

5,750,000 Shares

RAYOVAC(R)

Common Stock

All of the 5,750,000 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 5,750,000 shares of Common Stock offered hereby, 4,600,000 shares are being offered for sale initially in the United States and Canada by the U.S. Underwriters and 1,150,000 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 May 28, 1998, the last sale price of the Common Stock as reported on the New York Stock Exchange was \$21-1/4 per share. See "Price Range of Common Stock and Dividend Policy."

See "Risk Factors" beginning on page 12 for a discussion of certain factors that should be considered by prospective purchasers of the Common Stock offered hereby.

-----  
 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 .....	\$21.00	\$1.00	\$20.00
Total(3) .....	\$120,750,000	\$5,750,000	\$115,000,000

- (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) The Company has agreed to pay certain expenses of the Offerings 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 690,000 shares and 172,500 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 \$138,862,500, \$6,612,500 and \$132,250,000, respectively. See "Underwriting."

-----  
 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 June 3, 1998.

-----  
 Merrill Lynch & Co.

Bear, Stearns & Co. Inc.

Donaldson, Lufkin & Jenrette  
 Securities Corporation

Salomon Smith Barney

[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]

-----  
RAYOVAC[RegTM], RENEWAL[RegTM], LOUD'N CLEAR[RegTM], POWER STATION[RegTM],  
PROLINE[RegTM], WORKHORSE[RegTM], ROUGHNECK[RegTM], SMART PACK[RegTM], BEST  
LABS[RegTM], ULTRACELL[RegTM], XCELL[RegTM] and AIRPOWER[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. The Rayovac brand name was first used as a trademark for batteries in 1921 and 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[RegTM], Renewal[RegTM], Loud'n Clear[RegTM], ProLine[RegTM], Lifex[RegTM], Power Station[RegTM], Workhorse[RegTM], Roughneck[RegTM], Best Labs[RegTM], Ultracell[RegTM], XCell[RegTM] and AIRPOWER[RegTM].

### Business Strategy

In September 1996, the Company and the shareholders of the Company completed the Recapitalization pursuant to which, among other things, affiliates of Thomas H. Lee Company acquired for cash 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, who joined the Company as Executive Vice President of Finance and Administration and Chief Financial Officer following the Recapitalization and was recently promoted to the position of President and Chief Operating Officer; Merrell M. Tomlin, Senior Vice President of Sales; Stephen P.

Shanesy, Executive Vice President and General Manager of General Batteries and Lights; and Randall J. Steward, Senior Vice President of Finance and Chief Financial Officer. 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 10.2% 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 recorded 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. Such savings may not be indicative of actual savings in future periods because of the likelihood of additional overhead or other costs in future periods in support of business growth objectives. 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[™], 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. In March 1998, the Company acquired the battery distribution portion of Best Labs in St. Petersburg, Florida, a distributor of hearing aid batteries in customized packaging and a manufacturer of hearing instruments. The Company believes that these acquisitions will enable the Company to further penetrate 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 through 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 March 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 Renewal 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 recorded 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 recorded a gain of \$2.4 million in the second fiscal 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 reducing revolver facility of \$90 million (the "Revolver Facility"), and a five-year amortizing acquisition facility of \$70 million (the "Acquisition Facility"). 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."

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., Ltd. 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%.

Further Strengthening of Senior Management Team. In April 1998, the Company named Kent J. Hussey President and Chief Operating Officer of the Company. Previously, Mr. Hussey served as Executive Vice President of Finance and Administration and Chief Financial Officer. The Company also at such time named Randall J. Steward, formerly Senior Vice President of Corporate Development, as Senior Vice President of Finance and Chief Financial Officer and Stephen P. Shanesy, formerly Senior Vice President of Marketing and the General Manager of General Batteries and Lights of the Company, as Executive Vice President and General Manager of General Batteries and Lights of the Company. In addition, David A. Jones, Chairman and Chief Executive Officer of the Company, and Kent J. Hussey signed three-year employment contracts effective until May 1, 2001.

#### The Offerings

The offering of 4,600,000 shares of the Company's Common Stock in the United States and Canada (the "U.S. Offering") and the offering of 1,150,000 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 .....	5,750,000 shares
Common Stock to be outstanding after the Offerings(1) .....	27,441,097 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 5,259,268 shares of Common Stock reserved for sale or issuance under the Company's employee benefit plans, of which options to purchase 2,497,321 shares have been granted and 2,761,947 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.

-----  
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.



SUMMARY FINANCIAL DATA

The following summary historical financial data 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 summary historical financial data for the six months ended March 29, 1997 and as of and for the six months ended March 28, 1998, included elsewhere in this Prospectus, and for the twelve months ended September 30, 1996, not included herein, is 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. The summary historical financial data of the Company for the 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 summary 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 \$15.4 million for the six months ended March 29, 1997. The Company believes that this reclassification is consistent with the method used by other consumer products companies.

	Fiscal Year Ended June 30,				Transition Period Ended September 30, 1996	Twelve Months Ended September 30, 1996	Fiscal Year Ended September 30, 1997	Six Months Ended	
	1993	1994	1995	1996				March 29, 1997	March 28, 1998
	(In millions)								
Statement of Operations									
Data:									
Net sales .....	\$372.4	\$403.7	\$415.2	\$423.4	\$101.9	\$417.9	\$432.6	\$225.6	\$246.1
Gross Profit .....	171.0	168.8	178.1	184.0	42.6	180.0	198.0	99.4	118.2
Income (loss) from operations (1)(2)(3)(4).....	31.2	10.9	31.5	30.3	(23.7)	(1.4)	34.5	14.7	20.1
Interest expense .....	6.0	7.7	8.6	8.4	4.4	10.5	24.5	13.4	8.3
Net income (loss)(5) .....	15.0	4.4	16.4	14.3	(20.9)	(10.2)	6.2	0.7	5.6
Other Financial Data:									
Depreciation .....	\$ 7.4	\$ 10.3	\$ 11.0	\$ 11.9	\$ 3.3	\$ 12.1	\$ 11.3	\$ 5.9	\$ 5.8
Capital expenditures(6) .....	30.3	12.5	16.9	6.6	1.2	8.4	10.9	2.6	6.7
Cash flows from operating activities .....	15.8	(18.7)	35.5	17.8	(1.1)	26.0	35.7	35.2	4.4
Cash flows from investing activities .....	(30.1)	(12.4)	(16.8)	(6.3)	0.0	(7.3)	(10.8)	(2.8)	(10.9)
Cash flows from financing activities .....	13.7	30.8	(18.3)	(12.0)	3.2	(16.8)	(28.0)	(27.5)	9.1
Income from operations before non-recurring charges (7) .....	31.2	21.9	31.5	30.3	4.7	27.0	37.5	19.4	24.1
EBITDA(8) .....	39.3	21.2	41.3	42.2	(20.4)	10.7	45.8	20.7	26.1
									March 28, 1998 (in millions) -----
Balance Sheet Data:									
Working capital .....									\$ 55.3
Total assets .....									241.4
Total debt .....									129.5
Shareholders' equity .....									12.2

(footnotes on following page)

- (1) 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."
- (2) 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."
- (3) 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.
- (4) In the six months ended March 28, 1998, the Company recorded net charges of \$4.0 million including (i) \$1.7 million associated with consolidating domestic battery packaging operations and outsourcing the manufacture of heavy duty batteries, (ii) \$2.0 million associated with closing the Company's Appleton, Wisconsin manufacturing plant and consolidating it into its Portage, Wisconsin manufacturing plant, (iii) \$3.9 million associated with closing the Company's Newton Aycliffe, United Kingdom facility, phasing out direct distribution in the United Kingdom and closing one of the Company's German sales offices, (iv) a \$2.4 million gain on the sale of the Company's previously closed Kingston, North Carolina facility, and (v) income of \$1.2 million in connection with the buyout of deferred compensation agreements with certain former employees.
- (5) 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 six months ended March 28, 1998, 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.
- (6) 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. 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Introduction."
- (7) 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 six months ended March 29, 1997 and March 28, 1998. Income from operations before these non-recurring charges was as follows:

	Fiscal Year Ended June 30,				Transition Period Ended September 30, 1996	Twelve Months Ended September 30, 1996	Fiscal Year Ended September 30, 1997	Six Months Ended	
	1993	1994	1995	1996				March 29, 1997	March 28, 1998
	-----	-----	-----	-----	-----	-----	-----	-----	-----
	(In millions)								
Income (loss) from operations .....	\$31.2	\$10.9	\$31.5	\$30.3	\$(23.7)	\$(1.4)	\$34.5	\$14.7	\$20.1
Fennimore Expansion .....	--	9.5	--	--	--	--	--	--	--
Recapitalization and other special charges .....	--	1.5	--	--	28.4	28.4	3.0	4.7	4.0
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Income from operations before non-recurring charges .....	\$31.2	\$21.9	\$31.5	\$30.3	\$ 4.7	\$27.0	\$37.5	\$19.4	\$24.1
	=====	=====	=====	=====	=====	=====	=====	=====	=====

- (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.

(footnote continued on following page)

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 six months ended March 29, 1997 and March 28, 1998. EBITDA before these non-recurring charges was as follows:

	Fiscal Year Ended June 30, -----				Transition Period Ended September 30, 1996	Twelve Months Ended September 30, 1996	Fiscal Year Ended September 30, 1997	Six Months Ended ----- March 29, 1997     March 28, 1998 -----	
	1993	1994	1995	1996					
	(In millions)								
EBITDA .....	\$39.3	\$21.2	\$41.3	\$42.2	\$(20.4)	\$10.7	\$45.8	\$20.7	\$26.1
Fennimore Expansion .....	--	9.5	--	--	--	--	--	--	--
Recapitalization and other special charges .....	--	1.5	--	--	28.4	28.4	3.0	4.7	4.0
	-----	-----	-----	-----	-----	-----	-----	-----	-----
EBITDA before non- recurring charges .....	\$39.3	\$32.2	\$41.3	\$42.2	\$ 8.0	\$39.1	\$48.8	\$25.4	\$30.1
	=====	=====	=====	=====	=====	=====	=====	=====	=====

## 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. In May 1998 Energizer announced the introduction of Energizer Advanced Formula alkaline batteries, available in all cell sizes, which Energizer claims will provide superior performance in high drain devices and improved performance in all other device categories. The Energizer Advanced Formula alkaline batteries are expected to be available in the summer of 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 these new alkaline battery lines, 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 at the Refuse Hideaway Site in Middleton, Wisconsin. 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 presently estimates that its liability with respect to the Middleton, Wisconsin site should not exceed \$100,000. 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 applied to the Tennessee Department of Environment and Conservation ("TDEC") for participation in TDEC's Voluntary Cleanup Oversight and Assistance Program with respect to the Company's former manganese processing facility in Covington, Tennessee. Pursuant to this program, TDEC will conduct a site investigation to determine the extent of the cleanup required at the Covington facility, however, there can be no assurance that participation in this program will preclude this site from being 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 50 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 March 28, 1998, the Company had total indebtedness of \$129.5 million and total shareholders' equity of \$12.2 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 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 Consolidated Financial Statements and Note 1 to the Unaudited Condensed Consolidated Financial Statements for the six months ended March 29, 1997 and March 28, 1998, included elsewhere herein.

#### 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 43.9% of the Company's outstanding Common Stock (41.5% 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 27,441,097 shares of Common Stock, excluding 2,497,321 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 5,750,000 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 14.3 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 12.1 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. In certain circumstances under provisions of Wisconsin law, shareholders may be liable for liabilities of the Company with respect to unpaid wages.

## 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 (the "Senior Subordinated Notes"), 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 April 29, 1998, the outstanding shares of Common Stock were held of record by 285 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 May 28, 1998) .....	\$24-1/2	\$21-1/4

On May 28, 1998, the closing price of the Common Stock on the New York Stock Exchange Composite Transaction Tape was \$21-1/4 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 March 28, 1998. 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 March 28, 1998
	-----
	(Dollars in millions)
Debt:	
Revolver Facility .....	\$ 56.1
Acquisition Facility .....	4.2
Bankers' acceptances(1) .....	1.5
Notes .....	65.0
Capitalized leases and foreign currency borrowings .....	2.7
	-----
Total debt .....	129.5
	-----
Shareholders' equity:	
Preferred stock, \$.01 par value, 5,000,000 shares authorized; no shares issued and outstanding .....	--
Common stock, \$.01 par value, 150,000,000 shares authorized; 27,432,238 shares outstanding .....	0.6
Additional paid in capital .....	103.2
Foreign currency translation .....	2.3
Notes receivable from officers/shareholders .....	(1.4)
Retained earnings .....	36.9
Less stock held in trust .....	(1.0)
Less treasury stock, at cost, 29,440,269 shares .....	(128.4)
	-----
Total shareholders' equity .....	12.2
	-----
Total capitalization .....	\$141.7
	=====

(1) In connection with the acquisition of DPP, the Company assumed \$1.5 million of bankers' acceptances.

## 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 six months ended March 29, 1997 and March 28, 1998, included elsewhere in this Prospectus, and as of and for the twelve months ended September 30, 1996, not included herein, is 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. 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 \$15.4 million for the six months ended March 29, 1997. 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	Six Months	
	-----				Period	Months	Year	Ended	
	1993	1994	1995	1996	Ended	Ended	Ended	March	March
				September	September	September	29, 1997	28, 1998	
				30, 1996	30, 1996	30, 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	\$225.6	\$246.1
Cost of goods sold .....	201.4	234.9	237.1	239.4	59.3	237.9	234.6	126.2	127.9
Gross profit .....	171.0	168.8	178.1	184.0	42.6	180.0	198.0	99.4	118.2
Selling expense .....	98.8	121.3	108.7	116.5	27.8	114.4	122.1	61.3	73.7
General and administrative expense .....	35.4	29.4	32.9	31.8	8.6	33.0	32.2	15.3	17.4
Research and development expense .....	5.6	5.7	5.0	5.4	1.5	5.6	6.2	3.4	3.0
Recapitalization and other special charges(1)(2)(3) .....	--	1.5	--	--	28.4	28.4	3.0	4.7	4.0
Income (loss) from operations(4)(5) .....	31.2	10.9	31.5	30.3	(23.7)	(1.4)	34.5	14.7	20.1
Interest expense .....	6.0	7.7	8.6	8.4	4.4	10.5	24.5	13.4	8.3
Other expense (income), net .....	1.2	(0.6)	0.3	0.6	0.1	0.5	0.4	0.3	(0.3)
Income (loss) before income taxes and extraordinary item....	24.0	3.8	22.6	21.3	(28.2)	(12.4)	9.6	1.0	12.1
Income tax expense (benefit) ....	9.0	(0.6)	6.2	7.0	(8.9)	(3.8)	3.4	0.3	4.5
Income (loss) before extraordinary item .....	15.0	4.4	16.4	14.3	(19.3)	(8.6)	6.2	0.7	7.6
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	\$ 0.7	\$ 5.6
Basic net income (loss) per common share before extraordinary item .....	\$ 0.30	\$ 0.09	\$ 0.33	\$ 0.29	\$(0.44)	\$(0.18)	\$0.30	\$ 0.03	\$ 0.30
Diluted net income (loss) per common share before extraordinary item .....	\$ 0.30	\$ 0.09	\$ 0.33	\$ 0.29	\$(0.44)	\$(0.18)	\$0.30	\$ 0.03	\$ 0.28
Basic net income (loss) per common share .....	\$ 0.30	\$ 0.09	\$ 0.33	\$ 0.29	\$(0.48)	\$(0.21)	\$0.30	\$ 0.03	\$ 0.22
Diluted net income (loss) per common share .....	\$ 0.30	\$ 0.09	\$ 0.33	\$ 0.29	\$(0.48)	\$(0.21)	\$0.30	\$ 0.03	\$ 0.21
Weighted average common shares .....	50.0	50.0	50.0	49.6	43.8	48.1	20.5	20.5	25.5
Weighted average common and common equivalent shares .....	50.0	50.0	50.0	49.6	43.8	48.1	20.6	20.5	27.0
Other Financial Data:									
Depreciation .....	\$ 7.4	\$ 10.3	\$ 11.0	\$ 11.9	\$ 3.3	\$ 12.1	\$ 11.3	\$ 5.9	\$ 5.8
Capital expenditures(7) .....	30.3	12.5	16.9	6.6	1.2	8.4	10.9	2.6	6.7
Cash flows from operating activities .....	15.8	(18.7)	35.5	17.8	(1.1)	26.0	35.7	35.2	4.4
Cash flows from investing activities .....	(30.1)	(12.4)	(16.8)	(6.3)	0.0	(7.3)	(10.8)	(2.8)	(10.9)
Cash flows from financing activities .....	13.7	30.8	(18.3)	(12.0)	3.2	(16.8)	(28.0)	(27.5)	9.1
EBITDA(8) .....	39.3	21.2	41.3	42.2	(20.4)	10.7	45.8	20.7	26.1
Balance Sheet Data:									
Working capital .....	\$ 31.6	\$ 63.6	\$ 55.9	\$ 63.2	\$ 64.6	\$ 64.6	\$ 33.8	\$ 48.3	\$ 55.3
Total assets .....	189.0	222.4	220.6	221.1	243.7	243.7	236.9	211.3	241.4
Total debt .....	74.1	109.0	88.3	81.3	233.7	233.7	207.3	206.5	129.5
Shareholders' equity (deficit) ..	36.7	37.9	53.6	61.6	(85.7)	(85.7)	(80.6)	(84.1)	12.2

(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 six months ended March 28, 1998, the Company recorded net charges of \$4.0 million including (i) \$1.7 million associated with consolidating domestic battery packaging operations and outsourcing the manufacture of heavy duty batteries, (ii) \$2.0 million associated with closing the Company's Appleton, Wisconsin manufacturing plant and consolidating it into its Portage, Wisconsin manufacturing plant, (iii) \$3.9 million associated with closing the Company's Newton Aycliffe, United Kingdom facility, phasing out direct distribution in the United Kingdom and closing one of the Company's German sales offices, (iv) a \$2.4 million gain on the sale of the Company's previously closed Kinston, North Carolina facility, and (v) 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 six months ended March 29, 1997 and March 28, 1998. Income from operations before these non-recurring charges was as follows:

