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

FORM 10Q

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

For the quarterly period ended January 3, 1999

OR

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

For the transition period from ________ to ________

Commission File Number 333-17895

Rayovac Corporation

(Exact name of registrant as specified in its charter)

Wisconsin	22-2423556
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

601 Rayovac Drive, Madison, Wisconsin 53711

(Address of principal executive offices) (Zip Code)

(608) 275-3340

(Registrant's telephone number, including area code)

not applicable

(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 (X) No ( )

The number of shares outstanding of the Registrant's common stock, $.01 par value, as of February 17, 1999, was 27,484,780.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

RAYOVAC CORPORATION
Condensed Consolidated Balance Sheets
As of January 3, 1999 and September 30, 1998
(In thousands, except per share amounts)

-ASSETS-

	January 3, 1999 (Unaudited)	September 30, 1998
Current assets:		
Cash and cash equivalents	$ 2,742	$ 1,594
Receivables	108,386	104,335
Inventories	56,405	62,762
Prepaid expenses and other	18,545	14,729

Total current assets	186,078	183,420
Property, plant and equipment, net	72,448	71,367
Deferred charges and other	38,134	31,554
Total assets	$ 296,660	$ 286,341

-LIABILITIES AND SHAREHOLDERS' EQUITY-

Current liabilities:		
Current maturities of long-term debt	$ 4,766	$ 3,590
Accounts payable	63,381	64,799
Accrued liabilities:		
Wages and benefits and other	28,867	26,585
Recapitalization and other special charges	4,136	6,789
Total current liabilities	101,150	101,763
Long-term debt, net of current maturities	149,139	148,686
Employee benefit obligations, net of current portion	10,788	10,433
Other	4,011	3,585
Total liabilities	265,088	264,467
Shareholders' equity:		
Common stock, $.01 par value, authorized 150,000 shares; issued 56,959 and 56,907 shares respectively; outstanding 27,485 and 27,471 shares, respectively	570	569
Additional paid-in capital	103,533	103,304
Notes receivable from officers/shareholders	(890)	(890)
Retained earnings	55,727	45,735
	158,940	148,718
Less stock held in trust for deferred compensation plan, 15 and 24 shares, respectively	(337)	(412)
Less treasury stock, at cost, 29,474 and 29,436 shares, respectively	(128,975)	(128,472)
Accumulated other comprehensive income (expense):		
Foreign currency translation adjustment	2,404	2,500
Minimum pension liability adjustment	(460)	(460)
Total shareholders' equity	31,572	21,874
Total liabilities and shareholders' equity	$ 296,660	$ 286,341

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

RAYOVAC CORPORATION
Condensed Consolidated Statements of Operations
For the three month periods ended January 3, 1999 and December 27, 1997
(Unaudited)
(In thousands, except per share amounts)

	Fiscal 1999	Fiscal 1998
Net sales	$ 160,542	$ 149,995
Cost of goods sold	81,859	77,407
Gross profit	78,683	72,588
Selling	47,589	45,472
General and administrative	8,794	7,677
Research and development	2,081	2,057
Other special charges (income)	648	(1,219)
Total operating expenses	59,112	53,987
Income from operations	19,571	18,601
Other expense (income):		
Interest expense	3,656	5,024
Other expense (income)	227	(233)
	3,883	4,791
Income before income taxes and extraordinary item	15,688	13,810
Income tax expense	5,696	5,276
Income before extraordinary item	9,992	8,534
Extraordinary item, loss on early extinguishment of debt, net of income tax benefit of $1,263	--	1,975
Net income	$ 9,992	$ 6,559
Basic earnings per share		
Average shares outstanding	27,483	23,453
Income before extraordinary item	$ 0.36	$ 0.36
Extraordinary item	--	(0.08)
Net income	$ 0.36	$ 0.28
Diluted earnings per share		
Average shares outstanding and common stock equivalents	29,171	25,091
Income before extraordinary item	$ 0.34	$ 0.34
Extraordinary item	--	(0.08)
Net income	$ 0.34	$ 0.26

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

RAYOVAC CORPORATION
Condensed Consolidated Statements of Cash Flows
For the three month periods ended January 3, 1999 and December 27, 1997
(Unaudited)
(In thousands)

	Fiscal 1999	Fiscal 1998
Cash flows from operating activities:		
Net income	$ 9,992	$ 6,559
Non-cash adjustments to net income:		
Amortization	693	483
Depreciation	2,889	2,834
Net changes in other assets and liabilities, net of effects from acquisition	(7,567)	(8,155)
Net cash provided by operating activities	6,007	1,721
Cash flows from investing activities:		
Purchases of property, plant and equipment	(3,995)	(1,832)
Payment for acquisition	--	(4,853)
Net cash used by investing activities	(3,995)	(6,685)
Cash flows from financing activities:		
Reduction of debt	(3,831)	(69,922)
Proceeds from debt financing	3,318	2,333
Proceeds from issuance of common stock	--	88,299
Other	(351)	45
Net cash provided (used) by financing activities	(864)	20,755
Effect of exchange rate changes on cash and cash equivalents	--	(18)
Net increase in cash and cash equivalents	1,148	15,773
Cash and cash equivalents, beginning of period	1,594	1,133
Cash and cash equivalents, end of period	$ 2,742	$ 16,906

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

1 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: These financial statements have been prepared by Rayovac Corporation (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and, in the opinion of the Company, include all adjustments (all of which are normal and recurring in nature) necessary to present fairly the financial position of the Company at January 3, 1999, results of operations for the three month periods ended January 3, 1999, and December 27, 1997, and cash flows for the three month periods ended January 3, 1999, and December 27, 1997. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such SEC rules and regulations. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto as of September 30, 1998. Certain prior year amounts have been reclassified to conform with the current year presentation.

Derivative Financial Instruments: Derivative financial instruments are used by the Company principally in the management of its interest rate, foreign currency and raw material price exposures.

The Company uses interest rate swaps to manage its interest rate risk. The net amounts to be paid or received under interest rate swap agreements designated as hedges are accrued as interest rates change, and are recognized over the life of the swap agreements, as an adjustment to interest expense from the underlying debt to which the swap is designated. The related amounts payable to, or receivable from, the counterparties are included in accrued liabilities or accounts receivable. The Company has entered into an interest rate swap agreement which effectively fixes the interest rate on floating rate debt at a rate of 6.16% for a notional principal amount of $62,500 through October 1999. The fair value of the unrealized portion of this contract at January 3, 1999 is ($565).

The Company has entered into an amortizing cross currency interest rate swap agreement related to financing the acquisition of Brisco. The agreement effectively fixes the interest and foreign exchange on floating rate debt denominated in U.S. Dollars at a rate of 5.34% denominated in German Marks. The unamortized notional principal amount at January 3, 1999 is $3,948. The fair value at January 3, 1999 ($278).

