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RAYOVAC CORP  
Form 10-Q  
February 13, 2002

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10Q

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

For the quarterly period ended December 30, 2001

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 001-13615

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Rayovac Corporation

-----  
(Exact name of registrant as specified in its charter)

Wisconsin

22-2423556

-----  
(State or other jurisdiction of  
incorporation or organization)

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

601 Rayovac Drive, Madison, Wisconsin 53711

-----  
(Address of principal executive offices) (Zip Code)

(608) 275-3340

-----  
(Registrant's telephone number, including area code)

Not Applicable

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(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

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Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes (X) No ( )

The number of shares outstanding of the Registrant's common stock, \$.01 par value, as of February 8, 2002, was 32,019,100.

### PART I. FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

RAYOVAC CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
December 30, 2001 and September 30, 2001  
(Unaudited)  
(In thousands)

-ASSETS-

	DECEMBER 30, 2001	SEPTEMBER 30, 2001
Current assets:		
Cash and cash equivalents	\$ 18,788	\$ 11,358
Receivables	167,157	190,128
Inventories	82,981	91,311
Prepaid expenses and other	39,629	31,674
	308,555	324,471
Property, plant and equipment, net	106,485	107,257
Deferred charges and other, net	38,975	37,080
Intangible assets, net	118,910	119,074
	\$ 572,925	\$ 587,882
	\$ 572,925	\$ 587,882

-LIABILITIES AND SHAREHOLDERS' EQUITY-

Current liabilities:		
Current maturities of long-term debt	\$ 22,297	\$ 24,436
Accounts payable	91,465	103,373
Accrued liabilities:		
Wages and benefits and other	38,927	32,232
Other special charges	4,005	5,883
	156,694	165,924
Long-term debt, net of current maturities	223,753	233,541
Employee benefit obligations, net of current portion	20,708	19,648
Other	12,175	11,184
	413,330	430,297
Total liabilities	413,330	430,297

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Shareholders' equity:		
Common stock, \$.01 par value, authorized 150,000 shares; issued 61,555 and 61,579 shares, respectively; outstanding 32,019 and 32,043 shares, respectively	616	616
Additional paid-in capital	180,346	180,752
Retained earnings	120,386	119,984
Accumulated other comprehensive loss	(5,290)	(6,868)
Notes receivable from officers/shareholders	(3,865)	(3,665)
	-----	-----
	292,193	290,819
Less Treasury stock, at cost, 29,536 shares	(130,070)	(130,070)
Less: Unearned restricted stock compensation	(2,528)	(3,164)
	-----	-----
Total shareholders' equity	159,595	157,585
	-----	-----
Total liabilities and shareholders' equity	\$ 572,925	\$ 587,882
	=====	=====

SEE ACCOMPANYING NOTES WHICH ARE AN INTEGRAL PART OF THESE STATEMENTS.

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RAYOVAC CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
For the three month period ended December 30, 2001 and December 31, 2000  
(Unaudited)  
(In thousands)

	THREE MONTHS	
	2002	2001
	-----	-----
Net sales	\$ 182,351	\$ 183,559
Cost of goods sold	93,601	91,506
Special charges	-	16,030
	-----	-----
Gross profit	88,750	76,023
Selling	53,159	53,957
General and administrative	28,833	12,423
Research and development	3,218	3,015
	-----	-----
Total operating expenses	85,210	69,395
Income from operations	3,540	6,628
Interest expense	4,169	8,192
Other (income) expense, net	(782)	952
	-----	-----
Income (loss) before income taxes	153	(2,516)

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Income tax benefit	(249)	(750)
	-----	-----
Net income (loss)	\$ 402	\$ (1,766)
	=====	=====
BASIC EARNINGS PER SHARE		
Weighted average shares and equivalents outstanding	31,780	27,574
Net income (loss)	\$ 0.01	\$ (0.06)
	=====	=====
DILUTED EARNINGS PER SHARE		
Weighted average shares and equivalents outstanding	32,412	27,574
Net income (loss)	\$ 0.01	\$ (0.06)
	=====	=====

SEE ACCOMPANYING NOTES WHICH ARE AN INTEGRAL PART OF THESE STATEMENTS.

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RAYOVAC CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the three month period ended December 30, 2001 and December 31, 2000  
(Unaudited)  
(In thousands)

	THREE MONTHS	
	2002	2001
	-----	-----
Cash flows from operating activities:		
Net income (loss)	\$ 402	\$ (1,766)
Non-cash adjustments to net income:		
Amortization	539	1,457
Depreciation	4,832	4,526
Other non-cash adjustments	(4,852)	1,810
Net changes in assets and liabilities	23,245	6,467
	-----	-----
Net cash provided by operating activities	24,166	12,494
Cash flows from investing activities:		
Purchases of property, plant and equipment	(3,862)	(1,496)
	-----	-----
Net cash used by investing activities	(3,862)	(1,496)
Cash flows from financing activities:		
Reduction of debt	(72,656)	(117,600)
Proceeds from debt financing	60,500	108,687
Issuance of common stock	7	0
Other	(341)	(560)
	-----	-----
Net cash used by financing activities	(12,490)	(9,473)

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Effect of exchange rate changes on cash and cash equivalents	(384)	10
	-----	-----
Net increase in cash and cash equivalents	7,430	1,535
Cash and cash equivalents, beginning of period	11,358	9,757
	-----	-----
Cash and cash equivalents, end of period	\$ 18,788	\$ 11,292
	=====	=====

SEE ACCOMPANYING NOTES WHICH ARE AN INTEGRAL PART OF THESE STATEMENTS.

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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 (which are normal and recurring in nature) necessary to present fairly the financial position of the Company at December 30, 2001, results of operations and cash flows for the three month periods ended December 30, 2001, and December 31, 2000. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America 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, 2001. Certain prior year amounts have been reclassified to conform with the current year presentation.

**SHIPPING AND HANDLING COSTS:** The Company incurred shipping and handling costs of \$6,996 and \$7,319 for the three months ended December 30, 2001 and December 31, 2000, respectively, which are included in selling expense.

**CONCENTRATION OF CREDIT RISK:** Trade receivables potentially subject the Company to credit risk. The Company extends credit to its customers based upon an evaluation of the customer's financial condition and credit history and generally does not require collateral. The Company monitors our customer's credit and financial conditions based on changing economic conditions and will make adjustments to credit policies as required. The Company has historically incurred minimal credit losses but recently experienced a significant loss resulting from the bankruptcy filing of a major retailer in the United States.

