subsequently repaid with the proceeds of the sale of 10-1/4% Senior Subordinated Notes Due 2006, which were later exchanged for a like principal amount of the Notes.

## USE OF PROCEEDS

The Company will not receive any proceeds from the sale of shares of Common Stock by the Selling Shareholders.

## PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

The Company's Common Stock is listed on the New York Stock Exchange under the symbol "ROV." The Common Stock commenced public trading on November 21, 1997. On March 26, 1998, the outstanding shares of Common Stock were held of record by 280 shareholders 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 1998		
-----		
Quarter ended December 27, 1997 (from November 21, 1997) .....	\$17-3/4	\$15-1/2
Quarter ended March 28, 1998 .....	\$24-1/2	\$16-3/4
Current quarter (to March 31, 1998) .....	\$24-1/2	\$22-1/2

On March 31, 1998, the closing price of the Common Stock on the New York Stock Exchange Composite Transaction Tape was \$23-9/16 per share.

The Company has not declared or paid and does not anticipate paying cash dividends in the foreseeable future, but intends to retain any future earnings for reinvestment in its business. In addition, the Amended Credit Agreement and the Notes restrict the Company's ability to pay dividends to its shareholders. Any future determination to pay cash dividends will be at the discretion of the Board of Directors and will be dependent upon the Company's financial condition, results of operations, capital requirements, contractual restrictions and such other factors as the Board of Directors deems relevant.

CAPITALIZATION

The following table sets forth the capitalization of the Company as of December 27, 1997. This table should be read in conjunction with the Company's consolidated financial statements and the related notes thereto and the information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

	As of December 27, 1997
	----- (Dollars in millions)
Debt:	
Revolver Facility(1) .....	\$ --
Acquisition Facility(1) .....	--
Term Loan Facility(1) .....	36.0
Notes(1) .....	100.0
Capitalized leases and foreign currency borrowings .....	2.8
	-----
Total Debt .....	138.8
	-----
Shareholders' equity (deficit):	
Preferred stock, \$.01 par value, 5,000,000 shares authorized; no shares issued and outstanding(2) .....	--
Common stock, \$.01 par value, 150,000,000 shares authorized; 27,432,238 shares outstanding .....	0.6
Additional paid in capital .....	103.6
Foreign currency translation .....	2.9
Notes receivable from officers/shareholders .....	( 1.3)
Retained earnings .....	37.9
Less stock held in trust .....	( 1.0)
Less treasury stock, at cost, 29,418,569 shares .....	(128.4)
	-----
Total shareholders' equity .....	14.3
	-----
Total capitalization .....	\$ 153.1
	=====

(1) On December 30, 1997, the Company repurchased \$35.0 million of the Notes from a portion of the proceeds of the IPO. In addition, all of the Company's senior term debt was replaced by revolver debt under the Revolver Facility. Pro forma for these transactions, the amounts outstanding under the Revolver Facility and the Notes would have been \$71.0 million and \$65.0 million, respectively. For a description of the Revolver Facility and the Acquisition Facility, see "Description of Certain Indebtedness--The Amended Credit Agreement." Total availability under the Revolver Facility is \$90.0 million. Total availability under the Acquisition Facility is \$70.0 million.

(2) On October 22, 1997, the shareholders of the Company approved the authorization of 5,000,000 shares of Preferred Stock, \$.01 par value, and an increase in authorized shares of Common Stock from 90,000,000 to 150,000,000.

## SELECTED FINANCIAL DATA

The following selected historical financial data as of and for the two fiscal years ended June 30, 1996, the Transition Period ended September 30, 1996 and the fiscal year ended September 30, 1997 is derived from the audited consolidated financial statements of the Company, together with the notes thereto, included elsewhere in this Prospectus. The selected historical financial data as of and for the twelve months ended September 30, 1996 and the three months ended December 28, 1996 and December 27, 1997 are derived from the unaudited condensed consolidated financial statements of the Company and, in the opinion of management, includes all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of financial position and results of operations as of the date and for the period indicated which are not included herein. The selected historical financial data of the Company as of and for the two fiscal years ended June 30, 1993 and June 30, 1994 is derived from audited consolidated financial statements of the Company which are not included herein. The following selected financial data should be read in conjunction with the Company's consolidated financial statements and the related notes thereto and the information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

This financial data, as well as all other financial data set forth herein, gives effect to the reclassification by the Company of certain promotional expenses, previously reported as a reduction of net sales, to selling expense, which policy was adopted as of September 30, 1997. The amounts which have been reclassified are \$19.0 million, \$17.5 million, \$24.2 million, and \$24.0 million for the fiscal years ended June 30, 1993, 1994, 1995, and 1996, respectively, \$6.9 million for the Transition Period ended September 30, 1996, \$24.1 million for the twelve months ended September 30, 1996, and \$11.9 million for the three months ended December 28, 1996. The Company believes that this reclassification is consistent with the method used by other consumer products companies.

	Fiscal Year Ended June 30,				Transition	Twelve	Fiscal	Three Months Ended	
	1993	1994	1995	1996	Period Ended September 30, 1996	Months Ended September 30, 1996	Year Ended September 30, 1997	December 28, 1996	December 27, 1997
(In millions, except per share data)									
Statement of Operations Data:									
Net sales .....	\$372.4	\$403.7	\$ 415.2	\$ 423.4	\$101.9	\$ 417.9	\$ 432.6	\$ 141.9	\$ 150.0
Cost of goods sold .....	201.4	234.9	237.1	239.4	59.3	237.9	234.6	79.0	77.4
Gross profit .....	171.0	168.8	178.1	184.0	42.6	180.0	198.0	62.9	72.6
Selling expense .....	98.8	121.3	108.7	116.5	27.8	114.4	122.1	38.7	45.5
General and administrative expense .....	35.4	29.4	32.9	31.8	8.6	33.0	32.2	7.6	8.2
Research and development expense .....	5.6	5.7	5.0	5.4	1.5	5.6	6.2	1.9	1.5
Recapitalization and other special charges(1)(2)(3) .....	--	1.5	--	--	28.4	28.4	3.0	3.0	(1.2)
Income (loss) from operations(4)(5) .....	31.2	10.9	31.5	30.3	(23.7)	(1.4)	34.5	11.7	18.6
Interest expense .....	6.0	7.7	8.6	8.4	4.4	10.5	24.5	8.0	5.0
Other expense (income), net .....	1.2	(0.6)	0.3	0.6	0.1	0.5	0.4	(.1)	(.2)
Income (loss) before income taxes and extraordinary item....	24.0	3.8	22.6	21.3	(28.2)	(12.4)	9.6	3.8	13.8
Income tax expense (benefit) .....	9.0	(0.6)	6.2	7.0	(8.9)	(3.8)	3.4	1.4	5.3
Income (loss) before extraordinary item .....	15.0	4.4	16.4	14.3	(19.3)	(8.6)	6.2	2.4	8.5
Extraordinary item(6) .....	--	--	--	--	(1.6)	(1.6)	--	--	2.0
Net income (loss) .....	\$ 15.0	\$ 4.4	\$ 16.4	\$ 14.3	\$ (20.9)	\$ (10.2)	\$ 6.2	\$ 2.4	\$ 6.6
Basic net income (loss) per common share before extraordinary item .....	\$ 0.30	\$ 0.09	\$ 0.33	\$ 0.29	\$ (0.44)	\$ (0.18)	\$ 0.30	\$ 0.12	\$ 0.36
Diluted net income (loss) per common share before extraordinary item .....	\$ 0.30	\$ 0.09	\$ 0.33	\$ 0.29	\$ (0.44)	\$ (0.18)	\$ 0.30	\$ 0.12	\$ 0.34
Basic net income (loss) per common share .....	\$ 0.30	\$ 0.09	\$ 0.33	\$ 0.29	\$ (0.48)	\$ (0.21)	\$ 0.30	\$ 0.12	\$ 0.28
Diluted Net income (loss) per common share .....	\$ 0.30	\$ 0.09	\$ 0.33	\$ 0.29	\$ (0.48)	\$ (0.21)	\$ 0.30	\$ 0.12	\$ 0.26
Weighted average common shares .....	50.0	50.0	50.0	49.6	43.8	48.1	20.5	20.5	23.5
Weighted average common and common equivalent shares .....	50.0	50.0	50.0	49.6	43.8	48.1	20.6	20.5	24.8
Other Financial Data:									
Depreciation .....	\$ 7.4	\$ 10.3	\$ 11.0	\$ 11.9	\$ 3.3	\$ 12.1	\$ 11.3	\$ 3.1	\$ 2.8
Capital expenditures(7) .....	30.3	12.5	16.9	6.6	1.2	8.4	10.9	1.1	1.8
Cash flows from operating activities .....	15.8	(18.7)	35.5	17.8	(1.1)	26.0	35.7	20.5	1.7
EBITDA(8) .....	39.3	21.2	41.3	42.2	(20.4)	10.7	45.8	14.8	21.4
Balance Sheet Data:									
Working capital .....	\$ 31.6	\$ 63.6	\$ 55.9	\$ 63.2	\$ 64.6	\$ 64.6	\$ 33.8	\$ 49.0	\$ 76.5
Total assets .....	189.0	222.4	220.6	221.1	243.7	243.7	236.9	234.6	267.7
Total debt .....	74.1	109.0	88.3	81.3	233.7	233.7	207.3	214.9	138.8
Shareholders' equity (deficit) ..	36.7	37.9	53.6	61.6	(85.7)	(85.7)	(80.6)	( 82.3)	14.3

(footnotes on following page)

- (1) During the Transition Period, the Company recorded charges of \$12.3 million directly related to the Recapitalization and other special charges of \$16.1 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."
- (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 Aycliffe, United Kingdom facility and the discontinuation of operations at the Company's facility in Kinston, North Carolina.
- (3) In the three months ended December 27, 1997, the Company recorded additional income of \$1.2 million in connection with the buyout of deferred compensation agreements with certain former employees.
- (4) Income (loss) from operations includes expenses incurred during the Fennimore Expansion and the Recapitalization and other special charges in fiscal 1994, the Transition Period ended September 30, 1996, the fiscal year ended September 30, 1997 and the three months ended December 28, 1996 and December 27, 1997. Income from operations before these non-recurring charges was as follows:

	Fiscal Year Ended June 30,				Transition	Twelve	Fiscal	Three Months	
	1993	1994	1995	1996	Period Ended September 30, 1996	Months Ended September 30, 1996	Year Ended September 30, 1997	December 28, 1996	December 27, 1997
(In millions)									
Income (loss) from operations	\$ 31.2	\$ 10.9	\$ 31.5	\$ 30.3	\$ (23.7)	\$ (1.4)	\$ 34.5	\$ 11.7	\$ 18.6
Fennimore Expansion	--	9.5	--	--	--	--	--	--	--
Recapitalization and other special charges	--	1.5	--	--	28.4	28.4	3.0	3.0	( 1.2)
Income from operations before non-recurring charges	\$ 31.2	\$ 21.9	\$ 31.5	\$ 30.3	\$ 4.7	\$ 27.0	\$ 37.5	\$ 14.7	\$ 17.4

- (5) Income from operations in fiscal 1994 was impacted by increased selling expenses due to higher advertising and promotion expenses related to the Renewal Introduction. In addition, income from operations was impacted by non-recurring costs of \$9.5 million in connection with the Fennimore Expansion including \$8.4 million of increased cost of goods sold and \$1.1 million of increased general and administrative expenses, and other special charges of approximately \$1.5 million related to a plan to reduce the Company's cost structure and to improve productivity through an approximate 2.5% reduction in headcount on a worldwide basis. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Introduction."
- (6) The Recapitalization of the Company included repayment of certain outstanding indebtedness, including prepayment fees and penalties. Such prepayment fees and penalties of \$2.4 million, net of income tax benefit of \$0.8 million, has been recorded as an extraordinary item in the Consolidated Statement of Operations for the Transition Period ended September 30, 1996. In the three months ended December 27, 1997, 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 IPO.
- (7) From fiscal 1993 through fiscal 1995 the Company invested an aggregate of \$32.7 million in connection with the Fennimore Expansion, including \$19.7 million incurred in fiscal 1993. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Introduction."

(footnotes continued on following page)



(8) EBITDA represents income from operations plus depreciation and amortization (excluding amortization of debt issuance costs) and reflects an adjustment of income from operations to eliminate the establishment and subsequent reversal of two reserves (\$0.7 million established in fiscal 1993 and reversed in fiscal 1995, and \$0.5 million established in fiscal 1992 and reversed in fiscal 1995). 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 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 in this Prospectus may not be comparable to other similarly titled measures of other companies.

EBITDA includes expenses incurred during the Fennimore Expansion (as defined herein) and the Recapitalization and other special charges in fiscal 1994, the Transition Period ended September 30, 1996, the fiscal year ended September 30, 1997 and the three months ended December 28, 1996 and December 27, 1997. EBITDA before these non-recurring charges was as follows:

	Fiscal Year Ended June 30,				Transition	Twelve	Fiscal	Three Months	
	1993	1994	1995	1996	Period Ended September 30, 1996	Months Ended September 30, 1996	Year Ended September 30, 1997	December 28, 1996	December 27, 1997
	(In millions)								
EBITDA .....	\$ 39.3	\$ 21.2	\$ 41.3	\$ 42.2	\$ (20.4)	\$ (10.7)	\$ 45.8	\$ 14.8	\$ 21.4
Fennimore Expansion .....	--	9.5	--	--	--	--	--	--	--
Recapitalization and other special charges (income) .....	--	1.5	--	--	28.4	28.4	3.0	3.0	( 1.2)
EBITDA before non- recurring charges .....	\$ 39.3	\$ 32.2	\$ 41.3	\$ 42.2	\$ 8.0	\$ 39.1	\$ 48.5	\$ 17.8	\$ 20.2

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

The following discussion should be read in conjunction with the "Selected Financial Data" and the Company's combined consolidated financial statements and the related notes thereto, included elsewhere herein.

#### Introduction

Upon completion of the Recapitalization, the Company changed its fiscal year end from June 30 to September 30. For clarity of presentation and comparison, references herein to fiscal 1994, fiscal 1995 and fiscal 1996 are to the Company's fiscal years ended June 30, 1994, June 30, 1995 and June 30, 1996, respectively, and references to the "Transition Period ended September 30, 1996" and the "Transition Period" are to the period from July 1, 1996 to September 30, 1996. References to fiscal 1997 are to the Company's fiscal year ended September 30, 1997.

The Company's operating performance depends on a number of factors, the most important of which are, (i) general retailing trends, especially in the mass merchandise segment of the retail market, (ii) the Company's overall product mix among various specialty and general household batteries and battery-powered lighting devices, which sell at different price points and profit margins, (iii) the Company's overall competitive position, which is affected by both the introduction of new products and promotions by the Company and its competitors and the Company's relative pricing and battery performance, and (iv) changes in operating expenses. Set forth below are specific developments that have affected and may continue to affect the Company's performance.

**Restructuring of Operations and Other Cost Rationalization Initiatives.** In March 1998, the Company announced restructuring plans for its domestic and international operations designed to maximize production and capacity efficiencies, reduce fixed costs, upgrade existing technology and equipment and improve customer service. Major elements of the restructuring include (i) consolidating the Company's packaging operations, (ii) outsourcing the manufacture of heavy duty batteries, and (iii) closing certain of the Company's existing manufacturing, packaging and distribution facilities. The Company will record a charge of \$7.5 million in the second quarter of the current fiscal year in connection with the restructuring program and expects to record an additional \$2.0 million of costs in subsequent periods. The Company anticipates annual aggregate cost savings of the restructuring program, after full implementation (currently expected in early 1999), to be approximately \$5.0 million.

The restructuring is in addition to prior actions taken by the Company following the Recapitalization to rationalize the Company's manufacturing, distribution and general overhead costs, which resulted in cash costs of approximately \$6.3 million for fiscal 1996 and fiscal 1997 and which the Company estimates to have an annual savings of approximately \$8.6 million.

**Investment in Future Growth Opportunities.** Since the Recapitalization, the Company has undertaken significant measures to pursue growth opportunities and increase the Company's market share for its products. These measures include (i) introducing the Company's existing hearing aid products into new markets, including through the acquisition of Brisco and Best Labs; (ii) broadening the Company's offering of specialty products, including through the acquisition of DPP; (iii) expanding distribution into new channels such as electronics specialty stores; (iv) further penetrating existing distribution channels such as warehouse clubs and food and convenience stores; and (v) evaluating opportunities for expansion of the Company's core business into international markets, whether through acquisitions, joint ventures or other strategic marketing opportunities. See "Business--Growth Strategy."

**Expansion of Production Capacity.** In March 1998, the Company agreed to purchase from Matsushita a new high speed alkaline battery manufacturing production line for its Fennimore, Wisconsin plant, at which the Company manufactures all of its alkaline products. The new high speed manufacturing line is anticipated to increase the Company's production capacity for AA size batteries by up to 50%. The recent investment in manufacturing technology and production capacity follows the Fennimore Expansion (as defined herein), pursuant to which, from fiscal 1993 through fiscal 1995 the Company invested an aggregate of \$32.7 million in the modernization and expansion of its production lines at its Fennimore plant (the "Fennimore Expansion"). As a result of the Fennimore Expansion, the Company replaced substantially all of its alkaline battery manufacturing equipment with state-of-the-art technology which more than doubled the Company's aggregate capacity for AA and AAA size alkaline batteries. This investment also resulted in a reformulation of the Company's alkaline batteries so as to be mercury-free, better performing and higher quality. The Fennimore Expansion resulted in \$9.5 million of non-recurring costs in fiscal 1994. Such costs included increased raw material costs incurred pursuant to the terms of equipment purchase agreements entered into in connection with the Fennimore Expansion which required the Company to source

material from specified foreign vendors at an increased cost. These incremental costs decreased in fiscal 1996 as a result of the increased use of lower-cost domestic raw material sources to replace the foreign vendor sourcing, which replacement was substantially completed in fiscal 1997.

Effect of Recapitalization. The Recapitalization of the Company, which was completed on September 12, 1996, resulted in non-recurring charges of \$12.3 million which were recognized in the Transition Period, including (i) \$5.0 million of advisory, legal and consulting fees and (ii) \$7.3 million of stock option compensation, severance payments and employment contract settlements for the benefit of certain current and former officers, directors and management of the Company. In connection with the Recapitalization, the Company incurred other non-recurring special charges of \$16.1 million recognized in the Transition Period, including (i) \$2.7 million of charges related to the discontinuation of certain manufacturing operations at the Company's Newton Aycliffe, United Kingdom facility; (ii) \$1.7 million of charges for deferred compensation plan obligations to former officers of the Company resulting from the curtailment of the plan; (iii) \$1.5 million of charges reflecting the present value of lease payments for land which new management determined would not be used for any future productive purpose; (iv) \$5.6 million in costs and asset writedowns principally related to changes in pricing strategies for Power Station, the Renewal recharging system; and (v) \$4.6 million of termination benefits and other charges. See "The Recapitalization."

Renewal Product Line. In fiscal 1994, the Company introduced the Renewal rechargeable battery, the first alkaline rechargeable battery sold in the United States (the "Renewal Introduction"). The Company incurred significant advertising and promotional expense related to Renewal of \$26.0 million in fiscal 1994, \$15.7 million in fiscal 1995 and \$20.3 million in fiscal 1996, with the fiscal 1996 increase largely due to the Company's new promotional campaign featuring basketball superstar Michael Jordan.

Since the Recapitalization, the Company has significantly revised its marketing and advertising strategies for the Renewal product line. Management believes that continued improvement in consumer awareness of the value and money-saving benefits of Renewal over conventional disposable alkaline batteries will be necessary to further expand the Company's market for Renewal. Although the percentage of the Company's advertising budget allocated to the Renewal product line has decreased, the Company has begun aggressively marketing Renewal's money-saving benefit over disposable alkaline batteries and performance advantage over rechargeable nickel cadmium batteries and has lowered the prices of the recharger system for Renewal. In addition, the Company is focused on growing Renewal's market share by expanding distribution into new channels such as electronics specialty stores and other speciality retailers in the domestic market.

#### Seasonality

The Company's sales are seasonal, with the highest sales occurring in the fiscal quarter ending on or about December 31, during the holiday season. During the past four completed fiscal years, the Company's sales in the quarter ended on or about December 31 have represented an average of 33% of annual net sales. As a result of this seasonality, the Company's 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 the Company's net sales for each of the periods presented.

	Fiscal Quarter Ended			
	December 30, 1995	March 30, 1996	June 30, 1996	September 30, 1996
	(In millions)			
Net sales .....	\$ 140.9	\$ 80.5	\$ 94.6	\$ 101.9

  

	Fiscal Quarter Ended				
	December 28, 1996	March 29, 1997	June 29, 1997	September 30, 1997	December 27, 1997
	(In millions)				
Net sales .....	\$ 141.9	\$ 83.6	\$ 95.5	\$ 111.5	\$ 150.0

#### Results of Operations

This financial data, as well as all other data set forth herein, gives effect to the reclassification by the Company of certain promotional expenses, previously reported as a reduction of net sales, to selling expense, which policy was adopted as of September 30, 1997. The amounts which have been reclassified are \$19.0 million, \$17.5 million, \$24.2 million and \$24.0 million for the years ended June 30, 1993, 1994, 1995 and 1996, respectively, \$6.7 million for the three months ended September 30, 1995, \$6.9 million for the Transition Period ended September 30, 1996, \$24.1 million for the twelve months ended September 30, 1996, and \$11.9 million for the three months ended December

28, 1996. The Company believes that this reclassification is consistent with the method used by other consumer products companies.

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

	Fiscal Year Ended		Three Months Ended	Transition Period Ended	Twelve Months Ended	Fiscal Year Ended	Three Months Ended	
	June 30, 1995	June 30, 1996	September 30, 1995	September 30, 1996	September 30, 1996	September 30, 1997	December 28, 1996	December 27, 1997
Net sales .....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold .....	57.1	56.5	59.7	58.2	56.9	54.2	55.7	51.6
Gross profit .....	42.9	43.5	40.3	41.8	43.1	45.8	44.3	48.4
Selling expense .....	26.2	27.5	27.9	27.3	27.4	28.2	27.3	30.3
General and administrative expense.....	7.9	7.5	6.9	8.4	7.9	7.5	5.4	5.5
Research and development expense .....	1.2	1.3	1.2	1.5	1.3	1.4	1.3	1.0
Recapitalization and other special charges .....	--	--	--	27.9	6.8	0.7	2.1	( 0.8)
Income (loss) from operations .....	7.6%	7.2%	4.3%	(23.3%)	( 0.3%)	8.0%	8.2%	12.4%

Three Months Ended December 27, 1997 Compared to Three Months Ended December 28, 1996

**Net Sales.** The Company's net sales increased \$8.1 million, or 5.7%, to \$150.0 million in the three months ended December 27, 1997 (the "1998 Fiscal Quarter"), from \$141.9 million in the three months ended December 28, 1996 (the "1997 Fiscal Quarter"), primarily due to increased sales of general battery products somewhat offset by decreased sales of lighting products. During the 1998 Fiscal Quarter, the Company's net sales included \$0.7 million of hearing aid battery sales related to the November 1997 acquisition of Brisco, a distributor in Germany and Holland.

Within general batteries, alkaline battery sales in the 1998 Fiscal Quarter exceeded the 1997 Fiscal Quarter by approximately 19% due primarily to strong promotional programs during the Christmas season, a price increase implemented in the summer of 1997, and sales to new customers. This was partially offset by decreased sales of heavy duty batteries attributed to reduced promotional activity and the continuing decline in the domestic market for heavy duty batteries.

Sales of lighting products were unfavorably impacted as several seasonal promotions in the prior year were not repeated in 1997.

**Gross Profit.** Gross profit increased \$9.7 million, or 15.4%, to approximately \$72.6 million in the 1998 Fiscal Quarter, from \$62.9 million in the 1997 Fiscal Quarter, primarily as a result of increased sales of alkaline batteries. Gross profit increased as a percentage of net sales to 48.4% in the 1998 Fiscal Quarter from 44.3% in the 1997 Fiscal Quarter due primarily to a shift toward higher margin alkaline sales. Gross profit margins also benefitted from the price increase implemented in mid-1997.

**Selling Expense.** Selling expense increased \$6.8 million, or 17.6%, to \$45.5 million in the 1998 Fiscal Quarter from \$38.7 million in the 1997 Fiscal Quarter. Selling expense increased as a percentage of net sales to 30.3% in the 1998 Fiscal Quarter from 27.3% in the 1997 Fiscal Quarter primarily as a result of increased advertising and promotional spending.

**General and Administrative Expense.** General and administrative expense increased \$0.7 million, or 9.2%, to \$8.3 million in the 1998 Fiscal Quarter from \$7.6 million in the 1997 Fiscal Quarter, primarily due to higher costs associated with information system improvements worldwide.

**Research and Development Expense.** Research and development expense decreased \$0.4 million to \$1.5 million in the 1998 Fiscal Quarter from \$1.9 million in the 1997 Fiscal Quarter. This decrease was primarily a result of the increased resources assigned in the 1997 Fiscal Quarter to the development of an on-the-label battery tester which management decided not to introduce.

**Other Special Charges and Income.** In the 1998 Fiscal Quarter, the Company recorded additional income of \$1.2 million in connection with the buyout of deferred compensation agreements with certain former employees. In the 1997 Fiscal Quarter, the Company recorded charges of \$3.0 million in connection with an organizational

restructuring in the United States and the discontinuation of certain manufacturing operations in the United Kingdom.

**Income from Operations.** Income from operations increased \$6.9 million, or 59.0%, to \$18.6 million in the 1998 Fiscal Quarter from \$11.7 million in the 1997 Fiscal Quarter due primarily to increased gross profit on the increased net sales and the other special charges in the 1997 Fiscal Quarter and the other income in the 1998 Fiscal Quarter which was partially offset by increased operating expenses in the areas of advertising and promotion expense.

**Interest Expense.** Interest expense in the 1998 Fiscal Quarter decreased \$3.0 million, or 37.5%, to \$5.0 million from \$8.0 million in the 1997 Fiscal Quarter primarily as a result of decreased indebtedness due to the application of the proceeds of the Company's IPO toward debt reduction, and the write-off, in the 1997 Fiscal Quarter, of \$2.0 million of unamortized debt issuance costs.

**Extraordinary Item.** In the 1998 Fiscal Quarter the Company recorded extraordinary expense of \$2.0 million net of income taxes for the premium on the repurchase or redemption of a portion of the Notes in connection with the IPO.

**Net Income.** Net income for the 1998 Fiscal Quarter increased \$4.2 million, or 175.0%, to \$6.6 million from \$2.4 million in the 1997 Fiscal Quarter as discussed above. Diluted earnings per share for the 1998 Fiscal Quarter increased \$0.15 per share to \$0.27 per share. The Company's effective tax rate for the 1998 Fiscal Quarter was 38.2% compared to 36.7% for the 1997 Fiscal Quarter due primarily to increased foreign taxes for the 1998 Fiscal Quarter that are subject to foreign tax credit limitations.

**Fiscal Year Ended September 30, 1997 Compared to Twelve Months Ended September 30, 1996**

**Net Sales.** The Company's net sales increased \$14.7 million, or 3.5%, to \$432.6 million in fiscal 1997 from \$417.9 million in the twelve months ended September 30, 1996, primarily due to higher sales of alkaline batteries and lithium batteries, offset in part by decreases in sales of heavy duty batteries, lantern batteries and Renewal rechargeables. In the last quarter of fiscal 1997, net sales increased \$9.6 million, or 9.4%, to \$111.5 million from \$101.9 million in the Transition Period, primarily due to higher sales of alkaline batteries attributed to the introduction of a 4% price increase on alkaline batteries in the U.S. phased in beginning May 1997, significant promotional programs, and sales to new accounts.

Sales of alkaline batteries increased as a result of the launch of a new integrated advertising campaign emphasizing the alkaline brand, new product graphics and packaging (designed to build brand awareness and the Company's value brand position), and strong promotional programs in the Company's fourth fiscal quarter. The Company also gained significant new distribution on the strength of this program.

Lithium sales increased primarily due to increased sales of computer clock and memory back-up batteries to Compaq Computers and SGS Thomson, two of the Company's larger OEM (Original Equipment Manufacturers) customers.

Sales of heavy duty and lantern batteries decreased primarily due to declines in the market as consumers move toward alkaline batteries away from heavy duty batteries. Lantern battery volume was also adversely impacted by the migration to reflective tape in place of flashing lights on construction barricades.

Hearing aid battery sales increased as a result of continued growth in the overall hearing aid battery market. The Company's market leadership position in this product line has resulted in new distribution gains in the retail channel, the fastest growing channel for hearing aid batteries as consumers shift their purchases toward this channel.

Net sales of lighting products increased slightly over the prior twelve months due primarily to growth in key mass merchandiser accounts and wholesale clubs.

Dollar sales of Renewal rechargeables were down approximately 12% due primarily to the Company's decision to decrease prices of the chargers by 33% in the first quarter of fiscal 1997 to reposition the product and encourage consumers to purchase the system. Unit sales of chargers and batteries combined were approximately 7% higher than the prior twelve months.

**Gross Profit.** Gross profit increased \$18.0 million, or 10.0%, to \$198.0 million in fiscal 1997 from \$180.0 million for the twelve months ended September 30, 1996. Gross profit as a percentage of net sales increased to

45.8% in fiscal 1997 from 43.1% in the prior twelve months. These increases are attributed to increased sales of higher margin alkaline batteries, the introduction of a 4% price increase on alkaline batteries in the U.S. phased in beginning May 1997, and lower manufacturing costs as a result of cost rationalization initiatives. Gross profit increased \$12.7 million, or 29.8%, to \$55.3 million in the three months ended September 30, 1997 from \$42.6 million in the Transition Period, for these same reasons.

**Selling Expense.** Selling expense increased \$7.7 million, or 6.7%, to \$122.1 million in fiscal 1997 from \$114.4 million in the twelve months ended September 30, 1996 due primarily to increased marketing expense to support the launch of the Company's new graphics and packaging and increased consumer promotions on the old graphics and packaging to help retailers promote this product. These increases were partially offset by reduced advertising expense while the Company developed its new advertising program. Selling expense increased as a percentage of net sales to 28.2% in fiscal 1997 from 27.4% in the prior twelve months because of increased marketing expenses.

**General and Administrative Expense.** General and administrative expense decreased \$0.8 million, or 2.4%, to \$32.2 million in fiscal 1997 from \$33.0 million in the twelve months ended September 30, 1996 due in part to cost rationalization initiatives which included the elimination of the use of a corporate aircraft. These decreases were partially offset by the expense related to a new management incentive program implemented for fiscal 1997. There were no management incentives earned during the twelve months ended September 30, 1996. As a percentage of net sales, general and administrative expense decreased to 7.5% in fiscal 1997 from 7.9% in the prior twelve months.

**Research and Development Expense.** Research and development expense increased \$0.6 million, or 10.7%, to \$6.2 million for fiscal 1997 from \$5.6 million for the twelve months ended September 30, 1996 due primarily to the development of an on-the-label battery tester which the Company decided not to introduce.

**Recapitalization and Other Special Charges.** During fiscal 1997, the Company recorded special charges of \$3.0 million compared to \$28.4 million recorded in the twelve months ended September 30, 1996 as discussed above under "Effect of Recapitalization." The current year amount represents the net charges for organizational restructuring in the United States, the discontinuation of certain manufacturing operations at the Company's Newton Aycliffe, United Kingdom facility and the discontinuation of certain manufacturing operations at the Company's facility in Kinston, North Carolina partially offset by a credit of \$2.9 million related to the curtailment of the Company's defined benefit pension plan covering all domestic non-union employees.

**Income from Operations.** Income from operations increased \$35.9 million to \$34.5 million in fiscal 1997 from a loss of \$(1.4) million for the twelve months ended September 30, 1996. The Company's Recapitalization and other special charges decrease of \$25.4 million in combination with increased gross profits were partially offset by increased operating expenses related to the new marketing and advertising programs discussed above.

**Interest Expense.** Interest expense increased \$14.0 million to \$24.5 million in fiscal 1997 from \$10.5 million in the prior twelve months due primarily to increased indebtedness associated with the Recapitalization and a write-off of \$2.0 million of unamortized debt issuance costs related to the Bridge Notes the Company issued in September 1996 which were refinanced in fiscal 1997.

**Net Income.** Net income increased \$16.4 million to \$6.2 million in fiscal 1997 from a net loss of \$(10.2) million in the twelve months ended September 30, 1996 primarily due to increased income from operations as discussed above partially offset by increased interest expense due to the Recapitalization. The Company's effective tax rate for fiscal 1997 was 35.6% compared to an effective tax benefit rate of 31.0% for the prior twelve months due primarily to some of the Recapitalization expenses in the prior twelve months being non-tax deductible and the tax benefits of Rayovac International Corporation, a domestic international sales corporation ("DISC") owned by the shareholders in the prior twelve months. The DISC was terminated in August 1996 and replaced with Rayovac Foreign Sales Corporation, a foreign sales corporation, in fiscal 1997 which generated fewer tax benefits in fiscal 1997.

Net income for the prior twelve months also decreased \$1.6 million resulting from an extraordinary loss on the early retirement of debt related to the Recapitalization.

Fiscal Year Ended September 30, 1997 Compared to Transition Period Ended September 30, 1996

Results of operations for fiscal 1997 include amounts for a twelve-month period, while results for the Transition Period include amounts for a three-month period. Results (in terms of dollars) for these periods are not directly comparable. Accordingly, management's discussion and analysis for these periods is generally based upon a comparison of specified results as a percentage of net sales.

**Net Sales.** The Company's net sales increased \$330.7 million to \$432.6 million in fiscal 1997 from \$101.9 million in the Transition Period due primarily to fiscal 1997 including twelve months compared to three months in the Transition Period. Sales during the Transition Period were unfavorably impacted by the pending sale of the Company.

**Gross Profit.** Gross profit increased \$155.4 million to \$198.0 million in fiscal 1997 from \$42.6 million in the Transition Period. As a percentage of net sales, gross profit increased to 45.8% in fiscal 1997 from 41.8% in the Transition Period due to selling more higher margin products like alkaline and hearing aid batteries in fiscal 1997, the alkaline price increase discussed above, and lower manufacturing costs attributed to cost rationalization initiatives.

**Selling Expense.** Selling expense increased \$94.3 million to \$122.1 million in fiscal 1997 from \$27.8 million in the Transition Period. As a percentage of net sales, selling expense increased to 28.2% in fiscal 1997 from 27.3% in the Transition Period due to increased promotional spending to support the new alkaline battery graphics and packaging, the new advertising program to build brand awareness and increased spending to gain new distribution.

**General and Administrative Expense.** General and administrative expense increased \$23.6 million to \$32.2 million in fiscal 1997 from \$8.6 million in the Transition Period. As a percentage of net sales, general and administrative expense decreased to 7.5% in fiscal 1997 from 8.4% in the Transition Period attributed to the effects of cost rationalization initiatives.

**Research and Development Expense.** Research and development expense increased \$4.7 million to \$6.2 million in fiscal 1997 from \$1.5 million in the Transition Period. As a percentage of net sales, research and development expense decreased slightly to 1.4% in fiscal 1997 from 1.5% in the Transition Period due primarily to the effects of the cost rationalization initiatives.

**Recapitalization and Other Special Charges.** Recapitalization and other special charges decreased by \$25.4 million, or 89.4%, to \$3.0 million in fiscal 1997 from \$28.4 million in the Transition Period which is explained above in the discussion of fiscal 1997 compared to the twelve months ended September 30, 1996.

**Income (loss) from Operations.** Income (loss) from operations increased \$58.2 million to \$34.5 million in fiscal 1997 from \$(23.7) million in the Transition Period. As a percentage of net sales, income (loss) from operations increased to 8.0% in fiscal 1997 from (23.3)% in the Transition Period for the reasons discussed above.

**Net Income (loss).** Net income (loss) for fiscal 1997 increased \$27.1 million to \$6.2 million from \$(20.9) million in the Transition Period. As a percentage of net sales, net income (loss) increased to 1.4% in fiscal 1997 from (20.5)% in the Transition Period primarily due to significant Recapitalization and other special charges in the Transition Period. In addition, an extraordinary loss on the early retirement of debt decreased net income in the Transition Period by \$1.6 million, net of income taxes. The effective tax rate for fiscal 1997 was 35.6% compared to 31.6% in the Transition Period due primarily to some of the Recapitalization expenses being non-tax deductible in the Transition Period.

Transition Period Ended September 30, 1996 Compared to Three Months Ended September 30, 1995

**Net Sales.** The Company's net sales decreased \$5.4 million, or 5.0%, to \$101.9 million in the Transition Period from \$107.3 million in the three months ended September 30, 1995 (the "Prior Fiscal Year Period") primarily due to decreased sales to the food and drug store retail channels and the Company having made sales to certain retail customers in connection with promotional orders after the Transition Period which were made during the Prior Fiscal Year Period.

**Gross Profit.** Gross profit decreased \$0.6 million, or 1.4%, to \$42.6 million in the Transition Period from \$43.2 million in the Prior Fiscal Year Period, primarily as a result of decreased sales in the Transition Period, as discussed above. Gross profit increased as a percentage of net sales to 41.8% in the Transition Period from 40.3% in the Prior Fiscal Year Period due primarily to a lower proportion of promotion sales as discussed above.



Selling Expense. Selling expense decreased \$2.1 million, or 7.0%, to \$27.8 million in the Transition Period from \$29.9 million in the Prior Fiscal Year Period, primarily due to decreased advertising expense in the Transition Period.

General and Administrative Expense. General and administrative expense increased \$1.2 million, or 16.2%, to \$8.6 million in the Transition Period from \$7.4 million in the Prior Fiscal Year Period, primarily as a result of the Company having incurred certain expenditures during the Transition Period which were incurred subsequent to the Prior Fiscal Year Period.

Research and Development Expense. Research and development expense increased \$0.2 million, or 15.4%, to \$1.5 million in the Transition Period from \$1.3 million in the Prior Fiscal Year Period, primarily as a result of increased product development efforts.

Recapitalization and Other Special Charges. During the Transition Period, the Company recorded charges of \$28.4 million, including non-recurring charges related to the Recapitalization and other special charges.

Non-recurring charges of \$12.3 million related to the Recapitalization include (i) \$5.0 million of advisory, legal and consulting fees and (ii) \$7.3 million of stock option compensation, severance payments and employment contract settlements for the benefit of certain present and former officers, directors and management of the Company.

Other special charges of \$16.1 million include (i) \$2.7 million of charges related to the discontinuation of certain manufacturing operations at the Company's Newton Aycliffe, United Kingdom facility; (ii) \$1.7 million of charges for deferred compensation plan obligations to former officers of the Company resulting from the curtailment of the plan; (iii) \$1.5 million of charges reflecting the present value of lease payments for land which new management determined would not be used for any future productive purpose; (iv) \$5.6 million in costs and asset writedowns principally related to changes in Renewal Power Station pricing strategies adopted by new management subsequent to the Recapitalization and prior to September 30, 1996; and (v) \$4.6 million of termination benefits and other charges.

Income (loss) from Operations. Income (loss) from operations decreased \$28.3 million to \$(23.7) million in the Transition Period from \$4.6 million in the Prior Fiscal Year Period for the reasons discussed above.

Net Income (loss). Net income (loss) for the Transition Period decreased \$22.3 million to \$(20.9) million from \$1.4 million in the Prior Fiscal Year Period, primarily because of non-recurring charges related to the Recapitalization and other special charges discussed above. In addition, amortization of deferred finance charges related to the Bridge Notes and an extraordinary loss on the early retirement of debt decreased net income in the Transition Period by \$2.6 million, net of income taxes.

Transition Period Ended September 30, 1996 Compared to Fiscal Year Ended June 30, 1996

Results of operations for the Transition Period Ended September 30, 1996 include amounts for a three-month period, while results for the fiscal year ended June 30, 1996 include amounts for a twelve-month period. Results (in terms of dollar amounts) for these periods are not directly comparable. Accordingly, management's discussion and analysis for these periods is generally based upon a comparison of specified results as a percentage of net sales.

Net Sales. The Company's net sales decreased \$321.5 million, or 75.9%, to \$101.9 million in the Transition Period from \$423.4 million in fiscal 1996 because the Transition Period included only three months of net sales as compared to twelve months in fiscal 1996. Overall pricing was relatively constant between the two periods.

Gross Profit. Gross profit decreased \$141.4 million, or 76.8%, to \$42.6 million in the Transition Period from \$184.0 million in fiscal 1996. As a percentage of net sales, gross profit decreased to 41.8% in the Transition Period from 43.5% in fiscal 1996, primarily because the products sold during the Transition Period carried a higher average unit cost than the overall average unit cost of products sold in fiscal 1996 due to seasonal sales trends.

Selling Expense. Selling expense decreased \$88.7 million, or 76.1%, to \$27.8 million in the Transition Period from \$116.5 million in fiscal 1996. As a percentage of net sales, selling expenses decreased to 27.3% in the Transition Period from 27.5% in fiscal 1996, primarily as a result of decreased advertising expense in the Transition Period.

General and Administrative Expense. General and administrative expense decreased \$23.2 million, or 73.0%, to \$8.6 million in the Transition Period from \$31.8 million in fiscal 1996. As a percentage of net sales, general

and administrative expense increased to 8.4% in the Transition Period from 7.5% in fiscal 1996, primarily as a result of the effects of seasonal sales trends in the Transition Period.

**Research and Development Expense.** Research and development expense decreased \$3.9 million, or 72.2%, to \$1.5 million in the Transition Period from \$5.4 million in fiscal 1996. As a percentage of net sales, research and development expense increased to 1.5% in the Transition Period from 1.3% in fiscal 1996, primarily as a result of increased support for ongoing product development efforts.

**Recapitalization and Other Special Charges.** During the Transition Period ended September 30, 1996, the Company recorded charges totaling \$28.4 million, including non-recurring charges related to the Recapitalization and other special charges. Non-recurring charges of \$12.3 million related to the Recapitalization include (i) \$5.0 million of advisory, legal and consulting fees and (ii) \$7.3 million of stock option compensation, severance payments and employment contract settlements for the benefit of certain present and former officers, directors and management of the Company.

Other special charges of \$16.1 million include (i) \$2.7 million of charges related to the discontinuation of certain manufacturing operations at the Company's Newton Aycliffe, United Kingdom facility; (ii) \$1.7 million of charges for deferred compensation plan obligations to former officers of the Company resulting from the curtailment of the plan; (iii) \$1.5 million of charges reflecting the present value of lease payments for land which new management determined would not be used for any future productive purpose; (iv) \$5.6 million in costs and asset writedowns principally related to changes in Renewal Power Station pricing strategies adopted by new management subsequent to the Recapitalization and prior to September 30, 1996; and (v) \$4.6 million of termination benefits and other charges.

**Income (loss) from Operations.** Income (loss) from operations decreased \$54.0 million, or 178.2%, to \$(23.7) million in the Transition Period from \$30.3 million in fiscal 1996. As a percentage of net sales, income (loss) from operations decreased to (23.3)% in the Transition Period from 7.2% in fiscal 1996 for the reasons discussed above.

**Net Income (loss).** Net income (loss) decreased \$35.2 million, or 246.2%, to \$(20.9) million for the Transition Period from \$14.3 million in fiscal 1996. As a percentage of net sales, net income (loss) decreased to (20.5)% in the Transition Period from 3.4% in fiscal 1996, primarily because of non-recurring charges related to the Recapitalization and other special charges discussed above. In addition, amortization of deferred finance charges related to the Bridge Notes and an extraordinary loss on the early retirement of debt decreased net income in the Transition Period by \$2.6 million, net of income taxes.

#### Fiscal Year Ended June 30, 1996 Compared to Fiscal Year Ended June 30, 1995

**Net Sales.** The Company's net sales increased \$8.2 million, or 2.0%, to \$423.4 million in fiscal 1996 from \$415.2 million in fiscal 1995, primarily due to higher unit sales of hearing aid batteries, Renewal rechargeable batteries and alkaline batteries, offset in part by decreases in unit sales of heavy duty and lantern batteries. Overall pricing was relatively constant between the two periods. Sales of hearing aid batteries increased as a result of unit sales growth in the overall hearing aid battery market as well as increased penetration by the Company's Loud'n Clear line of hearing aid batteries and the introduction of a new miniature size battery, used in hearing aids that fit completely in the ear. Unit sales of Renewal rechargeable alkaline batteries increased as a result of increased consumer awareness of the benefits of Renewal over nickel-cadmium household rechargeable batteries and disposable batteries and as replacement sales increased to retailers who had sold through their high levels of fiscal 1995 Renewal inventory. The Company's unit sales of alkaline batteries increased as the Company participated to a certain extent in the continued overall growth in the market for alkaline batteries. Unit sales of heavy duty batteries decreased due to the continued worldwide migration away from heavy duty batteries and toward alkaline batteries while unit sales of lantern batteries also decreased due to an overall decline in the lantern battery market.

**Gross Profit.** Gross profit increased \$5.9 million, or 3.3%, to \$184.0 million in fiscal 1996 from \$178.1 million in fiscal 1995. Gross profit increased as a percentage of net sales to 43.5% in fiscal 1996 from 42.9% in fiscal 1995. These increases are primarily attributable to increased sales of higher margin products such as Renewal rechargeable batteries and hearing aid batteries. In addition, the Company experienced manufacturing cost improvements, particularly for alkaline battery raw materials related to the Fennimore Expansion as discussed above.

Selling Expense. Selling expense increased \$7.8 million, or 7.2%, to \$116.5 million in fiscal 1996 from \$108.7 million in fiscal 1995. Selling expense as a percentage of net sales increased to 27.5% in 1996 from 26.2% in 1995. These increases are primarily attributable to increased advertising costs to promote the Renewal product line as discussed above.

General and Administrative Expense. General and administrative expense decreased \$1.1 million, or 3.3%, to \$31.8 million in fiscal 1996 from \$32.9 million in fiscal 1995. General and administrative expense as a percentage of net sales decreased from 7.9% in fiscal 1995 to 7.5% in fiscal 1996. These decreases occurred primarily because the \$4.0 million payment of management incentives in 1995 was not repeated in fiscal 1996.

Research and Development Expense. Research and development expense increased \$0.4 million, or 8.0%, to \$5.4 million in fiscal 1996 from \$5.0 million in fiscal 1995 as a result of continued support for ongoing product development efforts.

Income from Operations. Income from operations decreased \$1.2 million, or 3.8%, to \$30.3 million, or 7.2% of net sales in fiscal 1996, from \$31.5 million, or 7.6% of net sales, in fiscal 1995 for the reasons discussed above.

Net Income. Net income decreased \$2.1 million, or 12.8%, to \$14.3 million for fiscal 1996 from \$16.4 million in fiscal 1995, principally as a result of decreased income from operations and higher effective tax rates, which increased from 27.4% in 1995 to 32.9% in 1996. The Company's effective income tax rates in fiscal 1996 and fiscal 1995 were impacted by the income tax benefits of Rayovac International Corporation, a domestic international sales corporation ("DISC") owned by the Company's shareholders, and fiscal 1995 was also impacted by the utilization of a foreign net operating loss carryforward.

#### Liquidity and Capital Resources

Net cash provided by operating activities was \$1.7 million in the three months ended December 27, 1997 as compared to \$20.5 million in the three months ended December 28, 1996. The decrease was due to higher levels of receivables and inventories, partially offset by higher net income and lower depreciation and amortization.

Capital expenditures during the three months ended December 27, 1997, were \$1.8 million, an increase of \$0.7 million from \$1.1 million in the 1997 Fiscal Quarter reflecting maintenance level spending. In addition, the Company expended \$4.9 million in connection with acquisitions in fiscal 1998.

Capital expenditures for fiscal 1997 were \$10.9 million, an increase of \$2.5 million from the prior twelve months, due primarily to new computer information systems purchased in September 1997. Capital expenditures for fiscal 1996 and the Transition Period reflected maintenance level spending. Spending will continue on the implementation of the new computer systems in fiscal 1998 which is expected to be substantially completed by mid-1999.

The Company currently expects an increase in capital expenditures to approximately \$18.0 million in fiscal 1998 due to alkaline capacity expansion, alkaline vertical integration programs, and continued spending on new computer information systems. The Company believes that cash flow from operating activities and periodic borrowings under its existing credit facilities will be adequate to meet the Company's short-term and long-term liquidity requirements prior to the maturity of those credit facilities, although no assurance can be given in this regard. On December 30, 1997, the Credit Agreement dated September 12, 1996, was amended. The Amended Credit Agreement provides for more favorable borrowing costs and covenants consistent with the Company's improved credit position resulting from the paydown of debt with the net proceeds of the IPO. The Amended Credit Agreement includes a five-year reducing Revolver Facility of \$90.0 million and a five-year amortizing Acquisition Facility of \$70.0 million. The Revolver Facility is reduced by \$10.0, \$15.0 and \$15.0 million respectively on December 31, 1999, 2000 and 2001 and expires on December 31, 2002. The Acquisition Facility provides up to \$70.0 million in loans for qualifying acquisitions during a one-year commitment period expiring December 31, 1998. Debt obtained under the Acquisition Facility is subject to quarterly amortization commencing March 31, 1999 through December 31, 2002. As of March 28, 1998, \$56.1 million was outstanding on the Revolver Facility, with approximately \$5.8 million utilized for outstanding letters of credit, and \$4.2 million was outstanding under the Acquisition Facility. See "Description of Certain Indebtedness."

The Company is subject to various federal, state, local and foreign environmental laws and regulations in the jurisdictions in which it operates, 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. Except for liabilities related to the Velsicol Chemical and Morton International proceedings described under "Business--Environmental Matters" as to which the Company cannot predict the impact of such liabilities, the Company does not currently anticipate any material adverse effect on its operations or financial condition or any material capital expenditure as a result of its efforts to comply with environmental laws and as of March 28, 1998 had reserved \$1.7 million for known on-site and off-site environmental liabilities. Some risk of environmental liability is inherent in the Company's business, however, and there can be no assurance that material environmental costs will not arise in the future. The Company has been identified as a PRP under CERCLA or similar state laws with respect to the past disposal of waste and is a party to two lawsuits as to which there is insufficient information to make a judgment as to the likelihood of a material impact on the Company's operations, financial condition or liquidity at this time. The Company may be named as a PRP at additional sites in the future, and the costs associated with such additional or existing sites may be material. In addition, certain of the Company's facilities have been in operation for decades and, over such time, the Company and other prior operators of such facilities have generated and disposed of wastes which are or may be considered hazardous such as cadmium and mercury utilized in the battery manufacturing process. See "Risk Factors--Environmental Matters" and "Business--Environmental Matters." The Company engages in hedging transactions in the ordinary course of its business. See Note 2.o. to Notes to Consolidated Financial Statements.

#### Computer Systems Upgrade

The Company is in the process of implementing its enterprise-wide, integrated information system upgrade. The SAP system is also expected to substantially address the Year 2000 issue. Management currently expects to substantially complete implementation of the upgrade in mid-1999 and to spend an estimated additional \$1.0 million on Year 2000 issues. The Company presently believes that with modifications to existing software and converting to new software, the Year 2000 issue will not pose significant operational problems for the Company's computer systems. However, there can be no assurance that unforeseen difficulties will not arise for any of the Company, its customers or vendors and that related costs will not thereby be incurred.

#### Impact of Recently Issued Accounting Standards

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income ("FAS 130"), which establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. All items that are required to be recognized under accounting standards as components of comprehensive income are to be reported in a financial statement that is displayed with the same prominence as other financial statements. FAS 130 requires that an enterprise (i) classify items of other comprehensive income by their nature in a financial statement and (ii) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in-capital in the equity section of the balance sheet. FAS 130 is effective for fiscal years beginning after December 15, 1997. Reclassification of financial statements for earlier periods provided for comparative purposes is required. The Company is evaluating the effect of this pronouncement on its consolidated financial statements.

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information ("FAS 131"), which is effective for financial statements for periods beginning after December 15, 1997. FAS 131 establishes standards for the way public business enterprises are to report information about operating segments in annual financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company is evaluating the effect of this pronouncement on its consolidated financial statements.

In February 1998, the FASB issued Statement of Financial Accounting Standards No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits ("FAS No. 132"), which standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable. FAS No. 132 is effective for fiscal years beginning after December 15, 1997. Restatement of disclosures for earlier periods provided for comparative purposes is required unless the information is not readily available. The Company is evaluating the effect of this pronouncement on its consolidated financial statements.

## BUSINESS

### General

The Company is the leading value brand and the third largest domestic manufacturer of general batteries, and is the leading worldwide manufacturer of hearing aid batteries. The Company is also the leading domestic manufacturer of rechargeable household batteries and certain other specialty batteries, including lantern batteries. In addition, the Company is a leading marketer of heavy duty batteries and battery-powered lighting products and also markets rechargeable batteries for cellular phones and video camcorders. Originally introduced in 1921, the Rayovac brand is a well recognized name in the battery industry. The Company attributes the longevity and strength of its brand name to its high-quality products and to the success of its marketing and merchandising initiatives.

The Company has established its position as the leading value brand in the U.S. general alkaline battery market by focusing on the mass merchandiser channel. The Company achieved this position by (i) offering batteries with quality and performance substantially equivalent to batteries offered by its principal competitors at a lower price, (ii) emphasizing innovative in-store merchandising programs, and (iii) offering retailers attractive margins. The Company has established its position as the leader in various specialty battery niche markets through (i) continuous technological advances, (ii) creative distribution and marketing, and (iii) strong relationships with industry professionals and manufacturers. The Company sells and distributes its products in several channels, including mass merchandisers and warehouse clubs; food, drug and convenience stores; electronics specialty stores and department stores; hardware and automotive centers; specialty retailers; hearing aid professionals; and industrial and government/OEM. The Company markets all of its branded products under the Rayovac[RegTM] name and selected products under sub-brand names such as MAXIMUM[TM], Renewal[RegTM], Loud'n Clear[RegTM], ProLine[RegTM], Lifex[TM], Power Station[RegTM], Workhorse[RegTM], and Roughneck[RegTM].

### Business Strategy

In September 1996, pursuant to the Recapitalization, affiliates of Thomas H. Lee Company acquired beneficial ownership of approximately 80% of the outstanding Common Stock of Rayovac. David A. Jones was hired as Chief Executive Officer of the Company to implement a new business strategy focused on (i) reinvigorating the Rayovac brand name by raising consumer brand awareness through, among other things, focused marketing and advertising, (ii) growing Rayovac's 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, (iii) reducing costs by rationalizing manufacturing and distribution, better utilizing existing plant capacity, outsourcing products where appropriate, reducing working capital, and downsizing corporate overhead, and (iv) improving employee productivity by increasing training and education, upgrading information systems, and implementing a pay-for-performance culture.