The Company enters into forward foreign exchange contracts to mitigate the risk from anticipated settlement in local currencies of intercompany purchases and sales. These contracts generally require the Company to exchange foreign currencies for U.S. dollars. The contracts are marked to market, and the related adjustment is recognized in other expense (income). The related amounts payable to, or receivable from, the counterparties are included in accounts payable or accounts receivable. The Company has $4,728 of forward exchange contracts at January 3, 1999. The fair value of the unrealized portion of the contracts at January 3, 1999, approximated the contract value.

The Company also enters into forward foreign exchange contracts to hedge the risk from anticipated settlement in local currencies of trade sales. These contracts generally require the Company to exchange foreign currencies for Pounds Sterling. The related amounts receivable from the trade customers are included in accounts receivable. The Company has approximately $5,519 of such forward exchange contracts at January 3, 1999. The fair value of the unrealized portion of the contracts at January 3, 1999, approximated the contract value.

The Company enters into forward foreign exchange contracts to hedge the risk from settlement in local currencies of trade purchases. These contracts generally require the Company to exchange foreign currencies for U.S. Dollars and Pounds Sterling. The Company has entered into foreign exchange contracts to hedge payment obligations denominated in Japanese Yen under a commitment to purchase certain production equipment from Matsushita. The Company has $6,682 of such forward exchange contracts outstanding at January 3, 1999. See related purchase commitment discussed in the commitments and contingencies note. The fair value at January 3, 1999 was $588.

The Company is exposed to risk from fluctuating prices for zinc and silver commodities used in the manufacturing process. The Company hedges some of this risk through the use of commodity swaps, calls and puts. The swaps effectively fix the floating price on a specified quantity of a commodity through a specified date. Buying calls allows the Company to purchase a specified quantity of a commodity for a fixed price through a specified date. Selling puts allows the buyer of the put to sell a specified quantity of a commodity to the Company for a fixed price through a specific date. The maturity of, and the quantities covered by, the contracts highly correlate to the Company's anticipated purchases of the commodities. The cost of the calls, and the premiums received from the puts, are amortized over the life of the contracts and are recorded in cost of goods sold, along with the effects of the swap, put and call contracts.

At January 3, 1999, the Company had entered into a series of swaps for zinc with a contract value of $5,930 for the period December 1998 through March 2000. At January 3, 1999, the Company had purchased a series of calls with a contract value of $690 and sold a series of puts with a contract value of $636 for portions of the period from January 1999 through March 1999, designed to set a ceiling and floor price for zinc. While these transactions have no carrying value, the fair value of the unrealized portion of these contracts was ($571) at January 3, 1999.

At January 3, 1999, the Company had entered into a series of swaps for silver with a contract value of $1,128 for the period December 1998 through March 1999. While these transactions have no carrying value, the fair value of the unrealized portion of these contracts at January 3, 1999 was ($118).

2 INVENTORIES

Inventories consist of the following:

	January 3, 1999	September 30, 1998
Raw material	$20,553	$22,311
Work-in-process	15,363	16,230
Finished goods	20,489	24,221
	$56,405	$62,762

3 OTHER COMPREHENSIVE INCOME

Effective October 1, 1998 the Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, Reporting Comprehensive Income. SFAS No. 130 requires the reporting of comprehensive income in addition to net income from operations. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income.

Comprehensive income and the components of other comprehensive income (loss) for the three months ended January 3, 1999 and December 27, 1997 are as follows:

	Fiscal 1999	Fiscal 1998
Net income	$9,992	$6,559
Other comprehensive income (loss) foreign currency translation	(96)	606
Comprehensive income	$9,896	$7,165

4 EARNINGS PER SHARE DISCLOSURE

Earnings per share is calculated based upon the following:

	Three month period ended January 3, 1999			Three month period ended December 27, 1997		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income before extraordinary item	$9,992			$8,534		
Basic EPS Income available to common shareholders	$9,992	27,483	$0.36	$8,534	23,453	$0.36
Effect of Dilutive Securities Stock Options		1,688			1,638	
Diluted EPS Income available to common shareholders plus assumed conversion	$9,992	29,171	$0.34	$8,534	25,091	$0.34

5 COMMITMENTS AND CONTINGENCIES

In March 1998, the Company entered into an agreement to purchase certain equipment and to pay annual royalties. In connection with the 1998 agreement the Company committed to pay royalties of $2,000 in 1998 and 1999, $3,000 in 2000 through 2003, and $500 in each year thereafter, as long as the related equipment patents are enforceable (2023). Additionally, the Company has committed to purchase $7,500 of production equipment and $411 of tooling.

The Company has provided for the estimated costs associated with environmental remediation activities at some of its current and former manufacturing sites. In addition, the Company, together with other parties, has been designated a potentially responsible party of various third-party sites on the United States EPA National Priorities List (Superfund). The Company provides for the estimated costs of investigation and remediation of these sites when such losses are probable and the amounts can be reasonably estimated. The actual cost incurred may vary from these estimates due to the inherent uncertainties involved. The Company believes that any additional liability in excess of the amounts provided of $1,499, which may result from resolution of these matters, will not have a material adverse effect on the financial condition, liquidity, or cash flow of the Company.

The Company has certain other contingent liabilities with respect to litigation, claims and contractual agreements arising in the ordinary course of business. In the opinion of management, such contingent liabilities are not likely to have a material adverse effect on the financial condition, liquidity or cash flow of the Company.

6 OTHER

During the year ended September 30, 1998, the Company recorded special charges and credits as follows: (i) a credit of $1,243 related to the settlement of deferred compensation agreements with certain former employees, (ii) charges of $5,280 related to (a) the September 1998 closing of the Company's Newton Aycliffe, United Kingdom, packaging facility, (b) the phasing out of direct distribution by June 1998 in the United Kingdom, and (c) the September 1998 closing of one of the Company's German sales offices, which amounts include $1,771 of employee termination benefits for 73 employees, $1,457 of lease cancellation costs, and $1,032 of equipment and intangible asset write-offs, and $1,020 of other costs, (iii) charges of $2,184 related to the closing by April 1999 of the Company's Appleton, Wisconsin, manufacturing facility, which amount includes $1,449 of employee termination benefits for 153 employees, $200 of fixed asset write-offs and $535 of other costs, (iv) charges of $1,963 related to the exit by March 1999 of certain manufacturing operations at the Company's Madison, Wisconsin, facility, which amount includes $295 of employee termination benefits for 29 employees, $1,256 of fixed asset write-offs, and $412 of other costs, (v) a $2,435 gain on the sale of the Company's previously closed Kinston, North Carolina, facility, (vi) charges of $854 related to the secondary offering of the Company's common stock, and (vii) miscellaneous credits of $420. A summary of the 1998 restructuring activities follows:

1998 Restructuring Summary

	Termination benefits	Other costs	Total
Expense accrued	$3,700	$3,800	$7,500
Change in estimate	(100)	500	400
Expensed as incurred	200	1,300	1,500
Cash expenditures	(1,500)	(1,400)	(2,900)
Non-cash charges	--	(1,600)	(1,600)
Balance 9/30/98	$2,300	$2,600	$4,900
Change in estimate	(500)	--	(500)
Expensed as incurred	300	800	1,100
Cash expenditures	(900)	(2,100)	(3,000)
Non-cash charges	--	(100)	(100)
Balance 1/03/99	$1,200	$1,200	$2,400