The Company has a broad range of customers including many large retail outlet chains, one of which accounts for a significant percentage of our sales volume. This major customer represented approximately 18% and 17%, respectively, of receivables as of December 30, 2001 and September 30, 2001.

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Approximately 25% of the Company's sales occur outside of North America, and these sales and related receivables are subject to varying degrees of credit, currency, political and economic risk. The Company monitors these risks and makes appropriate provisions for collectability based on an assessment of the risks present. The Argentine Peso devaluation did not have a significant impact on the Company's estimate of collectability or financial position.

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS: Effective October 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) 141, BUSINESS COMBINATIONS, and SFAS 142, GOODWILL AND OTHER INTANGIBLE ASSETS.

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

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An identification of the impacts to date of adopting Statements 141 and 142 follows:

	THREE MONTHS ENDING	
	DECEMBER 30, 2001	DECEMBER 31, 2000
Reported net income (loss).....	\$402	(\$1,000)
Add back: Goodwill amortization, net of tax of \$0.....	--	--
Add back: Trade name amortization, net of tax of \$214.....	--	--
	-----	-----
Adjusted net income (loss).....	\$402	(\$1,000)
	=====	=====
 BASIC EARNINGS PER SHARE: -----		
Reported net income (loss).....	\$0.01	(\$0.03)
Goodwill amortization.....	--	--
Trade name amortization.....	--	--
	-----	-----
Adjusted net income (loss).....	\$0.01	(\$0.03)
	=====	=====
 DILUTED EARNINGS PER SHARE: -----		
Reported net income (loss).....	\$0.01	(\$0.03)
Goodwill amortization.....	--	--

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Trade name amortization.....	--	
	----	
Adjusted net income (loss).....	\$0.01	
	=====	

### DERIVATIVE FINANCIAL INSTRUMENTS:

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

The Company uses interest rate swaps to manage its interest rate risk. The swaps are designated as cash flow hedges with the fair value recorded in Other Comprehensive Income ("OCI") and as a hedge asset or liability, as applicable. The swaps settle periodically in arrears with the related amounts for the current settlement period payable to, or receivable from, the counter-parties included in accrued liabilities or accounts receivable and recognized in earnings as an adjustment to interest expense from the underlying debt to which the swap is designated. During the three months ended December 30, 2001, \$1,075 of pretax derivative losses from such hedges were recorded as an adjustment to interest expense. At December 30, 2001, the Company had a portfolio of interest rate swaps outstanding which effectively fixes the interest rates on floating rate debt at rates as follows: 6.404% for a notional principal amount of \$75,000 through October 2002, 4.458% for a notional principal amount of \$70,000 from October 2002 through July 2004 and 3.736% for a notional principal amount of \$100,000 through August 2004. The derivative net losses on these contracts recorded in OCI at December 30, 2001 was an after-tax loss of \$861.

The Company enters into forward and swap foreign exchange contracts, to hedge the risk from forecasted settlement in local currencies of intercompany purchases and sales, trade sales, and trade purchases. These contracts generally require the Company to exchange foreign currencies for U.S. dollars or Pounds Sterling. These contracts are designated as cash flow hedges with the fair value recorded in OCI and as a hedge asset or liability, as applicable. Once the forecasted transaction has been recognized as a purchase or sale and a related liability or asset recorded in the balance sheet, the gain or loss on the related derivative hedge contract is reclassified from OCI into earnings as an offset to the change in value of the liability or asset. During the three months ended December 30, 2001, \$17 of pretax derivative losses were recorded as an adjustment to earnings for cash flow hedges related to an asset or liability. During the three months ended December 30, 2001, \$57 of pretax derivative gains were recorded as an adjustment to earnings for forward and swap contracts settled at maturity. At December 30, 2001, the Company had a series of swap contracts outstanding with a contract value of \$987. The derivative net gain on these contracts recorded in OCI at December 30, 2001 was an after-tax gain of \$23.

The Company periodically enters into forward foreign exchange contracts, to hedge the risk from changes in fair value from unrecognized firm purchase commitments. These firm purchase commitments generally require the Company

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to exchange U.S. dollars for foreign currencies. These hedge contracts are designated as fair value hedges with the fair value recorded in earnings on a pretax basis and as a hedge asset or liability, as applicable. To the extent effective, changes in the value of the forward contracts recorded in earnings will be offset by changes in the value of the hedged item, also recorded in earnings on a pretax basis and as an asset or liability, as applicable. Once the firm purchase commitment has been consummated, the firm commitment asset or liability balance will be reclassified as an addition to or subtraction from, the carrying value of the purchased asset. The Company previously entered into a series of forward contracts through October 2001 to hedge the exposure from a firm commitment to purchase certain battery manufacturing equipment denominated in Japanese Yen. During the three months ended December 30, 2001, \$63 of pretax derivative gains were recorded as an adjustment to earnings for fair value hedges of this firm purchase commitment and \$63 of pretax losses were recorded as an adjustment to earnings for changes in fair value of this firm purchase commitment. During the three months ended December 30, 2001 \$78 of pretax derivative losses were recorded as an adjustment to earnings for fair value hedges of this firm purchase commitment that were settled at maturity and \$78 of pretax gains were recorded as an adjustment to earnings for payments made against this firm purchase commitment.

The Company is exposed to risk from fluctuating prices for zinc used in the manufacturing process. The Company hedges a portion of this risk through the use of commodity swaps. The swaps are designated as cash flow hedges with the fair value recorded in OCI and as a hedge asset or liability, as applicable. The fair value of the swaps is reclassified from OCI into earnings when the hedged purchase of zinc metal-based items also affects earnings. The swaps effectively fix the floating price on a specified quantity of a commodity through a specified date. During the three months ended December 30, 2001, \$877 of pretax derivative losses were recorded as an adjustment to cost of sales for swap contracts settled at maturity. At December 30, 2001, the Company had a series of swap contracts outstanding through August 2003 with a contract value of \$10,661. The derivative net losses on these contracts recorded in OCI at December 30, 2001 was an after-tax loss of \$957.

