

FORM 10Q

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

For the quarterly period ended December 28, 1996

OR

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

For the transition period from _____ to _____

Commission File Number 333-17895

Rayovac Corporation

(Exact name of registrant as specified in its charter)

Wisconsin

(State or other jurisdiction of
incorporation or organization)

22-2423556

(I.R.S. Employer
Identification Number)

601 Rayovac Drive, Madison, Wisconsin 53711

(Address of principal executive offices) (Zip Code)

(608) 275-3340

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year,
if changed since last report.)

Indicate by check mark whether the Registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
Registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days.

Yes () No (X)

The number of shares outstanding of the Registrant's common stock, \$.01
par value, as of March 19, 1997, the most recent practicable date, was
20,470,480.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

As of December 28, 1996 and September 30, 1996
(In thousands, except per share amounts)

-ASSETS-

	December 28, 1996 ----- (Unaudited)	September 30, 1996 ----- (Audited)
Current assets:		
Cash and cash equivalents	\$ 4,875	\$ 4,255
Receivables	80,050	66,476
Inventories	50,488	70,121
Prepaid expenses and other	12,166	14,822
	-----	-----
Total current assets	147,579	155,674
Property, plant and equipment, net	68,039	69,397
Deferred charges and other	18,952	20,177
	-----	-----
Total assets	\$234,570 =====	\$245,248 =====

-LIABILITIES AND SHAREHOLDERS' DEFICIT-

Current liabilities:		
Current maturities of long-term debt	\$ 11,019	\$ 8,818
Accounts payable	41,117	46,921
Accrued liabilities:		
Wages and benefits and other	34,593	21,798
Recapitalization and other special charges	11,895	14,942
	-----	-----
Total current liabilities	98,624	92,479
Long-term debt, net of current maturities	203,881	224,845
Employee benefit obligations, net of current portion	12,875	12,138
Other	1,474	1,506
Shareholders' deficit:		
Common stock, \$.01 par value, authorized 90,000 shares; issued 50,000 shares; outstanding 20,470 shares	500	500
Additional paid-in capital	15,970	15,970
Foreign currency translation adjustment	2,745	1,689
Note receivable officer/shareholder	(500)	(500)
Retained earnings	27,523	25,143
	-----	-----
46,238	46,238	42,802
Less treasury stock, at cost, 29,530 shares	(128,522)	(128,522)
	-----	-----
Total shareholders' deficit	(82,284)	(85,720)
	-----	-----
Total liabilities and shareholders' deficit	\$234,570 =====	\$245,248 =====

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

RAYOVAC CORPORATION
Condensed Consolidated Statements of Operations
For the three-month periods ended December 28, 1996 and December 30, 1995
(Unaudited)
(In thousands, except per share amounts)

	1996	1995
	----	----
Net sales	\$130,004	\$129,952
Cost of goods sold	79,019	77,488
	-----	-----
Gross profit	50,985	52,464
Selling	26,762	30,804
General and administrative	7,604	8,680
Research and development	1,910	1,329
Other special charges	2,963	--
	-----	-----
Total operating expenses	39,239	40,813
Income from operations	11,746	11,651
Other expense:		
Interest expense	7,974	2,166
Other expense	14	228
	-----	-----
	7,988	2,394
Income before income taxes	3,758	9,257
Income taxes	1,378	3,198
	-----	-----
Net income	\$ 2,380	\$ 6,059
	=====	=====
Net income per share	\$ 0.12	\$ 0.12
	=====	=====
Average shares outstanding	20,470	49,500
	=====	=====

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

RAYOVAC CORPORATION
Condensed Consolidated Statements of Cash Flows
For the three-month periods ended December 28, 1996 and December 30, 1995
(Unaudited)
(In thousands)

	1996	1995
	-----	-----
Cash flows from operating activities:		
Net income	\$ 2,380	\$ 6,059
Non-cash adjustments to net income:		
Amortization	2,373	17
Depreciation	3,060	3,225
Net changes in other assets and liabilities	12,717	4,899
	-----	-----
Net cash provided by operating activities	20,530	14,200
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,142)	(1,730)
	-----	-----
Net cash used in investing activities	(1,142)	(1,730)
Cash flows from financing activities:		
Reduction of debt	(129,412)	(38,177)
Proceeds from debt financing	110,768	30,081
Distribution from Rayovac International Corporation, a domestic international sales company	--	(3,587)
Other	(119)	(533)
	-----	-----
Net cash used in financing activities	(18,763)	(12,216)
	-----	-----
Effect of exchange rate changes on cash and cash equivalents	(5)	(10)
	-----	-----
Net increase in cash and cash equivalents	1,762	1,974
Cash and cash equivalents, beginning of period	4,255	2,431
	-----	-----
Cash and cash equivalents, end of period	\$ 4,875	\$ 2,675
	=====	=====

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

RAYOVAC CORPORATION

Notes to Condensed Consolidated Financial Statements (Unaudited)

1 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: These financial statements have been prepared by 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 Rayovac Corporation at December 28, 1996, results of operations and cash flows for the three month periods ended December 28, 1996 and December 30, 1995. 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.