During the year ended September 30, 1997, the Company recorded special charges as follows: (i) $2,500 of charges related to the exit of certain manufacturing and distribution operations at the Company's Kinston, North Carolina facility by early fiscal 1998, which includes $1,100 of employee termination benefits for 137 employees, (ii) $1,400 of employee termination benefits for 71 employees related to organizational restructuring in Europe and the exit of certain manufacturing operations in the Company's Newton Aycliffe, United Kingdom facility which the Company completed in fiscal 1998, (iii) $2,000 of charges for employee termination benefits for 77 employees related to organizational restructuring in the United States which the Company completed in fiscal 1998. The number of employees anticipated to be terminated was approximately equal to the actual numbers referenced above. The charges were partially offset by a $2,900 million gain related to the curtailment of the Company's defined benefit pension plan covering all domestic non-union employees. A summary of the 1997 restructuring activities follows:

1997 Restructuring Summary

	Termination benefits	Other costs	Total
Expenses accrued	$4,000	$600	$4,600
Change in estimate	500	600	1,100
Expensed as incurred	--	200	200
Expenditures	(3,300)	(700)	(4,000)
Balance 9/30/97	$1,200	$700	$1,900
Change in estimate	--	--	--
Expensed as incurred	--	--	--
Expenditures	(700)	--	(700)
Balance 12/27/97	$500	$700	$1,200

Change in estimate	(100)	(400)	(500)
Expensed as incurred	--	--	--
Expenditures	(200)	(200)	(400)
Balance 3/28/98	$200	$100	$300
Change in estimate	--	--	--
Expensed as incurred	--	--	--
Expenditures	--	(100)	(100)
Balance 6/27/98	$200	$ --	$200
Change in estimate	(100)	--	(100)
Expensed as incurred	--	--	--
Expenditures	(100)	--	(100)
Balance 9/30/98	$ --	$ --	$ --

7 SUBSEQUENT EVENTS

On December 23, 1998 the Company entered into a Stock Purchase Agreement to acquire 99.6% of the outstanding common stock of ROV Limited ("ROV") for a purchase price of $120,000. Subsequently, the Company agreed in principle to acquire the remaining 0.4% of ROV's outstanding common stock, together with minority interests in certain of ROV's subsidiaries currently owned by a ROV distributor, for an additional $15,000. The Company currently is negotiating to change the structure and related aspects of its planned ROV Limited acquisition and, as a result, closing of the acquisition will be delayed to March, 1999. There can be no assurance, however, that the Company will be successful in these negotiations or that the Company will complete an acquisition of the common stock or business of ROV Limited.

On December 24, 1998 the Company filed a registration statement with the SEC for a stock offering of 6,000 shares of common stock. Of the total shares offered, 4,000 new shares would be offered by the Company with the net proceeds of the stock sale to partially finance the ROV Limited acquisition. Another 2,000 shares would be offered by the existing shareholders. On January 27, 1999 the Company announced it would not proceed with the equity offering under the previously-filed registration statement which was not yet effective.

On January 27, 1999 the Company announced its intent to enter into $300,000 of new senior secured credit facilities with a banking syndicate, led by the agent for the existing syndicate, to finance the entire ROV Limited acquisition and refinance debt outstanding under the Company's existing bank facilities.

8 GUARANTOR SUBSIDIARY (ROV Holding, Inc.)

The following condensed consolidating financial data illustrate the composition of the consolidated financial statements. Investments in subsidiaries are accounted for by the Company and the Guarantor Subsidiary using the equity method for purposes of the consolidating presentation. Earnings of subsidiaries are therefore reflected in the Company's and Guarantor Subsidiary's investment accounts and earnings. The principal elimination entries eliminate investments in subsidiaries and inter-company balances and transactions. Separate financial statements of the Guarantor Subsidiary are not presented because management has determined that such financial statements would not be material to investors.

RAYOVAC CORPORATION AND SUBSIDIARIES
Condensed Consolidating Balance Sheet
January 3, 1999
(Unaudited)
(In thousands)

-ASSETS-

	Parent	Guarantor Subsidiary	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:					
Cash and cash equivalents	$ 2,415	$ 43	$ 284	$ --	$ 2,742
Receivables	$ 97,789	280	19,049	(8,732)	108,386
Inventories	45,550	--	10,681	174	56,405
Prepaid expenses and other	17,061	342	1,142	--	18,545
Total current assets	162,815	665	31,156	(8,558)	186,078
Property, plant and equipment, net	67,666	--	4,782	--	72,448
Deferred charges and other	38,886	--	5,280	(6,032)	38,134
Investment in subsidiaries	17,504	16,930	--	(34,434)	--
Total assets	$ 286,871	$ 17,595	$ 41,218	$ (49,024)	$ 296,660

-LIABILITIES AND SHAREHOLDERS' EQUITY-

	Parent	Guarantor Subsidiary	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Current liabilities:					
Current maturities of long-term debt	$ 2,260	$ --	$ 3,516	$ (1,010)	$ 4,766
Accounts payable	57,225	--	13,060	(6,904)	63,381
Accrued liabilities:					
Wages and benefits and other	25,779	(140)	4,292	(1,064)	28,867
Recapitalization and other special charges	4,012	--	124	--	4,136
Total current liabilities	89,276	(140)	20,992	(8,978)	101,150
Long-term debt, net of current maturities	149,939	--	3,031	(3,831)	149,139
Employee benefit obligations, net of current portion	10,788	--	--	--	10,788
Other	3,515	231	265	--	4,011
Total liabilities	253,518	91	24,288	(12,809)	265,088
Shareholders' equity:					
Common stock	570	--	12,072	(12,072)	570
Additional paid-in capital	103,533	3,525	750	(4,275)	103,533
Notes receivable from officers/shareholders	(890)	--	--	--	(890)
Retained earnings	57,508	11,575	1,704	(15,060)	55,727
	160,721	15,100	14,526	(31,407)	158,940
Less stock held in trust for deferred compensation plan	(337)	--	--	--	(337)
Less treasury stock, at cost	(128,975)	--	--	--	(128,975)
Accumulated other comprehensive income (expense):					
Foreign currency translation adjustment	2,404	2,404	2,404	(4,808)	2,404
Minimum pension liability adjustment	(460)	--	--	--	(460)
Total shareholders' equity	33,353	17,504	16,930	(36,215)	31,572
Total liabilities and shareholders' equity	$ 286,871	$ 17,595	$ 41,218	$ (49,024)	$ 296,660

RAYOVAC CORPORATION AND SUBSIDIARIES

Condensed Consolidating Statements of Operations
For the three month period ended January 3, 1999
(Unaudited)
(In thousands)