### 2 INVENTORIES

Inventories consist of the following:

	DECEMBER 30, 2001	SEPTEMBER
	-----	-----
Raw material.....	\$24,101	\$24
Work-in-process.....	17,643	14
Finished goods.....	41,237	53
	-----	--
	\$82,981	\$91
	=====	===

### 3 ACQUIRED INTANGIBLE ASSETS AND GOODWILL

	DECEMBER 30, 2001	SE
	-----	--



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AMORTIZED INTANGIBLE ASSETS	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET INTANGIBLE	GROSS CARRYING AMOUNT
-----	-----	-----	-----	-----
Non-compete agreement.....	\$700	\$525	\$175	\$700
Proprietary technology.....	525	283	242	525
	-----	-----	-----	-----
	\$1,225	\$808	\$ 417	\$1,225
	=====	=====	=====	=====
 PENSION INTANGIBLES				
-----				
Under-funded pension.....	\$ 3,081	\$ -	\$ 3,081	\$ 3,081
	=====	=====	=====	=====
 UNAMORTIZED INTANGIBLE ASSETS				
Trade name.....	\$90,000	\$4,875	\$85,125	\$90,000
	=====	=====	=====	=====

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GOODWILL	NORTH AMERICA	LATIN AMERICA	EUROPE/ROW
-----	-----	-----	-----
Balance as of October 1, 2001, net.....	\$1,035	\$26,884	\$2,489
Effect of translation.....	(23)	--	(98)
	-----	-----	-----
Balance as of December 30, 2001, net.....	\$1,012	\$26,884	\$2,391
	=====	=====	=====

The non-compete agreement is being amortized on a straight-line basis over 5 years. The proprietary technology assets are being amortized on a straight-line basis over 15 to 17 years.

The trade name and Latin America segment goodwill are associated with the 1999 acquisition of ROV Limited and were being amortized on a straight-line basis over 40 years. The North America segment goodwill is associated with the 1998 acquisition of Best Labs and was being amortized on a straight-line basis over 15 years. The Europe/ROW segment goodwill is associated with the 1998 acquisition of Brisco GmbH in Germany and was being amortized on a straight-line basis over 15 years.

Pursuant to Statement 142, the Company ceased amortizing goodwill assets on October 1, 2001. Upon initial application of Statement 142, the Company reassessed the useful lives of its intangible assets and deemed only the trade name to have an indefinite useful life because it is expected to generate cash flows indefinitely. Based on this, the Company ceased amortizing the trade name on October 1, 2001 also.

The amortization expense and net income for the three months ended is as follows:

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	THREE MONTHS ENDING	
	-----	-----
	DECEMBER 30, 2001	DECEMBER 31, 2000
	-----	-----
AMORTIZATION EXPENSE		
-----		
Goodwill amortization.....	\$--	\$278
Trade name amortization.....	--	563
Non-compete and proprietary technology.....	43	43
	-----	-----
	\$43	\$884
	=====	=====
Net income (loss).....	\$402	(\$1,766)
	=====	=====

4 OTHER COMPREHENSIVE INCOME

Comprehensive income and the components of other comprehensive income for the three months ended December 30, 2001 and December 31, 2000 are as follows:

	THREE MONTHS ENDING	
	-----	-----
	DECEMBER 30, 2001	DECEMBER 31, 2000
	-----	-----
Net income (loss).....	\$402	(\$1,766)
Other comprehensive income (loss):		
Foreign currency translation.....	380	307
Net unrealized loss on available for sale securities.....	(99)	--
Cumulative effect of change in accounting principle	--	(150)
Net unrealized gain (loss) on derivative instruments.....	1,297	(711)
	-----	-----
Comprehensive income (loss).....	\$1,980	(\$2,320)
	=====	=====

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5 NET INCOME PER COMMON SHARE

Net income per common share for the three months ended December 30, 2001 and December 31, 2000 is calculated based upon the following shares:

THREE MONTHS ENDING  
-----

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	DECEMBER 30, 2001 -----	DECEMBER 31, 2000 -----
Basic.....	31,780	27,574
Effect of restricted stock and assumed conversion of options .....	632	--
	-----	-----
Diluted.....	32,412	27,574
	=====	=====

The effect of restricted stock and unexercised stock options outstanding for the three month period ending December 31, 2000 were excluded from the diluted EPS calculation, as their effect was anti-dilutive.

6 COMMITMENTS AND CONTINGENCIES

In March 1998, the Company entered into an agreement to purchase certain equipment and to pay annual royalties. In connection with this 1998 agreement, which supersedes previous agreements dated December 1991, and March 1994, the Company committed to pay royalties of \$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). The Company incurred royalty expenses of \$2,000 for 1999, \$2,250 for 2000 and \$3,000 for 2001. At December 30, 2001, the Company had commitments of approximately \$1,042 for the acquisition of inventory and manufacturing equipment, all of which are expected to be incurred in calendar 2002.

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 \$1,759, 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.

7 OTHER

During Fiscal 2001, the Company recorded special charges related to: (i) an organizational restructuring in the U.S, (ii) manufacturing and distribution cost rationalization initiatives in the Company's Tegucigalpa, Honduras and Mexico City, Mexico manufacturing facilities and in the Company's European operations, (iii) the closure of the Company's Wonewoc, Wisconsin, manufacturing facility, (iv) the rationalization of uneconomic manufacturing processes at the Company's Fennimore, Wisconsin, manufacturing facility, and rationalization of packaging operations and product lines, and (v) costs associated with the Company's June 2001 secondary offering. The amount recorded includes \$10,100 of employee termination benefits for approximately

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570 employees, \$10,200 of equipment, inventory, and other asset write-offs, and \$2,000 of other expenses. A summary of the 2001 restructuring activities follows:

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### 2001 RESTRUCTURING SUMMARY

	TERMINATION BENEFITS	OTHER COSTS	TOT
	-----	-----	-----
Expense accrued.....	\$5,000	\$11,000	\$16,0
Change in estimate.....	4,400	100	4,5
Expense as incurred.....	700	1,100	1,8
Cash expenditures.....	(5,800)	(1,300)	(7,1
Non-cash charges.....	--	(9,300)	(9,3
	-----	-----	-----
Balance September 30, 2001.....	\$4,300	\$1,600	\$5,9
Cash expenditures.....	(1,300)	(100)	(1,4
Non-cash charges.....	--	(100)	(1
	-----	-----	-----
Balance December 30, 2001.....	\$3,000	\$1,400	\$4,4
	=====	=====	=====

#### 8 SEGMENT INFORMATION

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

The Company manufactures and markets dry cell batteries including alkaline, zinc carbon, alkaline rechargeable, hearing aid, and other specialty batteries and lighting products throughout the world.

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

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

The reportable segment assets do not include cash, deferred tax benefits, investments, long-term intercompany receivables, most deferred charges, and miscellaneous assets. Capital expenditures are related to reportable segments or corporate. Variable allocations of assets are not made for

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segment reporting.