To implement its new strategy, the Company has undergone a significant transformation since the Recapitalization.

Strengthened Senior Management Team. In addition to Mr. Jones, experienced senior managers have been recruited to fill key positions: Kent J. Hussey, Executive Vice President of Finance and Administration and Chief Financial Officer; Merrell M. Tomlin, Senior Vice President of Sales; Stephen P. Shanesy, Senior Vice President of Marketing and General Manager of General Batteries and Lights; and Randall J. Steward, Senior Vice President of Corporate Development. The new senior managers have over 75 years of collective experience in the consumer products industry. In addition, the current management team includes several key members who served the Company prior to the Recapitalization, providing continuity and retaining significant battery industry expertise. After giving effect to the Offerings, the nine executive officers of the Company will beneficially own 9.7% of the outstanding Common Stock (without giving effect to the Underwriters' over-allotment options) on a fully diluted basis.

Restructured Operations. In March 1998, the Company announced restructuring plans for its domestic and international operations designed to maximize production and capacity efficiencies, reduce fixed costs, upgrade existing technology and equipment, and improve customer service. Major elements of the restructuring include (i) consolidating the Company's packaging operations, (ii) outsourcing manufacturing of heavy duty batteries, and (iii) closing certain of the Company's existing manufacturing, packaging and distribution facilities. The Company will record a charge of \$7.5 million in the second quarter of the current fiscal year in connection with the restructuring program and expects to record an additional \$2.0 million of costs in subsequent periods. The Company currently

anticipates annual aggregate cost savings of the restructuring program, after full implementation (currently expected in early 1999), to be approximately \$5.0 million.

The restructuring further implements actions taken by the Company following the Recapitalization to rationalize manufacturing and other costs, including (i) consolidating certain manufacturing operations at the Company's facilities and closing other facilities; (ii) sourcing some products previously manufactured by the Company; (iii) implementing a significant organizational restructuring and additional measures to rationalize manufacturing, distribution and overhead costs; and (iv) eliminating costs associated with the use of a corporate aircraft. The Company estimates the annual aggregate cost savings associated with these earlier actions at approximately \$8.6 million. The Company believes that its current manufacturing capacity remains sufficient to meet its anticipated production requirements for the foreseeable future.

**Reorganized Sales, Marketing and Administration by Distribution Channel.** Rayovac has realigned its marketing department, sales organization, supply chain and support functions to better serve the diverse customer needs within major distribution channels. Customer-focused teams are now organized to serve the following distribution channels: mass merchandisers and warehouse clubs; food, drug and convenience stores; electronics specialty stores and department stores; hardware and automotive centers; specialty retailers; hearing aid professionals; industrial and government/OEM. The Company believes that sales to under-penetrated channels should increase as the dedicated teams focus on implementing channel-specific marketing strategies, sales promotions and customer service initiatives.

**Launched New Sales and Marketing Programs.** Rayovac has developed and continues to implement broad new marketing initiatives designed to reinvigorate the Rayovac brand name. Major steps completed to date include (i) selecting Young & Rubicam as the Company's new advertising agency and developing its first major national advertising campaign for its full line of general batteries, (ii) launching a new and improved alkaline product line under the MAXIMUM<sup>TM</sup> sub-brand, (iii) redesigning all product graphics and packaging to convey a high-quality image and emphasize the Rayovac brand name, (iv) extending the Company's existing contract with Michael Jordan to include his representation for all Rayovac products, and (v) restructuring the Company's sales representative network along distribution channels.

**Reorganized Information Systems.** The Company has completed an initial overhaul of its information systems by (i) hiring an experienced Chief Information Officer, (ii) outsourcing mainframe computer operations, (iii) completing an enterprise software system analysis, and (iv) retaining outside consultants to modernize and upgrade its data processing and telecommunications infrastructure. The Company has purchased from SAP and begun implementing an enterprise-wide, integrated information system to upgrade and modernize its business operations, the majority of which is expected to be substantially completed by mid-1999. When fully implemented, this system, along with efforts by the Company's internal project team, is expected to reduce cycle times, lower manufacturing and administrative costs, improve both asset and employee productivity and substantially address the Year 2000 issue.

#### Growth Strategy

Rayovac believes it has significant growth opportunities in its businesses and has developed strategies to increase sales, profits and market share. Key elements of the Company's growth strategy are as follows:

**Reinvigorate the Rayovac Brand Name.** The Company is committed to reinvigorating the Rayovac brand name after many years of underdevelopment. The brand, originally introduced in 1921, has wide recognition in all markets where the Company competes, but has lower awareness than the more highly advertised Duracell and Energizer brands. The Company has initiated an integrated advertising campaign using significantly higher levels of TV and print media. In 1997, the Company launched a reformulated alkaline battery, Rayovac MAXIMUM<sup>TM</sup>, supported by new graphics, new packaging, a new advertising campaign, and aggressive introductory retail promotions. The Company's marketing and advertising initiatives are designed to increase awareness of the Rayovac brand and to increase retail sales by heightening customers' perceptions of the quality, performance and value of Rayovac products.

Leverage Value Brand Position. Rayovac believes it has a unique position in the general battery market as the value brand in an industry in which the leading three brands (Duracell, Energizer and Rayovac) account for approximately 90% of sales. The Company's strategy is to provide products of quality and performance equal to its major competitors in the general battery market at a lower price to appeal to a large segment of the population desiring a value brand. To demonstrate its value positioning, Rayovac offers comparable battery packages at a lower price or, in some cases, more batteries for the same price.

Expand Retail Distribution. Historically the Company had focused its sales and marketing efforts on the mass merchandiser channel which accounted for 44% of industry sales growth in the domestic alkaline battery market on a unit basis over the past five years and has achieved a 19% unit share. The Company believes its value brand positioned products and innovative merchandising programs also make it an attractive supplier to other retail channels, which represent a market of \$1.7 billion or 69% of the general battery market. The Company has reorganized its marketing, sales, and sales representative organizations by channel in order to grow market share by (i) gaining new customers, (ii) penetrating existing customers with a larger assortment of products, (iii) offering a selection of products with high sell-through, and (iv) utilizing more aggressive and channel specific promotional programs. The Company believes that these initiatives have resulted in significant success over the past fiscal year in gaining access to new accounts and expanding product offerings to existing accounts and the Company intends to continue to pursue these strategies.

Further Capitalize on Worldwide Leadership in Hearing Aid Batteries. The Company seeks to increase its 52% worldwide market share in the hearing aid battery segment, as it has done consistently for the past 10 years, by leveraging its leading technology and dedicated sales and marketing organizations. Rayovac is the only hearing aid battery manufacturer to advertise its products and plans to continue to utilize Arnold Palmer as its spokesperson in its print media campaign. Rayovac also markets large multi-packs of hearing aid batteries which have rapidly gained consumer favor. In November 1997, the Company acquired Brisco, which packages and distributes hearing aid batteries in customized packaging to hearing health care professionals in Germany and Holland as well as other European countries. The Company believes that the Brisco acquisition will enable the company to further penetrate European markets for hearing aid batteries.

Develop New Markets. The Company intends to expand its business into new markets for batteries and related products both domestically and internationally by developing new products internally or selective acquisitions. These acquisitions may focus on expansion into new technologies, product lines or geographic markets and may be of significant size. In March 1998, the Company acquired the retail portion of the business of DPP, a full line marketer of rechargeable batteries and accessories for cellular phones and video camcorders. In conjunction with the acquisition of DPP, the Company has announced the launch of a new line of rechargeable batteries for cordless telephones. The Company may also pursue joint ventures or other strategic marketing opportunities where appropriate to expand its markets or product offerings. See "Risk Factors--Risks Associated with Future Acquisitions."

Introduce New Niche Products. The Company has developed leading positions in several important niche markets, including those for lantern batteries and lithium coin cells. The Company intends to continue selectively pursuing opportunities to exploit under-served niche markets and to enter high-growth specialty battery markets. In 1997, the Company entered the market for photo and keyless entry batteries and recently introduced a line of products to service the medical instrument and health services markets. In the lighting products segment, where market share is driven by new product introductions, the Company is introducing a number of attractively designed new products over the next twelve months and intends to bring new products to the market in the future on a six-month cycle.

Reposition the Renewal Rechargeable Alkaline Battery. The Company's Renewal rechargeable battery is the only rechargeable alkaline battery in the U.S. market, commanding a 68% market share of the rechargeable household battery market through mass merchandisers, food and drug stores for the 52 weeks ended February 14, 1998. Since the Recapitalization, management has lowered the price of Renewal rechargers by 33% to encourage consumers to purchase the system and promoted Renewal's money-saving benefits. Renewal batteries present a value proposition to consumers because Renewal batteries can be recharged over 25 times, providing 10 times the energy of disposable alkaline batteries at only twice the retail price. In addition, alkaline rechargeables are superior to nickel cadmium rechargeables (the primary competing technology) because they provide more energy between charges, are sold fully charged, retain their charge longer and are environmentally safer. The Company has focused

sale efforts for this product in distribution channels which the Company believes to be more suited for this product and has recently begun shipments to Radio Shack.

**Battery Industry**

The U.S. battery industry had aggregate sales in 1997 of approximately \$4.3 billion as set forth below.

1997 U.S. Battery Industry Sales	(In billions)
Retail:	
General .....	\$ 2.4
Hearing aid .....	0.2
Other specialty .....	0.9
Industrial, OEM and Government .....	0.8
	-----
Total .....	\$ 4.3
	=====

As set forth below, this segment has experienced steady growth, with compound annual unit sales growth since 1990 of 4%.

RETAIL GENERAL BATTERY MARKET  
Total Retail General Batteries  
-----

[LINE CHART DATA]

	Dollars (Millions)	Units (Millions)
1990	1834	2225
1991	1912	2358
1992	2003	2543
1993	2099	2715
1994	2192	2910
1995	2316	3071
1996	2395	3156
1997	2431	3246

Source: A.C. Nielsen Scanner Data  
A.C. Nielsen Consumer Panel Data

The U.S. battery industry is dominated by three manufacturers, (Duracell, Energizer and Rayovac) each of which manufactures and markets a wide variety of batteries. Together, these three accounted for approximately 90% of the U.S. retail general battery market in calendar 1997. Retail sales of general and specialty batteries represent the largest portion of the U.S. battery industry, accounting for approximately 80% of sales in 1997. Batteries are popular with many retailers because they provide attractive profit margins. As batteries are an impulse purchase item, increasing display locations in stores tends to generate increased sales.

The growth in retail sales of general batteries in the U.S. is largely due to (i) the popularity and proliferation of battery-powered devices (such as remote controls, personal radios and cassette players, pagers, portable compact disc players, electronic and video games and battery-powered toys), (ii) the miniaturization of battery-powered devices, which has resulted in consumption of a larger number of smaller batteries, and (iii) increased purchases of multiple-battery packages for household "pantry" inventory. These factors have increased the average household usage of batteries from an estimated 23 batteries per year in 1986 to an estimated 36 batteries per year in 1997.

Similar to general retailing trends, increased battery sales through mass merchandisers and warehouse clubs have driven the overall growth of retail battery sales. Mass merchandisers accounted for 66% of the total increase in general battery retail dollar sales from 1993 through 1997 and, together with warehouse clubs, accounted for 41% of total retail battery sales in 1997.

In 1997, U.S. and worldwide retail sales of hearing aid batteries were approximately \$219 million and \$565 million, respectively, and have grown at a compound annual growth rate of 7% and 5%, respectively, over the last five years. Growth in the hearing aid battery market has been driven by an aging population; increases in hearing instrument device sales driven by technological advances, including miniaturization, which provides higher cosmetic appeal and improved amplification; and the higher replacement rates of smaller hearing instruments.



Other markets in which the Company operates include those for replacement watch and calculator batteries, which had worldwide sales of approximately \$924 million in 1997, photo batteries, which had worldwide sales of approximately \$660 million in 1997 and lithium coin cells, which had worldwide sales of approximately \$56 million in 1997.

#### Products

Rayovac develops, manufactures and markets a wide variety of batteries and battery-powered lighting devices. The Company's broad line of products includes (i) general batteries (including alkaline, heavy duty and rechargeable alkaline batteries) and specialty batteries (including hearing aid, watch, photo, keyless entry, and personal computer clock, memory back-up batteries, rechargeable batteries for cordless telephones and rechargeable batteries, battery chargers and accessories for cellular phones and camcorders) and (ii) lighting products and lantern batteries. General batteries (D, C, AA, AAA and 9-volt sizes) are used in devices such as radios, remote controls, personal radios and cassette players, pagers, portable compact disc players, electronic and video games and battery-powered toys, as well as a variety of battery-powered industrial applications. Of the Company's specialty batteries, button cells are used in smaller devices (such as hearing aids and watches), lithium coin cells are used in cameras, calculators, communication equipment, medical instrumentation and personal computer clocks and memory back-up systems, and lantern batteries are used almost exclusively in battery-powered lanterns. The Company's lighting products include flashlights, lanterns and similar portable products.

Net sales data for the Company's products as a percentage of net sales for fiscal 1995, fiscal 1996, the Transition Period, fiscal 1997 and three months ended December 28, 1996 and December 27, 1997 are set forth below.

Product Type	Percentage of Company Net Sales					
	Fiscal Year		Transition	Fiscal Year	Three Months Ended	
	Ended June 30,	1996	Period Ended September 30,	Ended September 30,	December 28, 1996	December 27, 1997
	1995		1996	1997		
Battery Products:						
Alkaline .....	43.4%	43.6%	41.4%	45.0%	49.7%	55.8%
Heavy Duty .....	14.1	12.2	12.7	10.4	12.2	9.4
Rechargeable Batteries .....	5.6	7.1	5.1	5.5	5.6	4.7
Hearing Aid .....	12.7	14.6	14.3	14.8	10.7	11.4
Other Specialty Batteries .....	10.0	8.6	10.1	9.8	8.1	6.3
Total .....	85.8	86.1	83.6	85.5	86.3	87.6
Lighting Products and Lantern Batteries .....	14.2	13.9	16.4	14.5	13.7	12.4
Total .....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====	=====	=====

Battery Products

A description of the Company's major battery products including their typical uses is set forth below.

	General Batteries		Hearing Aid Batteries
Technology	Alkaline	Zinc	Zinc Air
Types/Common Name:	- Disposable - Rechargeable	- Heavy Duty (Zinc Chloride)	--
Brand; Sub-brand	Rayovac; MAXIMUM,	Rayovac	Rayovac; Loud'n Clear, ProLine
Names(1):	Renewal, Power Station		
Sizes:	D, C, AA, AAA, 9-volt(2) for both Alkaline and Zinc		5 sizes
Typical Uses:	All standard household applications including pagers, personal radios and cassette players, remote controls and a wide variety of industrial applications		Hearing aids

	Other Specialty Batteries			Lantern Batteries
Technology	Lithium	Silver	Lithium Ion, Nickel Metal Hydride, Nickel Cadmium and Sealed Lead Acid	Zinc
Types/Common Name:	--	--	-Rechargeable	Lantern (Alkaline, Zinc Chloride and Zinc Carbon)
Brand; Sub-brand	Rayovac; Lifex	Rayovac	Rayovac	Rayovac
Names(1):				
Sizes:	5 primary sizes	10 primary sizes	35 sizes	Standard lantern
Typical Uses:	Personal computer clocks and memory back-up	Watches	Cellular phones, camcorders and cordless phones	Beam lanterns, Camping Lanterns

(1) The Company also produces and supplies private label brands in selected categories.

(2) The Company does not produce 9-volt rechargeable batteries.

Products

Alkaline Batteries. Alkaline batteries are based on technology which first gained widespread application during the 1980s. Alkaline batteries provide greater average energy per cell and considerably longer service life than traditional zinc chloride (heavy duty) or zinc carbon (general purpose) batteries, the dominant battery types throughout the world until the 1980s. Alkaline performance superiority has resulted in alkaline batteries steadily displacing zinc chloride and zinc carbon batteries. In the domestic retail general battery market, for instance, alkaline batteries represented approximately 87% of total battery unit sales in calendar 1997, despite higher per battery prices than zinc batteries.

Rayovac produces a full line of alkaline batteries including D, C, AA, AAA and 9-volt size batteries for both consumers and industrial customers. The Company's alkaline batteries are marketed and sold primarily under the Rayovac

MAXIMUM brand, although the Company also engages 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, personal radios and cassette players, 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.

The Company regularly tests the performance of its alkaline batteries against those of its competitors across a number of applications and battery sizes using American National Standards Institute ("ANSI") testing criteria, the standardized testing criteria generally used by industry participants to evaluate battery performance, as well as its own specific product device testing, which the Company believes may provide more relevant information to consumers. Although relative performance varies based on battery size and device tests, the average performance of the Company's alkaline batteries and those of its competitors are substantially equivalent. The Company's performance comparison results are corroborated by published independent test results.

For calendar 1997 the Company had an 11% overall alkaline battery unit market share and a 19% alkaline battery unit market share within the mass merchandiser retail channel.

Heavy Duty Batteries. Heavy duty batteries include zinc chloride batteries designed for low and medium-drain devices such as lanterns, flashlights, radios and remote controls. In March 1998, the Company announced a restructuring of operations, including the outsourcing of the manufacturing of heavy duty batteries. In fiscal 1997, the Company produced a full line of heavy duty batteries, although AA, C and D size heavy duty batteries together accounted for 90% of the Company's heavy duty battery unit sales in fiscal 1997.

The Company had a 37% unit market share in the heavy duty battery market through mass merchandisers, food and drug stores for the 52 weeks ended February 14, 1998. Generally, the size of the heavy duty battery market has been decreasing because of increased sales of alkaline batteries for uses traditionally served by non-alkaline batteries.

Rechargeable Batteries. The Company's Renewal rechargeable battery is the only rechargeable alkaline battery in the U.S. market, commanding a 68% market share of the rechargeable household battery market through mass merchandisers, food and drug stores for the 52 weeks ended February 14, 1997. Since the Recapitalization, management has lowered the price of Renewal rechargers by 33% to encourage consumers to purchase the system and shifted Renewal's marketing message from its environmental benefits to its money-saving benefits. Renewal batteries present a value proposition to consumers because they can be recharged over 25 times, providing 10 times the energy of disposable alkaline batteries at only twice the retail price. In addition, alkaline rechargeables are superior to nickel cadmium rechargeables (the primary competing technology) because they provide more energy between charges, are sold fully charged, retain their charge longer and are environmentally safer. Certain technology underlying the Company's Renewal line of rechargeable alkaline batteries could be made available to the Company's competitors under certain circumstances. See "Risk Factors--Limited Intellectual Property Protection."

Hearing Aid Batteries. The Company was the largest worldwide seller of hearing aid batteries in fiscal 1997, with a market share of approximately 52%. In addition, the Company has strengthened its worldwide leadership with the acquisition of Brisco. This strong market position is the result of hearing aid battery products with advanced technological capabilities, consistent product performance, a strong distribution system and an extensive marketing program. Hearing aid batteries are produced in several sizes and are designed for use with various types and sizes of hearing aids. The Company produces five sizes and two types of zinc air button cells for use in hearing aids, which are sold under the Loud'n Clear and ProLine brand names and under several private labels, including Beltone, Miracle Ear and Siemens. Zinc air is a highly reliable, high energy density, lightweight battery system with performance superior to that of traditional hearing aid batteries. The Company was the pioneer and currently is the leading manufacturer of the smallest (5A and 10A size) hearing aid batteries. The Company's zinc air button cells offer consistently strong performance, capacity and reliability based on ANSI testing criteria as applied by the Company.

Other Specialty Batteries. The Company's other specialty battery products include non-hearing aid button cells, lithium coin cells, photo batteries, keyless entry batteries and rechargeable nickel cadmium, nickel metal hydride, lithium ion and sealed lead acid batteries. The Company produces button and coin cells for watches, cameras, calculators, communications equipment and medical instrumentation. The Company's market shares within each of these categories vary. The Company's Lifex lithium coin cells are high-quality lithium batteries with certain performance advantages over other lithium battery systems. These products are used in calculators and personal computer clocks and memory back-up systems. Lifex lithium coin cells have outstanding shelf life and excellent performance. The Company's rechargeable lithium ion, nickel metal hydride, nickel cadmium and sealed lead acid batteries are sourced for use in cellular telephones, camcorders and cordless telephones.

#### Battery Merchandising and Advertising

Alkaline and Rechargeable Batteries. Since the Recapitalization, the Company has substantially revised its merchandising and advertising strategies for general batteries. Key elements of the Company's strategies include: building the awareness and image of the Rayovac brand name; focusing on the reformulated MAXIMUM alkaline product line; improving consumer perceptions of the quality and performance of the Company's products; upgrading and unifying product packaging; and solidifying the Company's position as the value brand by offering batteries of equal quality and performance at a lower price than those offered by its principal competitors. The Company's strategy is to provide products of quality and performance equal to its major competitors in the general battery market at a lower price, appealing to a large segment of the population desiring a value brand. To demonstrate its value positioning, Rayovac offers comparable battery packages at a lower price or, in some cases, more batteries

for the same price. The Company also works 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.

In response to the introduction by the Company's principal competitors in the U.S. general battery market of on-the-label battery testers for alkaline batteries, the Company developed an on-the-label tester for the Company's alkaline batteries. Based on the Company's consumer testing which indicated that such testers are difficult to use, prone to failure and do not represent a significant marketing advantage, management decided not to proceed with the implementation of such testers.

In the three fiscal years prior to the Recapitalization, the Company spent substantially all of its advertising budget on its Renewal product line. The Company's current advertising campaign designed by Young & Rubicam, the Company's new advertising agency, has shifted advertising efforts to the Company's MAXIMUM alkaline products. In addition, the Company launched its first major national advertising campaign. The campaign is designed to increase awareness of the Rayovac brand and to heighten customers' perceptions of the quality, performance and value of Rayovac products. The Company has engaged Michael Jordan as a spokesperson for its general battery products under a contract which extends through 2004.

The Company substantially overhauled its marketing strategy for its Renewal rechargeable batteries in 1997 to focus on the economic advantages of Renewal rechargeable batteries and to position the rechargers at lower, more attractive price points. As part of its marketing strategy for its rechargeable batteries, the Company actively pursues OEM arrangements and other alliances with major electronic device manufacturers.

**Hearing Aid Batteries.** To market and distribute its hearing aid battery products, the Company continues to use a highly successful national print advertising campaign featuring Arnold Palmer. A binaural wearer and user of Rayovac hearing aid batteries, Mr. Palmer has been extremely effective in promoting the use of hearing aids, expanding the market and communicating the specific product benefits of Rayovac hearing aid batteries. The Company has also developed a national print advertising campaign in selected publications such as Modern Maturity to reach the largest potential market for hearing aid batteries. The Company also pioneered the use of multipacks and intends to further expand multipack distribution in additional professional and retail channels. Additionally, the Company believes that it has developed strong relationships with hearing aid manufacturers and audiologists, the primary purveyors of hearing aids, and seeks to further penetrate the professional market. To further its marketing and distribution capability in hearing aid batteries, in March 1998 the Company acquired the battery distribution portion of Best Labs, a Florida distributor of hearing aid batteries and a manufacturer of hearing instruments. The Company has also established relationships with major Pacific Rim hearing aid battery distributors to take advantage of anticipated global market growth. In addition, the Company believes that the acquisition of Brisco will enable the Company to further penetrate European markets for hearing aid batteries.

**Other Specialty Batteries.** The Company's marketing strategies for its other specialty batteries focus on leveraging the Company's brand name and strong market position to promote its specialty battery products. With the acquisition of DPP, the Company plans to further position itself in the retail market for rechargeable specialty batteries and accessories for use with cellular telephones, camcorders and cordless telephones. The Company has redesigned its product graphics and packaging of its other specialty battery products to achieve a uniform brand appearance with the Company's other products and generate greater brand awareness and loyalty. In addition, the Company plans to continue to develop relationships with manufacturers of communications equipment and other products in an effort to expand its share of the non-hearing aid button cell market. The Company believes there to be significant opportunity for growth in the photo and keyless entry battery markets and seeks to further penetrate the replacement market for these products. The Company has recently introduced a line of products to serve the medical instrument and health services markets.

With regard to lithium coin cells, the Company seeks to further penetrate the OEM portable personal computer market, as well as to broaden its customer base by focusing additional marketing and distribution efforts on telecommunication and medical equipment manufacturers.

## Lighting Products and Lantern Batteries

### Products

The Company is a leading marketer of battery-powered lighting devices, including flashlights, lanterns and similar portable products for the retail and industrial markets. For the 52 weeks ended February 14, 1998 the

Company's products accounted for 12% of aggregate lighting product retail dollar sales in the mass merchandiser retail market segment. Rayovac has established its position in this market based on innovative product features, consistent product quality and creative product packaging. In addition, the Company endeavors to regularly introduce new products to stimulate consumer demand and promote impulse purchases.

The Company also produces a wide range of consumer and industrial lantern batteries. For calendar 1997, the Company held a 44% unit market share in the lantern battery market. This market has experienced a decline in recent years due to the declining use of this product for highway construction barricades.

#### Merchandising and Advertising

The Company's marketing strategy for its lighting products and lantern batteries focuses on leveraging the Company's strong brand name, regularly introducing new products, utilizing innovative packaging and merchandising programs, and promoting impulse buying and gift purchases.

#### Sales and Distribution

##### General

After the Recapitalization, the Company reorganized its sales force by distribution channel. As a result of this reorganization, the Company maintains separate U.S. sales forces primarily to service its retail sales and distribution channels and its hearing aid professionals, industrial and OEM sales and distribution channels. In addition, the Company utilizes a network of independent brokers to service participants in selected distribution channels. In conjunction with its broader cost rationalization initiatives, the Company has reduced the number of independent brokers and sales agents from over 100 to approximately 50. With respect to sales of the Company's hearing aid batteries, while most of the Company's sales have historically been through hearing aid professionals, the Company is actively engaged in efforts to increase sales through retail channels. In March 1998, the Company acquired the hearing aid battery distribution portion of Best Labs. In addition, the Company maintains its own sales force of approximately 30 employees in Europe which promotes the sale of all of the Company's products.

##### Retail

In the retail segment, the Company realigned its sales resources to create a sales force dedicated to each of its retail distribution channels. The primary retail distribution channels include: mass merchandisers (both national and regional) and warehouse clubs; food, drug and convenience stores; electronics specialty stores and department stores; hardware and automotive centers; specialty retailers; automotive aftermarket dealers; military sales; and catalog showrooms. The Company works closely with individual retailers to develop unique product promotions and to provide them with the opportunity for attractive profit margins to encourage brand support. The Company has focused sales for its Renewal product line on distribution channels which the Company believes to be more suited for this product, such as electronics specialty stores, and has recently begun shipments to Radio Shack.

The Company's sales efforts in the retail channel focus primarily on sales and distribution to national mass merchandisers, in particular the Wal-Mart, Kmart and Target chains, which collectively accounted for 55% of industry sales growth in the domestic alkaline battery market over the past five years. The Company's sales strategy for these and other mass merchandisers includes increasing market share for all of the Company's products through the use of account specific programs and a separate sales and marketing team dedicated to these large retailers.

The Company's sales strategy is to penetrate further particular retail distribution channels, including home centers, hardware stores, warehouse clubs and food and drug stores. The Company's strategy for these retail channels is to develop creative and focused marketing campaigns which emphasize the performance parity and consumer cost advantage of the Rayovac brand and to tailor specific promotional programs unique to these distribution channels.

##### Industrial and OEM

In the industrial battery market, the Company services three sales and distribution channels: contract sales to governments and related agencies; maintenance repair organizations (including buying groups); and office product supply companies. The primary products sold to this market include alkaline, heavy duty, and lantern batteries and flashlights. Maintenance repair organizations, the largest of which is W.W. Grainger (to whom the Company is a major supplier of battery and lighting products), generally sell to contractors and manufacturers. The office product supply channel includes sales to both professional and retail companies in the office product supply business.

In the OEM sales channel, the Company actively pursues OEM arrangements and other alliances with major electronic device manufacturers for its rechargeable batteries. The Company also utilizes the OEM channel for the sale and distribution of its hearing aid batteries through strong relationships it has developed with hearing aid manufacturers. The Company plans to continue to develop relationships with manufacturers of communications equipment and other products in an effort to expand its share of the non-hearing aid button cell market. With regard to lithium coin cells, the Company plans to penetrate further the OEM portable personal computer market and broaden its customer base by focusing additional sales and distribution efforts on telecommunications and medical equipment manufacturers.

#### Manufacturing and Raw Materials

The Company manufactures batteries in the United States and the United Kingdom. In March 1998, the Company announced certain manufacturing changes which include consolidating the Company's packaging operations at its Madison, Wisconsin plant, closing the Company's Appleton, Wisconsin plant and relocating the affected manufacturing operations for lithium batteries to the Company's Portage, Wisconsin facility. Since the Recapitalization, the Company has shifted manufacturing operations from its Newton Aycliffe, United Kingdom and Kinston, North Carolina facilities to other facilities of the Company and outsourced the manufacture of certain lighting products. These efforts have increased plant capacity utilization and eliminated some of the Company's underutilized manufacturing capacity. In March 1998, the Company announced the closing of the Newton Aycliffe, United Kingdom facility and the sale of the Kinston, North Carolina facility.

During the past five years, the Company has spent significant resources on capital improvements, including the modernization of many of its manufacturing lines and manufacturing processes. These manufacturing improvements have enabled the Company to increase the quality and service life of its alkaline batteries and to increase its manufacturing capacity. In March 1998, the Company agreed to purchase from Matsushita a new high speed alkaline battery manufacturing production line for its Fennimore, Wisconsin plant and to source certain finished products, battery parts and material from Matsushita to continue to supplement the Company's existing domestic production capacity. Management believes that the Company's manufacturing capacity is sufficient to meet its anticipated production requirements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The most significant raw materials used by the Company to manufacture batteries are zinc powder, electrolytic manganese dioxide powder, graphite and steel. There are a number of worldwide sources for all necessary raw materials, and management believes that Rayovac will continue to have access to adequate quantities of such materials at competitive prices. The Company regularly engages in forward purchases and hedging transactions to effectively manage raw material costs and inventory relative to anticipated production requirements. See "Risk Factors--Raw Materials."

#### Research and Development

The Company's research and development strategy is to purchase or license state-of-the-art manufacturing technology from third parties and to develop such technology through the Company's own research and development efforts. In March 1998, the Company announced the extension of its existing alkaline battery technology agreement with Matsushita, pursuant to which the Company is entitled to license Matsushita's highly advanced designs, technology and manufacturing equipment, including all developments and innovations thereto, through 2003. Thereafter, the Company is entitled to license such technology existing as of such date through 2023. The Company's research and development efforts focus primarily on performance and cost improvements of existing products and technologies. In recent years, these efforts have led to advances in alkaline, heavy duty and lithium chemistries, as well as zinc air hearing aid batteries and enhancements of licensed rechargeable alkaline technology.

The Company believes that continued development efforts are important in light of the continually evolving nature of battery technology and credits the competitive performance of its products to its recent development efforts. In the hearing aid battery segment, the Company's research and development group maintains close alliances with the developers of hearing aid devices and often works in conjunction with these developers in preparing new product designs. The success of these efforts is most recently demonstrated by the Company's development of the two smallest (5A and 10A size) hearing aid batteries. The Company's research and development efforts in the Lighting Products and Lantern Batteries segment are focused on the development of new products. Further, the Company continues to partner with the U.S. government in research efforts to develop new battery technology. The

Company's research and development group includes approximately 95 employees, the expense for some of whom is funded by U.S. government research contracts. See "--Patents, Trademarks and Licenses."

#### Information Systems

The Company has completed an initial reorganization of its information systems function by (i) hiring an experienced Chief Information Officer, (ii) outsourcing mainframe computer operations, (iii) completing an enterprise software system analysis and selection, and (iv) retaining outside consultants to modernize and upgrade its data processing and telecommunications infrastructure. The Company has purchased from SAP and begun implementing an enterprise-wide, integrated information system to upgrade and modernize its business operations, the majority of which will be substantially implemented by mid-1999. When fully implemented, this system is expected to reduce cycle times, lower manufacturing and administrative costs, improve both asset and employee productivity and address a significant portion of the Year 2000 issue. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Computer Systems Upgrade."

#### Patents, Trademarks and Licenses

The Company's success and ability to compete depends in part upon its technology. The Company relies upon a combination of patent, trademark and trade secret laws, together with licenses, confidentiality agreements and other contractual covenants, to establish and protect its technology and other intellectual property rights.

The Company owns or licenses 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, the Company announced the extension of its existing alkaline battery technology agreement with Matsushita, pursuant to which the Company will continue to license Matsushita's highly advanced designs, technology and manufacturing equipment, including all developments and innovations thereto, through 2003. Thereafter, the Company is entitled to license such technology existing as of such date through 2023.

The Company also uses a number of trademarks in its business, including Rayovac[RegTM], MAXIMUMTM, Renewal[RegTM], Loud'n Clear[RegTM], Power Station[RegTM], ProLine[RegTM], LifexTM, Smart Pack[RegTM], SmartTM Strip, Workhorse[RegTM] and Roughneck[RegTM]. The Company relies on both registered and common law trademarks in the United States to protect its trademark rights. The Rayovac[RegTM] mark is also registered in countries outside the United States, including in Europe and the Far East. The Company does not have any right to the trademark "Rayovac" in Brazil, where the mark is owned by an independent third-party battery manufacturer. In addition, ROV Limited, a third party unaffiliated with the Company, has an exclusive, perpetual, royalty-free license for the use of certain of the Company's trademarks (including the "Rayovac" mark) in connection with zinc carbon and alkaline batteries and certain lighting devices in many countries outside the United States, including Latin America.

The Company has obtained a non-exclusive license to use certain technology underlying its rechargeable battery line to manufacture such batteries in the United States, Puerto Rico and Mexico and to sell and distribute batteries based on the licensed technology worldwide. This license terminates with the expiration of the last-expiring patent covering the licensed technology. In addition, in the conduct of its business, the Company relies upon other licensed technology in the manufacture of its products. See Note 13 to Notes to Combined Consolidated Financial Statements.

#### Competition

The Company believes that the markets for its products are highly competitive. Duracell and Energizer are the Company's primary battery industry competitors, each of which has substantially greater financial and other resources and greater overall market share than the Company. Although other competitors have sought to enter this market, the Company believes that new market entrants would need significant financial and other resources to develop brand recognition and the distribution capability necessary to serve the U.S. marketplace. Substantial capital expenditures would be required to establish U.S. battery manufacturing operations, although potential competitors could import their products into the U.S. market. The Company and its primary competitors enjoy significant advantages in having established brand recognition and distribution channels. See "Risk Factors--Competition."

In February 1998, Duracell announced the introduction of a new line of alkaline batteries under the name Duracell Ultra in the AA and AAA size category which is being marketed as providing increased performance in certain high-drain devices, including cellular phones, digital cameras and palm-sized computers. Duracell has



indicated that this new line of alkaline batteries will begin shipping to retailers in May 1998. Based on the Company's preliminary analysis of this new product line in comparison to the Company's technology and technology generally available in the market, the marketing strategies announced by Duracell in connection with the introduction of the new line, and the premium pricing for such product, the Company does not anticipate that this new product line will have a significant impact on the Company's results of operations.

In the U.S. market for general batteries competition is based on brand name recognition, perceived quality, price, performance, product packaging and design innovation, as well as creative marketing, promotion and distribution strategies. In comparison to the U.S. battery market, the international general battery market has more competitors, is as highly competitive and has similar methods of competition.

Competition in the hearing aid battery industry is based upon reliability, performance, quality, product packaging and brand name recognition. The Company's primary competitors in the hearing aid battery industry include Duracell, Energizer and Panasonic. The battery-powered lighting device industry is also very competitive and includes a greater number of competitors (including Black & Decker, Mag-Lite and Energizer) than the U.S. battery industry.

#### Employees

As of February 28, 1998 the Company had approximately 2,100 full-time employees. The Company believes its relationship with its employees is good and there have been no work stoppages involving Company employees since 1981. A significant number of the Company's factory employees are represented by one of four labor unions. The Company has recently entered into collective bargaining agreements with its Madison, Fennimore, and Portage, Wisconsin employees, which expire in 2000 for Madison and Fennimore employees and in 2002 for Portage employees. The Company also recently entered into a collective bargaining agreement with its Washington, United Kingdom employees which expires in December 1998.

#### Properties and Equipment

The following table sets forth information regarding the Company's manufacturing sites in the United States and the United Kingdom:

Location	Product	Owned/Leased	Square Feet
Fennimore, WI	Alkaline batteries and Renewal rechargeable batteries	Owned	176,000
Madison, WI	Heavy duty and general purpose batteries	Owned	158,000
Washington, UK	Zinc air button cells	Leased	63,000
Portage, WI	Zinc air and silver button cells	Owned	62,000
Appleton, WI	Lithium coin cells and alkaline computer batteries	Owned	60,600
Wonewoc, WI	Battery-powered lighting products and lantern batteries	Leased	60,000

From fiscal 1993 through fiscal 1995 the Company has invested in all of its major battery facilities. During this period, the Company invested approximately \$33 million in connection with the Fennimore Expansion. Additional investments in zinc air battery production have helped to increase output and precision of assembly as well as to increase the capacity of critical component manufacturing. Investments in lithium coin cell production have been used to build capacity for newly developed sizes of lithium coin cells as well as to increase capacity of the largest volume sizes of such cells. As part of the Company's recently announced restructuring, the Madison, Wisconsin plant will phase out the manufacture of heavy duty batteries, which will be sourced from other suppliers and the Appleton, Wisconsin plant will be closed with the manufacturing operations moved to Portage. In addition, in March 1998 the Company agreed to purchase from Matsushita a new high speed alkaline battery manufacturing production line for its Fennimore, Wisconsin plant, which is expected to increase the Company's production capacity for AA size batteries by up to 50%.

The following table sets forth information regarding the Company's packaging and distribution sites:

Location	Owned/Leased	Square Feet
Middleton, WI	Leased	220,000
Newton Aycliffe, UK	Leased	75,000
Laverne, TN	Leased	73,000
Hayward, CA	Leased	30,000
Billinghausen, GER	Owned	5,000

As part of the recently announced restructuring, the Company will centralize its packaging operations into one location at its Madison, Wisconsin plant and will close its Newton Aycliffe, UK facility. In addition, in March 1998 the Company sold its Kinston, North Carolina facility. The Company believes that its facilities, in general, are adequate for its present and currently foreseeable needs.

#### Environmental Matters

The Company's 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 Company facilities and at off-site disposal locations. The Company has a proactive environmental management program that includes the use of periodic comprehensive environmental audits to detect and correct practices that violate environmental laws or are inconsistent with best management practices. Based on information currently available to Company management, the Company believes that it is substantially in compliance with applicable environmental regulations at its facilities, although no assurance can be provided with respect to such compliance in the future. There are no pending proceedings against the Company alleging that the Company is or has been in violation of environmental laws, and the Company is not aware of any such proceedings contemplated by governmental authorities. The Company is, however, subject to certain proceedings under CERCLA or analogous state laws, as described below.

The Company has from time to time been required to address the effect of historic activities on the environmental condition of its properties, including without limitation the effect of releases from underground storage tanks. Several Company facilities have been in operation for decades and are constructed on fill that includes, among other materials, used batteries containing various heavy metals. The Company has 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 the Company is currently engaged in remedial projects at a few of its facilities, the Company does not expect that such projects will cause it to incur material expenditures. Nonetheless, the Company has not conducted invasive testing to identify all potential risks and, given the age of the Company's facilities and the nature of the Company's operations, there can be no assurance that the Company will not incur material liabilities in the future with respect to its current or former facilities.

The Company has been notified that its former manganese processing facility in Covington, Tennessee is being evaluated by TDEC for a determination as to whether the facility should be added to the National Priorities List as a Superfund site pursuant to CERCLA. Groundwater monitoring conducted pursuant to the post-closure maintenance of solid waste lagoons on site, and recent groundwater testing beneath former process areas on site, indicate that there are elevated levels of certain inorganic contaminants, particularly (but not exclusively) manganese, in the groundwater underneath the site. The Company has completed closure of the aforementioned lagoons and has completed the remediation of a stream that borders the site. The Company cannot predict the outcome of TDEC's investigation of the site and there can be no assurance that the Company will not incur material liabilities in the future with respect to this site.

The Company has been and is subject to several proceedings related to its 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 generally "joint and several," so that a responsible party under CERCLA 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 their waste streams. Other than the Velsicol Chemical and Morton International proceedings described below (as to which there is insufficient information to make a judgment as to the likelihood of a material impact on the Company's operations, financial condition or liquidity at this time), the Company does not believe that any of its pending proceedings under CERCLA or analogous state laws, either individually or in the aggregate, will have a material impact on the Company's operations, financial condition or liquidity, and the Company is not aware of any such matters contemplated by governmental agencies that will have such an impact. However, the Company may be named as a PRP at additional sites in the future, and the costs associated with such additional or existing sites may be material. In addition, certain of the Company's facilities have been in operation for decades and, over such time, the Company and other prior operators of such facilities have generated and disposed of wastes which are or may be considered hazardous such as cadmium and mercury utilized in the battery manufacturing process.

The Company has been named as a defendant in two lawsuits in connection with a Superfund site located in Bergen County, New Jersey (Velsicol Chemical Corporation, et al. v. A.E. Staley Manufacturing Company, et al., and Morton International, Inc. v. A.E. Staley Manufacturing Company, et al., United States District Court for the District of New Jersey, filed July 29, 1996). The Company is one of almost one hundred defendants named in these cases. Both cases involve contamination at a former mercury processing plant. One case was brought by the current owner and the other case by a former owner. The complaints in the two cases are identical, with four counts alleging claims for contribution under CERCLA, the New Jersey Spill Act, the Federal Declaratory Judgment Act and the common law. The plaintiffs allege that the Company arranged for the treatment or disposal of hazardous substances at the site. Consequently, the plaintiffs allege, the Company is liable to them for contribution toward the costs of investigating and remediating the site.

No ad damnum is specified in either complaint. The Remedial Investigation/Feasibility Study ("RI/FS") of the site was commenced in the fall of 1997. Plaintiff's counsel estimates the cost of the RI/FS to be \$4 million. There is no estimate at this juncture as to the potential cost of remediation. The Company is one of approximately 75 defendants who allegedly arranged for treatment or disposal at the site. The remaining defendants are former owners or operators of the site and adjacent industrial facilities which allegedly contributed to the contamination. Evidence developed in discovery to date indicates that while the Company was a customer of the facility, the relationship was of relatively brief duration. The cost to remediate the Bergen County Site has not been determined and the Company cannot predict the outcome of these proceedings. See "Risk Factors--Environmental Matters."

There can be no assurances that additional proceedings relating to off-site disposal locations will not arise in the future or that such proceedings will not have a material adverse effect on the Company's business, financial condition or results of operations. The discovery of previously unknown contamination of property underlying or in the vicinity of the Company's manufacturing facilities could require the Company to incur material unforeseen expenses. Occurrences of any such events may have a material adverse effect on the Company's financial condition. See "Risk Factors--Environmental Matters." As of March 28, 1998 the Company has reserved \$1.7 million for known on-site and off-site environmental liabilities. The Company believes these reserves are adequate, although there can be no assurance that this amount will be adequate to cover such matters.

#### Legal Proceedings

In the ordinary course of business, various suits and claims are filed against the Company. The Company has been named as a defendant in two lawsuits in connection with a Superfund site located in Bergen County, New Jersey (Velsicol Chemical Corporation, et al. v. A.E. Staley Manufacturing Company, et al. and Morton International, Inc. v. A.E. Staley Manufacturing Company, et al., United States District Court for the District of New Jersey, filed July 29, 1996). For a discussion of the principal parties, the factual basis alleged to underlie the proceedings and the relief sought, see "Business--Environmental Matters." See also "Risk Factors--Environmental Matters." Other than the Velsicol Chemical and Morton International proceedings (as to which there is insufficient information to make a judgment as to the likelihood of a material impact on the Company's business or financial condition at this time), the Company is not party to any legal proceedings which, in the opinion of management of the Company, are material to the Company's business or financial condition.

MANAGEMENT

Directors and Executive Officers

Set forth below is certain information regarding each director and executive officer of the Company as of March 31, 1998:

Name	Age	Position and Offices
David A. Jones	48	Chairman of the Board, Chief Executive Officer and President
Kent J. Hussey	51	Executive Vice President of Finance and Administration, Chief Financial Officer and Director
Roger F. Warren	56	President/International and Contract MicroPower and Director
Trygve Lonnebotn	60	Executive Vice President of Operations and Director
Stephen P. Shanesy	41	Senior Vice President of Marketing and General Manager of General Batteries and Lights
Kenneth V. Biller	50	Senior Vice President of Manufacturing/Supply Chain
Merrell M. Tomlin	46	Senior Vice President of Sales
Randall J. Steward	43	Senior Vice President of Corporate Development
James A. Broderick	54	Vice President, General Counsel and Secretary
Scott A. Schoen	39	Director
Thomas R. Shepherd	68	Director
Warren C. Smith, Jr.	41	Director

Mr. Jones has served as the Chairman of the Board of Directors, Chief Executive Officer and President of the Company since September 12, 1996. 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. 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. Mr. Jones has over 25 years of experience working in the consumer durables industry, most recently in management of operations, manufacturing and marketing.

Mr. Hussey is a director of the Company and has served as Executive Vice President of Finance and Administration, Chief Financial Officer since October 1, 1996. Prior to that time and since 1994, 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. Warren is a director of the Company and has served as President/International and Contract MicroPower of the Company since 1995. Mr. Warren joined the Company in 1985 and has held several positions including Executive Vice President and General Manager and Senior Vice President and General Manager/International.

Mr. Lonnebotn is a director of the Company and, since 1985, has served as Executive Vice President of Operations. He joined Rayovac in 1965.

Mr. Shanesy has been the Senior Vice President of Marketing and the General Manager of General Batteries and Lights of the Company since January 1998. Prior to that time and since December 1996, Mr. Shanesy was the Senior Vice President of Marketing and the General Manager of General Batteries. From 1993 to 1996 Mr. Shanesy was Vice President of Marketing of Oscar Mayer and from 1991 to 1993 he was the Director of Marketing of Oscar Mayer. Prior to that time and since 1983, Mr. Shanesy held various marketing positions with Kraft Foods.

Mr. Biller has been the Senior Vice President of Manufacturing/Supply Chain since January 1998. Prior to that time and since 1996 he was the Senior Vice President and General Manager of Lighting Products & Industrial and was Vice President and General Manager of Lighting Products & Industrial since 1995. Mr. Biller joined the Company in 1972 and has held several positions, including Director of Technology/Battery Products and Vice President of Manufacturing.

Mr. Tomlin is the Senior Vice President of Sales of the Company. From March 1996 to September 30, 1996, Mr. Tomlin served as Vice President 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 has been the Senior Vice President of Corporate Development of the Company since March 1998. From September 1997 to March 1998 Mr. Steward worked as an independent consultant. 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. Prior to January 1991, Mr. Steward was a Finance Director for a division of Medtronic Inc.

Mr. Broderick is Vice President, General Counsel and Secretary for Rayovac and has held these positions since 1985.

Mr. Schoen has been a director of the Company since the Recapitalization and is a managing director of THL Co., 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, 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., and a Trustee of THL Equity Trust IV, the General Partner of THL Equity Advisors Limited Partnership IV, which is the General Partner of Thomas H. Lee Equity Fund IV, L.P. He is also a director of First Alert, Inc., Signature Brands, USA, Inc., Syratech Corporation, TransWestern Communications Corp. and various private corporations.

Mr. Shepherd has been a director of the Company since the Recapitalization and is a managing director of THL Co. and has been engaged as a consultant to THL Co. since 1986. In addition, Mr. Shepherd is an Executive Vice President of Thomas H. Lee Advisors I and an officer of various other THL Co. affiliates. He is also a director of General Nutrition Companies, Inc. and various private corporations and is Chairman of Signature Brands, U.S.A., Inc.

Mr. Smith has been a director of the Company since the Recapitalization and has been employed by THL Co. since 1990 and currently serves as a managing director of THL Co. In addition, Mr. Smith is a Vice President of Thomas H. Lee Advisors I, Thomas H. Lee Advisors II 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 Limited Partnership IV, 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 and various private corporations.

The Company anticipates that it will designate two additional independent persons to the Board of Directors following the Offerings.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth certain information with respect to beneficial ownership of the Common Stock by the Selling Shareholders and each director, executive officer and beneficial owner of more than 5% of the Company's outstanding Common Stock and by all directors and executive officers of the Company as a group, at the date hereof and after giving effect to the sale of the shares of Common Stock offered hereby.

	Shares of Common Stock Beneficially Owned Prior to the Offerings(2)		Shares Being Offered Hereby(3)	Shares Subject to Over-Allotment Options	Shares of Common Stock Beneficially Owned After the Offerings and Assuming full Exercise of Over-Allotment Options	
	Number of Shares	Percentage of Class			Number of Shares	Percentage of Class
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Directors, Executive Officers and 5% Shareholders						
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Thomas H. Lee Equity Fund III, L.P.(3) 75 State Street, Ste. 2600 Boston, MA 02109	14,437,064	52.6%	4,700,107	648,827	9,088,130	33.1%
Thomas H. Lee Foreign Fund III, L.P.(3) 75 State Street, Ste. 2600 Boston, MA 02109	894,341	3.3	291,160	40,193	562,988	2.1
THL--CCI Limited Partnership(4) 75 State Street, Ste. 2600 Boston, MA 02109	1,515,753	5.5	493,466	68,121	954,166	3.5
David A. Jones(5)	664,388	2.4	217,357	53,144	392,296	1.4
Kent J. Hussey(6)	144,189	*	42,588	0	101,601	*
Roger F. Warren(7)	629,462	2.3	219,249	53,089	357,124	1.3
Stephen P. Shanesy(8)	105,103	*	33,423	8,093	63,587	*
Kenneth V. Biller(9)	157,193	*	49,987	12,104	95,102	*
Merrell M. Tomlin(10)	89,620	*	28,499	6,901	54,220	*
James A. Broderick(11)	241,399	*	78,436	19,391	143,572	*
Trygve Lonnebotn(12)	502,652	1.8	163,323	40,376	298,953	1.1
Randall J. Steward	7,500	*	0	0	7,500	*
Scott A. Schoen(3)(13)	72,756	*	23,686	3,270	45,800	*
Thomas R. Shepherd(13)	37,894	*	12,337	1,703	23,854	*
Warren C. Smith, Jr.(3)(13)	60,640	*	19,741	2,725	38,174	*
All directors and executive officers of the Company as a group (12 persons)(3)(13)	2,712,796	9.6	888,626	200,796	1,621,783	5.7
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Other Officers						
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Gary E. Wilson(14)	133,959	*	43,527	6,300	84,132	*
Kenneth G. Drescher(15)	22,075	*	7,020	0	15,055	*
Dale R. Tetzlaff(16)	137,572	*	41,000	0	96,572	*
Linda G. Pauls Fleming, as trustee of the Fleming Trust	8,000	*	600	0	7,400	*
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Other Selling Shareholders						
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16 Other Selling Shareholders, each of whom is selling less than 4,100 shares of Common Stock in the Offerings and will beneficially own less than 1% of the outstanding Common Stock after the Offerings	115,683	*	30,096	3,590	81,997	*

\*Less than 1%

(1) Addresses are given only for beneficial owners of more than 5% of the outstanding shares of Common Stock.

(2) Unless otherwise noted, the nature of beneficial ownership is sole voting and/or investment power, except to the extent authority is shared by spouses under applicable law. Shares of Common Stock not outstanding but deemed beneficially owned by virtue of the right of a person or group to acquire them within 60 days are treated as outstanding only for purposes of determining the number and percent of outstanding shares of Common Stock owned by such person or group.

- (3) 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 THL 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 such persons maintains a principal business address at Suite 2600, 75 State Street, Boston, MA 02109. Each of such persons disclaims beneficial ownership of all shares.
- (4) 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. Each of such persons maintains a principal business address at Suite 2600, 75 State Street, Boston, MA 02109.
- (5) Includes 364,630 shares subject to options which are currently exercisable. Shares of Common Stock beneficially owned prior to the Offerings includes 4,299 shares representing Mr. Jones' proportional interest in the THL Fund, which proportional interest after the Offerings and assuming full exercise of the over-allotment options granted to the Underwriters would be 2,706 shares before giving effect to the allocation of fees and obligations to the THL Fund which allocation would reduce the number of shares representing Mr. Jones' proportional interest in the THL Fund. Mr. Jones disclaims beneficial ownership of these shares. Shares of Common Stock beneficially owned prior to the Offerings also includes 42,606 shares allocated for the account of such individual pursuant to the Deferred Compensation Plan, all of which are being sold in the Offerings.
- (6) Includes 91,158 shares subject to options which are currently exercisable. Shares of Common Stock beneficially owned prior to the Offerings includes 8,419 shares allocated for the account of such individual pursuant to the Deferred Compensation Plan, all of which are being sold in the Offerings.
- (7) Includes 91,158 shares subject to options which are currently exercisable. Shares of Common Stock beneficially owned prior to the Offerings includes 16,922 shares allocated for the account of such individual pursuant to the Deferred Compensation Plan, all of which are being sold in the Offerings.
- (8) Includes 45,579 shares subject to options which are currently exercisable. Shares of Common Stock beneficially owned prior to the Offerings includes 14,757 shares allocated for the account of such individual pursuant to the Deferred Compensation Plan, all of which are being sold in the Offerings.
- (9) Includes 45,579 shares subject to options which are currently exercisable. Shares of Common Stock beneficially owned prior to the Offerings includes 12,134 shares allocated for the account of such individual pursuant to the Deferred Compensation Plan, all of which are being sold in the Offerings.
- (10) Includes 45,579 shares subject to options which are currently exercisable. Shares of Common Stock beneficially owned prior to the Offerings includes 8,386 shares allocated for the account of such individual pursuant to the Deferred Compensation Plan, all of which are being sold in the Offerings.
- (11) Includes 20,000 shares subject to options which are currently exercisable and 7,974 shares allocated for the account of such individual pursuant to the Deferred Compensation Plan.
- (12) Includes 68,368 shares subject to options which are currently exercisable. Shares of Common Stock beneficially owned prior to the Offerings includes 15,754 shares allocated for the account of such individual pursuant to the Deferred Compensation Plan, all of which are being sold in the Offerings.
- (13) Represents the proportional interest of such individual in THL-CCI Limited Partnership; in the case of Mr. Smith, also includes 14,229 shares which Mr. Smith may be deemed to beneficially own as a result of Mr. Smith's children's proportional beneficial interest in THL-CCI Limited Partnership. The proportional interests of Mr. Smith's children in THL-CCI Limited Partnership after the Offerings, assuming full exercise of the over-allotment options granted to the Underwriters, would be 8,958 shares.
- (14) Includes 20,000 shares subject to options which are currently exercisable. Shares of Common Stock beneficially owned prior to the Offerings includes 7,388 shares allocated for the account of such individual pursuant to the Deferred Compensation Plan, all of which are being sold in the Offerings.
- (15) Includes 2,075 shares allocated for the account of such individual pursuant to the Deferred Compensation Plan. Shares of Common Stock beneficially owned prior to the Offerings includes 20,000 shares subject to options which are currently exercisable and shares of Common Stock beneficially owned after the Offerings assuming full exercise of the over-allotment options, includes 13,000 shares subject to options which are currently exercisable.
- (16) Includes 20,000 shares subject to options which are currently exercisable. Shares of Common Stock beneficially owned prior to the Offerings includes 5,022 shares allocated for the account of such individual pursuant to the Deferred Compensation Plan, all of which are being sold in the Offerings.