	Parent	Guarantor Subsidiary	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$ 149,041	$ --	$ 19,977	$ (8,476)	$ 160,542
Cost of goods sold	78,617	--	11,722	(8,480)	81,859
Gross profit	70,424	--	8,255	4	78,683
Selling	42,549	--	5,040	--	47,589
General and administrative	7,158	(246)	1,900	(18)	8,794
Research and development	2,081	--	--	--	2,081
Other special charges	71	--	577	--	648
Total operating expenses	51,859	(246)	7,517	(18)	59,112
Income from operations	18,565	246	738	22	19,571
Other expense (income):					
Interest expense	3,459	--	195	2	3,656
Equity in profit of subsidiary	(371)	(302)	--	673	--
Other expense (income)	24	9	196	(2)	227
	3,112	(293)	391	673	3,883
Income (loss) before income taxes	15,453	539	347	(651)	15,688
Income tax expense	5,483	168	45	--	5,696
Net income (loss)	$ 9,970	$ 371	$ 302	$ (651)	$ 9,992

RAYOVAC CORPORATION AND SUBSIDIARIES
Condensed Consolidating Statement of Cash Flows
For the three month period ended January 3, 1999
(Unaudited)
(In thousands)

	Parent	Guarantor Subsidiary	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net cash provided by operating activities	$ 7,283	$ (1)	$ (996)	$ (279)	$ 6,007
Cash flows from investing activities:					
Purchases of property, plant and equipment	(3,951)	--	(44)	--	(3,995)
Payment for acquisition	--	--	--	--	--
Net cash used by investing activities	(3,951)	--	(44)	--	(3,995)
Cash flows from financing activities:					
Reduction of debt	(2,447)	--	(1,730)	346	(3,831)
Proceeds from debt financing	500	--	2,885	(67)	3,318
Proceeds from issuance of common stock	--	--	--	--	--
Other	(325)	--	(26)	--	(351)
Net cash provided (used) by financing activities	(2,272)	--	1,129	279	(864)
Effect of exchange rate changes on cash and cash equivalents	--	--	--	--	--
Net increase (decrease) in cash and cash equivalents	1,060	(1)	89	--	1,148
Cash and cash equivalents, beginning of period	1,355	44	195	--	1,594
Cash and cash equivalents, end of period	$ 2,415	$ 43	$ 284	$ --	$ 2,742

Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations

Fiscal First Quarter Ended January 3, 1999 Compared to Fiscal First Quarter Ended December 27, 1997

Net Sales. Net sales for the three months ended January 3, 1999 (the "Fiscal 1999 Quarter") increased $10.5 million, or 7.0%, to $160.5 million from $150.0 million in the three months ended December 27, 1997 (the "Fiscal 1998 Quarter"). The increase was driven by increased sales of alkaline, alkaline rechargeable, hearing aid, lighting products, and specialty products partially offset by the continued decline in heavy duty battery sales and a decrease in watch battery sales.

Alkaline sales in the Fiscal 1999 Quarter increased $3.9 million, or 4.5%, to $87.6 million from $83.7 million in the same period a year ago. The growth in alkaline was due to expanded distribution and strong promotional programs partially offset by a slowdown in orders as mass merchandisers adjusted inventories and a decision to exit certain private label battery business in England.

Alkaline rechargeable sales increased $2.0 million, or 28.2%, versus the same period a year ago due to increased distribution of rechargeables with a major retailer of rechargeables and expanded international distribution.

Hearing aid battery sales increased $1.3 million, or 7.7%, compared to the same period a year ago due to increased distribution with existing customers and the impact of the Best Labs acquisition completed during the second quarter of Fiscal 1998.

Lighting product sales increased $2.6 million, or 13.8%, to $21.2 million due primarily to new product launches, hurricane season inventory replenishments, and expanded distribution in our industrial lantern battery business.

Specialty battery sales increased $3.8 million to $5.1 million primarily attributable to the impact of the Direct Power Plus acquisition completed during the second quarter of Fiscal 1998.

Heavy duty sales decreased $1.5 million, or 10.4%, compared to the same period a year ago due primarily to the continued decline in the market as consumers move toward alkaline and away from heavy duty batteries.

Watch battery sales decreased $1.3 million, or 36.6%, compared to the same period a year ago due primarily to pricing pressures attributable to industry over-capacity.

Gross Profit. Gross profit increased $6.1 million, or 8.4%, to $78.7 million from $72.6 million in the Fiscal 1998 Quarter. Gross profit margin increased to 49.0% from 48.4% in the same period a year ago. These increases were primarily attributable to sales volume increases and reduced manufacturing costs as a result of cost rationalization initiatives launched in Fiscal 1997 and 1998.

Selling Expense. Selling expense increased $2.1 million, or 4.7%, to $47.6 million for the Fiscal 1999 Quarter from $45.5 million in the Fiscal 1998 Quarter. As a percentage of sales, selling expense decreased to 29.6% from 30.3% in the same period a year ago. The increase in dollars is due primarily to increased advertising and promotional spending in support of increased sales. The decrease in selling expense as a percentage of net sales is primarily attributable to the benefits of leveraging advertising, marketing, and selling expenses.

General and Administrative Expense. General and administrative expense increased $1.1 million, or 14.6%, to $8.8 million for the Fiscal 1999 Quarter from $7.7 million in the Fiscal 1998 Quarter. The increase was due primarily to increased costs associated with information system improvements and increased expenses and amortization related to acquisitions.

Research and Development Expense. Research and development expense was $2.1 million in the Fiscal 1999 Quarter which was approximately equal to the Fiscal 1998 Quarter.

Special Charges and (Income). Special charges for the Fiscal 1999 Quarter were $0.6 million compared to income of ($1.2) million in the Fiscal 1998 Quarter associated with the buyout of deferred compensation agreements. Special charges in the Fiscal 1999 Quarter reflect costs associated with closing our Appleton, Wisconsin and Newton Aycliffe, United Kingdom, facilities which was announced in the second quarter of fiscal 1998.

Income from Operations. Income from operations increased $1.0 million, or 5.2%, to $19.6 million from $18.6 million in the Fiscal 1998 Quarter. The increase was primarily attributable to increased sales and gross profit margins partially offset by increased expenses and special charges.

Interest Expense. Interest expense for the Fiscal 1999 Quarter decreased $1.3 million, or 27.2%, to $3.7 from $5.0 in the Fiscal 1998 Quarter. The decrease was primarily a result of decreased indebtedness due to our initial public offering completed in November 1997.

Other Expense/(Income). Foreign exchange losses and interest income resulted in net expense of $0.2 million in the Fiscal 1999 Quarter. In the Fiscal 1998 Quarter interest income was partially offset by foreign exchange losses and resulted in net income of ($0.2) million.

Income Tax Expense. Our effective tax rate before extraordinary item for the Fiscal 1999 Quarter was 36.3% compared to 38.2% for the Fiscal 1998 Quarter. The improved effective rate is impacted by lower state income taxes and a lower foreign tax rate as compared to our statutory rate.

Extraordinary Item. The Fiscal 1998 Quarter reflects an extraordinary expense of $2.0 million, net of tax, for the premium payment on the redemption of a portion of our Series B Senior Subordinated Notes.