	Fiscal Year Ended June 30,				Transition Period Ended	Twelve Months Ended	Fiscal Year Ended	Six Months Ended		
	1993	1994	1995	1996	September 30, 1996	September 30, 1996	September 30, 1997	March 29, 1997	March 28, 1998	
	-----									
	(In millions)									
Income (loss) from operations .....	\$31.2	\$10.9	\$31.5	\$30.3	\$(23.7)	\$(1.4)	\$34.5	\$14.7	\$20.1	
Fennimore Expansion .....	--	9.5	--	--	--	--	--	--	--	
Recapitalization and other special charges .....	--	1.5	--	--	28.4	28.4	3.0	4.7	4.0	
	-----	-----	-----	-----	-----	-----	-----	-----	-----	
Income from operations before non-recurring charges .....	<u>\$31.2</u>	<u>\$21.9</u>	<u>\$31.5</u>	<u>\$30.3</u>	<u>\$ 4.7</u>	<u>\$27.0</u>	<u>\$37.5</u>	<u>\$19.4</u>	<u>\$24.1</u>	
	=====	=====	=====	=====	=====	=====	=====	=====	=====	

- (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 six months ended March 28, 1998, the Company recorded extraordinary expense of \$2.0 million net of income taxes for the premium on the repurchase or redemption of the senior term notes in connection with the 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. 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. 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 six months ended March 29, 1997 and March 28, 1998. EBITDA before these non-recurring charges was as follows:

	Fiscal Year Ended June 30, -----				Transition Period Ended	Twelve Months Ended	Fiscal Year Ended	Six Months Ended -----	
	1993	1994	1995	1996	September 30, 1996	September 30, 1996	September 30, 1997	March 29, 1997	March 28, 1998
	-----	-----	-----	-----	-----	-----	-----	-----	-----
	(In millions)								
EBITDA .....	\$39.3	\$21.2	\$41.3	\$42.2	\$(20.4)	\$10.7	\$45.8	\$20.7	\$26.1
Fennimore Expansion .....	--	9.5	--	--	--	--	--	--	--
Recapitalization and other special charges .....	--	1.5	--	--	28.4	28.4	3.0	4.7	4.0
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
EBITDA before non- recurring charges .....	\$39.3	\$32.2	\$41.3	\$42.2	\$ 8.0	\$39.1	\$48.8	\$25.4	\$30.1
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

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 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 recorded 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 1998 restructuring is in addition to the significant measures taken in fiscal 1997 following the Recapitalization to rationalize the Company's manufacturing, distribution, and general overhead costs. The initiatives relating to manufacturing activities included discontinuing certain manufacturing operations at the Company's Newton, Aycliffe, United Kingdom facility and closing the Company's Kinston, North Carolina facility. In addition, the Company implemented a significant organizational restructuring in the United States and the United Kingdom. The Company recorded charges totaling \$5.9 million in fiscal 1997 in connection with the restructuring (see note 15 to the Consolidated Financial Statements) and expects annual savings of approximately \$8.6 million. Such savings may not be indicative of actual savings in future periods because of the likelihood of additional overhead or other costs in future periods in support of business growth objectives.

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 for \$10.0 million 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 Company estimates costs associated with the implementation of this new manufacturing line to be approximately \$1.0 million. 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 specialty 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 and the lowest sales occurring in the fiscal quarter ending on or about March 30. 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	December 28, 1996	March 29, 1997	June 29, 1997	September 30, 1997	December 27, 1997	March 28, 1998
	(In millions)									
Net sales	\$ 140.9	\$ 80.5	\$ 94.6	\$ 101.9	\$ 141.9	\$ 83.6	\$ 95.5	\$ 111.5	\$ 150.0	\$ 96.1

## 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 \$15.4 million for the six months ended March 29, 1997. 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 September 30, 1995	Transition Period Ended September 30, 1996	Twelve Months Ended September 30, 1996	Fiscal Year Ended September 30, 1997	Six Months Ended	
	June 30, 1995	June 30, 1996					March 29, 1997	March 28, 1998
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	55.9	52.0
Gross profit .....	42.9	43.5	40.3	41.8	43.1	45.8	44.1	48.0
Selling expense .....	26.2	27.5	27.9	27.3	27.4	28.2	27.2	29.9
General and administrative expense.....	7.9	7.5	6.9	8.4	7.9	7.5	6.8	7.1
Research and development expense .....	1.2	1.3	1.2	1.5	1.3	1.4	1.5	1.2
Recapitalization and other special charges .....	--	--	--	27.9	6.8	0.7	2.1	1.6
Income (loss) from operations .....	7.6%	7.2%	4.3%	(23.3%)	( 0.3%)	8.0%	6.5%	8.2%

### Six Months Ended March 28, 1998 Compared to Six Months Ended March 29, 1997

**Net Sales.** Net sales were \$246.1 million for the six months ended March 28, 1998 (the "1998 Six Month Period"), an increase of \$20.5 million, or 9.1%, from \$225.6 million for the six months ended March 29, 1997 (the "1997 Six Month Period"). Increased sales of alkaline batteries, hearing aid batteries, and specialty batteries were somewhat offset by the continuing decline in the domestic market for heavy duty batteries.

Alkaline general battery sales for the 1998 Six Month Period exceeded alkaline general battery sales for the 1997 Six Month Period by approximately 26%, or \$25.1 million, as a result of strong promotional programs, a price increase implemented in the summer of 1997, sales to new customers, and increased volume with existing customers, all of which increased market share.

Within specialty battery products, hearing aid battery sales increased approximately 9% due primarily to growth in the market and the November 1997 acquisition of Brisco. In addition, net sales in the 1998 Six Month Period included \$2.2 million of specialty battery sales related to the DPP acquisition.

**Gross Profit.** Gross profit increased \$18.8 million, or 18.9%, to \$118.2 million for the 1998 Six Month Period, from \$99.4 million for the 1997 Six Month Period, primarily as a result of increased sales of higher margin alkaline batteries and decreased sales of lower margin heavy duty batteries. Gross profit margins increased to 48.0% in the 1998 Six Month Period from 44.1% in the 1997 Six Month Period due primarily to the change in sales mix toward alkaline and away from heavy duty batteries, the alkaline price increase implemented in the summer of 1997, and alkaline manufacturing cost improvements.

**Selling Expense.** Selling expense increased \$12.4 million, or 20.2%, to \$73.7 million for the 1998 Six Month Period from \$61.3 million for the 1997 Six Month Period. Selling expense as a percent of net sales increased to 29.9% in the 1998 Six Month Period from 27.2% in the 1997 Six Month Period. The increase in dollars and as a percent of sales was due primarily to increased advertising and promotional spending which resulted in the increased alkaline general battery sales. In addition, selling expense was lower during the 1997 Six Month Period while a new advertising agency and promotional strategies were under review.

General and Administrative Expense. General and administrative expense increased \$2.1 million, or 13.7%, to \$17.4 million for the 1998 Six Month Period from \$15.3 million for the 1997 Six Month Period primarily as a result of higher costs associated with information system improvements worldwide and increased expenses associated with being a publicly held company.

Research and Development Expense. Research and development expense decreased \$0.4 million to \$3.0 million for the 1998 Six Month Period from \$3.4 million for the 1997 Six Month Period primarily as a result of the increased resources assigned to the development of an on-the-label battery tester in 1997 which management decided not to implement.

Other Special Charges. In March 1998, the Company recorded net charges of \$5.2 million including (i) a \$1.7 million charge associated with consolidating domestic battery packaging operations and outsourcing the manufacture of heavy duty batteries, (ii) a \$2.0 million charge associated with closing the Company's Appleton, Wisconsin manufacturing plant and consolidating it into its Portage, Wisconsin manufacturing plant, (iii) a \$3.9 million charge associated with closing the Company's Newton Aycliffe, United Kingdom facility, phasing out direct distribution in the United Kingdom and closing one of the Company's German sales offices, and (iv) a \$2.4 million gain on the sale of the Company's previously closed Kinston, North Carolina, facility. The Company expects to record an additional \$2.0 million of costs in subsequent periods related to these restructuring and cost rationalization initiatives.

For the 1998 Six Month Period, the Company recorded net charges of \$4.0 million. This includes the \$5.2 million charge recorded in March offset by income of \$1.2 million in connection with the buy-out of deferred compensation agreements with certain former employees recorded earlier in the fiscal year. For the 1997 Six Month Period, the Company recorded charges of \$4.7 million for organizational restructuring in the U.S., the discontinuation of certain manufacturing operations in the United Kingdom, and the closing of its Kinston, North Carolina, facility. At September 30, 1997, the balance of these 1997 reserves was \$1.9 million of which the Company expended \$1.1 million in the 1998 Six Month Period and currently expects the balance to be expended by the end of fiscal 1998.

Income From Operations. Income from operations increased \$5.4 million, or 36.7%, to \$20.1 million from \$14.7 million for the 1997 Six Month Period. This increase was due primarily to increased sales and gross profit offset by increased selling and general and administrative expense. Income from operations before special charges increased \$4.7 million, or 24.2%, to \$24.1 million from \$19.4 million for the 1997 Six Month Period. As a percentage of sales income from operations for the 1998 Six Month Period increased to 8.2% from 6.5% for the 1997 Six Month Period.

Interest Expense. Interest expense decreased \$5.1 million, or 38.1%, to \$8.3 million for the 1998 Six Month Period from \$13.4 million for the 1997 Six Month Period. This decrease was primarily as a result of decreased indebtedness due to the application of proceeds of the Company's IPO in November 1997. In addition to the effects of the IPO on the 1998 Six Month Period, the 1997 Six Month Period interest expense included a \$2.0 million write-off of unamortized debt issuance costs.

Other Expense (Income). For the 1998 Six Month Period, interest income and foreign exchange gain totaled \$(0.4) million compared to \$0.3 million of net expense in the 1997 Six Month Period, attributed to foreign exchange losses somewhat offset by interest income.

Income Tax Expense. The Company's effective tax rate was 37.7% for the 1998 Six Month Period, compared to 31.9% for the 1997 Six Month Period. This more favorable tax rate in 1997 was due primarily to the Company's Foreign Sales Corporation ("FSC") benefiting 1997 more than 1998.

Extraordinary Item. In the 1998 Six Month Period, the Company recorded extraordinary expense of \$2.0 million net of income taxes for the premium payment on the redemption of a portion of the Company's Senior Subordinated Notes.

Net Income. For the 1998 Six Month Period, net income was \$5.6 million compared to \$0.7 million in the 1997 Six Month Period.

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 diversion of management attention and other Company resources on matters associated with the pending Recapitalization.

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

For the 1998 Six Month Period, net cash provided by operating activities decreased \$30.8 million to \$4.4 million from \$35.2 million for the 1997 Six Month Period. The decrease was due primarily to increased inventory levels in the current year to support the growth in the business whereas a significant reduction in excess inventory was experienced in the prior year. Costs associated with the 1997 restructuring initiatives were funded from cash provided from operating activities and the Company currently expects to similarly fund the 1998 restructuring initiatives with cash provided from operating activities.

Capital expenditures for the 1998 Six Month Period were \$6.7 million, an increase of \$4.1 million from \$2.6 million in the 1997 Six Month Period. This increase reflects continued spending on the implementation of new computer systems in fiscal 1998 and the down payment on a new alkaline production line for one of the Company's manufacturing facilities.

In March 1998, the Company sold its Kinston, North Carolina, facility for approximately \$3.3 million. The Company also acquired DPP for \$4.7 million plus incentive payments over four years which are anticipated to total approximately \$2.7 million. The initial \$4.7 million acquisition price consisted of \$3.2 million in cash (of which \$0.5 million is to be paid in cash after a specified time period for resolution of acquisition related claims), and \$1.5 million of assumed bankers' acceptances. In November 1997, the Company acquired Brisco for approximately \$4.9 million.

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 (including the \$6.7 million expended in the first six months of the fiscal year) 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 Amended Credit Agreement contains financial covenants customary and usual for credit facilities of this type, including those involving limitations on liens, limitations on the disposition of assets, limitations on loans and investments, limitations on lease obligations, maintenance of minimum interest coverage, maximum leverage ratios, restrictions on dividend payments, distribution of assets and redemption of subordinated debt, limitations on sale and leaseback transactions and limitations on issuance of guaranty obligations. In particular, the Company may not permit to occur (i) an interest coverage ratio for any computation period which is less than 3.0 to 1.0 or (ii) a leverage ratio for the computation periods from December 31, 1997 through September 30, 1999 which exceeds 3.75 to 1.0, for the computation periods from December 31, 1999 through September 30, 2000 which exceeds 3.50 to 1.0 and for the computation periods from December 31, 2000 and thereafter which exceeds 3.25 to 1.0. The Company also may not and may not permit any subsidiary to create, incur, assume, suffer to exist or otherwise become or remain directly or indirectly liable with respect to any additional indebtedness, except as specifically contemplated by the Amended Credit Agreement. As of the date hereof, the Company is in compliance with all covenants contained in the Amended Credit Agreement.

In addition, the Indenture also restricts, in some instances, the Company's ability to incur additional indebtedness. Pursuant to the terms of the Indenture, there is no limit on the additional amount of indebtedness the Company may incur if the Fixed Charge Coverage Ratio (as defined in the Indenture) for the Company's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional indebtedness has been incurred would have been at least 2.0 to 1.0, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional indebtedness had been incurred at the beginning of such four-quarter period. In addition, the Company may be able to incur additional indebtedness in certain circumstances even if it does not satisfy the 2.0 to 1.0 test described above, as set forth in the Indenture.

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 \$1.6 million for known on-site and off-site environmental liabilities. See Note 4 to Notes to Condensed Consolidated Financial Statements for the six months ended March 28, 1998. 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 the Company's Audited Consolidated Financial Statements and Note 1 to Notes to Condensed Consolidated Financial Statements for the six months ended March 28, 1998.

#### 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. The Rayovac brand name was first used as a trademark for batteries in 1921 and 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], Roughneck[RegTM], Best Labs[RegTM], Ultracell[RegTM], XCell[RegTM] and AIRPOWER[RegTM].

### Business Strategy

In September 1996, the Company and the shareholders of the Company completed the Recapitalization pursuant to which, among other things, affiliates of Thomas H. Lee Company acquired for cash 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, who joined the Company as Executive Vice President of Finance and Administration and Chief Financial Officer and was recently promoted to the position of President and Chief Operating Officer; Merrell M. Tomlin, Senior Vice President of Sales; Stephen P. Shanesy, Executive Vice President and General Manager of General Batteries and Lights; and Randall J. Steward, Senior Vice President of Finance and Chief Financial Officer. 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 10.2% 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 recorded 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. Such savings may not be indicative of actual savings in future periods because of the likelihood of additional overhead or other costs in future periods in support of business growth objectives. 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. In March 1998, the Company acquired the battery distribution portion of Best Labs in St. Petersburg, Florida, a distributor of hearing aid batteries in customized packaging and a manufacturer of hearing instruments. The Company believes that these acquisitions will enable the Company to further penetrate 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 March 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 Renewal 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.

**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 and Company estimates.

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 six months ended March 29, 1997 and March 28, 1998 are set forth below.

Product Type	Percentage of Company Net Sales					
	Fiscal Year Ended June 30,		Transition Period Ended September 30,	Fiscal Year Ended September 30,	Six Months Ended	
	1995	1996	1996	1997	March 29, 1997	March 28, 1998
Battery Products:						
Alkaline .....	43.4%	43.6%	41.4%	45.0%	43.7%	50.2%
Heavy Duty .....	14.1	12.2	12.7	10.4	11.3	8.3
Rechargeable Batteries .....	5.6	7.1	5.1	5.5	6.3	5.6
Hearing Aid .....	12.7	14.6	14.3	14.8	14.2	14.2
Other Specialty Batteries .....	10.0	8.6	10.1	9.8	9.6	8.0
Total .....	85.8	86.1	83.6	85.5	85.1	86.3
Lighting Products and Lantern Batteries .....	14.2	13.9	16.4	14.5	14.9	13.7
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 Names(1):	Rayovac; MAXIMUM, Renewal, Power Station	Rayovac	Rayovac; Loud'n Clear, ProLine, Best Labs, Ultracell XCell and AIRPOWER
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 Names(1):	Rayovac; Lifex	Rayovac	Rayovac	Rayovac
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 35% unit market share in the heavy duty battery market through mass merchandisers, food and drug stores for the 52 weeks ended March 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 March 14, 1998. 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, ProLine, Best Labs, Ultracell, XCell and AIRPOWER brand names and under several private labels, including Beltone, Miracle Ear, Siemens and Starkey. 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 and which, by its terms, may not be cancelled or terminated by Mr. Jordan without cause prior to its expiration.

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's agreement with Mr. Palmer may not be cancelled or terminated by him without cause prior to its expiration. 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 March 14, 1998 the Company's products accounted for 13% 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 (on a non-exclusive basis) Matsushita's highly advanced designs, technology and manufacturing equipment for alkaline batteries, including all developments and innovations thereto, through 2003. Thereafter, the Company is entitled to license such technology existing as of such date through 2023. Pursuant to the terms of the agreement, Matsushita may not cancel or terminate this battery technology agreement prior to its expiration other than for "cause" as described therein. 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. The Company's expenditures for research and development were approximately \$6.2 million, \$1.5 million, \$5.4 million and \$5.0 million for fiscal 1997, the Transition Period, fiscal 1996 and fiscal 1995, respectively. 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 substantially address 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], Best Labs[RegTM], Ultracell[RegTM], XCell[RegTM], AIRPOWER[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 2015. 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 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 categories 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, however there can be no assurance in this regard. In May 1998 Energizer announced the introduction of Energizer Advanced Formula alkaline batteries, available in all cell sizes, which Energizer claims will provide superior performance in high drain devices and improved performance in all other device categories. The Energizer Advanced Formula alkaline batteries are expected to be available in the summer of 1998. The Company has not yet had an opportunity to evaluate the Energizer Advanced Formula products or assess any potential impact on the Company's results of operations. See "Risk Factors--Competition."

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 March 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



The Company also leases approximately 250,000 square feet of space in Madison, Wisconsin for its corporate headquarters and technology center.

