RAYOVAC CORP
Form 10-K/A
May 02, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 2

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

For the Fiscal Year Ended September 30, 2002.

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

For the transition period from ____________ to ____________

Commission file No. 001-13615

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	**53711-2497**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (608) 275-3340

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, Par Value $.01	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ý No o

On March 28, 2002, the aggregate market value of the voting stock held by non-affiliates of the registrant was $414,944,914. As of April 30, 2003, there were outstanding 32,461,769 shares of the registrant's Common Stock, $0.01 par value.

Explanatory Note

This Amendment No. 2 to the Annual Report on Form 10-K (the "Form 10-K") of Rayovac Corporation (the "Company") for the Fiscal Year ended September 30, 2002 is being filed for the purpose of amending and restating Items 7, 11 and 13. In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, the complete text of Items 7, 11 and 13, as amended, is set forth herein. In addition, in connection with the filing of this Amendment No. 2 and pursuant to Rule 12b-15, the Company is including certain currently dated certifications. The remainder of the Company's Form 10-K is unchanged and is not reproduced in this Amendment No. 2. This report speaks as of the original filing date of the Form 10-K and, except as indicated, has not been updated to reflect events occurring subsequent to the original filing date.

PART II

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

The following is management's discussion of the financial results, liquidity, and other key items related to the Company's performance. This section should be read in conjunction with the "Selected Financial Data", and our Consolidated Financial Statements and related notes in the "Financial Statements" section of this report. Certain prior year amounts have been reclassified to conform to current year presentation. All references to 2000, 2001, 2002, and 2003 refer to fiscal year periods ended September 30, 2000, 2001, 2002, and 2003, respectively.

Introduction

Rayovac Corporation is one of the oldest battery companies in the United States, founded in 1906 as the French Battery Company. Rayovac's product portfolio includes alkaline, rechargeable, and heavy duty batteries, hearing aid batteries, lighting products, and other specialty batteries.

Our financial performance is influenced by a number of factors including: general economic conditions and trends in consumer markets; our overall product line mix, including sales prices and gross margins which vary by product line; and our general competitive position, especially as impacted by our competitors' promotional activities and pricing strategies. These influencing factors played significant roles in our financial results during 2000, 2001 and 2002.

We manage our business based upon three geographic regions. The regions are as follows: North America, which includes the United States and Canada; Latin America, which includes Mexico, Central America, South America and the Caribbean; and Europe/Rest of World ("Europe/ROW"), which includes the United Kingdom, continental Europe and all other countries in which we do business.

On October 1, 2002, we acquired the consumer battery business of VARTA AG (VARTA). Our acquisition consisted of the purchase of all of VARTA's consumer battery subsidiaries and business outside of Germany, excluding Brazil, and a controlling ownership and management interest in a new joint venture entity that will operate the VARTA consumer battery business in Germany. The residual interest in the joint venture is held by VARTA AG.

As a result of the acquisition of the VARTA consumer battery business, we are now selling in more than 100 countries worldwide. We believe that the combination of the two businesses provides us with a strong platform for market growth, improved customer service, and technology advancements for consumers. We are now one of the largest consumer battery companies in the world with the number one market position in Germany, the largest European battery market, number two overall market position in Europe, a stronger number one position in Latin America, excluding Brazil, as well as the leading value brand in North America (all market shares based on management estimates on a unit basis).

Additional discussion of the acquisition of the VARTA consumer battery business, as well as other significant developments that have impacted our results and may continue to affect our performance is provided below.

Cost Reduction Initiatives

We continually seek to improve our operational efficiencies, match our manufacturing capacity and product costs to market demand and better utilize our manufacturing resources. Since the beginning of fiscal 2001, we have undertaken various initiatives, which are described below, to reduce manufacturing,

operating and other costs, and we believe that we can continue to drive down our cost of goods manufactured with continued focus on cost reduction initiatives.

Fiscal 2001

In 2001, we closed our Wonewoc, Wisconsin plant and now source lighting products previously made at this plant from third party suppliers. With this closure, we now outsource all of our lighting products. In addition, we outsourced certain manufacturing operations at our Fennimore, Wisconsin plant to accommodate the installation of a new high speed AA size alkaline battery line and discontinued inefficient packaging operations.

Also in 2001, we closed our zinc carbon battery plants in Tegucigalpa, Honduras and rationalized our manufacturing and distribution processes in the Company's Mexico City, Mexico manufacturing facilities and in our European operations by discontinuing or outsourcing uneconomic product lines or production processes, including the outsourcing of zinc carbon rod manufacturing, and changing uneconomical modes of distribution.

Finally, in 2001, we engaged in an organizational restructuring in North America and Latin America. As part of this initiative, sales and marketing functions were eliminated and/or consolidated. These cost-reduction initiatives reduced our global workforce by approximately 570 employees.

Fiscal 2002

In 2002, we closed our Santo Domingo, Dominican Republic manufacturing facility and transferred production of zinc carbon batteries to our Guatemala City, Guatemala manufacturing facility. We also outsourced a portion of our zinc carbon battery production previously manufactured at the Mexico City, Mexico facility.

The impact and expected impact of the fiscal 2001 and fiscal 2002 cost reduction initiatives on the Company's operations are described below under "Fiscal Year Ended September 30, 2002 Compared to Fiscal Year Ended September 30, 2001 Special Charges."

Recent Developments

In October 2002, and in conjunction with the acquisition of the VARTA consumer battery business described above under "Introduction" on page 1, we announced a further series of initiatives designed to position the Company and the VARTA consumer battery business for future growth opportunities and to optimize their combined global resources. These VARTA initiatives, which are expected to provide significant benefits to the combined organization, include the renegotiation of certain sourcing arrangements, the elimination of duplicate costs between the Company and the VARTA consumer battery business, and the consolidation of sales and marketing functions.

In October 2002, we closed our Mexico City, Mexico manufacturing facility. With the closure of the Mexico City, Mexico plant, and prior to the acquisition of the VARTA consumer battery business, the Guatemala City, Guatemala plant became our only remaining zinc carbon manufacturing plant. The consolidation of our zinc carbon capacity within Latin America is consistent with the global market trend away from zinc carbon toward alkaline batteries, and is intended to allow the Company to more closely match our manufacturing capacity to anticipated market demands.

We also announced the closure of operations at our Madison, Wisconsin packaging center and Middleton, Wisconsin distribution center in October 2002. These facilities will be closed during 2003 and their operations will be combined into a new leased complex being built in Dixon, Illinois. Transition to the new facility is expected by June 2003. The Company anticipates that the relocation to the new leased packaging and distribution center will result in operational changes that are intended to reduce freight and inventory handling costs.

