RAYOVAC CORP
Form 10-Q
August 11, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 27, 2004

OR

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 Number 001-13615

Rayovac Corporation

(Exact name of registrant as specified in its charter)

Wisconsin (State or other jurisdiction of incorporation or organization)	**22-2423556** (I.R.S. Employer Identification Number)
Six Concourse Parkway, Suite 3300, Atlanta, Georgia (Address of principal executive offices)	**30328** (Zip Code)

(770) 829-6200
(Registrant's telephone number, including area code)

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

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

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

The number of shares outstanding of the Registrant's common stock, $.01 par value, as of August 5, 2004, was 34,575,874.

RAYOVAC CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTER ENDED JUNE 27, 2004
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

RAYOVAC CORPORATION
Condensed Consolidated Balance Sheets
June 27, 2004 and September 30, 2003
(Unaudited)
(Amounts in thousands, except per share figures)

	June 27, 2004	September 30, 2003
-ASSETS-		
Current assets:		
Cash and cash equivalents	$ 17,832	$ 107,774
Receivables, less allowances of $22,559 and $22,911, respectively	275,872	270,581
Inventories	220,752	219,254
Prepaid expenses and other	97,408	77,717
Total current assets	611,864	675,326
Property, plant and equipment, net	165,446	150,609
Goodwill	308,816	398,380
Intangible assets, net	419,288	252,870
Deferred charges and other	85,951	71,196
Debt issuance costs	26,329	28,111
Total assets	$ 1,617,694	$ 1,576,492
-LIABILITIES AND SHAREHOLDERS' EQUITY-		
Current liabilities:		
Current maturities of long-term debt	$ 21,606	$ 72,852
Accounts payable	156,651	172,632
Accrued liabilities	179,401	160,041
Total current liabilities	357,658	405,525
Long-term debt, net of current maturities	824,213	870,540
Employee benefit obligations, net of current portion	68,873	63,044
Other	84,853	35,381
Total liabilities	1,335,597	1,374,490
Minority interest in equity of consolidated affiliates	1,468	
Shareholders' equity:		
Common stock, $.01 par value, authorized 150,000 shares; issued 64,057 and 61,999 shares, respectively; outstanding 34,521 and 32,463 shares, respectively	641	620
Additional paid-in capital	221,814	185,561
Retained earnings	202,317	164,703

	June 27, 2004	September 30, 2003
Accumulated other comprehensive loss	(2,491)	(12,457)
Notes receivable from officers/shareholders	(3,605)	(3,605)
	418,676	334,822
Less treasury stock, at cost, 29,536 shares	(130,070)	(130,070)
Less unearned restricted stock compensation	(7,977)	(2,750)
Total shareholders' equity	280,629	202,002
Total liabilities and shareholders' equity	$ 1,617,694	$ 1,576,492

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

RAYOVAC CORPORATION
Condensed Consolidated Statements of Operations
For the three and nine month periods ended June 27, 2004 and June 29, 2003
(Unaudited)
(Amounts in thousands, except per share figures)

	THREE MONTHS		NINE MONTHS	
	2004	2003	2004	2003
Net sales	$ 308,264	$ 207,673	$ 1,040,297	$ 670,162
Cost of goods sold	173,555	117,478	590,855	395,494
Restructuring and related charges		10,429	(1,137)	21,719
Gross profit	134,709	79,766	450,579	252,949
Selling	60,996	42,282	219,837	137,831
General and administrative	28,281	21,231	97,923	62,345
Research and development	6,207	3,558	15,347	11,504
Restructuring and related charges	1,685	684	7,717	9,930
Total operating expenses	97,169	67,755	340,824	221,610
Operating income	37,540	12,011	109,755	31,339
Interest expense	15,617	8,476	49,041	28,079
Non-operating expense				3,072
Other expense (income), net	1,328	(728)	(404)	(3,586)
Minority interest	12		12	
Income from continuing operations before income taxes	20,583	4,263	61,106	3,774
Income tax expense	7,826	1,394	23,225	1,208
Income from continuing operations	12,757	2,869	37,881	2,566
(Income)/loss from discontinued operations, net of tax benefits of $14 and $539, respectively	(57)		267	
Net income	$ 12,814	$ 2,869	$ 37,614	$ 2,566
Basic earnings per share:				
Weighted average shares of common stock outstanding	33,648	31,865	32,977	31,841
Income from continuing operations	$ 0.38	$ 0.09	$ 1.15	$ 0.08
Loss from discontinued operations			0.01	
Net income	$ 0.38	$ 0.09	$ 1.14	$ 0.08
Diluted earnings per share:				
Weighted average shares and equivalents outstanding	35,388	32,499	34,413	32,461
Income from continuing operations	$ 0.36	$ 0.09	$ 1.10	$ 0.08
Loss from discontinued operations			0.01	
Net income	$ 0.36	$ 0.09	$ 1.09	$ 0.08

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

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RAYOVAC CORPORATION
Condensed Consolidated Statements of Cash Flows
For the nine month periods ended June 27, 2004 and June 29, 2003
(Unaudited)
(Amounts in thousands)