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 may 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 applied to TDEC for participation in TDEC's Voluntary Cleanup Oversight and Assistance Program with respect to the Company's former manganese processing facility in Covington, Tennessee. Pursuant to this program, TDEC will conduct a site investigation to determine the extent of the cleanup required at the Covington facility, however, there can be no assurance that participation in this program will preclude this site from

being added to the National Priorities List as a Superfund site. 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 such waste. 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 approximately 50 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 50 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 \$1.6 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 ultimately 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 April 30, 1998:

Name	Age	Position and Offices
David A. Jones	48	Chairman of the Board and Chief Executive Officer
Kent J. Hussey	52	President, Chief Operating Officer and Director
Roger F. Warren	57	President/International and Contract MicroPower and Director
Trygve Lonnebotn	60	Executive Vice President of Operations and Director
Stephen P. Shanesy	41	Executive Vice President and General Manager of General Batteries and Lights
Kenneth V. Biller	51	Senior Vice President of Manufacturing/Supply Chain
Merrell M. Tomlin	46	Senior Vice President of Sales
Randall J. Steward	43	Senior Vice President of Finance and Chief Financial Officer
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 and Chief Executive Officer of the Company since September 12, 1996. From September 1996 to April 1998 Mr. Jones also served as President of the Company. Between February 1995 and March 1996, Mr. Jones was Chief Operating Officer, Chief Executive Officer and Chairman of the Board of Directors of Thermoscan, Inc., a manufacturer and marketer of infrared ear thermometers for consumer and professional use. From 1989 to September 1994, he served as President and Chief Executive Officer of The Regina Company, a manufacturer of vacuum cleaners and other floor care equipment. In addition, Mr. Jones serves as a director of Ladd Furniture, Inc. 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 President and Chief Operating Officer of the Company since April 1998. Prior to that time and since joining the Company in October 1996, Mr. Hussey was the Executive Vice President of Finance and Administration, Chief Financial Officer and a director of the Company. From 1994 to 1996, Mr. Hussey was Vice President and Chief Financial Officer of ECC International, a producer of industrial minerals and specialty chemicals, and from 1991 to July 1994 he served as Vice President and Chief Financial Officer of The Regina Company.

Mr. 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 Executive Vice President and General Manager of General Batteries and Lights of the Company since April 1998. Prior to that time and from December 1997, Mr. Shanesy served as Senior Vice President of Marketing and the General Manager of General Batteries and Lights of the Company. From January 1998 to 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 Finance and Chief Financial Officer of the Company since April 1998. Mr. Steward joined the Company in March of 1998 as Senior Vice President of Corporate Development. From September 1997 to March 1998, Mr. Steward worked as an independent consultant, primarily with Thermoscan, Inc. and Braun AG assisting with financial and operational issues. From March 1996 to September 1997, Mr. Steward served as President and General Manager of Thermoscan, Inc. From January 1992 to March 1996, he served as Executive Vice President of Finance and Administration and Chief Financial Officer of Thermoscan, Inc. 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 IV, LLC, which is the general partner of Thomas H. Lee Equity Fund IV, L.P. He is also a director of 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.

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 and T.H. Lee Mezzanine II. Mr. Smith is also a Managing Director and Member of THL Equity Advisors Limited Partnership III, which is the general partner of Thomas H. Lee Equity Fund III L.P. and a Managing Director and Member of THL Equity Advisors IV, LLC, which is the general partner of Thomas H. Lee Equity Fund IV, L.P. He is also a director of Finlay Enterprises, Inc., Finlay Fine Jewelry Corporation 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
-----						
Directors, Executive Officers and 5% Shareholders						
-----						
Thomas H. Lee Equity Fund III, L.P.(3) 75 State Street, Ste. 2600 Boston, MA 02109 .....	14,437,064	52.6%	4,109,800	563,235	9,764,029	35.6%
Thomas H. Lee Foreign Fund III, L.P.(3) 75 State Street, Ste. 2600 Boston, MA 02109 .....	894,341	3.3	254,592	34,891	604,858	2.2
THL--CCI Limited Partnership(4) 75 State Street, Ste. 2600 Boston, MA 02109 .....	1,515,753	5.5	431,490	59,134	1,025,129	3.7
David A. Jones(5) .....	664,388	2.4	217,357	53,144	392,496	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	*	77,486	19,391	144,522	*
Trygve Lonnebotn(12) .....	502,652	1.8	161,345	40,376	300,931	1.1
Randall J. Steward .....	7,500	*	0	0	7,500	*
Scott A. Schoen(3)(13) .....	72,756	*	20,711	2,838	49,207	*
Thomas R. Shepherd(13) .....	37,894	*	10,787	1,478	25,629	*
Warren C. Smith, Jr.(3)(13) .....	60,640	*	17,262	2,366	41,012	*
All directors and executive officers of the Company as a group (12 persons)(3)(13) .....	2,712,796	9.6%	879,917	199,948	1,632,931	5.8%
Other Officers						
-----						
Gary E. Wilson(14) .....	133,959	*	42,999	6,300	84,660	*
Kenneth G. Drescher(15) .....	22,075	*	7,086	1,773	13,216	*
Dale R. Tetzlaff(16) .....	137,572	*	37,000	0	100,572	*
Linda G. Pauls Fleming, as trustee of the Fleming Trust .....	8,000	*	600	0	7,400	*
Other Selling Shareholders						
-----						
17 Other Selling Shareholders, each of whom is selling less than 4,600 shares of Common Stock in the Offerings and will beneficially own on an aggregate basis less than 1% of the outstanding Common Stock after the offerings .....	121,777	*	36,499	4,069	81,181	*
-----						

\*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

(footnotes continued on following page)

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 2,908 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 9,624 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 11,141 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., a wholly-owned subsidiary of the Company, 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 the Indenture, 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 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 27,441,097 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 5,750,000 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 2,497,321 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 and the Incentive 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 are 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 14.3 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; Registration 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 1,150,000 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 .....	1,012,500
Bear, Stearns & Co. Inc. ....	1,012,500
Donaldson, Lufkin & Jenrette Securities Corporation .....	1,012,500
Smith Barney Inc. ....	1,012,500
Robert W. Baird & Co. Incorporated .....	100,000
Cleary Gull Reiland & McDevitt Inc. ....	100,000
PaineWebber Incorporated .....	100,000
Sutro & Co. Incorporated .....	100,000
Tucker Anthony Incorporated .....	100,000
Moors & Cabot, Inc. ....	50,000
Total .....	4,600,000 =====

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 International 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 4,600,000 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 1,150,000 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 \$.50 per share of Common Stock. The U.S. Underwriters may allow, and such dealers may reallow, a discount not in excess of \$.10 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 690,000 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 172,500 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, Tucker Anthony Incorporated and Cleary Gull Reiland & McDevitt Inc., 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, as amended by Form 10-K/A dated May 26, 1998;
- (2) The Company's Quarterly Reports on Form 10-Q for the quarterly periods ended December 27, 1997, as amended by Form 10-Q/A dated May 26, 1998, and March 28, 1998, as amended by Form 10-Q/A dated May 26, 1998; 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  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
-----	
Independent Auditors' Report .....	F-2
Independent Auditors' Report .....	F-3
Consolidated Balance Sheets as of June 30, 1996, September 30, 1996 and 1997 .....	F-4
Consolidated Statements of Operations for the years ended June 30, 1995 and 1996, the transition period ended September 30, 1996 and year ended September 30, 1997 .....	F-5
Consolidated Statements of Cash Flows for the years ended June 30, 1995 and 1996, the transition period ended September 30, 1996 and year ended September 30, 1997 .....	F-6
Consolidated Statements of Shareholders' Equity (Deficit) for the years ended June 30, 1994, 1995 and 1996, the transition period ended September 30, 1996 and the year ended September 30, 1997 .....	F-7
Notes to Consolidated Financial Statements .....	F-8
Unaudited Condensed Consolidated Balance Sheets as of March 28, 1998 and September 30, 1997 .....	F-36
Unaudited Condensed Consolidated Statements of Operations for the three and six months ended March 29, 1997 and March 28, 1998 .....	F-37
Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended March 29, 1997 and March 28, 1998 .....	F-38
Notes to Unaudited Condensed Consolidated Financial Statements .....	F-39

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
	-----	-----	-----	-----
<b>Cash flows from operating activities:</b>				
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
<b>Cash flows from investing activities:</b>				
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)
<b>Cash flows from financing activities:</b>				
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
<b>Supplemental disclosure of cash flow information:</b>				
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.

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

2. Significant Accounting Policies and Practices--Continued

The Company derived 28%, 28%, 25% and 29% of its net sales during the years ended June 30, 1995 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

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

2. Significant Accounting Policies and Practices--Continued

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.

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, 1996	Year ended September 30, 1997
	1995	1996		
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

RAYOVAC CORPORATION AND SUBSIDIARIES

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, 1996	Year ended September 30, 1997
	1995	1996		
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
Curtailement 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,	Year ended September 30,
	1995	1996	1996	1997
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) \$2,500 of charges related to the exit of certain manufacturing and distribution operations at the Company's Kinston, North Carolina facility by early fiscal 1998 which includes \$1,100 of employee termination benefits for 137 employees, (ii) \$1,400 of employee termination benefits for 71 employees related to organizational restructuring in Europe and the exit of certain manufacturing operations in the Company's Newton Aycliffe, United Kingdom facility which the Company expects to complete in fiscal 1998, (iii) \$2,000 of charges for employee termination benefits for 77 employees related to organizational restructuring in the United States which the Company expects to complete in fiscal 1998. The number of employees anticipated to be terminated was approximately equal to the actual numbers

RAYOVAC CORPORATION AND SUBSIDIARIES

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

15. Other Special Charges--Continued

referenced above. The charges were 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. A summary of the restructuring activities follows.

1997 Restructuring Summary			
	Termination Benefits	Other Costs	Total
Expenses accrued .....	\$ 4,000	\$ 600	\$ 4,600
Changes in estimate .....	500	600	1,100
Expensed as incurred .....	--	200	200
Expenditures .....	(3,300)	(700)	(4,000)
Balance 9/30/97 .....	\$ 1,200	\$ 700	\$ 1,900

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

RAYOVAC CORPORATION AND SUBSIDIARIES

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

17. Consolidated Financial Statements --Continued

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.

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
Less stock held in trust for deferred compensation	50,146	16,111	15,619	(33,469)	48,407
Less treasury stock	(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	Nonguarantor subsidiaries	Eliminations	Combined consolidated
ASSETS					
Current assets:					
Cash and cash equivalents .....	\$ 2,983	\$ 57	\$ 1,215	\$ --	\$ 4,255
Receivables:					
Trade accounts receivable, net .....	45,614	--	16,706	--	62,320
Other .....	15,128	162	95	(11,229)	4,156
Inventories .....	57,615	--	13,303	(797)	70,121
Deferred income taxes .....	7,888	1,026	244	--	9,158
Prepaid expenses and other .....	3,457	--	1,407	--	4,864
Total current assets .....	132,685	1,245	32,970	(12,026)	154,874
Property, plant and equipment, net .....	61,495	--	7,145	--	68,640
Deferred charges and other .....	6,815	--	598	--	7,413
Debt issuance costs .....	12,764	--	--	--	12,764
Investment in subsidiaries .....	12,056	12,098	--	(24,154)	--
Total assets .....	\$225,815	\$13,343	\$ 40,713	\$ (36,180)	\$243,691
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)					
Current liabilities:					
Current maturities of long-term debt .....	\$ 4,500	\$ --	\$ 4,318	\$ --	\$ 8,818
Accounts payable .....	40,830	597	16,505	(11,011)	46,921
Accrued liabilities:					
Wages and benefits .....	4,759	--	1,135	--	5,894
Accrued interest .....	618	--	13	--	631
Recapitalization and other special charges .....	11,645	--	3,297	--	14,942
Other .....	10,043	484	2,492	--	13,019
Total current liabilities .....	72,395	1,081	27,760	(11,011)	90,225
Long-term debt, net of current maturities .....	223,990	--	855	--	224,845
Employee benefit obligations, net of current portion .....	12,138	--	--	--	12,138
Deferred income taxes .....	(64)	206	--	--	142
Other .....	2,061	--	--	--	2,061
Total liabilities .....	310,520	1,287	28,615	(11,011)	329,411
Shareholders' equity (deficit):					
Common stock .....	500	--	12,072	(12,072)	500
Additional paid-in capital .....	15,970	3,525	750	(4,275)	15,970
Foreign currency translation adjustment .....	1,689	1,689	1,689	(3,378)	1,689
Notes receivable from officers/shareholders .....	(500)	--	--	--	(500)
Retained earnings .....	26,158	6,842	(2,413)	(5,444)	25,143
Less treasury stock, at cost .....	43,817	12,056	12,098	(25,169)	42,802
	(128,522)	--	--	--	(128,522)
Total shareholders' equity (deficit) .....	(84,705)	12,056	12,098	(25,169)	(85,720)
Total liabilities and shareholders' equity (deficit) .....	\$225,815	\$13,343	\$ 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	Nonguarantor subsidiaries	Eliminations	Combined consolidated
ASSETS					
Current assets:					
Cash and cash equivalents .....	\$ 1,488	\$ 41	\$ 661	\$ --	\$ 2,190
Receivables:					
Trade accounts receivable, net .....	40,138	--	15,692	--	55,830
Other .....	11,434	318	780	(10,210)	2,322
Inventories .....	54,486	--	12,951	(496)	66,941
Deferred income taxes .....	5,439	179	243	--	5,861
Prepaid expenses and other .....	3,415	--	1,560	--	4,975
Total current assets .....	116,400	538	31,887	(10,706)	138,119
Property, plant and equipment, net .....	65,747	--	7,434	--	73,181
Deferred charges and other .....	9,047	--	608	--	9,655
Debt issuance costs .....	173	--	--	--	173
Investment in subsidiaries .....	14,524	14,670	--	(29,194)	--
Total assets .....	\$205,891	\$15,208	\$39,929	\$ (39,900)	\$221,128
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)					
Current liabilities:					
Current maturities of long-term debt .....	\$ 7,350	\$ --	\$ 4,281	\$ --	\$ 11,631
Accounts payable .....	32,906	492	15,145	(9,848)	38,695
Accrued liabilities:					
Wages and benefits .....	5,077	--	1,049	--	6,126
Accrued interest .....	1,850	--	40	--	1,890
Other .....	12,768	(14)	3,803	--	16,557
Total current liabilities .....	59,951	478	24,318	(9,848)	74,899
Long-term debt, net of current maturities .....	68,777	--	941	--	69,718
Employee benefit obligations, net of current portion .....	12,141	--	--	--	12,141
Deferred income taxes .....	2,378	206	--	--	2,584
Other .....	162	--	--	--	162
Total liabilities .....	143,409	684	25,259	(9,848)	159,504
Shareholders' equity (deficit):					
Common stock .....	500	--	12,072	(12,072)	500
Rayovac International Corporation common stock .....	5	--	--	--	5
Additional paid-in capital .....	12,000	3,525	750	(4,275)	12,000
Foreign currency translation adjustment .....	1,650	1,650	1,650	(3,300)	1,650
Retained earnings .....	48,860	9,349	198	(10,405)	48,002
Less treasury stock, at cost .....	63,015	14,524	14,670	(30,052)	62,157
(533)	--	--	--	--	(533)
Total shareholders' equity (deficit) .....	62,482	14,524	14,670	(30,052)	61,624
Total liabilities and shareholders' equity (deficit) .....	\$205,891	\$15,208	\$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

RAYOVAC CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)  
As of March 28, 1998 and September 30, 1997  
(In thousands, except per share amounts)

	March 28, 1998	September 30, 1997
	-----	-----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 3,672	\$ 1,133
Receivables .....	69,079	79,669
Inventories .....	61,254	58,551
Prepaid expenses and other .....	14,434	15,027
	-----	-----
Total current assets .....	148,439	154,380
Property, plant and equipment, net .....	66,889	65,511
Deferred charges and other .....	26,075	16,990
	-----	-----
Total assets .....	\$ 241,403	\$ 236,881
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Current maturities of long-term debt .....	\$ 4,329	\$ 23,880
Accounts payable .....	50,891	57,259
Accrued liabilities:		
Wages and benefits and other .....	28,067	34,812
Recapitalization and other special charges .....	9,856	4,612
	-----	-----
Total current liabilities .....	93,143	120,563
Long-term debt, net of current maturities .....	125,148	183,441
Employee benefit obligations, net of current portion .....	6,738	11,291
Other .....	4,160	2,181
	-----	-----
Total liabilities .....	229,189	317,476
Shareholders' equity (deficit):		
Common stock, \$.01 par value, authorized 150,000 and 90,000 shares respectively; issued 56,873 and 50,000 shares respectively; outstanding 27,432 and 20,581 shares, respectively .....	569	500
Additional paid-in capital .....	103,155	15,974
Foreign currency translation adjustments .....	2,307	2,270
Notes receivable from officers/shareholders .....	(1,361)	(1,658)
Retained earnings .....	36,898	31,321
	-----	-----
Less stock held in trust for deferred compensation plan, 160 shares .....	(962)	(962)
Less treasury stock, at cost, 29,441 and 29,419 shares, respectively...	(128,392)	(128,040)
	-----	-----
Total shareholders' equity (deficit) .....	12,214	(80,595)
	-----	-----
Total liabilities and shareholders' equity (deficit) .....	\$ 241,403	\$ 236,881
	=====	=====

See accompanying notes which are an integral part of these statements.

RAYOVAC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

For the three month and six month periods ended March 28, 1998 and March 29, 1997

(In thousands, except per share amounts)

	Three Months		Six Months	
	1998	1997	1998	1997
Net sales .....	\$ 96,081	\$ 83,632	\$ 246,076	\$ 225,554
Cost of goods sold .....	50,545	47,123	127,900	126,142
Gross profit .....	45,536	36,509	118,176	99,412
Selling .....	28,204	22,592	73,676	61,272
General and administrative .....	9,102	7,660	17,363	15,264
Research and development .....	1,509	1,520	3,034	3,430
Other special charges .....	5,236	1,754	4,017	4,717
Total operating expenses .....	44,051	33,526	98,090	84,683
Income from operations .....	1,485	2,983	20,086	14,729
Other expense (income): .....				
Interest expense .....	3,291	5,472	8,315	13,446
Other expense (income) .....	(126)	300	(359)	314
	3,165	5,772	7,956	13,760
Income (loss) before income taxes and extraordinary item .....	(1,680)	(2,789)	12,130	969
Income tax expense (benefit) .....	(698)	(1,069)	4,578	309
Income (loss) before extraordinary item .....	(982)	(1,720)	7,552	660
Extraordinary item, loss on early extinguishment of debt, net of income tax benefit of \$1,263.....	--	--	1,975	--
Net income (loss) .....	\$ (982)	\$ (1,720)	\$ 5,577	\$ 660
Average shares outstanding .....	27,432	20,485	25,476	20,478
Basic earnings per share .....	\$ (0.04)	\$ (0.08)	\$ 0.30	\$ 0.03
Income (loss) before extraordinary item .....	--	--	(0.08)	--
Extraordinary item .....				
Net income (loss) .....	\$ (0.04)	\$ (0.08)	\$ 0.22	\$ 0.03
Average shares outstanding and common stock equivalents .....	27,432	20,485	27,006	20,507
Diluted earnings per share .....	\$ (0.04)	\$ (0.08)	\$ 0.28	\$ 0.03
Income (loss) before extraordinary item .....	--	--	(0.07)	--
Extraordinary item .....				
Net income (loss) .....	\$ (0.04)	\$ (0.08)	\$ 0.21	\$ 0.03

See accompanying notes which are an integral part of these statements.