We expect that all geographies will benefit from decreased costs and expenses resulting from the VARTA initiatives. These initiatives are anticipated to create long-term opportunities for procurement savings resulting from renegotiated raw material and finished good sourcing arrangements and lower operating costs as duplicative administrative and support and sales and marketing functions are consolidated and overlapping functions are eliminated.

The benefits of the VARTA initiatives are expected to positively impact future gross profit and operating margins, but will be partially offset in the near-term by exit and integration costs, including employee termination benefits and asset impairments associated with the elimination of duplicative functions, an increase in interest expense associated with the acquisition, and increased exposure to foreign currency movements reflecting the Company's expanded global presence. In addition, the acquisition of the VARTA consumer battery business is expected to negatively impact the Company's effective tax rate, as the Company estimates a larger percentage of our income will be generated in higher tax jurisdictions.

As of the date of the filing of the Company's Annual Report on Form 10-K for fiscal 2002, the Company estimated that it would take a pre-tax restructuring charge of approximately $30-$35 million in fiscal 2003 to reflect the exit and integration costs of the VARTA initiatives. As of the date of the filing of the Company's Amendment No. 2 to the Company's Annual Report on Form 10-K, the Company estimates that pre-tax restructuring charges will be approximately $43 million in fiscal 2003, with the increase in estimate primarily attributable to additional cost reduction initiatives undertaken in North America, the result of pricing changes on the Company's products in response to pricing changes instituted by competitors of the Company. As of the date of the filing of the Company's Annual Report on Form 10-K for fiscal 2002, the Company expected the total cash cost of the exit and integration costs referred to above to be approximately $15-$20 million in fiscal 2003. As of the date of the filing of the Company's Amendment No. 2 to the Company's Annual Report on Form 10-K for fiscal 2002, the Company estimates that the total cash cost will be approximately $25 million in fiscal 2003.

Cost savings related to the VARTA initiatives are anticipated to be slightly accretive in fiscal 2003 and annual savings are projected to be in the range of $40-$45 million when fully realized by the end of fiscal 2005.

Meeting Consumer Needs through Technology and Development

We continue to focus our efforts on meeting consumer needs for portable power and lighting products through new product development and technology innovations. We have announced improvements and new developments in our rechargeable, alkaline, hearing aid, and lighting products product lines.

During 2001, we introduced a one-hour charger for nickel metal hydride (NiMH) batteries, and began selling higher performing NiMH batteries. In 2002, we announced the development of a revolutionary rechargeable NiMH battery system capable of recharging batteries in as little as 15 minutes and which we anticipate will be available in the retail market during 2003. These technological advancements are expected to provide consumers with portable, rechargeable power as the use of digital cameras and other high drain devices continues to grow.

In 2002, we launched our new, more powerful Maximum Plus alkaline batteries, with bold new graphics. Also during 2001 and 2002, we increased the performance of our hearing aid batteries, and launched innovative packaging allowing consumers to more easily dispense the hearing aid batteries. Finally, we rejuvenated our lighting products product line through a series of new product launches designed to reach unique markets within the mass and retail channels.

We believe that our products are well poised to meet the portable power and lighting needs for consumers. We will continue to focus on identifying new technologies necessary to meet consumer and retailer needs within the marketplace.

Competitive Landscape

The alkaline battery business is highly competitive on a global scale. Within North America, there are three primary branded providers of alkaline batteries. The alkaline marketplace has seen changes in recent years related to product line segmentation, with attempts to segment the category into high-performance, regular and value positions, combined with the introduction of private label batteries at certain retailers. In addition, market participants continue to engage in high levels of promotional activities to gain market share.

Within Latin America, poor economic conditions have dramatically impacted battery sales especially within the heavy duty product line. Heavy duty batteries continue to be the largest share of the battery market in Latin America. In North America the majority of consumers purchase alkaline batteries.

The rechargeable business has experienced dramatic changes over the past three years. Primary rechargeable alkaline sales have declined over this period with a shift towards rechargeable batteries, such as NiMH, which are higher performing in high drain devices. Our development of a one-hour charger and an innovative 15-minute rechargeable battery technology help us maintain the number one market position within the rechargeable category in the United States with approximately 60% market share, as estimated by management.

Within the hearing aid battery category, we continue to hold the number one global market position based on management estimates. We believe that our close relationship with hearing aid manufacturers and other customers, as well as our product performance improvements and packaging innovations position us for continued success in this category.

Seasonal Product Sales

Rayovac's quarterly results are impacted by our seasonal sales. Sales during the first and fourth fiscal quarters of the year are generally higher than other quarters due to the impact of the December holiday season. The seasonality of our sales during the last three fiscal years is as follows:

	Percent of Annual Sales		
Fiscal Quarter Ended	**2000**	**2001**	**2002**
December	30%	27%	28%
March	20	22	21
June	22	24	24
September	28	27	27

Fiscal Year Ended September 30, 2002 Compared to Fiscal Year Ended September 30, 2001

Highlights of consolidated operating results

Net Sales. Our net sales decreased $43.5 million, or 7.1%, to $572.7 million in fiscal 2002 from $616.2 million the previous year. Increases in hearing aid battery and lighting product sales were unable to offset declines in heavy duty and alkaline sales.

Net Income. Our net income for fiscal 2002 increased $17.7 million, or 153.9%, to $29.2 million from $11.5 million the previous year. The increase reflects a reduction in interest expense attributable to the retirement of $65.0 million in Senior Subordinated Notes following the June 2001 stock offering,

plus a $56.1 million reduction in debt during fiscal 2002 due to strong cash flow from operations. In addition, fiscal 2001 results reflect a $22.3 million pretax restructuring charge, and a $5.4 million extraordinary loss, net of tax. These improvements were partially offset by a bad debt reserve of $7.5 million, net of tax, recognized in fiscal 2002 related to the bankruptcy filing of a key customer.

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

North America

	2001	**2002**

Revenue from external customers	$ 448.8	$ 435.6
Segment profit	80.8	85.5
Segment profit as a % of net sales	18.0%	19.6%

Our revenue from external customers decreased $13.2 million, or 2.9%, to $435.6 million in fiscal 2002 from $448.8 million the previous year. Heavy duty sales decreases of $12.3 million, or 33.8%, reflect the trend in the industry toward alkaline and the discontinuation of certain products at selected stores of a major retailer. Alkaline sales decreases of $4.8 million, or 1.8% were attributable to the decline in sales to a key customer in bankruptcy, a cautious retail inventory environment and continued promotional activity, and our inability to anniversary sales to an OEM customer in the previous year. Increases in lighting products of $4.3 million, or 7.6%, resulted from new product launches and distribution gains.

Our profitability increased $4.7 million, or 5.8%, to $85.5 million in fiscal 2002 from $80.8 million the previous year. This increase was attributable to the benefits of the 2001 plant closures and organizational restructurings, as more fully described above under "Cost Reduction Initiatives" on page 1, that lowered operating expenses, and improved gross profit margins. This was partially offset by a $12.0 million bad debt reserve, net of recoveries, resulting from the bankruptcy filing of a key customer.