	NINE MONTHS	
	2004	**2003**
Cash flows from operating activities:		
Net income	$ 37,614	$ 2,566
Non-cash adjustments to net income:		
Discontinued operations	267	
Restructuring and related charges	(1,139)	15,941
Depreciation	24,259	23,606
Amortization of intangible assets	742	256
Amortization of debt issuance costs	3,133	1,409
Amortization of unearned restricted stock compensation	4,050	2,570
Stock option income tax benefit	8,150	124
Deferred income taxes	(10,558)	(13,070)
Other non-cash adjustments	(1,803)	3,167
Net changes in assets and liabilities, net of acquisitions and discontinued operations	16,300	(3,216)
Net cash provided by continuing operating activities	81,015	33,353
Cash flows from investing activities:		
Purchases of property, plant and equipment, net	(16,444)	(17,317)
Payment for acquisitions, net of cash acquired	(41,980)	(245,130)
Net cash used by investing activities	(58,424)	(262,447)
Cash flows from financing activities:		
Reduction of debt	(324,937)	(373,467)
Proceeds from debt financing	195,100	612,621
Debt issuance costs	(1,351)	(12,976)
Exercise of stock options	18,846	176
Other		(1,079)
Net cash (used) provided by financing activities	(112,342)	225,275
Net cash used by discontinued operations	(336)	
Effect of exchange rate changes on cash and cash equivalents	145	4,198
Net (decrease) increase in cash and cash equivalents	(89,942)	379
Cash and cash equivalents, beginning of period	107,774	9,881
Cash and cash equivalents, end of period	$ 17,832	$ 10,260

	NINE MONTHS	

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

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RAYOVAC CORPORATION

Notes to Condensed Consolidated Financial Statements (Unaudited)

(Amounts in thousands, except per share figures)

1 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: These condensed consolidated 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 June 27, 2004, and the results of operations for the three and nine month periods ended June 27, 2004 and June 29, 2003, and cash flows for the nine month periods ended June 27, 2004 and June 29, 2003. Certain information and footnote disclosures normally included in consolidated 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 consolidated financial statements and notes thereto as of September 30, 2003. Certain prior amounts have been reclassified to conform with the current presentation.

Significant Accounting Policies and Practices: The condensed consolidated financial statements include the consolidated financial statements of Rayovac Corporation and its subsidiaries and are prepared in accordance with accounting principles generally accepted in the United States of America. All intercompany transactions have been eliminated. The Company's fiscal year ends September 30. References herein to 2003 and 2004 refer to the fiscal years ended September 30, 2003 and 2004, respectively.

The Company's Condensed Consolidated Balance Sheets as of June 27, 2004 and September 30, 2003 give effect to the acquisition of Remington Products Company, L.L.C., ("Remington"), which occurred on September 30, 2003. In addition, the Company's Balance Sheet as of June 27, 2004 gives effect to the acquisition of Ningbo Baowang Battery Company, Ltd. ("Ningbo"), which occurred on March 31, 2004, and Microlite S.A. ("Microlite"), which occurred on May 28, 2004. The Company's Condensed Consolidated Statement of Operations for the three and nine months ended June 27, 2004 include the results of Ningbo and Microlite as of their respective acquisition dates. The Company's Condensed Consolidated Statements of Operations for the three and nine months ended June 29, 2003, include only the results attributable to Rayovac and its subsidiaries prior to the Remington, Ningbo and Microlite acquisitions. Consequently, all Condensed Consolidated Statements of Operations footnote disclosures exclude the results of Remington, Ningbo and Microlite for the three and nine months ended June 29, 2003. See footnote 10, "Acquisitions", for additional information on the Remington, Ningbo and Microlite acquisitions.

Change in Accounting Policy: In previous years, the Company deferred certain advertising costs incurred on an interim basis in accordance with Accounting Principles Board (APB) No. 28. The Company chose the deferral method to match advertising expenses to the level of sales on an interim basis (i.e., more advertising expenses were recognized in quarters in which the level of sales was higher) as management believed that the benefits of the advertising expenditures extended beyond the interim period in which the expenditures were made. However, in the Company's annual consolidated financial statements, there was no deferral of advertising costs incurred and the Company recognized advertising costs in accordance with the American Institute of Certified Public Accountants' Statement of Position No. 93-7, "*Reporting on Advertising Costs*". The acquisition of Remington resulted in an increased level of advertising expenses as well as such expenses being more seasonal in nature when compared to the Company's legacy battery products. Therefore, during 2004, the Company began expensing all

advertising costs in the period incurred. Management believes the new policy of expensing all advertising expenses as incurred is preferable as it eliminates the uncertainty in estimating overall expected net sales and the benefit period of the advertising on an interim basis. In addition, the new accounting policy results in the recognition of advertising costs in the interim period in which they are actually incurred, and conforms the Company's interim accounting policy with that used to prepare the annual consolidated financial statements. The impacts on net income and earnings per share related to the change in accounting policy are as follows:

	Three Months		Nine Months	
	2004	2003	2004	2003
Income before change in accounting policy	$ 11,593	$ 2,869	$ 38,431	$ 2,566
Impact due to change in accounting policy, net of tax	1,221		(817)	
Net income, as reported	$ 12,814	$ 2,869	$ 37,614	$ 2,566
Basic earnings (loss) per share:				
Before change in accounting policy	$ 0.34	$ 0.09	$ 1.17	$ 0.08
Impact due to change in accounting policy, net of tax	0.04		(0.03)	
As reported	$ 0.38	$ 0.09	$ 1.14	$ 0.08
Diluted earnings (loss) per share:				
Before change in accounting policy	$ 0.33	$ 0.09	$ 1.12	$ 0.08
Impact due to change in accounting policy, net of tax	0.03		(0.03)	
As reported	$ 0.36	$ 0.09	$ 1.09	$ 0.08