RAYOVAC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
 For the six month periods ended March 28, 1998 and March 29, 1997  
 (In thousands)

	1998	1997
	-----	-----
Cash flows from operating activities:		
Net income .....	\$ 5,577	\$ 660
Non-cash adjustments to net income: .....		
Amortization .....	1,675	2,772
Depreciation .....	5,811	5,892
Other non-cash adjustments .....	(3,453)	(330)
Net changes in other assets and liabilities, net of effects from acquisitions .....	(5,239)	26,234
	-----	-----
Net cash provided by operating activities .....	4,371	35,228
Cash flows from investing activities: .....		
Purchases of property, plant and equipment .....	(6,676)	(2,625)
Proceeds from sale of property, plant and equipment .....	3,292	--
Payment for acquisitions .....	(7,508)	--
Other .....	--	(215)
	-----	-----
Net cash used by investing activities .....	(10,892)	(2,840)
Cash flows from financing activities:		
Reduction of debt .....	(137,987)	(140,004)
Proceeds from debt financing .....	59,859	112,243
Proceeds from issuance of common stock .....	87,268	--
Other .....	(73)	265
	-----	-----
Net cash provided (used) by financing activities .....	9,067	(27,496)
	-----	-----
Effect of exchange rate changes on cash and cash equivalents .....	(7)	3
	-----	-----
Net increase in cash and cash equivalents .....	2,539	4,895
Cash and cash equivalents, beginning of period .....	1,133	4,255
	-----	-----
Cash and cash equivalents, end of period .....	\$ 3,672	\$ 9,150
	=====	=====

See accompanying notes which are an integral part of these statements.

RAYOVAC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In thousands, except per share amounts)

1. Significant Accounting Policies

Basis of Presentation

These financial statements have been prepared by Rayovac Corporation (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and, in the opinion of the Company, include all adjustments (all of which are normal and recurring in nature) necessary to present fairly the financial position of the Company at March 28, 1998, results of operations for the three and six month periods ended March 28, 1998 and March 29, 1997, and cash flows for the six month periods ended March 28, 1998 and March 29, 1997. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such SEC rules and regulations.

These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto as of September 30, 1997.

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 counter-parties are included in accrued liabilities 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 a notional principal amount of \$62,500 through October 1999. The fair value of this contract at March 28, 1998 was (\$382).

The Company has entered into an amortizing cross currency interest rate swap agreement related to financing the acquisition of Brisco (as defined herein). The agreement effectively fixes the interest and foreign exchange on floating rate debt denominated in U.S. Dollars at a rate of 5.34% denominated in German Marks. The unamortized notional principal amount at March 28, 1998 is approximately \$4,700. The fair value at March 28, 1998 approximated the contract value.

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 (income). The related amounts payable to, or receivable from, the counter-parties are included in accounts payable, or accounts receivable. The Company has approximately \$7,700 of such forward exchange contracts at March 28, 1998. The fair value at March 28, 1998, approximated the contract value.

The Company has also entered into foreign exchange contracts to hedge payment obligations denominated in Japanese Yen under a commitment to purchase certain production equipment from Matsushita. The Company has approximately \$6,700 of such forward exchange contracts outstanding at March 28, 1998. The fair value at March 28, 1998 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 swaps, calls and puts. The Company has entered into commodity swap agreements which effectively fix the floating price on a specified quantity of zinc through a specified date. 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,

RAYOVAC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--Continued

(Unaudited)

(In thousands, except per share amounts)

1. Significant Accounting Policies --Continued

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 swap, put and call agreements. At March 28, 1998, the Company had entered into a series of swap agreements with a contract value of approximately \$3,200 for the period from April through December of 1998. At March 28, 1998, the Company had purchased a series of calls with a contract value of approximately \$3,000 and sold a series of puts with a contract value of approximately \$2,800 for the period from April 1998 through March 1999 designed to set a ceiling and floor price. While these transactions have no carrying value, the fair value of these contracts was approximately (\$600) at March 28, 1998.

2. Inventories

Inventories consist of the following:

	March 28, 1998	September 30, 1997
Raw material .....	\$20,450	\$23,291
Work-in-process .....	16,478	15,286
Finished goods .....	24,326	19,974
	-----	-----
	\$61,254	\$58,551
	=====	=====

3. Earnings per Share Disclosure

Earnings per share is calculated based upon the following:

	Three Months Ended March 28, 1998			Three Months Ended March 29, 1997		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Loss before extraordinary item .....	\$ (982)			\$ (1,720)		
Basic EPS						
Loss available to common shareholders .....	\$ (982)	27,432	\$ (0.04)	\$ (1,720)	20,485	\$ (0.08)
Diluted EPS						
Loss available to common shareholders plus assumed conversion .....	\$ (982)	27,432	\$ (0.04)	\$ (1,720)	20,485	\$ (0.08)
	=====	=====	=====	=====	=====	=====

The effect of unexercised stock options outstanding for the three month periods ending March 28, 1998 and March 29, 1997, were excluded from the diluted EPS calculations as their effect was anti-dilutive. These options may dilute EPS in the future.

RAYOVAC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--Continued

(Unaudited)

(In thousands, except per share amounts)

3. Earnings per Share Disclosure --Continued

	Six Months Ended March 28, 1998			Six Months Ended March 29, 1997		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income before extraordinary item .....	\$7,552			\$660		
Basic EPS						
Income available to common shareholders .....	7,552	25,476	\$ 0.30 =====	660	20,478	\$ 0.03 =====
Effect of Dilutive Securities						
Stock Options .....		1,530			29	
Diluted EPS						
Income available to common shareholders plus assumed conversion .....	\$7,552 =====	27,006 =====	\$ 0.28 =====	\$660 =====	20,507 =====	\$ 0.03 =====

4. 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 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 (2012). In a March 1994 agreement, the Company committed to pay \$500 in 1994 and annual royalties of \$500 for five years beginning in 1995. In a March 1998 agreement which supersedes the previous agreements, the Company committed to pay \$2,000 in 1998 and 1999, \$3,000 in 2000 through 2002 and \$500 in each year thereafter, as long as the related equipment patents are enforceable (2022). Additionally, the Company has committed to purchase tooling of \$700 related to this equipment.

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 \$1,600, which may result from resolution of these matters, will not have a material adverse effect on the financial condition, liquidity, or cash flows of the Company.

5. Other

During the 1998 Fiscal First Quarter, the Company recorded a pre-tax credit of \$1,200 related to the buyout of deferred compensation agreements with certain former employees.

On November 28, 1997, the Company acquired Brisco GmbH in Germany and Brisco B.V. in Holland (collectively "Brisco"), a distributor of hearing aid batteries for \$4,900. Brisco recorded calendar 1997 sales of \$4,500.

In the 1998 Fiscal Second Quarter the Company recorded special charges and credits as follows: (i) \$3,900 related to (a) the closing by September 1998 of the Company's Newton Aycliffe, United Kingdom packaging facility,

RAYOVAC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--Continued

(Unaudited)

(In thousands, except per share amounts)

5. Other --Continued

(b) the phasing out direct distribution by June 1998 in the United Kingdom, and  
(c) the closing of one of the Company's German sales offices before the end of fiscal 1998, which amount includes \$1,800 of employee termination benefits for 73 employees, \$1,000 of lease cancellation costs, and \$1,000 of equipment and intangible asset write-offs, (ii) \$2,000 related to the closing by April 1999 of the Company's Appleton, Wisconsin manufacturing facility, which amount includes \$1,600 of employee termination benefits for 141 employees, \$200 of asset write-offs and \$200 of other costs, (iii) \$1,700 related to the exit by January 1999 of certain manufacturing operations at the Company's Madison, Wisconsin facility, which amount includes \$300 of employee termination benefits for 34 employees, \$1,300 of asset write-offs, and \$100 of other costs, and (iv) a \$2,400 gain on the sale of the Company's previously closed Kinston, North Carolina facility.

1998 Restructuring Summary

	Termination Benefits	Other Costs	Total
Expense accrued	\$3,700	\$3,800	\$7,500
Balance 3/28/98	\$3,700	\$3,800	\$7,500*

During the year ended September 30, 1997, the Company recorded special charges as follows: (i) \$2,500 of charges related to the exit of certain manufacturing and distribution operations at the Company's Kinston, North Carolina facility by early fiscal 1998, which amount includes \$1,100 of employee termination benefits for 137 employees, (ii) \$1,400 of employee termination benefits for 71 employees related to organizational restructuring in Europe and the exit of certain manufacturing operations in the Company's Newton Aycliffe, United Kingdom facility which the Company expects to complete in fiscal 1998, (iii) \$2,000 of charges for employee termination benefits for 77 employees related to organizational restructuring in the United States which the Company expects to complete in fiscal 1998. The number of employees anticipated to be terminated was approximately equal to the actual numbers referenced above. The charges were 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. A summary of the restructuring activities follows.

1997 Restructuring Summary

	Termination Benefits	Other Costs	Total
Expenses accrued	\$ 4,000	\$ 600	\$ \$4,600
Changes in estimate	500	600	1,100
Expensed as incurred	--	200	200
Expenditures	(3,300)	(700)	(4,000)
Balance 9/30/97	\$ 1,200	\$ 700	\$ 1,900
Additional expense	--	--	--
Change in estimate	--	--	--
Expenditures	(700)	--	(700)
Balance 12/27/97	\$ 500	\$ 700	\$ 1,200
Expenses accrued	--	--	--
Change in estimate	(100)	(400)	(500)
Expenditures	(200)	(200)	(400)
Balance 3/28/98	\$ 200	\$ 100	\$ 300

RAYOVAC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(Unaudited)

(In thousands, except per share amounts)

5. Other --Continued

In the 1998 Fiscal Second Quarter, the Company acquired Direct Power Plus of New York ("DPP"), a full line marketer of rechargeable batteries and accessories for cellular phones and video camcorders for \$4,700. DPP recorded sales of \$2,200 in the 1998 Fiscal Second Quarter.

6. Subsequent Events

On March 30, 1998, the Company acquired the battery distribution portion of Best Labs, St. Petersburg, Florida, a distributor of hearing aid batteries and a manufacturer of hearing instruments for \$2,100. The acquired portion of Best Labs had net sales of approximately \$2,600 in calendar 1997.

On April 3, 1998, the Company announced the filing of a registration statement with the SEC for a secondary offering of 6,500 shares of common stock. The Company will not receive any proceeds from the sale of shares in the offering but will pay certain expenses for the offering estimated at \$800. Of the shares being offered, 5,500 will be offered by Thomas H. Lee Group and its affiliates and 1,000 by certain Rayovac officers and employees. The registration statement has not yet become effective. These securities may not be sold nor any offers to buy be accepted prior to the time the registration statement becomes effective.

7. Guarantor Subsidiary

The following condensed consolidating financial data illustrates the composition of the consolidated financial statements. Investments in subsidiaries are accounted for by the Company 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 inter-company 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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--Continued

(Unaudited)

(In thousands, except per share amounts)

7. Guarantor Subsidiary --Continued

RAYOVAC CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEETS

As of March 28, 1998

	Parent	Guarantor Subsidiary	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents .....	\$ 2,148	\$ 46	\$ 1,478	\$ --	\$ 3,672
Receivables .....	61,208	584	15,131	(7,844)	69,079
Inventories .....	48,728	--	12,639	(113)	61,254
Prepaid expenses and other .....	12,462	342	1,630	--	14,434
Total current assets .....	124,546	972	30,878	(7,957)	148,439
Property, plant and equipment, net .....	61,530	--	5,359	--	66,889
Deferred charges and other .....	26,045	--	4,996	(4,966)	26,075
Investment in subsidiaries .....	14,799	13,969	--	(28,768)	--
Total assets .....	\$ 226,920	\$ 14,941	\$ 41,233	\$ (41,691)	\$ 241,403
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current liabilities:					
Current maturities of long-term debt .....	\$ 3,135	\$ --	\$ 2,175	\$ (981)	\$ 4,329
Accounts payable .....	43,419	--	14,193	(6,721)	50,891
Accrued liabilities:					
Wages and benefits and other .....	24,599	(88)	3,547	9	28,067
Recapitalization and other special charges .....	6,478	--	3,378	--	9,856
Total current liabilities .....	77,631	(88)	23,293	(7,693)	93,143
Long-term debt, net of current maturities .....	124,901	--	3,783	(3,536)	125,148
Employee benefit obligations, net of current portion .....	6,738	--	--	--	6,738
Other .....	3,742	230	188	--	4,160
Total liabilities .....	213,012	142	27,264	(11,229)	229,189
Shareholders' equity:					
Common stock .....	569	--	12,072	(12,072)	569
Additional paid-in capital .....	103,155	3,525	750	(4,275)	103,155
Foreign currency translation adjustment .....	2,307	2,307	2,307	(4,614)	2,307
Notes receivable from officers/ shareholders .....	(1,361)	--	--	--	(1,361)
Retained earnings .....	38,592	8,967	(1,160)	(9,501)	36,898
	143,262	14,799	13,969	(30,462)	141,568
Less stock held in trust for deferred compensation .....	(962)	--	--	--	(962)
Less treasury stock .....	(128,392)	--	--	--	(128,392)
Total shareholders' equity .....	13,908	14,799	13,969	(30,462)	12,214
Total liabilities and shareholders' equity .....	\$ 226,920	\$ 14,941	\$ 41,233	\$ (41,691)	\$ 241,403

RAYOVAC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--Continued

(Unaudited)

(In thousands, except per share amounts)

7. Guarantor Subsidiary --Continued

RAYOVAC CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

For the three month period ended March 28, 1998

	Parent	Guarantor Subsidiary	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales .....	\$ 83,519	\$ --	\$ 19,237	\$(6,675)	\$ 96,081
Cost of goods sold .....	45,535	--	11,689	(6,679)	50,545
Gross profit .....	37,984	--	7,548	4	45,536
Selling .....	24,277	--	3,927	--	28,204
General and administrative .....	7,340	(245)	2,025	(18)	9,102
Research and development .....	1,509	--	--	--	1,509
Other special charges .....	1,274	--	3,962	--	5,236
Total operating expenses .....	34,400	(245)	9,914	(18)	44,051
Income (loss) from operations .....	3,584	245	(2,366)	22	1,485
Other expense (income):					
Interest expense .....	3,211	--	83	(3)	3,291
Equity in profit of subsidiary .....	1,531	1,826	--	(3,357)	--
Other expense (income) .....	(148)	6	13	3	(126)
Loss before income taxes and extraordinary item .....	(1,010)	(1,587)	(2,462)	3,379	(1,680)
Income taxes (benefit) .....	(6)	(56)	(636)	--	(698)
Loss before extraordinary item .....	(1,004)	(1,531)	(1,826)	3,379	(982)
Extraordinary item .....	--	--	--	--	--
Net loss .....	\$ (1,004)	\$ (1,531)	\$ (1,826)	\$ 3,379	\$ (982)



RAYOVAC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--Continued

(Unaudited)

(In thousands, except per share amounts)

7. Guarantor Subsidiary --Continued

RAYOVAC CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

For the six month period ended March 28, 1998

	Parent	Guarantor Subsidiary	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales .....	\$216,426	\$ --	\$ 44,036	\$ (14,386)	\$ 246,076
Cost of goods sold .....	114,446	--	27,849	(14,395)	127,900
Gross profit .....	101,980	--	16,187	9	118,176
Selling .....	63,708	--	9,968	--	73,676
General and administrative .....	13,598	(476)	4,277	(36)	17,363
Research and development .....	3,034	--	--	--	3,034
Other special charges .....	55	--	3,962	--	4,017
Total operating expenses .....	80,395	(476)	18,207	(36)	98,090
Income (loss) from operations .....	21,585	476	(2,020)	45	20,086
Other expense (income):					
Interest expense .....	8,075	--	240	--	8,315
Equity in profit of subsidiary .....	1,349	1,687	--	(3,036)	--
Other expense (income) .....	(344)	(4)	(11)	--	(359)
Income (loss) before income taxes and extraordinary item .....	9,080	1,683	229	(3,036)	7,956
Income taxes (benefit) .....	12,505	(1,207)	(2,249)	3,081	12,130
Income taxes (benefit) .....	4,998	142	(562)	--	4,578
Income (loss) before extraordinary item .....	7,507	(1,349)	(1,687)	3,081	7,552
Extraordinary item .....	1,975	--	--	--	1,975
Net income (loss) .....	\$ 5,532	\$(1,349)	\$ (1,687)	\$ 3,081	\$ 5,577

RAYOVAC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--Continued

(Unaudited)

(In thousands, except per share amounts)

7. Guarantor Subsidiary --Continued

RAYOVAC CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

For the six month period ended March 28, 1998

	Parent	Guarantor Subsidiary	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net cash provided (used) by operating activities .....	\$ (3,380)	\$--	\$ 3,233	\$ 4,518	\$ 4,371
Cash flows from investing activities:					
Purchases of property, plant and equipment .....	(5,839)	--	(837)	--	(6,676)
Proceeds from sale of property, plant, and equip. ....	3,292	--	--	--	3,292
Payment for acquisitions .....	(2,655)	--	(4,853)	--	(7,508)
Net cash used by investing activities ....	(5,202)	--	(5,690)	--	(10,892)
Cash flows from financing activities:					
Reduction of debt .....	(135,500)	--	(2,487)	--	(137,987)
Proceeds from debt financing .....	58,193	--	6,184	(4,518)	59,859
Proceeds from issuance of common stock .....	87,268	--	--	--	87,268
Other .....	136	--	(209)	--	(73)
Net cash provided by financing activities .....	10,097	--	3,488	(4,518)	9,067
Effect of exchange rate changes on cash and cash equivalents .....	--	--	(7)	--	(7)
Net increase in cash and cash equivalents .....	1,515	--	1,024	--	2,539
Cash and cash equivalents, beginning of period .....	633	46	454	--	1,133
Cash and cash equivalents, end of period .....	\$ 2,148	\$46	\$ 1,478	\$ --	\$ 3,672

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[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]

=====

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.