Latin America

	2001	2002
Revenue from external customers	$ 118.7	$ 84.7
Segment profit	16.9	5.3
Segment profit as a % of net sales	14.2%	6.3%

Our revenue from external customers decreased $34.0 million, or 28.6%, to $84.7 million in fiscal 2002 from $118.7 million the previous year due primarily to decreased sales of zinc carbon batteries. Net sales were impacted by unfavorable economic conditions in Mexico, Argentina and Venezuela, primarily consisting of general weakened market conditions. Also impacting net sales were the curtailment of shipments to certain distributors and wholesalers who were delinquent on payments, general political uncertainties and instability in Argentina and Venezuela, and the unfavorable impacts of currency devaluation which contributed approximately $9.3 million of the sales decline versus fiscal 2001.

The Company has a business presence in approximately 100 countries throughout the world, all of which are subject to varying degrees of political and economic risk. In fiscal 2002, changes in the economic and political environments in Mexico, Argentina, and Venezuela subjected the Company to

varying degrees of political and economic risks. While these markets collectively represent approximately 40.0% and 23.3% of the Company's Latin America segment revenue and total assets, respectively, they collectively represent approximately 6.0% and 8.4% of the Company's consolidated revenue and total assets, respectively.

In spite of the sales decline, the segment remained profitable, with profit of $5.3 million in fiscal 2002. However, this was a decrease of $11.6 million, or 68.6%, from the previous year. This decrease was primarily attributable to the impact of the sales decline, partially offset by lower advertising expenses and a reduction in other operating expenses in the region. As of October 1, 2001, the Company adopted Financial Accounting Standards Board Statement No. 142 which resulted in a reduction of amortization expense of $3.0 million for the year. Segment profit margins decreased primarily due to an unfavorable customer mix compounded by relatively fixed operating expenses spread over lower sales.

Europe/ROW

	2001	2002
Revenue from external customers	$ 48.7	$ 52.5
Segment profit	4.1	5.1
Segment profit as a % of net sales	8.4%	9.7%

Our revenue from external customers increased $3.8 million, or 7.8%, to $52.5 million in fiscal 2002 from $48.7 million the previous year, primarily reflecting increased sales of alkaline and hearing aid batteries, and favorable impacts of foreign currency movements.

Our profitability increased $1.0 million, or 24.4%, due primarily to sales growth and a reduction in operating expenses due to the cost reduction initiatives described above under "Cost Reduction Initiatives Fiscal 2001" on page 2 and the adoption of Statement No. 142, which resulted in lower amortization expense.

Corporate Expenses. Our corporate expenses increased $6.6 million, or 26.3%, to $31.7 million in fiscal 2002 from $25.1 million the previous year. The increase was primarily due to higher legal expenses, technology spending, and management incentives.

Special Charges. In 2002, we recorded net special charges of $1.2 million related to: (i) the closure of our manufacturing facility in Santo Domingo, Dominican Republic and transfer of production to our Guatemala City, Guatemala manufacturing facility and the outsourcing of a portion of our zinc carbon battery production previously manufactured at our Mexico City, Mexico manufacturing facility, as more fully described above under "Cost Reduction Initiatives Fiscal 2002" on page 2, and (ii) the reversal of $1.3 million of expenses related to the December 2000 restructuring announcement which were not realized, primarily reflecting a change in estimated termination benefits of $1.0 million, due to lower estimates of outplacement costs and costs attributable to fringe benefits, and the retention of selected employees.

The closure of the Dominican Republic manufacturing facility and outsourcing of Mexico zinc carbon production resulted in $1.2 million of employee termination benefits for approximately 115 manufacturing employees, $0.9 million of charges from the abandonment of equipment and inventory, net of a change in estimate of $0.4 million, associated with the closing of the manufacturing facility, and $0.3 million of other expenses. The change in estimate reflected our ability to utilize more inventory and manufacturing equipment at our Guatemala City, Guatemala manufacturing location than originally anticipated.

We consider the cost reduction initiatives undertaken in fiscal 2002 and described above to be complete as of September 30, 2002. The remaining accrued termination benefits were paid before

December 2002. We anticipate that, beginning in 2003, such cost reduction initiatives will generate annual savings which will approximate the cash costs of the restructuring initiatives.

We recorded special charges of $22.3 million in 2001, reflecting $10.1 million of employee termination benefits for approximately 570 employees, $10.2 million of equipment, inventory, and other asset write-offs, and $2.0 million of other expenses associated with the cost reduction initiatives described above under "Cost Reduction Initiatives Fiscal 2001" on page 2: (i) an organizational restructuring in the U.S., (ii) the closure of the Tegucigalpa, Honduras facility and the rationalization of our manufacturing and distribution processes in the Company's Tegucigalpa, Honduras and Mexico City, Mexico manufacturing facilities and in our European operations, (iii) the closure of the Company's Wonewoc, Wisconsin manufacturing facility, and (iv) the rationalization of inefficient manufacturing processes, packaging operations and product lines at the Company's Fennimore, Wisconsin manufacturing facility and Madison, Wisconsin packaging location. In addition, "Special Charges" also reflected costs associated with our secondary offering in June 2001.

We consider the cost reduction initiatives undertaken in fiscal 2001 to be complete and we do not anticipate any further material charges to result from such initiatives.

Income from Operations. Our income from operations increased $8.6 million, or 15.8%, to $63.0 million in fiscal 2002 from $54.4 million the previous year. This increase was primarily due to reduction in special charges of $21.1 million offset by a $12.0 million bad debt reserve, net of recoveries, resulting from the bankruptcy filing of a key customer.

Interest Expense. Interest expense decreased $11.2 million, or 41.2%, to $16.0 million in fiscal 2002 from $27.2 million in the previous year primarily due to the retirement of $65.0 million in Senior Subordinated Notes in June 2001 using proceeds from our primary offering and the repayment of $56.1 million in debt from our strong cash flow from operations.

Income Tax Expense. Our effective tax rate for fiscal 2002 was 36.0% compared to 35.4% for fiscal 2001. The higher rate for fiscal 2002 primarily reflects a change in geographic profitability away from lower tax jurisdictions, primarily within Latin America, and proportionately higher income in the United States.

Extraordinary Item. In fiscal 2001, we recorded extraordinary expense of $5.4 million, net of tax, resulting from the premium on the repurchase of $65.0 million of Senior Subordinated Notes and the related write-off of unamortized debt issuance costs.

Fiscal Year Ended September 30, 2001 Compared to Fiscal Year Ended September 30, 2000

Highlights of consolidated operating results

Net Sales. Our net sales decreased $14.7 million, or 2.3%, to $616.2 million in fiscal 2001 from $630.9 million the previous year. Increases in alkaline and hearing aid battery sales were offset by decreased specialty battery sales and lighting products sales.