### REVENUES FROM EXTERNAL CUSTOMERS

	THREE MONTH PERIODS ENDED	
	DECEMBER 30, 2001	DECEMBER 31, 2000
North America.....	\$142,244	\$136,869
Latin America.....	26,396	33,806
Europe/ROW.....	13,711	12,884
	-----	-----
Total segments.....	\$182,351	\$183,559
	=====	=====

### INTER SEGMENT REVENUES

	THREE MONTH PERIODS ENDED	
	DECEMBER 30, 2001	DECEMBER 31, 2000
North America.....	\$10,177	\$8,212
Latin America.....	1,777	1,418
Europe/ROW.....	442	599
	-----	---
Total segments.....	\$12,396	\$10,229
	=====	=====

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### SEGMENT PROFIT

	THREE MONTH PERIODS ENDED	
	DECEMBER 30, 2001	DECEMBER 31, 2000
North America.....	\$7,355	\$22,427
Latin America.....	3,642	6,909
Europe/ROW.....	1,144	175
	-----	---
Total segments.....	12,141	29,511
Corporate.....	8,601	6,853
Special charges.....	--	16,030
Interest expense.....	4,169	8,192
Other (income) expense, net.....	(782)	952
	-----	---
Income (loss) before income taxes and extraordinary item.....	\$153	(\$2,516)

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SEGMENT ASSETS	THREE MONTH PERIODS ENDED	
	DECEMBER 30, 2001	DECEMBER 31, 2000
North America.....	\$272,300	\$259,926
Latin America.....	212,265	208,730
Europe/ROW.....	32,432	31,413
Total segments.....	\$516,997	\$500,069
Corporate.....	55,928	51,150
Total assets at period end.....	\$572,925	\$551,219

9 GUARANTOR SUBSIDIARIES (ROV HOLDING, INC. AND ROVCAL, INC.)

The following condensed consolidating financial data illustrate the composition of the consolidated financial statements. Investments in subsidiaries are accounted for by the Company and the Guarantor Subsidiaries 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 Subsidiaries are not presented because management has determined that such financial statements would not be material to investors.

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RAYOVAC CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATING BALANCE SHEET  
 As of December 30, 2001  
 (Unaudited)  
 (In thousands)

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	E
-ASSETS-				
Current assets:				
Cash and cash equivalents	\$ 11,759	\$ 44	\$ 6,985	\$
Receivables	64,416	51,985	72,171	
Inventories	58,633	-	27,157	
Prepaid expenses and other	29,291	342	9,996	

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Total current assets	164,099	52,372	116,309
Property, plant and equipment, net	77,956	30	28,499
Deferred charges and other, net	58,353	631	3,023
Intangible assets, net	89,823	-	29,275
Investments in subsidiaries	151,075	98,397	-
Total assets	\$541,306	\$151,429	\$177,106
-LIABILITIES AND SHAREHOLDERS' EQUITY-			
Current liabilities:			
Current maturities of long-term debt	18,446	\$ -	\$ 11,290
Accounts payable	79,610	-	26,028
Accrued liabilities:			
Wages benefits and other	28,300	113	10,514
Other special charges	3,934	-	71
Total current liabilities	130,290	113	47,903
Long term debt, net of current maturities	223,741	-	23,044
Employee benefit obligations, net of current portion	20,192	-	516
Other	4,439	241	7,495
Total liabilities	378,662	354	78,958
Shareholders' equity:			
Common stock	615	1	12,072
Additional paid-in capital	180,227	62,788	54,154
Retained earnings	123,590	90,117	33,448
Accumulated other comprehensive loss	(5,325)	(1,831)	(1,526)
Notes receivable from officers/shareholders	(3,865)	-	-
	295,242	151,075	98,148
Less treasury stock, at cost	(130,070)	-	-
Less unearned restricted stock compensation	(2,528)	-	-
Total shareholders' equity	162,644	151,075	98,148
Total liabilities & shareholders' equity	\$541,306	\$151,429	\$177,106

RAYOVAC CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
For the three month period Ended December 30, 2001  
(In thousands)

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	PARENT	SUBSIDIARIES	SUBSIDIARIES	ELIMINATIONS	
	-----	-----	-----	-----	-----
Net sales	\$140,760	\$ 11,381	\$ 46,486	\$ (16,276)	\$
Cost of goods sold	68,408	11,039	29,220	(15,066)	
Special charges	81	-	(81)	-	
	-----	-----	-----	-----	-----
Gross profit	72,271	342	17,347	(1,210)	
Selling expense	43,564	162	9,728	(295)	
General and administrative	27,924	(2,932)	3,841	-	
Research and development	3,218	-	-	-	
	-----	-----	-----	-----	-----
Total operating expenses	74,706	(2,770)	13,569	(295)	
(Loss) income from operations	(2,435)	3,112	3,778	(915)	
Interest expense	4,004	-	704	(539)	
Equity income	(5,966)	(2,610)	-	8,576	
Other income, net	(836)	(357)	(378)	789	
	-----	-----	-----	-----	-----
Income before income taxes	363	6,079	3,452	(9,741)	
Income tax (benefit) expense	(1,204)	113	842	-	
	-----	-----	-----	-----	-----
Net Income	\$ 1,567	\$ 5,966	\$ 2,610	\$ (9,741)	
	=====	=====	=====	=====	=====

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RAYOVAC CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS  
For the three month period Ended December 30, 2001  
(Unaudited)  
(In thousands)

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES
	-----	-----	-----
Net cash provided (used) by operating activities	\$26,489	\$ (2)	\$ (2,447)
Cash flows from investing activities:			
Purchases of property, plant and equipment	(3,451)	-	(411)
	-----	-----	-----
Net cash used by investing activities	(3,451)	-	(411)
Cash flows from financing activities:			
Reduction of debt	(74,334)	-	1,678
Proceeds from debt financing	60,500	-	-
Issuance of stock	7	-	-



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Other	(301)		(291)
	-----	-----	-----
Net cash (used) provided by financing activities	(14,128)	-	1,387
Effect of exchange rate changes on cash and cash equivalents	-	-	(7)
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	8,910	(2)	(1,478)
Cash and cash equivalents, beginning of period	2,849	46	8,463
	-----	-----	-----
Cash and cash equivalents, end of period	\$11,759	\$ 44	\$ 6,985
	=====	=====	=====

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ITEM 2. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FISCAL QUARTER ENDED DECEMBER 30, 2001 COMPARED TO FISCAL QUARTER ENDED DECEMBER 31, 2000

NET SALES. Net sales for the three months ended December 30, 2001 (the "Fiscal 2002 Quarter") decreased \$1.2 million, or 0.7%, to \$182.4 million from \$183.6 million in the three months ended December 31, 2000 (the "Fiscal 2001 Quarter"). The sales decline reflects continued economic weakness in the Latin America region, partially offset by gains due primarily to product line extension in North America.