Had the prior year's advertising expense been recognized consistent with the policy used in the current fiscal year, the Company's pro forma net income and earnings per share would have been as follows:

	Three Months		Nine Months	
	2004	2003	2004	2003
Pro forma amounts assuming new accounting policy is applied retroactively:				
Net income	$ 12,814	$ 3,737	$ 37,614	$ 1,202
Basic earnings per share	$ 0.38	$ 0.12	$ 1.14	$ 0.04
Diluted earnings per share	$ 0.36	$ 0.11	$ 1.09	$ 0.04

Discontinued Operations: The Company has reflected Remington's United States and United Kingdom Service Centers as discontinued operations. The Company discontinued operations at these Service Centers during 2004 as part of the Remington integration initiatives. See footnote 8, "Restructuring and Related Charges," for additional discussion of Remington integration initiatives.

The following amounts have been segregated from continuing operations and are reflected as discontinued operations for the three and nine months ended June 27, 2004:

	Three Months	Nine Months
Net sales	$ 906	$ 21,470
(Income) loss from discontinued operations before income taxes	$ (43)	$ 806
Income tax benefits	(14)	(539)
(Income) loss from discontinued operations, net of tax	$ (57)	$ 267
Depreciation expense associated with discontinued operations	$ 9	$ 263

Revenue Recognition: The Company recognizes revenue from product sales upon shipment to the customer which is the point at which all risks and rewards of ownership of the product are passed, provided that: there are no uncertainties regarding customer acceptance; persuasive evidence of an arrangement exists; the price to the buyer is fixed or determinable; and collectibility is deemed reasonably assured. Generally, with respect to battery and lighting sales, the Company is not obligated to accept product returns. The Company does accept returns related to shaving and grooming and personal care products and, accordingly, the Company does recognize a reserve for such potential returns based on past experience and contractual arrangements with certain customers.

The Company enters into various promotional arrangements, primarily with retail customers, including arrangements entitling such retailers to cash rebates from the Company based on the level of their purchases. The Company accrues an estimate of the costs of such promotional programs. These costs are generally treated as a reduction of net sales. The Company also enters into promotional arrangements targeted to the ultimate consumer. Such arrangements are reflected as either a reduction of net sales or an increase of cost of sales, based on the nature of the promotional program.

For all types of promotional arrangements, the Company monitors its commitments and uses statistical measures and past experience to determine amounts to be recorded for the estimate of the earned, but unpaid, promotional costs. The terms of the Company's customer-related promotional arrangements and programs are individualized to each customer and are generally documented through written contracts or correspondence with the individual customers.

The Company also enters into various contractual arrangements, primarily with retailers, which require the Company to make upfront cash, or "slotting" payments, to secure the right to distribute through such customers. The Company capitalizes slotting payments, provided the payments are supported by a time or volume based contractual arrangement with the retailer, and amortizes the associated payment over the appropriate time or volume based term of the contractual arrangement. The amortization of the slotting payment is treated as a reduction in net sales and the corresponding asset is included in deferred charges and other in the condensed consolidated balance sheets.

Shipping and Handling Costs: The Company incurred shipping and handling costs of $14,545 and $47,763 for the three and nine months ended June 27, 2004, and $10,901 and $35,150, for the three and nine months ended June 29, 2003, respectively. These costs are included in selling expense. Shipping and handling costs include costs incurred with third-party carriers to transport products to customers as

well as salaries and overhead costs related to activities to prepare the Company's products for shipment at the Company's distribution facilities.

Concentrations of Credit Risk: Trade receivables 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 its customers' credit and financial condition based on changing economic conditions and will make adjustments to credit policies as required.

The Company has a broad range of customers, one of which accounts for approximately 18% of the Company's sales volume for the nine month period ended June 27, 2004. This major customer also represented approximately 13% of the Company's receivables as of June 27, 2004 and September 30, 2003.

Approximately 53% of the Company's sales in the nine-month period ended June 27, 2004 occurred outside of North America. These sales and related receivables are subject to varying degrees of credit, currency, and political and economic risk. The Company monitors these risks and makes appropriate provisions for collectibility based on an assessment of the risks present.

Stock Based Compensation: The Company has stock option and other stock-based compensation plans, which are fully described in the Company's consolidated financial statements and notes thereto as of September 30, 2003. The Company accounts for its stock-based compensation plans using the intrinsic value method, under the principles prescribed by APB No. 25, "*Accounting for Stock Issued to Employees*," and related interpretations. For stock options granted, no employee compensation cost is reflected in the Company's results of operations, as all options granted under the plans have an exercise price equal to the market value of the underlying common stock at the grant date.

Certain restricted stock awards issued during the current fiscal year vest based on the Company's attainment of certain performance measures and have been accounted for as variable awards under the provisions of APB No. 25, with appropriate charges to compensation expense each period. Subsequent to March 28, 2004, the Company amended the vesting provisions of the performance based awards to provide for ultimate vesting of the shares generally at the end of two years. Due to this amendment, the performance based awards are accounted for as fixed awards in periods subsequent to March 28, 2004. Results of operations include compensation cost related to grants of restricted stock of $1,251 and $857 and $4,050 and $2,570 for the three and nine months ended June 27, 2004 and June 29, 2003, respectively.