-----

TABLE OF CONTENTS

	Page
	-----
Prospectus Summary .....	3
Risk Factors .....	12
The Recapitalization .....	17
Use of Proceeds .....	17
Price Range of Common Stock and Dividend Policy .....	17
Capitalization .....	18
Selected Financial Data .....	19
Management's Discussion and Analysis of Financial Condition and Results of Operations .....	23
Business .....	35
Management .....	50
Principal and Selling Shareholders .....	52
Description of Certain Indebtedness .....	54
Shares Eligible for Future Sale .....	56
Certain United States Federal Tax Considerations for Non-United States Holders .....	57
Underwriting .....	59
Legal Matters .....	62
Experts .....	62
Available Information .....	63
Incorporation of Certain Documents by Reference .....	64
Index to Financial Statements .....	F-1

5,750,000 Shares

RAYOVAC(R)

Common Stock

-----

P R O S P E C T U S

-----

Merrill Lynch & Co.

Bear, Stearns & Co. Inc.

Donaldson, Lufkin & Jenrette  
Securities Corporation

Salomon Smith Barney

May 28, 1998

=====

5,750,000 Shares

RAYOVAC(R)

Common Stock

-----

All of the 5,750,000 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 5,750,000 shares of Common Stock offered hereby, 1,150,000 shares are being offered for sale initially outside the United States and Canada by the International Managers and 4,600,000 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 May 28, 1998, the last sale price of the Common Stock as reported on the New York Stock Exchange was \$21-1/4 per share. See "Price Range of Common Stock and Dividend Policy."

See "Risk Factors" beginning on page 12 for a discussion of certain factors that should be considered by prospective purchasers of the Common Stock offered hereby.

-----

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 .....	\$ 21.00	\$ 1.00	\$ 20.00
Total (3) .....	\$120,750,000	\$5,750,000	\$115,000,000

- (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) The Company has agreed to pay certain expenses of the Offerings 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 172,500 shares and 690,000 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 \$138,862,500, \$6,612,500 and \$132,250,000, respectively. See "Underwriting."

-----

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 June 3, 1998.

-----

Merrill Lynch International

Bear, Stearns International Limited

Donaldson, Lufkin & Jenrette  
 International

Salomon Smith Barney International



-----  
The date of this Prospectus is May 28, 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]

-----

RAYOVAC[RegTM], RENEWAL[RegTM], LOUD'N CLEAR[RegTM], POWER STATION[RegTM],  
PROLINE[RegTM], WORKHORSE[RegTM], ROUGHNECK[RegTM], SMART PACK[RegTM], BEST  
LABS[RegTM], ULTRACELL[RegTM], XCELL[RegTM] and AIRPOWER[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. The Rayovac brand name was first used as a trademark for batteries in 1921 and 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[RegTM], Renewal[RegTM], Loud'n Clear[RegTM], ProLine[RegTM], Lifex[RegTM], Power Station[RegTM], Workhorse[RegTM], Roughneck[RegTM], Best Labs[RegTM], Ultracell[RegTM], XCell[RegTM] and AIRPOWER[RegTM].

### Business Strategy

In September 1996, the Company and the shareholders of the Company completed the Recapitalization pursuant to which, among other things, affiliates of Thomas H. Lee Company acquired for cash 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, who joined the Company as Executive Vice President of Finance and Administration and Chief Financial Officer following the Recapitalization and was recently promoted to the position of President and Chief Operating Officer; Merrell M. Tomlin, Senior Vice President of Sales; Stephen P.

Shanesy, Executive Vice President and General Manager of General Batteries and Lights; and Randall J. Steward, Senior Vice President of Finance and Chief Financial Officer. 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 10.2% 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 recorded 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. Such savings may not be indicative of actual savings in future periods because of the likelihood of additional overhead or other costs in future periods in support of business growth objectives. 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[™], 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. In March 1998, the Company acquired the battery distribution portion of Best Labs in St. Petersburg, Florida, a distributor of hearing aid batteries in customized packaging and a manufacturer of hearing instruments. The Company believes that these acquisitions will enable the Company to further penetrate 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 through 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 March 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 Renewal 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 recorded 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 recorded a gain of \$2.4 million in the second fiscal 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 reducing revolver facility of \$90 million (the "Revolver Facility"), and a five-year amortizing acquisition facility of \$70 million (the "Acquisition Facility"). 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."

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., Ltd. 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%.

Further Strengthening of Senior Management Team. In April 1998, the Company named Kent J. Hussey President and Chief Operating Officer of the Company. Previously, Mr. Hussey served as Executive Vice President of Finance and Administration and Chief Financial Officer. The Company also at such time named Randall J. Steward, formerly Senior Vice President of Corporate Development, as Senior Vice President of Finance and Chief Financial Officer and Stephen P. Shanesy, formerly Senior Vice President of Marketing and the General Manager of General Batteries and Lights of the Company, as Executive Vice President and General Manager of General Batteries and Lights of the Company. In addition, David A. Jones, Chairman and Chief Executive Officer of the Company, and Kent J. Hussey signed three-year employment contracts effective until May 1, 2001.

#### The Offerings

The offering of 4,600,000 shares of the Company's Common Stock in the United States and Canada (the "U.S. Offering") and the offering of 1,150,000 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 .....	5,750,000 shares
Common Stock to be outstanding after the Offerings(1) .....	27,441,097 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 5,259,268 shares of Common Stock reserved for sale or issuance under the Company's employee benefit plans, of which options to purchase 2,497,321 shares have been granted and 2,761,947 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.

-----  
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.



SUMMARY FINANCIAL DATA

The following summary historical financial data 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 summary historical financial data for the six months ended March 29, 1997 and as of and for the six months ended March 28, 1998, included elsewhere in this Prospectus, and for the twelve months ended September 30, 1996, not included herein, is 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. The summary historical financial data of the Company for the 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 summary 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 \$15.4 million for the six months ended March 29, 1997. 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	Six Months	
	1993	1994	1995	1996	Period Ended September 30, 1996	Months Ended September 30, 1996	Year Ended September 30, 1997	March 29, 1997	March 28, 1998
(In millions)									
Statement of Operations									
Data:									
Net sales .....	\$372.4	\$403.7	\$415.2	\$423.4	\$101.9	\$417.9	\$432.6	\$225.6	\$246.1
Gross Profit .....	171.0	168.8	178.1	184.0	42.6	180.0	198.0	99.4	118.2
Income (loss) from									
operations (1)(2)(3)(4)....	31.2	10.9	31.5	30.3	(23.7)	(1.4)	34.5	14.7	20.1
Interest expense .....	6.0	7.7	8.6	8.4	4.4	10.5	24.5	13.4	8.3
Net income (loss)(5) .....	15.0	4.4	16.4	14.3	(20.9)	(10.2)	6.2	0.7	5.6
Other Financial Data:									
Depreciation .....	\$ 7.4	\$ 10.3	\$ 11.0	\$ 11.9	\$ 3.3	\$ 12.1	\$ 11.3	\$ 5.9	\$ 5.8
Capital expenditures(6) .....	30.3	12.5	16.9	6.6	1.2	8.4	10.9	2.6	6.7
Cash flows from operating									
activities .....	15.8	(18.7)	35.5	17.8	(1.1)	26.0	35.7	35.2	4.4
Cash flows from investing									
activities .....	(30.1)	(12.4)	(16.8)	(6.3)	0.0	(7.3)	(10.8)	(2.8)	(10.9)
Cash flows from financing									
activities .....	13.7	30.8	(18.3)	(12.0)	3.2	(16.8)	(28.0)	(27.5)	9.1
Income from operations									
before non-recurring									
charges (7) .....	31.2	21.9	31.5	30.3	4.7	27.0	37.5	19.4	24.1
EBITDA(8) .....	39.3	21.2	41.3	42.2	(20.4)	10.7	45.8	20.7	26.1

March 28, 1998  
(in millions)

Balance Sheet Data:	
Working capital .....	\$ 55.3
Total assets .....	241.4
Total debt .....	129.5
Shareholders' equity .....	12.2

(footnotes on following page)

- (1) 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."
- (2) 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."
- (3) 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.
- (4) In the six months ended March 28, 1998, the Company recorded net charges of \$4.0 million including (i) \$1.7 million associated with consolidating domestic battery packaging operations and outsourcing the manufacture of heavy duty batteries, (ii) \$2.0 million associated with closing the Company's Appleton, Wisconsin manufacturing plant and consolidating it into its Portage, Wisconsin manufacturing plant, (iii) \$3.9 million associated with closing the Company's Newton Aycliffe, United Kingdom facility, phasing out direct distribution in the United Kingdom and closing one of the Company's German sales offices, (iv) a \$2.4 million gain on the sale of the Company's previously closed Kingston, North Carolina facility, and (v) income of \$1.2 million in connection with the buyout of deferred compensation agreements with certain former employees.
- (5) 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 six months ended March 28, 1998, 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.
- (6) 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. 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Introduction."
- (7) 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 six months ended March 29, 1997 and March 28, 1998. Income from operations before these non-recurring charges was as follows:

	Fiscal Year Ended June 30,				Transition	Twelve	Fiscal	Six Months	
	1993	1994	1995	1996	Period Ended September 30, 1996	Months Ended September 30, 1996	Year Ended September 30, 1997	March 29, 1997	March 28, 1998
	-----	-----	-----	-----	-----	-----	-----	-----	-----
	(In millions)								
Income (loss) from operations .....	\$31.2	\$10.9	\$31.5	\$30.3	\$(23.7)	\$(1.4)	\$34.5	\$14.7	\$20.1
Fennimore Expansion .....	--	9.5	--	--	--	--	--	--	--
Recapitalization and other special charges .....	--	1.5	--	--	28.4	28.4	3.0	4.7	4.0
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Income from operations before non-recurring charges .....	\$31.2	\$21.9	\$31.5	\$30.3	\$ 4.7	\$27.0	\$37.5	\$19.4	\$24.1
	=====	=====	=====	=====	=====	=====	=====	=====	=====

- (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.

(footnote continued on following page)

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 six months ended March 29, 1997 and March 28, 1998. EBITDA before these non-recurring charges was as follows:

	Fiscal Year Ended June 30,				Transition Period Ended September 30, 1996	Twelve Months Ended September 30, 1996	Fiscal Year Ended September 30, 1997	Six Months Ended	
	1993	1994	1995	1996				March 29, 1997	March 28, 1998
	(In millions)								
EBITDA .....	\$39.3	\$21.2	\$41.3	\$42.2	\$(20.4)	\$10.7	\$45.8	\$20.7	\$26.1
Fennimore Expansion .....	--	9.5	--	--	--	--	--	--	--
Recapitalization and other special charges .....	--	1.5	--	--	28.4	28.4	3.0	4.7	4.0
EBITDA before non- recurring charges .....	\$39.3	\$32.2	\$41.3	\$42.2	\$ 8.0	\$39.1	\$48.8	\$25.4	\$30.1

## 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. In May 1998 Energizer announced the introduction of Energizer Advanced Formula alkaline batteries, available in all cell sizes, which Energizer claims will provide superior performance in high drain devices and improved performance in all other device categories. The Energizer Advanced Formula alkaline batteries are expected to be available in the summer of 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 these new alkaline battery lines, 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 at the Refuse Hideaway Site in Middleton, Wisconsin. 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 presently estimates that its liability with respect to the Middleton, Wisconsin site should not exceed \$100,000. 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 applied to the Tennessee Department of Environment and Conservation ("TDEC") for participation in TDEC's Voluntary Cleanup Oversight and Assistance Program with respect to the Company's former manganese processing facility in Covington, Tennessee. Pursuant to this program, TDEC will conduct a site investigation to determine the extent of the cleanup required at the Covington facility, however, there can be no assurance that participation in this program will preclude this site from being 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 50 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 March 28, 1998, the Company had total indebtedness of \$129.5 million and total shareholders' equity of \$12.2 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 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 Consolidated Financial Statements and Note 1 to the Unaudited Condensed Consolidated Financial Statements for the six months ended March 29, 1997 and March 28, 1998, included elsewhere herein.

#### 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 43.9% of the Company's outstanding Common Stock (41.5% 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 27,441,097 shares of Common Stock, excluding 2,497,321 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 5,750,000 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 14.3 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 12.1 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. In certain circumstances under provisions of Wisconsin law, shareholders may be liable for liabilities of the Company with respect to unpaid wages.

## 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 (the "Senior Subordinated Notes"), 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 April 29, 1998, the outstanding shares of Common Stock were held of record by 285 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 May 28, 1998) .....	\$24-1/2	\$21-1/4

On May 28, 1998, the closing price of the Common Stock on the New York Stock Exchange Composite Transaction Tape was \$21-1/4 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 March 28, 1998. 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 March 28, 1998
	-----
	(Dollars in millions)
Debt:	
Revolver Facility .....	\$ 56.1
Acquisition Facility .....	4.2
Bankers' acceptances(1) .....	1.5
Notes .....	65.0
Capitalized leases and foreign currency borrowings .....	2.7
	-----
Total debt .....	129.5
	-----
Shareholders' equity:	
Preferred stock, \$.01 par value, 5,000,000 shares authorized; no shares issued and outstanding .....	--
Common stock, \$.01 par value, 150,000,000 shares authorized; 27,432,238 shares outstanding .....	0.6
Additional paid in capital .....	103.2
Foreign currency translation .....	2.3
Notes receivable from officers/shareholders .....	(1.4)
Retained earnings .....	36.9
Less stock held in trust .....	(1.0)
Less treasury stock, at cost, 29,440,269 shares .....	(128.4)
	-----
Total shareholders' equity .....	12.2
	-----
Total capitalization .....	\$141.7
	=====

(1) In connection with the acquisition of DPP, the Company assumed \$1.5 million of bankers' acceptances.

## 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 six months ended March 29, 1997 and March 28, 1998, included elsewhere in this Prospectus, and as of and for the twelve months ended September 30, 1996, not included herein, is 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. 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 \$15.4 million for the six months ended March 29, 1997. 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	Six Months	
	1993	1994	1995	1996	Period Ended September 30, 1996	Months Ended September 30, 1996	Year Ended September 30, 1997	March 29, 1997	March 28, 1998
	(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	\$225.6	\$246.1
Cost of goods sold .....	201.4	234.9	237.1	239.4	59.3	237.9	234.6	126.2	127.9
Gross profit .....	171.0	168.8	178.1	184.0	42.6	180.0	198.0	99.4	118.2
Selling expense .....	98.8	121.3	108.7	116.5	27.8	114.4	122.1	61.3	73.7
General and administrative expense .....	35.4	29.4	32.9	31.8	8.6	33.0	32.2	15.3	17.4
Research and development expense .....	5.6	5.7	5.0	5.4	1.5	5.6	6.2	3.4	3.0
Recapitalization and other special charges(1)(2)(3) .....	--	1.5	--	--	28.4	28.4	3.0	4.7	4.0
Income (loss) from operations(4)(5) .....	31.2	10.9	31.5	30.3	(23.7)	(1.4)	34.5	14.7	20.1
Interest expense .....	6.0	7.7	8.6	8.4	4.4	10.5	24.5	13.4	8.3
Other expense (income), net .....	1.2	(0.6)	0.3	0.6	0.1	0.5	0.4	0.3	(0.3)
Income (loss) before income taxes and extraordinary item....	24.0	3.8	22.6	21.3	(28.2)	(12.4)	9.6	1.0	12.1
Income tax expense (benefit) ....	9.0	(0.6)	6.2	7.0	(8.9)	(3.8)	3.4	0.3	4.5
Income (loss) before extraordinary item .....	15.0	4.4	16.4	14.3	(19.3)	(8.6)	6.2	0.7	7.6
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	\$ 0.7	\$ 5.6
Basic net income (loss) per common share before extraordinary item .....	\$ 0.30	\$ 0.09	\$ 0.33	\$ 0.29	\$(0.44)	\$(0.18)	\$0.30	\$ 0.03	\$ 0.30
Diluted net income (loss) per common share before extraordinary item .....	\$ 0.30	\$ 0.09	\$ 0.33	\$ 0.29	\$(0.44)	\$(0.18)	\$0.30	\$ 0.03	\$ 0.28
Basic net income (loss) per common share .....	\$ 0.30	\$ 0.09	\$ 0.33	\$ 0.29	\$(0.48)	\$(0.21)	\$0.30	\$ 0.03	\$ 0.22
Diluted net income (loss) per common share .....	\$ 0.30	\$ 0.09	\$ 0.33	\$ 0.29	\$(0.48)	\$(0.21)	\$0.30	\$ 0.03	\$ 0.21
Weighted average common shares .....	50.0	50.0	50.0	49.6	43.8	48.1	20.5	20.5	25.5
Weighted average common and common equivalent shares .....	50.0	50.0	50.0	49.6	43.8	48.1	20.6	20.5	27.0
Other Financial Data:									
Depreciation .....	\$ 7.4	\$ 10.3	\$ 11.0	\$ 11.9	\$ 3.3	\$ 12.1	\$ 11.3	\$ 5.9	\$ 5.8
Capital expenditures(7) .....	30.3	12.5	16.9	6.6	1.2	8.4	10.9	2.6	6.7
Cash flows from operating activities .....	15.8	(18.7)	35.5	17.8	(1.1)	26.0	35.7	35.2	4.4
Cash flows from investing activities .....	(30.1)	(12.4)	(16.8)	(6.3)	0.0	(7.3)	(10.8)	(2.8)	(10.9)
Cash flows from financing activities .....	13.7	30.8	(18.3)	(12.0)	3.2	(16.8)	(28.0)	(27.5)	9.1
EBITDA(8) .....	39.3	21.2	41.3	42.2	(20.4)	10.7	45.8	20.7	26.1
Balance Sheet Data:									
Working capital .....	\$ 31.6	\$ 63.6	\$ 55.9	\$ 63.2	\$ 64.6	\$ 64.6	\$ 33.8	\$ 48.3	\$ 55.3
Total assets .....	189.0	222.4	220.6	221.1	243.7	243.7	236.9	211.3	241.4
Total debt .....	74.1	109.0	88.3	81.3	233.7	233.7	207.3	206.5	129.5
Shareholders' equity (deficit) ..	36.7	37.9	53.6	61.6	(85.7)	(85.7)	(80.6)	(84.1)	12.2

(footnotes on following page)





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 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 recorded 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 1998 restructuring is in addition to the significant measures taken in fiscal 1997 following the Recapitalization to rationalize the Company's manufacturing, distribution, and general overhead costs. The initiatives relating to manufacturing activities included discontinuing certain manufacturing operations at the Company's Newton, Aycliffe, United Kingdom facility and closing the Company's Kinston, North Carolina facility. In addition, the Company implemented a significant organizational restructuring in the United States and the United Kingdom. The Company recorded charges totaling \$5.9 million in fiscal 1997 in connection with the restructuring (see note 15 to the Consolidated Financial Statements) and expects annual savings of approximately \$8.6 million. Such savings may not be indicative of actual savings in future periods because of the likelihood of additional overhead or other costs in future periods in support of business growth objectives.