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

North America

	2000	2001
Revenue from external customers	$ 468.2	$ 448.8
Segment profit	95.3	80.8
Segment profit as a % of net sales	20.4%	18.0%

Our revenue from external customers decreased $19.4 million, or 4.1%, to $448.8 million in fiscal 2001 from $468.2 million the previous year due primarily to increased sales of alkaline batteries and hearing aid batteries offset by decreased sales of lighting products and specialty batteries.

Alkaline sales increases of $15.1 million, or 5.9%, were driven by distribution gains, product line expansion, and strong sales in the mass merchandiser and OEM trade channels partially offset by the impacts of Y2K on sales volumes and lower promotional activity at certain food retailers this year. Hearing aid battery sales increases of $4.7 million, or 13.0%, were driven by strength in the professional channel and expanded retail distribution in fiscal 2001. Lighting product sales decreases of $14.9 million, or 20.9%, were driven by weakness in the lights and lantern battery category reflecting the lingering impact of the Y2K phenomenon and our inability to anniversary a strong hurricane season in the previous year. Specialty battery sales decreases versus last year primarily reflect softness in camcorder and lithium battery sales reflecting general softness in lithium battery demand from OEM customers in the PC, telecommunications, and electronics industries and the transition to a camcorder battery licensing agreement.

Our profitability decreased $14.5 million, or 15.2%, to $80.8 million in fiscal 2001 from $95.3 million the previous year. This decrease was primarily attributable to sales volume decreases and operating expense increases partially offset by improved gross profit margins. The operating expense increases were primarily driven by increased distribution costs reflecting fuel surcharges, higher shipping and handling costs and bad debt write-offs due to customer bankruptcies. The improvement in gross profit margins was partially the result of previously announced cost reduction initiatives described under "Cost Reduction Initiatives Fiscal 2001" on page 2 and a favorable shift in product mix away from lower margin lithium, camcorder, and lighting products to more profitable alkaline and hearing aid batteries.

Latin America

	2000	2001
Revenue from external customers	$ 112.2	$ 118.7
Segment profit	20.3	16.9
Segment profit as a % of net sales	18.1%	14.2%

Our revenue from external customers increased $6.5 million, or 5.8%, to $118.7 million in fiscal 2001 from $112.2 million the previous year due primarily to increased sales of alkaline batteries partially offset by lower sales of zinc carbon batteries and unfavorable impacts of currency devaluation of $1.7 million.

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

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

Europe/ROW

	2000	2001
Revenue from external customers	$ 50.6	$ 48.7
Segment profit	6.1	4.1
Segment profit as a % of net sales	12.1%	8.4%

Our revenue from external customers decreased $1.9 million, or 3.8%, to $48.7 million in fiscal 2001 from $50.6 million the previous year, due primarily to the unfavorable impacts of currency devaluation of $3.4 million. Excluding the negative impact of currency devaluation net sales increased 3.0% reflecting sales increases in hearing aid and alkaline batteries. Alkaline battery sales increases were driven primarily by new distribution.

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

Corporate Expenses. Our corporate expenses decreased $7.3 million, or 22.5%, to $25.1 million in fiscal 2001 from $32.4 million the previous year. As a percentage of total sales, our corporate expense was 4.1% compared to 5.1% in the previous year. These decreases were primarily due to lower management incentives and legal expenses partially offset by higher research and development expenses reflecting an increase in technology spending.

Special Charges. We recorded special charges of $22.3 million, reflecting $10.1 million of employee termination benefits for approximately 570 employees, $10.2 million of equipment, inventory, and other asset write-offs, and $2.0 million of other expenses associated with certain of the cost reduction initiatives described above under "Cost Reduction Initiatives Fiscal 2001" on page 2: (i) an organizational restructuring in the U.S., (ii) the rationalization of our manufacturing and distribution processes in the Company's Tegucigalpa, Honduras and Mexico City, Mexico manufacturing facilities and in our European operations, (iii) the closure of the Company's Wonewoc, Wisconsin manufacturing facility, and (iv) the rationalization of inefficient manufacturing processes, packaging operations and product lines at the Company's Fennimore, Wisconsin, manufacturing facility and Madison, Wisconsin packaging location. In addition, "Special Charges" also reflected costs associated with our secondary offering in June 2001.

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

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

Income Tax Expense. Our effective tax rate for fiscal 2001 was 35.4% compared to 33.8% for fiscal 2000. The higher rate for fiscal 2001 primarily reflects a higher foreign tax rate attributable to

increased tax rates in certain Latin America countries and startup losses in the Southern region of South America not fully benefited.

Extraordinary Item. We recorded extraordinary expense of $5.4 million, net of tax, resulting from the premium on the repurchase of $65.0 million of Senior Subordinated Notes and the related write-off of unamortized debt issuance costs.

Liquidity and Capital Resources

During fiscal 2002, our operating activities generated $66.8 million of cash, compared to $18.0 million in fiscal 2001, an increase of $48.8 million. Operating cash flows from changes in working capital accounted for $48.1 million of the increase which were primarily driven by lower investments in receivables and inventory, slightly offset by higher prepaid and other assets and lower accrued special charges reflecting the completion of the December 2000 restructuring initiatives.

Capital expenditures for fiscal 2002 were $15.6 million, a decrease of $4.1 million from fiscal 2001. Capital expenditures in 2002 were funded by cash flow from operations. Capital expenditures for fiscal 2003 are expected to be approximately $28.0 million which will include spending for leasehold improvements on our new North American packaging and distribution center, spending required by newly acquired VARTA entities, and continued technology investments as well as continued investment in our manufacturing operations.

As of September 30, 2002, our current credit facilities include a revolving credit facility of $250.0 million and a $75.0 million five-year amortizing term loan. As of September 30, 2002, $174.5 million and $23.1 million, respectively, of the revolver and the term loan were outstanding. In addition, approximately $5.8 million of the remaining availability under the revolver was utilized for outstanding letters of credit. The term facility also provides for annual prepayments, over and above the normal amortization. Such payments would be a portion of "Excess Cash Flow" (EBITDA, as defined, less certain operating expenditures including scheduled principal payments of long-term debt). The quarterly amortization is reduced prorata for the effect of prepayments made as a result of Excess Cash Flow. The fees associated with these facilities have been capitalized and are being amortized over the term of the facilities. Indebtedness under these amended facilities is secured and is guaranteed by certain of our subsidiaries.