The Company has adopted the disclosure-only provisions of Financial Accounting Standards Bulletin (FASB) No. 123, "*Accounting for Stock Based Compensation*, as amended by FASB Statement No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*". Accordingly, no compensation cost has been recognized in the results of operations for the stock option plans. Had compensation cost for stock options granted been determined based on the fair value at the grant date

for such awards consistent with an alternative method prescribed by FASB No. 123, the Company's net income and earnings per share would have reflected the pro forma amounts indicated below:

	Three Months		Nine Months	
	2004	**2003**	**2004**	**2003**
Net income, as reported	$ 12,814	$ 2,869	$ 37,614	$ 2,566
Add: Stock-based compensation expense included in reported net income, net of tax	763	523	2,471	1,568
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of tax	(1,290)	(1,575)	(5,096)	(5,110)
Pro forma net income (loss)	$ 12,287	$ 1,817	$ 34,989	$ (976)
Basic earnings (loss) per share:				
As reported	$ 0.38	$ 0.09	$ 1.14	$ 0.08
Pro forma	$ 0.37	$ 0.06	$ 1.06	$ (0.03)
Diluted earnings (loss) per share:				
As reported	$ 0.36	$ 0.09	$ 1.09	$ 0.08
Pro forma	$ 0.35	$ 0.06	$ 1.02	$ (0.03)

The effect of restricted stock and unexercised stock options of approximately 620 shares outstanding for the nine months ended June 29, 2003 were excluded from the diluted EPS calculation, as their effect was anti-dilutive.

In March 2004, the FASB issued the Exposure Draft, "Share-Based Payment an amendment of Statements No. 123 and 95". The Exposure Draft would replace existing requirements under FASB No. 123 and APB No. 25. Under the Exposure Draft, all equity-based awards to employees would be required to be recognized in the income statement based on their fair value. Total stock based compensation expense as determined under the Exposure Draft may differ from the pro forma amounts calculated above. The Exposure Draft is currently expected to be finalized in late 2004 and would be effective for the Company beginning in Fiscal Year 2006.

Derivative Financial Instruments: 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 receivables and recognized in earnings as an adjustment to interest expense from the underlying debt to which the swap is designated. Pretax derivative losses for such hedges of $1,241 and $3,709 were recorded as an adjustment to interest expense for the three and nine months ended June 27, 2004, and $1,210 and $3,561 for the three and nine months ended June 29, 2003, respectively. At June 27, 2004, the Company had a portfolio of interest rate swaps outstanding which effectively fixes the interest rates on floating rate debt at rates as follows: 4.458% for a notional principal amount of $70,000 through July 2004, 3.974%

for a notional principal amount of $70,000 from July 2004 through October 2005, 3.769% for a notional principal amount of $100,000 through August 2004 and 3.799% for a notional principal amount of $100,000 from August 2004 through November 2005. The derivative net loss on these contracts recorded in OCI at June 27, 2004 was an after-tax loss of $1,591.

The Company periodically enters into forward and swap foreign exchange contracts to hedge the risk from forecasted settlement in local currencies of inter-company purchases and sales, trade sales, and trade purchases. These contracts generally require the Company to exchange foreign currencies for U.S. Dollars, Euros 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 condensed consolidated 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. Pretax derivative gains (losses) were recorded as an adjustment to earnings for such contracts settled at maturity of $282 for both the three and nine months ended June 27, 2004, and $0 and ($11) for the three and nine months ended June 29, 2003, respectively. At June 27, 2004, the Company had $4,804 of such foreign exchange derivative contracts outstanding. The pretax derivative gain (loss) on these contracts recorded as an adjustment to earnings at June 27, 2004 was immaterial.

The Company periodically enters into forward and swap foreign exchange contracts, to hedge the risk from inter-company loans. These obligations generally require the Company to exchange foreign currencies for U.S. Dollars, Euros, Pounds Sterling or Canadian Dollars. These foreign exchange contracts are fair value hedges of a related liability or asset recorded in the condensed consolidated balance sheet. The gain or loss on the derivative hedge contracts is recorded in earnings as an offset to the change in value of the related liability or asset. During the three and nine months ended June 27, 2004, $0 and $118 of pretax derivative gains from such hedges were recorded as an adjustment to earnings. During the three and nine months ended June 29, 2003, no such foreign exchange derivative activity occurred. At June 27, 2004, the Company had no such foreign exchange derivative contracts outstanding.

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 zinc through a specified date. Pretax derivative gains (losses) were recorded as an adjustment to cost of sales for swap contracts settled at maturity of $718 and $1,586 for the three and nine months ended June 27, 2004, and ($171) and ($520) for the three and nine months ended June 29, 2003, respectively. At June 27, 2004, the Company had a series of such swap contracts outstanding through October 2004 with a contract value of $2,612. The derivative net gain on these contracts recorded in OCI at June 27, 2004 was an after-tax gain of $362.