**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 for \$10.0 million 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 Company estimates costs associated with the implementation of this new manufacturing line to be approximately \$1.0 million. 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 specialty 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 and the lowest sales occurring in the fiscal quarter ending on or about March 30. 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	December 28, 1996	March 29, 1997	June 29, 1997	September 30, 1997	December 27, 1997	March 28, 1998
	(In millions)									
Net sales	\$ 140.9	\$ 80.5	\$ 94.6	\$ 101.9	\$ 141.9	\$ 83.6	\$ 95.5	\$ 111.5	\$ 150.0	\$ 96.1

## 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 \$15.4 million for the six months ended March 29, 1997. 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 September 30, 1995	Transition Period Ended September 30, 1996	Twelve Months Ended September 30, 1996	Fiscal Year Ended September 30, 1997	Six Months Ended	
	June 30, 1995	June 30, 1996					March 29, 1997	March 28, 1998
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	55.9	52.0
Gross profit .....	42.9	43.5	40.3	41.8	43.1	45.8	44.1	48.0
Selling expense .....	26.2	27.5	27.9	27.3	27.4	28.2	27.2	29.9
General and administrative expense.....	7.9	7.5	6.9	8.4	7.9	7.5	6.8	7.1
Research and development expense .....	1.2	1.3	1.2	1.5	1.3	1.4	1.5	1.2
Recapitalization and other special charges .....	--	--	--	27.9	6.8	0.7	2.1	1.6
Income (loss) from operations .....	7.6%	7.2%	4.3%	(23.3%)	( 0.3%)	8.0%	6.5%	8.2%

### Six Months Ended March 28, 1998 Compared to Six Months Ended March 29, 1997

**Net Sales.** Net sales were \$246.1 million for the six months ended March 28, 1998 (the "1998 Six Month Period"), an increase of \$20.5 million, or 9.1%, from \$225.6 million for the six months ended March 29, 1997 (the "1997 Six Month Period"). Increased sales of alkaline batteries, hearing aid batteries, and specialty batteries were somewhat offset by the continuing decline in the domestic market for heavy duty batteries.

Alkaline general battery sales for the 1998 Six Month Period exceeded alkaline general battery sales for the 1997 Six Month Period by approximately 26%, or \$25.1 million, as a result of strong promotional programs, a price increase implemented in the summer of 1997, sales to new customers, and increased volume with existing customers, all of which increased market share.

Within specialty battery products, hearing aid battery sales increased approximately 9% due primarily to growth in the market and the November 1997 acquisition of Brisco. In addition, net sales in the 1998 Six Month Period included \$2.2 million of specialty battery sales related to the DPP acquisition.

**Gross Profit.** Gross profit increased \$18.8 million, or 18.9%, to \$118.2 million for the 1998 Six Month Period, from \$99.4 million for the 1997 Six Month Period, primarily as a result of increased sales of higher margin alkaline batteries and decreased sales of lower margin heavy duty batteries. Gross profit margins increased to 48.0% in the 1998 Six Month Period from 44.1% in the 1997 Six Month Period due primarily to the change in sales mix toward alkaline and away from heavy duty batteries, the alkaline price increase implemented in the summer of 1997, and alkaline manufacturing cost improvements.

**Selling Expense.** Selling expense increased \$12.4 million, or 20.2%, to \$73.7 million for the 1998 Six Month Period from \$61.3 million for the 1997 Six Month Period. Selling expense as a percent of net sales increased to 29.9% in the 1998 Six Month Period from 27.2% in the 1997 Six Month Period. The increase in dollars and as a percent of sales was due primarily to increased advertising and promotional spending which resulted in the increased alkaline general battery sales. In addition, selling expense was lower during the 1997 Six Month Period while a new advertising agency and promotional strategies were under review.

General and Administrative Expense. General and administrative expense increased \$2.1 million, or 13.7%, to \$17.4 million for the 1998 Six Month Period from \$15.3 million for the 1997 Six Month Period primarily as a result of higher costs associated with information system improvements worldwide and increased expenses associated with being a publicly held company.

Research and Development Expense. Research and development expense decreased \$0.4 million to \$3.0 million for the 1998 Six Month Period from \$3.4 million for the 1997 Six Month Period primarily as a result of the increased resources assigned to the development of an on-the-label battery tester in 1997 which management decided not to implement.

Other Special Charges. In March 1998, the Company recorded net charges of \$5.2 million including (i) a \$1.7 million charge associated with consolidating domestic battery packaging operations and outsourcing the manufacture of heavy duty batteries, (ii) a \$2.0 million charge associated with closing the Company's Appleton, Wisconsin manufacturing plant and consolidating it into its Portage, Wisconsin manufacturing plant, (iii) a \$3.9 million charge associated with closing the Company's Newton Aycliffe, United Kingdom facility, phasing out direct distribution in the United Kingdom and closing one of the Company's German sales offices, and (iv) a \$2.4 million gain on the sale of the Company's previously closed Kinston, North Carolina, facility. The Company expects to record an additional \$2.0 million of costs in subsequent periods related to these restructuring and cost rationalization initiatives.

For the 1998 Six Month Period, the Company recorded net charges of \$4.0 million. This includes the \$5.2 million charge recorded in March offset by income of \$1.2 million in connection with the buy-out of deferred compensation agreements with certain former employees recorded earlier in the fiscal year. For the 1997 Six Month Period, the Company recorded charges of \$4.7 million for organizational restructuring in the U.S., the discontinuation of certain manufacturing operations in the United Kingdom, and the closing of its Kinston, North Carolina, facility. At September 30, 1997, the balance of these 1997 reserves was \$1.9 million of which the Company expended \$1.1 million in the 1998 Six Month Period and currently expects the balance to be expended by the end of fiscal 1998.

Income From Operations. Income from operations increased \$5.4 million, or 36.7%, to \$20.1 million from \$14.7 million for the 1997 Six Month Period. This increase was due primarily to increased sales and gross profit offset by increased selling and general and administrative expense. Income from operations before special charges increased \$4.7 million, or 24.2%, to \$24.1 million from \$19.4 million for the 1997 Six Month Period. As a percentage of sales income from operations for the 1998 Six Month Period increased to 8.2% from 6.5% for the 1997 Six Month Period.

Interest Expense. Interest expense decreased \$5.1 million, or 38.1%, to \$8.3 million for the 1998 Six Month Period from \$13.4 million for the 1997 Six Month Period. This decrease was primarily as a result of decreased indebtedness due to the application of proceeds of the Company's IPO in November 1997. In addition to the effects of the IPO on the 1998 Six Month Period, the 1997 Six Month Period interest expense included a \$2.0 million write-off of unamortized debt issuance costs.

Other Expense (Income). For the 1998 Six Month Period, interest income and foreign exchange gain totaled \$(0.4) million compared to \$0.3 million of net expense in the 1997 Six Month Period, attributed to foreign exchange losses somewhat offset by interest income.

Income Tax Expense. The Company's effective tax rate was 37.7% for the 1998 Six Month Period, compared to 31.9% for the 1997 Six Month Period. This more favorable tax rate in 1997 was due primarily to the Company's Foreign Sales Corporation ("FSC") benefiting 1997 more than 1998.

Extraordinary Item. In the 1998 Six Month Period, the Company recorded extraordinary expense of \$2.0 million net of income taxes for the premium payment on the redemption of a portion of the Company's Senior Subordinated Notes.

Net Income. For the 1998 Six Month Period, net income was \$5.6 million compared to \$0.7 million in the 1997 Six Month Period.

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 diversion of management attention and other Company resources on matters associated with the pending Recapitalization.

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

For the 1998 Six Month Period, net cash provided by operating activities decreased \$30.8 million to \$4.4 million from \$35.2 million for the 1997 Six Month Period. The decrease was due primarily to increased inventory levels in the current year to support the growth in the business whereas a significant reduction in excess inventory was experienced in the prior year. Costs associated with the 1997 restructuring initiatives were funded from cash provided from operating activities and the Company currently expects to similarly fund the 1998 restructuring initiatives with cash provided from operating activities.

Capital expenditures for the 1998 Six Month Period were \$6.7 million, an increase of \$4.1 million from \$2.6 million in the 1997 Six Month Period. This increase reflects continued spending on the implementation of new computer systems in fiscal 1998 and the down payment on a new alkaline production line for one of the Company's manufacturing facilities.

In March 1998, the Company sold its Kinston, North Carolina, facility for approximately \$3.3 million. The Company also acquired DPP for \$4.7 million plus incentive payments over four years which are anticipated to total approximately \$2.7 million. The initial \$4.7 million acquisition price consisted of \$3.2 million in cash (of which \$0.5 million is to be paid in cash after a specified time period for resolution of acquisition related claims), and \$1.5 million of assumed bankers' acceptances. In November 1997, the Company acquired Brisco for approximately \$4.9 million.

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 (including the \$6.7 million expended in the first six months of the fiscal year) 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 Amended Credit Agreement contains financial covenants customary and usual for credit facilities of this type, including those involving limitations on liens, limitations on the disposition of assets, limitations on loans and investments, limitations on lease obligations, maintenance of minimum interest coverage, maximum leverage ratios, restrictions on dividend payments, distribution of assets and redemption of subordinated debt, limitations on sale and leaseback transactions and limitations on issuance of guaranty obligations. In particular, the Company may not permit to occur (i) an interest coverage ratio for any computation period which is less than 3.0 to 1.0 or (ii) a leverage ratio for the computation periods from December 31, 1997 through September 30, 1999 which exceeds 3.75 to 1.0, for the computation periods from December 31, 1999 through September 30, 2000 which exceeds 3.50 to 1.0 and for the computation periods from December 31, 2000 and thereafter which exceeds 3.25 to 1.0. The Company also may not and may not permit any subsidiary to create, incur, assume, suffer to exist or otherwise become or remain directly or indirectly liable with respect to any additional indebtedness, except as specifically contemplated by the Amended Credit Agreement. As of the date hereof, the Company is in compliance with all covenants contained in the Amended Credit Agreement.

In addition, the Indenture also restricts, in some instances, the Company's ability to incur additional indebtedness. Pursuant to the terms of the Indenture, there is no limit on the additional amount of indebtedness the Company may incur if the Fixed Charge Coverage Ratio (as defined in the Indenture) for the Company's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional indebtedness has been incurred would have been at least 2.0 to 1.0, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional indebtedness had been incurred at the beginning of such four-quarter period. In addition, the Company may be able to incur additional indebtedness in certain circumstances even if it does not satisfy the 2.0 to 1.0 test described above, as set forth in the Indenture.

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 \$1.6 million for known on-site and off-site environmental liabilities. See Note 4 to Notes to Condensed Consolidated Financial Statements for the six months ended March 28, 1998. 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 the Company's Audited Consolidated Financial Statements and Note 1 to Notes to Condensed Consolidated Financial Statements for the six months ended March 28, 1998.

#### 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. The Rayovac brand name was first used as a trademark for batteries in 1921 and 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], Roughneck[RegTM], Best Labs[RegTM], Ultracell[RegTM], XCell[RegTM] and AIRPOWER[RegTM].

### Business Strategy

In September 1996, the Company and the shareholders of the Company completed the Recapitalization pursuant to which, among other things, affiliates of Thomas H. Lee Company acquired for cash 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, who joined the Company as Executive Vice President of Finance and Administration and Chief Financial Officer and was recently promoted to the position of President and Chief Operating Officer; Merrell M. Tomlin, Senior Vice President of Sales; Stephen P. Shanesy, Executive Vice President and General Manager of General Batteries and Lights; and Randall J. Steward, Senior Vice President of Finance and Chief Financial Officer. 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 10.2% 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 recorded 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. Such savings may not be indicative of actual savings in future periods because of the likelihood of additional overhead or other costs in future periods in support of business growth objectives. 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. In March 1998, the Company acquired the battery distribution portion of Best Labs in St. Petersburg, Florida, a distributor of hearing aid batteries in customized packaging and a manufacturer of hearing instruments. The Company believes that these acquisitions will enable the Company to further penetrate 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 March 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 Renewal 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.

#### 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 and Company estimates.

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 six months ended March 29, 1997 and March 28, 1998 are set forth below.

Product Type	Percentage of Company Net Sales					
	Fiscal Year Ended June 30,		Transition Period Ended September 30,	Fiscal Year Ended September 30,	Six Months Ended	
	1995	1996	1996	1997	March 29, 1997	March 28, 1998
Battery Products:						
Alkaline .....	43.4%	43.6%	41.4%	45.0%	43.7%	50.2%
Heavy Duty .....	14.1	12.2	12.7	10.4	11.3	8.3
Rechargeable Batteries .....	5.6	7.1	5.1	5.5	6.3	5.6
Hearing Aid .....	12.7	14.6	14.3	14.8	14.2	14.2
Other Specialty Batteries .....	10.0	8.6	10.1	9.8	9.6	8.0
Total .....	85.8	86.1	83.6	85.5	85.1	86.3
Lighting Products and Lantern Batteries .....	14.2	13.9	16.4	14.5	14.9	13.7
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 Names(1):	Rayovac; MAXIMUM, Renewal, Power Station	Rayovac	Rayovac; Loud'n Clear, ProLine, Best Labs, Ultracell XCell and AIRPOWER
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 Names(1):	Rayovac; Lifex	Rayovac	Rayovac	Rayovac
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 35% unit market share in the heavy duty battery market through mass merchandisers, food and drug stores for the 52 weeks ended March 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 March 14, 1998. 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, ProLine, Best Labs, Ultracell, XCell and AIRPOWER brand names and under several private labels, including Beltone, Miracle Ear, Siemens and Starkey. 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 and which, by its terms, may not be cancelled or terminated by Mr. Jordan without cause prior to its expiration.

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's agreement with Mr. Palmer may not be cancelled or terminated by him without cause prior to its expiration. 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 March 14, 1998 the Company's products accounted for 13% 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 (on a non-exclusive basis) Matsushita's highly advanced designs, technology and manufacturing equipment for alkaline batteries, including all developments and innovations thereto, through 2003. Thereafter, the Company is entitled to license such technology existing as of such date through 2023. Pursuant to the terms of the agreement, Matsushita may not cancel or terminate this battery technology agreement prior to its expiration other than for "cause" as described therein. 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. The Company's expenditures for research and development were approximately \$6.2 million, \$1.5 million, \$5.4 million and \$5.0 million for fiscal 1997, the Transition Period, fiscal 1996 and fiscal 1995, respectively. 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 substantially address 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], Best Labs[RegTM], Ultracell[RegTM], XCell[RegTM], AIRPOWER[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 2015. 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 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 categories 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, however there can be no assurance in this regard. In May 1998 Energizer announced the introduction of Energizer Advanced Formula alkaline batteries, available in all cell sizes, which Energizer claims will provide superior performance in high drain devices and improved performance in all other device categories. The Energizer Advanced Formula alkaline batteries are expected to be available in the summer of 1998. The Company has not yet had an opportunity to evaluate the Energizer Advanced Formula products or assess any potential impact on the Company's results of operations. See "Risk Factors--Competition."

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 March 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



The Company also leases approximately 250,000 square feet of space in Madison, Wisconsin for its corporate headquarters and technology center.

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 may 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 applied to TDEC for participation in TDEC's Voluntary Cleanup Oversight and Assistance Program with respect to the Company's former manganese processing facility in Covington, Tennessee. Pursuant to this program, TDEC will conduct a site investigation to determine the extent of the cleanup required at the Covington facility, however, there can be no assurance that participation in this program will preclude this site from

being added to the National Priorities List as a Superfund site. 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 such waste. 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 approximately 50 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 50 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 \$1.6 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 ultimately 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 April 30, 1998:

Name	Age	Position and Offices
David A. Jones	48	Chairman of the Board and Chief Executive Officer
Kent J. Hussey	52	President, Chief Operating Officer and Director
Roger F. Warren	57	President/International and Contract MicroPower and Director
Trygve Lonnebotn	60	Executive Vice President of Operations and Director
Stephen P. Shanesy	41	Executive Vice President and General Manager of General Batteries and Lights
Kenneth V. Biller	51	Senior Vice President of Manufacturing/Supply Chain
Merrell M. Tomlin	46	Senior Vice President of Sales
Randall J. Steward	43	Senior Vice President of Finance and Chief Financial Officer
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 and Chief Executive Officer of the Company since September 12, 1996. From September 1996 to April 1998 Mr. Jones also served as President of the Company. Between February 1995 and March 1996, Mr. Jones was Chief Operating Officer, Chief Executive Officer and Chairman of the Board of Directors of Thermoscan, Inc., a manufacturer and marketer of infrared ear thermometers for consumer and professional use. From 1989 to September 1994, he served as President and Chief Executive Officer of The Regina Company, a manufacturer of vacuum cleaners and other floor care equipment. In addition, Mr. Jones serves as a director of Ladd Furniture, Inc. 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 President and Chief Operating Officer of the Company since April 1998. Prior to that time and since joining the Company in October 1996, Mr. Hussey was the Executive Vice President of Finance and Administration, Chief Financial Officer and a director of the Company. From 1994 to 1996, Mr. Hussey was Vice President and Chief Financial Officer of ECC International, a producer of industrial minerals and specialty chemicals, and from 1991 to July 1994 he served as Vice President and Chief Financial Officer of The Regina Company.