## DESCRIPTION OF CERTAIN INDEBTEDNESS

The following summaries of the principal terms of certain outstanding indebtedness of the Company do not purport to be complete and are subject to the detailed provisions of, and qualified in their entirety by reference to, the respective financing agreements, copies of which have been filed or incorporated by reference as exhibits to the Registration Statement of which this Prospectus is a part and to which exhibits reference is hereby made. Whenever particular provisions of such documents are referred to, such provisions are incorporated by reference as a part of the statements made, and the statements are qualified in their entirety by such reference.

### The Amended Credit Agreement

Pursuant to the Amended Credit Agreement, the Company has available senior bank facilities in an aggregate amount of \$160.0 million.

The Amended Credit Agreement provides a five-year revolving Revolver Facility of up to \$90.0 million under which working capital loans may be made and a \$10.0 million sublimit for letters of credit and a five-year amortizing Acquisition Facility of \$70.0 million (together, the "Bank Facilities"). The Revolver Facility is reduced by \$10.0, \$15.0, and \$15.0 million, respectively, on December 31, 1999, 2000 and 2001 and expires on December 31, 2002. From March 31, 1999 through December 31, 2000 the quarterly amortization rate will be 5% of the balance outstanding under the Acquisition Facility as of December 31, 1998 (the "Outstanding Balance") and from March 31, 2001 through December 31, 2002 the quarterly amortization rate will be 7.5% of the Outstanding Balance. The Acquisition Facility is subject to quarterly amortization commencing March 31, 1999 through December 31, 2002. As of December 30, 1997, all of the Company's senior term debt was replaced by revolver debt under the Revolver Facility.

Borrowings under the Bank Facilities bear interest, in each case at the Company's option, at Bank of America National Trust and Savings Association's base rate or at IBOR plus .75%. Performance-based reductions and increases of the Bank Facilities' interest rate are available. The Company also incurs standard letter of credit fees to issuing institutions and other standard commitment fees.

The indebtedness outstanding under the Amended Credit Agreement has been guaranteed by ROV Holding, Inc. and is secured by all existing and after-acquired personal property of the Company and its domestic subsidiaries, including the stock of all domestic subsidiaries of the Company and any intercompany debt obligations and 65% of the stock of all foreign subsidiaries (other than dormant subsidiaries) held directly by the Company or its domestic subsidiaries, and, subject to certain exceptions, all existing and after-acquired real property.

The Amended Credit Agreement contains financial and other restrictive covenants customary and usual for credit facilities of this type, including those involving maintenance of minimum interest coverage and a required maximum leverage. The Amended Credit Agreement's covenants also restrict the ability of the Company to incur additional indebtedness, create liens, make investments or specified payments, give guarantees, merge or acquire or sell assets, and restrict certain other activities.

"Events of Default" under the Amended Credit Agreement include, among other things, failure to make payments when due, defaults under certain other agreements or instruments of indebtedness, noncompliance with covenants, breaches of representations and warranties, certain bankruptcy or insolvency events, judgments in excess of specified amounts, pension plan defaults, impairment of security interests in collateral, invalidity of guarantees and certain "changes of control" (as defined in the Amended Credit Agreement).

### The Notes

Pursuant to an Indenture dated October 22, 1996 by and among the Company, ROV Holding, Inc. and Marine Midland Bank as trustee, the Company issued \$100 million of 10-1/4% Senior Subordinated Notes Due 2006 to repay certain bridge financing incurred in connection with the Recapitalization. On March 11, 1997, the Company consummated an offer to exchange such notes for the Notes registered under the Securities Act.

The Notes bear interest at the rate of 10-1/4% per annum, payable semi-annually on May 1 and November 1 of each year and mature on November 1, 2006. The Notes are unsecured senior subordinated general obligations of the Company and are unconditionally guaranteed on an unsecured senior subordinated basis by ROV Holding, Inc. The payment of principal of, premium, if any, and interest on the Notes and the guarantees thereon are



subordinated in right of payment to all existing and future Senior Debt (as defined in the Indenture), including borrowings under the Amended Credit Agreement, whether outstanding on the date of the Indenture or thereafter incurred.

The Notes are not redeemable at the option of the Company prior to November 1, 2001. Thereafter the Notes are subject to redemption at the option of the Company, in whole or in part, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest thereon to the applicable redemption date, if redeemed during the twelve-month period beginning November 1 of the years indicated below:

Year	Percentage
2001 .....	105.125%
2002 .....	103.417
2003 .....	101.708
2004 and thereafter .....	100.000

In addition, at any time on or before October 22, 1999, the Company may redeem up to 35% of the original aggregate principal amount of the Notes with the net proceeds of a public equity offering at a redemption price equal to 109.25% of the principal amount thereof, plus accrued and unpaid interest thereon, if any, to the date of redemption, provided that at least 65% of the original aggregate principal amount of the Notes remains outstanding immediately after such redemption. The Company applied \$38.2 million of the net proceeds of the IPO to redeem or repurchase Notes in the aggregate principal amount of \$35.0 million.

Each holder of Notes has the right to require the Company to repurchase all or any part of such holder's Notes at an offer price in cash equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest thereon upon a change of control of the Company. A change of control for this purpose includes any of the following: (i) any transaction pursuant to which a person or group becomes the beneficial owner of 50% or more of the voting power of the voting stock of the Company, and more of the voting power of the Company than is at that time beneficially owned by the THL Group, (ii) the time at which individuals who were either members of the Board of Directors of the Company as of the date of the Indenture or whose election was approved by such members cease to be a majority of the directors of the Company then in office or (iii) the sale, lease, transfer or other disposition in one or a series of related transactions of all or substantially all the assets of the Company.

The Indenture restricts, among other things, the Company's ability to incur additional indebtedness, pay dividends or make certain other restricted payments, incur liens to secure pari passu or subordinated indebtedness, engage in any sale and leaseback transaction, sell stock of subsidiaries, sell assets, merge or consolidate with any other person, sell, assign, transfer, lease, convey or otherwise dispose of substantially all of the assets of the Company, enter into certain transactions with affiliates, or incur indebtedness that is subordinate in right of payment to any Senior Debt (including indebtedness incurred under the Amended Credit Agreement and any other indebtedness permitted as to be incurred under the Indenture) and senior in right of payment to the Notes. The Indenture permits, under certain circumstances, the Company's subsidiaries to be deemed unrestricted subsidiaries and thus not be subject to the restrictions of the Indenture.

The Indenture contains standard events of default, including (i) defaults in the payment of principal, premium or interest, (ii) defaults in the compliance with covenants contained in the Indenture, (iii) cross defaults on more than \$5 million of other indebtedness, (iv) failure to pay more than \$5 million of judgments and (v) certain events of bankruptcy with respect to the Company and certain of its subsidiaries.

## SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of the Offerings, the Company will have 27,439,238 shares of Common Stock outstanding. The 7,827,507 shares of Common Stock sold in the IPO of the Company's Common Stock in November of 1997 and the 6,500,000 shares to be sold in the Offerings will be freely tradeable without restriction or further registration under the Securities Act, except for any such shares which may be acquired by or shares sold by persons deemed to be "affiliates" of the Company, as such term is defined under the Securities Act, which shares will be subject to the resale limitations of Rule 144. Substantially all other shares will be eligible for resale pursuant to Rule 144 after the Lockup Period.

In general, under Rule 144, as currently in effect, a person (or persons whose shares are required to be aggregated) who has beneficially owned, for at least one year, shares of Common Stock that have not been registered under the Securities Act or that were acquired from an "affiliate" of the Company is entitled to sell within any three-month period the number of shares of Common Stock which does not exceed the greater of one percent of the number of then outstanding shares of Common Stock or the average weekly reported trading volume during the four calendar weeks preceding the sale. Sales under Rule 144 are also subject to certain notice requirements and to the availability of current public information about the Company and must be made in unsolicited brokers' transactions or to a market maker. A person (or persons whose shares are aggregated) who is not an "affiliate" of the Company under the Securities Act during the three months preceding a sale and who had beneficially owned such shares for at least two years is entitled to sell such shares under Rule 144 without regard to the volume, notice, information and manner of sale provisions of such Rule.

An aggregate of 2,243,127 shares of Common Stock are reserved for issuance upon the exercise of outstanding options granted to employees and directors of the Company pursuant to the 1996 Plan. In November 1997, the Company registered on a registration statement on Form S-8 the shares of Common Stock issuable upon the exercise of options granted pursuant to the 1996 Plan and the Incentive Plan. Accordingly, shares issued upon exercise of such options will be freely tradeable, except for any shares held by an "affiliate" of the Company.

No predictions can be made of the effect, if any, that sales of shares of Common Stock or the availability of shares for sale will have on the market price prevailing from time to time. Nevertheless, sales of significant amounts of Common Stock or the perception that such sales may occur could adversely affect the prevailing market price of Common Stock, as well as impair the ability of the Company to raise capital through the issuance of additional equity securities. See "Risk Factors--Shares Eligible for Future Sale; Potential for Adverse Effect on Stock Price; Registration Rights."

Notwithstanding the foregoing, in connection with the Offerings, the Selling Shareholders, certain existing shareholders, the Company, its executive officers and directors and the THL Group (holding an aggregate of approximately 13.7 million shares of Common Stock upon consummation of the Offerings) have agreed, subject to certain exceptions, not to directly or indirectly (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of or otherwise dispose of or transfer any shares of Common Stock or securities convertible into or exchangeable or exercisable for Common Stock, whether now owned or thereafter acquired by the person executing the agreement or with respect to which the person executing the agreement thereafter acquires the power of disposition, or file a registration statement under the Securities Act with respect to the foregoing or (ii) enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of the Common Stock whether any such swap or transaction is to be settled by delivery of Common Stock or other securities, in cash or otherwise, without the prior written consent of Merrill Lynch & Co. on behalf of the Underwriters for a period of 90 days after the date of this Prospectus, other than (i) the sale to the Underwriters of the shares of Common Stock under the Underwriting Agreement, (ii) upon the exercise of outstanding stock options or (iii) the issuance of options pursuant to the Company's stock option plans.

In connection with the Recapitalization, the THL Fund and other affiliates of THL Co. which purchased shares of Common Stock pursuant to the Recapitalization, certain other shareholders of the Company and the Company entered into the Shareholders Agreement. The Shareholders Agreement provides for certain restrictions on transfer of the shares beneficially owned by the parties thereto. The Shareholders Agreement also provides that, subject to certain limitations, the THL Group and their permitted transferees have demand registration rights with respect to their shares of Common Stock. The THL Group and certain other shareholders also have certain piggy-back registration rights. See "Risk Factors--Shares Eligible for Future Sale; Potential for Adverse Effect on Stock Price; Registrations Rights."

CERTAIN UNITED STATES FEDERAL TAX  
CONSIDERATIONS FOR NON-UNITED STATES HOLDERS

The following is a general discussion of certain United States federal income and estate tax considerations with respect to the ownership and disposition of Common Stock applicable to Non-U.S. Holders. In general, a "Non-U.S. Holder" is any holder other than (i) a citizen or resident of the United States, (ii) a corporation or partnership created or organized in the United States or under the laws of the United States or of any state, (iii) an estate, the income of which is includable in gross income for United States federal income tax purposes regardless of its source, or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and (b) one or more United States persons have the authority to control all substantial decisions of the trust. This discussion is based on current law, which is subject to change (possibly with retroactive effect), and is for general information only. This discussion does not address aspects of United States federal taxation other than income and estate taxation and does not address all aspects of income and estate taxation or any aspects of state, local or non-United States taxes, nor does it consider any specific facts or circumstances that may apply to a particular Non-U.S. Holder (including certain U.S. expatriates). ACCORDINGLY, PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR TAX ADVISORS REGARDING THE UNITED STATES FEDERAL, STATE, LOCAL AND NON-UNITED STATES INCOME AND OTHER TAX CONSIDERATIONS OF HOLDING AND DISPOSING OF SHARES OF COMMON STOCK.

#### Dividends

In general, dividends paid to a Non-U.S. Holder will be subject to United States withholding tax at a 30% rate of the gross amount (or a lower rate prescribed by an applicable income tax treaty) unless the dividends are either (i) effectively connected with a trade or business carried on by the Non-U.S. Holder within the United States, or (ii) if certain income tax treaties apply, attributable to a permanent establishment in the United States maintained by the Non-U.S. Holder. Dividends effectively connected with such a United States trade or business or attributable to such a United States permanent establishment generally will not be subject to United States withholding tax if the Non-U.S. Holder files certain forms, including Internal Revenue Service Form 4224, with the payor of the dividend, and generally will be subject to United States federal income tax on a net income basis, in the same manner as if the Non-U.S. Holder were a resident of the United States. A Non-U.S. Holder that is a corporation may be subject to an additional branch profits tax at a rate of 30% (or such lower rate as may be specified by an applicable income tax treaty) on the repatriation from the United States of its "effectively connected earnings and profits," subject to certain adjustments. To determine the applicability of a tax treaty providing for a lower rate of withholding under the currently effective United States Treasury Department regulations (the "Current Regulations"), dividends paid to an address in a foreign country are presumed to be paid to a resident of that country absent knowledge to the contrary. Under United States Treasury Department regulations issued on October 6, 1997 (the "Final Regulations") generally effective for payments made after December 31, 1998, a Non-U.S. Holder (including, in certain cases of Non-U.S. Holders that are fiscally transparent entities, the owner or owners of such entities) will be required to provide to the payor certain documentation that such Non-U.S. Holder (or the owner or owners of such fiscally transparent entities) is a foreign person in order to claim a reduced rate of withholding pursuant to an applicable income tax treaty.

#### Gain on Sale or Other Disposition of Common Stock

In general, a Non-U.S. Holder will not be subject to United States federal income tax on any gain realized upon the sale or other disposition of such holder's shares of Common Stock unless (i) the gain either is effectively connected with a trade or business carried on by the non-U.S. Holder within the United States or, if certain income tax treaties apply, is attributable to a permanent establishment in the United States maintained by the Non-U.S. Holder (and, in either case, the branch profits tax discussed above may also apply if the Non-U.S. Holder is a corporation); (ii) the Non-U.S. Holder is an individual who holds shares of Common Stock as a capital asset and is present in the United States for 183 days or more in the taxable year of disposition, and certain other tests are met; or (iii) the Company is or has been a United States real property holding corporation (a "USRPHC") for United States federal income tax purposes (which the Company does not believe that it is or is likely to become) at any time within the shorter of the five year period preceding such disposition or such Non-U.S. Holder's holding period. If the Company were or were to become a USRPHC at any time during this period, gains realized upon a disposition of Common Stock by a Non-U.S. Holder which did not directly or indirectly own more than 5% of the Common

Stock during this period generally would not be subject to United States federal income tax, provided that the Common Stock is regularly traded on an established securities market.

#### Estate Tax

Common Stock owned or treated as owned by an individual who is not a citizen or resident (as defined for United States federal estate tax purposes) of the United States at the time of death will be includable in the individual's gross estate for United States federal estate tax purposes unless an applicable estate tax treaty provides otherwise, and therefore may be subject to United States federal estate tax.

#### Backup Withholding, Information Reporting and Other Reporting Requirements

The Company must report annually to the Internal Revenue Service and to each Non-U.S. Holder the amount of dividends paid to, and the tax withheld with respect to, each Non-U.S. Holder. These reporting requirements apply regardless of whether withholding was reduced or eliminated by an applicable tax treaty. Copies of this information also may be made available under the provisions of a specific treaty or agreement with the tax authorities in the country in which the Non-U.S. Holder resides or is established.

Under the Current Regulations, United States backup withholding tax (which generally is imposed at the rate of 31% on certain payments to persons that fail to furnish the information required under the United States information reporting requirements) and information reporting requirements (other than those discussed above under "Dividends") generally will not apply to dividends paid on Common Stock to a Non-U.S. Holder at an address outside the United States. Backup withholding and information reporting generally will apply, however, to dividends paid on shares of Common Stock to a Non-U.S. Holder at an address in the United States, if such holder fails to establish an exemption or to provide certain other information to the payor.

Under the Current Regulations, the payment of proceeds from the disposition of Common Stock to or through a United States office of a broker will be subject to information reporting and backup withholding unless the beneficial owner, under penalties of perjury, certifies, among other things, its status as a Non-U.S. Holder or otherwise establishes an exemption. The payment of proceeds from the disposition of Common Stock to or through a non-U.S. office of a non-U.S. broker generally will not be subject to backup withholding and information reporting except as noted below. In the case of proceeds from a disposition of Common Stock paid to or through a non-U.S. office of a broker that is (i) a United States person, (ii) a "controlled foreign corporation" for United States federal income tax purposes, or (iii) a foreign person 50% or more of whose gross income from certain periods is effectively connected with a United States trade or business, information reporting (but not backup withholding) will apply unless the broker has documentary evidence in its files that the owner is a Non-U.S. Holder (and the broker has no actual knowledge to the contrary).

Under the Final Regulations, the payment of dividends or the payment of proceeds from the disposition of Common Stock to a Non-U.S. Holder may be subject to information reporting and backup withholding unless such recipient provides to the payor certain documentation as to its status as a Non-U.S. Holder or otherwise establishes an exemption.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a Non-U.S. Holder will be refunded or credited against the Non-U.S. Holder's United States federal income tax liability, if any, provided that the required information is furnished to the Internal Revenue Service in a timely manner.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), Bear, Stearns & Co. Inc., Donaldson, Lufkin & Jenrette Securities Corporation and Smith Barney Inc. are acting as representatives (the "U.S. Representatives") of each of the Underwriters named below (the "U.S. Underwriters"). Subject to the terms and conditions set forth in a U.S. purchase agreement (the "U.S. Purchase Agreement") among the Company, the Selling Shareholders and the U.S. Underwriters, and concurrently with the sale of 1,300,000 shares of Common Stock to the International Managers (as defined below), the Selling Shareholders have agreed to sell to the U.S. Underwriters, and each of the U.S. Underwriters severally and not jointly has agreed to purchase from the Selling Shareholders, the number of shares of Common Stock set forth opposite their respective names below.

U.S. Underwriter	Number of Shares
Merrill Lynch, Pierce, Fenner & Smith Incorporated .....	
Bear, Stearns & Co. Inc. ....	
Donaldson, Lufkin & Jenrette Securities Corporation .....	
Smith Barney Inc. ....	
Total .....	5,200,000 =====

The Company and the Selling Shareholders have also entered into an international purchase agreement (the "International Purchase Agreement") with certain underwriters outside the United States and Canada (the "International Managers" and, together with the U.S. Underwriters, the "Underwriters") for whom Merrill Lynch International, Bear, Stearns International Limited, Donaldson, Lufkin & Jenrette Securities Corporation and Smith Barney Inc. are acting as lead managers (the lead "Managers"). Subject to the terms and conditions set forth in the International Purchase Agreement, and concurrently with the sale of 5,200,000 shares of Common Stock to the U.S. Underwriters pursuant to the U.S. Purchase Agreement, the Selling Shareholders have agreed to sell to the International Managers, and the International Managers severally and not jointly have agreed to purchase from the Selling Shareholders, an aggregate of 1,300,000 shares of Common Stock. The price per share and the underwriting discount per share of Common Stock will be identical under the U.S. Purchase Agreement and the International Purchase Agreement.

In the U.S. Purchase Agreement and the International Purchase Agreement, the several U.S. Underwriters and the several International Managers, respectively, have agreed, subject to the terms and conditions set forth therein, to purchase all of the shares of Common Stock being sold pursuant to each such agreement if any of the shares of Common Stock being sold pursuant to such agreement are purchased. Under certain circumstances, under the U.S. Purchase Agreement and the International Purchase Agreement, the commitments of non-defaulting U.S. Underwriters may be increased. The closings with respect to the sale of shares of Common Stock to be purchased by the U.S. Underwriters and International Managers are conditioned upon one another.

The U.S. Representatives have advised the Company that the U.S. Underwriters propose initially to offer the shares of Common Stock to the public at the price set forth on the cover page of this Prospectus, and to certain dealers at such price less a concession not in excess of \$ per share of Common Stock. The U.S. Underwriters may allow, and such dealers may reallow, a discount not in excess of \$ per share of Common Stock on sales to certain other dealers. After the Offerings, the public offering price, concession and discount may be changed.

The Selling Shareholders have granted options to the U.S. Underwriters, exercisable for 30 days after the date of this Prospectus, to purchase up to an aggregate of 780,000 additional shares of Common Stock at the price set forth on the cover page of this Prospectus, less the underwriting discount. The U.S. Underwriters may exercise these options solely to cover over-allotments, if any, made on the sale of the Common Stock offered hereby. To the extent that the U.S. Underwriters exercise these options, each U.S. Underwriter will be obligated, subject to certain conditions, to purchase a number of additional shares of Common Stock proportionate to such U.S. Underwriters' initial amount reflected in the foregoing table. The Selling Shareholders also have granted options to the

International Managers, exercisable for 30 days after the date of this Prospectus, to purchase up to an aggregate of 195,000 additional shares of Common Stock to cover over-allotments, if any, on terms similar to those granted to the U.S. Underwriters.

The Company, the Selling Shareholders, and the Company's executive officers and directors, the THL Group and certain other shareholders have agreed, subject to certain exceptions, not to directly or indirectly (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of or otherwise dispose of or transfer any shares of Common Stock or securities convertible into or exchangeable or exercisable for Common Stock, whether now owned or thereafter acquired by the person or entity executing the agreement or with respect to which the person or entity executing the agreement thereafter acquires the power of disposition, or file a registration statement under the Securities Act with respect to the foregoing or (ii) enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of the Common Stock whether any such swap or transaction is to be settled by delivery of Common Stock or other securities, in cash or otherwise, without the prior written consent of Merrill Lynch on behalf of the Underwriters for a period of 90 days after the date of this Prospectus. See "Shares Eligible for Future Sale."

The THL Group, the beneficial owner of more than 10% of the Company's outstanding Common Stock, may be deemed to be an affiliate of Sutro & Co. Incorporated and Tucker Anthony Incorporated, members of the NASD, which may participate in the U.S. Offering and the International Offering. Accordingly, the U.S. Offering and the International Offering will be conducted in accordance with NASD Conduct Rule 2720.

The U.S. Underwriters and the International Managers have entered into an intersyndicate agreement (the "Intersyndicate Agreement") that provides for the coordination of their activities. Pursuant to the Intersyndicate Agreement, the U.S. Underwriters and the International Managers are permitted to sell shares of Common Stock to each other for purposes of resale at the offering price, less an amount not greater than the selling concession. Under the terms of the Intersyndicate Agreement, the U.S. Underwriters and any dealer to whom they sell shares of Common Stock will not offer to sell or sell shares of Common Stock to persons who are non-U.S. or non-Canadian persons or to persons they believe intend to resell to persons who are non-U.S. or non-Canadian persons, and the International Managers and any dealer to whom they sell shares of Common Stock will not offer to sell or sell shares of Common Stock to U.S. persons or to Canadian persons or to persons they believe intend to resell to U.S. or Canadian persons, except in the case of transactions pursuant to the Intersyndicate Agreement.

The Common Stock is listed on the New York Stock Exchange under the symbol "ROV."

The Underwriters and International Managers do not intend to confirm sales of the Common Stock offered hereby to any accounts over which they exercise discretionary authority.

The Company and the Selling Shareholders have agreed to indemnify the U.S. Underwriters and the International Managers against certain liabilities, including certain liabilities under the Securities Act, or to contribute to payments which the U.S. Underwriters and International Managers may be required to make in respect thereof.

Until the distribution of the Common Stock is completed, rules of the Securities and Exchange Commission (the "Commission") may limit the ability of the Underwriters and certain selling group members to bid for and purchase the Common Stock. As an exception to these rules, the U.S. Representatives are permitted to engage in certain transactions that stabilize the price of the Common Stock. Such transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Common Stock.

If the Underwriters create a short position in the Common Stock in connection with the Offerings, i.e., if they sell more shares of Common Stock than are set forth on the cover page of this Prospectus, the U.S. Representatives may reduce that short position by purchasing Common Stock in the open market. The U.S. Representatives may also elect to reduce any short position by exercising all or part of the over-allotment option described above.

In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might have been in the absence of such purchases.

None of the Company, the Selling Shareholders or any of the Underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Common Stock. In addition, none of the Company, the Selling Shareholders or any of the Underwriters makes

any representation that the U.S. Representatives will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

Donaldson, Lufkin & Jenrette Securities Corporation and its affiliate, DLJ Capital Funding, Inc., have provided from time to time, and may provide in the future, commercial and investment banking services to the Company and its affiliates, including in connection with the Credit Agreement between the Company, BA Securities, Inc., Donaldson, Lufkin & Jenrette Securities Corporation and its affiliate DLJ Capital Funding, Inc. as arrangers for a group of financial institutions and accredited investors which provided the Company with senior bank facilities in an aggregate amount of \$170 million.

## LEGAL MATTERS

The validity of the issuance of the shares of Common Stock offered hereby and certain legal matters for the Selling Shareholders will be passed upon by DeWitt Ross & Stevens s.c., Madison, Wisconsin. Certain other legal matters relating to the Offering will be passed upon for the Company and the Selling Shareholders by Skadden, Arps, Slate, Meagher & Flom LLP, Boston, Massachusetts. Certain legal matters will be passed upon for the Underwriters by Fried, Frank, Harris, Shriver & Jacobson (a partnership including professional corporations), New York, New York. Fried, Frank, Harris, Shriver & Jacobson will rely on the opinion of DeWitt Ross & Stevens s.c. as to certain matters of Wisconsin law.

## EXPERTS

The financial statements and schedule of the Company and Subsidiaries as of September 30, 1997, and for the year then ended, have been included or incorporated by reference herein in reliance upon the reports of KPMG Peat Marwick LLP, independent certified public accountants, appearing elsewhere or incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

The financial statements of the Company and Subsidiaries as of June 30, 1996 and as of September 30, 1996 and for each of the years in the two-year period ended June 30, 1996, and the Transition Period ended September 30, 1996 have been included herein in reliance upon the report of Coopers & Lybrand L.L.P., independent certified public accountants, appearing elsewhere herein, given upon the authority of said firm as experts in accounting and auditing.

In June 1997, KPMG Peat Marwick LLP replaced Coopers & Lybrand L.L.P. as the Company's independent accountants. The decision to engage KPMG Peat Marwick LLP was made with the approval of the Company's Audit Committee.

The Company believes, and it has been advised by Coopers & Lybrand L.L.P. that it concurs in such belief, that, during the period of its engagement, the Company and Coopers & Lybrand L.L.P. did not have any disagreement on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of Coopers & Lybrand L.L.P., would have caused it to make reference in connection with its report on the Company's financial statements to the subject matter of the disagreement.

The report of Coopers & Lybrand L.L.P. on the Company's consolidated financial statements as of June 30, 1995 and 1996 and as of September 30, 1996 and for each of the years in the two-year period ended June 30, 1996, and the Transition Period ended September 30, 1996, did not contain an adverse opinion or a disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles. During that period and through the date of their termination there were no "reportable events" within the meaning of Item 304(a)(1)(v) of Regulation S-K promulgated under the Securities Act.



#### AVAILABLE INFORMATION

The Company is subject to the information requirements of the Securities Exchange Act of 1934, and in accordance therewith files periodic reports and other information with the Commission. The Company has filed with the Commission the Registration Statement under the Securities Act with respect to the shares of Common Stock being offered in the Offerings. This Prospectus does not contain all the information set forth in the Registration Statement and the exhibits and schedules thereto, to which reference is hereby made. Statements made in this Prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete; with respect to each such contract, agreement or other document filed as an exhibit to the Registration Statement, reference is made to the exhibit for a more complete description thereof. Such reports, the Registration Statement and other exhibits and other information omitted from this Prospectus may be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and will also be available for inspection and copying at the regional offices of the Commission located at 7 World Trade Center, New York, New York 10048 and at Northwestern Atrium Center, 500 West Madison Street (Suite 1400), Chicago, Illinois 60661. Copies of such material may also be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. Additionally, the Commission maintains a World Wide Web site at (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission through the Electronic Data Gathering, Analysis and Retrieval System. Such reports, proxy statements and other information may also be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

The Company intends to furnish its shareholders with annual reports containing audited financial statements of the Company and quarterly reports containing unaudited financial information for the Company for the first three fiscal quarters of each fiscal year.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents, which have been filed with the Commission, are incorporated herein by reference:

- (1) The Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1997;
- (2) The Company's Quarterly Report on Form 10-Q for the quarterly period ended December 27, 1997; and
- (3) The description of the Common Stock contained in the Company's Registration Statement on Form 8-A filed under Section 12 of the Exchange Act dated November 11, 1997.

All documents filed by the Company pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this Prospectus and prior to the termination of the Offerings made hereby shall be deemed to be incorporated by reference in this Prospectus and to be a part hereof from the date of the filing of such documents. Any statement contained in this Prospectus, in a supplement to this Prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any subsequently filed supplement to this Prospectus or in any document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Company hereby undertakes to provide without charge to each person to whom a copy of this Prospectus has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Prospectus by reference, other than exhibits to such documents unless such exhibits are specifically incorporated by reference in such documents. Requests for such copies should be directed to: Rayovac Corporation, 601 Rayovac Drive, Madison, Wisconsin, 53711-2497, Attention: James A. Broderick, Vice President, General Counsel and Secretary (Telephone: (608) 275-3340).

RAYOVAC CORPORATION AND SUBSIDIARIES  
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Independent Auditors' Report

The Board of Directors  
Rayovac Corporation:

We have audited the accompanying consolidated balance sheet of Rayovac Corporation and Subsidiaries as of September 30, 1997, and the related consolidated statements of operations, shareholders' deficit, and cash flows for the year then ended. 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 audit. The accompanying consolidated financial statements of Rayovac Corporation and Subsidiaries as of June 30, 1996 and September 30, 1996, and for each of the years ended June 30, 1995 and 1996, and the transition period from July 1, 1996 to September 30, 1996, were audited by other auditors whose report thereon dated November 22, 1996, except for notes 2n and 2r as to which the date is April 1, 1998 expressed an unqualified opinion on those statements.

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

In our opinion, the fiscal year 1997 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rayovac Corporation and Subsidiaries as of September 30, 1997, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

Milwaukee, Wisconsin  
October 28, 1997, except as to  
note 2n., which is as of April 1, 1998

Independent Auditors' Report

To the Board of Directors of  
Rayovac Corporation

We have audited the accompanying consolidated balance sheets of Rayovac Corporation and Subsidiaries as of June 30, 1996 and September 30, 1996, and the related consolidated statements of operations, shareholders' equity (deficit), and cash flows for each of the two years in the period ended June 30, 1996 and the period July 1, 1996 to September 30, 1996. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rayovac Corporation and Subsidiaries as of June 30, 1996 and September 30, 1996, and the results of their operations and their cash flows for each of the two years in the period ended June 30, 1996 and the period July 1, 1996 to September 30, 1996, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

Milwaukee, Wisconsin

November 22, 1996,  
except for notes 2n and 2r  
as to which the date is  
April 1, 1998

RAYOVAC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands, except per share amounts)

	June 30, 1996	September 30, 1996	September 30, 1997
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents .....	\$ 2,190	\$ 4,255	\$ 1,133
Receivables:			
Trade accounts receivable, net of allowance for doubtful receivables of \$786, \$722 and \$1,221, respectively .....	55,830	62,320	76,590
Other .....	2,322	4,156	3,079
Inventories .....	66,941	70,121	58,551
Deferred income taxes .....	5,861	9,158	9,099
Prepaid expenses and other .....	4,975	4,864	5,928
<b>Total current assets .....</b>	<b>138,119</b>	<b>154,874</b>	<b>154,380</b>
Property, plant and equipment, net .....	73,181	68,640	65,511
Deferred charges and other .....	9,655	7,413	7,713
Debt issuance costs .....	173	12,764	9,277
<b>Total assets .....</b>	<b>\$221,128</b>	<b>\$ 243,691</b>	<b>\$ 236,881</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b>			
Current liabilities:			
Current maturities of long-term debt .....	\$ 11,631	\$ 8,818	\$ 23,880
Accounts payable .....	38,695	46,921	57,259
Accrued liabilities:			
Wages and benefits .....	6,126	5,894	9,343
Accrued interest .....	1,890	631	5,613
Recapitalization and other special charges .....	--	14,942	4,612
Other .....	16,557	13,019	19,856
<b>Total current liabilities .....</b>	<b>74,899</b>	<b>90,225</b>	<b>120,563</b>
Long-term debt, net of current maturities .....	69,718	224,845	183,441
Employee benefit obligations, net of current portion .....	12,141	12,138	11,291
Deferred income taxes .....	2,584	142	735
Other .....	162	2,061	1,446
<b>Total liabilities .....</b>	<b>159,504</b>	<b>329,411</b>	<b>317,476</b>
Shareholders' equity (deficit):			
Common stock, \$.01 par value, authorized 90,000 shares; issued 50,000 shares; outstanding 49,500, 20,470 and 20,581 shares, respectively .....	500	500	500
Rayovac International Corporation common stock, \$.50 value, authorized 18 shares; issued and outstanding 10 shares at June 30, 1996 .....	5	--	--
Additional paid-in capital .....	12,000	15,970	15,974
Foreign currency translation adjustment .....	1,650	1,689	2,270
Notes receivable from officers/shareholders .....	--	(500)	(1,658)
Retained earnings .....	48,002	25,143	31,321
	62,157	42,802	48,407
Less stock held in trust for deferred compensation plan, 160 shares .....	--	--	(962)
Less treasury stock, at cost, 500, 29,530 and 29,419 shares, respectively .....	(533)	(128,522)	(128,040)
<b>Total shareholders' equity (deficit) .....</b>	<b>61,624</b>	<b>(85,720)</b>	<b>(80,595)</b>
<b>Total liabilities and shareholders' equity (deficit) .....</b>	<b>\$221,128</b>	<b>\$ 243,691</b>	<b>\$ 236,881</b>

See accompanying notes to consolidated financial statements.

RAYOVAC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS  
(Dollars in thousands, except per share amounts)

	Year ended June 30,		Transition	Year ended
	1995	1996	Period ended September 30, 1996	September 30, 1997
Net sales .....	\$ 415,224	\$ 423,354	\$ 101,880	\$ 432,552
Cost of goods sold .....	237,126	239,343	59,242	234,569
Gross profit .....	178,098	184,011	42,638	197,983
Operating expenses:				
Selling .....	108,703	116,525	27,796	122,055
General and administrative .....	32,861	31,767	8,628	32,205
Research and development .....	5,005	5,442	1,495	6,196
Recapitalization charges .....	--	--	12,326	--
Other special charges .....	--	--	16,065	3,002
	146,569	153,734	66,310	163,458
Income (loss) from operations .....	31,529	30,277	(23,672)	34,525
Interest expense .....	8,644	8,435	4,430	24,542
Other expense, net .....	230	552	76	378
Income (loss) before income taxes and extraordinary item .....	22,655	21,290	(28,178)	9,605
Income tax expense (benefit) .....	6,247	7,002	(8,904)	3,419
Income (loss) before extraordinary item .....	16,408	14,288	(19,274)	6,186
Extraordinary item, loss on early extinguishment of debt, net of income tax benefit of \$777.....	--	--	(1,647)	--
Net income (loss) .....	\$ 16,408	\$ 14,288	\$ (20,921)	\$ 6,186
Basic net income (loss) per commons share:				
Income (loss) before extraordinary item .....	\$ 0.33	\$ 0.29	\$ (0.44)	\$ 0.30
Extraordinary item .....	--	--	(0.04)	--
Net income (loss) .....	\$ 0.33	\$ 0.29	\$ (0.48)	\$ 0.30
Weighted average shares of common stock outstanding .....	50,000	49,643	43,820	20,530
Diluted net income (loss) per common share:				
Income (loss) before extraordinary item .....	\$ 0.33	\$ 0.29	\$ (0.44)	\$ 0.30
Extraordinary item .....	--	--	(0.04)	--
Net income (loss) .....	\$ 0.33	\$ 0.29	\$ (0.48)	\$ 0.30
Weighted average shares of common stock and equivalents outstanding .....	50,000	49,643	43,820	20,642

See accompanying notes to consolidated financial statements.

RAYOVAC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollars in thousands, except per share amounts)

	Year ended June 30,		Transition	Year ended
	1995	1996	Period ended	September 30,
	-----	-----	September 30,	September 30,
	1995	1996	1996	1997
	-----	-----	-----	-----
Cash flows from operating activities:				
Net income (loss) .....	\$ 16,408	\$ 14,288	\$ (20,921)	\$ 6,186
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:				
Recapitalization and other special charges .....	--	--	13,449	--
Extraordinary item, loss on early extinguishment of debt .....	--	--	2,424	--
Amortization of debt issuance costs .....	103	53	1,609	3,563
Depreciation .....	11,024	11,932	3,279	11,308
Deferred income taxes .....	346	3	(5,739)	652
Loss (gain) on disposal of fixed assets .....	110	(108)	1,289	(326)
Curtailment gain .....	--	--	--	(2,923)
Changes in assets and liabilities:				
Accounts receivable .....	(2,537)	(6,166)	(8,940)	(14,794)
Inventories .....	9,004	(1,779)	(3,078)	11,987
Prepaid expenses and other .....	(990)	1,148	741	(563)
Accounts payable and accrued liabilities .....	2,051	(1,526)	(185)	30,905
Accrued recapitalization and other special charges .....	--	--	14,942	(10,330)
Net cash provided (used) by operating activities .....	35,519	17,845	(1,130)	35,665
Cash flows from investing activities:				
Purchases of property, plant and equipment .....	(16,938)	(6,646)	(1,248)	(10,856)
Proceeds from sale of property, plant and equipment .....	139	298	1,281	52
Net cash provided (used) by investing activities .....	(16,799)	(6,348)	33	(10,804)
Cash flows from financing activities:				
Reduction of debt .....	(106,383)	(104,526)	(107,090)	(135,079)
Proceeds from debt financing .....	85,698	96,252	259,489	108,890
Cash overdraft .....	3,925	2,339	(2,493)	164
Debt issuance costs .....	--	--	(14,373)	--
Extinguishment of debt .....	--	--	(2,424)	--
Proceeds from direct financing lease .....	--	--	--	100
Distributions from DISC .....	(1,500)	(5,187)	(1,943)	--
Issuance of stock .....	--	--	--	271
Acquisition of treasury stock .....	--	(533)	(127,925)	(3,343)
Exercise of stock options .....	--	--	--	1,438
Payments on capital lease obligation .....	--	(295)	(84)	(426)
Net cash provided (used) by financing activities .....	(18,260)	(11,950)	3,157	(27,985)
Effect of exchange rate changes on cash and cash equivalents .....				
	(345)	(2)	5	2
Net increase (decrease) in cash and cash equivalents .....	115	(455)	2,065	(3,122)
Cash and cash equivalents, beginning of period .....	2,530	2,645	2,190	4,255
Cash and cash equivalents, end of period .....	\$ 2,645	\$ 2,190	\$ 4,255	\$ 1,133
Supplemental disclosure of cash flow information:				
Cash paid for interest .....	\$ 8,789	\$ 7,535	\$ 7,977	\$ 16,030
Cash paid for income taxes .....	8,821	5,877	419	1,172

See accompanying notes to consolidated financial statements.



RAYOVAC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)  
(Dollars in thousands, except per share amounts)

	Common Stock		Rayovac International Corporation common stock (DISC)		Additional paid-in capital	Foreign currency translation adjustment
	Shares	Amount	Shares	Amount		
Balances at June 30, 1994	50,000	\$500	10	\$ 5	\$12,000	\$1,555
Net income	--	--	--	--	--	--
Distributions from DISC	--	--	--	--	--	--
Translation adjustment	--	--	--	--	--	424
Adjustment of additional minimum pension liability	--	--	--	--	--	--
Balances at June 30, 1995	50,000	500	10	5	12,000	1,979
Net income	--	--	--	--	--	--
Distributions from DISC	--	--	--	--	--	--
Translation adjustment	--	--	--	--	--	(329)
Adjustment of additional minimum pension liability	--	--	--	--	--	--
Treasury stock acquired	(500)	--	--	--	--	--
Balances at June 30, 1996	49,500	500	10	5	12,000	1,650
Net loss	--	--	--	--	--	--
Common stock acquired in Recapitalization	(29,030)	--	--	--	--	--
Exercise of stock options	--	--	--	--	3,970	--
Increase in cost of existing treasury stock	--	--	--	--	--	--
Note receivable from officers/shareholders	--	--	--	--	--	--
Termination of DISC	--	--	(10)	(5)	--	--
Translation adjustment	--	--	--	--	--	39
Balances at September 30, 1996	20,470	500	--	--	15,970	1,689
Net income	--	--	--	--	--	--
Sale of common stock	111	--	--	--	4	--
Treasury stock acquired	(556)	--	--	--	--	--
Exercise of stock options and sale of common stock to trust	556	--	--	--	--	--
Notes receivable from officers/shareholders	--	--	--	--	--	--
Adjustment of additional minimum pension liability	--	--	--	--	--	--
Translation adjustment	--	--	--	--	--	581
Balances at September 30, 1997	20,581	\$500	--	\$ --	\$15,974	\$2,270

	Notes receivable officers/shareholders	Retained earnings	Stock held in trust	Treasury stock	Total shareholders' equity (deficit)
Balances at June 30, 1994	\$ --	\$ 23,862	\$ --	\$ --	\$ 37,922
Net income	--	16,408	--	--	16,408
Distributions from DISC	--	(1,500)	--	--	(1,500)
Translation adjustment	--	--	--	--	424
Adjustment of additional minimum pension liability	--	333	--	--	333
Balances at June 30, 1995	--	39,103	--	--	53,587
Net income	--	14,288	--	--	14,288
Distributions from DISC	--	(5,187)	--	--	(5,187)
Translation adjustment	--	--	--	--	(329)
Adjustment of additional minimum pension liability	--	(202)	--	--	(202)
Treasury stock acquired	--	--	--	(533)	(533)
Balances at June 30, 1996	--	48,002	--	(533)	61,624
Net loss	--	(20,921)	--	--	(20,921)
Common stock acquired in Recapitalization	--	--	--	(127,425)	(127,425)
Exercise of stock options	--	--	--	--	3,970
Increase in cost of existing treasury stock	--	--	--	(564)	(564)
Note receivable from officers/shareholders	(500)	--	--	--	(500)
Termination of DISC	--	(1,938)	--	--	(1,943)
Translation adjustment	--	--	--	--	39

Balances at September 30, 1996 .....	(500)	25,143	--	(128,522)	(85,720)
Net income .....	--	6,186	--	--	6,186
Sale of common stock .....	--	--	--	482	486
Treasury stock acquired .....	--	--	--	(3,343)	(3,343)
Exercise of stock options and sale of common stock to trust .....	--	--	(962)	3,343	2,381
Notes receivable from officers/shareholders .....	(1,158)	--	--	--	(1,158)
Adjustment of additional minimum pension liability .....	--	(8)	--	--	(8)
Translation adjustment .....	--	--	--	--	581
Balances at September 30, 1997 .....	\$ (1,658)	\$ 31,321	\$ (962)	\$ (128,040)	\$ (80,595)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands, except per share amounts)

1. Description of Business and Recapitalization

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

Effective as of September 12, 1996, the Company, all of the shareholders of the Company, Thomas H. Lee Equity Fund III L.P. (Lee Fund) and other affiliates of Thomas H. Lee Company (THL Co.) completed a recapitalization of the Company (Recapitalization) pursuant to which: (i) the Company obtained senior financing in an aggregate of \$170,000, of which \$131,000 was borrowed at the closing of the Recapitalization; (ii) the Company obtained \$100,000 in financing through the issuance of senior subordinated increasing rate notes of the Company (Bridge Notes); (iii) the Company redeemed a portion of the shares of common stock held by the former President and Chief Executive Officer of the Company; (iv) the Lee Fund and other affiliates of THL Co. purchased for cash shares of common stock owned by shareholders of the Company; and (v) the Company repaid certain of its outstanding indebtedness, including prepayment fees and penalties. The prepayment fees and penalties paid have been recorded as an extraordinary item in the Consolidated Statements of Operations. Other non-recurring charges of \$12,300 related to the Recapitalization were also expensed, including \$2,200 in advisory fees paid to the financial advisor to the Company's selling shareholders; various legal and consulting fees of \$2,800; and \$7,300 of stock option compensation, severance payments and employment contract settlements for the benefit of certain present and former officers, directors and management of the Company. Payment for these costs was or is expected to be as follows: (i) \$8,900 was paid prior to September 30, 1996; (ii) \$2,815 was paid in fiscal year 1997 and (iii) \$585 is expected to be paid in fiscal year 1998.

In 1996, the Company changed its fiscal year end from June 30 to September 30. For clarity of presentation herein, the period from July 1, 1996, to September 30, 1996 is referred to as the "Transition Period Ended September 30, 1996" or "Transition Period."

2. Significant Accounting Policies and Practices

- a. Principles of Combination and Consolidation: The consolidated financial statements include the financial statements of Rayovac Corporation and its wholly owned subsidiaries. Rayovac International Corporation, a Domestic International Sales Corporation (DISC) which was owned by the Company's shareholders, was combined with Rayovac Corporation through August 1996, when the DISC was terminated and the net assets distributed to its shareholders. All intercompany transactions have been eliminated. For reporting purposes, all financial statements are referred to as "consolidated" financial statements.
- b. Revenue Recognition: The Company recognizes revenue from product sales upon shipment to the customer.
- 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.
- 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.
- e. Concentrations of Credit Risk, Major Customers and Employees: The Company's trade receivables are subject to concentrations of credit risk as three principal customers accounted for 26%, 24% and 24% of the outstanding trade receivables as of June 30, 1996, and September 30, 1996 and 1997, respectively. The Company derived 28%, 28%, 25% and 29% of its net sales during the years ended June 30, 1995

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

2. Significant Accounting Policies and Practices--Continued

and 1996, the Transition Period, and the year ended September 30, 1997, respectively, from the same three customers.

The Company has one customer that represented over 10% of its net sales. The Company derived 16%, 18%, 18%, and 20% of its net sales from this customer during the years ended June 30, 1995 and 1996, the Transition Period, and the year ended September 30, 1997, respectively.

A significant number of the Company's factory employees are represented by one of four labor unions. The Company has recently entered into collective bargaining agreements with its Madison and Fennimore, Wisconsin employees each of which expires in 2000. The Company's collective bargaining agreement with 24 of its Washington, United Kingdom employees is scheduled to expire in December 1997. In addition, the Company's collective bargaining agreements with its 5 Hayward, California and 203 Portage, Wisconsin employees are scheduled to expire in May and July 1998, respectively. The Company believes its relationship with its employees is good and there have been no work stoppages involving Company employees since 1981.

f. Displays and Fixtures: The costs of displays and fixtures are capitalized and recorded as a prepaid asset and charged to expense when shipped to a customer location. Such prepaid assets amount to approximately \$1,068, \$730 and \$1,456 as of June 30, 1996, and September 30, 1996 and 1997, respectively.

g. Inventories: Inventories are stated at lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

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 .....	5-20 years

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

j. Accounts Payable: Included in accounts payable at June 30, 1996, and September 30, 1996 and 1997, is approximately \$7,805, \$5,312, and \$5,476, respectively, of book overdrafts on disbursement accounts which were replenished prior to the presentation of checks for payment.

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

l. 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 accumulated as a separate component of shareholders' equity (deficit). Exchange gains (losses) on foreign currency transactions aggregating (\$112), (\$750), (\$70), and (\$639) for the years ended June 30, 1995 and 1996, the Transition Period, and the year ended September 30, 1997, respectively, are included in other expense, net, in the Consolidated Statements of Operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

## 2. Significant Accounting Policies and Practices--Continued

- m. Advertising Costs: The Company incurred expenses for advertising of \$25,556, \$29,976, \$7,505 and \$24,326 in the years ended June 30, 1995 and 1996, the Transition Period, and the year ended September 30, 1997, respectively. The Company expenses advertising production costs as such costs are incurred.
- n. Per Share Data: The Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("FAS No. 128"), in Fiscal 1998. This statement replaces the presentation of primary and fully diluted EPS with basic and diluted EPS. Basic EPS is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Basic EPS does not consider common stock equivalents. Diluted EPS 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 EPS uses the "if converted" and "treasury stock" methods to reflect dilution. All prior period EPS data presented has been restated for the adoption of FAS No. 128. The difference between the number of shares used in the two calculations is due to employee stock options.

The Company also complies with certain requirements of the Securities and Exchange Commission with respect to the calculation of earnings per share for initial public offerings.

- o. 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 uses interest rate swaps to manage its interest rate risk. The net amounts to be paid or received under interest rate swap agreements designated as hedges 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 counterparties are included in accounts payable or accounts receivable. The Company has entered into an interest rate swap agreement which effectively fixes the interest rate on floating rate debt at a rate of 6.16% for notional principal amount of \$62,500 through October 1999. The fair value of this contract at September 30, 1997 is (\$159).

The Company enters into forward foreign exchange contracts relating to the anticipated settlement in local currencies of intercompany purchases and sales. These contracts generally require the Company to exchange foreign currencies for U.S. dollars. The contracts are marked to market, and the related adjustment is recognized in other expense, net. The related amounts payable to, or receivable from, the counterparties are included in accounts payable or accounts receivable. The Company has approximately \$3,100 of forward exchange contracts at September 30, 1997. The fair value at September 30, 1997, approximated the contract value.

The Company is exposed to risk from fluctuating prices for commodities used in the manufacturing process. The Company hedges some of this risk through the use of commodity calls and puts. The Company is buying calls, which allow the Company to purchase a specified quantity of zinc through a specified date for a fixed price, and writing puts, which allow the buyer to sell to the Company a specified quantity of zinc through a specified date at a fixed price. The maturity of, and the quantities covered by, the contracts highly correlate to the Company's anticipated purchases of the commodity. The cost of the calls, and the premiums received from the puts, are amortized over the life of the agreements and are recorded in cost of goods sold, along with the effect of the put and call agreements. At September 30, 1997, the Company has purchased a series of calls with a contract value of approximately \$2,800 and sold a series of puts with a contract value of approximately \$2,400 for the period from October through March designed to set a ceiling and floor price. While these transactions have no carrying value, the fair value of these contracts was approximately \$138 at September 30, 1997. The Company has a receivable at September 30, 1997, of approximately \$222 in the accompanying consolidated balance sheet from the settlement of September contracts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

## 2. Significant Accounting Policies and Practices--Continued

These fair values represent the estimated amount the Company would receive or pay to terminate agreements at September 30, 1997, taking into consideration current market rates and the current credit worthiness of the counterparties based on dealer quotes. The Company may be exposed to credit loss in the event of nonperformance by the counterparties to these contracts, but does not anticipate such nonperformance.

- p. Environmental Expenditures: Environmental expenditures that 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.
- q. Stock Split: In September 1996, the Company's Board of Directors declared a five-for-one stock split. A total of 16,376 additional shares were issued in conjunction with the stock split to shareholders of record. All applicable share and per share amounts herein have been restated to reflect the stock split retroactively.
- r. Reclassification: Certain prior year amounts have been reclassified to conform with the current year presentation.

The Company has reclassified certain promotional expenses, previously reported as a reduction of net sales, to selling expense. The amounts which have been reclassified are \$24,236 and \$23,970 for the years ended June 30, 1995 and 1996, respectively, \$6,899 for the Transition Period ended September 30, 1996, and \$28,702 for the year ended September 30, 1997.

- s. Impact of Recently Issued Accounting Standards: In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 128, Earnings Per Share (FAS 128). FAS 128 will be effective for periods ending after December 15, 1997, and specifies the computation, presentation, and disclosure requirements for earnings per share. Adoption of this accounting standard is not expected to have a material effect on the earnings per share computations of the Company assuming the current capital structure.

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income (FAS 130), which establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. All items that are required to be recognized under accounting standards as components of comprehensive income are to be reported in a financial statement that is displayed with the same prominence as other financial statements. FAS 130 requires that an enterprise (i) classify items of other comprehensive income by their nature in a financial statement, and (ii) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in-capital in the equity section of the balance sheet. FAS 130 is effective for fiscal years beginning after December 15, 1997. Reclassification of financial statements for earlier periods provided for comparative purposes is required. The Company is evaluating the effect of this pronouncement on its consolidated financial statements.

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information (FAS 131), which is effective for financial statements for periods beginning after December 15, 1997. FAS 131 establishes standards for the way public business enterprises are to report information about operating segments in annual financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company is evaluating the effect of this pronouncement on its consolidated financial statements.

RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

3. Inventories

Inventories consist of the following:

	June 30, 1996	September 30, 1996	September 30, 1997
	-----	-----	-----
Raw material .....	\$24,238	\$25,300	\$23,291
Work-in-process .....	19,081	14,651	15,286
Finished goods .....	23,622	30,170	19,974
	-----	-----	-----
	\$66,941	\$70,121	\$58,551
	=====	=====	=====

4. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	June 30, 1996	September 30, 1996	September 30, 1997
	-----	-----	-----
Land, building and improvements .....	\$ 15,469	\$ 16,824	\$ 10,752
Machinery, equipment and other .....	117,248	117,754	120,894
Construction in process .....	5,339	6,232	11,326
	-----	-----	-----
	138,056	140,810	142,972
Less accumulated depreciation .....	64,875	72,170	77,461
	-----	-----	-----
	\$ 73,181	\$ 68,640	\$ 65,511
	=====	=====	=====

5. Debt

Debt consists of the following:

	June 30, 1996	September 30, 1996	September 30, 1997
	-----	-----	-----
Term loan facility .....	\$ --	\$105,000	\$ 100,500
Revolving credit facility .....	--	23,500	4,500
Series B Senior Subordinated Notes, due November 1, 2006, with interest at 10-1/4% payable semi-annually .....	--	--	100,000
Bridge Notes .....	--	100,000	--
Debt paid September 1996 due to Recapitalization:			
Senior Secured Notes due 1997 through 2002 .....	29,572	--	--
Subordinated Notes due through 2003 .....	7,270	--	--
Revolving credit facility .....	39,250	--	--
Notes payable in Pounds Sterling to a foreign bank, due on demand, with interest at bank's base rate plus 1.87% .....	1,242	939	--
Capitalized lease obligation .....	1,330	1,246	866
Notes and obligations, weighted average interest rate of 5.24% at September 30, 1997 .....	2,685	2,978	1,455
	-----	-----	-----
	81,349	233,663	207,321
Less current maturities .....	11,631	8,818	23,880
	-----	-----	-----
Long-term debt .....	\$69,718	\$224,845	\$ 183,441
	=====	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

## 5. Debt--Continued

On September 12, 1996, the Company executed a Credit Agreement (Agreement) arranged by BA Securities, Inc., Donaldson, Lufkin & Jenrette Securities Corporation and certain of its affiliates for a group of financial institutions and other accredited investors. The Agreement provides for senior bank facilities, including term and revolving credit facilities in an aggregate amount of \$170,000. Interest on borrowings is computed, at the Company's option, based on the Bank of America Illinois' base rate, as defined, (Base Rate) or the Interbank Offering Rate (IBOR).

The term loan facility includes: (i) Tranche A term loan of \$55,000, quarterly amortization ranging from \$1,000 to \$3,750 beginning December 31, 1996, through September 30, 2002, interest at the Base Rate plus 1.5% per annum or at IBOR plus 2.5% per annum (8.49% at September 30, 1997); (ii) Tranche B term loan of \$25,000, quarterly amortization amounts of \$62.5 during each of the first six years and \$5,875 in the seventh year beginning December 31, 1996, through September 30, 2003, interest at the Base Rate plus 2.0% per annum, or IBOR plus 3.0% per annum (8.93% at September 30, 1997); (iii) Tranche C term loan of \$25,000, quarterly amortization of \$62.5 during each of the first seven years and \$5,812.5 during the eighth year beginning December 31, 1996, through September 30, 2004; interest at the Base Rate plus 2.25% per annum or IBOR plus 3.25% per annum (9.10% at September 30, 1997).

The revolving credit facility provides for aggregate working capital loans up to \$65,000 through September 30, 2002, reduced by outstanding letters of credit (\$10,000 limit), and other existing credit facilities and outstanding obligations (approximately \$5,000 at September 30, 1997). Interest on borrowings is at the Base Rate plus 1.5% per annum or IBOR plus 2.5% per annum (10.0% at September 30, 1997). The Company had outstanding letters of credit of approximately \$631 at September 30, 1997. A fee of 2.5% per annum is payable on the outstanding letters of credit. The Company also incurs a fee of .25% per annum of the average daily maximum amount available to be drawn on each letter of credit issued. The revolving credit facility must be reduced for 30 consecutive days to no more than \$5,000 for the fiscal year ending September 30, 1998, and to zero for any fiscal year thereafter.

The Agreement contains financial covenants with respect to borrowings which include fixed charge coverage, adjusted net worth, and minimum earnings before interest, income taxes, depreciation, amortization. In addition, the Agreement restricts capital expenditures and the payment of dividends. The Company is required to pay a commitment fee of 0.50% per annum on the average daily unused portion of the revolving credit facility. The Tranche A term loan and the revolving credit facility interest rates may be adjusted downward if the Company's leverage ratio, as defined, decreases. Borrowings under the Agreement are collateralized by substantially all the assets of the Company. The Agreement also contains certain mandatory prepayment provisions, one of which requires the Company to pay down \$14.5 million by December 29, 1997 due to excess cash flow generated as of September 30, 1997.

On October 22, 1996, the Company completed a private debt offering of 10-1/4% Senior Subordinated Notes due in 2006 (Old Notes) pursuant to an Indenture. In March 1997, the Company exchanged the Old Notes for 10-1/4% Series B Senior Subordinated Notes due in 2006 (New Notes) registered with the Securities and Exchange Commission. The terms of the New Notes are identical in all material respects to terms of the Old Notes. On or after November 1, 2001 or in certain circumstances, after a public offering of equity securities of the Company, the New Notes will be redeemable at the option of the Company, in whole or in part, at prescribed redemption prices plus accrued and unpaid interest.

Upon a change in control, the Company shall be required to repurchase all or any part of the New Notes at a purchase price equal to 101% of the aggregate principal amount. The Company is also required to repurchase all or a portion of the New Notes upon consummation of an asset sale, as defined, in excess of \$5,000.

The terms of the New Notes restrict or limit the ability of the Company and its subsidiaries to, among other things, (i) pay dividends or make other restricted payments, (ii) incur additional indebtedness and issue preferred



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

5. Debt--Continued

stock, (iii) create liens, (iv) incur dividend and other payment restrictions affecting subsidiaries, (v) enter into mergers, consolidations, or sales of all or substantially all of the assets of the Company, (vi) make asset sales, (vii) enter into transactions with affiliates, and (viii) issue or sell capital stock of wholly owned subsidiaries of the Company. Payment obligations under the New Notes are fully and unconditionally guaranteed on a joint and several basis by the Company's directly and wholly owned subsidiary, ROV Holding, Inc. (ROV or Guarantor Subsidiary). The foreign subsidiaries of the Company, which do not guarantee the payment obligations under the New Notes (Nonguarantor Subsidiaries), are directly and wholly owned by ROV. See note 17.

The proceeds from the new Notes were used to pay down the Bridge Notes. The Bridge Notes bore interest at prime plus 3.5%.

The aggregate scheduled maturities of debt are as follows:

Year ending September 30,	
1998 .....	\$ 23,880
1999 .....	12,441
2000 .....	10,500
2001 .....	12,500
2002 .....	15,500
Thereafter .....	132,500
	-----
	\$207,321
	=====

The capitalized lease obligation is payable in Pounds Sterling in installments of \$425 in 1998 and \$441 in 1999.

The carrying values of the debt instruments noted above are approximately 96% of their estimated fair values.

6. Shareholders' Equity (Deficit)

During the year ended June 30, 1996, the former principal shareholder of the Company granted an officer and a director options to purchase 235 shares of common stock owned by the shareholder personally at exercise prices per share ranging from \$3.65 to \$5.77 (the book values per share at the respective dates of grant). These options were exercised in conjunction with the Recapitalization and resulted in a charge to earnings of approximately \$3,970 during the Transition Period and an increase in additional paid-in capital in the Consolidated Statements of Shareholders' Equity (Deficit).

Treasury stock acquired during the year ended June 30, 1996 was subject to an agreement which provided the selling shareholder with additional compensation for the common stock sold if a change in control occurred within a specified period of time. As a result of the Recapitalization, the selling shareholder was entitled to an additional \$564, which is reflected as an increase in treasury stock in the Consolidated Statements of Shareholders' Equity (Deficit).

Retained earnings includes DISC retained earnings of \$1,594 at June 30, 1996. In August 1996, the DISC was terminated and the net assets were distributed to its shareholders.

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 plan exercised the options and purchased 160 shares of the Company's common stock. Shares issued to the trust are valued at \$962 and are reflected as a reduction of stockholders' equity in the consolidated balance sheet.

The Company and the former principal shareholder of the Company, entered into a Stock Sale Agreement, dated as of August 1, 1997 pursuant to which the former principal shareholder sold 2,023 shares of common stock at \$6.01 per share to the Company and to the Thomas H. Lee Equity Fund III, L.P. (the "Lee Fund") and certain other affiliates of Thomas H. Lee Company ("THL Co.," the Lee Fund and such other affiliates being referred to

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

6. Shareholders' Equity (Deficit)--Continued

herein as the "Lee Group"). The Stock Sale Agreement provides that, among other things, if (i) the Company enters into a business combination or other transaction with a third party whereby less than a majority of the outstanding capital stock of the surviving entity is owned by the Lee Group, and (ii) such business combination or other transaction is the result of negotiations or discussions entered into prior to December 31, 1997 and such combination is consummated prior to June 30, 1998, then the Lee Group will remit to the former principal shareholder all amounts, if any, received by the Lee Group (or any affiliated transferee of shares owned by the Lee Group) from the sale of the shares of common stock to such third party in excess of \$6.01 per share. In September 1997, another former shareholder sold 205 shares of common stock to the Company and the Lee Group under similar terms.

On October 22, 1997, the shareholders of the Company approved the authorization of 5,000 shares of Preferred Stock, \$.01 par value, and an increase in authorized shares of Common Stock from 90,000 to 150,000.

7. Stock Option Plans

Effective September 1996, the Company's Board of Directors (Board) approved the Rayovac Corporation 1996 Stock Option Plan (1996 Plan) which is intended to afford an incentive to select employees and directors of the Company to promote the interests of the Company. Under the 1996 Plan, stock options to acquire up to 3,000 shares of common stock, in the aggregate, may be granted 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 next five years if the Company achieves certain performance goals. Accelerated vesting may occur upon sale of the Company, as defined in the Plan.

On September 3, 1997, the Board adopted the 1997 Rayovac Incentive Plan (Incentive Plan) which was approved by the Shareholders on October 22, 1997 and expires in August 2007. 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 3,000 shares of common stock may be issued under the Incentive Plan.

During 1997, the Company adopted the Rayovac Corporation 1997 Stock Option Plan (1997 Plan). Under the 1997 Plan, stock options to acquire up to 665 shares of common stock, in the aggregate, may be granted. The exercise price is \$6.01. The 1997 Plan and each option granted thereunder expire no later than November 30, 1997.

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

	Transition period ended September 30, 1996		Year ended September 30, 1997	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
Outstanding, beginning of period .....	--	\$ --	1,464	\$ 4.39
Granted .....	1,464	4.30	1,410	5.03
Exercised .....	--	--	(556)	6.01
Outstanding, end of period .....	1,464	\$ 4.30	2,318	\$ 4.33
Options exercisable, end of period .....	40	\$ 1.14	496	\$ 4.13

The stock options outstanding on September 30, 1997, have a weighted-average remaining contractual life estimated at 9.5 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

7. Stock Option Plans--Continued

	Transition period ended September 30, 1996	Year ended September 30, 1997
	-----	-----
Weighted-average grant-date fair value of options granted during period .....	\$ 1.92	\$ 1.84
Assumptions used:		
Risk-free interest rate .....	6.78%	6.78%
Expected life .....	8 years	8 years

The Company applies APB Opinion 25, Accounting for Stock Issued to Employees, and related Interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized in the Consolidated Statements of Operations. Had the Company recognized compensation expense determined on the fair value at the grant dates for awards under the plans consistent with the method prescribed by FASB Statement No. 123, Accounting for Stock Based Compensation (SFAS No. 123), the Company's net income (loss) and net income (loss) per share, on a pro forma basis, for the Transition Period and the year ended September 30, 1997, would have been (\$21,035) and (\$0.48) per share and \$5,680 and \$0.28 per share, respectively. The effects of applying FASB 123 may not be representative of the effects on reported net income (loss) for future years.

8. Income Taxes

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

	Years ended June 30,		Transition period ended September 30,	Year ended September 30,
	----- 1995	----- 1996	----- 1996	----- 1997
Pretax income (loss):				
United States .....	\$16,505	\$17,154	\$ (27,713)	\$6,214
Outside the United States .....	6,150	4,136	(2,889)	3,391
Total pretax income (loss) .....	\$22,655	\$21,290	\$ (30,602)	\$9,605
	=====	=====	=====	=====
Income tax expense (benefit):				
Current:				
Federal .....	\$ 3,923	\$ 5,141	\$ (3,870)	\$2,926
Foreign .....	797	1,469	(72)	(176)
State .....	1,181	389	--	17
Total current	5,901	6,999	(3,942)	2,767
Deferred:				
Federal .....	799	54	(3,270)	(842)
Foreign .....	(544)	(57)	(847)	809
State .....	91	6	(1,622)	685
Total deferred	346	3	(5,739)	652
	-----	-----	-----	-----
	\$ 6,247	\$ 7,002	\$ (9,681)	\$3,419
	=====	=====	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

8. Income Taxes--Continued

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

	Years ended June 30,		Transition period ended September 30,	Year ended September 30,
	1995	1996	1996	1997
Statutory Federal income tax rate .....	35.0%	35.0%	35.0%	35.0%
DISC/FSC commission income .....	(5.9)	(5.2)	0.4	(1.2)
Effect of foreign items and rate differentials .....	(4.0)	1.0	(1.2)	0.3
State income taxes, net .....	3.6	1.1	3.9	4.9
Reduction of prior year tax provision .....	--	--	--	(3.0)
Nondeductible recapitalization charges .....	--	--	(6.2)	--
Other .....	(1.1)	1.0	(0.3)	(0.4)
	-----	-----	-----	-----
	27.6%	32.9%	31.6%	35.6%
	=====	=====	=====	=====

The components of the net deferred tax asset and types of significant basis differences were as follows:

	June 30, 1996	September 30, 1996	September 30, 1997
Current deferred tax assets:			
Recapitalization charges .....	\$ --	\$ 2,991	\$ 792
Inventories and receivables .....	1,395	1,407	1,495
Marketing and promotional accruals .....	1,498	1,252	3,256
Employee benefits .....	1,554	1,780	1,509
Environmental accruals .....	420	752	679
Other .....	994	976	1,368
	-----	-----	-----
Total current deferred tax assets .....	5,861	9,158	9,099
Noncurrent deferred tax assets:			
Employee benefits .....	3,053	4,504	4,214
State net operating loss carryforwards .....	--	1,249	468
Package design expense .....	532	523	927
Promotional expense .....	784	854	594
Other .....	1,516	1,475	1,753
	-----	-----	-----
Total noncurrent deferred tax assets .....	5,885	8,605	7,956
Noncurrent deferred tax liabilities:			
Property, plant, and equipment .....	(8,430)	(8,708)	(8,651)
Other .....	(39)	(39)	(40)
	-----	-----	-----
Total noncurrent deferred tax liabilities .....	(8,469)	(8,747)	(8,691)
Net noncurrent deferred tax liabilities .....	\$ (2,584)	\$ (142)	\$ (735)
	=====	=====	=====

At September 30, 1997, the Company has operating loss carryforwards for state income tax purposes of approximately \$6,000, which expire generally in years through 2012.

During 1995, the Company used approximately \$3,200 of foreign net operating loss carryforwards for which a deferred tax asset had not been recognized in prior years due to uncertainty regarding future earnings of the subsidiaries to which the carryforwards related. As a result, the Company reversed the valuation allowance of \$1,240 recorded at June 30, 1994, in 1995.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

8. Income Taxes--Continued

Provision has not been made for United States income taxes on a portion of the undistributed earnings of the Company's foreign subsidiaries (approximately \$4,342, \$4,216, and \$4,737 at June 30, 1996, and September 30, 1996 and 1997, 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.

9. Leases

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

Year ending September 30,	
1998 .....	\$ 6,828
1999 .....	5,404
2000 .....	4,455
2001 .....	4,012
2002 .....	4,017
Thereafter .....	34,112
	-----
	\$58,828
	=====

The above lease commitments include payments under leases for the corporate headquarters facilities and other properties from partnerships in which one of the Company's former shareholders is a partner. Annual minimum rental commitments on the headquarters facility of \$2,817 are subject to an adjustment based upon changes in the Consumer Price Index. The leases on the other properties require annual lease payments of \$470 subject to annual inflationary increases. All of the leases expire during the years 1998 through 2013.

Total rental expense was \$8,189, \$8,213, \$1,995, and \$8,126, for the years ended June 30, 1995 and 1996, the Transition Period, and the year ended September 30, 1997, respectively.

10. Postretirement Pension Benefits

The Company has various defined benefit pension plans covering substantially all of its domestic employees. Plans covering salaried employees provide pension benefits that are based on the employee's average compensation for the five years which yield the highest average during the 10 consecutive years prior to retirement. Plans covering hourly employees and union members generally provide benefits of stated amounts for each year of service. The Company's policy is to fund pension costs at amounts within the acceptable ranges established by the Employee Retirement Income Security Act of 1974.

The Company also has nonqualified deferred compensation agreements with certain of its employees under which 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.

RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

10. Postretirement Pension Benefits--Continued

Net periodic pension cost for the aforementioned plans is summarized as follows:

	Years ended June 30,		Transition period ended September 30,	Year ended September 30,
	1995	1996	1996	1997
Service cost .....	\$ 1,711	\$ 1,501	\$2,149	\$ 1,705
Interest cost .....	3,390	3,513	944	3,834
Actual return on plan assets .....	(2,054)	(7,880)	(605)	(6,191)
Net amortization and deferral .....	(708)	4,994	(166)	2,763
Curtailment gain .....	--	--	--	(2,923)
Net periodic pension cost (benefit) .....	\$ 2,339	\$ 2,128	\$2,322	\$ (812)

The following tables set forth the plans' funded status:

	June 30, 1996	
	Assets exceed accumulated benefits	Accumulated benefits exceed assets
Actuarial present value of benefit obligations:		
Vested benefit obligation .....	\$ 24,927	\$ 19,138
Accumulated benefit obligation .....	25,576	19,932
Projected benefit obligation .....	\$ 31,462	\$ 19,932
Plan assets at fair value, primarily listed stocks, bonds and cash equivalents .....	32,297	9,349
Projected benefit obligation (in excess of) less than plan assets .....	835	(10,583)
Unrecognized net gain .....	(2,341)	(893)
Unrecognized net obligation (asset) .....	(211)	4,711
Additional minimum liability .....	--	(3,823)
Pension liability .....	\$ (1,717)	\$ (10,588)

	September 30, 1996	
	Assets exceed accumulated benefits	Accumulated benefits exceed assets
Actuarial present value of benefit obligations:		
Vested benefit obligation .....	\$ 25,273	\$ 19,495
Accumulated benefit obligation .....	25,930	20,305
Projected benefit obligation .....	\$ 31,910	\$ 20,305
Plan assets at fair value, primarily listed stocks, bonds and cash equivalents .....	32,341	9,364
Projected benefit obligation (in excess of) less than plan assets .....	431	(10,941)
Unrecognized net gain .....	(2,147)	(832)
Unrecognized net obligation (asset) .....	(208)	2,894
Additional minimum liability .....	--	(2,067)
Contribution .....	86	756
Pension liability .....	\$ (1,838)	\$ (10,190)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

10. Postretirement Pension Benefits--Continued

	September 30, 1997	
	Assets exceed accumulated benefits	Accumulated benefits exceed assets
Actuarial present value of benefit obligations:		
Vested benefit obligation .....	\$ 42,696	\$ 13,326
Accumulated benefit obligation .....	43,046	13,704
	=====	=====
Projected benefit obligation .....	\$ 43,046	\$ 13,704
Plan assets at fair value, primarily listed stocks, bonds and cash equivalents .....	43,212	3,098
	-----	-----
Projected benefit obligation (in excess of) less than plan assets .....	166	(10,606)
Unrecognized net loss (gain) .....	(1,194)	1
Unrecognized net asset .....	1,028	1,476
Additional minimum liability .....	--	(1,486)
	-----	-----
Pension liability .....	\$ --	\$ (10,615)
	=====	=====

Assumptions used in accounting for the aforementioned plans were:

	Years ended June 30,		Transition period ended September 30, 1996	Year ended September 30, 1997
	----- 1995 -----	----- 1996 -----	----- ----- -----	----- ----- -----
Discount rate used for funded status calculation .....	8.0%	7.5%	7.5%	7.5%
Discount rate used for net periodic pension cost calculations .....	7.5	8.0	7.5	7.5
Rate of increase in compensation levels (salaried plan only) .....	5.5	5.0	5.0	5.0
Expected long-term rate of return on assets .....	9.0	9.0	9.0	9.0

During the year ended September 30, 1997, the Company merged two of its defined benefit plans and ceased future benefit accruals. The Company recognized a \$2,923 curtailment gain, which is included in other special charges in the consolidated statement of operations. A discount rate of 6.5% was used in the accounting for the curtailed plans. The Company has recorded an additional minimum pension liability of \$3,823, \$2,067, and \$1,486 at June 30, 1996, and September 30, 1996 and 1997, respectively, to recognize the underfunded position of certain of its benefits plans. An intangible asset of \$3,582, \$1,826, and \$1,232 at June 30, 1996, and September 30, 1996 and 1997, 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 \$241 at June 30 and September 30, 1996, and \$249 at September 30, 1997, respectively, has been recorded as a reduction of shareholders' equity (deficit).

The Company sponsors a defined contribution pension plan for its domestic salaried employees which allows participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. The Company contributes annually 1% of participants' compensation, 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 the years ended June 30, 1995 and 1996, the Transition Period, and September 30, 1997, were \$1,273, \$ 1,000, \$181, and \$914, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

11. Other Postretirement Benefit Plan

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

The following sets forth the plan's funded status reconciled with amounts reported in the Company's consolidated balance sheets:

	June 30, 1996	September 30, 1996	September 30, 1997
	-----	-----	-----
Accumulated postretirement benefit obligation (APBO):			
Retirees .....	\$ 723	\$ 687	\$ 722
Fully eligible active participants .....	805	820	813
Other active participants .....	896	970	869
	-----	-----	-----
Total APBO .....	2,424	2,477	2,404
Unrecognized net loss .....	(1,269)	(1,246)	(1,008)
Unrecognized transition obligation .....	(641)	(631)	(591)
	-----	-----	-----
Accrued postretirement benefit liability .....	\$ 514	\$ 600	\$ 805
	=====	=====	=====

Net periodic postretirement benefit cost includes the following components:

	Years ended June 30,		Transition period ended September 30,	Year ended September 30,
	1995	1996	1996	1997
	-----	-----	-----	-----
Service cost .....	\$110	\$129	\$ 58	\$249
Interest .....	85	111	44	179
Net amortization and deferral .....	40	54	35	138
	-----	-----	-----	-----
Net periodic postretirement benefit cost .....	\$235	\$294	\$137	\$566
	====	====	====	====

For measurement purposes, a 9.5% annual rate of increase in the per capita costs of covered health care benefits was assumed for fiscal 1996 and 1997, 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, 1997, by \$148 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended September 30, 1997, by \$40. A discount rate of 7.5% was used to determine the accumulated postretirement benefit obligation.



RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

12. Business Segment and International Operations

Information about the Company's operations in different geographic areas is summarized follows:

	Years ended June 30,		Transition period ended	Year ended
	1995	1996	September 30, 1996	September 30, 1997
Net sales to unaffiliated customers:				
United States .....	\$ 337,888	\$ 341,967	\$ 82,329	\$ 352,468
Foreign:				
Europe .....	60,696	64,432	15,304	62,546
Other .....	16,640	16,955	4,247	17,538
Total .....	\$ 415,224	\$ 423,354	\$ 101,880	\$ 432,552
Transfers between geographic areas:				
United States .....	\$ 26,928	\$ 27,097	\$ 7,432	\$ 28,403
Foreign:				
Europe .....	1,637	730	422	1,459
Other .....	49	--	--	--
Total .....	\$ 28,614	\$ 27,827	\$ 7,854	\$ 29,862
Net sales:				
United States .....	\$ 364,816	\$ 369,065	\$ 89,760	\$ 380,872
Foreign:				
Europe .....	62,333	65,161	15,727	64,004
Other .....	16,689	16,955	4,247	17,538
Eliminations .....	(28,614)	(27,827)	(7,854)	(29,862)
Total .....	\$ 415,224	\$ 423,354	\$ 101,880	\$ 432,552
Income (loss) from operations:				
United States .....	\$ 24,335	\$ 24,759	\$ (20,983)	\$ 30,379
Foreign:				
Europe .....	5,410	5,002	(2,539)	3,759
Other .....	1,784	516	(150)	387
Total .....	\$ 31,529	\$ 30,277	\$ (23,672)	\$ 34,525
Total assets:				
United States .....	\$ 189,557	\$ 192,441	\$ 213,730	\$ 208,971
Foreign:				
Europe .....	34,345	33,719	35,065	32,137
Other .....	16,093	17,532	18,782	17,946
Eliminations .....	(19,405)	(22,564)	(23,886)	(22,173)
Total .....	\$ 220,590	\$ 221,128	\$ 243,691	\$ 236,881

13. Commitments and Contingencies

The Company has entered into agreements to purchase certain equipment and to pay annual royalties. In a December 1991 agreement, the Company committed to pay \$1,500 in January 1992 and annual royalties of \$1,500 for the first five years, beginning in 1993, plus \$500 for each year thereafter, as long as the related equipment patents are enforceable. In a March 1994 agreement, the Company committed to pay \$500 in April 1994 and annual royalties

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

## 13. Commitments and Contingencies--Continued

of \$500 for five years beginning in 1995. Additionally, the Company has committed to purchase tooling of \$957 related to this equipment, \$66 for other tooling, at an unspecified date in the future and purchase manganese ore amounting to \$120 by March 1998.

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 \$1,787, 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.

## 14. Related Party Transactions

The Company and THL Co. are parties to a Management Agreement pursuant to which the Company has engaged THL Co. to provide consulting and management advisory services for an initial period of five years through September 2001. In consideration of ongoing consulting and management advisory services, the Company will pay THL Co. an aggregate annual fee of \$360 plus expenses. Under the Management Agreement and in connection with the closing of the Recapitalization, the Company paid THL Co. and an affiliate \$3,250 during the Transition Period. The Company paid THL Co. aggregate fees of \$386 for the year ended September 30, 1997.

The Company and a shareholder of the Company (the principal shareholder prior to the Recapitalization) are parties to agreements which include a consulting arrangement and noncompetition provisions. Terms of the agreements required the shareholder to provide consulting services for an annual fee of \$200 plus expenses. The term of these agreements runs concurrent with the Management Agreement, subject to certain conditions as defined in the agreements. The Consulting Agreement was terminated August 1, 1997. The Company paid the shareholder \$175 for the year ended September 1997.

The Company has notes receivable from officers in the amount of \$500 and \$1,261 at September 30, 1996 and 1997, respectively, generally payable in five years, which bear interest at 7% to 8%. 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 (deficit). The Company has short-term notes receivable from employees of \$397 at September 30, 1997 which were used to purchase common stock of the Company, through the exercise of stock options, and are also classified as a reduction of shareholders' equity (deficit).

## 15. Other Special Charges

During the year ended September 30, 1997, the Company recorded special charges as follows: (i) \$3,900 of charges related to the exit of certain manufacturing operations at the Company's Newton Aycliffe, United Kingdom and Kinston, North Carolina facilities which include severance, outplacement service, other employee benefits and asset write-downs and (ii) \$2,000 of charges for organization restructuring in the United States relating to severance, outplacement service, and other employee benefits. These charges are partially offset by a \$2,900 gain related to the curtailment of the Company's defined benefit pension plan covering all domestic non-union employees. The Company paid \$4,000 of these costs in fiscal 1997 and \$1,900 is expected to be paid thereafter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

## 15. Other Special Charges--Continued

During the Transition Period, the Company recorded special charges as follows: (i) \$2,700 of charges related to the exit of certain manufacturing operations, (ii) \$1,700 of charges to increase net deferred compensation plan obligations to reflect curtailment of such plans; (iii) \$1,500 of charges reflecting the present value of lease payments for land which management has determined will not be used for any future productive purpose; (iv) \$6,900 in costs and asset write-downs principally related to changes in product pricing strategies adopted by management subsequent to the Recapitalization; and (v) \$3,300 of employee termination benefits and other charges. Payment for these costs was or is expected to be as follows: \$7,700 was paid prior to September 30, 1996; \$5,600 was paid in fiscal 1997; and \$2,800 is expected to be paid thereafter.

## 16. Quarterly Results (unaudited)

	Quarter Ended			
	December 30, 1995	March 30, 1996	June 30, 1996	September 30, 1996
Net sales .....	\$ 140,707	\$ 80,563	\$ 94,731	\$ 101,880
Gross profit .....	63,219	34,672	39,495	42,638
Income (loss) before extraordinary item .....	6,059	310	4,361	(19,274)
Net income (loss) .....	6,059	310	4,361	(20,921)
Basic net income (loss) per share .....	0.12	0.01	0.09	(0.48)
Diluted net income (loss) per share .....	0.12	0.01	0.09	(0.48)

	Quarter Ended			
	December 28, 1996	March 29, 1997	June 29, 1997	September 30, 1997
Net sales .....	\$ 141,922	\$ 83,633	\$ 95,466	\$ 111,531
Gross profit .....	62,903	36,510	43,249	55,321
Net income (loss) .....	2,380	(1,720)	2,652	2,874
Basic net income (loss) per share .....	0.12	(0.08)	0.13	0.14
Diluted net income (loss) per share .....	0.12	(0.08)	0.13	0.14

## 17. Consolidated Financial Statements

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

RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

17. Consolidated Financial Statements--Continued

CONDENSED CONSOLIDATING BALANCE SHEET  
SEPTEMBER 30, 1997

	Parent	Guarantor subsidiary	Nonguarantor subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents .....	\$ 633	\$ 46	\$ 454	\$ --	\$ 1,133
Receivables:					
Trade accounts receivable, net .....	61,400	--	15,190	--	76,590
Other .....	8,500	702	2,659	(8,782)	3,079
Inventories .....	45,003	--	13,722	(174)	58,551
Deferred income taxes .....	8,664	342	93	--	9,099
Prepaid expenses and other .....	5,101	--	827	--	5,928
Total current assets .....	129,301	1,090	32,945	(8,956)	154,380
Property, plant and equipment, net .....	60,860	--	4,651	--	65,511
Deferred charges and other .....	8,411	--	612	(1,310)	7,713
Debt issuance costs .....	9,277	--	--	--	9,277
Investment in subsidiaries .....	16,111	15,627	--	(31,738)	--
Total assets .....	\$223,960	\$16,717	\$38,208	\$(42,004)	\$236,881
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)					
Current liabilities:					
Current maturities of long-term debt .....	\$ 22,000	\$ --	\$ 1,880	\$ --	\$ 23,880
Accounts payable .....	50,797	150	14,847	(8,535)	57,259
Accrued liabilities:					
Wages and benefits .....	7,766	--	1,577	--	9,343
Accrued interest .....	5,594	--	19	--	5,613
Recapitalization and other special charges .....	4,235	--	377	--	4,612
Other .....	16,182	226	3,448	--	19,856
Total current liabilities .....	106,574	376	22,148	(8,535)	120,563
Long-term debt, net of current maturities .....	183,441	--	--	--	183,441
Employee benefit obligations, net of current portion .....	11,291	--	--	--	11,291
Deferred income taxes .....	554	--	181	--	735
Other .....	956	230	260	--	1,446
Total liabilities .....	302,816	606	22,589	(8,535)	317,476
Shareholders' equity (deficit):					
Common stock .....	500	--	12,072	(12,072)	500
Additional paid-in capital .....	15,974	3,525	750	(4,275)	15,974
Foreign currency translation adjustment .....	2,270	2,270	2,270	(4,540)	2,270
Notes receivable from officers/shareholders .....	(1,658)	--	--	--	(1,658)
Retained earnings .....	33,060	10,316	527	(12,582)	31,321
	50,146	16,111	15,619	(33,469)	48,407
Less stock held in trust for deferred compensation .....	(962)	--	--	--	(962)
Less treasury stock .....	(128,040)	--	--	--	(128,040)
Total shareholders' equity (deficit) .....	(78,856)	16,111	15,619	(33,469)	(80,595)
Total liabilities and shareholders' equity (deficit) .....	\$223,960	\$16,717	\$38,208	\$(42,004)	\$236,881

RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

17. Consolidated Financial Statements--Continued

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
YEAR ENDED SEPTEMBER 30, 1997

	Parent	Guarantor subsidiary	Nonguarantor subsidiaries	Eliminations	Consolidated
Net sales .....	\$380,872	\$ --	\$81,542	\$ (29,862)	\$432,552
Cost of goods sold .....	212,861	--	52,180	(30,472)	234,569
Gross profit .....	168,011	--	29,362	610	197,983
Operating expenses:					
Selling .....	104,685	--	17,370	--	122,055
General and administrative .....	26,039	(817)	5,655	1,328	32,205
Research and development .....	6,196	--	--	--	6,196
Other special charges .....	1,348	--	1,654	--	3,002
	138,268	(817)	24,679	1,328	163,458
Income from operations .....	29,743	817	4,683	(718)	34,525
Interest expense .....	24,118	--	424	--	24,542
Equity in income of subsidiary .....	(3,475)	(2,948)	--	6,423	--
Other (income) expense, net .....	(590)	6	962	--	378
Income before income taxes .....	9,690	3,759	3,297	(7,141)	9,605
Income tax expense .....	2,786	284	349	--	3,419
Net income .....	\$ 6,904	\$ 3,475	\$ 2,948	\$ (7,141)	\$ 6,186

RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

17. Consolidated Financial Statements--Continued

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
YEAR ENDED SEPTEMBER 30, 1997

	Parent	Guarantor subsidiary	Nonguarantor subsidiaries	Eliminations	Consolidated
Net cash provided (used) by operating activities . . . .	\$ 34,436	\$ (11)	\$ 1,240	\$--	\$ 35,665
Cash flows from investing activities:					
Purchases of property, plant and equipment . . . . .	(10,113)	--	(743)	--	(10,856)
Proceeds from sale of property, plant and equipment . . . . .	52	--	--	--	52
Sale (purchase) of equipment and technology . . . . .	(1,866)	--	1,866	--	--
Net cash provided (used) by investing activities . . . .	(11,927)	--	1,123	--	(10,804)
Cash flows from financing activities:					
Reduction of debt . . . . .	(123,489)	--	(11,590)	--	(135,079)
Proceeds from debt financing . . . . .	100,000	--	8,890	--	108,890
Cash overdrafts . . . . .	164	--	--	--	164
Proceeds from direct financing lease . . . . .	100	--	--	--	100
Issuance of stock . . . . .	271	--	--	--	271
Acquisition of treasury stock . . . . .	(3,343)	--	--	--	(3,343)
Exercise of stock options . . . . .	1,438	--	--	--	1,438
Payments on capital lease obligations . . . . .	--	--	(426)	--	(426)
Net cash provided (used) by financing activities . . . .	(24,859)	--	(3,126)	--	(27,985)
Effect of exchange rate changes on cash and cash equivalents . . . . .	--	--	2	--	2
Net increase (decrease) in cash and cash equivalents . . . . .	(2,350)	(11)	(761)	--	(3,122)
Cash and cash equivalents, beginning of period . . . . .	2,983	57	1,215	--	4,255
Cash and cash equivalents, end of period . . . . .	\$ 633	\$ 46	\$ 454	\$--	\$ 1,133

RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

17. Consolidated Financial Statements--Continued

CONDENSED CONSOLIDATING BALANCE SHEET  
September 30, 1996

	Parent	Guarantor subsidiary
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents .....	\$ 2,983	\$ 57
Receivables:		
Trade accounts receivable, net .....	45,614	--
Other .....	15,128	162
Inventories .....	57,615	--
Deferred income taxes .....	7,888	1,026
Prepaid expenses and other .....	3,457	--
	-----	-----
Total current assets .....	132,685	1,245
	-----	-----
Property, plant and equipment, net .....	61,495	--
Deferred charges and other .....	6,815	--
Debt issuance costs .....	12,764	--
Investment in subsidiaries .....	12,056	12,098
	-----	-----
Total assets .....	\$225,815	\$13,343
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current maturities of long-term debt .....	\$ 4,500	\$ --
Accounts payable .....	40,830	597
Accrued liabilities:		
Wages and benefits .....	4,759	--
Accrued interest .....	618	--
Recapitalization and other special charges .....	11,645	--
Other .....	10,043	484
	-----	-----
Total current liabilities .....	72,395	1,081
	-----	-----
Long-term debt, net of current maturities .....	223,990	--
Employee benefit obligations, net of current portion .....	12,138	--
Deferred income taxes .....	(64)	206
Other .....	2,061	--
	-----	-----
Total liabilities .....	310,520	1,287
	-----	-----
Shareholders' equity (deficit):		
Common stock .....	500	--
Additional paid-in capital .....	15,970	3,525
Foreign currency translation adjustment .....	1,689	1,689
Notes receivable from officers/shareholders .....	(500)	--
Retained earnings .....	26,158	6,842
	-----	-----
Total shareholders' equity (deficit) .....	43,817	12,056
Less treasury stock, at cost .....	(128,522)	--
	-----	-----
Total shareholders' equity (deficit) .....	(84,705)	12,056
	-----	-----
Total liabilities and shareholders' equity (deficit) .....	\$225,815	\$13,343
	=====	=====

	Nonguarantor subsidiaries	Eliminations	Combined consolidated
	-----	-----	-----
ASSETS			
Current assets:			
Cash and cash equivalents .....	\$ 1,215	\$ --	\$ 4,255
Receivables:			
Trade accounts receivable, net .....	16,706	--	62,320
Other .....	95	(11,229)	4,156
Inventories .....	13,303	(797)	70,121
Deferred income taxes .....	244	--	9,158
Prepaid expenses and other .....	1,407	--	4,864
	-----	-----	-----
Total current assets .....	32,970	(12,026)	154,874
	-----	-----	-----
Property, plant and equipment, net .....	7,145	--	68,640
Deferred charges and other .....	598	--	7,413
Debt issuance costs .....	--	--	12,764
Investment in subsidiaries .....	--	(24,154)	--
	-----	-----	-----

Total assets .....	\$ 40,713	\$ (36,180)	\$243,691
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Current maturities of long-term debt .....	\$ 4,318	\$ --	\$ 8,818
Accounts payable .....	16,505	(11,011)	46,921
Accrued liabilities:			
Wages and benefits .....	1,135	--	5,894
Accrued interest .....	13	--	631
Recapitalization and other special charges .....	3,297	--	14,942
Other .....	2,492	--	13,019
	-----	-----	-----
Total current liabilities .....	27,760	(11,011)	90,225
	-----	-----	-----
Long-term debt, net of current maturities .....	855	--	224,845
Employee benefit obligations, net of current portion .....	--	--	12,138
Deferred income taxes .....	--	--	142
Other .....	--	--	2,061
	-----	-----	-----
Total liabilities .....	28,615	(11,011)	329,411
Shareholders' equity (deficit):			
Common stock .....	12,072	(12,072)	500
Additional paid-in capital .....	750	(4,275)	15,970
Foreign currency translation adjustment .....	1,689	(3,378)	1,689
Notes receivable from officers/shareholders .....	--	--	(500)
Retained earnings .....	(2,413)	(5,444)	25,143
	-----	-----	-----
	12,098	(25,169)	42,802
Less treasury stock, at cost .....	--	--	(128,522)
	-----	-----	-----
Total shareholders' equity (deficit) .....	12,098	(25,169)	(85,720)
	-----	-----	-----
Total liabilities and shareholders' equity (deficit) .....	\$ 40,713	\$ (36,180)	\$243,691
	=====	=====	=====



RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

17. Consolidated Financial Statements--Continued

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
Transition period ended September 30, 1996

	Parent	Guarantor subsidiary	Nonguarantor subsidiaries	Eliminations	Combined consolidated
Net sales .....	\$ 89,760	\$ --	\$ 19,974	\$ (7,854)	\$ 101,880
Cost of goods sold .....	53,480	--	13,470	(7,708)	59,242
Gross profit .....	36,280	--	6,504	(146)	42,638
Operating expenses:					
Selling .....	23,539	--	4,257	--	27,796
General and administrative .....	6,508	2	2,109	9	8,628
Research and development .....	1,495	--	--	--	1,495
Recapitalization charges .....	12,326	--	--	--	12,326
Other special charges .....	12,768	-	3,297	--	16,065
	56,636	2	9,663	9	66,310
Loss from operations .....	(20,356)	(2)	(3,159)	(155)	(23,672)
Interest expense .....	4,320	--	110	--	4,430
Equity in loss of subsidiary .....	2,508	2,611	--	(5,119)	--
Other (income) expense, net .....	(170)	(162)	408	--	76
Loss before income taxes and extraordinary item .....	(27,014)	(2,451)	(3,677)	4,964	(28,178)
Income tax (benefit) expense .....	(7,895)	57	(1,066)	--	(8,904)
Loss before extraordinary item .....	(19,119)	(2,508)	(2,611)	4,964	(19,274)
Extraordinary item, loss on early extinguishment of debt, net of income tax benefit of \$777.....	(1,647)	--	--	--	(1,647)
Net loss .....	\$ (20,766)	\$(2,508)	\$ (2,611)	\$ 4,964	\$ (20,921)

RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

17. Consolidated Financial Statements--Continued

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
Transition period ended September 30, 1996

	Parent	Guarantor subsidiary	Nonguarantor subsidiaries	Eliminations	Combined consolidated
Net cash provided (used) by operating activities .....	\$ (2,078)	\$16	\$ 932	\$--	\$ (1,130)
Cash flows from investing activities: .....					
Purchases of property, plant and equipment .....	(912)	--	(336)	--	(1,248)
Proceeds from sale of property, plant and equipment .....	1,281	--	--	--	1,281
Net cash provided (used) by investing activities .....	369	--	(336)	--	33
Cash flows from financing activities:					
Reduction of debt .....	(104,138)	--	(2,952)	--	(107,090)
Proceeds from debt financing .....	256,500	--	2,989	--	259,489
Cash overdraft .....	(2,493)	--	--	--	(2,493)
Debt issuance costs .....	(14,373)	--	--	--	(14,373)
Extinguishment of debt .....	(2,424)	--	--	--	(2,424)
Distributions from DISC .....	(1,943)	--	--	--	(1,943)
Acquisition of treasury stock .....	(127,925)	--	--	--	(127,925)
Payments on capital lease obligation .....	--	--	(84)	--	(84)
Net cash provided (used) by financing activities .....	3,204	--	(47)	--	3,157
Effect of exchange rate changes on cash and cash equivalents .....	--	--	5	--	5
Net increase (decrease) in cash and cash equivalents .....	1,495	16	554	--	2,065
Cash and cash equivalents, beginning of period .....	1,488	41	661	--	2,190
Cash and cash equivalents, end of period .....	\$ 2,983	\$57	\$ 1,215	\$--	\$ 4,255

RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

17. Consolidated Financial Statements--Continued

CONDENSED CONSOLIDATING BALANCE SHEET  
June 30, 1996

	Parent	Guarantor subsidiary	
	-----	-----	
ASSETS			
Current assets:			
Cash and cash equivalents .....	\$ 1,488	\$ 41	
Receivables:			
Trade accounts receivable, net .....	40,138	--	
Other .....	11,434	318	
Inventories .....	54,486	--	
Deferred income taxes .....	5,439	179	
Prepaid expenses and other .....	3,415	--	
	-----	-----	
Total current assets .....	116,400	538	
Property, plant and equipment, net .....	65,747	--	
Deferred charges and other .....	9,047	--	
Debt issuance costs .....	173	--	
Investment in subsidiaries .....	14,524	14,670	
	-----	-----	
Total assets .....	\$205,891	\$15,208	
	=====	=====	
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Current maturities of long-term debt .....	\$ 7,350	\$ --	
Accounts payable .....	32,906	492	
Accrued liabilities:			
Wages and benefits .....	5,077	--	
Accrued interest .....	1,850	--	
Other .....	12,768	(14)	
	-----	-----	
Total current liabilities .....	59,951	478	
Long-term debt, net of current maturities .....	68,777	--	
Employee benefit obligations, net of current portion .....	12,141	--	
Deferred income taxes .....	2,378	206	
Other .....	162	--	
	-----	-----	
Total liabilities .....	143,409	684	
Shareholders' equity (deficit):			
Common stock .....	500	--	
Rayovac International Corporation common stock .....	5	--	
Additional paid-in capital .....	12,000	3,525	
Foreign currency translation adjustment .....	1,650	1,650	
Retained earnings .....	48,860	9,349	
	-----	-----	
	63,015	14,524	
Less treasury stock, at cost .....	(533)	--	
Total shareholders' equity (deficit) .....	62,482	14,524	
	-----	-----	
Total liabilities and shareholders' equity (deficit) .....	\$205,891	\$15,208	
	=====	=====	
	-----	-----	
	Nonguarantor subsidiaries	Eliminations	Combined consolidated
	-----	-----	-----
ASSETS			
Current assets:			
Cash and cash equivalents .....	\$ 661	\$ --	\$ 2,190
Receivables:			
Trade accounts receivable, net .....	15,692	--	55,830
Other .....	780	(10,210)	2,322
Inventories .....	12,951	(496)	66,941
Deferred income taxes .....	243	--	5,861
Prepaid expenses and other .....	1,560	--	4,975
	-----	-----	-----
Total current assets .....	31,887	(10,706)	138,119
Property, plant and equipment, net .....	7,434	--	73,181
Deferred charges and other .....	608	--	9,655
Debt issuance costs .....	--	--	173
Investment in subsidiaries .....	--	(29,194)	--
	-----	-----	-----
Total assets .....	\$39,929	\$ (39,900)	\$221,128
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			

Current maturities of long-term debt .....	\$ 4,281	\$ --	\$ 11,631
Accounts payable .....	15,145	(9,848)	38,695
Accrued liabilities:			
Wages and benefits .....	1,049	--	6,126
Accrued interest .....	40	--	1,890
Other .....	3,803	--	16,557
	-----	-----	-----
Total current liabilities .....	24,318	(9,848)	74,899
	-----	-----	-----
Long-term debt, net of current maturities .....	941	--	69,718
Employee benefit obligations, net of current portion .....	--	--	12,141
Deferred income taxes .....	--	--	2,584
Other .....	--	--	162
	-----	-----	-----
Total liabilities .....	25,259	(9,848)	159,504
	-----	-----	-----
Shareholders' equity (deficit):			
Common stock .....	12,072	(12,072)	500
Rayovac International Corporation common stock .....	--	--	5
Additional paid-in capital .....	750	(4,275)	12,000
Foreign currency translation adjustment .....	1,650	(3,300)	1,650
Retained earnings .....	198	(10,405)	48,002
	-----	-----	-----
Less treasury stock, at cost .....	14,670	(30,052)	62,157
Total shareholders' equity (deficit) .....	--	--	(533)
	-----	-----	-----
Total shareholders' equity (deficit) .....	14,670	(30,052)	61,624
	-----	-----	-----
Total liabilities and shareholders' equity (deficit) .....	\$39,929	\$ (39,900)	\$221,128
	=====	=====	=====

RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

17. Consolidated Financial Statements--Continued

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
Year ended June 30, 1996

	Parent	Guarantor subsidiary	Nonguarantor subsidiaries	Eliminations	Combined consolidated
Net sales .....	\$369,065	\$ --	\$82,116	\$ (27,827)	\$423,354
Cost of goods sold .....	213,349	--	53,846	(27,852)	239,343
Gross profit .....	155,716	--	28,270	25	184,011
Operating expenses:					
Selling .....	99,486	--	17,039	--	116,525
General and administrative .....	25,967	12	5,775	13	31,767
Research and development .....	5,442	--	--	--	5,442
	130,895	12	22,814	13	153,734
Income (loss) from operations .....	24,821	(12)	5,456	12	30,277
Interest expense .....	7,731	--	704	--	8,435
Equity in income of subsidiary .....	(2,507)	(2,167)	--	4,674	--
Other (income) expense, net .....	(51)	(570)	1,173	--	552
Income before income taxes .....	19,648	2,725	3,579	(4,662)	21,290
Income tax expense .....	5,372	218	1,412	--	7,002
Net income .....	\$ 14,276	\$ 2,507	\$ 2,167	\$ (4,662)	\$ 14,288

RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

17. Consolidated Financial Statements--Continued

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
Year ended June 30, 1996

	Parent	Guarantor subsidiary	Nonguarantor subsidiaries	Eliminations	Combined consolidated
Net cash provided (used) by operating activities .....	\$ 14,449	\$ (292)	\$ 3,688	\$--	\$ 17,845
Cash flows from investing activities:					
Purchases of property, plant and equipment .....	(6,558)	--	(88)	--	(6,646)
Proceeds from sale of property, plant and equipment .....	298	--	--	--	298
Net cash provided (used) by investing activities .....	(6,260)	--	(88)	--	(6,348)
Cash flows from financing activities:					
Reduction of debt .....	(97,627)	--	(6,899)	--	(104,526)
Proceeds from debt financing .....	93,600	--	2,652	--	96,252
Cash overdraft .....	2,339	--	--	--	2,339
Distributions from DISC .....	(5,187)	--	--	--	(5,187)
Intercompany dividends .....	--	130	(130)	--	--
Acquisition of treasury stock .....	(533)	--	--	--	(533)
Payments on capital lease obligation .....	--	--	(295)	--	(295)
Net cash provided (used) by financing activities .....	(7,408)	130	(4,672)	--	(11,950)
Effect of exchange rate changes on cash and cash equivalents .....	--	--	(2)	--	(2)
Net increase (decrease) in cash and cash equivalents .....	781	(162)	(1,074)	--	(455)
Cash and cash equivalents, beginning of period .....	707	203	1,735	--	2,645
Cash and cash equivalents, end of period .....	\$ 1,488	\$ 41	\$ 661	\$--	\$ 2,190

RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

17. Consolidated Financial Statements--Continued

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
Year ended June 30, 1995

	Parent	Guarantor subsidiary	Nonguarantor subsidiaries	Eliminations	Combined consolidated
Net sales .....	\$364,816	\$ --	\$79,022	\$ (28,614)	\$415,224
Cost of goods sold .....	214,119	--	51,781	(28,774)	237,126
Gross profit .....	150,697	--	27,241	160	178,098
Operating expenses:					
Selling .....	93,935	--	14,768	--	108,703
General and administrative .....	27,556	(651)	5,872	84	32,861
Research and development .....	5,005	--	--	--	5,005
	126,496	(651)	20,640	84	146,569
Income from operations .....	24,201	651	6,601	76	31,529
Interest expense .....	7,889	--	755	--	8,644
Equity in income of subsidiary .....	(5,520)	(4,928)	--	10,448	--
Other (income) expense, net .....	(116)	(319)	665	--	230
Income before income taxes.....	21,948	5,898	5,181	(10,372)	22,655
Income tax expense .....	5,616	378	253	--	6,247
Net income .....	\$16,332	\$ 5,520	\$ 4,928	\$ (10,372)	\$ 16,408

RAYOVAC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(In thousands, except per share amounts)

17. Consolidated Financial Statements--Continued

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
Year ended June 30, 1995

	Parent	Guarantor subsidiary	Nonguarantor subsidiaries	Eliminations	Combined consolidated
Net cash provided (used) by operating activities .....	\$ 32,394	\$ (3,823)	\$ 3,737	\$ 3,211	\$ 35,519
Cash flows from investing activities:					
Purchases of property, plant and equipment .....	(14,288)	--	(2,650)	--	(16,938)
Proceeds from sale of property, plant and equipment .....	139	--	--	--	139
Net cash (used) by investing activities .....	(14,149)	--	(2,650)	--	(16,799)
Cash flows from financing activities:					
Reduction of debt .....	(100,536)	--	(5,847)	--	(106,383)
Proceeds from debt financing .....	79,749	--	5,223	726	85,698
Cash overdraft .....	3,925	--	--	--	3,925
Distributions from DISC .....	(1,500)	--	--	--	(1,500)
Intercompany dividends .....	--	3,899	(3,899)	--	--
Net cash provided (used) by financing activities .....	(18,362)	3,899	(4,523)	726	(18,260)
Effect of exchange rate changes on cash and cash equivalents .....	--	--	3,592	(3,937)	(345)
Net increase (decrease) in cash and cash equivalents .....	(117)	76	156	--	115
Cash and cash equivalents, beginning of period .....	824	127	1,579	--	2,530
Cash and cash equivalents, end of period .....	\$ 707	\$ 203	\$ 1,735	\$ --	\$ 2,645



[INSIDE BACK COVER]

[Picture of Rayovac Store Display for Remote Keyless Entry System Batteries on Gray Background]

[Picture of Five Rayovac Photo/Electronic and Keyless Entry Battery Packs on White and Blue Background]

[Picture of a Rayovac Alkaline Computer Battery on Black Background]

[Picture of Rayovac Battery Products and Flashlights on Gray Background]

[Picture of Rayovac Loud'n Clear Premium Zinc Air Hearing Aid Battery Pack on Light Gray Background]

[Picture of Five Packs of Rayovac Pro Line Premium Zinc Air Hearing Aid Battery Packs on Gray Background]

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No dealer, salesperson or other individual has been authorized to give any information or to make any representations not contained in this Prospectus in connection with the offerings covered by this Prospectus. If given or made, such information or representations must not be relied upon as having been authorized by the Selling Shareholders, the Company or the Underwriters. This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy the Common Stock in any jurisdiction where, or to any person to whom, it is unlawful to make such offer or solicitation. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has not been any change in the facts set forth in this Prospectus or in the affairs of the Company since the date hereof.

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6,500,000 Shares

RAYOVAC(R)

Common Stock

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P R O S P E C T U S  
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Merrill Lynch & Co.

Bear, Stearns & Co. Inc.

Donaldson, Lufkin & Jenrette  
Securities Corporation

Salomon Smith Barney

, 1998  
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SUBJECT TO COMPLETION  
PRELIMINARY PROSPECTUS DATED APRIL 2, 1998

[RED HERRING]

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

[/RED HERRING]

PROSPECTUS

6,500,000 Shares

RAYOVAC(R)

Common Stock

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All of the 6,500,000 shares of Common Stock of Rayovac Corporation ("Rayovac" or the "Company") offered hereby are being sold by certain shareholders (the "Selling Shareholders") of the Company. See "Principal and Selling Shareholders." The Company is not selling any shares of Common Stock in this Offering and will not receive any of the proceeds from the sale of shares of Common Stock offered hereby.

Of the 6,500,000 shares of Common Stock offered hereby, 1,300,000 shares are being offered for sale initially outside the United States and Canada by the International Managers and 5,200,000 shares are being offered for sale initially in a concurrent offering in the United States and Canada by the U.S. Underwriters. The initial public offering price and the aggregate underwriting discount per share will be identical for both Offerings. See "Underwriting."