2 INVENTORIES

Inventories consist of the following:

	June 27, 2004	September 30, 2003
Raw material	$ 41,617	$ 60,732
Work-in-process	32,771	34,914
Finished goods	146,364	123,608
	$ 220,752	$ 219,254

3 ACQUIRED INTANGIBLE ASSETS AND GOODWILL

Intangible assets consist of the following:

	June 27, 2004				September 30, 2003			
Amortized Intangible Assets:	Gross Carrying Amount	Accum. Amort.	Cumulative Effect of Translation	Net	Gross Carrying Amount	Accum. Amort.	Cumulative Effect of Translation	Net
Proprietary technology	$ 11,281	$ (892)	$ 2,282	$ 12,671	$ 10,421	$ (340)	$ 1,766	$ 11,847
Customer lists	1,781	(360)	387	1,808	1,781	(210)	318	1,889
	$ 13,062	$ (1,252)	$ 2,669	$ 14,479	$ 12,202	$ (550)	$ 2,084	$ 13,736
Pension Intangibles								
Under-funded pension	$ 2,379	$	$	$ 2,379	$ 2,405	$	$	$ 2,405
Unamortized Intangible Assets:								
Trade names balance as of beginning of the period	$ 218,642	$ (4,875)	$ 22,962	$ 236,729	$ 90,000	$ (4,875)	$	$ 85,125
Trade name purchase price allocation during the period	159,000			159,000				
Translation during the period			6,701	6,701				
Trade name acquired during the period					128,642		22,962	151,604
Trade names balance as of the end of the period	$ 377,642	$ (4,875)	$ 29,663	$ 402,430	$ 218,642	$ (4,875)	$ 22,962	$ 236,729
Intangible assets, net	$ 393,083	$ (6,127)	$ 32,332	$ 419,288	$ 233,249	$ (5,425)	$ 25,046	$ 252,870

Goodwill	North America	Latin America	Europe/ROW	Total
Balance as of September 30, 2003, net	$ 285,418	$ 37,876	$ 75,086	$ 398,380
Goodwill recognized during the period	875	50,586	13,299	64,760
Purchase price allocation during the period	(159,860)			(159,860)

Goodwill	North America	Latin America	Europe/ROW	Total
Effect of translation		2,072	3,464	5,536
Balance as of June 27, 2004, net	$ 126,433	$ 90,534	$ 91,849	$ 308,816

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During 2004, the Company completed the acquisitions of Ningbo and Microlite. During 2003, the Company completed the acquisition of substantially all of the consumer battery business of VARTA AG ("VARTA") and the acquisition of Remington. The Company recognized intangible assets associated with the VARTA acquisition, including proprietary manufacturing technology, customer lists, and VARTA trade name intangibles. There was no allocation for the Remington trade name or other intangibles made in the Condensed Consolidated Balance Sheet as of September 30, 2003, as valuations relating to Remington had not been completed. During the nine months ended June 27, 2004, the Company allocated a portion of the Remington purchase price to unamortizable and amortizable intangible assets. The allocation consisted of $159,000 to the Remington trade name and $860 to various patented proprietary technology. The Company also recognized goodwill with the VARTA, Remington, Ningbo and Microlite acquisitions. The purchase price allocations for the Remington, Ningbo and Microlite acquisitions are not yet finalized as the Company is finalizing valuations of property, plant and equipment, inventory, and integration initiatives. Future allocations of the Remington, Ningbo and Microlite purchase prices may impact the amount and segment allocation of goodwill. See also footnote 10, "Acquisitions," for additional discussion of the Remington, Ningbo and Microlite acquisitions.

The proprietary technology assets are being amortized on a straight-line basis over 10 to 19 years and the customer lists are being amortized on a straight-line basis over 10 years. The Company has deemed that its trade name intangible assets have indefinite lives because they are expected to generate cash flows indefinitely, the Company has no intention of selling the trade names and there are no legal, regulatory, or contractual provisions that may limit the useful lives of the trade names. Goodwill and intangible assets deemed to have indefinite lives are tested for impairment annually.

Pursuant to the requirements of FASB No. 142, "Goodwill and Other Intangible Assets," the Company performed its annual impairment test of its non-Remington goodwill and its unamortized intangibles in the first quarter of 2004. The fair value of each of the Company's reporting units was determined using a discounted cash flow methodology and these impairment tests indicated the fair value of each reporting unit exceeded its carrying amount. As a result, no impairment was recorded.

The amortization expense for the three and nine months ended June 27, 2004 and June 29, 2003 is as follows:

	Three Months		**Nine Months**	
	2004	**2003**	**2004**	**2003**
Amortized intangible assets	$ 268	$ 170	$ 742	$ 256

The Company estimates annual amortization expense for the next five fiscal years will approximate $950 per year.

4 OTHER COMPREHENSIVE INCOME

Comprehensive income and the components of other comprehensive income for the three and nine months ended June 27, 2004 and June 29, 2003 are as follows:

	Three Months		Nine Months	
	2004	2003	2004	2003
Net income	$ 12,814	$ 2,869	$ 37,614	$ 2,566
Other comprehensive income:				
Foreign currency translation	(357)	6,706	6,845	8,408
Adjustment of additional minimum pension liability			133	
Net unrealized loss on available-for-sale securities				(20)
Reclassification adjustment for losses included in net income				250
Net unrealized gain (loss) on derivative instruments	1,286	(276)	2,988	(1,013)
Net change to derive comprehensive income for the period	929	6,430	9,966	7,625
Comprehensive income	$ 13,743	$ 9,299	$ 47,580	$ 10,191

Net exchange gains or losses resulting from the translation of assets and liabilities of foreign subsidiaries are accumulated in a separate section of shareholders' equity. Also included are the effects of exchange rate changes on intercompany balances of a long-term nature and transactions designated as hedges of net foreign investments. The changes in accumulated foreign currency translation for the three and nine months ended June 27, 2004 and June 29, 2003 were primarily attributable to the impact of translation of the net assets of our European operations, primarily denominated in Euros and Pounds Sterling.