Mr. 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 Executive Vice President and General Manager of General Batteries and Lights of the Company since April 1998. Prior to that time and from December 1997, Mr. Shanesy served as Senior Vice President of Marketing and the General Manager of General Batteries and Lights of the Company. From January 1998 to 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 Finance and Chief Financial Officer of the Company since April 1998. Mr. Steward joined the Company in March of 1998 as Senior Vice President of Corporate Development. From September 1997 to March 1998, Mr. Steward worked as an independent consultant, primarily with Thermoscan, Inc. and Braun AG assisting with financial and operational issues. From March 1996 to September 1997, Mr. Steward served as President and General Manager of Thermoscan, Inc. From January 1992 to March 1996, he served as Executive Vice President of Finance and Administration and Chief Financial Officer of Thermoscan, Inc. 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 IV, LLC, which is the general partner of Thomas H. Lee Equity Fund IV, L.P. He is also a director of 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.

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 and T.H. Lee Mezzanine II. Mr. Smith is also a Managing Director and Member of THL Equity Advisors Limited Partnership III, which is the general partner of Thomas H. Lee Equity Fund III L.P. and a Managing Director and Member of THL Equity Advisors IV, LLC, which is the general partner of Thomas H. Lee Equity Fund IV, L.P. He is also a director of Finlay Enterprises, Inc., Finlay Fine Jewelry Corporation 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
-----						
Directors, Executive Officers and 5% Shareholders						
-----						
Thomas H. Lee Equity Fund III, L.P.(3) 75 State Street, Ste. 2600 Boston, MA 02109	14,437,064	52.6%	4,109,800	563,235	9,764,029	35.6%
Thomas H. Lee Foreign Fund III, L.P.(3) 75 State Street, Ste. 2600 Boston, MA 02109	894,341	3.3	254,592	34,891	604,858	2.2
THL--CCI Limited Partnership(4) 75 State Street, Ste. 2600 Boston, MA 02109	1,515,753	5.5	431,490	59,134	1,025,129	3.7
David A. Jones(5)	664,388	2.4	217,357	53,144	392,496	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	*	77,486	19,391	144,522	*
Trygve Lonnebotn(12)	502,652	1.8	161,345	40,376	300,931	1.1
Randall J. Steward	7,500	*	0	0	7,500	*
Scott A. Schoen(3)(13)	72,756	*	20,711	2,838	49,207	*
Thomas R. Shepherd(13)	37,894	*	10,787	1,478	25,629	*
Warren C. Smith, Jr.(3)(13)	60,640	*	17,262	2,366	41,012	*
All directors and executive officers of the Company as a group (12 persons)(3)(13)	2,712,796	9.6%	879,917	199,948	1,632,931	5.8%
-----						
Other Officers						
-----						
Gary E. Wilson(14)	133,959	*	42,999	6,300	84,660	*
Kenneth G. Drescher(15)	22,075	*	7,086	1,773	13,216	*
Dale R. Tetzlaff(16)	137,572	*	37,000	0	100,572	*
Linda G. Pauls Fleming, as trustee of the Fleming Trust	8,000	*	600	0	7,400	*
-----						
Other Selling Shareholders						
-----						
17 Other Selling Shareholders, each of whom is selling less than 4,600 shares of Common Stock in the Offerings and will beneficially own on an aggregate basis less than 1% of the outstanding Common Stock after the Offerings	121,777	*	36,499	4,069	81,181	*
-----						

\*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

(footnotes continued on following page)

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 2,908 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 be 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 9,624 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 11,141 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., a wholly-owned subsidiary of the Company, 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 the Indenture, 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 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 27,441,097 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 5,750,000 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 2,497,321 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 and the Incentive 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 are 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 14.3 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; Registration 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 International, Bear, Stearns International Limited, Donaldson, Lufkin & Jenrette International 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 4,600,000 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 .....	287,500
Bear, Stearns International Limited .....	287,500
Donaldson, Lufkin & Jenrette International .....	287,500
Smith Barney Inc. ....	287,500
	-----
Total .....	1,150,000 =====

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 1,150,000 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 4,600,000 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 \$.50 per share of Common Stock. The International Managers, may allow, and such dealers may reallow, a discount not in excess of \$.10 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 172,500 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 690,000 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, Tucker Anthony Incorporated and Cleary Gull Reiland & McDevitt Inc., 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.

## 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, as amended by Form 10-K/A dated May 26, 1998;
- (2) The Company's Quarterly Reports on Form 10-Q for the quarterly periods ended December 27, 1997, as amended by Form 10-Q/A dated May 26, 1998, and March 28, 1998, as amended by Form 10-Q/A dated May 26, 1998; 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  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
-----	
Independent Auditors' Report .....	F-2
Independent Auditors' Report .....	F-3
Consolidated Balance Sheets as of June 30, 1996, September 30, 1996 and 1997 .....	F-4
Consolidated Statements of Operations for the years ended June 30, 1995 and 1996, the transition period ended September 30, 1996 and year ended September 30, 1997 .....	F-5
Consolidated Statements of Cash Flows for the years ended June 30, 1995 and 1996, the transition period ended September 30, 1996 and year ended September 30, 1997 .....	F-6
Consolidated Statements of Shareholders' Equity (Deficit) for the years ended June 30, 1994, 1995 and 1996, the transition period ended September 30, 1996 and the year ended September 30, 1997 .....	F-7
Notes to Consolidated Financial Statements .....	F-8
Unaudited Condensed Consolidated Balance Sheets as of March 28, 1998 and September 30, 1997 .....	F-36
Unaudited Condensed Consolidated Statements of Operations for the three and six months ended March 29, 1997 and March 28, 1998 .....	F-37
Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended March 29, 1997 and March 28, 1998 .....	F-38
Notes to Unaudited Condensed Consolidated Financial Statements .....	F-39

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 Period ended	Year ended
	1995	1996	September 30, 1996	September 30, 1997
<b>Cash flows from operating activities:</b>				
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
<b>Cash flows from investing activities:</b>				
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)
<b>Cash flows from financing activities:</b>				
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
<b>Supplemental disclosure of cash flow information:</b>				
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.

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

2. Significant Accounting Policies and Practices--Continued

The Company derived 28%, 28%, 25% and 29% of its net sales during the years ended June 30, 1995 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

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

2. Significant Accounting Policies and Practices--Continued

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.

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, 1996	Year ended September 30, 1997
	----- 1995	----- 1996	-----	-----
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
	=====	=====	=====	=====

RAYOVAC CORPORATION AND SUBSIDIARIES

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, 1996	Year ended September 30, 1997
	1995	1996		
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,	Year ended September 30,
	1995	1996	1996	1997
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) \$2,500 of charges related to the exit of certain manufacturing and distribution operations at the Company's Kinston, North Carolina facility by early fiscal 1998 which includes \$1,100 of employee termination benefits for 137 employees, (ii) \$1,400 of employee termination benefits for 71 employees related to organizational restructuring in Europe and the exit of certain manufacturing operations in the Company's Newton Aycliffe, United Kingdom facility which the Company expects to complete in fiscal 1998, (iii) \$2,000 of charges for employee termination benefits for 77 employees related to organizational restructuring in the United States which the Company expects to complete in fiscal 1998. The number of employees anticipated to be terminated was approximately equal to the actual numbers

RAYOVAC CORPORATION AND SUBSIDIARIES

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

15. Other Special Charges--Continued

referenced above. The charges were 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. A summary of the restructuring activities follows.

1997 Restructuring Summary			
	Termination Benefits	Other Costs	Total
Expenses accrued .....	\$ 4,000	\$ 600	\$ 4,600
Changes in estimate .....	500	600	1,100
Expensed as incurred .....	--	200	200
Expenditures .....	(3,300)	(700)	(4,000)
Balance 9/30/97 .....	\$ 1,200	\$ 700	\$ 1,900

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

RAYOVAC CORPORATION AND SUBSIDIARIES

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

17. Consolidated Financial Statements --Continued

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.

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	Nonguarantor subsidiaries	Eliminations	Combined consolidated
ASSETS					
Current assets:					
Cash and cash equivalents .....	\$ 2,983	\$ 57	\$ 1,215	\$ --	\$ 4,255
Receivables:					
Trade accounts receivable, net .....	45,614	--	16,706	--	62,320
Other .....	15,128	162	95	(11,229)	4,156
Inventories .....	57,615	--	13,303	(797)	70,121
Deferred income taxes .....	7,888	1,026	244	--	9,158
Prepaid expenses and other .....	3,457	--	1,407	--	4,864
Total current assets .....	132,685	1,245	32,970	(12,026)	154,874
Property, plant and equipment, net .....	61,495	--	7,145	--	68,640
Deferred charges and other .....	6,815	--	598	--	7,413
Debt issuance costs .....	12,764	--	--	--	12,764
Investment in subsidiaries .....	12,056	12,098	--	(24,154)	--
Total assets .....	\$225,815	\$13,343	\$ 40,713	\$ (36,180)	\$243,691
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)					
Current liabilities:					
Current maturities of long-term debt .....	\$ 4,500	\$ --	\$ 4,318	\$ --	\$ 8,818
Accounts payable .....	40,830	597	16,505	(11,011)	46,921
Accrued liabilities:					
Wages and benefits .....	4,759	--	1,135	--	5,894
Accrued interest .....	618	--	13	--	631
Recapitalization and other special charges .....	11,645	--	3,297	--	14,942
Other .....	10,043	484	2,492	--	13,019
Total current liabilities .....	72,395	1,081	27,760	(11,011)	90,225
Long-term debt, net of current maturities .....	223,990	--	855	--	224,845
Employee benefit obligations, net of current portion .....	12,138	--	--	--	12,138
Deferred income taxes .....	(64)	206	--	--	142
Other .....	2,061	--	--	--	2,061
Total liabilities .....	310,520	1,287	28,615	(11,011)	329,411
Shareholders' equity (deficit):					
Common stock .....	500	--	12,072	(12,072)	500
Additional paid-in capital .....	15,970	3,525	750	(4,275)	15,970
Foreign currency translation adjustment .....	1,689	1,689	1,689	(3,378)	1,689
Notes receivable from officers/shareholders .....	(500)	--	--	--	(500)
Retained earnings .....	26,158	6,842	(2,413)	(5,444)	25,143
Less treasury stock, at cost .....	43,817	12,056	12,098	(25,169)	42,802
	(128,522)	--	--	--	(128,522)
Total shareholders' equity (deficit) .....	(84,705)	12,056	12,098	(25,169)	(85,720)
Total liabilities and shareholders' equity (deficit) .....	\$225,815	\$13,343	\$ 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	Nonguarantor subsidiaries	Eliminations	Combined consolidated
ASSETS					
Current assets:					
Cash and cash equivalents .....	\$ 1,488	\$ 41	\$ 661	\$ --	\$ 2,190
Receivables:					
Trade accounts receivable, net .....	40,138	--	15,692	--	55,830
Other .....	11,434	318	780	(10,210)	2,322
Inventories .....	54,486	--	12,951	(496)	66,941
Deferred income taxes .....	5,439	179	243	--	5,861
Prepaid expenses and other .....	3,415	--	1,560	--	4,975
Total current assets .....	116,400	538	31,887	(10,706)	138,119
Property, plant and equipment, net .....	65,747	--	7,434	--	73,181
Deferred charges and other .....	9,047	--	608	--	9,655
Debt issuance costs .....	173	--	--	--	173
Investment in subsidiaries .....	14,524	14,670	--	(29,194)	--
Total assets .....	\$205,891	\$15,208	\$39,929	\$ (39,900)	\$221,128
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)					
Current liabilities:					
Current maturities of long-term debt .....	\$ 7,350	\$ --	\$ 4,281	\$ --	\$ 11,631
Accounts payable .....	32,906	492	15,145	(9,848)	38,695
Accrued liabilities:					
Wages and benefits .....	5,077	--	1,049	--	6,126
Accrued interest .....	1,850	--	40	--	1,890
Other .....	12,768	(14)	3,803	--	16,557
Total current liabilities .....	59,951	478	24,318	(9,848)	74,899
Long-term debt, net of current maturities .....	68,777	--	941	--	69,718
Employee benefit obligations, net of current portion .....	12,141	--	--	--	12,141
Deferred income taxes .....	2,378	206	--	--	2,584
Other .....	162	--	--	--	162
Total liabilities .....	143,409	684	25,259	(9,848)	159,504
Shareholders' equity (deficit):					
Common stock .....	500	--	12,072	(12,072)	500
Rayovac International Corporation common stock .....	5	--	--	--	5
Additional paid-in capital .....	12,000	3,525	750	(4,275)	12,000
Foreign currency translation adjustment .....	1,650	1,650	1,650	(3,300)	1,650
Retained earnings .....	48,860	9,349	198	(10,405)	48,002
Less treasury stock, at cost .....	63,015	14,524	14,670	(30,052)	62,157
(533)	--	--	--	--	(533)
Total shareholders' equity (deficit) .....	62,482	14,524	14,670	(30,052)	61,624
Total liabilities and shareholders' equity (deficit) .....	\$205,891	\$15,208	\$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

RAYOVAC CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)  
As of March 28, 1998 and September 30, 1997  
(In thousands, except per share amounts)

	March 28, 1998	September 30, 1997
	-----	-----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 3,672	\$ 1,133
Receivables .....	69,079	79,669
Inventories .....	61,254	58,551
Prepaid expenses and other .....	14,434	15,027
	-----	-----
Total current assets .....	148,439	154,380
Property, plant and equipment, net .....	66,889	65,511
Deferred charges and other .....	26,075	16,990
	-----	-----
Total assets .....	\$ 241,403	\$ 236,881
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Current maturities of long-term debt .....	\$ 4,329	\$ 23,880
Accounts payable .....	50,891	57,259
Accrued liabilities:		
Wages and benefits and other .....	28,067	34,812
Recapitalization and other special charges .....	9,856	4,612
	-----	-----
Total current liabilities .....	93,143	120,563
Long-term debt, net of current maturities .....	125,148	183,441
Employee benefit obligations, net of current portion .....	6,738	11,291
Other .....	4,160	2,181
	-----	-----
Total liabilities .....	229,189	317,476
Shareholders' equity (deficit):		
Common stock, \$.01 par value, authorized 150,000 and 90,000 shares respectively; issued 56,873 and 50,000 shares respectively; outstanding 27,432 and 20,581 shares, respectively .....	569	500
Additional paid-in capital .....	103,155	15,974
Foreign currency translation adjustments .....	2,307	2,270
Notes receivable from officers/shareholders .....	(1,361)	(1,658)
Retained earnings .....	36,898	31,321
	-----	-----
Less stock held in trust for deferred compensation plan, 160 shares .....	(962)	(962)
Less treasury stock, at cost, 29,441 and 29,419 shares, respectively...	(128,392)	(128,040)
	-----	-----
Total shareholders' equity (deficit) .....	12,214	(80,595)
	-----	-----
Total liabilities and shareholders' equity (deficit) .....	\$ 241,403	\$ 236,881
	=====	=====

See accompanying notes which are an integral part of these statements.

RAYOVAC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

For the three month and six month periods ended March 28, 1998 and March 29, 1997

(In thousands, except per share amounts)

	Three Months		Six Months	
	1998	1997	1998	1997
Net sales .....	\$ 96,081	\$ 83,632	\$ 246,076	\$ 225,554
Cost of goods sold .....	50,545	47,123	127,900	126,142
Gross profit .....	45,536	36,509	118,176	99,412
Selling .....	28,204	22,592	73,676	61,272
General and administrative .....	9,102	7,660	17,363	15,264
Research and development .....	1,509	1,520	3,034	3,430
Other special charges .....	5,236	1,754	4,017	4,717
Total operating expenses .....	44,051	33,526	98,090	84,683
Income from operations .....	1,485	2,983	20,086	14,729
Other expense (income): .....				
Interest expense .....	3,291	5,472	8,315	13,446
Other expense (income) .....	(126)	300	(359)	314
	3,165	5,772	7,956	13,760
Income (loss) before income taxes and extraordinary item .....	(1,680)	(2,789)	12,130	969
Income tax expense (benefit) .....	(698)	(1,069)	4,578	309
Income (loss) before extraordinary item .....	(982)	(1,720)	7,552	660
Extraordinary item, loss on early extinguishment of debt, net of income tax benefit of \$1,263.....	--	--	1,975	--
Net income (loss) .....	\$ (982)	\$ (1,720)	\$ 5,577	\$ 660
Average shares outstanding .....	27,432	20,485	25,476	20,478
Basic earnings per share .....	\$ (0.04)	\$ (0.08)	\$ 0.30	\$ 0.03
Income (loss) before extraordinary item .....	--	--	(0.08)	--
Extraordinary item .....				
Net income (loss) .....	\$ (0.04)	\$ (0.08)	\$ 0.22	\$ 0.03
Average shares outstanding and common stock equivalents .....	27,432	20,485	27,006	20,507
Diluted earnings per share .....	\$ (0.04)	\$ (0.08)	\$ 0.28	\$ 0.03
Income (loss) before extraordinary item .....	--	--	(0.07)	--
Extraordinary item .....				
Net income (loss) .....	\$ (0.04)	\$ (0.08)	\$ 0.21	\$ 0.03

See accompanying notes which are an integral part of these statements.



RAYOVAC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
 For the six month periods ended March 28, 1998 and March 29, 1997  
 (In thousands)

	1998	1997
	-----	-----
Cash flows from operating activities:		
Net income .....	\$ 5,577	\$ 660
Non-cash adjustments to net income: .....		
Amortization .....	1,675	2,772
Depreciation .....	5,811	5,892
Other non-cash adjustments .....	(3,453)	(330)
Net changes in other assets and liabilities, net of effects from acquisitions .....	(5,239)	26,234
	-----	-----
Net cash provided by operating activities .....	4,371	35,228
Cash flows from investing activities: .....		
Purchases of property, plant and equipment .....	(6,676)	(2,625)
Proceeds from sale of property, plant and equipment .....	3,292	--
Payment for acquisitions .....	(7,508)	--
Other .....	--	(215)
	-----	-----
Net cash used by investing activities .....	(10,892)	(2,840)
Cash flows from financing activities:		
Reduction of debt .....	(137,987)	(140,004)
Proceeds from debt financing .....	59,859	112,243
Proceeds from issuance of common stock .....	87,268	--
Other .....	(73)	265
	-----	-----
Net cash provided (used) by financing activities .....	9,067	(27,496)
	-----	-----
Effect of exchange rate changes on cash and cash equivalents .....	(7)	3
	-----	-----
Net increase in cash and cash equivalents .....	2,539	4,895
Cash and cash equivalents, beginning of period .....	1,133	4,255
	-----	-----
Cash and cash equivalents, end of period .....	\$ 3,672	\$ 9,150
	=====	=====

See accompanying notes which are an integral part of these statements.