The Common Stock is listed on the New York Stock Exchange under the symbol "ROV." On March 31, 1998, the last sale price of the Common Stock as reported on the New York Stock Exchange was \$23-9/16 per share. See "Price Range of Common Stock and Dividend Policy."

See "Risk Factors" beginning on page 11 for a discussion of certain factors that should be considered by prospective purchasers of the Common Stock offered hereby.

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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discount (1)	Proceeds to Selling Shareholders (2)
Per Share .....	\$	\$	\$
Total (3) .....	\$	\$	\$

- (1) The Company and the Selling Shareholders have agreed to indemnify the several Underwriters against certain liabilities, including certain liabilities under the Securities Act of 1933, as amended. See "Underwriting."
- (2) Before deducting expenses payable by the Company estimated at \$800,000.
- (3) The Selling Shareholders have granted the International Managers and the U.S. Underwriters options to purchase up to an additional 195,000 shares and 780,000 shares of Common Stock, respectively, in each case exercisable within 30 days after the date hereof, solely to cover over-allotments, if any. If such options are exercised in full, the total Price to Public, Underwriting Discount and Proceeds to the Selling Shareholders will be \$ , \$ and \$ , respectively. See "Underwriting."

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The shares of Common Stock are offered by the several Underwriters, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of certain legal matters by counsel for the Underwriters and certain other conditions. The Underwriters reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that delivery of the shares of Common Stock will be made in New York, New York on or about , 1998.

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Bear, Stearns International Limited

Donaldson, Lufkin & Jenrette  
Securities Corporation

Salomon Smith Barney

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The date of this Prospectus is      , 1998.

UNDERWRITING

Merrill Lynch International, Bear, Stearns International Limited, Donaldson, Lufkin & Jenrette Securities Corporation and Smith Barney Inc. are acting as lead managers (the "Lead Managers") for each of the International Managers named below (the "International Managers"). Subject to the terms and conditions set forth in an international purchase agreement (the "International Purchase Agreement") among the Company, the Selling Shareholders and the International Managers and concurrently with the sale of 5,200,000 shares of Common Stock to the U.S. Underwriters (as defined below), the Company has agreed to sell to the International Managers, and each of the International Managers severally and not jointly has agreed to purchase from the Company, the number of shares of Common Stock set forth opposite its name below.

International Manager	Number of Shares
-----	
Merrill Lynch International .....	
Bear, Stearns International Limited .....	
Donaldson, Lufkin & Jenrette Securities Corporation .....	
Smith Barney Inc. ....	
 Total .....	 1,300,000 =====

The Company has also entered into a U.S. purchase agreement (the "U.S. Purchase Agreement") with certain underwriters in the United States and Canada (the "U.S. Underwriters" and, together with the International Managers, the "Underwriters"), for whom Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), Bear, Stearns & Co. Inc., Donaldson, Lufkin & Jenrette Securities Corporation and Smith Barney Inc. are acting as representatives (the "U.S. Representatives"). Subject to the terms and conditions set forth in the U.S. Purchase Agreement, and concurrently with the sale of 1,300,000 shares of Common Stock to the International Managers pursuant to the International Purchase Agreement, the Selling Shareholders have agreed to sell to the U.S. Underwriters, and the U.S. Underwriters severally and not jointly have agreed to purchase from the Company, an aggregate of 5,300,000 shares of Common Stock. The initial public offering price per share of Common Stock and the underwriting discount per share of Common Stock will be identical under the International Purchase Agreement and the U.S. Purchase Agreement.

In the International Purchase Agreement and the U.S. Purchase Agreement, the several International Managers and the several U.S. Underwriters, respectively, have agreed, subject to the terms and conditions set forth therein, to purchase all of the shares of Common Stock being sold pursuant to each such agreement if any of the shares of Common Stock being sold pursuant to such agreement are purchased. Under certain circumstances, under the International Purchase Agreement and the U.S. Purchase Agreement, the commitments of non-defaulting Underwriters may be increased. The closings with respect to the sale of shares of Common Stock to be purchased by the International Managers and the U.S. Underwriters are conditioned upon one another.

The Lead Managers have advised the Company that the International Managers propose initially to offer the shares of Common Stock to the public at the initial public offering price set forth on the cover page of this Prospectus, and to certain dealers at such price less a concession not in excess of \$ . per share of Common Stock. The International Managers, may allow, and such dealers may reallow, a discount not in excess of \$ . per share of Common Stock on sales to certain other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

The Selling Shareholders have granted options to the International Managers, exercisable within 30 days after the date of this Prospectus, to purchase up to 195,000 additional shares of Common Stock at the initial public offering price set forth on the cover page of this Prospectus, less the underwriting discount. The International Managers may exercise these options solely to cover over-allotments, if any, made on the sale of the Common Stock offered hereby. To the extent that the International Managers exercise these options, each International Manager will be obligated, subject to certain conditions, to purchase a number of additional shares of Common Stock proportionate to such International Manager's initial amount reflected in the foregoing table. The Selling Shareholders also have granted options to the U.S. Underwriters, exercisable within 30 days after the date of this Prospectus, to purchase

up to aggregate of 780,000 additional shares of Common Stock to cover over-allotments, if any, on terms similar to those granted to the International Managers.

The Company, the Selling Shareholders, the Company's executive officers and directors, the THL Group and certain other shareholders have agreed, subject to certain exceptions, not to directly or indirectly (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of or otherwise dispose of or transfer any shares of Common Stock or securities convertible into or exchangeable or exercisable for Common Stock, whether now owned or thereafter acquired by the person executing the agreement or with respect to which the person executing the agreement thereafter acquires the power of disposition, or file a registration statement under the Securities Act with respect to the foregoing or (ii) enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of the Common Stock whether any such swap or transaction is to be settled by delivery of Common Stock or other securities, in cash or otherwise, without the prior written consent of Merrill Lynch on behalf of the Underwriters, for a period of 90 days after the date of this Prospectus. See "Shares Eligible for Future Sale."

The THL Group, the beneficial owner of more than 10% of the Company's outstanding Common Stock, may be deemed to be an affiliate of Sutro & Co. Incorporated and Tucker Anthony Incorporated, members of the NASD, which may participate in the U.S. Offering and the International Offering. Accordingly, the International Offering and the U.S. Offering will be conducted in accordance with NASD Conduct Rule 2720.

The International Managers and the U.S. Underwriters have entered into an intersyndicate agreement (the "Intersyndicate Agreement") that provides for the coordination of their activities. Pursuant to the Intersyndicate Agreement, the International Managers and the U.S. Underwriters are permitted to sell shares of Common Stock to each other for purposes of resale at the initial public offering price, less an amount not greater than the selling concession. Under the terms of the Intersyndicate Agreement, the U.S. Underwriters and any dealer to whom they sell shares of Common Stock will not offer to sell or sell shares of Common Stock to persons who are non-U.S. or non-Canadian persons or to persons they believe intend to resell to persons who are non-U.S. or non-Canadian persons, and the International Managers and any dealer to whom they sell shares of Common Stock will not offer to sell or sell shares of Common Stock to U.S. persons or to Canadian persons or to persons they believe intend to resell to U.S. persons or Canadian persons, except in the case of transactions pursuant to the Intersyndicate Agreement.

The Common Stock is listed on the New York Stock Exchange under the symbol "ROV."

The International Managers and the U.S. Underwriters have informed the Company that they do not intend to confirm sales of the Common Stock offered hereby to any accounts over which they exercise discretionary authority.

The Company and the Selling Shareholders have agreed to indemnify the International Managers and the U.S. Underwriters against certain liabilities, including liabilities under the Securities Act or to contribute to payments which the International Managers and U.S. Underwriters may be required to make in respect thereof.

Until the distribution of the Common Stock is completed, rules of the Securities and Exchange Commission (the "Commission") may limit the ability of the Underwriters and certain selling group members to bid for and purchase the Common Stock. As an exception to these rules, the U.S. Representatives are permitted to engage in certain transactions that stabilize the price of the Common Stock. Such transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Common Stock.

If the Underwriters create a short position in the Common Stock in connection with the Offerings, i.e., if they sell more shares of Common Stock than are set forth on the cover page of this Prospectus, the U.S. Representatives may reduce that short position by purchasing Common Stock in the open market. The U.S. Representatives may also elect to reduce any short position by exercising all or part of the over-allotment option described above.

In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might have been in the absence of such purchases.

None of the Company, the Selling Shareholders or any of the Underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Common Stock. In addition, none of the Company, the Selling Shareholders or any of the Underwriters makes any representation that the U.S. Representatives will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

Each International Manager has agreed that (i) it has not offered or sold, and, for a period of six months from the Closing Date, will not offer or sell, to persons in the United Kingdom, other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) it has complied with and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the shares of Common Stock in, from or otherwise involving the United Kingdom; and (iii) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of shares of Common Stock to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996, or is a person to whom such document may otherwise lawfully be issued or passed on.

No action has been or will be taken in any jurisdiction (except in the United States) that would permit a public offering of the shares of Common Stock, or the possession, circulation or distribution of this Prospectus or any other material relating to the Company or shares of Common Stock in any jurisdiction where action for that purpose is required. Accordingly, the shares of Common Stock may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisements in connection with the shares of Common Stock may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction.

Purchasers of the shares offered hereby may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price set forth on the cover page hereof.

Donaldson, Lufkin & Jenrette Securities Corporation and its affiliate, DLJ Capital Funding, Inc., have provided from time to time, and may provide in the future, commercial and investment banking services to the Company and its affiliates, including in connection with the Credit Agreement between the Company, BA Securities, Inc., Donaldson, Lufkin & Jenrette Securities Corporation and its affiliate DLJ Capital Funding, Inc. as arrangers for a group of financial institutions and accredited investors which provided the Company with senior bank facilities in an aggregate amount of \$170 million.

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No dealer, salesperson or other individual has been authorized to give any information or to make any representations not contained in this Prospectus in connection with the offering covered by this Prospectus. If given or made, such information or representations must not be relied upon as having been authorized by the Company or the Underwriters. This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy the Common Stock in any jurisdiction where, or to any person to whom, it is unlawful to make such offer or solicitation. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has not been any change in the facts set forth in this Prospectus or in the affairs of the Company since the date hereof.

In the Prospectus, references to "dollars" and "\$" are to United States dollars.

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6,500,000 Shares

RAYOVAC(R)

Common Stock

-----  
P R O S P E C T U S  
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Merrill Lynch International

Bear, Stearns International Limited

Donaldson, Lufkin & Jenrette  
Securities Corporation

Salomon Smith Barney

, 1998

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Part II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution.

Set forth below is an estimate (other than the Commission Registration Fee and the National Association of Securities Dealers, Inc. (the "NASD") Filing Fee) of the fees and expenses all of which are payable by the Registrant, in connection with the registration and sale of the securities being registered:

Commission Registration Fee .....	51,005
NASD Filing Fee .....	17,790
Transfer Agent and Registrar Fees and Expenses .....	1,000
Blue Sky Fees and Expenses .....	15,000
Legal Fees and Expenses .....	300,000
Accounting Fees and Expenses .....	100,000
Printing, Engraving and Mailing Expenses .....	225,000
Miscellaneous .....	90,205
	-----
Total .....	\$800,000
	=====

Item 15. Indemnification of Directors and Officers.

Pursuant to the Wisconsin Business Corporation Law (the "WBCL") and the Registrant's By-Laws, directors and officers of the Registrant are entitled to mandatory indemnification from the Registrant against certain liabilities and expenses (i) to the extent such directors or officers are successful in the defense of a proceeding and (ii) in proceedings in which the director or officer is not successful in the defense thereof, unless (in the latter case only) it is determined that the director or officer breached or failed to perform his duties to the Registrant and such breach or failure constituted (a) a willful failure to deal fairly with the Registrant or its shareholders in connection with a matter in which the director or officer had a material conflict of interest; (b) a violation of the criminal law, unless the director or officer had reasonable cause to believe that his or her conduct was lawful or had no reasonable cause to believe that his or her conduct was unlawful; (c) a transaction from which the director or officer derived an improper personal profit; or (d) willful misconduct. The WBCL also provides that, subject to certain limitations, the mandatory indemnification provisions do not preclude any additional right to indemnification or allowance of expenses that a director or officer may have under the Registrant's articles of incorporation, by-laws, a written agreement or a resolution of the Board of Directors or shareholders. Further, the WBCL specifically states that it is the public policy of Wisconsin to require or permit indemnification in connection with a proceeding involving securities regulation, as described therein, to the extent required or permitted as described above. Additionally, under the WBCL, directors of the Registrant are not subject to personal liability to the Registrant, its shareholders or any person asserting rights on behalf thereof for certain breaches of or failures to perform any duty resulting solely from their status as directors, except in circumstances paralleling those in subparagraphs (a) through (d) outlined above.

Expenses for the defense of any action for which indemnification may be available may be advanced by the Registrant under certain circumstances.

The general effect of the foregoing provisions may be to reduce the circumstances which an officer or director may be required to bear the economic burden of the foregoing liabilities and expense.

The Registrant has purchased directors' and officers' liability insurance which would indemnify the directors and officers of the Registrant against damages arising out of certain kinds of claims which might be made against them based on their negligent acts or omissions while acting in their capacity as such.

Section 6 of the Purchase Agreement between the Registrant, the U.S. Underwriters and the Selling Shareholders and Section 6 of the Purchase Agreement between the Registrant, the International Managers and the Selling Shareholders each provide for indemnification by the Registrant of the U.S. Underwriters, the International Managers and each person, if any, who controls any U.S. Underwriter or International Manager, against certain liabilities under the Securities Act of 1933, as amended (the "Securities Act"). The Underwriting Agreements

also provide that the U.S. Underwriters and the International Managers shall similarly indemnify the Registrant, its directors, officers, and controlling persons, as set forth therein.]

Item 16. Exhibits and Financial Statement Schedules  
(a) Exhibits:

Exhibit Number	Description
1.1+	Form of Purchase Agreement by and among the Company, the Selling Shareholders and the U.S. Underwriters.
1.2+	Form of Purchase Agreement by and among the Company, the Selling Shareholders and the International Managers.
4.1*	Indenture, dated as of October 22, 1996, by and among the Company, ROV Holding, Inc. and Marine Midland Bank, as trustee, relating to the Company's 103% Senior Subordinated Notes due 2006.
4.2*	Specimen of the Notes (included as an exhibit to Exhibit 4.1).
4.3	Amended and Restated Credit Agreement, dated as of December 30, 1997, among Rayovac Corporation, the lenders party thereto and BofA, as Administrative Agent.
4.4*	Security Agreement, dated as of September 12, 1996, by and among the Company, ROV Holding, Inc. and BofA.
4.5*	Company Pledge Agreement, dated as of September 12, 1996, by and between the Company and BofA.
4.6**	Shareholders Agreement, dated as of September 12, 1996, by and among the Company and the shareholders of the Company referred to therein.
4.7**	Amendment to Rayovac Shareholders Agreement, dated August 1, 1997, by and among the Company and the shareholders of the Company referred to therein.
4.8***	Specimen certificate representing the Common Stock.
5.1 +	Opinion re: legality.
23.1 +	Consent of DeWitt Ross & Stevens s.c. (included in Exhibit 5.1).
23.2	Consent of KPMG Peat Marwick LLP.
23.3	Consent of Coopers & Lybrand L.L.P.
24	Power of Attorney (set forth on the signature page of this Registration Statement).
27.1	Restated Financial Data Schedule for the fiscal years ended June 30, 1993, 1994, 1995 and 1996 and September 30, 1997.
27.2	Restated Financial Data Schedule for the three months ended December 27, 1997.
27.3	Restated Financial Data Schedule for the transition period ended September 30, 1996.

\* 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-1 (Registration No. 333-35181) filed with the Commission.

+ To be filed by Amendment.

Item 17. Undertakings

The Registrant hereby undertakes to deliver or cause to be delivered with the prospectus, to each person to whom the prospectus is sent or given, the latest annual report to security holders that is incorporated by reference in the prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Securities Exchange Act of 1934; and, where interim financial information required to be presented by Article 3 of Regulation S-X is not set forth in the prospectus, to deliver, or cause to be delivered to each person to whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial information.

The Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in this Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to its Restated Articles of Incorporation, By-laws, by agreement or otherwise, the Registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The Registrant hereby undertakes that:

- (1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance on Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or Rule 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective; and
- (2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act, the Company certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Madison, Wisconsin on April 2, 1998.

RAYOVAC CORPORATION

By: /s/ David A. Jones

-----  
 Name: David A. Jones  
 Title: Chairman of the Board,  
 Chief Executive Officer and  
 President

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints David A. Jones, Kent J. Hussey and James A. Broderick and each of them, as such person's true and lawful attorney-in-fact and agent with full power of substitution and revocation for such person and in such person's name, place and stead, in any and all capacities, to execute any and all amendments to this Registration Statement and any subsequent Registration Statement for the same offering which may be filed under Rule 462(b), and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as such person might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities indicated on April 2, 1998.

Signature	Title
-----	-----
/s/ David A. Jones ----- David A. Jones	Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)
/s/ Kent J. Hussey ----- Kent J. Hussey	Executive Vice President of Finance and Administration, Chief Financial Officer and Director (Principal Financial and Accounting Officer)
/s/ Robert F. Warren ----- Robert F. Warren	President/International and Contract MicroPower and Director
/s/ Trygve Lonnebotn ----- Trygve Lonnebotn	Executive Vice President of Operations and Director
/s/ Scott A. Schoen ----- Scott A. Schoen	Director
/s/ Thomas R. Shepherd ----- Thomas R. Shepherd	Director
/s/ Warren C. Smith, Jr. ----- Warren C. Smith, Jr.	Director

=====

AMENDED AND RESTATED  
CREDIT AGREEMENT

Dated as of December 30, 1997

among

RAYOVAC CORPORATION,  
VARIOUS FINANCIAL INSTITUTIONS

and

BANK OF AMERICA  
NATIONAL TRUST AND SAVINGS ASSOCIATION,  
as Administrative Agent

Arranged by

BANCAMERICA ROBERTSON STEPHENS

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## EXHIBITS

Exhibit A	Form of Notice of Borrowing
Exhibit B	Form of Notice of Conversion/Continuation
Exhibit C	Form of Compliance Certificate
Exhibit D	Form of Promissory Note
Exhibit E	Copy of Security Agreement
Exhibit F	Copy of Guaranty
Exhibit G	Copy of Company Pledge Agreement
Exhibit H-1	Copy of Subsidiary Pledge Agreement (U.K.)
Exhibit H-2	Copy of Subsidiary Pledge Agreement (Canada)
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Exhibit H-4	Copy of Subsidiary Pledge Agreement (Netherlands)
Exhibit I	Form of Confirmation and Omnibus Amendment
Exhibit J	Form of Opinion of General Counsel to the Company
Exhibit K	Form of Opinion of Special Counsel to the Administrative Agent
Exhibit L	Form of Assignment and Acceptance
Exhibit M	Form of Lender Certificate

AMENDED AND RESTATED CREDIT AGREEMENT

This AMENDED AND RESTATED CREDIT AGREEMENT dated as of December 30, 1997, is among RAYOVAC CORPORATION (the "Company"), various financial institutions, and BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, as administrative agent for the Lenders.

WHEREAS, pursuant to the Credit Agreement dated as of September 12, 1996 (the "Existing Agreement"), the Company borrowed \$105,000,000 in term loans and obtained commitments for up to \$65,000,000 in revolving loans and letters of credit;

WHEREAS, the parties hereto have agreed to amend and restate the Existing Agreement so as to, among other things, (a) reduce the principal amount of the term loans thereunder to zero, (b) increase the amount of the revolving credit facility to \$90,000,000, (c) add an acquisition loan facility, (d) amend the pricing, certain covenants and various other provisions of the Existing Agreement and (e) revise in certain respects the composition of the lender group; and

WHEREAS, the parties hereto intend that this Agreement and the documents executed in connection herewith not effect a novation of the obligations of the Company under the Existing Agreement, but merely a restatement and, where applicable, an amendment of the terms governing such obligations;

NOW, THEREFORE, in consideration of the mutual agreements contained herein, the Existing Agreement is restated in its entirety, and the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

1.1 Certain Defined Terms. The following terms have the following meanings:

Acquisition means any transaction or series of related transactions for the purpose of, or resulting directly or indirectly in, (a) the acquisition of all or substantially all of the assets of a Person, or of any business or division of a Person, (b) the acquisition of in excess of 50% of the capital stock, partnership interests, membership interests or equity of any Person, or otherwise causing any Person to become a Subsidiary or (c) a merger or consolidation or any other combination with another Person (other than a Person that is a Subsidiary) provided that the Company or a Subsidiary is the surviving entity.

Acquisition Commitment means, as to any Lender, the commitment of such Lender to make Acquisition Loans pursuant to subsection 2.1(b). The initial amount of each Lender's Acquisition Commitment is set forth across from such Lender's name on Schedule 2.1.

Acquisition Commitment Amount means \$70,000,000, as reduced from time to time in accordance with the terms hereof.

Acquisition Loan - see subsection 2.1(b).

Administrative Agent means BofA in its capacity as administrative agent for the Lenders hereunder, and any successor administrative agent arising under Section 10.9.

Affiliate means, as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. A Person shall be deemed to control another Person if the controlling Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such other Person, whether through the ownership of voting securities or membership interests, by contract, or otherwise. Without limiting the foregoing, any Person which is an officer, director or shareholder of the Company, or a member of the immediate family of any such officer, director or shareholder, shall be deemed to be an Affiliate of the Company.

Agent-Related Persons means BofA and any successor administrative agent arising under Section 10.9, together with its Affiliates (including the Arranger), and the officers, directors, employees, agents and attorneys-in-fact of such Persons and Affiliates.

Agent's Payment Office means the address for payments set forth on Schedule 11.2 in relation to the Administrative Agent, or such other address as the Administrative Agent may from time to time specify.

Agreement means this Amended and Restated Credit Agreement.

Agreement Currency - see subsection 3.10(f).

Arranger means BancAmerica Robertson Stephens, a Delaware corporation.

Assignee - see subsection 11.8(a).

Assignment and Acceptance - see subsection 11.8(a).

Attorney Costs means and includes all reasonable and documented fees and disbursements of any law firm or other external counsel and, without duplication of

effort, the allocated cost of internal legal services and all disbursements of internal counsel.

Bankruptcy Code means the Federal Bankruptcy Reform Act of 1978 (11 U.S.C. ss.101, et seq.).

Base Rate means, for any day, the higher of: (a) 0.50% per annum above the latest Federal Funds Rate; and (b) the rate of interest in effect for such day as publicly announced from time to time by BofA in San Francisco as its "reference rate." (The "reference rate" is a rate set by BofA based upon various factors including BofA's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above or below such announced rate.) Any change in the reference rate announced by BofA shall take effect at the opening of business on the day specified in the public announcement of such change.

Base Rate Loan means a Loan that bears interest based on the Base Rate.

BofA means Bank of America National Trust and Savings Association, a national banking association.

Borrowing means a borrowing hereunder consisting of (a) Revolving Loans or Acquisition Loans of the same Type made to the Company on the same day by the Lenders and, in the case of Offshore Rate Loans, having the same Interest Period, or (b) a Swingline Loan made to the Company by the Swingline Lender, in each case pursuant to Article II.

Borrowing Date means any date on which a Borrowing occurs under Section 2.3.

Business Day means any day other than a Saturday, Sunday or other day on which commercial banks in New York City, Chicago or San Francisco are authorized or required by law to close and, if the applicable Business Day relates to any Offshore Rate Loan, means such a day on which dealings are carried on in the applicable offshore Dollar interbank market.

Canadian Share Pledge Agreement means the Share Pledge Agreement dated as of November 11, 1996 between ROV Holding and the Administrative Agent, a copy of which is attached hereto as Exhibit H-2.

Capital Adequacy Regulation means any guideline, request or directive of any central bank or other Governmental Authority, or any other law, rule or regulation, whether or not having the force of law, in each case regarding capital adequacy of any bank or of any Person controlling a bank.

Cash Collateralize means to pledge and deposit with or deliver to the Administrative Agent, for the benefit of the Administrative Agent, the Issuing Lender and the Lenders, as additional collateral for the L/C Obligations, cash or deposit account balances pursuant to documentation in form and substance satisfactory to the Administrative Agent and the Issuing Lender (which documents are hereby consented to by the Lenders). Derivatives of such term shall have corresponding meanings. The Company hereby grants the Administrative Agent, for the benefit of the Administrative Agent, the Issuing Lender and the Lenders, a security interest in all such cash and deposit account balances. Cash collateral shall be maintained in blocked, non-interest bearing deposit accounts at BofA.

Cash Equivalent Investments shall mean (i) securities issued or directly and fully guaranteed or insured by the United States of America or guaranteed by a government that is a member of the OECD ("OECD Country") or any agency or instrumentality thereof (provided that the full faith and credit of the United States of America or such OECD Country, as applicable, is pledged in support thereof) having maturities of not more than three years from the date of acquisition, (ii) marketable direct obligations issued by any State of the United States of America or any local government or other political subdivision thereof rated (at the time of acquisition of such security) at least AA by Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc. ("S&P") or the equivalent thereof by Moody's Investors Service, Inc. ("Moody's") having maturities of not more than one year from the date of acquisition, (iii) time deposits, certificates of deposit and bankers' acceptances of (x) any Lender, (y) any commercial bank that is a member of the Federal Reserve System or an applicable central bank of an OECD Country having capital and surplus in excess of \$250,000,000 or (z) any bank whose short-term commercial paper rating (at the time of acquisition of such security) by S&P is at least A-1 or the equivalent thereof (any such bank, an "Approved Bank"), in each case with maturities of not more than six months from the date of acquisition, (iv) commercial paper and variable or fixed rate notes issued by any Lender or Approved Bank or by the parent company of any Lender or Approved Bank and commercial paper and variable rate notes issued by, or guaranteed by, any industrial or financial company with a short-term commercial paper rating (at the time of acquisition of such security) of at least A-1 or the equivalent thereof by S&P or at least P-1 or the equivalent thereof by Moody's, or guaranteed by any industrial company with a long-term unsecured debt rating (at the time of acquisition of such security) of at least AA or the equivalent thereof by S&P or at least Aa or the equivalent thereof by Moody's and in each case maturing within one year after the date of acquisition and (v) repurchase agreements with any Lender or any primary dealer maturing within one year from the date of acquisition that are fully collateralized by investment instruments that would otherwise be Cash Equivalent Investments; provided that the terms of such repurchase agreements comply with the guidelines set forth in the Federal Financial Institutions Examination Council Supervisory Policy -- Repurchase Agreements of Depository Institutions With Securities Dealers and Others, as adopted by the Comptroller of the Currency on October 31, 1985.

CERCLA means the Comprehensive Environmental Response, Compensation and Liability Act of 1980.

Change of Control means the occurrence of any of the following events: (i) a majority of the Board of Directors of the Company shall not be Continuing Directors; (ii) any Person or group of Persons (within the meaning of Section 13 or 14 of the Exchange Act, but excluding Thomas H. Lee Company and its Affiliates) shall acquire beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 25% or more of the outstanding shares of Voting Stock of the Company; or (iii) while any Senior Subordinated Notes are outstanding, any "Change of Control" as defined in the Senior Subordinated Note Indenture.

Code means the Internal Revenue Code of 1986.

Collateral Document means the Security Agreement, each Pledge Agreement, each Mortgage and any other document pursuant to which collateral securing the liabilities of the Company or any Guarantor under any Loan Document is granted or pledged to the Administrative Agent for the benefit of itself, the Lenders and the Qualified Foreign Lenders.

Commercial Letter of Credit means any Letter of Credit which is drawable upon presentation of a sight draft and other documents evidencing the sale or shipment of goods purchased by the Company or a Subsidiary in the ordinary course of business.

Commitment means, as to each Lender, such Lender's Revolving Commitment and/or Acquisition Commitment, as applicable.

Common Stock means the common stock, par value \$.01 per share, of the Company.

Company - see the Preamble.

Company Pledge Agreement means the Company Pledge Agreement dated as of September 12, 1996 between the Company and the Administrative Agent, a copy of which is attached hereto as Exhibit G.

Compliance Certificate means a certificate substantially in the form of Exhibit C.

Computation Period means any period of four consecutive fiscal quarters and in any case ending on the last day of a fiscal quarter; provided that, solely for purposes of calculating the Interest Coverage Ratio, the Computation Periods ending on March 31, 1998, June 30, 1998 and September 30, 1998 shall be the periods of one, two and three fiscal quarters, respectively, ending on such dates.

Consolidated Net Income means, with respect to the Company and its Subsidiaries for any period, the net income (or loss) of the Company and its Subsidiaries for such period; provided that the net income of any Subsidiary shall be excluded from Consolidated Net Income to the extent that the declaration or payment of dividends or similar distributions by such Subsidiary from such income is not at the time permitted by the terms of its charter or by-laws or any judgment, decree, order, law, statute, rule, regulation, agreement, indenture or other instrument which is binding on such Subsidiary.

Contingent Liabilities means, at any time, the maximum estimated amount of liabilities reasonably likely to result at such time from pending litigation, asserted and unasserted claims and assessments, guaranties, uninsured risks and other contingent liabilities of each of the Company and of each Guarantor after giving effect to the transactions contemplated by this Agreement (including all fees and expenses related thereto).

Contingent Obligation means, as to any Person, any direct or indirect liability of such Person, whether or not contingent, with or without recourse: (a) with respect to any Indebtedness, lease, dividend, letter of credit or other obligation (the "primary obligation") of another Person (the "primary obligor"), including any obligation of such Person (i) to purchase, repurchase or otherwise acquire such primary obligation or any security therefor, (ii) to advance or provide funds for the payment or discharge of any primary obligation, or to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency or any balance sheet item, level of income or financial condition of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (iv) otherwise to assure or hold harmless the holder of any primary obligation against loss in respect thereof (each, a "Guaranty Obligation"); (b) with respect to any Surety Instrument (other than any Letter of Credit) issued for the account of such Person or as to which such Person is otherwise liable for reimbursement of drawings or payments; (c) to purchase any materials, supplies or other property from, or to obtain the services of, another Person if the relevant contract or other related document or obligation requires that payment for such materials, supplies or other property, or for such services, shall be made regardless of whether delivery of such materials, supplies or other property is ever made or tendered, or such services are ever performed or tendered; or (d) in respect of any Swap Contract. The amount of any Contingent Obligation shall, (1) in the case of Guaranty Obligations, be deemed equal to the stated or determinable amount of the primary obligation in respect of which such Guaranty Obligation is made or, if not stated or if indeterminable, the maximum reasonably anticipated liability in respect thereof, (2) in the case of Swap Contracts, be equal to the Swap Termination Value and (3) in the case of other Contingent Obligations, be equal to the maximum reasonably anticipated liability in respect thereof.



Continuing Director means (A) any individual who was a member of the Company's Board of Directors on the Effective Date and (B) any individual who becomes a member of the Company's Board of Directors whose nomination for election by the Company's shareholders was approved by a vote of at least a majority of the Continuing Directors on the date of such nomination.

Contractual Obligation means, as to any Person, any provision of any security issued by such Person or of any agreement, undertaking, contract, indenture, mortgage, deed of trust or other instrument, document or agreement to which such Person is a party or by which it or any of its property is bound.

Conversion/Continuation Date means any date on which, under Section 2.4, the Company (a) converts Loans of one Type to the other Type or (b) continues as Offshore Rate Loans, but with a new Interest Period, Offshore Rate Loans having Interest Periods expiring on such date.

Credit Extension means and includes (a) the making of any Loan hereunder and (b) the Issuance of any Letter of Credit hereunder.

Dollar Equivalent means, in relation to an amount denominated in a currency other than Dollars, the amount of Dollars which could be purchased with such amount at the prevailing foreign exchange spot rate.

Dollars and \$ mean lawful money of the United States.

Dormant Subsidiaries means, so long as either such Person does not have assets with a fair market value in the aggregate in excess of \$100,000 and transacts no business, Minera Vindaluz, Zoe-Phos International and Vidor Battery; provided that no Subsidiary may be a Dormant Subsidiary if the Company or any of its other Subsidiaries provides any credit support thereto or is liable in any respect for the liabilities thereof.

EBITDA means, for any Computation Period, the sum of (a) Consolidated Net Income of the Company for such period excluding, to the extent reflected in determining such Consolidated Net Income, extraordinary gains for such period, plus to the extent deducted in determining such Consolidated Net Income, Interest Expense, income tax expense, depreciation and amortization for such period. For purposes of calculating the Interest Coverage Ratio and the Leverage Ratio, EBITDA shall be calculated for the relevant Computation Period on a pro forma basis (as certified) by the Company to the Agent) assuming that all Acquisitions made, and all divestitures completed, during such Computation Period had been made on the first day of such Computation Period (but without adjustment for expected cost savings or other synergies).

Effective Amount means, with respect to any outstanding L/C Obligations on any date, (i) the amount of such L/C Obligations on such date after giving effect to any

Issuances of Letters of Credit occurring on such date, (ii) the amount of any undrawn Commercial Letters of Credit which have expired less than 25 days prior to such date and (iii) any other changes in the aggregate amount of the L/C Obligations as of such date, including as a result of any reimbursements of outstanding unpaid drawings under any Letter of Credit or any reduction in the maximum amount available for drawing under Letters of Credit taking effect on such date.

Effective Date means the date on which all conditions precedent set forth in Sections 5.1 and 5.2 are satisfied or waived by all Lenders in their sole discretion (or, in the case of subsection 5.1(e), waived by the Person entitled to receive the applicable payment).

Eligible Assignee means (i) a commercial bank organized under the laws of the United States, or any state thereof, and having a combined capital and surplus of at least \$500,000,000; (ii) a commercial bank organized under the laws of any other country which is a member of the OECD, or a political subdivision of any such country, and having a combined capital and surplus of at least \$500,000,000, provided that such bank is acting through a branch or agency located in the United States; (iii)(x) a Lender, (y) an Affiliate of a Lender that is a Person of the type specified in clause (i), (ii) or (iv) of this definition or (z) a Person that is primarily engaged in the business of commercial banking and that is (A) a Subsidiary of a Lender, (B) a Subsidiary of a Person of which a Lender is a Subsidiary or (C) a Person of which a Lender is a Subsidiary; and (iv) an insurance company, pension fund, mutual fund, commercial finance company or similar financial institution having a net worth of at least \$250,000,000.

Employment Agreement means the Employment Agreement dated as of September 12, 1996 between the Company and David A. Jones, as amended from time to time in accordance with Section 8.18.

Environmental Claims means all claims, however asserted, by any Governmental Authority or other Person alleging potential liability under any Environmental Law or responsibility for violation of any Environmental Law, or for release or injury to the environment.

Environmental Laws means CERCLA, RCRA and all other federal, state or local laws, statutes, common law duties, rules, regulations, ordinances and codes relating to pollution or protection of public or employee health or the environment, together with all administrative orders, consent decrees, licenses, authorizations and permits of any Governmental Authority implementing them.

ERISA means the Employee Retirement Income Security Act of 1974.

ERISA Affiliate means any trade or business (whether or not incorporated) under common control with the Company within the meaning of Section 414(b) or (c) of

the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

ERISA Event means: (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by the Company or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a substantial cessation of operations which is treated as such a withdrawal; (c) a complete or partial withdrawal by the Company or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Pension Plan amendment as a termination under Section 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Company or any ERISA Affiliate.

Event of Default means any of the events or circumstances specified in Section 9.1.

Exchange Act means the Securities Exchange Act of 1934.

Excluded Assets has the meaning assigned thereto in the Security Agreement.

Excluded Taxes - see the definition of "Taxes."

Existing Agreement - see the recitals.

Existing Letters of Credit means the Letters of Credit described in Section 3.1.

Fair Value means, at any time, the amount at which the assets, in their entirety, of each of the Company and of each Guarantor would likely change hands at such time as part of a going concern and for continued use as part of a going concern between a willing buyer and a willing seller, within a commercially reasonable period of time, each having reasonable knowledge of the relevant facts, with neither being under any compulsion to act.

Federal Funds Rate means, for any day, the rate set forth in the weekly statistical release designated as H.15(519), or any successor publication, published by the Federal Reserve Bank of New York (including any such successor, "H.15(519)") on the preceding Business Day opposite the caption "Federal Funds (Effective)"; or, if for any relevant day such rate is not so published on any such preceding Business Day, the rate

for such day will be the arithmetic mean as determined by the Administrative Agent of the rates for the last transaction in overnight Federal funds arranged prior to 9:00 a.m. (New York City time) on that day by each of three leading brokers of Federal funds transactions in New York City selected by the Administrative Agent.

Fee Letter - see subsection 2.11(a).

Foreign Subsidiary shall mean each Subsidiary of the Company organized under the laws of any jurisdiction other than the United States or any state thereof.

FRB means the Board of Governors of the Federal Reserve System, and any Governmental Authority succeeding to any of its principal functions.

Funded Debt means all indebtedness of the Company and its Subsidiaries as determined in accordance with GAAP.

Further Taxes means any and all present or future taxes, levies, assessments, imposts, duties, deductions, fees, withholdings or similar charges (including net income taxes and franchise taxes), and all liabilities with respect thereto, imposed by any jurisdiction on account of amounts paid or payable pursuant to Section 4.1.

GAAP means generally accepted accounting principles set forth from time to time in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the U.S. accounting profession), which are applicable to the circumstances as of the date of determination.

Governmental Authority means any nation or government, any state or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

Guarantor means ROV Holding and each other Person which from time to time executes and delivers a counterpart of the Guaranty.

Guaranty means the Guaranty dated as of September 12, 1996, a copy of which is attached hereto as Exhibit F.

Guaranty Obligation has the meaning specified in the definition of Contingent Obligation.

Hazardous Material means

- CERCLA;
- (a) any "hazardous substance", as defined by
  - (b) any "hazardous waste", as defined by RCRA;
  - (c) any petroleum product; or
  - (d) any pollutant or contaminant or hazardous, dangerous or toxic chemical, material or substance within the meaning of any other Environmental Law.

Hong Kong Charge means the Deed of Charge and Memorandum of Deposit dated as of November 11, 1996 between ROV Holding and the Administrative Agent, a copy of which is attached hereto as Exhibit H-3.

Honor Date - see subsection 3.3(b).

Indebtedness of any Person means, without duplication: (a) all indebtedness of such Person for borrowed money; (b) all obligations issued, undertaken or assumed by such Person as the deferred purchase price of property or services (other than trade payables entered into and accrued expenses arising in the ordinary course of business on ordinary terms); (c) all non-contingent reimbursement or payment obligations with respect to Surety Instruments; (d) all obligations of such Person evidenced by notes, bonds, debentures or similar instruments; (e) all indebtedness of such Person created or arising under any conditional sale or other title retention agreement, or incurred as financing, in either case with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property); (f) all obligations of such Person with respect to capital leases; (g) all indebtedness referred to in clauses (a) through (f) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property (including accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness; and (h) all Guaranty Obligations of such Person in respect of indebtedness or obligations of others of the kinds referred to in clauses (a) through (g) above.

Indemnified Liabilities - see Section 11.5.

Indemnified Person - see Section 11.5.

Independent Auditor - see subsection 7.1(a).

Insolvency Proceeding means, with respect to any Person, (a) any case, action or proceeding with respect to such Person before any court or other Governmental

Authority relating to bankruptcy, reorganization, insolvency, liquidation, receivership, dissolution, winding-up or relief of debtors or (b) any general assignment for the benefit of creditors, composition, marshalling of assets for creditors, or other, similar arrangement in respect of such Person's creditors generally or any substantial portion of such creditors, in each case undertaken under any U.S. Federal, State or foreign law, including the Bankruptcy Code.

Interest Coverage Ratio means, as of the last day of any fiscal quarter, the ratio of (a) EBITDA for the Computation Period ending on such day to (b) Interest Expense for such Computation Period; provided that for the first three fiscal quarters of 1998, "Interest Coverage Ratio" means (i) in the case of the fiscal quarter ending March 31, 1998, the ratio of (a) EBITDA for the period of two consecutive fiscal quarters ending on such date to (b) the product of Interest Expense for the fiscal quarter ending on such date multiplied by 2; (ii) in the case of the fiscal quarter ending June 30, 1998, the ratio of (a) EBITDA for the period of three consecutive fiscal quarters ending on such date to (b) the product of Interest Expense for the period of two fiscal quarters ending on such date multiplied by 1.5; and (iii) in the case of the fiscal quarter ending September 30, 1998, the ratio of (a) EBITDA for the period of four consecutive fiscal quarters ending on such date to (b) the product of Interest Expense for the period of three fiscal quarters ending on such date multiplied by 1.33.

Interest Expense means for any period the consolidated interest expense of the Company and its Subsidiaries for such period (including all imputed interest on capital leases).

Interest Payment Date means (i) as to any Offshore Rate Loan, the last day of each Interest Period applicable to such Loan and, in the case of any Offshore Rate Loan with a six-month Interest Period, the three-month anniversary of the first day of such Interest Period, and (ii) as to any Base Rate Loan, the last Business Day of each calendar quarter.

Interest Period means, as to any Offshore Rate Loan, the period commencing on the Borrowing Date of such Loan or on the Conversion/Continuation Date on which the Loan is converted into or continued as an Offshore Rate Loan, and ending one, two, three or six months thereafter, as selected by the Company in its Notice of Borrowing or Notice of Conversion/Continuation; provided that:

(i) if any Interest Period would otherwise end on a day that is not a Business Day, such Interest Period shall be extended to the following Business Day unless the result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the preceding Business Day;

(ii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period;

(iii) no Interest Period for an Acquisition Loan or any portion thereof shall extend beyond any date upon which scheduled principal payment is due in respect of the Acquisition Loans unless the aggregate principal amount of all Acquisition Loans which are Base Rate Loans, or are Offshore Rate Loans having Interest Periods that will expire on or before such date, equals or exceeds the amount of such principal payment;

(iv) no Interest Period for a Revolving Loan or any portion thereof shall extend beyond any Revolving Commitment Reduction Date unless the aggregate principal amount of all Revolving Loans which are Base Rate Loans or Swingline Loans, or are Offshore Rate Loans having Interest Periods that will expire before such Revolving Commitment Reduction Date, plus the aggregate amount of all Letters of Credit scheduled to expire before (or, in the case of Commercial Letters of Credit, 25 days before) such Revolving Commitment Reduction Date, plus the unused portion of the Revolving Commitment Amount, equals or exceeds the amount of the scheduled reduction of the Revolving Commitment Amount on such Revolving Commitment Reduction Date; and

(v) no Interest Period for any Revolving Loan shall extend beyond the Revolving Termination Date.

IP Subsidiary means a direct, Wholly-Owned Subsidiary of the Company organized under the laws of California, and having a principal place of business in the State of California, the primary business of which is the ownership of intellectual property and the licensing of such property to the Company and its other Subsidiaries.

IRB Debt means Indebtedness of the Company arising as a result of the issuance of tax-exempt industrial revenue bonds or similar tax-exempt public financing.

IRS means the Internal Revenue Service, and any Governmental Authority succeeding to any of its principal functions under the Code.

Issuance Date - see subsection 3.1(a).

Issue means, with respect to any Letter of Credit, to issue or to extend the expiry of, or to renew or increase the amount of, such Letter of Credit; and the terms "Issued," "Issuing" and "Issuance" have corresponding meanings.

Issuing Lender means BofA in its capacity as issuer of one or more Letters of Credit hereunder, together with any replacement letter of credit issuer arising under subsection 10.1(b) or Section 10.9.

Joint Venture means a corporation, partnership, limited liability company, joint venture or other similar legal arrangement (whether created by contract or conducted through a separate legal entity) which is not a Subsidiary of the Company or any of its Subsidiaries and which is now or hereafter formed by the Company or any of its Subsidiaries with another Person in order to conduct a common venture or enterprise with such Person.

Jones Note means the \$500,000 Full Recourse Promissory Note, dated September 12, 1996, made by David A. Jones in favor of the Company.

Judgment Currency - see subsection 3.10(f).

L/C Advance means each Lender's participation in any L/C Borrowing in accordance with its Percentage.

L/C Amendment Application means an application form for amendment of an outstanding standby or commercial documentary letter of credit as shall at any time be in use at the Issuing Lender, as the Issuing Lender shall request.

L/C Application means an application form for issuances of a standby or commercial documentary letter of credit as shall at any time be in use at the Issuing Lender, as the Issuing Lender shall request.

L/C Borrowing means an extension of credit resulting from a drawing under any Letter of Credit which shall not have been reimbursed on the date when made nor converted into a Borrowing of Revolving Loans under subsection 3.3(c).

L/C Commitment means the commitment of the Issuing Lender to Issue, and the commitments of the Lenders severally to participate in, Letters of Credit (including the Existing Letters of Credit) from time to time Issued or outstanding under Article III, in an aggregate amount not to exceed on any date the lesser of \$10,000,000 and the Revolving Commitment Amount; it being understood that the L/C Commitment is a part of the Revolving Commitments, rather than a separate, independent commitment.

L/C Fee Rate means, at any time for any Letter of Credit, the rate per annum determined pursuant to Schedule 1.1; provided that such rate shall be increased by 2% at any time an Event of Default exists.



L/C Obligations means at any time the sum of (a) the aggregate undrawn amount of all Letters of Credit then outstanding, plus (b) the amount of all unreimbursed drawings under all Letters of Credit, including all outstanding L/C Borrowings.

L/C-Related Documents means the Letters of Credit, the L/C Applications, the L/C Amendment Applications and any other document relating to any Letter of Credit, including any of the Issuing Lender's standard form documents for letter of credit issuances.

Lenders means the several financial institutions from time to time party to this Agreement. References to the "Lenders" shall include BofA in its capacity as the Issuing Lender and in its capacity as Swingline Lender; for purposes of clarification only, to the extent that the Issuing Lender or the Swingline Lender may have any rights or obligations in addition to those of the other Lenders due to its status as Issuing Lender or Swingline Lender, its status as such will be specifically referenced.

Lending Office means, as to any Lender, the office or offices of such Lender specified as its "Lending Office" or "Domestic Lending Office" or "Offshore Lending Office", as the case may be, on Schedule 11.2, or such other office or offices as such Lender may from time to time specify to the Company and the Administrative Agent.

Letter of Credit means the Existing Letters of Credit and any letter of credit (whether a standby letter of credit or commercial documentary letter of credit) Issued by the Issuing Lender pursuant to Article III.

Leverage Ratio means at, as of any date, the ratio of (i) the aggregate outstanding principal amount of all Funded Debt as of such date to (ii) EBITDA for the Computation Period most recently ended on or before such date for which financial statements have been delivered pursuant to Section 7.1.

Lien means any security interest, mortgage, deed of trust, pledge, hypothecation, assignment, charge or deposit arrangement, encumbrance, lien (statutory or other) or preferential arrangement of any kind or nature whatsoever in respect of any property (including those created by, arising under or evidenced by any conditional sale or other title retention agreement, the interest of a lessor under a capital lease, or any financing lease having substantially the same economic effect as any of the foregoing, but not including the interest of a lessor under an operating lease).

Loan means an extension of credit by a Lender to the Company under Article II or Article III in the form of a Revolving Loan, Acquisition Loan, Swingline Loan or L/C Advance.

Loan Documents means this Agreement, any Notes, the Fee Letter, the L/C Related Documents, the Guaranty, the Collateral Documents and all other documents delivered to the Administrative Agent or any Lender in connection herewith.

Management Agreement means the Management Agreement, dated as of September 12, 1996, between Thomas H. Lee Company and the Company, as amended from time to time in accordance with Section 8.19.

Margin means at any time the rate per annum determined pursuant to Schedule 1.1.

Margin Stock means "margin stock" as such term is defined in Regulation G, T, U or X of the FRB.

Material Adverse Effect means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, condition (financial or otherwise) or prospects of the Company and its Subsidiaries taken as a whole; (b) a material impairment of the ability of the Company or any Guarantor to perform any of its obligations under any Loan Document; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the Company or any Guarantor of any Loan Document.

Minera Vindaluz means Minera Vindaluz, S.A. de C.V., a corporation organized under the laws of Mexico.

Mortgage means (a) each mortgage or deed of trust listed on Schedule 6.19(b) and (b) any other mortgage, leasehold mortgage, deed of trust or similar document granting a Lien on real property in appropriate form for filing or recording in the applicable jurisdiction and otherwise reasonably satisfactory to the Administrative Agent.

Multiemployer Plan means a "multiemployer plan", within the meaning of Section 4001(a)(3) of ERISA, with respect to which the Company or any ERISA Affiliate may have any liability.

Netherlands Share Pledge Agreement means the Deed of Pledge dated as of November 11, 1996 between ROV Holding and the Administrative Agent, a copy of which is attached hereto as Exhibit H-4.

Non-Dollar Letter of Credit - see Section 3.10.

Non-Use Fee Rate means at any time the rate per annum determined pursuant to Schedule 1.1.

Note means a promissory note executed by the Company in favor of a Lender pursuant to subsection 2.2(b), in substantially the form of Exhibit D.

Notice of Borrowing means a notice in substantially the form of Exhibit A.

Notice of Conversion/Continuation means a notice in substantially the form of Exhibit B.

Obligations means all advances, debts, liabilities, obligations, covenants and duties arising under any Loan Document owing by the Company to any Lender, the Administrative Agent, or any Indemnified Person, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, or now existing or hereafter arising.

OECD means the Organization for Economic Cooperation and Development.

Offshore Rate means, for any Interest Period, with respect to Offshore Rate Loans comprising part of the same Borrowing, the rate of interest per annum (rounded upward, if necessary, to the next 1/16th of 1%) determined by the Administrative Agent as follows:

$$\text{Offshore Rate} = \frac{\text{IBOR}}{1.00 - \text{Eurodollar Reserve Percentage}}$$

Where,

"Eurodollar Reserve Percentage" means for any day for any Interest Period the maximum reserve percentage (expressed as a decimal, rounded upward, if necessary, to the next 1/100th of 1%) in effect on such day (whether or not applicable to any Lender) under regulations issued from time to time by the FRB for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) with respect to Eurocurrency funding (currently referred to as "Eurocurrency liabilities"); and

"IBOR" means the rate of interest per annum determined by the Administrative Agent as the rate at which Dollar deposits in the approximate amount of BofA's Offshore Rate Loan for such Interest Period would be offered by BofA's Grand Cayman Branch, Grand Cayman B.W.I. (or such other office as may be designated for such purpose by BofA), to major banks in the offshore Dollar interbank market at their request at approximately 11:00 a.m. (New York City time) two Business Days prior to the commencement of such Interest Period.

The Offshore Rate shall be adjusted automatically as to all Offshore Rate Loans then outstanding as of the effective date of any change in the Eurodollar Reserve Percentage.

Offshore Rate Loan means a Loan that bears interest based on the Offshore Rate.

Organization Documents means, (a) for any domestic corporation, the certificate or articles of incorporation, the bylaws, any certificate of determination or instrument relating to the rights of preferred shareholders of such corporation, any shareholder rights agreement, and all applicable resolutions of the board of directors (or any committee thereof) of such corporation and (b) for any foreign corporation, the equivalent documents.

Other Taxes means any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or from the execution, delivery, performance, enforcement or registration of, or otherwise with respect to, this Agreement or any other Loan Document.

Overnight Rate - see subsection 3.10(g).

Participant - see subsection 11.8(c).

PBGC means the Pension Benefit Guaranty Corporation, or any Governmental Authority succeeding to any of its principal functions under ERISA.

Pension Plan means a pension plan (as defined in Section 3(2) of ERISA) subject to Title IV of ERISA with respect to which the Company or any ERISA Affiliate may have any liability.

Percentage means, as to any Lender, the percentage which (a) the amount of such Lender's Commitment is of (b) the aggregate amount of all of the Lenders' Commitments (or, if the Commitments have terminated, which the sum of such Lender's Loans plus such Lender's participation interest in Swingline Loans and L/C Obligations is of the aggregate amount of all Loans and L/C Obligations). The initial Percentage for each Lender is set forth across from such Lender's name on Schedule 2.1.

Permitted Liens - see Section 8.1.

Permitted Swap Obligations means all obligations (contingent or otherwise) of the Company or any Subsidiary existing or arising under Swap Contracts, provided that each of the following criteria is satisfied: (a) such obligations are (or were) entered into by such Person in the ordinary course of business for the purpose of directly mitigating risks associated with liabilities, commitments or assets held or reasonably anticipated by

such Person, or changes in the value of securities issued by such Person in conjunction with a securities repurchase program not otherwise prohibited hereunder, and not for purposes of speculation or taking a "market view;" and (b) such Swap Contracts do not contain (i) any provision ("walk-away" provision) exonerating the non-defaulting party from its obligation to make payments on outstanding transactions to the defaulting party or (ii) any provision creating or permitting the declaration of an event of default, termination event or similar event upon the occurrence of an Event of Default hereunder (other than an Event of Default under subsection 9.1(a)).

Person means an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture or Governmental Authority.

Plan means an employee benefit plan (as defined in Section 3(3) of ERISA) with respect to which the Company may have any liability.

Pledge Agreement means the Company Pledge Agreement and each Subsidiary Pledge Agreement.

Present Fair Saleable Value means, at any time, the amount that could be obtained at such time by an independent willing seller from an independent willing buyer if the assets of each of the Company and each Guarantor are sold with reasonable promptness in an arm's-length transaction under present conditions for the sale of comparable assets.

Qualified Foreign Credit Facility means a credit facility provided by a Lender or an Affiliate of a Lender to any Foreign Subsidiary which (i) is guaranteed by the Company, (ii) is permitted under subsection 8.5(d), and (iii) the Company has specified (in a written notice to the Administrative Agent) is entitled to the benefit of the Guaranty and the Collateral Documents.

Qualified Foreign Lender means any Lender or any Affiliate of a Lender which is a party to a Qualified Foreign Credit Facility.

RCRA means the Resource Conservation and Recovery Act, 42 U.S.C. Section 690, et seq.

Release means a "release", as such term is defined in CERCLA.

Replacement Lender - see Section 4.7.

Reportable Event means any of the events set forth in Section 4043(b) of ERISA or the regulations thereunder, other than any such event for which the 30-day

notice requirement under ERISA has been waived in regulations issued by the PBGC or administrative pronouncements.

Required Lenders means, at any time, Lenders having an aggregate Percentage of 51% or more.

Requirement of Law means, as to any Person, any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or of a Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

Responsible Officer means the chief executive officer or the president of the Company, or any other officer having substantially the same authority and responsibility or the chief financial officer or the treasurer of the Company, or any other officer having substantially the same authority and responsibility.

Revolving Commitment means, as to any Lender, the commitment of such Lender to make Revolving Loans pursuant to subsection 2.1(a). The initial amount of each Lender's Revolving Commitment is set forth across from such Lender's name on Schedule 2.1.