During fiscal 2002, our board of directors granted 1,057,190 options to purchase shares of our Common stock to various employees of the Company under the 1997 Rayovac Incentive Plan. All grants were at an exercise price equal to the market price of our Common stock on the date of grant with prices ranging from $13.00 to $16.00 per share. We also granted approximately 24,000 shares of restricted stock on August 16, 2002, from the 1997 Rayovac Incentive Plan to a member of management; the restrictions on these shares will lapse on September 30, 2003. The total market value of the restricted shares on the date of grant totaled approximately $0.3 million and has been recorded as unearned compensation as a separate component of shareholders' equity. Unearned compensation is being amortized to expense over the vesting period.

We believe our cash flow from operating activities and periodic borrowings under our credit facilities will be adequate to meet the short-term and long-term liquidity requirements of our existing business previous to the expiration of those credit facilities, although no assurance can be given in this regard.

We engage in hedging transactions in the ordinary course of our business. See Note 2(r) to the Consolidated Financial Statements.

On October 1, 2002, the Company entered into an Amended and Restated Agreement ("Third Restated Agreement") to finance the acquisition of the consumer battery business of VARTA AG. The Third Restated Agreement includes a $100 million seven-year revolving credit facility, a EUR

50 million seven-year revolving credit facility, a $300 million seven-year amortizing term loan, a EUR 125 million seven-year amortizing term loan and a EUR 50 million six-year amortizing term loan. The term facilities provide for quarterly amortization totaling (assuming an exchange rate of the Euro to the Dollar of 1 to 1) of approximately $9.3 million in 2003 and 2004, $14.3 million in 2005, 2006, and 2007, $61.3 million in 2008 and $352.5 million in 2009. The term facility also provides for annual prepayments, over and above the normal amortization. Such payments would be a portion of "Excess Cash Flow" (EBITDA, as defined, less certain operating expenditures including scheduled principal payments of long-term debt). The quarterly amortization is reduced prorata for the effect of prepayments made as a result of Excess Cash Flow. The fees associated with these facilities will be capitalized and amortized over the term of the facilities. Unamortized fees associated with the replaced facilities will be written off as a charge to earnings in the quarter ended December 29, 2002. Indebtedness under these amended facilities is secured, is guaranteed by certain of our subsidiaries and the Euro-denominated revolving facility is subject to a borrowing base ("Borrowing Base") of certain European assets.

Impact of Recently Issued Accounting Standards

See discussion in Note 2(w) to the Consolidated Financial Statements.

Critical Accounting Policies

Our Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States and fairly present the financial position and results of operations of the Company. We believe the following accounting policies are critical to an understanding of our financial statements. The application of these policies requires management judgment and estimates in areas that are inherently uncertain.

Valuation of Assets and Asset Impairment

We evaluate certain long-lived assets, such as property, plant and equipment, and certain intangibles for impairment based on the expected future cash flows or earnings projections. An asset's value is deemed impaired if the discounted cash flows or earnings projections generated do not substantiate the carrying value of the asset. The estimation of such amounts requires significant management judgment with respect to revenue and expense growth rates, changes in working capital, and selection of an appropriate discount rate, as applicable. The use of different assumptions would increase or decrease discounted future operating cash flows or earnings projections and could, therefore, change impairment determination.

We adopted Financial Accounting Standards Statement No. 142, *Goodwill and Other Intangible Assets*, effective October 1, 2001. Statement No. 142 requires goodwill and other intangible assets with indefinite useful lives not be amortized, and that impairment of such assets be evaluated as discussed above at least annually.

We evaluate deferred tax assets based on future earnings projections. An asset's value is deemed impaired if the earnings projections do not substantiate the carrying value of the asset. The estimation of such amounts requires significant management judgment with respect to revenue and expense growth rates, changes in working capital, and other assumptions, as applicable. The use of different assumptions would increase or decrease future earnings projections and could, therefore, change the determination of whether the asset is realizable.

See Notes 2(c), 2(h), 2(i), 2(v), 4, 5, and 9 to the Consolidated Financial Statements for more information about these assets.

Revenue Recognition and Concentration of Credit Risk

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

The Company enters into various promotional arrangements, primarily with retail customers, which require the Company to estimate total purchases by the customer. In addition, the Company enters into promotional programs, primarily with retail customers, which require the Company to estimate and accrue the estimated costs of the promotional program. The Company monitors its commitments for promotional arrangements and programs, and uses statistical measures and past experience to record a liability for the estimate of the earned, but unpaid, promotional costs. The use of different assumptions would increase or decrease the estimate of the earned, but unpaid, promotional costs and could, therefore, change the liability recorded.

The Company's trade receivables subject the Company to credit risk which is evaluated based on changing economic, political, and specific customer conditions. The Company assesses these risks and makes provisions for collectibility based on our best estimate of the risks presented and information available at the date of the financial statements. The use of different assumptions may change the estimate of collectibility. 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's credit terms generally range between 30 and 90 days from invoice date, depending upon the Company's evaluation of the customer's financial condition and history. The Company monitors its customers' credit and financial conditions based on changing economic conditions and adjusts its credit policies with respect to any individual customer as it determines appropriate. These adjustments may include, but are not limited to, restricting shipments to customers, reducing credit limits, shortening credit terms, requiring cash payments in advance of shipment, or securing credit insurance. The Company's adjustments to its credit policies may not be effective in reducing the Company's credit risk associated with any particular customer. In 2002, the Company experienced a significant loss resulting from the bankruptcy filing of a large retailer in the United States to which the Company had extended credit in accordance with the Company's credit policy. In the future, the Company may experience additional losses due to changing economic, political and specific customer conditions that may adversely affect collectibility of trade receivables.

See Notes (2b), (2c), and (2e) to the Consolidated Financial Statements for more information about our Revenue Recognition and Credit policies.

Pensions

Our accounting for pension benefits is primarily based on discount rate, expected and actual return on plan assets, and other assumptions made by management, and is impacted by outside factors such as equity and fixed income market performance. Pension liability is principally the estimated present value of future benefits, net of plan assets. In calculating the estimated present value of future benefits, net of plan assets, for 2001 and 2002, the Company used discount rates of 7.5% and 7.0%, respectively. In lowering the discount rate from 2001 to 2002, the

Company considered the change in the general market interest rates of debt rated Aaa or Aa by Moody's Investors Service from June 2001 to June 2002 and solicited the advice of its independent actuary. The Company believes the discount rate used is reflective of the rate at which the pension benefits could be effectively settled. The decrease in the Company's discount rate in fiscal 2002 contributed to, but was not entirely responsible for, an increase of approximately $3.1 million in the Company's projected benefit obligation from the end of fiscal 2001 to the end of fiscal 2002.