Net Income. Net income for the Fiscal 1999 Quarter increased $3.4 million, or 52.3%, to $10.0 million from $6.6 million in the Fiscal 1998 Quarter. The increase reflects the impact of sales growth, improved margins, and the absence of the $2.0 million extraordinary item.

Liquidity and Capital Resources

For the Fiscal 1999 Quarter, operating activities provided $6.0 million in net cash compared with $1.7 million for Fiscal 1998 Quarter. Operating cash flow before working capital requirements generated $13.6 million in cash flow compared to $9.9 million in the year ago quarter reflecting improvements in income from operations and lower interest expense. Working capital requirements used cash of $7.6 million in the Fiscal 1999 Quarter which was $0.6 million favorable to the Fiscal 1998 Quarter primarily reflecting a smaller increase in receivables than was experienced in the Fiscal 1998 Quarter. Cash costs associated with the restructuring activities announced in Fiscal 1998 have been and are expected to be funded with cash provided from operations.

Net cash used by investing activities decreased $2.7 million versus the same period a year ago primarily reflecting the acquisition of Brisco for $4.9 million in the Fiscal 1998 Quarter. This decrease was partially offset by increased capital expenditures in the Fiscal 1999 Quarter. Capital expenditures for the Fiscal 1999 Quarter were approximately $4.0 million, an increase of $2.2 million from the Fiscal 1998 Quarter reflecting continued spending on the implementation of the new SAP business enterprise system and the building expansion at our Portage, Wisconsin manufacturing facility. The Company currently expects capital spending for fiscal 1999 to be approximately $24.0 million due to alkaline capacity expansion, alkaline vertical integration programs, building expansion at our Portage, Wisconsin, and our continued implementation of the new SAP computer system.

During the Fiscal 1999 First Quarter our board of directors granted approximately 285,000 options to purchase shares of common stock to various employees of the company under the 1996 Stock Option Plan and the 1997 Incentive Plan. All grants have been at an exercise price equal to the market price of the common stock on the date of the grant which was $16.19 per share.

In December, 1998 the Company agreed to acquire 99.6% of the outstanding common stock of ROV Limited ("ROV") for a purchase price of $120 million. Subsequently, the Company agreed in principle to acquire the remaining 0.4% of ROV's outstanding common stock, together with minority interests in certain of ROV's subsidiaries currently owned by a ROV distributor, for an additional $15 million. The Company currently is negotiating to change the structure and related aspects of its planned ROV Limited acquisition and, as a result, closing of the acquisition will be delayed to March, 1999. There can be no assurance, however, that the Company will be successful in these negotiations or that the Company will complete the acquisition of the common stock or business of ROV Limited.

In conjunction with the ROV acquisition, the Company intends to refinance its existing senior secured credit facilities. These new senior secured credit facilities will be used to finance the entire ROV Limited purchase and refinance the current debt outstanding under the Company's existing bank facilities. The new facilities will consist of a $225 million 5-year revolving credit facility ("Revolver") and a $75 million 5-year amortizing term loan. The Company expects that at the close of the ROV acquisition, approximately $159 million will be funded under the Revolver, leaving approximately $66 million available for future acquisitions and working capital needs. The Company is also seeking the consent of the holders of its 10 1/4% Series B Senior Subordinated Notes due 2006 (the "Notes") to certain amendments to the indenture governing the Notes to facilitate the ROV Limited acquisition and its planned financing thereof.

The Company had previously filed with the Securities and Exchange Commission a registration statement for an offering of common stock to finance a portion of its acquisition of ROV Limited. The Company has determined not to proceed with this equity offering.

The Company believes that cash flow from operating activities and periodic borrowings under its planned amended credit facilities will be adequate to meet the Company' short-term and long-term liquidity requirements prior to the maturity of those credit facilities, although no guarantee can be given in this regard. The Company's current credit facilities include a revolving credit facility of $90.0 million of which $77.7 million was outstanding as of January 3, 1999, with approximately $5.3 million utilized for outstanding letters of credit. The Company also has $7.8 million outstanding on its acquisition facility as of January 3, 1999.

Year 2000

The following should be read in conjunction with Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations in the Form 10-K as of September 30, 1998.

State of Readiness. The Company's Year 2000 Project is continuing on schedule with remediation and/or replacement of legacy systems scheduled for mid-1999.

Costs to Address Year 2000 Issues. Expenditures directly related to identification, evaluation and remediation of Year 2000 exposures are currently projected to be $0.8 million for fiscal 1999.

Capital expenditures for projects undertaken for other reasons but which address Year 2000 issues (primarily SAP) are currently projected to be $5.5 million for fiscal 1999. Other expenditures associated with these capital expenditures are currently projected to be $1.6 million for fiscal 1999.

Forward Looking Statements

Certain statements contained in this Form 10-Q are forward-looking statements which involve risks and uncertainties. Actual results may differ materially from those set forth in such forward-looking statements. Important factors that could cause the Company's actual results to differ materially from those set forth in such forward-looking statements are set forth in the Company's most recent Annual Report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Factors

The Company has market risk exposure from changes in interest rates, foreign currency exchange rates and commodity prices. Derivative financial instruments are used by the Company, for purposes other than trading purposes, to mitigate the risk from such exposures.

A discussion of the Company's accounting policies for derivative financial instruments is included in Note 1 "Significant Accounting Policies" in Notes to Condensed Consolidated Financial Statements.

Sensitivity Analysis

The change in fair value of outstanding derivative financial instruments is related to an opposing change in the value of the underlying asset or liability. The net impact on reported earnings and cash flows of finite shifts in the outstanding derivative financial instruments and the assets and liabilities underlying those instruments has not materially changed since the Company's most recently completed fiscal year end as set forth in its Annual Report on Form 10-K.

Part II. Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Number	Description
3.1+	Amended and Restated Articles of Incorporation of the Company.
3.2+	Amended and Restated By-laws of the Company.
4.1**	Indenture, dated as of October 22, 1996, by and among the Company, ROV Holding, Inc. and Marine Midland Bank, as trustee, relating to the Company's 10 1/4% Senior Subordinated Notes due 2006.
4.2**	Specimen of the Notes (included as an exhibit to Exhibit 4.1)
4.3****	Amended and Restated Credit Agreement, dated as of December 30, 1997, by and among the Company, the lenders party thereto and Bank of America National Trust and Savings Association ("BofA"), as Administrative Agent.
4.4**	The Security Agreement, dated as of September 12, 1996, by and among the Company, ROV Holding, Inc. and BofA.
4.5**	The Company Pledge Agreement, dated as of September 12, 1996, by and between the Company and BofA.
4.6***	Shareholders Agreement, dated as of September 12, 1996, by and among the Company and the shareholders of the Company referred to therein.