Revolving Commitment Amount means \$90,000,000, as reduced from time to time in accordance with the terms hereof.

Revolving Commitment Reduction Date - see subsection 2.6(a).

Revolving Loan - see subsection 2.1(a).

Revolving Outstandings means, at any time, the sum of the principal amount of all outstanding Revolving Loans and Swingline Loans plus the Effective Amount of all L/C Obligations.

Revolving Termination Date means the earlier to occur of (a) December 31, 2002; and (b) the date on which the Revolving Commitments terminate in accordance with the provisions of this Agreement.

ROV Holding means ROV Holding, Inc., a Delaware corporation and a Subsidiary.

SEC means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions.

Security Agreement means the Security Agreement dated as of September 12, 1996 among the Company, ROV Holding, any other Person that becomes a party thereto and the Administrative Agent, a copy of which is attached hereto as Exhibit E.

Senior Subordinated Notes means the 10-1/4% Senior Subordinated Notes issued by the Company pursuant to the Senior Subordinated Note Indenture.

Senior Subordinated Note Indenture means the Indenture dated as of October 22, 1996 among the Company, ROV Holding and Marine Midland Bank, as Trustee.

Senior Subordinated Note Prepayment means the prepayment by the Company of \$35,000,000 of principal of the Senior Subordinated Notes (plus accrued and unpaid interest thereon and a redemption premium of \$3,237,500) on December 30, 1997.

Standby Letter of Credit means any Letter of Credit that is not a Commercial Letter of Credit.

Stated Liabilities means, at any time, the recorded liabilities (including Contingent Liabilities that would be recorded in accordance with GAAP) of each of the Company and of each Guarantor at such time after giving effect to the transactions contemplated under this Agreement, determined in accordance with GAAP consistently applied, together with the amount, without duplication, of all Loans and Contingent Liabilities.

Subordinated Debt means (a) the Senior Subordinated Notes and (b) all other unsecured Indebtedness of the Company for money borrowed which is subject to, and is only entitled to the benefits of, terms and provisions (including maturity, amortization, acceleration, interest rate, sinking fund, covenant, default and subordination provisions) satisfactory in form and substance to the Required Lenders, in each case as evidenced by their written approval thereof (which may be granted or withheld in their sole discretion).

Subsidiary of a Person means any corporation, association, partnership, limited liability company, joint venture or other business entity of which more than 50% of the voting stock, membership interests or other equity interests is owned or controlled directly or indirectly by such Person, or one or more of the Subsidiaries of such Person, or a combination thereof. Unless the context otherwise clearly requires, references herein to a "Subsidiary" refer to a Subsidiary of the Company.

Subsidiary Pledge Agreement means the U.K. Charge, the Hong Kong Charge, the Netherlands Share Pledge Agreement, the Canadian Share Pledge Agreement and each other agreement pursuant to which any Subsidiary pledges to the Administrative Agent shares of stock owned by it or Indebtedness owing to it.

Surety Instruments means all letters of credit (including standby and commercial), banker's acceptances, bank guaranties, surety bonds and similar instruments.

Swap Contract means any agreement, whether or not in writing, relating to any transaction that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap or option, bond, note or bill option, interest rate option, forward foreign exchange transaction, cap, collar or floor transaction, currency swap, cross-currency rate swap, swaption, currency option or any other, similar transaction (including any option to enter into any of the foregoing) or any combination of the foregoing, and, unless the context otherwise clearly requires, any master agreement relating to or governing any or all of the foregoing.

Swap Termination Value means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a) the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include any Lender).

Swingline Lender means BofA in its capacity as lender of Swingline Loans together with any replacement lender of Swingline Loans arising under Section 10.9.

Swingline Loan has the meaning specified in subsection 2.5(a).

Taxes means any and all present or future taxes, levies, assessments, imposts, duties, deductions, charges or withholdings, fees or similar charges and all liabilities with respect thereto, excluding, in the case of each Lender and the Administrative Agent, such taxes (including income taxes, branch profit taxes or franchise taxes) as are imposed on or measured by such Lender's or the Administrative Agent's, as the case may be, net income by the jurisdiction (or any political subdivision thereof) under the laws of which such Lender or the Administrative Agent, as the case may be, is organized, maintains a lending office or conducts business (collectively, "Excluded Taxes").

Type of Loan means the characterization of a Loan as a Base Rate Loan or an Offshore Rate Loan.

U.K. Charge means the Deed of Charge and Memorandum of Deposit dated September 12, 1996 between ROV Holding and the Administrative Agent, a copy of which is attached hereto as Exhibit H-1.



Unfunded Pension Liability means the excess of a Pension Plan's benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of such Pension Plan's assets, determined in accordance with the assumptions used for funding such Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

United States and U.S. each means the United States of America.

Unmatured Event of Default means any event or circumstance which, with the giving of notice, the lapse of time, or both, would (if not cured or otherwise remedied during such time) constitute an Event of Default.

Vidor Battery means Vidor Battery Company, a Wisconsin corporation.

Voting Stock means, with respect to any corporation, the capital stock of such corporation having general voting power under ordinary circumstances to elect directors to the board of directors of such corporation, but shall not include any capital stock that has or would have such voting power solely by reason of the happening of any contingency.

Wholly-Owned Subsidiary means any corporation in which (other than director's qualifying shares or due to native ownership requirements) 100% of the capital stock of each class is owned beneficially and of record by the Company or by one or more other Wholly-Owned Subsidiaries.

Zoe-Phos International means Zoe-Phos International N.V., a corporation organized under the laws of the Netherlands Antilles.

1.2 Other Interpretive Provisions. (a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms.

(b) The words "hereof", "herein", "hereunder" and similar words refer to this Agreement as a whole and not to any particular provision of this Agreement; and subsection, Section, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(c) (i) The term "documents" includes any and all instruments, documents, agreements, certificates, indentures, notices and other writings, however evidenced.

(ii) The term "including" is not limiting and means "including without limitation."

(iii) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including"; the words "to" and "until" each mean "to but excluding"; and the word "through" means "to and including."

(d) Unless otherwise expressly provided herein, (i) references to agreements (including this Agreement) and other contractual instruments shall be deemed to include all subsequent amendments and other modifications thereto, but only to the extent such amendments and other modifications are not prohibited by the terms of any Loan Document and (ii) references to any statute or regulation are to be construed as including all statutory and regulatory provisions consolidating, amending, replacing, supplementing or interpreting the statute or regulation.

(e) The captions and headings of this Agreement are for convenience of reference only and shall not affect the interpretation of this Agreement.

(f) This Agreement and the other Loan Documents may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are cumulative and shall each be performed in accordance with their terms.

### 1.3 Accounting Principles.

(a) Unless the context otherwise clearly requires, all accounting terms not expressly defined herein shall be construed, and all financial computations required under this Agreement shall be made, in accordance with GAAP, consistently applied; provided that if the Company notifies the Administrative Agent that the Company wishes to amend any covenant in Article VIII or any corresponding definition to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies the Company that the Required Lenders wish to amend Article VIII or any corresponding definition for such purpose), then the Company's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Company and the Required Lenders.

(b) References herein to "fiscal year" and "fiscal quarter" refer to such fiscal periods of the Company.

### 1.4 Reallocation of Loans and Commitments.

(a) The Company and each Lender agree that, effective on the Effective Date, this Agreement amends and restates in its entirety the Existing Agreement. On the Effective Date, the Commitments of the Lenders shall be reallocated in accordance with the terms hereof and each Lender shall have a direct or participation share equal to its Percentage of all outstanding Credit Extensions.

(b) To facilitate the reallocation described in subsection (a), on the Effective Date, (i) all loans under the Existing Agreement shall be deemed to be Revolving Loans hereunder, (ii) each Lender which is a party to the Existing Agreement shall transfer to the

Administrative Agent an amount equal to the excess, if any, of such Lender's Percentage of all outstanding Revolving Loans hereunder (including any Revolving Loans requested by the Company on the Effective Date) over the amount of all of such Lender's loans under the Existing Agreement, (iii) each Lender which is not a party to the Existing Agreement shall transfer to the Administrative Agent an amount equal to such Lender's Percentage of all outstanding Revolving Loans hereunder (including any Revolving Loans requested by the Company on the Effective Date), (iv) the Administrative Agent shall apply the funds received from the Lenders pursuant to clauses (ii) and (iii), first, on behalf of the Lenders (pro rata according to the amount of the loans each is required to purchase to achieve the reallocation described in subsection (a)), to purchase from each Existing Lender which is not a party hereto the loans of such Existing Lender under the Existing Agreement (and, if applicable to purchase from any Existing Lender which is a party hereto but which has loans under the Existing Agreement in excess of such Lender's Percentage of all then-outstanding Revolving Loans hereunder (including any Revolving Loans requested by the Company on the Effective Date), a portion of such loans equal to such excess), second, to pay to each Existing Lender all interest, fees and other amounts (including amounts payable to Section 4.4 of the Existing Agreement, assuming for such purpose that the loans under the Existing Agreement were prepaid rather than reallocated on the Effective Date) owed to such Existing Lender under the Existing Agreement (whether or not otherwise then due) and, third, as the Company shall direct, (v) the Company shall select new Interest Periods to apply to all Revolving Loans hereunder (or, to the extent the Company fails to do so, such Revolving Loans shall be Base Rate Loans).

## ARTICLE II

### THE CREDITS

#### 2.1 Amounts and Terms of Commitments.

(a) The Revolving Facility. Each Lender severally agrees, on the terms and conditions set forth herein, to make loans to the Company (each such loan, a "Revolving Loan") from time to time on any Business Day during the period from the Effective Date to the Revolving Termination Date, in an aggregate amount not to exceed at any time outstanding such Lender's Percentage of the Revolving Commitment Amount; provided that, after giving effect to any Borrowing of Revolving Loans, the Revolving Outstandings shall not exceed the Revolving Commitment Amount. Within the foregoing limits, and subject to the other terms and conditions hereof, the Company may borrow under this subsection 2.1(a), prepay under Section 2.7 or 2.8 and reborrow under this subsection 2.1(a).

(b) The Acquisition Facility. Each Lender severally agrees, on the terms and conditions set forth herein, to make loans to the Company (each such loan, an "Acquisition Loan"), from time to time on any Business Day during the period from the Effective Date to December 31, 1998, in an aggregate amount not to exceed such Lender's Percentage of the Acquisition Commitment Amount as in effect on such day.

2.2 Loan Accounts. (a) The Loans made by each Lender and the Letters of Credit Issued by the Issuing Lender shall be evidenced by one or more accounts or records maintained by such Lender or the Issuing Lender, as the case may be, in the ordinary course of business. The accounts or records maintained by the Administrative Agent, the Issuing Lender and each Lender shall be conclusive (absent manifest error) as to the amount of the Loans made by the Lenders to the Company and the Letters of Credit Issued for the account of the Company, and the interest and payments thereon. Any failure to record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Company hereunder to pay any amount owing with respect to any Loan or any Letter of Credit.

(b) Upon the request of any Lender made through the Administrative Agent, the Loans made by such Lender may be evidenced by one or more Notes in addition to loan accounts. Each such Lender shall endorse on the schedules annexed to its Note(s) the date, amount and maturity of each Loan made by it and the amount of each payment of principal made by the Company with respect thereto. Each such Lender is irrevocably authorized by the Company to endorse its Note(s) and each Lender's record shall be conclusive absent manifest error; provided, however, that the failure of a Lender to make, or an error in making, a notation thereon with respect to any Loan shall not limit or otherwise affect the obligations of the Company hereunder or under any Note to such Lender.

2.3 Procedure for Borrowing. (a) Each Borrowing shall be made upon the Company's irrevocable written notice delivered to the Administrative Agent in the form of a Notice of Borrowing (which notice must be received by the Administrative Agent (i) prior to 11:00 a.m. (Chicago time) three Business Days prior to the requested Borrowing Date, in the case of Offshore Rate Loans and (ii) prior to 11:00 a.m. (Chicago time) one Business Day prior to the requested Borrowing Date, in the case of Base Rate Loans), specifying:

(A) the amount of the Borrowing, which shall be in an amount of \$1,000,000 or a higher integral multiple of \$250,000;

(B) the requested Borrowing Date, which shall be a Business Day;

(C) the Type of Loans comprising the Borrowing;  
and

(D) in the case of Offshore Rate Loans, the duration of the Interest Period applicable to such Borrowing.

(b) The Administrative Agent will promptly notify each Lender of its receipt of any Notice of Borrowing and of the amount of such Lender's share of the related Borrowing.

(c) Each Lender will make the amount of its share of each Borrowing available to the Administrative Agent for the account of the Company at the Agent's Payment Office by 1:00 p.m. (Chicago time) on the Borrowing Date requested by the Company in funds

immediately available to the Administrative Agent. The proceeds of all Loans will then be made available to the Company by the Administrative Agent at such office by crediting the account of the Company on the books of BofA with the aggregate of the amounts made available to the Administrative Agent by the Lenders and in like funds as received by the Administrative Agent.

(d) After giving effect to any Borrowing, there may not be more than twelve different Interest Periods in effect.

2.4 Conversion and Continuation Elections. (a) The Company may, upon irrevocable written notice to the Administrative Agent in accordance with subsection 2.4(b):

(i) elect to convert, on any Business Day, any Base Rate Loans (in an aggregate amount of \$1,000,000 or a higher integral multiple of \$250,000) into Offshore Rate Loans;

(ii) elect to convert, on the last day of the applicable Interest Period, any Offshore Rate Loans (or any part thereof in an aggregate amount of \$1,000,000 or a higher integral multiple of \$250,000) into Base Rate Loans; or

(iii) elect to continue, as of the last day of the applicable Interest Period, any Offshore Rate Loans having Interest Periods expiring on such day (or any part thereof in an aggregate amount of \$1,000,000 or a higher integral multiple of \$250,000);

provided that if at any time the aggregate amount of Offshore Rate Loans in respect of any Borrowing shall have been reduced, by payment, prepayment or conversion of part thereof, to be less than \$1,000,000, such Offshore Rate Loans shall automatically convert into Base Rate Loans.

(b) The Company shall deliver a Notice of Conversion/Continuation to be received by the Administrative Agent not later than (i) 11:00 a.m. (Chicago time) at least three Business Days in advance of the Conversion/Continuation Date, if the Loans are to be converted into or continued as Offshore Rate Loans and (ii) not later than 11:00 a.m. (Chicago time) one Business Day prior to the Conversion/Continuation Date, if the Loans are to be converted into Base Rate Loans, specifying:

(A) the proposed Conversion/Continuation Date;

(B) the aggregate principal amount of Loans to be converted or continued;

(C) the Type of Loans resulting from the proposed conversion or continuation; and

(D) in the case of conversions into Offshore Rate Loans, the duration of the requested Interest Period.

(c) If upon the expiration of any Interest Period applicable to Offshore Rate Loans, the Company has failed to select timely a new Interest Period to be applicable to such Offshore Rate Loans, the Company shall be deemed to have elected to convert such Offshore Rate Loans into Base Rate Loans effective as of the expiration date of such Interest Period.

(d) The Administrative Agent will promptly notify each Lender of its receipt of a Notice of Conversion/Continuation or, if no timely notice is provided by the Company, the Administrative Agent will promptly notify each Lender of the details of any automatic conversion. All conversions and continuations shall be made ratably according to the Percentages of the Lenders.

(e) Unless the Required Lenders otherwise agree, during the existence of an Event of Default or Unmatured Event of Default, the Company may not elect to have a Loan converted into or continued as an Offshore Rate Loan.

(f) After giving effect to any conversion or continuation of Loans, there may not be more than twelve different Interest Periods in effect.

## 2.5 Swingline Loans.

(a) Subject to the terms and conditions hereof, the Swingline Lender may, in its sole discretion (subject to subsection 2.5(b)), make a portion of the Revolving Commitments available to the Company by making swingline loans (each such loan, a "Swingline Loan") to the Company on any Business Day during the period from the Effective Date to the Revolving Termination Date in accordance with the procedures set forth in this Section 2.5 in an aggregate principal amount at any one time outstanding not to exceed the lesser of (x) the Revolving Commitment Amount and (y) \$5,000,000, notwithstanding the fact that such Swingline Loans, when aggregated with the Swingline Lender's outstanding Revolving Loans and direct or participation interest in Letters of Credit, may exceed the Swingline Lender's Percentage of the Revolving Commitment Amount; provided that at no time shall Revolving Outstandings exceed the Revolving Commitment Amount. Subject to the other terms and conditions hereof, the Company may borrow under this subsection 2.5(a), prepay pursuant to subsection 2.5(d) and reborrow pursuant to this subsection 2.5(a) from time to time; provided that the Swingline Lender shall not be obligated to make any Swingline Loan.

(b) The Company shall provide the Administrative Agent and the Swingline Lender irrevocable written notice (or notice by a telephone call confirmed promptly by facsimile) of any Swingline Loan requested hereunder (which notice must be received by the Swingline Lender and the Administrative Agent prior to 12:00 p.m. (Chicago time) on the requested Borrowing Date) specifying (i) the amount to be borrowed, and (ii) the requested

Borrowing Date, which must be a Business Day. Upon receipt of such notice, the Swingline Lender will promptly confirm with the Administrative Agent (by telephone or in writing) that the Administrative Agent has received a copy of such notice from the Company and, if not, the Swingline Lender will provide the Administrative Agent with a copy thereof. If and only if the Administrative Agent notifies the Swingline Lender on the proposed Borrowing Date that it may make available to the Company the amount of the requested Swingline Loan, then, subject to the terms and conditions hereof, the Swingline Lender may make the amount of the requested Swingline Loan available to the Company by crediting the account of the Company on the books of BofA with the amount of such Swingline Loan. The Administrative Agent will not so notify the Swingline Lender if the Administrative Agent has knowledge that (A) the limitations set forth in the proviso set forth in the first sentence of subsection 2.5(a) are being violated or would be violated by such Swingline Loan or (B) one or more conditions specified in Article V is not then satisfied. Each Swingline Loan shall be in an aggregate principal amount equal to \$100,000 or a higher integral multiple thereof. The Swingline Lender will promptly notify the Administrative Agent of the amount of each Swingline Loan.

(c) Principal of and accrued interest on each Swingline Loan shall be due and payable (i) on demand made by the Swingline Lender at any time upon one Business Day's prior notice to the Company furnished at or before 10:45 a.m. (Chicago time), and (ii) in any event on the Revolving Termination Date. In addition, interest on each Swingline Loan shall be due and payable on each Interest Payment Date. Interest on Swingline Loans shall be for the sole account of the Swingline Lender (except to the extent that the other Lenders have funded the purchase of participations therein pursuant to subsection 2.5(e)).

(d) The Company may, from time to time on any Business Day, make a voluntary prepayment, in whole or in part, of the outstanding principal amount of any Swingline Loan, without incurring any premium or penalty; provided that

(i) each such voluntary prepayment shall require prior written notice given to the Administrative Agent and the Swingline Lender no later than 1:00 p.m. (Chicago time) on the day on which the Company intends to make a voluntary prepayment, and

(ii) each such voluntary prepayment shall be in an amount equal to \$100,000 or a higher integral multiple thereof.

Voluntary prepayments of Swingline Loans shall be made by the Company to the Swingline Lender at such office as the Swingline Lender may designate by notice to the Company from time to time. All such payments shall be made in Dollars and in immediately available funds no later than 4:00 p.m. (Chicago time) on the date specified by the Company pursuant to clause (i) above (and any payment received later than such time shall be deemed to have been received on the next Business Day). The Swingline Lender will promptly notify the Administrative Agent of the amount of each prepayment of Swingline Loans.

(e) If (i) any Swingline Loan shall remain outstanding at 11:00 a.m. (Chicago time) on the Business Day immediately prior to a Business Day on which Swingline Loans are due and payable pursuant to subsection 2.5(c) and by such time on such Business Day the Administrative Agent shall have received neither (A) a Notice of Borrowing delivered pursuant to Section 2.3 requesting that Revolving Loans be made pursuant to subsection 2.1(a) on such following Business Day in an amount at least equal to the aggregate principal amount of such Swingline Loans, nor (B) any other notice indicating the Company's intent to repay such Swingline Loans with funds obtained from other sources, or (ii) any Swingline Loans shall remain outstanding during the existence of an Unmatured Event of Default or Event of Default and the Swingline Lender shall in its sole discretion notify the Administrative Agent that the Swingline Lender desires that such Swingline Loans be converted into Revolving Loans, then the Administrative Agent shall be deemed to have received a Notice of Borrowing from the Company pursuant to Section 2.3 requesting that Base Rate Loans be made pursuant to subsection 2.1(a) on the following Business Day in an amount equal to the aggregate amount of such Swingline Loans, and the procedures set forth in subsections 2.3(b) and 2.3(c) shall be followed in making such Base Rate Loans; provided that such Base Rate Loans shall be made notwithstanding the Company's failure to comply with Section 5.2; and provided, further, that if a Borrowing of Revolving Loans becomes legally impractical and if so required by the Swingline Lender at the time such Revolving Loans are required to be made by the Lenders in accordance with this subsection 2.5(e), each Lender agrees that in lieu of making Revolving Loans as described in this subsection 2.5(e), such Lender shall purchase a participation from the Swingline Lender in the applicable Swingline Loans in an amount equal to such Lender's Percentage of such Swingline Loans, and the procedures set forth in subsections 2.3(b) and 2.3(c) shall be followed in connection with the purchases of such participations. The proceeds of such Base Rate Loans (or participations purchased) shall be delivered by the Administrative Agent to the Swingline Lender to repay such Swingline Loans (or as payment for such participations). A copy of each notice given by the Administrative Agent to the Lenders pursuant to this subsection 2.5(e) with respect to the making of Loans, or the purchases of participations, shall be promptly delivered by the Administrative Agent to the Company. Each Lender's obligation in accordance with this Agreement to make the Revolving Loans, or purchase the participations, as contemplated by this subsection 2.5(e), shall be absolute and unconditional and shall not be affected by any circumstance, including (1) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against the Swingline Lender, the Company or any other Person for any reason whatsoever; (2) the occurrence or continuance of an Unmatured Event of Default, an Event of Default or a Material Adverse Effect; or (3) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing.

2.6 Termination or Reduction of Commitments.

(a) Scheduled Reductions of Revolving Commitment Amount. The Revolving Commitment Amount shall be reduced on each of the following dates (each a "Revolving Commitment Reduction Date") by the amount set forth opposite such date:



Revolving Commitment Reduction Date	Reduction Amount
-----	-----
December 31, 1999	\$10,000,000
December 31, 2000	\$15,000,000
December 31, 2001	\$15,000,000.

(b) Reduction of Acquisition Commitment Amount. On each date that the Company borrows Acquisition Loans, the Acquisition Commitment Amount shall be reduced by the aggregate amount of such Acquisition Loans.

(c) Termination of the Acquisition Commitment Amount. At the close of business on December 31, 1998, the Acquisition Commitment Amount shall be reduced to zero and the Lenders shall have no further obligation to make Acquisition Loans.

(d) Voluntary Reduction or Termination of Commitments. The Company may, upon not less than three Business Days' prior written notice to the Administrative Agent, (i) permanently reduce the Revolving Commitment Amount to an amount which is not less than the Revolving Outstandings or (ii) permanently reduce the Acquisition Commitment Amount. Any such reduction shall be in an aggregate amount of \$2,000,000 or a higher integral multiple of \$1,000,000. The Company may at any time on like notice (i) terminate the Revolving Commitments upon payment in full of all Revolving Loans and Swingline Loans and Cash Collateralization in full of all L/C Obligations or (ii) terminate the Acquisition Commitments.

(e) All Reductions or Terminations of Commitments. Once reduced in accordance with this Section, neither the Revolving Commitment Amount nor the Acquisition Commitment Amount may be increased without the consent of all Lenders. Any reduction of the Revolving Commitments or the Acquisition Commitments shall be applied to the Revolving Commitment or the Acquisition Commitment, as the case may be, of each Lender according to its Percentage. All accrued commitment fees to, but not including, the effective date of any reduction or termination of the Revolving Commitments or the Acquisition Commitments shall be paid on the effective date of such reduction or termination.

2.7 Optional Prepayments. (a) Subject to Section 4.4, the Company may, from time to time, upon irrevocable written notice to the Administrative Agent (which notice must be received by 11:00 a.m. (Chicago time) one Business Day prior to the requested day of prepayment in the case of Base Rate Loans and 11:00 a.m. (Chicago time) three Business Days prior to the date of prepayment in the case of Offshore Rate Loans), prepay any Borrowing of Revolving Loans or Acquisition Loans in whole or in part, without premium or penalty, in an aggregate amount of \$1,000,000 or a higher integral multiple of \$250,000.

(b) Each notice of prepayment shall specify the date and amount of such prepayment and the Loans to be prepaid. The Administrative Agent will promptly notify each Lender of its receipt of any such notice and of such Lender's share of such prepayment. If any

such notice is given by the Company, the Company shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein, together with accrued interest to such date on the amount prepaid and any amounts required pursuant to Section 4.4. All prepayments of Acquisition Loans shall be applied, at the Company's election (expressed in writing to the Administrative Agent no later than one Business Day prior to such prepayment), (x) against one or both of the next two unpaid principal installments of the Acquisition Loans, (y) pro rata to the unpaid installments of the Acquisition Loans or (z) in such combination of the alternatives expressed in clauses (x) and (y) as the Company shall specify in writing to the Administrative Agent (it being understood that if the Company fails to give any notice as to application of such prepayment, such prepayment will be applied as set forth in clause (y)).

2.8 Mandatory Prepayments of Revolving Loans. If, on any Revolving Commitment Reduction Date, the Revolving Outstandings exceed the Revolving Commitment Amount (after giving effect to the reduction of the Revolving Commitment Amount on such date), the Company shall immediately prepay an outstanding principal amount of the Revolving Loans, Swingline Loans and/or L/C Advances in an amount equal to such excess (and any such prepayment shall be subject to the provisions of Section 4.4).

2.9 Repayment.

(a) The Acquisition Facility Credit. The Company shall repay the Acquisition Loans in quarterly installments on the last day of each calendar quarter, commencing on March 31, 1999, in an amount equal to the applicable percentage set forth below of the total amount of the Acquisition Loans outstanding on December 31, 1998:

Date -----	Percentage -----
3/31/99 through 12/31/00	5.0%
3/31/01 through 12/31/02	7.5%

(b) The Revolving Facility. The Company shall pay to the Administrative Agent, for the account of the Lenders, on the Revolving Termination Date the aggregate principal amount of all Revolving Loans outstanding on such date.

2.10 Interest. (a) Each Revolving Loan and Acquisition Loan shall bear interest on the outstanding principal amount thereof from the applicable Borrowing Date at a rate per annum equal to the Base Rate or the Offshore Rate, as the case may be (and subject to the Company's right to convert to the other Type of Loans under Section 2.4), plus, in the case of Offshore Rate Loans, the Margin. Each Swingline Loan shall bear interest on the outstanding principal amount thereof from the applicable Borrowing Date at a rate per annum equal to the Base Rate.

(b) Interest on each Loan shall be paid in arrears on each Interest Payment Date therefor. Interest shall also be paid on the date of any prepayment of Offshore Rate Loans

under Section 2.7 or 2.8 for the portion of the Loans so prepaid and upon payment (including prepayment) in full thereof.

(c) Notwithstanding subsection (a) of this Section, during the existence of any Event of Default, the Company shall pay interest (after as well as before entry of judgment thereon to the extent permitted by law) on the principal amount of all outstanding Loans and, to the extent permitted by applicable law, on any other amount payable hereunder or under any other Loan Document, at a rate per annum equal to the rate otherwise applicable thereto pursuant to the terms hereof or such other Loan Document (or, if no such rate is specified, the Base Rate) plus 2%. All such interest shall be payable on demand.

(d) Anything herein to the contrary notwithstanding, the obligations of the Company to any Lender hereunder shall be subject to the limitation that payments of interest shall not be required for any period for which interest is computed hereunder to the extent (but only to the extent) that contracting for or receiving such payment by such Lender would be contrary to the provisions of any law applicable to such Lender limiting the highest rate of interest that may be lawfully contracted for, charged or received by such Lender, and in such event the Company shall pay such Lender interest at the highest rate permitted by applicable law.

2.11 Fees. In addition to certain fees described in Section 3.8:

(a) Arranger and Agency Fees. The Company shall pay arrangement fees to the Arranger for the Arranger's own account and agency fees to the Administrative Agent for the Administrative Agent's own account, in each case as required by the letter agreement (the "Fee Letter") among the Company, the Arranger and the Administrative Agent dated as of November 4, 1997.

(b) Commitment Fees. The Company shall pay to the Administrative Agent for the account of each Lender a commitment fee calculated at a rate per annum equal to the Non-Use Fee Rate on the average daily unused portion of such Lender's Percentage of the Revolving Commitment Amount and the Acquisition Commitment Amount, computed on a quarterly basis in arrears on the last Business Day of each calendar quarter based upon the daily utilization for that quarter as calculated by the Administrative Agent. For purposes of calculating utilization under this subsection, the Revolving Commitment Amount shall be deemed used to the extent of the principal amount of all Revolving Loans then outstanding (but Swingline Loans shall not constitute usage of the Revolving Commitment Amount) plus the Effective Amount of all L/C Obligations then outstanding. Such commitment fee shall accrue from the Effective Date to the Revolving Termination Date (or, if later, the date on which the Acquisition Commitment Amount is reduced to zero) and shall be due and payable quarterly in arrears on the last Business Day of each calendar quarter, with the final payment to be made on the Revolving Termination Date (or such later date on which the Acquisition Commitment Amount is reduced to zero). The commitment fees provided in this subsection shall accrue at all times after the Effective Date, including at any time during which one or more conditions in Article V are not met.

2.12 Computation of Fees and Interest. (a) All computations of interest for Base Rate Loans when the Base Rate is determined by BofA's "reference rate" shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed. All other computations of interest and fees shall be made on the basis of a 360-day year and actual days elapsed. Interest and fees shall accrue during each period during which interest or such fees are computed from the first day thereof to the last day thereof.

(b) Each determination of an interest rate by the Administrative Agent shall be conclusive and binding on the Company and the Lenders in the absence of manifest error. The Administrative Agent will, at the request of the Company or any Lender, deliver to the Company or such Lender, as the case may be, a statement showing the quotations used by the Administrative Agent in determining any interest rate and the resulting interest rate.

2.13 Payments by the Company. (a) All payments to be made by the Company shall be made without set-off, recoupment or counterclaim. Except as otherwise expressly provided herein, all payments by the Company shall be made to the Administrative Agent for the account of the Lenders at the Agent's Payment Office, and shall be made in Dollars and in immediately available funds, no later than 1:00 p.m. (Chicago time) on the date specified herein. Except as expressly otherwise provided herein, the Administrative Agent will promptly distribute, in like funds as received, to each Lender its Percentage (or other applicable portion) of such payment. Any payment received by the Administrative Agent later than 1:00 p.m. (Chicago time) shall be deemed to have been received on the following Business Day and any applicable interest or fee shall continue to accrue.

(b) Whenever any payment is due on a day other than a Business Day, such payment shall be made on the following Business Day (unless, in the case of an Offshore Rate Loan, such following Business Day is in another calendar month, in which case such payment shall be made on the preceding Business Day), and such extension of time shall in such case be included in the computation of interest or fees, as the case may be.

(c) Unless the Administrative Agent receives notice from the Company prior to the date on which any payment is due to the Lenders that the Company will not make such payment in full as and when required, the Administrative Agent may assume that the Company has made such payment in full to the Administrative Agent on such date in immediately available funds and the Administrative Agent may (but shall not be so required), in reliance upon such assumption, distribute to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the Company has not made such payment in full to the Administrative Agent, each Lender shall repay to the Administrative Agent on demand such amount distributed to such Lender, together with interest thereon at the Federal Funds Rate for each day from the date such amount is distributed to such Lender until the date repaid.

2.14 Payments by the Lenders to the Administrative Agent. (a) Unless the Administrative Agent receives notice from a Lender on or prior to the Effective Date, or, with

respect to any Borrowing after the Effective Date, at least one Business Day prior to the date of such Borrowing, that such Lender will not make available as and when required hereunder to the Administrative Agent for the account of the Company the amount of such Lender's Percentage of such Borrowing, the Administrative Agent may assume that each Lender has made such amount available to the Administrative Agent in immediately available funds on the Borrowing Date and the Administrative Agent may (but shall not be required to), in reliance upon such assumption, make available to the Company on such date a corresponding amount. If and to the extent any Lender shall not have made its full amount available to the Administrative Agent in immediately available funds and the Administrative Agent in such circumstances has made available to the Company such amount, such Lender shall on the Business Day following such Borrowing Date make such amount available to the Administrative Agent, together with interest at the Federal Funds Rate for each day during such period. A notice of the Administrative Agent submitted to any Lender with respect to amounts owing under this subsection (a) shall be conclusive, absent manifest error. If such amount is so made available, such payment to the Administrative Agent shall constitute such Lender's Loan on the date of Borrowing for all purposes of this Agreement. If such amount is not made available to the Administrative Agent on the Business Day following the Borrowing Date, the Administrative Agent will notify the Company of such failure to fund and, upon demand by the Administrative Agent, the Company shall pay such amount to the Administrative Agent for the Administrative Agent's account, together with interest thereon for each day elapsed since the date of such Borrowing, at a rate per annum equal to the interest rate applicable at the time to the Loans comprising such Borrowing.

(b) The failure of any Lender to make any Loan on any Borrowing Date shall not relieve any other Lender of any obligation hereunder to make a Loan on such Borrowing Date, but no Lender shall be responsible for the failure of any other Lender to make the Loan to be made by such other Lender on any Borrowing Date.

2.15 Sharing of Payments, Etc. If, other than as expressly provided elsewhere herein, any Lender shall obtain on account of the Loans made by it any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) in excess of its ratable share of such payment (determined in accordance with the provisions of this Agreement), such Lender shall immediately (a) notify the Administrative Agent of such fact and (b) purchase from the other Lenders such participations in the Loans made by them as shall be necessary to cause such purchasing Lender to share the excess payment pro rata with each other Lender; provided, however, that if all or any portion of such excess payment is thereafter recovered from the purchasing Lender, such purchase shall to that extent be rescinded and each other Lender shall repay to the purchasing Lender the purchase price paid therefor, together with an amount equal to such paying Lender's ratable share (according to the proportion of (i) the amount of such paying Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Company agrees that any Lender so purchasing a participation from another Lender may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off, but subject to Section 11.10) with respect to such participation as fully as if such Lender were the direct creditor of the Company in the

amount of such participation. The Administrative Agent will keep records (which shall be conclusive and binding in the absence of manifest error) of participations purchased under this Section and will in each case notify the Lenders following any such purchases or repayments.

### ARTICLE III

#### THE LETTERS OF CREDIT

3.1 The Letter of Credit Subfacility; Existing Letters of Credit. (a) On the terms and conditions set forth herein: (i) the Issuing Lender agrees, (A) from time to time on any Business Day during the period from the Effective Date to the Revolving Termination Date to issue Letters of Credit for the account of the Company, and to amend or renew Letters of Credit previously issued by it, in accordance with subsections 3.2(c) and 3.2(d), and (B) to honor properly drawn drafts under the Letters of Credit issued by it; and (ii) the Lenders severally agree to participate in Letters of Credit Issued for the account of the Company; provided that the Issuing Lender shall not be obligated to Issue, and no Lender shall be obligated to participate in, any Letter of Credit if as of the date of Issuance of such Letter of Credit (the "Issuance Date") (1) the Revolving Outstandings exceed the Revolving Commitment Amount, (2) the Effective Amount of all L/C Obligations exceeds the amount of the L/C Commitment or (3) the sum of the participation of any Lender in the Effective Amount of all L/C Obligations and Swingline Loans plus the outstanding principal amount of the Revolving Loans of such Lender shall exceed such Lender's Revolving Commitment. Within the foregoing limits, and subject to the other terms and conditions hereof, the Company's ability to obtain Letters of Credit shall be fully revolving, and, accordingly, the Company may, during the foregoing period, obtain Letters of Credit to replace Letters of Credit which have expired or which have been drawn upon and reimbursed.

(b) The Issuing Lender shall not be under any obligation to Issue any Letter of Credit if:

(i) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain the Issuing Lender from Issuing such Letter of Credit, or any Requirement of Law applicable to the Issuing Lender or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over the Issuing Lender shall prohibit, or request that the Issuing Lender refrain from, the Issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon the Issuing Lender with respect to such Letter of Credit any restriction, reserve or capital requirement (for which the Issuing Lender is not otherwise compensated hereunder) not in effect on the Effective Date, or shall impose upon the Issuing Lender any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which the Issuing Lender in good faith deems material to it;

(ii) the Issuing Lender has received written notice from any Lender, the Administrative Agent or the Company, on or prior to the Business Day prior to the requested date of Issuance of such Letter of Credit, that one or more of the applicable conditions contained in Article V is not then satisfied;

(iii) the expiry date of such Letter of Credit is after the Revolving Termination Date, or, in the case of a Commercial Letter of Credit, the expiry date of such Letter of Credit is less than 25 days prior to the Revolving Termination Date, unless all of the Lenders have approved such expiry date in writing;

(iv) such Letter of Credit does not provide for drafts, or is not otherwise in form and substance acceptable to the Issuing Lender, or the Issuance of such Letter of Credit shall violate any applicable policies of the Issuing Lender; or

(v) except as provided in Section 3.10, such Letter of Credit is denominated in a currency other than Dollars.

(c) On and after the Effective Date, the Existing Letters of Credit shall be deemed for all purposes to be Letters of Credit outstanding under this Agreement. Each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the Issuing Lender on the Effective Date a participation in each Existing Letter of Credit and each drawing thereunder in an amount equal to the product of (i) such Lender's Percentage times (ii) the maximum amount available to be drawn under such Letter of Credit and the amount of such drawing, respectively.

3.2 Issuance, Amendment and Renewal of Letters of Credit. (a) Each Letter of Credit shall be issued upon the irrevocable written request of the Company received by the Issuing Lender and the Administrative Agent at least four Business Days (or such shorter time as the Issuing Lender and the Administrative Agent may agree in a particular instance in their sole discretion) prior to the proposed date of issuance. Each such request for issuance of a Letter of Credit shall be by facsimile, confirmed immediately in an original writing, in the form of an L/C Application, and shall specify in form and detail satisfactory to the Issuing Lender: (i) the face amount of the Letter of Credit; (ii) the expiry date of the Letter of Credit; (iii) the name and address of the beneficiary thereof; (iv) the documents to be presented by the beneficiary of the Letter of Credit in case of any drawing thereunder; (v) the full text of any certificate to be presented by the beneficiary in case of any drawing thereunder; and (vi) such other matters as the Issuing Lender may require.

(b) At least two Business Days prior to the Issuance of any Letter of Credit, the Issuing Lender will confirm with the Administrative Agent (by telephone or in writing) that the Administrative Agent has received a copy of the L/C Application or L/C Amendment Application from the Company and, if not, the Issuing Lender will provide the Administrative Agent with a copy thereof. If and only if the Administrative Agent notifies the Issuing Lender on or before the Business Day immediately preceding the proposed date of

Issuance of a Letter of Credit that the Issuing Lender may Issue such Letter of Credit, then, subject to the terms and conditions hereof, the Issuing Lender shall, on the requested date, Issue such Letter of Credit for the account of the Company in accordance with the Issuing Lender's usual and customary business practices. The Administrative Agent shall not give such notice if the Administrative Agent has knowledge that (A) such Issuance is not then permitted under subsection 3.1(a) as a result of the limitations set forth in clause (1) or (2) thereof or (B) the Issuing Lender has received a notice described in subsection 3.1(b)(ii). The Administrative Agent will promptly notify the Lenders of any Letter of Credit Issuance hereunder.

(c) From time to time while a Letter of Credit is outstanding and prior to the Revolving Termination Date, the Issuing Lender will, upon the written request of the Company received by the Issuing Lender (with a copy sent by the Company to the Administrative Agent) at least four Business Days (or such shorter time as the Issuing Lender and the Administrative Agent may agree in a particular instance in their sole discretion) prior to the proposed date of amendment, amend any Letter of Credit issued by it. Each such request for amendment of a Letter of Credit shall be made by facsimile, confirmed immediately in an original writing, made in the form of an L/C Amendment Application and shall specify in form and detail satisfactory to the Issuing Lender: (i) the Letter of Credit to be amended; (ii) the proposed date of amendment of such Letter of Credit (which shall be a Business Day); (iii) the nature of the proposed amendment; and (iv) such other matters as the Issuing Lender may require. The Issuing Lender shall not have any obligation to amend any Letter of Credit if: (A) the Issuing Lender would have no obligation at such time to Issue such Letter of Credit in its amended form under the terms of this Agreement; or (B) the beneficiary of such Letter of Credit does not accept the proposed amendment to such Letter of Credit.

(d) The Issuing Lender and the Lenders agree that, while a Letter of Credit is outstanding and prior to the Revolving Termination Date, at the option of the Company and upon the written request of the Company received by the Issuing Lender (with a copy sent by the Company to the Administrative Agent) at least four Business Days (or such shorter time as the Issuing Lender and the Administrative Agent may agree in a particular instance in their sole discretion) prior to the proposed date of notification of renewal, the Issuing Lender shall be entitled, with the approval of the Administrative Agent, to authorize the automatic renewal of any Letter of Credit issued by it. Each such request for renewal of a Letter of Credit shall be made by facsimile, confirmed immediately in an original writing, in the form of an L/C Amendment Application, and shall specify in form and detail satisfactory to the Issuing Lender: (i) the Letter of Credit to be renewed; (ii) the proposed date of notification of renewal of such Letter of Credit (which shall be a Business Day); (iii) the revised expiry date of such Letter of Credit (which, unless all Lenders otherwise consent in writing, shall be prior to the Revolving Termination Date); and (iv) such other matters as the Issuing Lender may require. The Issuing Lender shall not be under any obligation to renew any Letter of Credit if: (A) the Issuing Lender would have no obligation at such time to issue or amend such Letter of Credit in its renewed form under the terms of this Agreement; or (B) the beneficiary of such Letter of Credit does not accept the proposed renewal of such Letter of Credit. If any outstanding Letter of Credit shall provide that it shall be automatically renewed unless the beneficiary thereof receives notice from



the Issuing Lender that such Letter of Credit shall not be renewed, and if at the time of renewal the Issuing Lender would be entitled to authorize the automatic renewal of such Letter of Credit in accordance with this subsection 3.2(d) upon the request of the Company but the Issuing Lender shall not have received any L/C Amendment Application from the Company with respect to such renewal or other written direction by the Company with respect thereto, the Issuing Lender shall nonetheless be permitted to allow such Letter of Credit to renew, subject to the approval of the Administrative Agent, and the Company and the Lenders hereby authorize such renewal, and, accordingly, the Issuing Lender shall be deemed to have received an L/C Amendment Application from the Company requesting such renewal.

(e) The Issuing Lender may, at its election (or as required by the Administrative Agent at the direction of the Required Lenders), deliver any notices of termination or other communications to any Letter of Credit beneficiary or transferee, and take any other action as necessary or appropriate, at any time and from time to time, in order to cause the expiry date of such Letter of Credit to be a date not later than the Revolving Termination Date.

(f) This Agreement shall control in the event of any conflict with any L/C-Related Document (other than any Letter of Credit).

(g) The Issuing Lender will deliver to the Administrative Agent, concurrently or promptly following its delivery of a Letter of Credit, or amendment to or renewal of a Letter of Credit, to an advising bank or a beneficiary, a true and complete copy of each such Letter of Credit or amendment to or renewal of a Letter of Credit.

3.3 Risk Participations, Drawings and Reimbursements. (a) Immediately upon the Issuance of each Letter of Credit, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the Issuing Lender a participation in such Letter of Credit and each drawing thereunder in an amount equal to the product of (i) such Lender's Percentage times (ii) the maximum amount available to be drawn under such Letter of Credit and the amount of such drawing, respectively.

(b) In the event of any request for a drawing under a Letter of Credit by the beneficiary or transferee thereof, the Issuing Lender will promptly notify the Company and the Administrative Agent. The Company shall reimburse the Issuing Lender prior to 10:30 a.m. (Chicago time), on each date that any amount is paid by the Issuing Lender under any Letter of Credit (each such date, an "Honor Date") in an amount equal to the amount so paid by the Issuing Lender; provided that, to the extent that the Issuing Lender accepts a drawing under a Letter of Credit after 10:30 a.m. (Chicago time), the Company will not be obligated to reimburse the Issuing Lender until the next Business Day and the "Honor Date" for such Letter of Credit shall be such next Business Day. If the Company fails to reimburse the Issuing Lender for the full amount of any drawing under any Letter of Credit by 10:30 a.m. (Chicago time) on the Honor Date, the Issuing Lender will promptly notify the Administrative Agent and the Administrative Agent will promptly notify each Lender thereof, and the Company shall be

deemed to have requested that Base Rate Loans be made by the Lenders to be disbursed on the Honor Date under such Letter of Credit, subject to the amount of the unutilized portion of the Revolving Commitment Amount and subject to the conditions set forth in Section 5.3 other than Section 5.3(a). Any notice given by the Issuing Lender or the Administrative Agent pursuant to this subsection 3.3(b) may be oral if immediately confirmed in writing (including by facsimile); provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(c) Each Lender shall upon any notice pursuant to subsection 3.3(b) make available to the Administrative Agent for the account of the Issuing Lender an amount in Dollars and in immediately available funds equal to its Percentage of the amount of the drawing, whereupon the participating Lenders shall (subject to subsection 3.3(d)) each be deemed to have made a Revolving Loan consisting of a Base Rate Loan to the Company in such amount. If any Lender so notified fails to make available to the Administrative Agent for the account of the Issuing Lender the amount of such Lender's Percentage of the amount of such drawing by no later than 1:00 p.m. (Chicago time) on the Honor Date, then interest shall accrue on such Lender's obligation to make such payment, from the Honor Date to the date such Lender makes such payment, at a rate per annum equal to the Federal Funds Rate in effect from time to time during such period. The Administrative Agent will promptly give notice of the occurrence of the Honor Date, but failure of the Administrative Agent to give any such notice on the Honor Date or in sufficient time to enable any Lender to effect such payment on such date shall not relieve such Lender from its obligations under this Section 3.3.

(d) With respect to any unreimbursed drawing that is not converted into Revolving Loans consisting of Base Rate Loans in whole or in part, because of the Company's failure to satisfy the conditions set forth in Section 5.3 (other than Section 5.3(a), which need not be satisfied) or for any other reason, the Company shall be deemed to have incurred from the Issuing Lender an L/C Borrowing in the amount of such drawing, which L/C Borrowing shall be due and payable on demand (together with interest) and shall bear interest at a rate per annum equal to the sum of the Base Rate plus 2%, and each Lender's payment to the Issuing Lender pursuant to subsection 3.3(c) shall be deemed payment in respect of its participation in such L/C Borrowing and shall constitute an L/C Advance from such Lender in satisfaction of its participation obligation under this Section 3.3.

(e) Each Lender's obligation in accordance with this Agreement to make Revolving Loans or L/C Advances, as contemplated by this Section 3.3, as a result of a drawing under a Letter of Credit, shall be absolute and unconditional and without recourse to the Issuing Lender and shall not be affected by any circumstance, including (i) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against the Issuing Lender, the Company or any other Person for any reason whatsoever, (ii) the occurrence or continuance of an Event of Default, an Unmatured Event of Default or a Material Adverse Effect or (iii) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing; provided that each Lender's obligation to make Revolving Loans under this Section 3.3 is subject to the conditions set forth in Section 5.3.

3.4 Repayment of Participations. (a) Upon (and only upon) receipt by the Administrative Agent for the account of the Issuing Lender of immediately available funds from the Company (i) in reimbursement of any payment made by the Issuing Lender under a Letter of Credit with respect to which any Lender has paid the Administrative Agent for the account of the Issuing Lender for such Lender's participation in such Letter of Credit pursuant to Section 3.3 or (ii) in payment of interest thereon, the Administrative Agent will pay to each Lender, in like funds as those received by the Administrative Agent for the account of the Issuing Lender, the amount of such Lender's Percentage of such funds, and the Issuing Lender shall receive the amount of the Percentage of such funds of any Lender that did not so pay the Administrative Agent for the account of the Issuing Lender.

(b) If the Administrative Agent or the Issuing Lender is required at any time to return to the Company, or to a trustee, receiver, liquidator or custodian, or to any official in any Insolvency Proceeding, any portion of any payment made by the Company to the Administrative Agent for the account of the Issuing Lender pursuant to subsection 3.4(a) in reimbursement of a payment made under a Letter of Credit or interest or fee thereon, each Lender shall, on demand of the Administrative Agent, forthwith return to the Administrative Agent or the Issuing Lender the amount of its Percentage of any amount so returned by the Administrative Agent or the Issuing Lender plus interest thereon from the date such demand is made to the date such amount is returned by such Lender to the Administrative Agent or the Issuing Lender, at a rate per annum equal to the Federal Funds Rate in effect from time to time.

3.5 Role of the Issuing Lender. (a) Each Lender and the Company agree that, in paying any drawing under a Letter of Credit, the Issuing Lender shall not have any responsibility to obtain any document (other than any sight draft and certificate expressly required by such Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document.

(b) None of any Agent-Related Person, the Issuing Lender or any of their respective correspondents, participants or assignees shall be liable to any Lender for: (i) any action taken or omitted in connection herewith at the request or with the approval of the Lenders (including the Required Lenders, as applicable); (ii) any action taken or omitted in the absence of gross negligence or willful misconduct; or (iii) the due execution, effectiveness, validity or enforceability of any L/C-Related Document.

(c) The Company hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided that this assumption is not intended to, and shall not, preclude the Company's pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under this Agreement or any other agreement. None of any Agent-Related Person, the Issuing Lender or any of their respective correspondents, participants or assignees shall be liable or responsible for any of the matters described in clauses (i) through (vii) of Section 3.6; provided that, anything in such clauses to the contrary notwithstanding, the Company may have a claim against the Issuing Lender, and the Issuing Lender may be liable to the Company, to the extent, but only to the

extent, of any direct, as opposed to consequential or exemplary, damages suffered by the Company which the Company proves were caused by the Issuing Lender's willful misconduct or gross negligence or the Issuing Lender's willful or grossly negligent failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of such Letter of Credit. In furtherance and not in limitation of the foregoing: (i) the Issuing Lender may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary; and (ii) the Issuing Lender shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason.

3.6 Obligations Absolute. The obligations of the Company under this Agreement and any L/C-Related Document to reimburse the Issuing Lender for a drawing under a Letter of Credit, and to repay any L/C Borrowing and any drawing under a Letter of Credit converted into Revolving Loans, shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement and each such other L/C-Related Document under all circumstances, including the following:

(i) any lack of validity or enforceability of this Agreement or any L/C- Related Document;

(ii) any change in the time, manner or place of payment of, or in any other term of, all or any of the obligations of the Company in respect of any Letter of Credit or any other amendment or waiver of or any consent to departure from all or any of the L/C-Related Documents;

(iii) the existence of any claim, set-off, defense or other right that the Company may have at any time against any beneficiary or any transferee of any Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), the Issuing Lender or any other Person, whether in connection with this Agreement, the transactions contemplated hereby or by the L/C-Related Documents or any unrelated transaction;

(iv) any draft, demand, certificate or other document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under any Letter of Credit;

(v) any payment by the Issuing Lender under any Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit; or any payment made by the Issuing Lender under any Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession,

assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of any Letter of Credit, including any arising in connection with any Insolvency Proceeding;

(vi) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any guarantee, for all or any of the obligations of the Company in respect of any Letter of Credit; or

(vii) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Company or a guarantor.

3.7 Cash Collateral Pledge. If any Letter of Credit remains outstanding and partially or wholly undrawn as of the Revolving Termination Date, then the Company shall immediately Cash Collateralize the L/C Obligations in an amount equal to the maximum amount then available to be drawn under all Letters of Credit.

3.8 Letter of Credit Fees. (a) The Company shall pay to the Administrative Agent for the account of each Lender a letter of credit fee with respect to each Letter of Credit at a rate per annum equal to the L/C Fee Rate on the average daily maximum amount available to be drawn on such Letter of Credit, computed on a quarterly basis in arrears on the last Business Day of each calendar quarter.

(b) The Company shall pay to the Issuing Lender a letter of credit fronting fee for each Letter of Credit Issued equal to 0.25% per annum of the average daily maximum amount available to be drawn on such Letter of Credit, computed on the last Business Day of each calendar quarter and on the Revolving Termination Date (or such later date on which such Letter of Credit shall expire or be fully drawn).

(c) The letter of credit fees payable under subsection 3.8(a) and the fronting fees payable under subsection 3.8(b) shall be due and payable quarterly in arrears on the last Business Day of each calendar quarter during which Letters of Credit are outstanding, commencing on the first such quarterly date to occur after the Effective Date, through the Revolving Termination Date (or such later date upon which all outstanding Letters of Credit shall expire or be fully drawn), with the final payment to be made on the Revolving Termination Date (or such later date). For purposes of calculating the fees payable under subsection 3.8(a) and subsection 3.8(b), any undrawn Commercial Letters of Credit should be considered outstanding and available to be drawn upon for 25 days after its expiry date.

(d) The Company shall pay to the Issuing Lender from time to time on demand the normal issuance, presentation, amendment and other processing fees, and other standard costs and charges, of the Issuing Lender relating to letters of credit as from time to time in effect.

3.9 Uniform Customs and Practice. The Uniform Customs and Practice for Documentary Credits as published by the International Chamber of Commerce most recently at the time of issuance of any Letter of Credit shall (unless otherwise expressly provided in such Letter of Credit) apply to each Letter of Credit.

3.10 Non-Dollar Letters of Credit. (a) The Company, the Administrative Agent, the Issuing Lender and the Lenders (i) agree that the Issuing Lender may (in its sole discretion) issue Letters of Credit ("Non-Dollar Letters of Credit") in currencies other than Dollars and (ii) further agree as follows with respect to such Non-Dollar Letters of Credit:

(b) The Company agrees that its reimbursement obligation under subsection 3.3(b) and any resulting L/C Borrowing, in each case in respect of a drawing under any Non-Dollar Letter of Credit, (i) shall be payable in Dollars at the Dollar Equivalent of such obligation in the currency in which such Non-Dollar Letter of Credit was issued (determined on the date of payment) and (ii) shall bear interest at a rate per annum equal to the sum of the Overnight Rate plus the Margin plus 3% for each day from and including the Honor Date to but excluding the date such obligation is paid in full (it being understood that any payment received after 10:30 a.m., Chicago time, on any day shall be deemed received on the following Business Day).