The condensed consolidated balance sheet at September 30, 1996 has been derived from the annual audited financial statements. It is suggested that these condensed consolidated financial statements be read in conjunction with the audited financial statements and notes thereto as of September 30, 1996.

2 INVENTORIES

Inventories consist of the following (in thousands):

	Dec. 28, 1996	Sept. 30, 1996
	-----	-----
Raw material	\$16,055	\$21,325
Work-in-process	14,668	19,622
Finished goods	19,765	29,174
	-----	-----
	\$50,488	\$70,121
	=====	=====

3 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 \$1,500,000 for the first five years, beginning in 1993, plus \$500,000 for each year thereafter, as long as the related equipment patents are enforceable (2012). In a March 1994 agreement, the Company committed to pay annual royalties of \$500,000 for five years beginning in 1995. Additionally, the Company has committed to purchase tooling of \$2,345,000 related to this equipment at an unspecified date in the future and \$420,000 of manganese ore 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 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 \$1.8 million, 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.

Item 2. Management's Discussion And Analysis Of Financial Condition And Results
Of Operation

Fiscal Quarter Ended December 28, 1996 Compared to
Fiscal Quarter Ended December 30, 1995

Management's Discussion and Analysis of Financial Condition and Results of Operations, with the exception of historical matters, contains forward-looking statements (such as statements including the terms "believe," "expect," "anticipate," and similar concepts) which involve risks and uncertainties. Actual results may differ materially from these statements as a result of various factors, including those discussed herein.

Net Sales. The net sales of Rayovac Corporation (the "Company") were \$130.0 million in the fiscal quarter ended December 28, 1996 (the "1996 Fiscal Quarter"), or approximately equal to net sales in the fiscal quarter ended December 30, 1995 (the "1995 Fiscal Quarter"). Decreases in sales of general battery products were offset in part by increased sales of battery powered lighting devices and specialty battery products.

Gross Profit. Gross profit decreased \$1.5 million, or 2.9%, to approximately \$51.0 million in the 1996 Fiscal Quarter, from approximately \$52.5 million in the 1995 Fiscal Quarter, primarily as a result of higher marginal manufacturing costs for general battery products caused by decreased sales and production volumes of such products. Gross profit decreased as a percentage of net sales to 39.2% in the 1996 Fiscal Quarter from 40.4% in the 1995 Fiscal Quarter.

Selling Expense. Selling expense decreased \$4.0 million, or 13.0%, to approximately \$26.8 million in the 1996 Fiscal Quarter from approximately \$30.8 million in the 1995 Fiscal Quarter due primarily to decreased advertising expense. Selling expense decreased as a percentage of net sales to 20.6% in the 1996 Fiscal Quarter from 23.7% in the 1995 Fiscal Quarter.

General and Administrative Expense. General and administrative expense decreased \$1.1 million, or 12.6%, to approximately \$7.6 million in the 1996 Fiscal Quarter from approximately \$8.7 million in the 1995 Fiscal Quarter. This decrease occurred as a result of the settlement of a law suit for which the Company had accrued \$0.8 million in the 1995 Fiscal Quarter.

Research and Development Expense. Research and development expense increased \$0.6 million, or 46.2%, to approximately \$1.9 million in the 1996 Fiscal Quarter from approximately \$1.3 million in the 1995 Fiscal Quarter primarily as a result of the assignment of increased development resources to the development of an on-the-label battery tester.

Other Special Charges. In the 1996 Fiscal Quarter, the Company recorded charges of approximately \$3.0 million in connection with an organizational restructuring in the United States and the discontinuation of certain manufacturing operations in the United Kingdom.

Income From Operations. Income from operations in the 1996 Fiscal Quarter of \$11.7 million was approximately the same as income from operations in the 1995 Fiscal Quarter. The Company's lower gross profit and higher special charges in the 1996 Fiscal Quarter were offset by lower operating expenses as discussed above.

Interest Expense. Interest expense in the 1996 Fiscal Quarter increased \$5.8 million to approximately \$8.0 million from approximately \$2.2 million in the 1995 Fiscal Quarter as a result of increased indebtedness incurred in connection with the recent recapitalization of the Company and a write-off of \$2.0 million of unamortized debt issuance costs related to the senior subordinated increasing rate notes of the Company issued in September 1996 (the "Bridge Notes"). Amortization of debt issuance costs in the 1995 Fiscal Quarter was negligible.