4.7***	Amendment No. 1 to Rayovac Shareholders Agreement, dated August 1, 1997, by and among the Company and the shareholders of the Company referred to therein.
4.8	Amendment No. 2 to Rayovac Shareholders Agreement, dated as of January 8, 1999, by and among the Company and the shareholders of the Company referred to therein.
4.9*	Specimen certificate representing the Common Stock.
10.1**	Management Agreement, dated as of September 12, 1996, by and between the Company and Thomas H. Lee Company.
10.2**	Confidentiality, Non-Competition and No-Hire Agreement, dated as of September 12, 1996, by and between the Company and Thomas F. Pyle.
10.3++	Amended and Restated Employment Agreement, dated as of April 27, 1998, by and between the Company and David A. Jones.
10.4++	Employment Agreement, dated as of April 27, 1998, by and between the Company and Kent J. Hussey.
10.5++++	Amendment to Employment Agreement, dated as of October 1, 1998, by and between the Company and Kent J. Hussey.
10.6++++	Severance Agreement by and between the Company and Randall J. Steward.
10.7++++	Severance Agreement by and between the Company and Roger F. Warren.
10.8++++	Severance Agreement by and between the Company and Stephen P. Shanesy.
10.9++++	Severance Agreement by and between the Company and Merrell M. Tomlin.

10.10**	Technology, License and Service Agreement between Battery Technologies (International) Limited and the Company, dated June 1, 1991, as amended April 19, 1993 and December 31, 1995.
10.11**	Building Lease between the Company and SPG Partners, dated May 14, 1985, as amended June 24, 1986 and June 10, 1987.
10.12	Amendment, dated December 31, 1998, between the Company and SPG Partners, to the Building Lease between the Company and SPG Partners, dated May 14, 1985.
10.13***	Rayovac Corporation 1996 Stock Option Plan.
10.14***	Rayovac Corporation 1997 Stock Option Plan.
10.15*	1997 Rayovac Incentive Plan.
10.16*	Rayovac Profit Sharing and Savings Plan.
10.17+++	Technical Collaboration, Sale and Supply Agreement, dated as of March 5, 1998, by and among the Company, Matsushita Battery Industrial Co., Ltd. and Matsushita Electric Industrial Co., Ltd.
27	Financial Data Schedule

* Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-35181) filed with the Commission.

** Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-17895) filed with the Commission.

*** Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 29, 1997 filed with the Commission on August 13, 1997.

**** Incorporated by reference to the Company's Registration Statement on Form S-3 (Registration No. 333-49281) filed with the Commission.

+ Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1997 filed with the Commission on December 23, 1997.

++ Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 27, 1998 filed with the Commission on August 4, 1998.

+++ Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 28, 1998 filed with the Commission on May 5, 1998.

++++ Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1998 filed with the Commission on December 24, 1998.

(b) Reports on Form 8-K. The Company filed no reports on Form 8-K during the Company's quarterly period ended January 3, 1999.

Signatures

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

DATE: February 17, 1999

RAYOVAC CORPORATION

By: /s/ Randall J. Steward

Randall J. Steward
Senior Vice President of Finance
and Chief Financial Officer

By: /s/ James A. Broderick

James A. Broderick
Vice President, General Counsel and Secretary

AMENDMENT NO. 2 TO SHAREHOLDERS AGREEMENT

AMENDMENT NO. 2, dated as of January 8, 1999, to the Shareholders Agreement, dated as of September 12, 1996, by and among Rayovac Corporation, a Wisconsin corporation (the "Company"), and the shareholders of the Company referred to therein, as amended by an amendment agreement, dated as of August 1, 1997 (the "Shareholders Agreement"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Shareholders Agreement.

WHEREAS, pursuant to Section 4.2 of the Shareholders Agreement, the Shareholders Agreement may be amended by a written instrument duly executed by a majority in interest of the Shareholders and, if the Lee Group Shareholders, the Management Shareholders or the Non-Management Shareholders are adversely affected by such amendment, by a majority in interest of each such adversely affected group; and

WHEREAS, the signatories hereto represent a majority in interest of the Stockholders and a majority in interest of each of the Lee Group Shareholders and the Management Shareholders.

NOW THEREFORE, in consideration of the foregoing, the Shareholders Agreement is hereby amended as follows:

1. Clause (iii) of Section 2.1 is amended to read as follows:

"(iii) for any Lee Group Shareholder or Management Shareholder, made after a Public Offering, pursuant to a Rule 144 Transaction; provided that no Management Shareholder shall so Transfer Shares if it would result in the fraction W divided by X being greater than the fraction Y divided by Z, where "W" equals the aggregate number of Shares previously Transferred by such Management Shareholder (including its Permitted Transferees) pursuant to one or more Rule 144 Transactions or Public Offerings plus the aggregate number of Shares being so Transferred, "X" equals the maximum number of Shares beneficially owned by such Management Shareholder at any time since September 12, 1996 (including Shares owned by its Permitted Transferees and Shares subject to options, to the extent exercisable),

"Y" equals the aggregate number of Shares previously Transferred (without duplication) by the Lee Group Shareholders other than pursuant to a Permitted Transfer, and "Z" equals the maximum number of Shares beneficially owned by the Lee Group Shareholders at any time since September 12, 1996, in each case such number of Shares being equitably adjusted to account for stock dividends, stock splits, reverse stock splits or other similar reclassifications;"

2. Section 2.1 is amended to delete the following sentence therefrom:

"For purposes of this Section 2.1, "Proportionate Equity Interest" shall mean the number of Shares set forth on the Schedule opposite the Management Shareholder's name plus the number of Shares underlying options granted to such Management Shareholder on the date hereof (to the extent exercisable) divided by the aggregate number of Shares set forth on the Schedule opposite the names of the Lee Group Shareholders, in each case as equitably adjusted to account for stock dividends, stock splits, reverse stock splits or other similar reclassifications."

3. Section 3.2(b) is hereby amended to read as follows:

"If, pursuant to Section 3.3, the total amount of securities that all Holders and all other holders of securities which have applicable registration rights request to be included in an offering made pursuant to this Section 3.2 exceeds the amount of securities that the underwriters reasonably believe compatible with the success of the offering, then the Company will include in such registration only the number of securities which, in the good faith opinion of such underwriters, can be sold. The securities to be included in the registration shall be determined in accordance with Section 3.3."