(c) Each Lender agrees that its obligation to make Revolving Loans under subsection 3.3(b) and to make L/C Advances for any unpaid reimbursement obligation or L/C Borrowing in respect of a drawing under any Non-Dollar Letter of Credit shall be payable in Dollars at the Dollar Equivalent of such obligation in the currency in which such Non-Dollar Letter of Credit was issued (calculated on the date of payment) (and any such amount which is not paid when due shall bear interest at a rate per annum equal to the Overnight Rate plus, beginning on the third Business Day after such amount was due, the Margin.

(d) For purposes of determining whether there is availability for the Company to request, continue or convert any Loan, or request, extend or increase the face amount of any Letter of Credit, the Dollar Equivalent of the Effective Amount of each Non-Dollar Letter of Credit shall be calculated on the date such Loan is to be made, continued or converted or such Letter of Credit is to be issued, extended or increased.

(e) For purposes of determining (i) the amount of the unused portion of the Revolving Commitment Amount under subsection 2.11(b), (ii) the letter of credit fee under subsection 3.8(a) and (iii) the letter of credit fronting fee under subsection 3.8(b), the Dollar Equivalent of the Effective Amount of any Non-Dollar Letter of Credit shall be determined on each of (1) the date of an issuance, extension or change in the face amount of such Non-Dollar Letter of Credit, (2) the date of any payment by the Issuing Lender in respect of a drawing under such Non-Dollar Letter of Credit, (3) the last day of each calendar month and (4) each day on which the Revolving Commitment Amount is reduced.

(f) If, on the last day of any calendar month or any day on which the Revolving Commitment Amount is reduced, the sum of the principal amount of all Revolving Loans and Swingline Loans plus the Effective Amount of all Letters of Credit (valuing the Effective Amount of, and all reimbursement obligations and L/C Borrowings of the Company in respect of, any Non-Dollar Letter of Credit at the Dollar Equivalent thereof as of such day) would exceed the Revolving Commitment Amount, then the Company will immediately eliminate such excess by prepaying Revolving Loans and/or Swingline Loans and/or causing one or more Letters of Credit to be reduced or terminated.

(g) If, for the purposes of obtaining judgment in any court, it is necessary to convert a sum due in respect of any Non-Dollar Letter of Credit in one currency into another currency, the rate of exchange used shall be that at which in accordance with normal banking procedures the Issuing Lender could purchase the first currency with such other currency on the Business Day preceding that on which final judgment is given. The obligation of the Company in respect of any such sum due from it to the Issuing Lender or any Lender hereunder shall, notwithstanding any judgment in a currency (the "Judgment Currency") other than that in which such sum is denominated in accordance with the applicable provisions of the applicable Non-Dollar Letter of Credit (the "Agreement Currency"), be discharged only to the extent that on the Business Day following receipt by the Issuing Lender or such Lender of any sum adjudged to be so due in the Judgment Currency, the Issuing Lender or such Lender may in accordance with normal banking procedures purchase the Agreement Currency with the Judgment Currency. If the amount of the Agreement Currency so purchased is less than the sum originally due to the Issuing Lender or such Lender in the Agreement Currency, the Company agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the Issuing Lender or such Lender, as applicable, against such loss. If the amount of the Agreement Currency so purchased is greater than the sum originally due to the Issuing Lender or such Lender in such currency, the Issuing Lender and each other Lender agrees to return the amount of any excess to the Company (or to any other Person who may be entitled thereto under applicable law).

(h) For purposes of this Section, "Overnight Rate" means, for any day, the rate of interest per annum at which overnight deposits in the applicable currency, in an amount approximately equal to the amount with respect to which such rate is being determined, would be offered for such day by the London Branch of BofA to major banks in the London or other applicable offshore interbank market. The Overnight Rate for any day which is not a Business Day (or on which dealings are not carried on in the applicable offshore interbank market) shall be the Overnight Rate for the immediately preceding Business Day.

#### ARTICLE IV

##### TAXES, YIELD PROTECTION AND ILLEGALITY

4.1 Taxes. (a) Any and all payments by the Company to each Lender or the Administrative Agent under this Agreement and any other Loan Document shall be made free

and clear of, and without deduction or withholding for, any Taxes. In addition, the Company shall pay all Other Taxes.

(b) The Company agrees to indemnify and hold harmless each Lender and the Administrative Agent for the full amount of Taxes, Other Taxes and Further Taxes paid by such Lender in the amount necessary to preserve the after-tax yield such Lender would have received if such Taxes, Other Taxes or Further Taxes had not been imposed, and any liability (including penalties, interest, additions to tax and reasonable out-of-pocket expenses) arising therefrom or with respect thereto, whether or not such Taxes, Other Taxes or Further Taxes were correctly or legally asserted; provided, however, that no participant of any Lender shall be entitled to receive any greater payment under this subsection 4.1(b) than such Lender would have been entitled to receive with respect to the rights participated; and provided further that the Company shall not indemnify any Lender (or participant thereof) or the Administrative Agent for Taxes, Other Taxes, Further Taxes, penalties, additions to tax, interest and expenses arising as a result of any of their own willful misconduct or gross negligence. Payment under this subsection 4.1(b) shall be made within 30 days from the date such Lender or the Administrative Agent (as the case may be) makes written demand therefor, including with such demand an identification of the Taxes, Other Taxes or Further Taxes (together with the amounts thereof) with respect to which such demand for indemnification is being made.

(c) If the Company shall be required by law to deduct or withhold any Taxes, Other Taxes or Further Taxes from or in respect of any sum payable hereunder to any Lender or the Administrative Agent, then:

(i) the sum payable shall be increased as necessary so that, after making all required deductions and withholdings (including deductions and withholdings applicable to additional sums payable under this Section), such Lender or the Administrative Agent, as the case may be, receives and retains an amount equal to the sum it would have received and retained had no such deductions or withholdings been made;

(ii) the Company shall make such deductions and withholdings; and

(iii) the Company shall pay the full amount deducted or withheld to the relevant taxing authority or other authority in accordance with applicable law.

(d) Within 10 days after the date the Company receives any receipt for the payment of Taxes, Other Taxes or Further Taxes, the Company shall furnish to each Lender and the Administrative Agent the original or a certified copy of such receipt evidencing payment thereof, or other evidence of payment satisfactory to such Lender or the Administrative Agent.

(e) If the Company is required to pay additional amounts to any Lender or the Administrative Agent pursuant to subsection (b) of this Section or Section 4.3, then such Lender shall use reasonable efforts (consistent with legal and regulatory restrictions) to change



the jurisdiction of its Lending Office so as to reduce or eliminate any such additional payment by the Company which may thereafter accrue, if such change in the sole judgment of such Lender is not otherwise disadvantageous to such Lender.

(f) If a Lender (or participant thereof) or the Administrative Agent shall become aware that it is entitled to receive a refund (including interest and penalties, if any) in respect of Taxes, Other Taxes or Further Taxes as to which it has been indemnified by the Company pursuant to this Section 4.1, it shall promptly notify the Company in writing of the availability of such refund (including interest and penalties, if any) and shall, within 30 days after receipt of a request by the Company, apply for such refund. If any Lender (or participant thereof) or the Administrative Agent receives a refund (including interest and penalties, if any) in respect of any Taxes, Other Taxes or Further Taxes as to which it has been indemnified by the Company pursuant to this Section 4.1, it shall promptly notify the Company of the receipt of such refund and shall, within 15 days of receipt, repay such refund (to the extent of amounts that have been paid by the Company under this Section 4.1 with respect to such refund and not previously reimbursed) to the Company, net of all reasonable out-of-pocket expenses of such Lender or the Administrative Agent and without any interest (other than the interest, if any, included in such refund).

4.2 Illegality. (a) After the date hereof, if any Lender determines that the introduction of any Requirement of Law, or any change in any Requirement of Law, or in the interpretation or administration of any Requirement of Law, has made it unlawful, or that any central bank or other Governmental Authority has asserted that it is unlawful, for such Lender or its applicable Lending Office to make Offshore Rate Loans, then, on notice thereof by the Lender to the Company through the Administrative Agent, any obligation of such Lender to make Offshore Rate Loans shall be suspended until such Lender notifies the Administrative Agent and the Company that the circumstances giving rise to such determination no longer exist.

(b) After the date hereof, if a Lender determines that it is unlawful to maintain any Offshore Rate Loan, the Company shall, upon its receipt of notice of such fact and demand from such Lender (with a copy to the Administrative Agent), prepay in full such Offshore Rate Loan, together with interest accrued thereon and any amount required under Section 4.4, either on the last day of the Interest Period thereof, if such Lender may lawfully continue to maintain such Offshore Rate Loan to such day, or on such earlier date on which such Lender may no longer lawfully continue to maintain such Offshore Rate Loan (as determined by such Lender). If the Company is required to so prepay any Offshore Rate Loan, then concurrently with such prepayment, the Company shall borrow from the affected Lender, in the amount of such repayment, a Base Rate Loan.

(c) If the obligation of any Lender to make or maintain Offshore Rate Loans has been terminated or suspended pursuant to subsection (a) or (b) above, all Loans which would otherwise be made by such Lender as Offshore Rate Loans shall be instead Base Rate Loans.

(d) Before giving any notice to the Administrative Agent or demand upon the Company under this Section, the affected Lender shall designate a different Lending Office with respect to its Offshore Rate Loans if such designation will avoid the need for giving such notice or making such demand and will not, in the judgment of such Lender, be illegal or otherwise disadvantageous to such Lender.

4.3 Increased Costs and Reduction of Return. (a) After the date hereof, if any Lender determines that, due to either (i) the introduction of or any change (other than any change by way of imposition of or increase in reserve requirements included in the calculation of the Offshore Rate) in or in the interpretation of any law or regulation or (ii) compliance by such Lender with any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law), there shall be any increase in the cost to such Lender of agreeing to make or making, funding or maintaining any Offshore Rate Loan or participating in Letters of Credit or, in the case of the Issuing Lender, any increase in the cost to the Issuing Lender of agreeing to issue, issuing or maintaining any Letter of Credit or of agreeing to make or making, funding or maintaining any unpaid drawing under any Letter of Credit, then the Company shall be liable for, and shall from time to time, upon demand (with a copy of such demand to be sent to the Administrative Agent), pay to the Administrative Agent for the account of such Lender, additional amounts as are sufficient to compensate such Lender for such increased costs.

(b) After the date hereof, if any Lender shall have determined that (i) the introduction of any Capital Adequacy Regulation, (ii) any change in any Capital Adequacy Regulation, (iii) any change in the interpretation or administration of any Capital Adequacy Regulation by any central bank or other Governmental Authority charged with the interpretation or administration thereof, or (iv) compliance by such Lender (or its Lending Office) or any corporation controlling such Lender with any Capital Adequacy Regulation, affects or would affect the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender and (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy and such Lender's desired return on capital) determines that the amount of such capital is increased as a consequence of any of its Commitments, Loans or obligations under this Agreement, then, upon demand of such Lender to the Company through the Administrative Agent, the Company shall pay to such Lender, from time to time as specified by such Lender, additional amounts sufficient to compensate such Lender for such increase.

(c) This Section 4.3 shall not require the Company to reimburse the Administrative Agent or any Lender for any Taxes which are otherwise covered by the indemnity set forth in Section 4.1 or any Excluded Taxes.

4.4 Funding Losses. The Company shall reimburse each Lender and hold each Lender harmless from any loss or expense which such Lender may sustain or incur as a consequence of:

(a) the failure of the Company to make on a timely basis any payment of principal of any Offshore Rate Loan;

(b) the failure of the Company to borrow, continue or convert a Loan after the Company has given (or is deemed to have given) a Notice of Borrowing or a Notice of Conversion/ Continuation;

(c) the failure of the Company to make any prepayment in accordance with any notice delivered under Section 2.7;

(d) the prepayment (including pursuant to Section 2.8) or other payment (including after acceleration thereof) of an Offshore Rate Loan on a day that is not the last day of the relevant Interest Period; or

(e) the automatic conversion under subsection 2.4(a) of any Offshore Rate Loan to a Base Rate Loan on a day that is not the last day of the relevant Interest Period;

including any such loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain its Offshore Rate Loans or from fees payable to terminate the deposits from which such funds were obtained. For purposes of calculating amounts payable by the Company to the Lenders under this Section and under subsection 4.3(a), each Offshore Rate Loan made by a Lender (and each related reserve, special deposit or similar requirement) shall be conclusively deemed to have been funded at the IBOR used in determining the Offshore Rate for such Offshore Rate Loan by a matching deposit or other borrowing in the interbank eurodollar market for a comparable amount and for a comparable period, whether or not such Offshore Rate Loan is in fact so funded.

4.5 Inability to Determine Rates. If the Administrative Agent determines that for any reason adequate and reasonable means do not exist for determining the Offshore Rate for any requested Interest Period with respect to a proposed Offshore Rate Loan, or the Required Lenders determine (and notify the Administrative Agent) that the Offshore Rate applicable pursuant to subsection 2.10(a) for any requested Interest Period with respect to a proposed Offshore Rate Loan does not adequately and fairly reflect the cost to such Lenders of funding such Loan, the Administrative Agent will promptly so notify the Company and each Lender. Thereafter, the obligation of the Lenders to make or maintain Offshore Rate Loans hereunder shall be suspended until the Administrative Agent, with the consent of the Required Lenders, revokes such notice in writing. Upon receipt of such notice, the Company may revoke any Notice of Borrowing or Notice of Conversion/Continuation then submitted by it. If the Company does not revoke such Notice, the Lenders shall make, convert or continue the Loans, as proposed by the Company, in the amount specified in the applicable notice submitted by the Company, but such Loans shall be made, converted or continued as Base Rate Loans instead of Offshore Rate Loans.

4.6 Certificates of Lenders. Any Lender claiming reimbursement or compensation under this Article IV shall deliver to the Company (with a copy to the Administrative Agent) a certificate setting forth in reasonable detail the basis for such claim and a calculation of the amount payable to such Lender and such certificate shall be conclusive and binding on the Company in the absence of manifest error.

4.7 Substitution of Lenders. In the event the Company becomes obligated to pay additional amounts to any Lender pursuant to Sections 4.1(b) or (c) or Section 4.3, or if it becomes illegal for any Lender to continue to fund or to make Offshore Rate Loans pursuant to Section 4.2, as a result of any condition described in any such Section, then, unless such Lender has theretofore taken steps to remove or cure, and has removed or cured, the conditions creating the cause for such obligation to pay such additional amounts or for such illegality, the Company may designate another Lender which is acceptable to the Administrative Agent, the Issuing Lender and the Swingline Lender in their sole discretion (such Lender being herein called a "Replacement Lender") to purchase the Loans of such Lender and such Lender's rights hereunder, without recourse to or warranty by, or expense to, such Lender for a purchase price equal to the outstanding principal amount of the Loans payable to such Lender plus any accrued but unpaid interest on such Loans and accrued but unpaid commitment fees in respect of such Lender's Commitments and any other amounts payable to such Lender under this Agreement, and to assume all the obligations of such Lender hereunder, and, upon such purchase, such Lender shall no longer be a party hereto or have any rights hereunder and shall be relieved from all obligations to the Company hereunder, and the Replacement Lender shall succeed to the rights and obligations of such Lender hereunder.

4.8 Survival. The agreements and obligations of the Company in this Article IV shall survive the payment of all other Obligations.

#### ARTICLE V

##### CONDITIONS PRECEDENT

5.1 Conditions of Effectiveness. This Agreement shall become effective (and the Existing Agreement shall be deemed to have been amended and restated hereby) on the date that (i) the Effective Date shall have occurred on or before January 31, 1998; (ii) the conditions precedent to the making of a Credit Extension set forth in Section 5.2 shall be satisfied; and (iii) the Administrative Agent shall have received all of the following, in form and substance satisfactory to the Administrative Agent and each Lender, and (except for any Notes) in sufficient copies for each Lender.

(a) Credit Agreement and Notes. This Agreement and the Notes (if any) executed by each party thereto.

(b) Resolutions and Incumbency.

(i) Copies of resolutions of the board of directors of the Company and each Guarantor authorizing the transactions contemplated hereby, certified as of the Effective Date by the Secretary or an Assistant Secretary of such Person; and

(ii) A certificate of the Secretary or an Assistant Secretary of the Company and each Guarantor certifying the names and true signatures of the officers of such Person authorized to execute, deliver and perform this Agreement and the other Documents to be delivered by it hereunder.

(c) Organization Documents; Good Standing. Each of the following documents:

(i) for the Company and each Guarantor, the articles or certificate of incorporation and the bylaws of each such Person, as the case may be, as in effect on the Effective Date, certified by the Secretary or Treasurer of such Person, as of the Effective Date; and

(ii) a good standing certificate for the Company and each Guarantor from the Secretary of State (or similar applicable Governmental Authority) of the jurisdiction of its organization.

(d) Legal Opinions.

(i) An opinion of James A. Broderick, Vice President and General Counsel of the Company, substantially in the form of Exhibit J, and

(ii) An opinion of Mayer, Brown & Platt, special counsel to the Administrative Agent, substantially in the form of Exhibit K.

(e) Payment of Fees. Evidence of payment by the Company of all accrued and unpaid fees, costs and expenses to the extent then due and payable on the Effective Date, together with Attorney Costs of the Administrative Agent and the Arranger to the extent invoiced prior to or on the Effective Date, plus such additional amounts of Attorney Costs as shall constitute the Administrative Agent's reasonable estimate of Attorney Costs incurred or to be incurred by it through the closing proceedings (it being understood that such estimate shall not thereafter preclude final settling of accounts between the Company and the Administrative Agent), including any such costs, fees and expenses arising under or referenced in Section 2.11 or 11.4.

(f) Certificate. A certificate signed by a Responsible Officer, dated as of the Effective Date, stating that:

(i) the representations and warranties contained in Article VI are true and correct on and as of such date, as though made on and as of such date;

(ii) no Event of Default or Unmatured Event of Default exists or will result from the effectiveness hereof; and

(iii) no event or circumstance has occurred since September 30, 1997 that has resulted, or would reasonably be expected to result, in a Material Adverse Effect.

(g) Confirmation. A Confirmation and Omnibus Amendment, substantially in the form of Exhibit I, executed by the Company and each Guarantor.

(h) Other Documents. Such other approvals, opinions, documents or materials as the Administrative Agent or any Lender may reasonably request.

5.2 Conditions to All Credit Extensions. The obligation of each Lender to make any Loan to be made by it and the obligation of the Issuing Lender to Issue any Letter of Credit is subject to the satisfaction of the following conditions precedent on the relevant Borrowing Date or Issuance Date:

(a) Notice, Application. In the case of any Loan, the Administrative Agent shall have received a Notice of Borrowing, and in the case of any Issuance of any Letter of Credit, the Issuing Lender and the Administrative Agent shall have received an L/C Application or L/C Amendment Application, as required under Section 3.2.

(b) Continuation of Representations and Warranties. The representations and warranties in Article VI shall be true and correct in all material respects on and as of the date of such Credit Extension with the same effect as if made on and as of such date (except to the extent such representations and warranties expressly refer to an earlier date, in which case they shall be true and correct as of such earlier date).

(c) No Existing Default. No Event of Default or Unmatured Event of Default shall exist or shall result from such Credit Extension.

Each Notice of Borrowing and L/C Application or L/C Amendment Application submitted by the Company hereunder shall constitute a representation and warranty by the Company hereunder, as of the date of such notice and as of the applicable Borrowing Date or Issuance Date, that the conditions in this Section 5.2 are satisfied.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES

The Company represents and warrants to each Agent and each Lender that:

6.1 Corporate Existence and Power. The Company and each of its Subsidiaries (other than any Dormant Subsidiary):

(a) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation;

(b) has the power and authority and all governmental licenses, authorizations, consents and approvals (i) to own its assets and to carry on its business and (ii) to execute, deliver and perform its obligations under the Loan Documents;

(c) is duly qualified as a foreign corporation and is licensed and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification or license; and

(d) is in compliance with all Requirements of Law;

except, in each case referred to in clause (b)(i), (c) or (d), to the extent that the failure to do so would not reasonably be expected to have a Material Adverse Effect.

6.2 Corporate Authorization; No Contravention. The execution and delivery by the Company of this Agreement and each other Loan Document to which it is a party, the Borrowings hereunder, the execution and delivery by each Guarantor of each Loan Document to which it is a party and the performance by each of the Company and each Guarantor of its obligations under each Loan Document to which it is a party (i) are within the corporate powers of the Company and each Guarantor, as applicable, (ii) have been duly authorized by all necessary corporate action on the part of the Company and each Guarantor (including any necessary shareholder action) and (iii) do not and will not:

(a) contravene the terms of any of the Organization Documents of the Company or any Guarantor;

(b) conflict with or result in a breach or contravention of, or the creation of any Lien under, any document evidencing any Contractual Obligation to which the Company or any Guarantor is a party or any order, injunction, writ or decree of any Governmental Authority to which the Company, any Guarantor or any of their properties are subject; or

(c) violate any Requirement of Law.

6.3 Governmental Authorization. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority is necessary or required in connection with the execution, delivery or performance by, or enforcement against, the Company of this Agreement or any other Loan Document to which it is a party or any Guarantor with respect to each Loan Document to which it is a party, except, in each case, for filings required to perfect Liens in favor of the Administrative Agent granted under the Loan Documents.

6.4 Binding Effect. This Agreement and each other Loan Document to which the Company is a party constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability; and with respect to each Guarantor, each Loan Document to which such Guarantor is a party constitutes the legal, valid and binding obligation of such Guarantor, enforceable against such Guarantor in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, or similar laws affecting the enforcement of creditors' rights generally and by equitable principles relating to enforceability.

6.5 Litigation. Except as specifically disclosed in Schedule 6.5, there are no actions, suits, proceedings, claims or disputes pending or, to the best knowledge of the Company, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, against the Company or any Subsidiary or any of their respective properties which: purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby or thereby; or would reasonably be expected to have a Material Adverse Effect. No injunction, writ, temporary restraining order or other order of any nature has been issued by any court or other Governmental Authority purporting to enjoin or restrain the execution, delivery or performance of this Agreement or any other Loan Document, or directing that the transactions provided for herein or therein not be consummated as herein or therein provided.

6.6 No Default. No Event of Default or Unmatured Event of Default exists or would result from the incurring of any Obligations by the Company. As of the Effective Date, neither the Company nor any Subsidiary is in default under or with respect to any Contractual Obligation in any respect which, individually or together with all such defaults, would reasonably be expected to have a Material Adverse Effect, or that would, if such default had occurred after the Effective Date, create an Event of Default under subsection 9.1(e).

6.7 ERISA Compliance.

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state law. Each Plan which is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS and, to the best knowledge of the Company, nothing has occurred which would cause the



loss of such qualification. The Company and each ERISA Affiliate has made all required contributions to any Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(b) There are no pending or, to the best knowledge of the Company, threatened claims, actions or lawsuits, or actions by any Governmental Authority, with respect to any Plan which has resulted or would reasonably be expected to result in a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan which has resulted or would reasonably be expected to result in a Material Adverse Effect.

(c) No ERISA Event has occurred or is reasonably expected to occur that would reasonably be expected to have a Material Adverse Effect; no contribution failure has occurred with respect to a Pension Plan sufficient to give rise to a Lien under Section 302(f) of ERISA; neither the Company nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability to the PBGC under Title IV of ERISA with respect to any Pension Plan; neither the Company nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Section 4201 or 4243 of ERISA with respect to any Multiemployer Plan that would reasonably be expected to have a Material Adverse Effect; and neither the Company nor any ERISA Affiliate has engaged in a transaction that could be subject to Section 4069 or 4212(c) of ERISA.

6.8 Use of Proceeds; Margin Regulations. The proceeds of the Loans are to be used solely for the purposes set forth in and permitted by Sections 7.12 and 8.7. Neither the Company nor any Subsidiary is generally engaged in the business of purchasing or selling Margin Stock or extending credit for the purpose of purchasing or carrying Margin Stock.

6.9 Title to Properties. Each of the Company and each Subsidiary has good record and marketable title in fee simple to, or a valid leasehold interest in, all real property necessary or used in the ordinary conduct of its businesses, except for such defects in title as would not, individually or in the aggregate, have a Material Adverse Effect. Each of the Company and each Subsidiary has good title to all their other respective material properties and assets (except for those assets disposed of not in violation of this Agreement and the other Loan Documents). As of the Effective Date, the property of the Company and its Subsidiaries is subject to no Liens, other than Permitted Liens.

6.10 Taxes. The Company and its Subsidiaries have filed all Federal and State income tax returns and all other material tax returns and reports required to be filed, and have paid all Federal and State income taxes and all other material taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties, income or assets otherwise due and payable, except those which are being contested in good faith by appropriate proceedings and for which adequate reserves have been provided in accordance with GAAP.

There is no written, and, to the best of the Company's knowledge, there is no oral, proposed tax assessment against the Company or any Subsidiary that would, if made, have a Material Adverse Effect.

6.11 Financial Condition. (a) The audited consolidated financial statements of the Company dated September 30, 1997, and the related consolidated statements of income or operations, shareholders' equity and cash flows for the fiscal year then ended:

(i) were prepared in accordance with GAAP;

(ii) present fairly the financial condition of the Company and its Subsidiaries as of the date thereof and the results of operations for the period covered thereby; and

(iii) except as specifically disclosed in Schedule 6.11, show all material indebtedness and other liabilities, direct or contingent, of the Company and its Subsidiaries as of the date thereof, including liabilities for taxes, material commitments and Contingent Obligations.

(b) Since September 30, 1997 there has been no Material Adverse Effect.

6.12 Regulated Entities. None of the Company or any Subsidiary is an "investment company" within the meaning of the Investment Company Act of 1940. None of the Company or any Subsidiary is subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act, any state public utilities code, or any other Federal or state statute or regulation limiting its ability to incur Indebtedness.

6.13 No Burdensome Restrictions. Neither the Company nor any Subsidiary is a party to or bound by any Contractual Obligation or subject to any restriction in any Organization Document or any Requirement of Law which would reasonably be expected to have a Material Adverse Effect.

6.14 Copyrights, Patents, Trademarks and Licenses, etc. The Company and its Subsidiaries own or are licensed or otherwise have the right to use all of the patents, trademarks, service marks, trade names, copyrights and other similar rights that are reasonably necessary for the operation of their respective businesses, without conflict with the rights of any other Person. To the best knowledge of the Company, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by the Company or any Subsidiary infringes upon any valid rights held by any other Person. Except as specifically disclosed in Schedule 6.5, no claim or litigation regarding any of the foregoing is pending or threatened against the Company or any Subsidiary, and no patent, invention, device, application, principle or any statute, law, rule, regulation, standard or code, relating in each case to intellectual property, is, to the knowledge of the Company, pending or proposed, which, in either case, would reasonably be expected to have a Material Adverse Effect.

6.15 Subsidiaries. As of the Effective Date, the Company has no Subsidiaries other than those specifically disclosed in part (a) of Schedule 6.15 hereto and has no equity investments in any other corporation or entity other than those specifically disclosed in part (b) of Schedule 6.15. As of the Effective Date, none of Minera Vindaluz, Zoe-Phos International or Vidor Battery has assets with a fair market value in excess of \$100,000 or conducts any business. As of the Effective Date, none of the Company or any of its Subsidiaries provides any credit support to, or is liable in any manner for any liabilities of, Minera Vindaluz, Zoe-Phos International or Vidor Battery.

6.16 Insurance. Except as specifically disclosed in Schedule 6.16, the properties of the Company and its Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of the Company, in such amounts, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where the Company or such Subsidiary operates.

6.17 Solvency, etc. On the Effective Date (or, in the case of any Person that becomes a Guarantor after the Effective Date, on the date such Person becomes a Guarantor), and immediately prior to and after giving effect to each Credit Extension and the use of the proceeds thereof, each of the Company and each Guarantor will not have an unreasonably small capital (meaning that for the period from the date of determination through December 31, 2002, each of the Company and each Guarantor, after consummation of the transactions contemplated by this Agreement, is a going concern and has sufficient capital to ensure that it will be able to pay its debts and liabilities as they mature and continue to be a going concern in the business in which such entities are engaged and proposed to be engaged for such period), each of the Company's and each Guarantor's assets will exceed its liabilities, each of the Company and each Guarantor will be solvent, will be able to pay its Stated Liabilities as they mature (meaning that each of the Company and such Guarantor will have sufficient assets and cash flow to pay their respective Stated Liabilities as those liabilities mature or otherwise become payable in the normal course of business) and both the Fair Value and Present Fair Saleable Value of the assets of the Company and each Guarantor exceeds the Stated Liabilities, respectively, of each of the Company and each Guarantor.

6.18 Real Property; Mortgages. (a) Set forth on Schedule 6.18(a) is a complete and accurate list, as of the date of this Agreement, of the address of any real property owned or leased by the Company or any Subsidiary, together with, in the case of leased property, the last known name and mailing address of the lessor of such property; and (b) each Mortgage listed on Schedule 6.18(b) creates a valid Lien in favor of the Administrative Agent on the property subject thereto.

6.19 Swap Obligations. Neither the Company nor any of its Subsidiaries has incurred any outstanding obligations under any Swap Contracts, other than Permitted Swap Obligations. The Company has undertaken its own independent assessment of its consolidated assets, liabilities and commitments and has considered appropriate means of mitigating and

managing risks associated with such matters and has not relied on any swap counterparty or any Affiliate of any swap counterparty in determining whether to enter into any Swap Contract.

6.20 Senior Indebtedness. The Company's obligation to pay the Obligations, including interest thereon and all fees, costs, expenses and indemnities related thereto, constitute "Designated Senior Debt" of the Company as such term is defined in the Senior Subordinated Note Indenture. The Guaranty Obligations of each Subsidiary party to the guaranty of the Senior Subordinated Notes are subordinated to the prior payment in full in cash of such Subsidiary's Guaranty Obligations under the Guaranty. The Company acknowledges that the Lenders and the Administrative Agent have entered into this Agreement, and have extended Commitments, in reliance upon the subordination provisions in the Senior Subordinated Note Indenture and in the Subsidiary guaranties thereof.

6.21 Environmental Warranties. Except as set forth in Schedule 6.21:

(a) all facilities and property (including underlying groundwater) owned or leased by the Company or any of its Subsidiaries are in compliance with all Environmental Laws, except for such non-compliance as would not reasonably be expected to result in a Material Adverse Effect;

(b) there are no pending or threatened Environmental Claims, except for such Environmental Claims that are not reasonably likely, either singly or in the aggregate, to result in a Material Adverse Effect;

(c) there have been no Releases of Hazardous Materials at, on or under any property now or, to the best of the Company's knowledge, previously owned or leased by the Company or any of its Subsidiaries that, singly or in the aggregate, have, or may reasonably be expected to have, a Material Adverse Effect;

(d) the Company and its Subsidiaries have been issued and are in compliance with all permits, certificates, approvals, licenses and other authorizations relating to environmental matters and necessary or desirable for their businesses, except to the extent that the failure to have or comply with such permits, certificates, approvals, licenses and other authorizations relating to environmental matters would not be reasonably likely to have a Material Adverse Effect;

(e) no property now or, to the best of the Company's knowledge, previously owned or leased by the Company or any of its Subsidiaries is listed or proposed for listing (with respect to owned property only) on the National Priorities List pursuant to CERCLA, or, to the best of the Company's knowledge, is on the Comprehensive Environmental Response Compensation Liability Information List or on any similar state list of sites requiring investigation or clean-up, except, in each case, for any such listing that, singly or in the aggregate, would not reasonably be expected to have a Material Adverse Effect; and

(f) to the best of the Company's knowledge, neither the Company nor any Subsidiary of the Company has directly transported or directly arranged for the transportation of any Hazardous Material to any location which is listed or proposed for listing on the National Priorities List pursuant to CERCLA, or which is the subject of federal, state or local enforcement actions or other investigations which may lead to Environmental Claims against the Company or such Subsidiary except, in each case, to the extent that the foregoing would not reasonably be expected to have a Material Adverse Effect.

6.22 Full Disclosure. None of the representations or warranties made by the Company or any Subsidiary in the Loan Documents as of the date such representations and warranties are made or deemed made and none of the written statements contained in any exhibit, report, statement or certificate furnished by or on behalf of the Company or any Subsidiary in connection with the Loan Documents, considering each of the foregoing taken as a whole and in the context in which it was made and together with all other representations, warranties and written statements taken as a whole theretofore furnished by the Company and its Subsidiaries to the Administrative Agent and the Lenders in connection with the Loan Documents, contains any untrue statement of a material fact or omits any material fact required to be stated therein or necessary to make such representation, warranty or written statement, in light of the circumstances under which it is made, not misleading as of the time when made or delivered; provided that the Company's representation and warranty as to any forecast, projection or other statement regarding future performance, future financial results or other future development is limited to the fact that such forecast, projection or statement was prepared in good faith on the basis of information and assumptions that the Company believed to be reasonable as of the date such material was provided (it being understood that projections are subject to significant uncertainties and contingencies, many of which are beyond the Company's control, and that no assurance can be given that the projections will be realized).

## ARTICLE VII

### AFFIRMATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, or any Loan or other Obligation shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding, unless the Required Lenders waive compliance in writing:

7.1 Financial Statements. The Company shall deliver to the Administrative Agent, in form and detail satisfactory to the Required Lenders:

(a) as soon as available, but not later than 90 days after the end of each fiscal year, a copy of the audited consolidated balance sheet of the Company and its Subsidiaries as at the end of such year and the related consolidated statements of income or operations, shareholders' equity and cash flows for such year, setting forth in each case in comparative form the figures for the previous fiscal year, and accompanied by the opinion of a

nationally-recognized independent public accounting firm (the "Independent Auditor"), which report (x) shall state that such consolidated financial statements present fairly the consolidated financial position of the Company and its Subsidiaries for the periods indicated in conformity with GAAP applied on a basis consistent with prior years and (y) shall not be qualified or limited because of a restricted or limited examination by the Independent Auditor of any material portion of the Company's or any Subsidiary's (other than a Dormant Subsidiary's) records;

(b) promptly when available, and in any event within 45 days after the end of each fiscal quarter (other than the last fiscal quarter of each fiscal year), a copy of the unaudited consolidated balance sheet of the Company and its Subsidiaries as of the end of such quarter, and the related consolidated statements of income, shareholders' equity and cash flows for such quarter and for the period beginning with the first day of the applicable fiscal year and ending on the last day of such quarter, including a comparison with the corresponding quarter and period of the previous fiscal year and a comparison with the budget for such quarter and for such period of the current fiscal year, together with a certificate of the chief executive officer or the chief financial officer of the Company that each such statement fairly presents the financial condition and results of operations of the Company and its Subsidiaries (subject to normal year-end audit adjustments) and has been prepared in accordance with the management policies consistently applied; and

(c) not later than 90 days after the end of each fiscal year (beginning with the fiscal year ended September 30, 1998), a copy of the projections of the Company of the consolidated operating budget and cash flow budget of the Company and its Subsidiaries for the succeeding fiscal year, such projections to be accompanied by a certificate of the chief financial officer of the Company to the effect that (i) such projections were prepared by the Company in good faith, (ii) the Company has a reasonable basis for the assumptions contained in such projections and (iii) such projections have been prepared according to such assumptions.

7.2 Certificates; Other Information. The Company shall furnish to the Administrative Agent:

(a) concurrently with the delivery of the financial statements referred to in subsection 7.1(a), a certificate of the Independent Auditor stating that in making the examination necessary therefor no knowledge was obtained of any Event of Default or Unmatured Event of Default, except as specified in such certificate;

(b) concurrently with the delivery of the financial statements referred to in subsection 7.1(a) and each set of quarterly statements referred to in subsection 7.1(b), a Compliance Certificate executed by a Responsible Officer;

(c) promptly, copies of all financial statements and reports that the Company sends to its shareholders, and copies of all financial statements and regular, periodic or special reports (including Forms 10K, 10Q and 8K) that the Company or any Subsidiary may make to, or file with, the SEC;

(d) promptly from time to time, any notices (including without limitation notices of default or acceleration thereunder) received from any holder or trustee of, under or with respect to any Subordinated Debt; and

(e) promptly, such additional information regarding the business, financial or corporate affairs of the Company or any Subsidiary as the Administrative Agent, at the request of any Lender, may from time to time reasonably request.

7.3 Notices. Promptly upon a Responsible Officer obtaining knowledge thereof, the Company shall notify the Administrative Agent (and the Administrative Agent will promptly distribute such notice to the Lenders) of:

(a) the occurrence of any Event of Default or Unmatured Event of Default;

(b) any matter that has resulted or would reasonably be expected to result in a Material Adverse Effect, including, if applicable, any breach or non-performance of, or any default under, a Contractual Obligation of the Company or any Subsidiary, any dispute, litigation, investigation, proceeding or suspension between the Company or any Subsidiary and any Governmental Authority or the commencement of, or any material development in, any litigation or proceeding affecting the Company or any Subsidiary;

(c) the occurrence of any of the following events affecting the Company or any ERISA Affiliate (but in no event more than ten days after such event, provided that the Company shall notify the Administrative Agent (which shall promptly inform each Lender thereof) not less than ten days before the occurrence of any event described in clause (ii) below), and deliver to the Administrative Agent (which shall promptly deliver to each Lender a copy thereof) a copy of any notice with respect to such event that is filed with a Governmental Authority and any notice delivered by a Governmental Authority to the Company or any ERISA Affiliate with respect to such event:

(i) an ERISA Event;

(ii) a contribution failure with respect to a Pension Plan sufficient to give rise to a Lien under Section 302(f) of ERISA;

(iii) a material increase in Unfunded Pension Liabilities;

(iv) the adoption of, or the commencement of contributions to, any Plan subject to Section 412 of the Code by the Company or any ERISA Affiliate; or

(v) the adoption of any amendment to a Plan subject to Section 412 of the Code, if such amendment results in a material increase in contributions or Unfunded Pension Liabilities;

(d) any material change in accounting policies or financial reporting practices by the Company or any of its consolidated Subsidiaries;

(e) any proposed payment of or on Subordinated Debt (other than the Senior Subordinated Note Prepayment) prior to the making thereof; and

(f) upon the request from time to time of the Administrative Agent, the Swap Termination Values, together with a description of the method by which such values were determined, relating to any then-outstanding Swap Contracts to which the Company or any of its Subsidiaries is party.

Each notice under clause(a), (b) or (c) of this Section shall be accompanied by a written statement by a Responsible Officer setting forth details of the occurrence referred to therein and stating what action the Company or any affected Subsidiary proposes to take with respect thereto and at what time. Each notice under subsection 7.3(a) shall describe with particularity any and all clauses or provisions of this Agreement or any other Loan Document that have been breached or violated.

7.4 Preservation of Corporate Existence, etc. The Company shall, and shall cause each Subsidiary (other than a Dormant Subsidiary) to:

(a) preserve and maintain in full force and effect its corporate existence and good standing under the laws of its state or jurisdiction of incorporation except a Subsidiary need not be in compliance with the foregoing to the extent such Subsidiary is sold pursuant to Section 8.2 or merged or consolidated unto another Person pursuant to Section 8.3;

(b) preserve and maintain in full force and effect all governmental rights, privileges, qualifications, permits, licenses and franchises, in each case which are material and which are necessary or desirable in the normal conduct of its business, except in connection with transactions permitted by Section 8.3 and dispositions of assets permitted by Section 8.2; and

(c) preserve or renew all of its registered patents, copyrights, trademarks, trade names and service marks, the non-preservation of which would reasonably be expected to have a Material Adverse Effect.

7.5 Maintenance of Property. The Company shall, and shall cause each Subsidiary (other than a Dormant Subsidiary) to, maintain and preserve all property material to the normal conduct of its business in good working order and condition, ordinary wear and tear excepted, other than obsolete, worn out or surplus equipment; provided, however, that nothing in this Section 7.5 shall prevent the Company or any of its Subsidiaries from discontinuing the operation and the maintenance of any of its properties or any Dormant Subsidiary if such discontinuance is, in the opinion of the Board of Directors or senior management of the Company, desirable in the conduct of its business and not disadvantageous in any material respect to the Lenders.



7.6 Insurance. The Company shall, and shall cause each Subsidiary (other than a Dormant Subsidiary) to, maintain with financially sound and reputable independent insurers, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business, of such types and in such amounts as are customarily carried under similar circumstances by such other Persons.

7.7 Payment of Obligations. The Company shall, and shall cause each Subsidiary to, pay and discharge as the same shall become due and payable all of its material obligations and liabilities, including:

(a) all material tax liabilities, assessments and governmental charges or levies upon it or its properties or assets unless the same are being contested in good faith by appropriate proceedings and adequate reserves in accordance with GAAP are being maintained by the Company or such Subsidiary; and

(b) all lawful claims which, if unpaid, would by law become a Lien upon its property.

7.8 Compliance with Laws. The Company shall, and shall cause each Subsidiary to, comply in all material respects with all material Requirements of Law of any Governmental Authority having jurisdiction over it or its business (including the Federal Fair Labor Standards Act), except such as may be contested in good faith or as to which a bona fide dispute may exist.

7.9 Compliance with ERISA. The Company shall, and shall cause each of its ERISA Affiliates to: (a) maintain each Plan in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state law; (b) cause each Plan which is qualified under Section 401(a) of the Code to maintain such qualification; and (c) make all required contributions to any Plan subject to Section 412 of the Code.

7.10 Inspection of Property and Books and Records. The Company shall, and shall cause each Subsidiary to, maintain proper books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of the Company and such Subsidiary. The Company shall permit, and shall cause each Subsidiary to permit, representatives and independent contractors of the Administrative Agent or any Lender to visit and inspect any of their respective properties, to examine their respective corporate, financial and operating records, and to make copies thereof or abstracts therefrom, and to discuss their respective affairs, finances and accounts with their respective directors, officers, and independent public accountants and to inspect any of their inventory and equipment, to perform appraisals of any of their equipment, and to inspect, audit, check and make copies and/or extracts from the books, records, computer data and records, computer programs, journals, orders, receipts, correspondence and other data relating to inventory, accounts receivable, contract rights, general intangibles, equipment and any other collateral, or relating to any other transactions between the parties hereto; at such

reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to the Company; provided, however, that when an Event of Default exists, the Administrative Agent or any Lender may do any of the foregoing without advance notice. After the occurrence and during the continuance of any Event of Default, any such inspection shall be at the Company's expense.

7.11 Environmental Covenant. The Company will, and will cause each of its Subsidiaries to,

(a) use and operate all of its facilities and properties in material compliance with all Environmental Laws, keep all necessary permits, approvals, certificates, licenses and other authorizations relating to environmental matters in effect and remain in material compliance therewith, and handle all Hazardous Materials in material compliance with all applicable Environmental Laws;

(b) promptly notify the Administrative Agent and provide copies of all written Environmental Claims, and shall act in a diligent and prudent fashion to address such Environmental Claims, including Environmental Claims that allege that the Company or any of its Subsidiaries is not in compliance with Environmental Laws; and

(c) provide such information and certifications which the Administrative Agent may reasonably request from time to time to evidence compliance with this Section 7.12.

7.12 Use of Proceeds. The Company shall use the proceeds of the Revolving Loans and Swingline Loans and the Letters of Credit (i) to make the Senior Subordinated Note Prepayment and (ii) for working capital and other general corporate purposes not in contravention of any Requirement of Law or of any Loan Document; and the Company shall use the proceeds of the Acquisition Loans solely to consummate Acquisitions permitted by subsection 8.4(i).

7.13 Further Assurances. (a) The Company shall, and shall cause each Subsidiary to, take such actions, and to execute, acknowledge, deliver, record, file and register any and all such security agreements, mortgages, assignments, estoppel certificates, financing statements and continuations thereof, notices of assignment and other documents and instruments, as the Administrative Agent or the Required Lenders may reasonably request from time to time in order (i) to ensure that (x) the obligations of the Company hereunder and under the other Loan Documents are secured by substantially all assets of the Company (provided that, unless otherwise reasonably required by the Required Lenders, the pledge of the capital stock of a Foreign Subsidiary shall be limited to 65% of the outstanding capital stock of such Subsidiary and, so long as ROV Holding owns no substantial business assets other than stock of Foreign Subsidiaries, the pledge of stock of ROV Holding shall be limited to 65% of the outstanding capital stock of ROV Holding) other than stock of Dormant Subsidiaries and guaranteed, pursuant to the Guaranty, by all Subsidiaries (other than Foreign Subsidiaries and Dormant Subsidiaries) (including, promptly upon the acquisition or creation thereof, any Subsidiary

acquired or created after the date hereof) and (y) the obligations of each Subsidiary under the Guaranty are secured by substantially all of the assets of such Subsidiary other than stock of Dormant Subsidiaries (provided that, unless reasonably required by the Required Lenders, the pledge of the capital stock of a Foreign Subsidiary shall be limited to 65% of the outstanding capital stock of such Subsidiary), (b) to perfect and maintain the validity, effectiveness and priority of any of the Collateral Documents and the Liens intended to be created thereby and (c) to better assure, convey, grant, assign, transfer, preserve, protect and confirm to the Administrative Agent and the Lenders the rights granted or now or hereafter intended to be granted to the Administrative Agent and the Lenders under any Loan Document or under any other document executed in connection therewith. Contemporaneously with the execution and delivery of any document referred to above, the Company shall, and shall cause each Subsidiary to, deliver all resolutions, opinions and corporate documents as the Administrative Agent or the Required Lenders may reasonably request to confirm the enforceability of such document and the perfection of the security interest created thereby, if applicable. Notwithstanding the foregoing provisions of this subsection (a), (A) the IP Subsidiary shall not be obligated to guaranty the obligations of the Company hereunder or under the other Loan Documents or to grant a Lien on any of its property to the Administrative Agent or any Lender; and (B) unless the Required Lenders otherwise request in writing (in which case the Company will, or will cause the applicable Subsidiary to, promptly comply with such request), neither the Company nor any Subsidiary shall have any obligation to (i) perfect the Lien of the Administrative Agent on (x) any motor vehicle which is subject to a certificate of title statute or (y) any note, shares of stock or other security taken in settlement of claim so long as the aggregate value of all such notes, shares and other securities not pledged to (or otherwise subject to a perfected Lien in favor of) the Administrative Agent does not exceed \$250,000; or (ii) grant a Lien to the Administrative Agent on its real property located at 922 South Main Street, Covington, Tennessee, 7276 Old Sauk Road, Madison, Wisconsin or 3436 Nappe Drive, Middleton, Wisconsin.

(b) If any Subsidiary that on the date hereof is a Dormant Subsidiary ceases to be a Dormant Subsidiary, the Company shall promptly pledge or cause to be pledged, pursuant to documentation in form and substance satisfactory to the Administrative Agent, (so long as such Subsidiary is not owned by a Foreign Subsidiary), (ii) in connection with such pledge, deliver or cause to be delivered to the Administrative Agent such certificates and opinions of counsel as requested by the Administrative Agent, and (iii) deliver or cause to be delivered to the Administrative Agent the stock certificates (if any) to be pledged thereunder, together with undated stock powers duly executed in blank.

#### ARTICLE VIII

##### NEGATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, or any Loan or other Obligation shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding, unless the Required Lenders waive compliance in writing:

8.1 Limitation on Liens. The Company shall not, and shall not permit any Subsidiary to, directly or indirectly, make, create, incur, assume or suffer to exist any Lien upon or with respect to any part of its property, whether now owned or hereafter acquired, other than the following ("Permitted Liens"):

(a) any Lien existing on property of the Company or any Subsidiary on the Effective Date and set forth on Schedule 8.1 securing Indebtedness outstanding on such date;

(b) any Lien created under any Loan Document;

(c) Liens for taxes, fees, assessments or other governmental charges which are not delinquent or remain payable without penalty, or to the extent that non-payment thereof is permitted by Section 7.7, provided that no notice of lien has been filed or recorded under the Code;

(d) carriers', warehousemen's, mechanics', landlords', materialmen's, repairmen's or other similar Liens arising in the ordinary course of business which are not delinquent or which are being contested in good faith and by appropriate proceedings, which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto;

(e) Liens (other than any Lien imposed by ERISA) consisting of pledges or deposits required in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation;

(f) Liens on property of the Company or any Subsidiary securing the non-delinquent performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety bonds (excluding appeal bonds and other bonds posted in connection with court proceedings or judgments) and other non-delinquent obligations of a like nature, in each case, incurred in the ordinary course of business; provided that all such Liens in the aggregate would not (even if enforced) cause a Material Adverse Effect;

(g) Liens consisting of judgment or judicial attachment Liens and Liens securing contingent obligations on appeal bonds and other bonds posted in connection with court proceedings or judgments, provided that the enforcement of such Liens is effectively stayed and all such Liens in the aggregate at any time outstanding for the Company and its Subsidiaries do not exceed \$5,000,000;

(h) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount, and which do not in any case materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the businesses of the Company and its Subsidiaries taken as a whole;

(i) purchase money security interests on any property acquired by the Company or any Subsidiary in the ordinary course of business, securing Indebtedness incurred or assumed for the purpose of financing all or any part of the cost of acquiring such property, provided that any such Lien attaches to such property concurrently with or within 90 days after the acquisition thereof, such Lien attaches solely to the property so acquired in such transaction, the principal amount of the Indebtedness secured thereby does not exceed 100% of the cost of such property and the principal amount of the Indebtedness secured by all such purchase money security interests shall not at any time exceed \$5,000,000;

(j) Liens securing obligations in respect of capital leases on assets subject to such leases, provided that such capital leases are otherwise permitted hereunder;

(k) Liens arising solely by virtue of any statutory or common law provision relating to banker's liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution, provided that such deposit account is not a dedicated cash collateral account and is not subject to restrictions against access by the Company in excess of those set forth by regulations promulgated by the FRB and such deposit account is not intended by the Company or any Subsidiary to provide collateral to the depository institution;

(l) extensions, renewals and replacements of Liens referred to in clauses (a) through (k) above; provided that any such extension, renewal or replacement Lien is limited to the property or assets covered by the Lien extended, renewed or replaced and does not secure any Indebtedness in addition to that secured immediately prior to such extension, renewal or replacement;

(m) Liens relating to IRB Debt permitted by subsection 8.5(k) covering only those capital improvements financed by such IRB Debt; and

(n) Liens securing other Indebtedness of the Company and its Subsidiaries not expressly permitted by clauses (a) through (m) above; provided that the aggregate amount of the Indebtedness secured by Liens permitted pursuant to this clause (n) does not exceed \$5,000,000 in the aggregate;

provided that no Lien (other than as set forth in clause (b) above) may attach to (i) any Excluded Assets or (ii) any assets of the IP Subsidiary.

8.2 Disposition of Assets. The Company shall not, and shall not permit any Subsidiary to, directly or indirectly, sell, assign, lease, convey, transfer or otherwise dispose of (whether in one or a series of transactions) any property (including accounts and notes receivable, with or without recourse) or enter into any agreement to do any of the foregoing, except:

(a) dispositions of inventory, or used, worn-out or surplus equipment, all in the ordinary course of business;

(b) the sale of equipment to the extent that such equipment is exchanged for credit against the purchase price of similar replacement equipment, or the proceeds of such sale are reasonably promptly applied to the purchase price of such replacement equipment;

(c) dispositions not otherwise permitted hereunder (including the disposition of all of the capital stock of any operating Subsidiary and including a disposition pursuant to a sale and lease-back transaction) which are made for fair market value if the fair market value of all assets so disposed of by the Company and its Subsidiaries under this clause (c) does not exceed \$10,000,000 in the aggregate; provided that (i) at the time of any disposition, no Event of Default or Unmatured Event of Default shall exist or will result from such disposition and (ii) at least 75% of the consideration received by the Company or such Subsidiary from such disposition is in cash or Cash Equivalent Investments;

(d) mergers expressly permitted by Section 8.3 or transfers by any Wholly-Owned Subsidiary of the Company of its assets upon its liquidation to the Company or any of its Wholly-Owned Subsidiaries;

(e) the sale of patents, trademarks and other intellectual property to the IP Subsidiary pursuant to documentation reasonably acceptable to the Required Lenders; and

(f) in addition to any other disposition permitted by this Section 8.2, the sale or disposition of any assets (including the disposition of all of the capital stock of any operating Subsidiary and including a disposition pursuant to a sale and lease-back transaction) if the fair market value of all assets so disposed of by the Company and its Subsidiaries under this clause (f) does not exceed \$1,000,000 in the aggregate; provided that at the time of any disposition, no Event of Default or Unmatured Event of Default shall exist or will result from such disposition.

8.3 Consolidations and Mergers. The Company shall not, and shall not permit any Subsidiary to, merge or consolidate with or into any other Person, except that (a) any Subsidiary may merge with the Company (provided that the Company shall be the continuing or surviving corporation) or with any one or more Wholly-Owned Subsidiaries (provided that a Wholly-Owned Subsidiary shall be the continuing or surviving corporation); and (b) the Company or any Subsidiary may merge or consolidate in connection with any Acquisition permitted by subsection 8.4(i).