Income Before Income Taxes. Income before income taxes decreased \$5.5 million, or 59.1%, to approximately \$3.8 million in the 1996 Fiscal Quarter from approximately \$9.3 million in the 1995 Fiscal Quarter primarily as a result of the increased interest expense and amortization of debt issuance costs discussed above.

Net Income. Net income decreased \$3.7 million, or 60.7%, to approximately \$2.4 million in the 1996 Fiscal Quarter from approximately \$6.1 million in the 1995 Fiscal Quarter primarily as a result of the increased interest expense and amortization of debt issuance costs discussed above. The Company's effective tax rate for the 1996 Fiscal Quarter increased 2.2 percentage points to 36.7% in the 1996 Fiscal Quarter from 34.5% in the 1995 Fiscal Quarter due primarily to the termination of Rayovac International Corporation, a domestic international sales corporation.

Liquidity and Capital Resources

During the 1996 Fiscal Quarter, net cash provided by operating activities increased \$6.3 million to approximately \$20.5 million from approximately \$14.2 million in the 1995 Fiscal Quarter primarily as a result of increased inventory reductions during the holiday season.

Capital expenditures during the 1996 Fiscal Quarter were \$1.1 million, reflecting maintenance level spending, which allowed the Company to use the majority of cash provided by operating activities to reduce borrowings under its revolving credit facility.

On October 22, 1996, the Company issued \$100.0 million aggregate principal amount of its 10-1/4% Senior Subordinated Notes due 2006 (the "Notes"), the proceeds of which were used to repay the Bridge Notes. On March 11, 1997, the Company consummated an offer to exchange its registered 10-1/4% Series B Senior Subordinated Notes due 2006 for the Notes.

The Company expects that capital expenditures for the remainder of fiscal 1997 will be consistent with historical levels. 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. The Company's current credit facilities include a revolving credit facility of \$65.0 million of which approximately \$2.6 million was borrowed at December 28, 1996, and approximately \$.8 million was utilized for outstanding letters of credit.

The Company entered into an interest rate swap agreement with a notional amount of \$62.5 million, effective October 9, 1996. The agreement terminates on October 12, 1999, and fixes the rate on such notional amount at 6.16%. The floating rate for the initial period was approximately 5.5%. During the 1996 Fiscal Quarter the Company incurred approximately \$.1 million of interest expense in connection with this agreement.

Impact of Recently Issued Accounting Standards

In October 1996, the American Institute of Certified Public Accountants issued Statement of Position 96-1, "Environmental Remediation Liabilities" (the "Statement"),

effective for fiscal years beginning after December 15, 1996. The Statement provides additional guidance on the measurement and accounting for the costs associated with environmental remediation. Adoption of the accounting standard is not expected to have a material effect on the Company's financial position.

In February 1997, the Financial Accounting Standards Board issued 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.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit -----	Description -----
3.1	Restated Articles of Incorporation of the Company*
3.2	Restated By-Laws of the Company*
4.1	Indenture, dated as of October 22, 1996, by and among the Company, ROV Holding, Inc. and Marine Midland Bank, as trustee, relating to the Company's 10-1/4% Senior Subordinated Notes due 2006.*
4.2	Registration Rights Agreement, dated as of October 17, 1996, by and among the Company, Donaldson, Lufkin & Jenrette Securities Corporation and BA Securities, Inc.*
4.3	Specimen of the Notes (included as an exhibit to Exhibit 4.1).
4.4	Credit Agreement, dated as of September 12, 1996 by and among the Company, the lenders party thereto, Bank of America National Trust and Savings Association ("BoFA") and DLJ Capital Funding, Inc. (the "Credit Agreement").*

- 4.5 Amendment No. 1 to the Credit Agreement dated as of October 23, 1996.*
- 4.6 The Security Agreement dated as of September 12, 1996 by and among the Company, ROV Holding, Inc. and BofA.*
- 4.7 The Company Pledge Agreement dated as of September 12, 1996 by and between the Company and BofA.*
- 27 Financial Data Schedule

* Incorporated by reference from Amendment No. 3 to the Company's Registration Statement on Form S-1 (Registration No. 333-17895) filed with the Securities and Exchange Commission on February 7, 1997.

(b) Reports on Form 8-K. The Company did not file any reports on Form 8-K during the 1996 Fiscal Quarter.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: March 19, 1997

RAYOVAC CORPORATION

By /s/ Kent J. Hussey

Kent J. Hussey
Chief Financial Officer

By /s/ James A. Broderick

James A. Broderick
Vice President

3-MOS

DEC-28-1996

DEC-28-1996

\$4,875

0

80,865

815

50,488

147,579

145,755

77,716

234,570

98,624

214,900

0

0

500

(82,784)

(234,570)

130,004

130,004

0

79,019

39,166

87

7,974

3,758

1,378

2,380

0

0

0

\$2,380

\$0.12

0