4. The second and third sentence of Section 3.3 are amended to read as follows:

"Upon the written request of any Holder received by the Company within five (5) days after the giving of any such notice by the Company, the Company shall use its best efforts to cause to be registered under the 1933 Act all of the Registrable Shares of each Holder that such Holder has requested be registered, provided that no Management Shareholder (or its Permitted Transferees) may sell pursuant to such registration an aggregate number of Shares if such sale would result in the fraction W divided by X being greater than the fraction Y divided by Z, where "W" equals the aggregate number of all Shares previously Transferred by such Management Shareholder (or its Permitted Transferees) pursuant to one or more Rule 144 Transactions and Public Offerings plus the aggregate number of Shares of the Management Shareholder (including its Permitted Transferees) being sold pursuant to such registration, "X" equals the maximum number of Shares beneficially owned by such Management Shareholder at any time since September 16, 1996 (including Shares held by its Permitted Transferees and Shares subject to options to the extent exercisable), "Y" equals the aggregate number of Shares previously Transferred by the Lee Group Shareholders other than pursuant to a Permitted Transfer plus the aggregate number of Shares of the Lee Group Shareholders being sold pursuant to such registration and "Z" equals the maximum number of Shares beneficially owned by the Lee Group Shareholders at any time since September 16, 1996, in each case such number of Shares being equitably adjusted to account for stock dividends, stock splits, reverse stock splits or other similar reclassifications. Subject to the foregoing, if the total amount of securities that are to be included by the Company (or other person (including any Shareholder) for whose account the registration is made) for its own account and at the request of Holders pursuant to this Section 3.3 and all other holders of securities which have applicable registration rights exceeds the amount of securities that the underwriters reasonably believe compatible with the success of the offering, then the Company will include in such registration only the number of securities which in the opinion of such underwriters can be sold, selected from the securities requested to be included by all Holders and all such other holders, to the extent such Shares are permitted to be sold pursuant to the foregoing sentence, pro rata based on the number of securities (including for any Management Shareholder securities underlying outstanding options granted to such Management Shareholder to the extent exercisable) which each of them owns."

This Amendment No. 2 may be signed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 2 to the Shareholders Agreement as of the date first written above.

RAYOVAC CORPORATION

By /s/ David A. Jones

David A. Jones
Chief Executive Officer

Lee Group Shareholders:

THOMAS H. LEE EQUITY FUND III, L.P.

By: THL Equity Advisors III Limited
Partnership, as General Partner
By: THL Equity Trust III,
as General Partner

By /s/ Scott A. Schoen

Name: Scott A. Schoen
Title: Trustee

THOMAS H. LEE FOREIGN FUND III, L.P.

By: THL Equity Advisors III Limited
Partnership, as General Partner
By: THL Equity Trust III,
as General Partner

By /s/ Scott A. Schoen

Name: Scott A. Schoen
Title: Trustee

THL-CCI LIMITED PARTNERSHIP

By: THL Investment Management Corp.,
as General Partner

By /s/ T. H. Lee

Name: Thomas H. Lee
Title: Sole Director

Management Shareholders:

/s/ David A. Jones	/s/ Dale R. Tetzlaff
David A. Jones	Dale R. Tetzlaff
/s/ Roger F. Warren	/s/ Trygve Lonnebotn
Roger F. Warren	Trygve Lonnebotn
/s/ Raymond L. Balfour	/s/ James A. Broderick
Raymond L. Balfour	James A. Broderick
/s/ Kenneth V. Biller	/s/ Kent J. Hussey
Kenneth V. Biller	Kent J. Hussey
/s/ Merrell M. Tomlin	/s/ Stephen P. Shanesy
Merrell M. Tomlin	Stephen P. Shanesy

FOURTH AMENDMENT
TO AGREEMENT OF LEASE

This Fourth Amendment to Agreement of Lease made as of the ______ day of November, 1998 by and between SPG Partners, a Wisconsin general partnership ("Landlord") and Rayovac Corporation, a Wisconsin corporation ("Tenant")

W I T N E S S E T H:

WHEREAS, Landlord and Tenant have entered into an agreement of lease dated May 14, 1985, as amended by First Amendment to Agreement of Lease dated as of June 24, 1986, Second Amendment to Agreement of Lease dated as of June 10, 1987 and Third Amendment to Agreement of Lease dated as of October 1, 1997 covering certain property located in the City of Madison, Dane County, Wisconsin, all as more particularly described therein (the "Lease");

WHEREAS, the parties hereto desire to amend the Lease effective as of December 31, 1998 in accordance with the terms hereof,

NOW, THEREFORE, for good and value consideration, the receipt in sufficiency of which is hereby acknowledged, Landlord and Tenant hereby agree as follows:

1. Article IV of the Lease is hereby deleted and restated in its entirety to read as follows:

ARTICLE IV

RENT, ESCROW DEPOSIT

4.01. Tenant covenants and agrees to pay to Landlord (or to any other person designated herein) as rent for the Demised Premises the following

(a) Fixed Rent amounting to $2,600,000.00 per annum, which amount shall be subject to adjustment based upon changes in the Consumer Price Index (the "CPI Adjustments") as provided in Section 4.02 (herein referred to as "Fixed Rent"); and

(b) Additional Rent consisting of all other sums of whatsoever nature which shall become due and payable by Tenant hereunder, and for default in the payment of which Landlord shall have the same remedies as for a default in the payment of Fixed Rent (herein referred to as "Additional Rent").

4.02. CPI Adjustments to the Fixed Rent shall be made on the seventh (7th), fourteenth (14th), eighteenth (18th) and twenty-fifth (25th) anniversaries of the Commencement Date and at such other times as are described in Article XXII of this lease (the "CPI Adjustment Dates"). CPI adjustments to the Fixed Rent shall be based upon changes in the "Consumer Price Index for all Urban Consumers, Milwaukee, Wisconsin" as that number is issued by the Bureau of Labor Statistics of the United States Department of Labor (the "CPI"). The CPI in effect for the month immediately prior to the month in which the Commencement Date occurs shall be called the "Beginning Index". The CPI published for the month immediately preceding the CPI Adjustment Date in question shall be called the "Adjustment CPI".

The seventh anniversary of the Commencement Date shall be the First CPI Adjustment Date. On that date, the Fixed Rent shall be adjusted to equal

$$\$2{,}600{,}000 \text{ per annum} \times \left[1 + .6 \times \left(\frac{\text{First Adjustment CPI}}{\text{Beginning CPI}} - 1\right)\right]$$

The fourteenth anniversary of the Commencement Date shall be the Second CPI Adjustment Date. On that date, the Fixed Rent shall be adjusted to equal

$$\$2{,}600{,}000 \text{ per annum} \times \left[1 + .6 \times \left(\frac{\text{Second Adjustment CPI}}{\text{Beginning CPI}} - 1\right)\right]$$

The eighteenth anniversary of the Commencement Date shall be the Third CPI Adjustment Date. On that date, the Fixed Rent shall be adjusted to equal

$$\$2{,}600{,}000 \text{ per annum} \times \frac{\text{(Third Adjustment CPI)}}{\text{Beginning CPI}}$$

The twenty-fifth anniversary of the Commencement Date shall be the Fourth CPI Adjustment Date. On that date, the Fixed Rent shall be adjusted to equal

$$\text{Fixed Rent as of the Third CPI Adjustment Date } \left[1 + .6 \times \left(\frac{\text{Fourth Adjustment CPI}}{\text{Third Adjustment CPI}} - 1\right)\right]$$

Notwithstanding anything herein to the contrary, the Fixed Rent during the first 25 years of the Lease shall never be less than $2,600,000 per annum.