NET INCOME. Net income for the Fiscal 2002 Quarter increased \$2.2 million to \$0.4 million from a (\$1.8) million loss in the Fiscal 2001 Quarter. The increase primarily reflects a reduction in interest expense primarily attributable to the retirement of \$65.0 million in Senior Subordinated Notes following the June 2001 stock offering. A bad debt reserve of \$10.0 million, net of tax, related to the bankruptcy filing of a major customer was recognized in the Fiscal 2002 Quarter, while the Fiscal 2001 Quarter's results reflected a special charge reserve of \$10.5 million, net of tax.

SEGMENT RESULTS. The Company manages operations in three reportable segments based upon geographic area. North America includes the United States and Canada; Latin America includes Mexico, Central America, and South America; Europe/ROW includes the United Kingdom, Europe and all other countries in which the company does business. We evaluate segment profitability based on income from operations before corporate expense which includes corporate purchasing expense, general and administrative expense and research and development expense.

NORTH AMERICA	FISCAL QUARTER	
	2002	2001
	----	----
Revenue from external customers.....	\$142.3	\$136.9
Profitability.....	7.4	22.4
Profitability as a % of net sales.....	5.2%	16.4%

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Assets..... \$272.3 \$259.9

Our sales to external customers increased \$5.4 million, or 3.9%, to \$142.3 million in the Fiscal 2002 Quarter from \$136.9 million the previous year due primarily to strong sales of alkaline batteries and lighting products partially offset by weakness in heavy duty and specialty batteries. Alkaline sales increases were primarily attributable to new distribution, while lighting products increases were primarily attributable to product line extension and the introduction of new products. Heavy duty sales decreases reflect a discontinuation of certain products at certain stores of a major retailer. Specialty batteries sales decreases versus last year primarily reflect a decline in camcorder battery sales, due to the transition to a licensing agreement with our Hong Kong licensee, as well as a reduction of lithium battery sales due to continued softness in demand from OEM customers in the PC, telecommunications and electronics industries.

Our profitability decreased \$15.0 million, or 67.0%, to \$7.4 million in the Fiscal 2002 Quarter from \$22.4 million in the Fiscal 2001 Quarter. The decrease in profitability in the Fiscal 2002 Quarter was attributable to a \$16.1 million bad debt reserve attributable to the bankruptcy filing of a major customer. Excluding the impact of this reserve, profitability increased \$1.1 million, or 4.9%, versus the previous year's quarter due to the sales expansion partially offset by higher marketing and selling expenses. Our profitability margins, excluding the bad debt reserve, increased 10 basis points to 16.5% from 16.4% in the previous year. The increase primarily reflects lower operating expenses as a percentage of sales partially offset by a reduction in gross profit margins reflecting a shift in customer mix.

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Our assets increased \$12.4 million, or 4.8%, to \$272.3 million in the Fiscal 2002 Quarter from \$259.9 million the previous year. The increase was primarily attributable to capital investments in alkaline manufacturing capacity and an increase in accounts receivable partially offset by lower inventories.

	FISCAL QUARTER	
LATIN AMERICA	2002	2001
	----	----
Revenue from external customers.....	\$26.4	\$33.8
Profitability.....	3.6	6.9
Profitability as a % of net sales.....	13.6%	20.4%
Assets.....	\$212.3	\$208.7

Our sales to external customers decreased \$7.4 million, or 21.9% to \$26.4 million in the Fiscal 2002 Quarter from \$33.8 million the previous year due primarily to decreased sales of zinc carbon batteries slightly offset by increased sales of alkaline batteries. Zinc carbon battery sales were affected by the slowing economic environment and the unfavorable impacts of currency devaluation. Alkaline sales increases in the Fiscal 2002 Quarter were driven by growth in Central America and Andean regions reflecting volume increases with our existing customer base.

Our profitability declined \$3.3 million, or 47.8%, in the Fiscal 2002 Quarter. The decrease in profitability versus the Fiscal 2001 Quarter was primarily attributable to the sales and gross profit margin decline, partially offset by a reduction in operating expenses primarily reflecting the adoption of SFAS 142 which resulted in a reduction of amortization expense. The Argentine

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Peso devaluation did not have a significant impact on the operating results for the Fiscal 2002 Quarter.

Our profitability margins in the Fiscal 2002 Quarter decreased 680 basis points primarily due to unfavorable product line mix compounded by our relatively fixed operating expenses spread over lower sales.

Our assets increased \$3.6 million, or 1.7%, to \$212.3 million in the Fiscal 2002 Quarter from \$208.7 million the previous year. Increases in accounts receivable, reflecting longer terms associated with distribution at larger retail accounts and general economic weakness, were partially offset by decreases in inventory in Mexico and decreased property, plant & equipment reflecting the sale of our Honduras manufacturing facility.

EUROPE/ROW	FISCAL QUARTER	
	2002	2001
	----	----
Revenue from external customers.....	\$13.7	\$12.9
Profitability.....	1.1	0.2
Profitability as a % of net sales.....	8.0%	1.6%
Assets.....	\$32.4	\$31.4

Our sales to external customers increased \$0.8 million, or 6.2%, to \$13.7 million in the Fiscal 2002 Quarter from \$12.9 million the previous year primarily reflecting strong sales of hearing aid batteries compounded by the favorable impacts of currency valuation.

Our profitability increased \$0.9 million to \$1.1 million in the Fiscal 2002 Quarter. The increase in profitability in the Fiscal 2002 Quarter primarily reflects lower selling expenses reflecting a favorable shift in customer mix and lower promotional expenses. Our profitability margin increase, as a percentage of sales, in the Fiscal 2002 Quarter is primarily driven by our favorable selling expenses.

Our assets increased \$1.0 million, or 3.2%, to \$32.4 million from \$31.4 million the previous year due primarily to an increase in accounts receivable, primarily reflecting the sales increase partially offset by a decrease in inventory.

**CORPORATE EXPENSE.** Our corporate expense increased \$1.7 million, or 24.6%, to \$8.6 million in the Fiscal 2002 Quarter from \$6.9 million in the Fiscal 2001 Quarter. The increase was primarily attributable to the accrual of management incentives, which were unearned in the previous year, and increased technology spending. As a

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percentage of total sales, our corporate expense was 4.7% and 3.8% in the Fiscal 2002 and Fiscal 2001 Quarters, respectively.