Pension expense is principally the sum of interest and service cost of the plan, less the expected return on plan assets and the amortization of the difference between our assumptions and actual experience. The expected return on plan assets is calculated by applying an assumed rate of return to

the fair value of plan assets. In 2001 and 2002, the Company used an expected return on plan assets of 8.5%. Based on the advice of its independent actuary, the Company believes the expected rate of return is reflective of the long-term average rate of earnings expected on the funds invested. An increase in the expected return on plan assets used by the Company would have the effect of decreasing future pension expense. If such expected return were overstated, it would ultimately increase future pension expense. Similarly, an understatement of the expected return would ultimately decrease future pension expense. If plan assets decline due to poor performance by the markets and/or interest rate declines, as was experienced in fiscal 2002, our pension liability would increase, ultimately increasing future pension expense.

See Note 11 to the Consolidated Financial Statements for a more complete discussion of our employee benefit plans.

Restructuring

Restructuring liabilities are recorded for estimated cost of facility closures, significant organizational adjustments, and measures undertaken by management to exit certain activities. Costs for such activities are estimated by management after evaluating detailed analyses of the costs incurred. Such liabilities could include amounts for items such as severance costs and related benefits (including settlements of pension plans), impairment of property and equipment and other current or long term assets, lease termination payments, plus any other items directly related to the exit costs. While the actions are carried out as expeditiously as possible, changes in estimates, resulting in an increase to or a reversal of a previously recorded liability, may be required as management executes the restructuring plan. See Notes 15 and 18 to the Consolidated Financial Statements for discussion of recent restructuring initiatives and related costs.

Loss Contingencies

Loss contingencies are recorded as liabilities when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The outcome of existing litigation and the impact of environmental matters are examples of situations evaluated as loss contingencies. Estimating the probability and magnitude of losses is often dependent upon management judgments of potential actions by third parties and regulators. It is possible that changes in estimates or an increased probability of an unfavorable outcome could materially affect future results of operations. See further discussion in Item 3 ("Legal Proceedings"), and Notes 2(c), 2(t), and 13 to the Consolidated Financial Statements.

Other Significant Accounting Policies

Other significant accounting policies, primarily those with lower levels of uncertainty than those discussed above, are also critical to understanding the Consolidated Financial Statements. Our notes to the Consolidated Financial Statements contain additional information related to our accounting policies and should be read in conjunction with this discussion.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth compensation paid to our Chief Executive Officer and the other four most highly compensated executive officers during fiscal 2002, fiscal 2001 and fiscal 2000 (the "Named Executive Officers") for services rendered in all capacities to us. Certain prior year amounts have been reclassified to conform with current year presentation.

Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Restricted Stock Awards ($)	Securities Underlying Options (#)	All Other Compensation ($)
David A. Jones, Chairman of the Board and Chief Executive Officer	2002	$ 568,500	$ 186,000 (1)	$ 349,400 (2)		175,000	
	2001	568,500		342,700 (3)	$ 1,180,000 (4)	50,000	$ 5,741,400 (5)
	2000	518,500	400,000	260,200 (6)			
Kent J. Hussey, President and Chief Operating Officer	2002	385,000	42,000 (1)	154,000 (7)		75,000	
	2001	385,000		125,200 (8)	826,000 (4)	50,000	1,418,500 (5)
	2000	350,000		56,500 (9)		40,000	
Luis A. Cancio, Executive Vice President-Latin America	2002	290,000	42,000 (1)	92,600 (10)		50,000	
	2001	293,000		80,000 (11)	537,500 (4)	50,000	
	2000	286,000		33,200 (12)		50,000	
Stephen P. Shanesy, Executive Vice President-North America	2002	290,000	48,000 (1)	88,600 (13)		50,000	
	2001	290,000		84,700 (14)	567,500 (4)	50,000	796,200 (15)
	2000	265,000				35,000	
Merrell M. Tomlin, Executive Vice President of Global Sales (17)	2002	290,000	48,000 (1)	92,000 (16)		50,000	
	2001	290,000		70,800 (14)	560,000 (4)	50,000	924,600 (5)
	2000	250,000		32,500 (18)		35,000	

(1) Special cash bonus based on Company performance during the Named Executive Officer's term of employment.

(2) Includes approximately $127,000 related to a supplemental retirement program, $42,000 related to personal use of the Company aircraft, $88,000 related to interest on the Jones Equity Note (as defined herein) and $63,000 related to a Company provided residence.

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

(4) At September 30, 2002 an aggregate of 277,137 restricted shares were outstanding valued at $3,381,071. Vesting is scheduled for September 30, 2003 on 277,137 shares, of which 44,476 shares have vested as of September 30, 2002. The Company has the discretion to pay or defer dividends, if declared, until the expiration of restrictions.

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

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

(7) Includes approximately $84,000 related to a supplemental executive retirement program.

(8) Includes approximately $70,000 related to a supplemental executive retirement program.

(9) Includes approximately $20,000 related to personal use of the Company aircraft and $20,000 related to personal use of a Company provided vehicle.

(10) Includes approximately $62,000 related to a supplemental executive retirement program.

(11) Includes approximately $50,000 related to a supplemental executive retirement program.

(12)

Includes approximately $19,200 related to personal use of a Company provided vehicle and approximately $14,000 in contributions to a 401(k) plan.

(13) Includes approximately $63,000 related to a supplemental executive retirement program.

(14) Includes approximately $55,000 related to a supplemental executive retirement program.

(15) Includes approximately $785,200 in compensation from the exercise of stock options and approximately $11,000 related to the purchase of a Company vehicle.

(16) Includes approximately $63,000 related to a supplemental executive retirement program.

(17) Mr. Tomlin resigned from his position with the Company in February 2003. Prior to his resignation, Mr. Tomlin served as Executive Vice President of Global Sales.

(18) Includes approximately $20,000 related to personal use of a Company provided vehicle.

Option Grants and Exercises

In connection with the 1996 recapitalization, the Board adopted the Rayovac Corporation 1996 Stock Option Plan (the "1996 Plan"). Pursuant to the 1996 Plan, options may be granted with respect to an aggregate of 2,318,127 shares of Common Stock. At September 30, 2002 an aggregate of 1,237,367 options to purchase shares of Common Stock at a weighted average exercise price of $7.06 per share, 508,181 of which relate to the 911,577 granted to David A. Jones in accordance with the terms of his employment agreement, were outstanding. See "Employment Agreements". In September 1997, the Board adopted the 1997 Rayovac Incentive Plan ("Incentive Plan"). Pursuant to the Incentive Plan, stock-based awards may be granted, including options and restricted stock, to purchase up to 5,000,000 shares of Common Stock. At September 30, 2002 an aggregate of 2,867,432 options at a weighted average exercise price of $17.01 were outstanding under the Incentive Plan.

The following table discloses the grants of stock options during fiscal 2002 to the Named Executive Officers.