8.4 Loans and Investments. The Company shall not, and shall not permit any Subsidiary to, purchase or acquire, or make any commitment to purchase or acquire, any capital stock, equity interest or other obligations or securities of, or any interest in, any other Person, or make or commit to make any Acquisition, or make or commit to make any advance, loan,

extension of credit or capital contribution to or any other investment in, any other Person, except for:

(a) investments in Cash Equivalent Investments;

(b) extensions of credit in the nature of accounts receivable or notes receivable arising from the sale or lease of goods or services in the ordinary course of business;

(c) investments by the Company in its Wholly-Owned Subsidiaries or by any Subsidiary in any Wholly-Owned Subsidiary, in the form of contributions to capital or loans or advances; provided that, immediately before and after giving effect to such investment, no Event of Default or Unmatured Event of Default shall have occurred and be continuing and the aggregate amount invested in Foreign Subsidiaries after the Effective Date (excluding investments which constitute Guaranty Obligations) shall not exceed \$20,000,000;

(d) loans or advances made by any Subsidiary to the Company;

(e) loans and advances to employees in the ordinary course of business (such as travel advances and including the Jones Note) in an aggregate amount not at any time exceeding \$3,000,000;

(f) investments by the Company and its Subsidiaries in Joint Ventures in the form of contributions of capital, loans, advances or Contingent Obligations; provided that, immediately before and after giving effect to such investment, (x) no Event of Default or Unmatured Event of Default shall have occurred and be continuing, including without limitation pursuant to Section 8.9, and (y) the aggregate amount of all investments pursuant to this clause (f) shall not exceed \$5,000,000 in the aggregate (with all such investments valued at the time of investment at the cash amount thereof, if in cash, the fair market value thereof as determined by the board of directors of the Company, if in property, and at the maximum amount thereof if in Contingent Obligations);

(g) investments constituting Permitted Swap Obligations or payments or advances under Swap Contracts relating to Permitted Swap Obligations;

(h) investments existing on the Effective Date and set forth on Schedule 8.4;

(i) Investments incurred in order to consummate Acquisitions, provided that (i) no Unmatured Event of Default or Event of Default exists or will result therefrom, (ii) the acquired Person is engaged in, or the acquired assets will be used in, a line of business engaged in by the Company and its Subsidiaries on the date of this agreement or a business or activity that is substantially similar, related or incidental thereto or which constitutes a reasonable extension of product lines of the Company in existence on the date of this Agreement, (iii) after giving effect to such Acquisition, the Company would have been in compliance on a pro forma basis, after giving effect to such Acquisition (as if such Acquisition had occurred, and any

related Indebtedness had been assumed or incurred, on the first day of the most recently-ended Computation Period, but without adjustment for expected cost savings and other synergies) with Sections 8.11 and 8.12 as of such most recently-ended Computation Period; provided that for purposes of testing compliance herewith, the "Permitted Ratio" for the applicable period as set forth in Section 8.12 shall be reduced by 0.25 to 1, (iv) the board of directors of any entity proposed to be acquired has not announced that it will oppose such Acquisition and has not commenced any litigation which alleges that such Acquisition violates, or will violate, any Requirement of Law or any Contractual Obligation of such entity, and (v) if the total consideration to be paid in connection with such proposed Acquisition exceeds \$3,000,000, the Company shall have delivered to the Agent a certificate setting forth calculations demonstrating compliance with the requirements set forth in clause (iii) above; and

(j) other investments in an aggregate amount not exceeding \$5,000,000 during the term of this Agreement (with all such investments valued at the time of investment at the cash amount thereof, if in cash, the fair market value thereof as determined by the board of directors of the Company, if in property, and at the maximum amount thereof if in Contingent Obligations).

8.5 Limitation on Indebtedness. The Company shall not, and shall not permit any Subsidiary to, create, incur, assume, suffer to exist, or otherwise become or remain directly or indirectly liable with respect to, any Indebtedness, except:

(a) Indebtedness incurred pursuant to this Agreement and the Guaranty;

(b) Subordinated Debt;

(c) Indebtedness consisting of Contingent Obligations permitted pursuant to Section 8.8;

(d) Indebtedness of Foreign Subsidiaries to Persons other than the Company and its Subsidiaries in an aggregate amount not at any time exceeding \$25,000,000;

(e) Indebtedness of Subsidiaries to the Company or Wholly-Owned Subsidiaries;

(f) Indebtedness secured by Liens permitted by subsection 8.1(i);

(g) Indebtedness incurred in connection with leases permitted pursuant to Section 8.10;

(h) Indebtedness of the Company or any Subsidiary of the Company in connection with guaranties resulting from endorsement of negotiable instruments in the ordinary course of business;



(i) surety bonds and appeal bonds required in the ordinary course of business or in connection with the enforcement of rights or claims of the Company or in connection with judgments that do not result in an Unmatured Event of Default or an Event of Default;

(j) IRB Debt in a principal amount not to exceed \$10,000,000 at any one time outstanding; and

(k) other Indebtedness (excluding Indebtedness of Foreign Subsidiaries) in an aggregate amount not at any time exceeding \$5,000,000.

Notwithstanding the foregoing, the IP Subsidiary shall not incur any Indebtedness other than Indebtedness to the Company.

8.6 Transactions with Affiliates. The Company shall not, and shall not permit any Subsidiary to, enter into any transaction with any Affiliate of the Company (other than a Subsidiary), except upon fair and reasonable terms no less favorable to the Company or such Subsidiary than would be obtainable in a comparable arm's-length transaction with a Person not an Affiliate of the Company; it being understood that the Management Agreement, the Jones Note and the Employment Agreement shall not violate this Section.

8.7 Use of Proceeds. The Company shall not, and shall not permit any Subsidiary to, use any portion of the proceeds of any Loan or any Letter of Credit, directly or indirectly, to purchase or carry Margin Stock, to repay or otherwise refinance indebtedness of the Company or others incurred to purchase or carry Margin Stock, to extend credit for the purpose of purchasing or carrying any Margin Stock or acquire any security in any transaction that is subject to Section 13 or 14 of the Exchange Act.

8.8 Contingent Obligations. The Company shall not, and shall not permit any Subsidiary to, create, incur, assume or suffer to exist any Contingent Obligation except:

(a) endorsements for collection or deposit in the ordinary course of business;

(b) Permitted Swap Obligations;

(c) Contingent Obligations of the Company and its Subsidiaries existing as of the Effective Date and listed in Schedule 8.8;

(d) Guaranty Obligations by the Company relating to Indebtedness of Wholly-Owned Subsidiaries which is permitted hereunder;

(e) Contingent Obligations arising under the Loan Documents;

and

(f) Contingent Obligations with respect to Joint Ventures to the extent permitted by Section 8.9; and

(g) Guaranty Obligations of ROV Holding (and any other Subsidiary which is required to execute a guaranty pursuant to Section 4.16 or 4.17 of the Senior Subordinated Note Indenture as in effect on the date hereof) of the obligations of the Company under the Senior Subordinated Notes.

8.9 Joint Ventures. The Company shall not, and shall not permit any Subsidiary to, enter into any Joint Venture, except that the Company or any Subsidiary may enter into any Joint Venture so long as the aggregate amount invested by the Company and its Subsidiaries in all Joint Ventures in any form (including without limitation by capital contribution, incurrence of Indebtedness by any such Joint Venture to the Company or any Subsidiary or the incurrence of Contingent Obligations by the Company or any Subsidiary with respect to any such Joint Venture), during the term of this Agreement does not exceed \$5,000,000; provided, however, that for purposes of determining the aggregate amount invested in Joint Ventures hereunder (x) any return of principal or equity received in cash on any amount invested hereunder and (y) the fair market value of any other property received in exchange for any amount invested hereunder shall be deducted.

8.10 Lease Obligations. The Company shall not, and shall not permit any Subsidiary to, create or suffer to exist any obligations for the payment of rent for any property under lease or agreement to lease, except for:

(a) leases of the Company and its Subsidiaries in existence on the Effective Date and any renewal, extension or refinancing thereof;

(b) operating leases entered into by the Company or any Subsidiary after the Effective Date in the ordinary course of business; and

(c) capital leases entered into by the Company to finance the acquisition of equipment; provided that no Event of Default or Unmatured Event of Default has occurred and is continuing or will result from the incurrence of the obligations of the Company contemplated thereby.

8.11 Minimum Interest Coverage Ratio. The Company will not permit the Interest Coverage Ratio for any Computation Period to be less than 3.0 to 1.

8.12 Maximum Leverage Ratio. The Company will not permit the Leverage Ratio for any Computation Period to exceed the ratio set forth below opposite the period in which such Computation Period ends:

Period	Ratio
-----	-----
12/31/97 - 09/30/99	3.75:1.0
12/31/99 - 09/30/00	3.50:1.0
12/31/00 and thereafter	3.25:1.0.

8.13 Restricted Payments. The Company shall not, and shall not permit any Subsidiary to, (i) declare or make any dividend payment or other distribution of assets, properties, cash, rights, obligations or securities on account of any shares of any class of its capital stock, or purchase, redeem or otherwise acquire for value any shares of its capital stock or any warrants, rights or options to acquire such shares, now or hereafter outstanding (any of the foregoing, a "Distribution"), or (ii) make any redemption, prepayment, defeasance, purchase or repurchase of any Subordinated Debt except that:

(a) any Subsidiary may declare and pay dividends to the Company or a Wholly-Owned Subsidiary;

(b) the Company may declare and make dividend payments or other distributions payable solely in Common Stock;

(c) the Company or any of its Subsidiaries may purchase Common Stock or options with respect to Common Stock held by employees or management of the Company or any of its Subsidiaries in connection with the termination of employment of any such employees or management, provided that all such payments do not exceed \$5,000,000 in the aggregate, and the price paid for such Common Stock or options does not exceed the market value of such Common Stock or options at the time paid; and

(d) so long as no Event of Default or Unmatured Event of Default has occurred and is continuing or would result therefrom (i) the Company may make the Senior Subordinated Note Prepayment and (ii) the Company may make Distributions in an aggregate amount not exceeding (at the time of such Distribution) 25% of the Company's Consolidated Net Income during the period from October 1, 1997 through the most recent date for which the Company has delivered financial statements pursuant to Section 7.1(a) or (b).

8.14 ERISA. The Company shall not, and shall not permit any of its ERISA Affiliates to: engage in a prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan which has resulted or would reasonably be expected to result in liability of the Company in an aggregate amount in excess of \$1,000,000 at any time; or engage in a transaction that could be subject to Section 4069 or 4212(c) of ERISA.

8.15 Limitations on Sale and Leaseback Transactions. The Company shall not, and shall not permit any Subsidiary to, enter into any arrangement with any Person providing for the leasing by the Company or any Subsidiary of any real or personal property, which property is or has been sold or transferred by the Company or any Subsidiary to such Person in contemplation of taking back a lease thereof in an aggregate amount in excess of \$10,000,000.

8.16 Inconsistent Agreements. The Company will not, and will not permit any Subsidiary to, enter into any agreement containing any provision which would be violated or breached by any borrowing by the Company hereunder or by the performance by the Company or any Subsidiary of their respective obligations hereunder or under any other Loan Document.

8.17 Change in Business. The Company shall not, and shall not permit any Subsidiary to, engage in any business other than those lines of business carried on by the Company and its Subsidiaries on the date hereof, any business or activities that are substantially similar, related or incidental thereto and reasonable extensions of product lines of the Company in existence on the date hereof.

8.18 Amendments to Certain Documents. The Company shall not make or agree to any amendment to or modification of, or waive any of its rights under, any of the terms of (a) the Management Agreement or (b) the Subordinated Note Indenture, unless such amendment is not adverse in any respect to the Lenders.

8.19 Limitation on Issuance of Guaranty Obligations. The Company will not permit any Subsidiary to create, incur, assume, suffer to exist, or otherwise become or remain directly or indirectly liable with respect to any Guaranty Obligation relating to any Indebtedness of the Company unless

(i) such Subsidiary, if it is not already a party to the Guaranty, simultaneously executes and delivers to the Administrative Agent a counterpart of the Guaranty, together with such supporting documentation as the Administrative Agent may reasonably request, notwithstanding Section 7.14,

(ii) if such Indebtedness is by its terms subordinated to the Obligations, any such assumption, guaranty or other liability of such Subsidiary with respect to such Indebtedness shall be subordinated, in form and substance satisfactory to the Administrative Agent, to such Subsidiary's Guaranty Obligation with respect to the Obligations to the same extent as such Indebtedness is subordinated to the Obligations (provided that such Subsidiary's Guaranty Obligation of such Indebtedness of the Company shall be subordinated to the full amount of such Subsidiary's Guaranty Obligation under the Guaranty without giving effect to any reduction thereto necessary to render the Guaranty Obligation of such Subsidiary thereunder not voidable under applicable law relating to fraudulent conveyance or fraudulent transfer), and

(iii) such Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any right of reimbursement, indemnity or subrogation or any other rights against the Company or any other Subsidiary as a result of any payment by such Subsidiary under such Guaranty Obligation.

#### ARTICLE IX

##### EVENTS OF DEFAULT

9.1 Event of Default. Any of the following shall constitute an "Event of Default":

(a) Non-Payment. The Company fails to pay, when and as required to be paid herein, any amount of principal of any Loan or of any L/C Obligation, or, within three Business Days after the same becomes due, any amount of interest or any fees or other amounts payable hereunder or under any other Loan Document.

(b) Representation or Warranty. Any representation or warranty by the Company or any Subsidiary made or deemed made herein or in any other Loan Document, or which is contained in any certificate, document or financial or other statement by the Company, any Subsidiary or any Responsible Officer furnished at any time under this Agreement or any other Loan Document, is incorrect in any material respect on or as of the date made or deemed made.

(c) Specific Defaults. The Company fails to perform or observe any term, covenant or agreement contained in any of Section 7.3 or Article VIII.

(d) Other Defaults. The Company or any Guarantor party thereto fails to perform or observe any other term or covenant contained in this Agreement or any other Loan Document, and such default shall continue unremedied for a period of 30 days after the earlier of the date upon which a Responsible Officer knew or reasonably should have known of such failure or the date upon which written notice thereof is given to the Company by the Administrative Agent or any Lender.

(e) Cross-Default. The Company or any Guarantor fails to make any payment in respect of any Indebtedness or Contingent Obligation (other than in respect of Swap Contracts) having an aggregate principal amount (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than \$3,000,000 when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise but subject to any applicable grace period) or fails to perform or observe any other condition or covenant, or any other event shall occur or condition shall exist, under any agreement or instrument relating to any such Indebtedness or Contingent Obligation, if the effect of such failure, event or condition is to cause, or to permit the holder or holders of such Indebtedness or beneficiary or beneficiaries of such Indebtedness

(or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, such Indebtedness to be declared to be due and payable prior to its stated maturity, or such Contingent Obligation to become payable, or cash collateral in respect thereof to be demanded or there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from any event of default under such Swap Contract as to which the Company or any Subsidiary is the Defaulting Party (as defined in such Swap Contract) or any Termination Event (as so defined) as to which the Company or any Subsidiary is an Affected Party (as so defined), and, in either event, the Swap Termination Value owed by the Company or such Subsidiary as a result thereof is greater than \$3,000,000.

(f) Insolvency; Voluntary Proceedings. The Company or any Subsidiary (other than a Dormant Subsidiary): ceases or fails to be solvent, or generally fails to pay, or admits in writing its inability to pay, its debts as they become due; voluntarily ceases to conduct its business in the ordinary course; commences any Insolvency Proceeding with respect to itself; or takes any action to effectuate or authorize any of the foregoing.

(g) Involuntary Proceedings. Any involuntary Insolvency Proceeding is commenced or filed against the Company or any Subsidiary (other than a Dormant Subsidiary), or any writ, judgment, warrant of attachment, warrant of execution or similar process is issued or levied against a substantial part of the Company's or any Subsidiary's properties, and such proceeding or petition shall not be dismissed, or such writ, judgment, warrant of attachment, warrant of execution or similar process shall not be released, vacated or fully bonded within 60 days after commencement, filing or levy; the Company or any Subsidiary (other than a Dormant Subsidiary) admits the material allegations of a petition against it in any Insolvency Proceeding, or an order for relief (or similar order under non-U.S. law) is ordered in any Insolvency Proceeding; or the Company or any Subsidiary (other than a Dormant Subsidiary) acquiesces in the appointment of a receiver, trustee, custodian, conservator, liquidator, mortgagee in possession (or agent therefor) or other similar Person for itself or a substantial portion of its property or business.

(h) ERISA. One or more ERISA Events shall occur with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of the Company under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of \$3,000,000; a contribution failure shall have occurred with respect to a Pension Plan sufficient to give rise to a Lien under Section 302(f) of ERISA; the aggregate amount of Unfunded Pension Liability among all Pension Plans at any time exceeds \$3,000,000; or the Company or any ERISA Affiliate shall fail to pay when due, after the expiration of any applicable grace period, one or more installment payments with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan which results in an aggregate withdrawal liability in excess of \$3,000,000.

(i) Monetary Judgments. One or more judgments, orders, decrees or arbitration awards is entered against the Company or any Subsidiary involving in the aggregate a liability (to the extent not covered by independent third-party insurance as to which the insurer

does not dispute coverage), as to any single or related series of transactions, incidents or conditions, of \$3,000,000 or more, and the same shall remain undischarged, unvacated and unstayed pending appeal for a period of 30 days after the entry thereof, or the Company or any Subsidiary shall enter into any agreement to settle or compromise any pending or threatened litigation (to the extent not covered by independent third party insurance as to which the insurer does not dispute coverage), as to any single or related series of claims, involving payment by the Company or any Subsidiary of \$3,000,000 or more.

(j) Non-Monetary Judgments. Any non-monetary judgment, order or decree is entered against the Company or any Subsidiary which has or would reasonably be expected to have a Material Adverse Effect, and there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect.

(k) Change of Control. Any Change of Control occurs.

(l) Guarantor Defaults. The Guaranty shall cease to be in full force and effect with respect to any Guarantor (other than as expressly permitted hereunder), any Guarantor shall fail to comply with or to perform any applicable provision of the Guaranty, or any Guarantor (or any Person acting by, through or on behalf of such Guarantor) shall contest in any manner the validity, binding nature or enforceability of the Guaranty with respect to such Guarantor.

(m) Collateral Documents, etc. Any Collateral Document shall cease to be in full force and effect with respect to the Company or any Guarantor (other than as expressly permitted hereunder), the Company or any Guarantor shall fail to comply with or to perform any applicable provision of any Collateral Document, or the Company or any Guarantor (or any Person acting by, through or on behalf of the Company or any Guarantor) shall contest in any manner the validity, binding nature or enforceability of any Collateral Document.

9.2 Remedies. If any Event of Default occurs, the Administrative Agent shall, at the request of, or may, with the consent of, the Required Lenders do any or all of the following:

(a) declare the commitment of each Lender to make Loans and any obligation of the Issuing Lender to Issue Letters of Credit to be terminated, whereupon such commitments and obligations shall be terminated;

(b) declare an amount equal to the maximum aggregate amount that is or at any time thereafter may become available for drawing under any outstanding Letter of Credit (whether or not any beneficiary shall have presented, or shall be entitled at such time to present, the drafts or other documents required to draw under such Letter of Credit) to be immediately due and payable, and declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Company; and

(c) exercise on behalf of itself and the Lenders all rights and remedies available to it and the Lenders under the Loan Documents or applicable law;

provided, however, that upon the occurrence of any Event of Default specified in subsection 9.1(f) or (g), the obligation of each Lender to make Loans and the obligation of the Issuing Lender to Issue Letters of Credit shall automatically terminate and the unpaid principal amount of all outstanding Loans and all interest and other amounts as aforesaid shall automatically become due and payable without further act of the Administrative Agent, the Issuing Lender or any other Lender.

9.3 Rights Not Exclusive. The rights provided for in this Agreement and the other Loan Documents are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law or in equity, or under any other instrument, document or agreement now existing or hereafter arising.

## ARTICLE X

### THE ADMINISTRATIVE AGENT

#### 10.1 Appointment and Authorization.

(a) Each Lender hereby irrevocably (subject to Section 10.9) appoints, designates and authorizes the Administrative Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to it by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary contained elsewhere in this Agreement or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein, nor shall the Administrative Agent have or be deemed to have any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Administrative Agent. Without limiting the generality of the foregoing sentence, the use of the term "agent" in this Agreement and in the other Loan Documents with reference to the Administrative Agent is not intended to connote any fiduciary or other implied (or express) obligation arising under agency doctrine of any applicable law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties.

(b) The Issuing Lender shall act on behalf of the Lenders with respect to any Letters of Credit Issued by it and the documents associated therewith until such time and except for so long as the Administrative Agent may agree at the request of the Required Lenders to act for the Issuing Lender with respect thereto; provided, however, that the Issuing Lender shall have all of the benefits and immunities provided to the Administrative Agent in this Article X



with respect to any acts taken or omissions suffered by the Issuing Lender in connection with Letters of Credit Issued by it or proposed to be Issued by it and the applications and agreements for letters of credit pertaining to the Letters of Credit as fully as if the term "Administrative Agent", as used in this Article X, included the Issuing Lender with respect to such acts or omissions and as additionally provided in this Agreement with respect to the Issuing Lender.

(c) The Swingline Lender shall act on behalf of the Lenders with respect to any Swingline Loan until such time and except for so long as the Administrative Agent may agree at the request of the Required Lenders to act for the Swingline Lender with respect thereto; provided, however, that the Swingline Lender shall have all of the benefits and immunities provided to the Administrative Agent in this Article X with respect to any acts taken or omissions suffered by the Issuing Lender in connection with Swingline Loans made or proposed to be made by it as fully as if the term "Administrative Agent", as used in this Article X, included the Swingline Lender with respect to such acts or omissions and as additionally provided in this Agreement with respect to the Swingline Lender.

10.2 Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects with reasonable care.

10.3 Liability of Administrative Agent. None of the Agent-Related Persons shall be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct) or be responsible in any manner to any of the Lenders for any recital, statement, representation or warranty made by the Company or any Subsidiary or Affiliate of the Company, or any officer thereof, contained in this Agreement or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or the existence, creation, validity, attachment, perfection, enforceability, value or sufficiency of any collateral security for the Obligations or for any failure of the Company or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Company or any of the Company's Subsidiaries or Affiliates.

10.4 Reliance by Administrative Agent. (a) The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, resolution, notice, consent, certificate, affidavit, letter, telegram, facsimile, telex or telephone message, statement or other document or conversation believed by it to be genuine and correct and to have been signed,

sent or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to the Company), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders as it deems appropriate and, if it so requests, it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of the Required Lenders and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

(b) For purposes of determining compliance with the conditions specified in Sections 5.1 and 5.2, each Lender that has executed this Agreement shall be deemed to have consented to, approved or accepted, or to be satisfied with, each document or other matter either sent by the Administrative Agent to such Lender for consent, approval, acceptance or satisfaction, or required thereunder to be consented to or approved by or acceptable or satisfactory to such Lender.

10.5 Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Event of Default or Unmatured Event of Default, except with respect to defaults in the payment of principal, interest and fees required to be paid to the Administrative Agent for the account of the Lenders, unless the Administrative Agent shall have received written notice from a Lender or the Company referring to this Agreement, describing such Event of Default or Unmatured Event of Default and stating that such notice is a "notice of default". The Administrative Agent will notify the Lenders of its receipt of any such notice. The Administrative Agent shall take such action with respect to such Event of Default or Unmatured Event of Default as may be requested by the Required Lenders in accordance with Article IX; provided, however, that unless and until the Administrative Agent has received any such request, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Event of Default or Unmatured Event of Default as it shall deem advisable or in the best interest of the Lenders.

10.6 Credit Decision. Each Lender acknowledges that none of the Agent-Related Persons has made any representation or warranty to it, and that no act by the Administrative Agent hereafter taken, including any review of the affairs of the Company and its Subsidiaries, shall be deemed to constitute any representation or warranty by any Agent-Related Person to any Lender. Each Lender represents to the Administrative Agent that it has, independently and without reliance upon any Agent-Related Person and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of the Company and its Subsidiaries, and all applicable bank regulatory laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to the Company hereunder. Each Lender also represents that it will, independently

and without reliance upon any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of the Company. Except for notices, reports and other documents expressly herein required to be furnished to the Lenders by the Administrative Agent, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of the Company which may come into the possession of any of the Agent-Related Persons.

10.7 Indemnification. Whether or not the transactions contemplated hereby are consummated, the Lenders shall indemnify upon demand the Administrative Agent and the Agent-Related Persons (to the extent not reimbursed by or on behalf of the Company and without limiting the obligation of the Company to do so), pro rata, from and against any and all Indemnified Liabilities; provided, however, that no Lender shall be liable for the payment to the Administrative Agent or any Agent-Related Person of any portion of the Indemnified Liabilities resulting solely from such Person's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender shall reimburse the Administrative Agent upon demand for its ratable share of any costs or out-of-pocket expenses (including Attorney Costs) incurred by the Administrative Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that the Administrative Agent is not reimbursed for such expenses by or on behalf of the Company. The undertaking in this Section shall survive the payment of all Obligations hereunder and the resignation or replacement of the Administrative Agent.

10.8 Administrative Agent in Individual Capacity. BofA and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with the Company and its Subsidiaries and Affiliates as though BofA were not the Administrative Agent hereunder and without notice to or consent of the Lenders. The Lenders acknowledge that, pursuant to such activities, BofA or its Affiliates may receive information regarding the Company or its Affiliates (including information that may be subject to confidentiality obligations in favor of the Company or such Affiliates) and acknowledge that the Administrative Agent shall be under no obligation to provide such information to them. With respect to its Loans, BofA and any Affiliate thereof shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though BofA were not the Administrative Agent.

10.9 Successor Administrative Agent. The Administrative Agent may, and at the request of the Required Lenders shall, resign as Administrative Agent upon 30 days' notice to the Lenders and the Company. If the Administrative Agent resigns under this Agreement, the

Required Lenders shall have the right, with the consent of the Company so long as no Event of Default or Unmatured Event of Default has occurred and is continuing (which consent shall not be unreasonably withheld or delayed), to appoint from among the Lenders a successor agent for the Lenders. If no successor agent is appointed prior to the effective date of the resignation of the Administrative Agent, the Administrative Agent may appoint, after consulting with the Lenders and the Company, a successor agent from among the Lenders. Upon the acceptance of its appointment as successor agent hereunder, such successor agent shall succeed to all the rights, powers and duties of the retiring Administrative Agent and the term "Administrative Agent" shall mean such successor agent and the retiring Administrative Agent's appointment, powers and duties as Administrative Agent shall be terminated. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article X and Sections 11.4 and 11.5 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement. If no successor agent has accepted appointment as Administrative Agent by the date which is 30 days following a retiring Administrative Agent's notice of resignation, the retiring Administrative Agent's resignation shall nevertheless thereupon become effective and the Lenders shall perform all of the duties of the Administrative Agent hereunder until such time, if any, as the Required Lenders appoint a successor agent as provided for above. Notwithstanding the foregoing, however, BofA may not be removed as the Administrative Agent at the request of the Required Lenders unless BofA and any Affiliate thereof acting as the Issuing Lender or Swingline Lender hereunder shall also simultaneously be replaced as the Issuing Lender and Swingline Lender pursuant to documentation in form and substance reasonably satisfactory to BofA (and, if applicable, such Affiliate).

10.10 Withholding Tax. (a) If any Lender is a "foreign corporation, partnership or trust" within the meaning of the Code and such Lender claims exemption from, or a reduction of, U.S. withholding tax under Section 1441 or 1442 of the Code, such Lender shall deliver to the Administrative Agent and the Company:

(i) if such Lender claims an exemption from, or a reduction of, withholding tax under a United States tax treaty, properly completed IRS Forms 1001 and W-8 before the payment of any interest in the first calendar year and before the payment of any interest in each third succeeding calendar year during which interest may be paid under this Agreement;

(ii) if such Lender claims that interest paid under this Agreement is exempt from United States withholding tax because it is effectively connected with a United States trade or business of such Lender, two properly completed and executed copies of IRS Form 4224 before the payment of any interest is due in the first taxable year of such Lender and in each succeeding taxable year of such Lender during which interest may be paid under this Agreement, and IRS Form W-9;

(iii) if such Lender is not a "bank" within the meaning of Section 881(c)(3)(A) of the Code and cannot deliver either Internal Revenue Service Form 1001 or 4224, such

Lender shall deliver (A) a certificate substantially in the form of Exhibit M and (B) two properly completed and signed copies of Internal Revenue Service Form W-8 certifying that such Lender is entitled to an exemption from United States withholding tax with respect to payments of interest to be made under this Agreement and any Note; and

(iv) such other form or forms as may be required under the Code or other laws of the United States as a condition to exemption from, or reduction of, United States withholding tax.

Each such Lender agrees to promptly notify the Administrative Agent and the Company of any change in circumstances which would modify or render invalid any claimed exemption or reduction.

(b) If any Lender claims exemption from, or reduction of, withholding tax under a United States tax treaty by providing IRS Form 1001 and such Lender sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations of the Company to such Lender, such Lender agrees to notify the Administrative Agent and the Company of the percentage amount in which it is no longer the beneficial owner of Obligations of the Company to such Lender. To the extent of such percentage amount, the Administrative Agent and the Company will treat such Lender's IRS Form 1001 as no longer valid.

(c) If any Lender claiming exemption from United States withholding tax by filing IRS Form 4224 with the Administrative Agent and the Company sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations of the Company to such Lender, such Lender agrees to undertake sole responsibility for complying with the withholding tax requirements imposed by Sections 1441 and 1442 of the Code.

(d) If any Lender is entitled to a reduction in the applicable withholding tax, the Administrative Agent or the Company, as the case may be, may withhold from any interest payment to such Lender an amount equivalent to the applicable withholding tax after taking into account such reduction. If the forms or other documentation required by subsection (a) of this Section are not timely delivered to the Administrative Agent, or the Company, as the case may be, then the Administrative Agent or the Company, as the case may be, may withhold from any interest payment to such Lender not providing such forms or other documentation an amount equivalent to the applicable withholding tax without deduction.

(e) If the IRS or any other Governmental Authority of the United States or other jurisdiction asserts a claim that the Administrative Agent or the Company did not properly withhold tax from amounts paid to or for the account of any Lender (because the appropriate form was not delivered or was not properly executed, or because such Lender failed to notify the Administrative Agent or the Company of a change in circumstances which rendered the exemption from, or reduction of, withholding tax ineffective, or for any other reason) such Lender shall indemnify the Administrative Agent or the Company, as the case may be, fully for all amounts paid, directly or indirectly, by the Administrative Agent or the Company, as the case

may be, as Tax or otherwise, including penalties and interest, and including any Taxes imposed by any jurisdiction on the amounts payable to the Administrative Agent or the Company, as the case may be, under this Section, together with all costs and expenses (including Attorney Costs). The obligation of the Lenders under this subsection shall survive the payment of all Obligations and the resignation or replacement of the Administrative Agent.

(f) If any Lender claims exemption from, or reduction of, withholding tax under the Code by providing IRS Form W-8 and a certificate in the form of Exhibit M and such Lender sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations of the Company to such Lender, such Lender agrees to notify the Administrative Agent and the Company of the percentage amount in which it is no longer the beneficial owner of Obligations of the Company to such Lender. To the extent of such percentage amount, the Administrative Agent and the Company will treat such Lender's IRS Form W-8 and certificate in the form of Exhibit M as no longer valid.

#### 10.11 Collateral Matters.

(a) The Administrative Agent is authorized on behalf of all the Lenders, without the necessity of any notice to or further consent from the Lenders, from time to time to take any action with respect to any collateral or the Collateral Documents which may be necessary to perfect and maintain perfected the security interest in and Liens upon the collateral granted pursuant to the Collateral Documents.

(b) The Lenders irrevocably authorize the Administrative Agent, at its option and in its discretion, to release any Lien granted to or held by the Administrative Agent upon any collateral: (i) upon termination of the Commitments and payment in full of all Loans and all other obligations known to the Administrative Agent and payable under this Agreement or any other Loan Document; (ii) constituting property sold or to be sold or disposed of as part of or in connection with any disposition permitted hereunder; (iii) constituting property in which the Company or any Subsidiary owned no interest at the time the Lien was granted or at any time thereafter; (iv) constituting property leased to the Company or any Subsidiary under a lease which has expired or been terminated in a transaction permitted under this Agreement or is about to expire and which has not been, and is not intended by the Company or such Subsidiary to be, renewed or extended; (v) consisting of an instrument evidencing Indebtedness or other debt instrument, if the indebtedness thereby has been paid in full; or (vi) if approved, authorized or ratified in writing by the Required Lenders or, if required by Section 11.1(f), all the Lenders. Upon request by the Administrative Agent at any time, the Lenders will confirm in writing the Administrative Agent's authority to release particular types or items of collateral pursuant to this subsection 10.11(b).

(c) Each Lender agrees with and in favor of each other (which agreement shall not be for the benefit of the Company or any Subsidiary) that any security interest in real property collateral received by a Lender in connection with the extension of any loan or financial commitment between such Lender and the Company or any of its Affiliates and not related to the

transactions contemplated hereby shall not constitute collateral for the Company's obligations under this Agreement or any other Loan Document.

ARTICLE XI

MISCELLANEOUS

11.1 Amendments and Waivers. No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent with respect to any departure by the Company therefrom, shall be effective unless the same shall be in writing and signed by the Required Lenders and the Company and acknowledged by the Administrative Agent, and then any such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided that no such amendment, waiver or consent:

(a) shall increase or extend any Commitment of any Lender (or reinstate any Commitment terminated pursuant to Section 9.2) without the written consent of such Lender;

(b) shall postpone or delay any date fixed by this Agreement or any other Loan Document for any payment of principal of or interest on any Loan without the written consent of the Lender holding such Loan;

(c) shall reduce the principal of, or the rate of interest specified herein on, any Loan without the written consent of the Lender holding such Loan;

(d) shall reduce any fees payable hereunder or under any other Loan Document, or postpone or delay any date fixed by this Agreement or any other Loan Document for the payment of fees or any other amounts due to any Lender hereunder or under any other Loan Document, without the written consent of the Person to whom such fee or other amount is to be paid;

(e) shall change the Percentage of the Lenders which is required for any waiver, amendment or consent hereunder, or amend the definition of "Required Lenders", without the written consent of all Lenders;

(f) shall release the Guaranty or any Guarantor or release all or substantially all of the collateral securing the Obligations without the written consent of all Lenders;

(g) shall amend or waive any provision of this Section or Section 2.15, or any other provision herein providing for consent or other action by all Lenders, without the written consent of all Lenders;

(h) shall, unless in writing and signed by the Issuing Lender in addition to the Required Lenders or all Lenders, as the case may be, affect the rights or duties of the Issuing Lender under this Agreement or any L/C-Related Document;

(i) shall, unless in writing and signed by the Swingline Lender in addition to the Required Lenders or all Lenders, as the case may be, affect the rights and duties of the Swingline Lender under this Agreement; and

(j) shall, unless in writing and signed by the Administrative Agent in addition to the Required Lenders or all Lenders, as the case may be, affect the rights or duties of the Administrative Agent under this Agreement or any other Loan Document.

11.2 Notices. (a) All notices, requests and other communications hereunder shall be in writing (including, unless the context expressly otherwise provides, by facsimile transmission, provided that any matter transmitted by the Company by facsimile (i) shall be immediately confirmed by a telephone call to the recipient at the number specified on Schedule 11.2, and (ii) shall be followed promptly by delivery of a hard copy original thereof) and mailed, faxed or delivered to the address or facsimile number specified for notices on Schedule 11.2 or (x) in the case of the Company or the Administrative Agent, to such other address as shall be designated by such party in a written notice to the other parties and (y) in the case of any other party, at such other address as shall be designated by such party in a written notice to the Company and the Administrative Agent.

(b) All such notices, requests and communications shall, if transmitted by overnight delivery, or faxed, be effective when delivered, or transmitted in legible form by facsimile machine, respectively, or if mailed, on the third Business Day after the date deposited into the U.S. mail; except that notices to the Administrative Agent pursuant to Article II, III or X shall not be effective until actually received by the Administrative Agent, and notices pursuant to Article III to the Issuing Lender shall not be effective until actually received by the Issuing Lender.

(c) Any agreement of the Administrative Agent and the Lenders herein to receive certain notices by telephone or facsimile is solely for the convenience and at the request of the Company. The Administrative Agent and the Lenders shall be entitled to rely on the authority of any Person purporting to be a Person authorized by the Company to give such notice and the Administrative Agent and the Lenders shall not have any liability to the Company or any other Person on account of any action taken or not taken by the Administrative Agent or the Lenders in reliance upon such telephonic or facsimile notice. The obligation of the Company to repay the Loans and L/C Obligations shall not be affected in any way or to any extent by any failure of the Administrative Agent and the Lenders to receive written confirmation of any telephonic or facsimile notice or the receipt by the Administrative Agent and the Lenders of a confirmation which is at variance with the terms understood by the Administrative Agent and the Lenders to be contained in the telephonic or facsimile notice.



11.3 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Administrative Agent or any Lender, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

11.4 Costs and Expenses. The Company shall:

(a) whether or not the transactions contemplated hereby are consummated, pay or reimburse the Administrative Agent and its Affiliates (including the Arranger) within five Business Days after demand (subject to subsection 5.1(e)) for all reasonable and documented costs and expenses incurred by the Administrative Agent and its Affiliates in connection with the preparation, delivery, administration and execution of, and any amendment, supplement, waiver or modification to (in each case, whether or not consummated), this Agreement, any other Loan Document and any other document prepared in connection herewith or therewith, and the consummation of the transactions contemplated hereby and thereby, including Attorney Costs incurred by the Administrative Agent and the Arranger with respect thereto; and

(b) pay or reimburse the Administrative Agent and each Lender within five Business Days after demand (subject to subsection 5.1(e)) for all costs and expenses (including Attorney Costs) incurred by them in connection with the enforcement, attempted enforcement or preservation of any right or remedy under this Agreement or any other Loan Document during the existence of an Event of Default or after acceleration of the Loans (including in connection with any "workout" or restructuring regarding the Loans and including in any Insolvency Proceeding or appellate proceeding).

11.5 Company Indemnification. Whether or not the transactions contemplated hereby are consummated, the Company shall indemnify and hold the Agent-Related Persons and each Lender and each of their respective officers, directors, employees, counsel, agents and attorneys-in-fact (each an "Indemnified Person") harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, charges, expenses and disbursements (including Attorney Costs) of any kind or nature whatsoever which may at any time (including at any time following repayment of the Loans, the termination of the Letters of Credit and the termination, resignation or replacement of the Administrative Agent or replacement of any Lender) be imposed on, incurred by or asserted against any such Person in any way relating to or arising out of this Agreement or any document contemplated by or referred to herein, or the transactions contemplated hereby or thereby, or any action taken or omitted by any such Person under or in connection with any of the foregoing, including with respect to any investigation, litigation or proceeding (including any Insolvency Proceeding or appellate proceeding or any investigation, litigation or proceeding related to any environmental cleanup, audit, compliance or other matter relating to the protection of the environment or the Release by the Company or any of its Subsidiaries of any Hazardous Material) related to or arising out of this Agreement or the Loans or Letters of Credit or the use of the proceeds thereof, whether or not any Indemnified Person is a party thereto (all the foregoing, collectively, the

"Indemnified Liabilities"); provided that the Company shall have no obligation hereunder to any Indemnified Person with respect to Indemnified Liabilities resulting solely from the gross negligence or willful misconduct of such Indemnified Person. The agreements in this Section shall survive payment of all other Obligations. Each Agent-Related Person and each Lender agrees that if any investigation, litigation or proceeding is asserted or threatened in writing or instituted against it or any other Indemnified Person, or any remedial, removal or response action is requested of it or any other Indemnified Party, for which such Agent-Related Person or such Lender may desire indemnity or defense hereunder, such Agent-Related Person or such Lender shall notify the Company in writing of such event; provided that failure to so notify the Company shall not affect the right of any Agent-Related Person or Lender to seek indemnification under this Section.

11.6 Payments Set Aside. To the extent that the Company makes a payment to the Administrative Agent or any Lender, or the Administrative Agent or any Lender exercises its right of set-off, and such payment or the proceeds of such set-off or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Administrative Agent or such Lender in its discretion) to be repaid to a trustee or receiver, or any other party, in connection with any Insolvency Proceeding or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such set-off had not occurred and (b) each Lender severally agrees to pay to the Administrative Agent upon demand its pro rata share of any amount so recovered from or repaid by the Administrative Agent.

11.7 Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Company may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of the Administrative Agent and each Lender.

11.8 Assignments, Participations, etc. (a) Any Lender may, with the written consent of the Company (at all times other than during the existence of an Event of Default), the Administrative Agent, the Issuing Lender and the Swingline Lender, which consents shall not be unreasonably withheld or delayed, at any time assign and delegate to one or more Eligible Assignees (provided that no written consent of the Company, the Administrative Agent, the Issuing Lender or the Swingline Lender shall be required in connection with any assignment and delegation by a Lender to a Person described in clause (iii) of the definition of Eligible Assignee) (each, an "Assignee") all, or a ratable part of all, of the Loans, the Commitments, the L/C Obligations and the other rights and obligations of such Lender hereunder, in a minimum amount of \$5,000,000 (or, if less, all of such Lender's remaining rights and obligations hereunder); provided that (A) the Company, the Administrative Agent, the Issuing Lender and the Swingline Lender may continue to deal solely and directly with such Lender in connection with the interest so assigned to an Assignee until (i) written notice of such assignment, together with payment instructions, addresses and related information with respect to the Assignee shall have been given to the Company and the Administrative Agent by such Lender and the Assignee, (ii) such

Lender and the Assignee shall have delivered to the Company and the Administrative Agent an Assignment and Acceptance in the form of Exhibit L (an "Assignment and Acceptance") together with any Note or Notes subject to such assignment and (iii) the assignor Lender or the Assignee shall have paid to the Administrative Agent a processing fee in the amount of \$3,500 and (B) the Company shall not, as a result of any assignment by any Lender to any of such Lender's Affiliates, incur any increased liability for Taxes, Other Taxes or Further Taxes pursuant to Section 4.1. The Company designates the Administrative Agent as its agent for maintaining a book entry record of ownership identifying the Lenders and the amount of the respective Loans and Notes which they own. The foregoing provisions are intended to comply with the registration requirements in Treasury Regulation Section 5f.103-1 so that the Loans and Notes are considered to be in "registered form" pursuant to such regulation.

(b) From and after the date that the Administrative Agent notifies the assignor Lender that it has provided its consent, and received the consents of the Swingline Lender, the Issuing Lender and (if applicable) the Company, with respect to an executed Assignment and Acceptance and payment of the above-referenced processing fee, (i) the Assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, shall have the rights and obligations of a Lender under the Loan Documents, and (ii) the assignor Lender shall, to the extent that rights and obligations hereunder and under the other Loan Documents have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under the Loan Documents.

(c) Any Lender may at any time sell to one or more commercial banks or other Persons not Affiliates of the Company (a "Participant") participating interests in any Loan, the Commitments of such Lender and the other interests of such Lender (the "originating Lender") hereunder and under the other Loan Documents; provided, however, that (i) the originating Lender's obligations under this Agreement shall remain unchanged, (ii) the originating Lender shall remain solely responsible for the performance of such obligations, (iii) the Company, the Swingline Lender, the Issuing Lender and the Administrative Agent shall continue to deal solely and directly with the originating Lender in connection with the originating Lender's rights and obligations under this Agreement and the other Loan Documents and (iv) no Lender shall transfer or grant any participating interest under which the Participant has rights to approve any amendment to, or any consent or waiver with respect to, this Agreement or any other Loan Document, except to the extent such amendment, consent or waiver would require unanimous consent of the Lenders or the consent of a particular Lender, in each case as described in the proviso to Section 11.1. In the case of any such participation, the Participant shall be entitled to the benefit of Sections 4.1, 4.3 and 11.5 as though it were also a Lender hereunder (provided, with respect to Sections 4.1 and 4.3, the Company shall not be required to pay any amount which it would not have been required to pay if no participating interest had been sold), and if amounts outstanding under this Agreement are due and unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, the Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement to the same extent as if the amount

of its participating interest were owing directly to it as a Lender under this Agreement. Each Lender may furnish any information concerning the Company and its Subsidiaries in the possession of such Lender from time to time to participants and prospective participants and may furnish information in response to credit inquiries consistent with general banking practice. Each Lender which sells a participation will maintain a book entry record of ownership identifying the Participant(s) and the amount of such participation(s) owned by such Participant(s). Such book entry record of ownership shall be maintained by the Lender as agent for the Company and the Administrative Agent. This provision is intended to comply with the registration requirements in Treasury Regulation Section 5f.103-1 so that the Loans and Notes are considered to be in "registered form" pursuant to such regulation.

(d) Notwithstanding any other provision of this Agreement, any Lender may at any time create a security interest in, or pledge all or any portion of, its rights under and interest in this Agreement and any Note held by it in favor of any Federal Reserve Bank in accordance with Regulation A of the FRB or U.S. Treasury Regulation 31 CFR ss.203.14, and such Federal Reserve Bank may enforce such pledge or security interest in any manner permitted under applicable law.

11.9 Confidentiality. Each Lender agrees to take, and to cause its Affiliates to take, normal and reasonable precautions and exercise due care to maintain the confidentiality of all non-public information provided to it by the Company or any Subsidiary, or by the Administrative Agent on the Company's or any Subsidiary's behalf, under this Agreement or any other Loan Document, and neither such Lender nor any of its Affiliates shall use any such information other than in connection with or in enforcement of this Agreement and the other Loan Documents or in connection with other business now or hereafter existing or contemplated with the Company or any Subsidiary, except to the extent such information (i) was or becomes generally available to the public other than as a result of disclosure by such Lender or (ii) was or becomes available on a non-confidential basis from a source other than the Company (provided that such source is not bound by a confidentiality agreement with the Company or any Subsidiary known to such Lender); provided, however, that any Lender may disclose such information (A) at the request or pursuant to any requirement of any Governmental Authority to which such Lender is subject or in connection with an examination of such Lender by any such authority, (B) pursuant to subpoena or other court process, (C) when required to do so in accordance with the provisions of any applicable Requirement of Law, (D) to the extent reasonably required in connection with any litigation or proceeding to which the Administrative Agent or any Lender or any of their respective Affiliates may be party, (E) to the extent reasonably required in connection with the exercise of any remedy hereunder or under any other Loan Document, (F) to such Lender's independent auditors and other professional advisors, (G) to any Participant or Assignee, actual or potential, provided that such Person agrees in writing to keep such information confidential to the same extent required of the Lenders hereunder, (H) as to any Lender or its Affiliate, as expressly permitted under the terms of any other document or agreement regarding confidentiality to which the Company or any Subsidiary is party or is deemed party with such Lender or such Affiliate and (I) to its Affiliates.

11.10 Set-off. In addition to any right or remedy of the Lenders provided by law, if an Event of Default exists, or the Loans have been accelerated, each Lender is authorized at any time and from time to time, without prior notice to the Company, any such notice being waived by the Company to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held by, and other indebtedness at any time owing by, such Lender to or for the credit or the account of the Company against any and all Obligations owing to such Lender, now or hereafter existing, irrespective of whether or not the Administrative Agent or such Lender shall have made demand under this Agreement or any other Loan Document and although such Obligations may be contingent or unmatured. Each Lender agrees promptly to notify the Company and the Administrative Agent after any such set-off and application made by such Lender; provided that the failure to give such notice shall not affect the validity of such set-off and application.

11.11 Automatic Debits of Fees. With respect to any commitment fee, arrangement fee, agency fee, letter of credit fee or other fee, or any other cost or expense (including Attorney Costs) due and payable to the Administrative Agent, the Swingline Lender or the Issuing Lender under the Loan Documents, the Company hereby irrevocably authorizes BofA to debit any deposit account of the Company with BofA in an amount such that the aggregate amount debited from all such deposit accounts does not exceed such fee or other cost or expense. If there are insufficient funds in such deposit accounts to cover the amount of the fee or other cost or expense then due, such debits will be reversed (in whole or in part, in BofA's sole discretion) and such amount not debited shall be deemed to be unpaid. No such debit under this Section shall be deemed a set-off.

11.12 Notification of Addresses, Lending Offices, etc. Each Lender shall notify the Administrative Agent in writing of any change in the address to which notices to such Lender should be directed, of addresses of any Lending Office, of payment instructions in respect of all payments to be made to it hereunder and of such other administrative information as the Administrative Agent shall reasonably request.

11.13 Counterparts. This Agreement may be executed in any number of separate counterparts, each of which, when so executed, shall be deemed an original, and all of which taken together shall constitute but one and the same instrument.

11.14 Severability. The illegality or unenforceability of any provision of this Agreement or any instrument or agreement required hereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Agreement or such instrument or agreement.

11.15 No Third Parties Benefited. This Agreement is made and entered into for the sole protection and legal benefit of the Company, the Lenders, the Administrative Agent and the Agent-Related Persons, and their permitted successors and assigns, and no other Person shall be a direct or indirect legal beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any other Loan Document.

11.16 Governing Law and Jurisdiction. (a) THIS AGREEMENT AND ANY NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAW OF THE STATE OF NEW YORK; PROVIDED THAT THE ADMINISTRATIVE AGENT AND THE LENDERS SHALL RETAIN ALL RIGHTS ARISING UNDER FEDERAL LAW.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF NEW YORK OR OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH OF THE COMPANY, THE ADMINISTRATIVE AGENT AND THE LENDERS CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF SUCH COURTS. EACH OF THE COMPANY, THE ADMINISTRATIVE AGENT AND THE LENDERS IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF THIS AGREEMENT OR ANY DOCUMENT RELATED HERETO. THE COMPANY, THE ADMINISTRATIVE AGENT AND THE LENDERS EACH WAIVE PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS, WHICH MAY BE MADE BY ANY OTHER MEANS PERMITTED BY NEW YORK LAW.

11.17 Waiver of Jury Trial. THE COMPANY, THE LENDERS AND THE ADMINISTRATIVE AGENT EACH WAIVE THEIR RESPECTIVE RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE OTHER LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY ANY OF THE PARTIES AGAINST ANY OTHER PARTY OR ANY AGENT-RELATED PERSON, PARTICIPANT OR ASSIGNEE, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS OR OTHERWISE. THE COMPANY, THE LENDERS AND THE ADMINISTRATIVE AGENT EACH AGREE THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, THE PARTIES FURTHER AGREE THAT THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS OR ANY PROVISION HEREOF OR THEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENT, RENEWAL, SUPPLEMENT OR MODIFICATION TO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

11.18 Entire Agreement. This Agreement, together with the other Loan Documents, embodies the entire agreement and understanding among the Company, the Lenders and the Administrative Agent, and supersedes all prior or contemporaneous agreements and understandings of such Persons, verbal or written, relating to the subject matter hereof and thereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

RAYOVAC CORPORATION

By: /s/ Raymond L. Balfour  
Title: Vice President

BANK OF AMERICA NATIONAL TRUST AND  
SAVINGS ASSOCIATION, as  
Administrative Agent, Issuing  
Lender, Swingline Lender and a  
Lender

By: /s/ Eric A. Schubert  
Title: Managing Director

BANQUE NATIONALE DE PARIS

By: /s/ William J. Krummen  
Title: Vice President and Manager

BANK OF TOKYO - MITSUBISHI TRUST COMPANY

By: /s/ Peter Stearn  
Title: Assistant Vice President

FIRSTAR BANK MILWAUKEE, N.A.

By: /s/ Randy D. Oliver  
Title: Vice President

FLEET NATIONAL BANK

By: /s/ Eugenie M. Sullivan  
Title: Senior Vice President

THE LONG-TERM CREDIT BANK OF JAPAN, LTD.  
CHICAGO BRANCH

By: /s/ Brady S. Sadek  
Title: Senior Vice President

M&I MARSHALL & ILSLEY BANK

By: /s/ James P. McMullen  
Title:

DG BANK

By: /s/ Norah McCann /s/ Paul Connolly  
Title: Senior Vice President/  
Assistant Vice President

HARRIS TRUST AND SAVINGS BANK

By: /s/ George M. Dluhy  
Title: Vice President



THE BANK OF NEW YORK

By: /s/ William O'Daly  
Title: Vice President

THE MITSUBISHI TRUST AND BANKING  
CORPORATION

By: /s/ Nobuo Tominaga  
Title: Chief Manager

Consent of KPMG Peat Marwick LLP

The Board of Directors  
Rayovac Corporation:

We consent to the use of our reports included or incorporated by reference herein and to the reference to our firm under the heading "Experts" in the prospectus.

/s/ KPMG Peat Marwick LLP

Milwaukee, Wisconsin  
April 1, 1998

[Letterhead of Coopers & Lybrand LLP]

Consent of Independent Accountants

We consent to the incorporation in this registration statement on Form S-3 (File No. ) of our report dated November 22, 1996, except for Notes 2n and 2r as to which the date is April 1, 1998, on our audits of the combined consolidated financial statements of Rayovac Corporation as of June 30, 1996 and September 30, 1996 and for each of the two years in the period ended June 30, 1996 and the period July 1, 1996 to September 30, 1996. We also consent to the references to our firm under the captions "Experts".

/s/ Coopers & Lybrand LLP

Milwaukee, Wisconsin  
April 2, 1998

U.S. DOLLARS

	12-MOS SEP-30-1997	12-MOS JUN-30-1996	12-MOS JUN-30-1995	12-MOS JUN-30-1994	12-MOS JUN-30-1993
	1.00	1.00	1.00	1.00	1.00
	0	1,133	2,190	2,645	2,530
	80,890	58,938	53,400	50,993	42,384
	1,221	786	702	831	829
	58,551	66,941	65,540	74,544	55,341
	154,380	138,119	132,202	139,044	108,827
	77,461	142,972	140,427	135,046	119,492
	236,881	221,885	220,590	222,436	189,048
120,563	75,656	76,320	75,448	77,488	77,488
0	207,321	81,349	88,293	108,978	74,082
	0	0	0	0	0
	500	505	505	505	505
	80,095	61,119	53,082	37,417	36,200
236,881	221,885	220,590	222,436	189,048	353,443
	432,552	399,384	390,988	386,176	353,443
	0	0	0	0	0
	234,569	239,343	237,126	234,870	201,409
	163,219	129,771	121,849	139,403	120,932
	617	545	714	404	1,091
24,542	8,435	8,644	8,644	7,725	5,956
9,605	21,290	22,655	22,655	3,774	24,055
3,419	7,002	6,247	6,247	(582)	9,016
6,186	14,288	16,408	16,408	4,356	15,039
0	0	0	0	0	0
0	0	0	0	0	0
	0	0	0	0	0
	6,186	14,288	16,408	4,356	15,039
	0.30	0.29	0.33	0.09	0.30
	0.30	0.29	0.33	0.09	0.30

3-MOS  
DEC-27-1997  
OCT-1-1997  
DEC-27-1997  
1  
\$16,906  
0  
103,353  
1,104  
49,326  
183,354  
145,026  
79,976  
267,699  
106,845  
138,758  
0  
0  
569  
13,733  
267,699  
149,995  
149,995  
0  
77,355  
53,719  
87  
5,024  
13,810  
5,276  
8,534  
0  
1,975  
0  
\$6,559  
0.28  
0.27

0001028985  
RAYOVAC CORPORATION

1

U.S. DOLLARS

3-MOS

	SEP-30-1996	
	JUL-01-1996	
	SEP-30-1996	
	1.00	4,255
		0
	67,198	
	722	
	70,121	
	155,674	143,181
	73,784	
	245,248	
92,479		233,663
	0	0
		500
	(86,220)	
245,248		94,981
	94,981	0
	59,242	
	59,340	
	147	
	4,430	
	(28,178)	
	(8,904)	
(19,274)		
	0	
	(1,647)	0
	(20,921)	
	(0.48)	
	(0.48)	