**SPECIAL CHARGES.** The Company did not incur special charges in the Fiscal 2002 Quarter. The Fiscal 2001 Quarter reflects \$16.0 million in special charges primarily associated with expenses for the shutdown of our Wonewoc, Wisconsin, manufacturing facility and restructuring initiatives in Latin America and North America.

**INCOME FROM OPERATIONS.** Our income from operations decreased \$3.1 million, or 47.0%, to \$3.5 million in the Fiscal 2002 Quarter from \$6.6 million

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the previous year. The decrease was primarily attributable to the profitability decline in Latin America. A bad debt reserve of \$16.1 million associated with the bankruptcy filing of a major customer was recognized in the Fiscal 2002 Quarter, while the Fiscal 2001 Quarter's results reflected a special charge reserve of \$16.0 million.

**INTEREST EXPENSE.** Interest expense decreased \$4.0 million to \$4.2 million in the Fiscal 2002 Quarter from \$8.2 million in the Fiscal 2001 Quarter due to the retirement of \$65.0 million in Senior Subordinated Notes following the June 2001 stock offering combined with lower effective interest rates.

**OTHER (INCOME) EXPENSE.** Other (income) expense increased \$1.7 million to income of (\$0.8) million in the Fiscal 2002 Quarter. The increase in the Fiscal 2002 Quarter was attributable to foreign exchange gains versus significant foreign exchange losses in the previous year, primarily attributable to Mexico, in addition to higher interest income.

**INCOME TAX EXPENSE.** Our effective tax rate, excluding the tax benefit associated with the increased bad debt reserve, was 36.0% for the Fiscal 2002 Quarter, compared to 29.8% in the Fiscal 2001 Quarter. Excluding the impact of special charges, the comparable Fiscal 2001 Quarter's effective tax rate was 35.0%.

### ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

Effective October 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) 141, BUSINESS COMBINATIONS, and SFAS 142, GOODWILL AND OTHER INTANGIBLE ASSETS. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF.

The adoption of Statement 142 resulted in an increase to pre-tax income of \$0.8 million (\$0.6 million after-tax) versus the previous year's quarter. The increase is attributable to the discontinuation of amortization of the trade name and Latin America, North America, and Europe/ROW segment goodwill. These assets were being amortized on a straight line basis over 15 to 40 years. Upon initial application of Statement 142, the Company reassessed the useful lives of its intangible assets and deemed only the trade name to have an indefinite useful life because it is expected to generate cash flows indefinitely. The unamortized book value of these assets is \$112.0 million. Upon the transition to Statement 142, no goodwill was deemed to be impaired.

### LIQUIDITY AND CAPITAL RESOURCES

For the Fiscal 2002 Quarter, operating activities provided \$24.2 million in net cash compared with \$12.5 million the previous year. Operating cash flow increases versus the previous year primarily reflect the reduction of interest payments due to the retirement of \$65.0 million in Senior Subordinated Notes following the June 2001 stock offering as well as a lower investment in working capital versus the comparable period a year ago.

Net cash used by investing activities increased \$2.4 million versus the

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same period a year ago reflecting an increase in capital expenditures. Expenditures in the Fiscal 2002 Quarter were primarily for improvements to alkaline

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battery manufacturing. Capital expenditures for fiscal 2002 are expected to be approximately \$20.0 million which will include continued performance upgrades to our alkaline and zinc air manufacturing and packaging operations and continued investment in technology.

During the Fiscal 2002 Quarter we granted approximately 0.9 million options to purchase shares of common stock to various employees of the company. All grants have been at an exercise price equal to the market price of the common stock on the date of the grant.

As a result of the bad debt reserve for Kmart receivables in the quarter ended December 30, 2001, the Company was out of compliance with the leverage ratio covenant of its senior bank credit agreement ("Second Amended and Restated Credit Agreement"). On February 12, 2002, the Company amended the Second Amended and Restated Credit Agreement ("Fourth Amendment") which placed it in compliance with an amended leverage ratio based on an amended definition of EBITDA (see Exhibit 4.11). The Company will record \$0.2 million of fees paid as a result of the amendment as a debt issuance cost which will be amortized over the remaining life of the agreement.

The Company believes that cash flow from operating activities and periodic borrowings under its amended 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 guarantee can be given in this regard. The Company's current credit facilities include a revolving credit facility of \$250.0 million and term loan of \$75.0 million. As of December 30, 2001, \$31.0 million of the term loan remained outstanding and \$203.0 million was outstanding under the revolving facility with approximately \$10.1 million of the remaining availability utilized for outstanding letters of credit.

### IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2000, the Emergency Issues Task Force (EITF) reached a consensus on Issue No. 00-14, "Accounting for Certain Sales Incentives". This Issue addresses the recognition, measurement, and income statement classification for various types of sales incentives including discounts, coupons, rebates and free products. In July 2001, the EITF delayed the implementation of EITF 00-14 until no later than quarters beginning after December 15, 2001. The Company is required to adopt this consensus in the second fiscal quarter of 2002. The Company does not believe its adoption will have a material impact on the consolidated financial statements other than the reclassification of certain selling expenses to cost of sales or a reduction of revenue.

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

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### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### MARKET RISK FACTORS

We have market risk exposure from changes in interest rates, foreign currency exchange rates and commodity prices. We use derivative financial instruments for purposes other than trading to mitigate the risk from such exposures.

A discussion of our accounting policies for derivative financial instruments is included in Note 1 "Significant Accounting Policies" in Notes to our consolidated financial statements.

#### INTEREST RATE RISK

We have bank lines of credit at variable interest rates. The general level of U.S. interest rates, LIBOR, IBOR, and to a lesser extent European Base rates, primarily affects interest expense. We use interest rate swaps to manage such risk. The net amounts to be paid or received under interest rate swap agreements are accrued as interest rates change, and are recognized over the life of the swap agreements, as an adjustment to interest expense from the underlying debt to which the swap is designated. The related amounts payable to, or receivable from, the contract counter-parties are included in accrued liabilities or accounts receivable.

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#### FOREIGN EXCHANGE RISK

We are subject to risk from sales and loans to our subsidiaries as well as sales to, purchases from and bank lines of credit with, third-party customers, suppliers and creditors, respectively, denominated in foreign currencies. Foreign currency sales are made primarily in Pounds Sterling, Canadian Dollars, Euro, German Marks, French Francs, Italian Lira, Spanish Pesetas, Dutch Guilders, Mexican Pesos, Guatemalan Quetzals, Dominican Pesos, Venezuelan Bolivars, Argentine Pesos, Chilean Pesos and Honduran Lempira. Foreign currency purchases are made primarily in Pounds Sterling, German Marks, French Francs, Mexican Pesos, Dominican Pesos, Guatemalan Quetzals and Honduran Lempira. We manage our foreign exchange exposure from anticipated sales, accounts receivable, intercompany loans, firm purchase commitments and credit obligations through the use of naturally occurring offsetting positions (borrowing in local currency), forward foreign exchange contracts, foreign exchange rate swaps and foreign exchange options. The related amounts payable to, or receivable from, the contract counter parties are included in accounts payable or accounts receivable.