5 NET INCOME PER COMMON SHARE

Net income per common share for the three and nine months ended June 27, 2004 and June 29, 2003 is calculated based upon the following number of shares:

	Three Months		Nine Months	
	2004	2003	2004	2003
Basic earnings per share	33,648	31,865	32,977	31,841
Effect of restricted stock and assumed conversion of stock options	1,740	634	1,436	620
Diluted earnings per share	35,388	32,499	34,413	32,461

6 DEBT

Outstanding debt consists of the following:

	June 27, 2004	September 30, 2003
Revolving credit facility	$ 54,500	$
Euro term A loan facility		49,563
Euro term B loan facility		139,067
Euro term C loan facility	138,821	
Term B loan facility		317,000
Term C loan facility	257,000	
Series B Senior Subordinated Debentures, due May 15, 2006, with interest at 11% payable semi-annually		5,424
Series D Senior Subordinated Debentures, due May 15, 2006, with interest at 11% payable semi-annually		50,586
Senior Subordinated Notes, due September 30, 2013, with interest at $8^1/_2$% payable semi-annually	350,000	350,000
Capital leases and other notes and obligations	45,498	31,752
	845,819	943,392
Less current maturities	21,606	72,852
Long-term debt	$ 824,213	$ 870,540

During the nine months ended June 27, 2004, the Company redeemed the remaining $56,010 of Series B and D Senior Subordinated Debentures assumed in connection with the acquisition of Remington. The notes were redeemed with the cash remaining following the Company's debt offering of $350,000 of 8.5% Senior Subordinated Notes issued in connection with the acquisition of Remington.

In addition, during the nine months ended June 27, 2004, the Company made payments of $60,000 on the Term B facility (which was subsequently refinanced and is now reflected as the Term C facility) using a combination of cash remaining following the debt offering of the Senior Subordinated Notes and cash generated from operating activities. Also during the nine months ended June 27, 2004, the Company made payments of $58,700 on the Euro term A and B Loan facilities (which were subsequently refinanced and are now reflected as the Euro term C facility) using cash generated from our operating activities.

Interest on the Euro term C loan facility is Euro-denominated LIBOR plus a fixed 3.00% margin per annum (5.08% at June 27, 2004). Interest on the Term C loan facility is at Dollar-denominated LIBOR plus a fixed 2.50% margin per annum (3.73% at June 27, 2004). The new term loans expire in September 2009.

Also, during the nine months ended June 27, 2004, the Third Amended and Restated Credit Agreement was amended ("Fourth Amendment") primarily to (i) reduce the fixed rate portion of interest ("Rate Margins") paid to lenders on our term loans, (ii) permit the Company to request, from time to time, that lenders increase their individual term loan commitments up to a cumulative aggregate of $150,000 or its equivalent (each lender having the discretion to decline for their individual situation in which case the Company could invite new lenders as necessary to achieve the total amount

requested), and (iii) permit the Company to incur liens on property of Remington Australia, Remington New Zealand and Remington Ireland to secure local indebtedness otherwise permitted under the agreement.

The term facilities, as amended in the Fourth Amendment, provide for quarterly amortization over their remaining terms totaling approximately $2,979 in 2005, $4,050 in 2006 and 2007, $45,135 in 2008 and $339,607 in 2009.

Subsequent to June 27, 2004, the Third Amended and Restated Credit Agreement was amended in July 2004 ("Fifth Amendment") primarily to (i) increase permitted levels of investments by the Company in its foreign subsidiaries to $100,000, (ii) increase permitted indebtedness of foreign subsidiaries to third parties to $100,000 and permit such subsidiaries to grant liens securing such indebtedness if otherwise permitted, (iii) permit foreign subsidiaries to factor accounts receivable, (iv) define 80%-owned subsidiaries as wholly owned and permit such subsidiaries to pay pro-rata dividends out of earnings to minority shareholders and (v) increase permitted annual capital expenditures to $50,000.

At June 27, 2004, the Company had Committed Senior Credit Facilities and Senior Subordinated Notes of approximately $915,000, of which approximately $99,000 remains available as of June 27, 2004.

At June 27, 2004, the Company was in compliance with all covenants associated with its Senior Credit Facilities and its Senior Subordinated Notes.

7 COMMITMENTS AND CONTINGENCIES

Commitments and Contingencies: The Company has provided for the estimated costs associated with environmental remediation activities at certain of its current and former manufacturing sites. The Company believes that any additional liability in excess of the amounts provided of $5,361, which may result from resolution of these matters, will not have a material adverse effect on the financial condition, results of operation, 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. Such litigation includes shareholder lawsuits, trademark infringement litigation initiated by Koninklijke Philips Electrics N.V. in several European countries with regard to rotary shavers, patent infringement claims by the Gillette Company and its subsidiary Braun GmbH, and a lawsuit alleging misleading advertising, filed by Norelco Consumer Products Company against the Company's former subsidiary, Remington Products Company, L.L.C. The Company cannot predict the ultimate outcome of these matters at this time and the amount of loss, if any, cannot be reasonably estimated. Accordingly, no loss has been recorded in the condensed consolidated financial statements.