Option Grants in Fiscal 2002

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
Name	**Number of Securities Underlying Options Granted (#)**	**Percent of Total Options Granted to Employees in Fiscal Year**	**Exercise or Base Price ($/share)**	**Expiration Date**	**5% ($)**	**10% ($)**
David A. Jones	175,000	16.6	$ 14.50	9/30/2011	$ 1,595,820	$ 4,044,121
Kent J. Hussey	75,000	7.1	$ 14.50	9/30/2011	$ 683,923	$ 1,733,195
Luis A. Cancio	50,000	4.7	$ 14.50	9/30/2011	$ 455,949	$ 1,155,463
Stephen P. Shanesy	50,000	4.7	$ 14.50	9/30/2011	$ 455,949	$ 1,155,463
Merrell M. Tomlin (1)	50,000	4.7	$ 14.50	9/30/2011	$ 455,949	$ 1,155,463

(1) Mr. Tomlin resigned from his position with the Company in February 2003. Prior to his resignation, Mr. Tomlin served as Executive Vice President of Global Sales.

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

Aggregated Option Exercises In Fiscal 2002 And Fiscal Year-End Option Values

Name	Shares Acquired on Exercise	Value Realized $	Number of Securities Underlying Unexercised Options at Fiscal Year End (#) (Exercisable/Unexercisable)	Value of Unexercised In-the-money Options at Fiscal Year End ($)(1) (Exercisable/Unexercisable)
David A. Jones			516,431/216,750	$ 3,968,894/$0
Kent J. Hussey			174,089/156,770	732,211/0
Luis A. Cancio			83,250/166,750	0/0
Stephen P. Shanesy			63,678/154,914	457,604/0
Merrell M. Tomlin (2)			53,849/154,914	380,839/0

(1) These values are calculated using the $12.20 per share closing price of the Common Stock as quoted on the NYSE on September 30, 2002.

(2) Mr. Tomlin resigned from his position with the Company in February 2003. Prior to his resignation, Mr. Tomlin served as Executive Vice President of Global Sales.

Pension Plan

In fiscal 1997 we contributed to a defined benefit pension plan covering all domestic non-union employees (the "Pension Plan"). On August 1, 1997 the Pension Plan accruals were frozen and the Pension Plan was officially terminated on October 1, 1997. We made no contributions to the Pension Plan during fiscal 2000, 2001 or 2002. Distribution of benefits due to participating employees under the Pension Plan was made during fiscal 1999. In fiscal 2000, 2001 and 2002 we contributed to a defined contribution 401(k) plan covering domestic non-union employees (the "401(k) Plan"). We made contributions allocated on the basis of compensation and age as identified in the summary compensation table.

Supplemental Executive Retirement Plan

We provide a supplemental executive retirement plan for eligible employees. The Board of Directors determines which employees of the Company are eligible to participate in the plan. Currently, only our Named Executive Officers and certain other executive officers participate in the plan. Pursuant to the plan, we establish an account for each plan participant. Each October 1, we credit the account of each participant by an amount equal to 15% of the participant's salary. In addition, each quarter we credit each account by an amount equal to 2% of the participant's account value. Each participant vests 20% per year in his account, with immediate full vesting occurring upon death, disability or a change in control of the Company.

Director Compensation

Directors who are employees of the Company receive no compensation for serving on the Board of Directors. Non-employee directors of the Company are reimbursed for their out-of-pocket expenses in attending meetings of the Board of Directors. Messrs. Lupo, Pellegrino and Shepherd and Ms. Thomas received $6,250 per quarterly meeting in their capacities as directors for fiscal year 2002, plus $1,000 for each of the four Board of Director meetings they attended. In addition, each received $500 for each Board Committee meeting they attended. Committee chairpersons each received an additional $500 for each Board Committee meeting they attended. Messrs. Lupo, Pellegrino, Shepherd and Carmichael and Ms. Thomas have received and will continue to receive fully vested options to purchase 5,000 shares of Common Stock on each October 1st that they are serving on the Board of Directors at an exercise price equal to the closing price of the Common Stock on the New York Stock Exchange on the trading day immediately preceding such grant.

Employment Agreements

We have an employment agreement with each of the Named Executive Officers. On October 1, 2002, we entered into amended and restated employment agreements with David A. Jones (the "Jones Employment Agreement") and Kent J. Hussey (the "Hussey Employment Agreement"), as well as amended and restated employment agreements with each of Luis A. Cancio, Stephen P. Shanesy and Merrell M. Tomlin (together with the Jones Employment Agreement and the Hussey Employment Agreement, the "Executive Employment Agreements").

Each of the Executive Employment Agreements:

has a term of three years, expiring on September 30, 2005, and, except for the Jones Employment Agreement, provides for automatic renewal for successive one-year periods unless terminated earlier upon 90-days' written notice by either the respective Named Executive Officer or us;

provides that the Named Executive Officer has the right to resign and terminate his respective Executive Employment Agreement at any time upon 60-days' notice. Upon such resignation, we

must pay any unpaid base salary through the date of termination to the resigning Named Executive Officer;

except in the case of the Jones Employment Agreement, provides that upon termination of the Named Executive Officer's employment without cause or for death or disability, we will pay to the terminated Named Executive Officer, or such Named Executive Officer's estate, two times the Named Executive Officer's base salary and annual bonus, to be paid out over the following twelve months. In addition, each Named Executive Officer shall be entitled to receive insurance and other benefits for the greater of 24 months or the remainder of the term;

provides us with the right to terminate the Named Executive Officer's employment for "cause" (as defined therein), in which event we shall be obligated to pay to the terminated Named Executive Officer any unpaid base salary accrued through the date of termination; and

provides that, during the term of the agreement or the period of time served as an employee or director, and for one year thereafter, the Named Executive Officer shall not engage in or have any business which is involved in the industries in which we are engaged.

Under their respective employment agreements, Mr. Jones is entitled to a base salary of $700,000 per annum, Mr. Hussey is entitled to a base salary of $435,000 per annum, Mr. Shanesy and Mr. Cancio are each entitled to a base salary of $325,000 per annum (such base salaries may be increased from time to time at the discretion of the Board of Directors) and each Named Executive Officer is entitled to an annual bonus based upon our achieving certain annual performance goals established by the Board of Directors. Mr. Tomlin resigned from his position with the Company and terminated his Executive Employment Agreement in February 2003. Prior to his resignation, Mr. Tomlin served as Executive Vice President of Global Sales and was entitled to a base salary of $325,000 per annum and an annual bonus. Pursuant to the terms of a severance agreement, Mr. Tomlin will receive payments from the Company for a two-year period following his resignation from his position with the Company.