RAYOVAC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In thousands, except per share amounts)

1. Significant Accounting Policies

Basis of Presentation

These financial statements have been prepared by Rayovac Corporation (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and, in the opinion of the Company, include all adjustments (all of which are normal and recurring in nature) necessary to present fairly the financial position of the Company at March 28, 1998, results of operations for the three and six month periods ended March 28, 1998 and March 29, 1997, and cash flows for the six month periods ended March 28, 1998 and March 29, 1997. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such SEC rules and regulations.

These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto as of September 30, 1997.

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 counter-parties are included in accrued liabilities 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 a notional principal amount of \$62,500 through October 1999. The fair value of this contract at March 28, 1998 was (\$382).

The Company has entered into an amortizing cross currency interest rate swap agreement related to financing the acquisition of Brisco (as defined herein). The agreement effectively fixes the interest and foreign exchange on floating rate debt denominated in U.S. Dollars at a rate of 5.34% denominated in German Marks. The unamortized notional principal amount at March 28, 1998 is approximately \$4,700. The fair value at March 28, 1998 approximated the contract value.

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 (income). The related amounts payable to, or receivable from, the counter-parties are included in accounts payable, or accounts receivable. The Company has approximately \$7,700 of such forward exchange contracts at March 28, 1998. The fair value at March 28, 1998, approximated the contract value.

The Company has also entered into foreign exchange contracts to hedge payment obligations denominated in Japanese Yen under a commitment to purchase certain production equipment from Matsushita. The Company has approximately \$6,700 of such forward exchange contracts outstanding at March 28, 1998. The fair value at March 28, 1998 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 swaps, calls and puts. The Company has entered into commodity swap agreements which effectively fix the floating price on a specified quantity of zinc through a specified date. 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,

RAYOVAC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--Continued

(Unaudited)

(In thousands, except per share amounts)

1. Significant Accounting Policies --Continued

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 swap, put and call agreements. At March 28, 1998, the Company had entered into a series of swap agreements with a contract value of approximately \$3,200 for the period from April through December of 1998. At March 28, 1998, the Company had purchased a series of calls with a contract value of approximately \$3,000 and sold a series of puts with a contract value of approximately \$2,800 for the period from April 1998 through March 1999 designed to set a ceiling and floor price. While these transactions have no carrying value, the fair value of these contracts was approximately (\$600) at March 28, 1998.

2. Inventories

Inventories consist of the following:

	March 28, 1998	September 30, 1997
	-----	-----
Raw material .....	\$20,450	\$23,291
Work-in-process .....	16,478	15,286
Finished goods .....	24,326	19,974
	-----	-----
	\$61,254	\$58,551
	=====	=====

3. Earnings per Share Disclosure

Earnings per share is calculated based upon the following:

	Three Months Ended March 28, 1998			Three Months Ended March 29, 1997		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
	-----	-----	-----	-----	-----	-----
Loss before extraordinary item .....	\$ (982)			\$ (1,720)		
Basic EPS						
Loss available to common shareholders .....	\$ (982)	27,432	\$ (0.04)	\$ (1,720)	20,485	\$ (0.08)
Diluted EPS						
Loss available to common shareholders plus assumed conversion .....	\$ (982)	27,432	\$ (0.04)	\$ (1,720)	20,485	\$ (0.08)
	=====	=====	=====	=====	=====	=====

The effect of unexercised stock options outstanding for the three month periods ending March 28, 1998 and March 29, 1997, were excluded from the diluted EPS calculations as their effect was anti-dilutive. These options may dilute EPS in the future.

RAYOVAC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--Continued

(Unaudited)

(In thousands, except per share amounts)

3. Earnings per Share Disclosure --Continued

	Six Months Ended March 28, 1998			Six Months Ended March 29, 1997		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income before extraordinary item .....	\$7,552			\$660		
Basic EPS						
Income available to common shareholders .....	7,552	25,476	\$ 0.30 =====	660	20,478	\$ 0.03 =====
Effect of Dilutive Securities						
Stock Options .....		1,530			29	
Diluted EPS						
Income available to common shareholders plus assumed conversion .....	\$7,552 =====	27,006 =====	\$ 0.28 =====	\$660 =====	20,507 =====	\$ 0.03 =====

4. 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 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 (2012). In a March 1994 agreement, the Company committed to pay \$500 in 1994 and annual royalties of \$500 for five years beginning in 1995. In a March 1998 agreement which supersedes the previous agreements, the Company committed to pay \$2,000 in 1998 and 1999, \$3,000 in 2000 through 2002 and \$500 in each year thereafter, as long as the related equipment patents are enforceable (2022). Additionally, the Company has committed to purchase tooling of \$700 related to this equipment.

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 \$1,600, which may result from resolution of these matters, will not have a material adverse effect on the financial condition, liquidity, or cash flows of the Company.

5. Other

During the 1998 Fiscal First Quarter, the Company recorded a pre-tax credit of \$1,200 related to the buyout of deferred compensation agreements with certain former employees.

On November 28, 1997, the Company acquired Brisco GmbH in Germany and Brisco B.V. in Holland (collectively "Brisco"), a distributor of hearing aid batteries for \$4,900. Brisco recorded calendar 1997 sales of \$4,500.

In the 1998 Fiscal Second Quarter the Company recorded special charges and credits as follows: (i) \$3,900 related to (a) the closing by September 1998 of the Company's Newton Aycliffe, United Kingdom packaging facility,

RAYOVAC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--Continued

(Unaudited)

(In thousands, except per share amounts)

5. Other --Continued

(b) the phasing out direct distribution by June 1998 in the United Kingdom, and  
(c) the closing of one of the Company's German sales offices before the end of fiscal 1998, which amount includes \$1,800 of employee termination benefits for 73 employees, \$1,000 of lease cancellation costs, and \$1,000 of equipment and intangible asset write-offs, (ii) \$2,000 related to the closing by April 1999 of the Company's Appleton, Wisconsin manufacturing facility, which amount includes \$1,600 of employee termination benefits for 141 employees, \$200 of asset write-offs and \$200 of other costs, (iii) \$1,700 related to the exit by January 1999 of certain manufacturing operations at the Company's Madison, Wisconsin facility, which amount includes \$300 of employee termination benefits for 34 employees, \$1,300 of asset write-offs, and \$100 of other costs, and (iv) a \$2,400 gain on the sale of the Company's previously closed Kinston, North Carolina facility.

1998 Restructuring Summary

	Termination Benefits	Other Costs	Total
	-----	-----	-----
Expense accrued	\$3,700	\$3,800	\$7,500
Balance 3/28/98	-----	-----	-----
	\$3,700	\$3,800	\$7,500*
	=====	=====	=====

During the year ended September 30, 1997, the Company recorded special charges as follows: (i) \$2,500 of charges related to the exit of certain manufacturing and distribution operations at the Company's Kinston, North Carolina facility by early fiscal 1998, which amount includes \$1,100 of employee termination benefits for 137 employees, (ii) \$1,400 of employee termination benefits for 71 employees related to organizational restructuring in Europe and the exit of certain manufacturing operations in the Company's Newton Aycliffe, United Kingdom facility which the Company expects to complete in fiscal 1998, (iii) \$2,000 of charges for employee termination benefits for 77 employees related to organizational restructuring in the United States which the Company expects to complete in fiscal 1998. The number of employees anticipated to be terminated was approximately equal to the actual numbers referenced above. The charges were 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. A summary of the restructuring activities follows.

1997 Restructuring Summary

	Termination Benefits	Other Costs	Total
	-----	-----	-----
Expenses accrued .....	\$ 4,000	\$ 600	\$ \$4,600
Changes in estimate .....	500	600	1,100
Expensed as incurred .....	--	200	200
Expenditures .....	(3,300)	(700)	(4,000)
Balance 9/30/97 .....	\$ 1,200	\$ 700	\$ 1,900
	=====	=====	=====
Additional expense .....	--	--	--
Change in estimate .....	--	--	--
Expenditures .....	(700)	--	(700)
Balance 12/27/97 .....	\$ 500	\$ 700	\$ 1,200
	=====	=====	=====
Expenses accrued .....	--	--	--
Change in estimate .....	(100)	(400)	(500)
Expenditures .....	(200)	(200)	(400)
Balance 3/28/98 .....	\$ 200	\$ 100	\$ 300
	=====	=====	=====

RAYOVAC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--Continued  
(Unaudited)

(In thousands, except per share amounts)

5. Other --Continued

In the 1998 Fiscal Second Quarter, the Company acquired Direct Power Plus of New York ("DPP"), a full line marketer of rechargeable batteries and accessories for cellular phones and video camcorders for \$4,700. DPP recorded sales of \$2,200 in the 1998 Fiscal Second Quarter.

6. Subsequent Events

On March 30, 1998, the Company acquired the battery distribution portion of Best Labs, St. Petersburg, Florida, a distributor of hearing aid batteries and a manufacturer of hearing instruments for \$2,100. The acquired portion of Best Labs had net sales of approximately \$2,600 in calendar 1997.

On April 3, 1998, the Company announced the filing of a registration statement with the SEC for a secondary offering of 6,500 shares of common stock. The Company will not receive any proceeds from the sale of shares in the offering but will pay certain expenses for the offering estimated at \$800. Of the shares being offered, 5,500 will be offered by Thomas H. Lee Group and its affiliates and 1,000 by certain Rayovac officers and employees. The registration statement has not yet become effective. These securities may not be sold nor any offers to buy be accepted prior to the time the registration statement becomes effective.

7. Guarantor Subsidiary

The following condensed consolidating financial data illustrates the composition of the consolidated financial statements. Investments in subsidiaries are accounted for by the Company 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 inter-company 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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--Continued

(Unaudited)

(In thousands, except per share amounts)

7. Guarantor Subsidiary --Continued

RAYOVAC CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEETS

As of March 28, 1998

	Parent	Guarantor Subsidiary	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents .....	\$ 2,148	\$ 46	\$ 1,478	\$ --	\$ 3,672
Receivables .....	61,208	584	15,131	(7,844)	69,079
Inventories .....	48,728	--	12,639	(113)	61,254
Prepaid expenses and other .....	12,462	342	1,630	--	14,434
Total current assets .....	124,546	972	30,878	(7,957)	148,439
Property, plant and equipment, net .....	61,530	--	5,359	--	66,889
Deferred charges and other .....	26,045	--	4,996	(4,966)	26,075
Investment in subsidiaries .....	14,799	13,969	--	(28,768)	--
Total assets .....	\$ 226,920	\$ 14,941	\$ 41,233	\$ (41,691)	\$ 241,403
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current liabilities:					
Current maturities of long-term debt .....	\$ 3,135	\$ --	\$ 2,175	\$ (981)	\$ 4,329
Accounts payable .....	43,419	--	14,193	(6,721)	50,891
Accrued liabilities:					
Wages and benefits and other .....	24,599	(88)	3,547	9	28,067
Recapitalization and other special charges .....	6,478	--	3,378	--	9,856
Total current liabilities .....	77,631	(88)	23,293	(7,693)	93,143
Long-term debt, net of current maturities .....	124,901	--	3,783	(3,536)	125,148
Employee benefit obligations, net of current portion .....	6,738	--	--	--	6,738
Other .....	3,742	230	188	--	4,160
Total liabilities .....	213,012	142	27,264	(11,229)	229,189
Shareholders' equity:					
Common stock .....	569	--	12,072	(12,072)	569
Additional paid-in capital .....	103,155	3,525	750	(4,275)	103,155
Foreign currency translation adjustment .....	2,307	2,307	2,307	(4,614)	2,307
Notes receivable from officers/ shareholders .....	(1,361)	--	--	--	(1,361)
Retained earnings .....	38,592	8,967	(1,160)	(9,501)	36,898
	143,262	14,799	13,969	(30,462)	141,568
Less stock held in trust for deferred compensation .....	(962)	--	--	--	(962)
Less treasury stock .....	(128,392)	--	--	--	(128,392)
Total shareholders' equity .....	13,908	14,799	13,969	(30,462)	12,214
Total liabilities and shareholders' equity .....	\$ 226,920	\$ 14,941	\$ 41,233	\$ (41,691)	\$ 241,403

RAYOVAC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--Continued

(Unaudited)

(In thousands, except per share amounts)

7. Guarantor Subsidiary --Continued

RAYOVAC CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

For the three month period ended March 28, 1998

	Parent	Guarantor Subsidiary	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales .....	\$ 83,519	\$ --	\$ 19,237	\$(6,675)	\$ 96,081
Cost of goods sold .....	45,535	--	11,689	(6,679)	50,545
Gross profit .....	37,984	--	7,548	4	45,536
Selling .....	24,277	--	3,927	--	28,204
General and administrative .....	7,340	(245)	2,025	(18)	9,102
Research and development .....	1,509	--	--	--	1,509
Other special charges .....	1,274	--	3,962	--	5,236
Total operating expenses .....	34,400	(245)	9,914	(18)	44,051
Income (loss) from operations .....	3,584	245	(2,366)	22	1,485
Other expense (income):					
Interest expense .....	3,211	--	83	(3)	3,291
Equity in profit of subsidiary .....	1,531	1,826	--	(3,357)	--
Other expense (income) .....	(148)	6	13	3	(126)
Loss before income taxes and extraordinary item .....	(1,010)	(1,587)	(2,462)	3,379	(1,680)
Income taxes (benefit) .....	(6)	(56)	(636)	--	(698)
Loss before extraordinary item .....	(1,004)	(1,531)	(1,826)	3,379	(982)
Extraordinary item .....	--	--	--	--	--
Net loss .....	\$ (1,004)	\$ (1,531)	\$ (1,826)	\$ 3,379	\$ (982)



RAYOVAC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--Continued

(Unaudited)

(In thousands, except per share amounts)

7. Guarantor Subsidiary --Continued

RAYOVAC CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

For the six month period ended March 28, 1998

	Parent	Guarantor Subsidiary	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales .....	\$216,426	\$ --	\$ 44,036	\$ (14,386)	\$ 246,076
Cost of goods sold .....	114,446	--	27,849	(14,395)	127,900
Gross profit .....	101,980	--	16,187	9	118,176
Selling .....	63,708	--	9,968	--	73,676
General and administrative .....	13,598	(476)	4,277	(36)	17,363
Research and development .....	3,034	--	--	--	3,034
Other special charges .....	55	--	3,962	--	4,017
Total operating expenses .....	80,395	(476)	18,207	(36)	98,090
Income (loss) from operations .....	21,585	476	(2,020)	45	20,086
Other expense (income):					
Interest expense .....	8,075	--	240	--	8,315
Equity in profit of subsidiary .....	1,349	1,687	--	(3,036)	--
Other expense (income) .....	(344)	(4)	(11)	--	(359)
Income (loss) before income taxes and extraordinary item .....	9,080	1,683	229	(3,036)	7,956
Income taxes (benefit) .....	12,505	(1,207)	(2,249)	3,081	12,130
Income taxes (benefit) .....	4,998	142	(562)	--	4,578
Income (loss) before extraordinary item .....	7,507	(1,349)	(1,687)	3,081	7,552
Extraordinary item .....	1,975	--	--	--	1,975
Net income (loss) .....	\$ 5,532	\$(1,349)	\$ (1,687)	\$ 3,081	\$ 5,577

RAYOVAC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--Continued

(Unaudited)

(In thousands, except per share amounts)

7. Guarantor Subsidiary --Continued

RAYOVAC CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

For the six month period ended March 28, 1998

	Parent	Guarantor Subsidiary	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net cash provided (used) by operating activities .....	\$ (3,380)	\$--	\$ 3,233	\$ 4,518	\$ 4,371
Cash flows from investing activities:					
Purchases of property, plant and equipment .....	(5,839)	--	(837)	--	(6,676)
Proceeds from sale of property, plant, and equip. ....	3,292	--	--	--	3,292
Payment for acquisitions .....	(2,655)	--	(4,853)	--	(7,508)
Net cash used by investing activities ....	(5,202)	--	(5,690)	--	(10,892)
Cash flows from financing activities:					
Reduction of debt .....	(135,500)	--	(2,487)	--	(137,987)
Proceeds from debt financing .....	58,193	--	6,184	(4,518)	59,859
Proceeds from issuance of common stock .....	87,268	--	--	--	87,268
Other .....	136	--	(209)	--	(73)
Net cash provided by financing activities .....	10,097	--	3,488	(4,518)	9,067
Effect of exchange rate changes on cash and cash equivalents .....	--	--	(7)	--	(7)
Net increase in cash and cash equivalents .....	1,515	--	1,024	--	2,539
Cash and cash equivalents, beginning of period .....	633	46	454	--	1,133
Cash and cash equivalents, end of period .....	\$ 2,148	\$46	\$ 1,478	\$ --	\$ 3,672

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

=====  
 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.

-----  
 TABLE OF CONTENTS

	Page
-----	
Prospectus Summary .....	3
Risk Factors .....	12
The Recapitalization .....	17
Use of Proceeds .....	17
Price Range of Common Stock and Dividend Policy .....	17
Capitalization .....	18
Selected Financial Data .....	19
Management's Discussion and Analysis of Financial Condition and Results of Operations .....	23
Business .....	35
Management .....	50
Principal and Selling Shareholders .....	52
Description of Certain Indebtedness .....	54
Shares Eligible for Future Sale .....	56
Certain United States Federal Tax Considerations for Non-United States Holders .....	57
Underwriting .....	59
Legal Matters .....	62
Experts .....	62
Available Information .....	63
Incorporation of Certain Documents by Reference .....	64
Index to Financial Statements .....	F-1

5,750,000 Shares

RAYOVAC(R)

Common Stock

-----  
 P R O S P E C T U S  
 -----

Merrill Lynch International

Bear, Stearns International Limited

Donaldson, Lufkin & Jenrette  
 International

Salomon Smith Barney International

May 28, 1998  
 =====