On March 26, 2004, the Company announced it reached an agreement in principle to settle the shareholder lawsuits, which the court approved in July 2004. Under the terms of the $4,000 settlement, the Company's obligation is approximately $750, with the remaining amounts expected to be paid by the Company's insurers. The obligation is reflected in the Condensed Consolidated Statements of Operations in general and administrative expenses for the nine months ended June 27, 2004 and in the Condensed Consolidated Balance Sheet as of June 27, 2004 in accrued liabilities.

Employee Benefit Plans: The Company has various defined benefit pension plans covering substantially all of its employees in the United States and certain employees in other countries. Plans generally provide benefits of stated amounts for each year of service. The Company's practice is to fund pension costs at amounts within the acceptable ranges established by the Employee Retirement Income Security Act of 1974, as amended.

The Company also sponsors or participates in a number of other non-U.S. pension arrangements, including various retirement and termination benefit plans, some of which are covered by local law or coordinated with government-sponsored plans, which are not significant in the aggregate and therefore are not included in the information presented below.

The Company also has various nonqualified deferred compensation agreements with certain employees. Under a portion of these agreements, the Company has agreed to pay defined amounts annually for the first 15 years subsequent to retirement or to a designated beneficiary upon death. It is management's intent that life insurance contracts owned by the Company will fund these agreements. Under the remaining agreements, the Company has agreed to pay such amounts in up to 15 annual installments beginning on a date specified by the employee, subsequent to retirement or disability, or to a designated beneficiary upon death. The Company established a rabbi trust to fund these agreements.

The Company has adopted the interim-period disclosure requirements of FASB No. 132 (revised 2003), "*Employer's Disclosures about Pension and Other Post Retirement Benefits*." The provisions of FASB No. 132, as revised, require additional disclosures to those in the original FASB No. 132 regarding assets, obligations, cash flows, and net periodic pension benefit cost of defined benefit plans and other defined benefit post retirement plans.

The Company's results of operations for the three and nine months ended June 27, 2004 and June 29, 2003, respectively, reflect the following pension benefit and deferred compensation costs.

	Three Months		Nine Months	
Components of net periodic pension benefit and deferred compensation cost	**2004**	**2003**	**2004**	**2003**
Service cost	$ 471	$ 371	$ 1,400	$ 1,114
Interest cost	999	867	2,983	2,603
Expected return on assets	(555)	(585)	(1,648)	(1,726)
Amortization of prior service cost	138	93	282	280
Amortization of transition obligation	11	11	33	33
Loss on curtailments				702
Recognized net actuarial loss	128	137	514	381
Net periodic benefit cost	$ 1,192	$ 894	$ 3,564	$ 3,387

	Three Months		Nine Months	
Pension and deferred compensation contributions	**2004**	**2003**	**2004**	**2003**
Contributions made during period	$ 563	$ 232	$ 1,756	$ 1,643

8 RESTRUCTURING AND RELATED CHARGES

The Company reports restructuring charges relating to manufacturing and related initiatives in cost of goods sold. Restructuring and related charges reflected in cost of goods sold include, but are not limited to, termination and related costs associated with manufacturing employees, asset impairments relating to manufacturing functions, and other costs directly related to the restructurings and other related initiatives.

The Company reports restructuring and related charges relating to administrative functions in operating expenses. These include initiatives impacting sales, marketing, distribution, or other non-manufacturing related functions. Restructuring and related charges reflected in operating expenses include, but are not limited to, termination and related costs, asset impairments relating to the functional areas described above, and other costs directly related to the initiatives implemented. On January 13, 2004, the Company committed to and announced a series of initiatives to position itself for future growth opportunities and to optimize the global resources of the combined Remington and Rayovac companies. These initiatives include: integrating all of Remington's North America administrative services, marketing, sales, and customer service functions into the Company's North America headquarters in Madison, Wisconsin; moving Remington's Bridgeport, Connecticut manufacturing facility to the Company's Portage, Wisconsin manufacturing location; creation of a global product development group in the Company's technology center in Madison, Wisconsin; closing Remington's Service Centers in the United States and the United Kingdom; consolidating distribution centers; and moving the Company's corporate headquarters to Atlanta, Georgia. The Company also announced the integration of its sales and marketing organizations throughout continental Europe.

During the nine months ended June 27, 2004, restructuring and related charges included in cost of goods sold include the benefit of approximately $1,100 related to a reduction to previously established inventory obsolescence estimates. These initiatives are now completed and the change in estimate is reflected in the 2003 Restructuring Summary.

During the nine months ended June 27, 2004, operating expenses include restructuring and related charges of approximately $7,700 related to: (i) North America restructuring initiatives of approximately $4,700 primarily related to termination benefits of approximately $3,600 and recruiting and relocation costs of approximately $1,100, (ii) European integration initiatives of approximately $2,400 reflecting termination benefits, fixed asset impairments, and lease cancellation costs, (iii) charges related to pre-acquisition executive compensation agreements with certain Remington employees of approximately $2,000, and (iv) changes in estimates associated with Fiscal 2003 restructuring initiatives in North America and Europe of $1,400 reflecting lower termination benefits and lower distributor termination costs than initially estimated. The changes in estimates are reflected in the 2003 Restructuring Summary.