In addition, pursuant to the Jones Employment Agreement, Mr. Jones was paid a bonus of $400,000 in October 2000 as compensation for past services and will be paid an additional bonus of $400,000 on September 30, 2003 and an additional bonus of $2,200,000 on October 1, 2005, should he remain with the Company as of such dates. In addition, the Jones Employment Agreement provides that Mr. Jones will be granted the option to purchase his Rayovac-owned home for one dollar on April 30, 2003. In the event of a "sale" of Rayovac (as defined in the Jones Employment Agreement), Mr. Jones' right to receive the September 30, 2003 bonus and his right to acquire his Rayovac-owned home shall accelerate to the date of the "sale". Pursuant to the terms of a previous employment agreement, Mr. Jones purchased 227,895 shares of Common Stock at approximately $4.39 per share in connection with our 1996 recapitalization. One-half of the purchase price for those shares was paid in cash and one-half was paid with a promissory note from Mr. Jones in the principal amount of $500,000 with an annual interest rate of 7.0% (the "Jones Equity Note"). Mr. Jones receives additional salary at an initial rate of $35,000 annually as long as the Jones Equity Note remains outstanding to reimburse Mr. Jones for the annual interest due on the note and additional salary at a rate of $18,500 annually for miscellaneous expenses.

The Jones Employment Agreement further provides that, upon termination of Mr. Jones' employment due to death or disability, we will pay him or his estate his base salary for the next 24 months following termination and we will continue to pay him or his estate two times the pro rata portion of his annual bonus. In addition, we will continue to pay him his additional salary at an initial rate of $35,000 annually, as long as the Jones Equity Note is outstanding, and additional salary of $18,500 annually for the duration of the term of his agreement, and he shall be entitled to insurance and other specified benefits for the greater of 24 months or the remainder of the term. In the event Mr. Jones is terminated "without cause" (as defined in the Jones Employment Agreement), he shall continue to be paid his annual bonus for the greater of 24 months or the remainder of the term. Mr. Jones shall also be entitled to receive additional salary at an initial rate of $35,000 annually, as long as the Jones Equity Note is outstanding, and additional salary of $18,500 annually for miscellaneous expenses and insurance and other benefits for the greater of 24 months or the remainder of the term.

Compensation Committee Interlocks and Insider Participation

From October 2001 to January 2002, the Compensation Committee of the Board of Directors was comprised of Scott A. Schoen, Thomas R. Shepherd and Warren C. Smith, Jr. From January 2002 until July 2002, the Compensation Committee of the Board of Directors was comprised of Scott A. Schoen, Thomas R. Shepherd and Scott L. Jaeckel. Thereafter, the Compensation Committee of the Board of Directors has been comprised of Thomas R. Shepherd and Philip F. Pellegrino. No member of our Compensation Committee is currently or has been, at any time since our formation, one of our officers or employees. No member of our Compensation Committee serves a member of the board of directors or compensation committee of any entity that has one of more executive officers serving as a member of our Board of Directors or Compensation Committee.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In connection with our recapitalization in 1996, we entered into a Management Agreement with Thomas H. Lee Company pursuant to which Thomas H. Lee Company and its affiliates (the "THL Entities") provided consulting and management advisory services to us for an initial period of five years ending September 12, 2001, which period was subsequently extended for an additional one year term. The agreement was not renewed upon expiration in September 2002. Pursuant to the terms of the Management Agreement, in consideration of the consulting and management advisory services provided under the Management Agreement in fiscal 2002, we paid the THL Entities approximately $364,000 in fees and expenses. We believe that the Management Agreement was on terms no less favorable to us than could have been obtained from an independent third party. During the last quarter of fiscal 2002, the THL Entities that held shares of our Common Stock, distributed all of their shares of our Common Stock to their individual limited partners. In addition, during the last quarter of fiscal 2002, two of our directors who were affiliates of the THL Entities resigned as directors of the Company.

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

Mr. Shanesy previously executed three five-year promissory notes dated March 17, 1997, August 1, 1997, and September 16, 1997, in connection with his purchase of shares of Common Stock and exercise of options to purchase shares of Common Stock for a total of $130,002. On May 1, 2002, Mr. Shanesy executed a promissory note replacing the three previous notes and in the amount of $130,002. Interest on this promissory note is to be adjusted annually to the Internal Revenue Service minimum rate for 3-5 year maturities. This promissory note is secured by a security interest in shares of our Common Stock (including vested options) owned by Mr. Shanesy.

On July 20, 2000, the Board of Directors authorized additional loans to Messrs. Jones, Hussey, Shanesy, Tomlin and Cancio of up to the aggregate principal amounts of $1,950,000, $800,000, $200,000, $500,000 and $200,000, respectively. As of August 11, 2000, Messrs. Jones, Hussey, Shanesy, Tomlin and Cancio had each executed a promissory note and, as of September 30, 2002, had drawn aggregate principal amounts of $1,700,000, $750,000, $200,000, $200,000 and $200,000, respectively, under the authorized loan program. Interest on these promissory notes is to be adjusted annually to the Internal Revenue Service minimum rate for 3-5 year maturities. The annual interest rate on each of these notes was 4.6% in fiscal year 2002. Each of these promissory notes is secured by a security interest in shares of our Common Stock (including vested options) owned by the respective borrower.

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Payments of interest on the Executive Notes are due annually and the outstanding principal amount and any unpaid interest on the Executive Notes is payable at maturity. The Jones Equity Note matures in September 2003 and the remaining Executive Notes mature in September 2005.

The purpose of the loans authorized by the Board of Directors in July 2000 was to provide the executive officers receiving the loans with access to funds as a component of their compensation program. In July 2000, a significant percentage of the stock options and our common stock held by such executive officers was subject to transfer restrictions imposed by a shareholders agreement among the Company, the executive officers and the Thomas H. Lee Company (which agreement expired on September 12, 2002). The loans provided the executive officers with access to alternative funds in light of the restrictions imposed by the shareholders agreement on the equity component of the executives' compensation.

The largest aggregate amount of indebtedness outstanding at any time during fiscal 2002 for each of the Named Executive Officers was as follows: Mr. Jones, $2,200,000; Mr. Hussey, $750,000; Mr. Shanesy, $330,002; Mr. Tomlin, $200,000; and Mr. Cancio, $200,000. The aggregate amount of indebtedness outstanding as of September 30, 2002, for each of the Named Executive Officers is as follows: Mr. Jones, $2,200,000; Mr. Hussey, $750,000; Mr. Shanesy, $330,002; Mr. Tomlin, $200,000; and Mr. Cancio, $200,000.

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Signatures

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

RAYOVAC CORPORATION

/s/ RANDALL J. STEWARD

Randall J. Steward
Chief Financial Officer

DATE: May 2, 2003

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CERTIFICATIONS

I, David A. Jones, certify that:

1. I have reviewed this annual report on Form 10-K/A of Rayovac Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 2, 2003

/s/ DAVID A. JONES

David A. Jones
Chief Executive Officer

I, Randall J. Steward, certify that:

1. I have reviewed this annual report on Form 10-K/A of Rayovac Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 2, 2003

/s/ RANDALL J. STEWARD

Randall J. Steward
Chief Financial Officer

Exhibit Index

Exhibit Number	Description
99.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.