#### COMMODITY PRICE RISK

We are exposed to fluctuation in market prices for purchases of zinc used in the manufacturing process. We use commodity swaps, calls and puts to manage such risk. The maturity of, and the quantities covered by, the contracts are closely correlated to our anticipated purchases of the commodities. The cost of calls, and the premiums received from the puts, are amortized over the life of the contracts and are recorded in cost of goods sold, along with the effects of the swap, put and call contracts. The related amounts payable to, or receivable from, the counterparties are included in accounts payable or accounts receivable.

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### SENSITIVITY ANALYSIS

The analysis below is hypothetical and should not be considered a projection of future risks. Earnings projections are before tax.

As of December 30, 2001, the potential change in fair value of outstanding interest rate derivative instruments, assuming a 1% unfavorable shift in the underlying interest rates would be a loss of \$4.7 million. The net impact on reported earnings, after also including the reduction in one year's interest expense on the related debt due to the same shift in interest rates, would be a net gain of \$2.2 million.

As of December 30, 2001, the potential change in fair value of outstanding foreign exchange rate derivative instruments, assuming a 10% unfavorable change in the underlying foreign exchange rates would be a loss of \$0.1 million. The net impact on future cash flows, after also including the gain in value on the related accounts receivable and contractual payment obligations outstanding at December 30, 2001 due to the same change in exchange rates, would be a net gain of \$0.5 million.

As of December 30, 2001, the potential change in fair value of outstanding commodity price derivative instruments, assuming a 10% unfavorable change in the underlying commodity prices would be a loss of \$0.7 million. The net impact on reported earnings, after also including the reduction in cost of one year's purchases of the related commodities due to the same change in commodity prices, would be a net gain of \$0.1 million.

### FORWARD LOOKING STATEMENTS

Certain of the information contained in this Form 10-Q, including without limitation statements made under Part I, Item 1, "Financial Statements" and Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part I, Item 3, "Quantitative and Qualitative Disclosures about Market Risk" which are not historical facts, may include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act, as amended. In reviewing such information, you should note that our actual results may differ materially from those set forth in such forward-looking statements.

Important factors that could cause our actual results to differ materially from those included in the forward-looking statements made herein include, without limitation, (1) significant changes in consumer demand and

buying practices for household batteries, hearing aid batteries or other products we manufacture or sell in North America, Latin America or Europe/ROW; (2) the loss of, or a significant reduction in, sales through a significant retail customer; (3) the successful introduction or expansion of competitive brands into the marketplace, including private label offerings; (4) the introduction of new product features or new battery technologies by a competitor; (5) promotional campaigns and spending by a competitor; (6) difficulties or delays in the integration of operations of acquired companies; (7) our ability to successfully implement manufacturing and distribution cost efficiencies and improvements; (8) delays in manufacturing or distribution due to work stoppages, problems with suppliers, natural causes or other factors; (9) the enactment or imposition of unexpected environmental regulations negatively impacting consumer demand for certain of our battery products or increasing our

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cost of manufacture or distribution; (10) the costs and effects of unanticipated legal, tax or regulatory proceedings; (11) the effects of competitors' patents or other intellectual property rights; (12) interest rate, exchange rate and raw material price fluctuations; (13) impact of unusual items resulting from evaluation of business strategies, acquisitions and divestitures and organizational structure; (14) changes in accounting standards applicable to our business; and (15) the effects of changes in trade, monetary or fiscal policies and regulations by governments in countries where we do business.

Additional factors and assumptions that could generally cause our actual results to differ materially from those included in the forward-looking statements made herein include, without limitation, (1) our ability to develop and introduce new products; (2) the effects of general economic conditions in North America, Europe, Latin America or other countries where we do business, including inflation, labor costs and stock market volatility; (3) the effects of political or economic conditions, unrest or volatility in Latin America and other international markets; (4) the sufficiency of our production and distribution capacity to meet future demand for our products; (5) our ability to keep pace with the product and manufacturing technological standards in our industry; (6) our ability to continue to penetrate and develop new distribution channels for our products; and (7) various other factors, including those discussed herein and those set forth in our most recent Annual Report on Form 10-K and the prospectus supplement for our most recent public offering of common stock. Other factors and assumptions not identified above were also involved in the derivation of the forward-looking statements contained in this Form 10-Q and the failure of such other assumptions to be realized, as well as other factors, may also cause actual results to differ materially from those projected. We assume no obligations to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

### PART II. OTHER INFORMATION

#### Item 1: Legal Proceedings

There have been no significant changes in the status of Rayovac's legal proceedings since the filing of Rayovac's Annual Report on Form 10-K for its fiscal year ended September 30, 2001.

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### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

#### (a) Exhibits

EXHIBIT NUMBER	DESCRIPTION
2.1++++	Share Purchase Agreement made as of June 11, 1999, by and among the Company, Vidor Battery Company, Rayovac Latin America, Ltd., the shareholders of ROV Limited, ROV Limited, ESB ROV Ltd., Duranmas, S.A., certain second-tier subsidiaries of ROV Limited, Ray-O-Vac Overseas Corporation, and Alfredo J. Diez and Richard T. Doyle, Jr., as selling group representatives.
2.2++++	Form of Stock Purchase Agreement entered into on or around June 11, 1999, by and among the Company, Rayovac



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Latin America, Ltd. and certain persons who hold minority interests in certain of the operating subsidiaries of Ray-O-Vac Overseas Corporation.