2004 Restructuring Summary

	Termination Benefits	Other Costs	Total
Expense accrued	$ 1,100	$	$ 1,100
Balance December 28, 2003	1,100		1,100
Expense accrued	4,800		4,800
Expense as incurred		100	100
Cash expenditures	(3,200)	(100)	(3,300)
Balance March 28, 2004	2,700		2,700
Expenses accrued	1,000	500	1,500
Expense as incurred	700	900	1,600
Cash expenditures	(700)	(1,100)	(1,800)
Balance June 27, 2004	$ 3,700	$ 300	$ 4,000

The 2004 restructuring initiatives are expected to be completed by the end of 2005.

During the nine months ended June 29, 2003, restructuring and related charges included in cost of goods sold approximate $21,700 related to: (i) the closure in October 2002 of the Company's Mexico City, Mexico plant and integration of production into the Company's Guatemala City, Guatemala manufacturing location, resulting in charges of approximately $6,200, including termination payments of approximately $1,400, fixed asset and inventory impairments of approximately $4,300, and other shutdown related expenses of approximately $500; (ii) the relocation of our Madison, Wisconsin packaging facility and Middleton, Wisconsin distribution facility to a new leased distribution and packaging facility in Dixon, Illinois, resulting in charges of approximately $13,200, including non cash pension curtailment costs of approximately $700, termination benefits of approximately $2,200, fixed asset and inventory impairments of approximately $8,800, and relocation expenses and other shutdown related expenses of approximately $1,500; and (iii) a series of restructuring initiatives impacting the Company's manufacturing functions in Europe and North America resulting in charges of approximately $2,300, including termination benefits of approximately $1,300 and inventory and asset impairments of approximately $1,000.

During the nine months ended June 29, 2003, operating expenses include restructuring and related charges of approximately $9,900 related to: (i) North America and Corporate restructuring initiatives of approximately $6,700 related to termination benefits of approximately $5,200, research and development contract termination costs of approximately $500, fixed asset impairments of approximately $300 associated with the relocation to the Company's new combined leased distribution and packaging facility in Dixon, Illinois, and other expenses of approximately $700; (ii) European integration initiatives of approximately $1,100, which include approximately $600 of termination benefits, assets impairments of approximately $200, and other expenses of approximately $300; and (iii) Latin America integration initiatives of $2,100, primarily reflecting termination benefits associated with the integration of the Company's Mexico and Colombia businesses.

2003 Restructuring Summary

	Termination Benefits	Other Costs	Total
Balance September 30, 2003	$ 3,200	$ 6,000	$ 9,200
Cash expenditures	(1,200)	(200)	(1,400)
Non cash charges		(3,200)	(3,200)
Balance December 28, 2003	2,000	2,600	4,600
Change in estimate		(1,100)	(1,100)
Cash expenditures	(600)		(600)
Balance March 28, 2004	1,400	1,500	2,900
Change in estimate	(700)	(700)	(1,400)
Cash expenditures	(200)	(800)	(1,000)
Balance June 27, 2004	$ 500	$	$ 500

The 2003 restructuring initiatives are expected to be completed by the end of the 2004 calendar year.

9 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, South America and the Caribbean; Europe/Rest of World ("Europe/ROW") includes continental Europe, the United Kingdom, China and all other remaining countries in which the Company does business.

The Company manufactures and markets dry cell batteries including alkaline, zinc carbon, hearing aid, and other specialty batteries throughout the world. The Company also designs and markets lighting products, electric shavers and accessories, electric grooming products, and hair care appliances. All of these product lines are sold in North America and Europe/ROW. Latin America sales are primarily derived from zinc carbon and alkaline batteries.

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 net sales are based upon the geographic area in which the product is sold.

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

The reportable segment assets do not include cash, tax assets or liabilities, investments, and current and long-term intercompany receivables. All capital expenditures relate to reportable segments. Variable allocations of assets are not made for segment reporting.

Segment information for the three and nine months ended June 27, 2004 and June 29, 2003 is as follows:

	Three Months		Nine Months	
	2004	2003	2004	2003
Net sales to external customers				
North America	$ 136,227	$ 81,176	$ 484,535	$ 266,853
Europe/ROW	136,738	96,146	453,392	312,787
Latin America	35,299	30,351	102,370	90,522
Total segments	$ 308,264	$ 207,673	$ 1,040,297	$ 670,162

	Three Months		Nine Months	
	2004	2003	2004	2003
Inter segment net sales				
North America	$ 9,177	$ 8,517	$ 62,711	$ 24,198
Europe/ROW	2,999	2,990	11,139	9,101
Latin America	111	4	206	4
Total segments	$ 12,287	$ 11,511	$ 74,056	$ 33,303

	Three Months		Nine Months	
	2004	2003	2004	2003
Segment profit				
North America	$ 32,016	$ 14,249	$ 85,614	$ 44,957
Europe/ROW	21,076	13,296	74,210	39,008
Latin America	2,856	5,048	8,966	