- 3.1+ Amended and Restated Articles of Incorporation of the Company.
- 3.2\*\*\*\*\* Amended and Restated By-laws of the Company, as amended through May 17, 1999.
- 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\*\*\*\*\* First Supplemental Indenture, dated as of February 26, 1999, by and among the Company, ROV Holding, Inc. and HSBC Bank USA (formerly known as Marine Midland Bank) as trustee, relating to the Company's 10 1/4% Senior Subordinated Notes due 2006.
- 4.3++++ Second Supplemental Indenture, dated as of August 6, 1999, by and among the Company, ROV Holding, Inc. and HSBC Bank USA (formerly known as Marine Midland Bank) as trustee, relating to the Company's 10 1/4% Senior Subordinated Notes due 2006.
- 4.4\*\*\*\*\* Third Supplemental Indenture, dated as of June 13, 2001, by and among the Company, ROV Holding, Inc., ROVCAL, Inc. and HSBC Bank USA (formerly known as Marine Midland Bank) as trustee, relating to the Company's 10 1/4% Senior Subordinated Notes due 2006.
- 4.5\*\* Specimen of the Notes (included as an exhibit to Exhibit 4.1)
- 4.6\*\*\*\* Amended and Restated Credit Agreement, dated as of December 30, 1997, by and among the Company, the lenders party thereto and Bank of America National Trust and Savings Association ("BofA"), as Administrative Agent.
- 4.7++++ Second Amended and Restated Credit Agreement, dated as of August 9, 1999, by and among the Company, the lenders party thereto and Bank of America, NA as Administrative Agent.
- 4.8+++++ The First Amendment dated as of July 28, 2000 to the Second Amended and Restated Credit Agreement, dated as of August 9, 1999, by and among the Company, the lenders party thereto and Bank of America, NA as Administrative Agent.
- 4.9+++++++ The Second Amendment dated as of December 31, 2000 to the Second Amended and Restated Credit Agreement, dated as of August 9, 1999, by and among the Company, various financial institutions, and Bank of America, N.A. as Administrative Agent.
- 4.10+++++++ The Third Amendment dated as of June 11, 2001, to the Second Amended and Restated Credit Agreement, dated as of August 9, 1999, by and among the Company, various financial institutions, and Bank of America, NA as

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Administrative Agent.

- 4.11 The Fourth Amendment dated as of February 12, 2002, to the Second Amended and Restated Credit Agreement, dated as of August 9, 1999, by and among the Company, various financial institutions, and Bank of America, N.A. as Administrative Agent.
- 4.12\*\* The Security Agreement, dated as of September 12, 1996, by and among the Company, ROV Holding, Inc. and Bank of America, NA.
- 4.13\*\* The Company Pledge Agreement, dated as of September 12, 1996, by and between the Company and Bank of America, NA.

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- 4.14\*\*\* Shareholders Agreement, dated as of September 12, 1996, by and among the Company and the shareholders of the Company referred to therein.
- 4.15\*\*\* Amendment No. 1 to Rayovac Shareholders Agreement dated August 1, 1997, by and among the Company and the shareholders of the Company referred to therein.
- 4.16\*\*\*\*\* Amendment No. 2 to Rayovac Shareholders Agreement, dated as of January 8, 1999, by and among the Company and the Shareholders of the Company referred to therein.
- 4.17+++++ Amendment No. 3 to Rayovac Shareholders Agreement dated January 1, 2001, by and among the Company and the shareholders of the Company referred to therein.
- 4.18 Amendment No. 4 to Rayovac Shareholders Agreement dated February 8, 2002, by and among the Company and the Shareholders of the Company referred to therein.
- 4.19\* Specimen certificate representing the Common Stock.
- 10.1\*\* Management Agreement, dated as of September 12, 1996, by and between the Company and Thomas H. Lee Company.
- 10.2\*\* Confidentiality, Non-Competition and No-Hire Agreement, dated as of September 12, 1996, by and between the Company and Thomas F. Pyle.
- 10.3+++++ Amended and Restated Employment Agreement, dated as of October 1, 2000, by and between the Company and David A. Jones.
- 10.4+++++ Amended and Restated Employment Agreement, dated as of October 1, 2000, by and between the Company and Kent J. Hussey.
- 10.5+++++ Employment Agreement, dated as of October 1, 2000, by and between the Company and Kenneth V. Biller.
- 10.6+++++ Employment Agreement, dated as of October 1, 2000, by and between the Company and Stephen P. Shanesy.

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- 10.7+++++ Employment Agreement, dated as of October 1, 2000, by and between the Company and Merrell M. Tomlin.
- 10.8+++++ Employment Agreement, dated as of October 1, 2000, by and between the Company and Luis A. Cancio.
- 10.9\*\* Technology, License and Service Agreement between Battery Technologies (International) Limited and the Company, dated June 1, 1991, as amended April 19, 1993, and December 31, 1995.
- 10.10\*\* Building Lease between the Company and SPG Partners dated May 14, 1985, as amended June 24, 1986, and June 10, 1987.
- 10.11\*\*\*\*\* Amendment, dated December 31, 1998, between the Company and SPG Partners, to the Building Lease, between the Company and SPG Partners, dated May 14, 1985.
- 10.12\*\*\* Rayovac Corporation 1996 Stock Option Plan.
- 10.13\* 1997 Rayovac Incentive Plan.
- 10.14\* Rayovac Profit Sharing and Savings Plan.
- 10.15+++ Technical Collaboration, Sale and Supply Agreement, dated as of March 5, 1998, by and among the Company, Matsushita Battery Industrial Co., Ltd. and Matsushita Electric Industrial Co., Ltd.

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- \* Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-35181) filed with the Commission.
- \*\* Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-17895) filed with the Commission.
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- \*\*\* Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 29, 1997, filed with the Commission on August 13, 1997.
- \*\*\*\* Incorporated by reference to the Company's Registration Statement on Form S-3 (Registration No. 333-49281) filed with the Commission.
- \*\*\*\*\* Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended January 3, 1999, filed with the Commission on February 17, 1999.
- \*\*\*\*\* Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended April 4, 1999, filed with the Commission on May 17, 1999.

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- \*\*\*\*\* Incorporated by reference to the Company's Report on Form 8-K filed with the Commission on June 19, 2001.
- + Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1997, filed with the Commission on December 23, 1997.
- ++ Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarterly period ended June 27, 1998, filed with the Commission on August 4, 1998.
- +++ Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 28, 1998, filed with the Commission on May 5, 1998.
- ++++ Incorporated by reference to the Company's Current Report on Form 8-K filed with the Commission on August 24, 1999, as subsequently amended on October 26, 1999.
- +++++ Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2000, filed with the Commission on December 19, 2000.
- ++++++ Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2000, filed with the Commission on February 14, 2001.
- +++++++ Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001, filed with the Commission on May 14, 2001.
- +++++++ Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2001, filed with the Commission on August 9, 2001.

(b) Reports on Form 8-K. The Company has not filed any reports on Form 8-K during the three month period ended December 30, 2001.

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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: February 13, 2002

RAYOVAC CORPORATION

By: /s/ Kent J. Hussey

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Kent J. Hussey

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President and Chief Financial Officer