4.03. Landlord shall, promptly after each CPI Adjustment Date, deliver to Tenant a statement setting forth the amount of the CPI Adjustment and the basis for such computation. Until Tenant has received such statement from Landlord, the Fixed Rent shall be paid in an amount equal to the Fixed Rent in effect prior to such CPI Adjustment Date. On the first day of the month following receipt of the statement of the CPI Adjustment, Tenant shall pay, in addition to the adjustment Fixed Rent for such month, an amount equal to the difference between the amount paid by Tenant from the applicable CPI Adjustment Date and the amount Tenant should have paid using the adjusted Fixed Rent.

4.04. Landlord shall not be required to make any adjustments or recomputations, retroactive or otherwise, by reason of any revision which may later be made in the figure of the Index first published for any month.

4.05. If the Index ceases to use the 1967 average equaling 100 as the basis of calculation, or if a change is made in the term or number of items contained in the Index, or if the Index is altered, modified, converted or revised in any other way, then the Index shall be adjusted to the figure that would have been arrived at had the change in the manner of computing the Index in effect upon the Commencement Date of this Lease not been made. If such Index (or a successor or substitute index similarly adjusted) is not available, a reliable governmental or other reputable publication selected by Landlord and evaluating the information theretofore used in determining the Index shall be used.

4.06. The Fixed Rent shall be payable without demand in equal monthly installments, in advance, on the first day of each and every calendar month during the term of this lease (except that the first monthly installment or pro rata portion thereof shall be due and payable as provided in Section 2.01(d)).

4.07. Tenant shall pay the Fixed Rent by good and sufficient check-(subject to collection) drawn on a bank which is a member of the Federal Reserve System to Landlord at the address aforesaid or a such other place as Landlord may designate by notice.

4.08. Tenant shall pay to Landlord, through the term of this lease, the Fixed Rent and Additional Rent (except with respect to those items of Additional Rent which are due and payable to persons other than Landlord), free of any charges, assessments, impositions or deductions of any kind, and without abatement or setoff except as hereinafter otherwise expressly provided. Tenant's obligations hereunder shall survive the expiration or earlier termination of the term of this lease.

4.09. Prior to the Commencement Date of the Permanent Loan as that term is defined in the Promissory Note dated February 8, 1985, executed by Landlord as Obligor to Northwestern Mutual Life Insurance Company ("NML") (NML or any replacement lender being hereinafter referred to as the "Lender") and amended by Amendment of Terms of Note dated May 1, 1986 (as amended the "Note") which Note is secured by a mortgage to NML hearing the same date (the "NML Mortgage"), Tenant shall deposit the sum of $1,000,000 into an escrow account held by an escrow agent which is acceptable to the Lender. Tenant shall have the exclusive right to direct the investment (including reinvestment) of the funds deposited, Subject to limitations as to the categories of permissible investments and as to the liquidity of such investments. In the event of Tenant's default beyond any applicable grace period in the payment of Fixed Rent or Additional Rent due and payable pursuant to this Lease, the deposit, together with all interest or other income then on deposit together with all interest or other income than on deposit in the escrow account, shall be made available to Landlord in such amounts as are necessary to cure Tenant's default. If at the time of such default by Tenant, either (a) Landlord is simultaneously in default beyond any applicable grace period under the Note and NML Mortgage or under any replacement mortgage loan and Lender has accelerated the balance due under its note, or (b) the Note is at maturity and Landlord is ii-i default in its payment of the outstanding principal balance then due and owing, then the entire deposit, including all interest or other income then on deposit in the escrow account, shall be made available to Lender in reduction of the outstanding principal balance payable by

Landlord to Lender. Tenant shall be entitled to withdraw from the escrow account, within thirty (30) days after June 30 of each year, an amount equal to the amount of income (interest, dividends and the like) and the net gain (the aggregate of gains over losses) realized upon the investments held in the escrow account if, and only if, there is at the time of such withdrawal no default by Tenant in the payment of Fixed Rent or Additional Rent due under this Lease and the balance remaining in the escrow account is not less than $1,000,000. In the event NML at any time subsequent hereto consents to, or in the event replacement financing obtained from a lender other than NML permits the escrow account balance to be less than the escrow account balance presently required under the NML Mortgage and this Section 4.09, Tenant shall be permitted on the effective date of such consent or refinancing, to reduce the escrow account balance to such lesser amount, but in no event at any time shall the escrow account balance be less than $750,000.

All of the above terms shall be incorporated in an Escrow Agreement which shall be acceptable to Lender and which shall be substantially in the form of Exhibit F annexed hereto and which replaces the Exhibit F originally annexed to this Lease. In the event that the escrow account is, at some time subsequent hereto, not required by NML or is not required under the terms of replacement financing obtained from a lender other than NML, Tenant shall then be required to maintain a security deposit of $750,000 to be held by an escrow agent chosen by the Landlord and reasonably acceptable to Tenant pursuant to an Escrow Agreement, which shall be substantially the same as the form of Exhibit F annexed hereto, excepting that all provisions relating to or in favor of a Lender, which include, but may not be limited to, paragraph 2.6, and that portion of paragraph 7 relating to foreclosure, shall be removed from such Escrow Agreement.

4.10 In consideration of Tenant's performance of the obligations set forth in Articles VI, IX and X herein, Tenant shall receive an annual credit against Fixed Rent (the "Expense Credit") of $1,176,400.00. The Expense Credit shall be given to Tenant in equal monthly installments as an offset to the monthly installments of Base Rent, provided that Tenant is not in default hereunder. The Expense Credit shall remain constant through the term of, this Lease and shall not be increased or decreased on the basis of any change in actual expenses or changes in the CPI. The Expense Credit shall not be included in calculating the CPI adjustment to the Rent Credit set forth in Section 4.12.

4.11. Tenant shall pay Landlord a Special Rental Supplement to reflect the fact that Landlord has elected to pass through to Tenant, as provided in Section 48(d) of the Internal Revenue Code of 1986 and in Section 32.05 of this lease, the investment tax credit for personal property placed in service by Landlord in the Demised Premises during the Tenant's fiscal year ending June 30, 1986. Such Special Rental Supplement shall equal a total of $120,000 payable $60,000 on or before May 31, 1987 and $60,000 on or before June 30, 1987.

4.12. The rent otherwise to be paid hereunder by Tenant for the period from October 1, 1997, through December 31, 1997, shall be reduced by $56,250. Beginning on January 1, 1998, and for each year thereafter that this Lease or any extension hereof shall be effective, the rent that Tenant shall otherwise be required to pay hereunder shall be reduced by the following amount (the "Rent Credit"):

$225,000 per annum, which amount shall be increased or decreased oi-i each CPI Adjustment Date by the same percentage as the Fixed Rent is adjusted on such CPI Adjustment Date, as provided in Section 4.02. Thus, by way of example, if the Fixed Rent, as adjusted on a CPI Adjustment Date, is 2% higher than the Fixed Rent immediately prior to such CPI Adjustment Date, then the Rent Credit, as in effect immediately prior to the CPI Adjustment Date, shall be increased by 2% on that CPI Adjustment Date.

2. Article VI of the Lease is hereby deleted and restated in its entirety to read as follows:

ARTICLE VI

OBLIGATION TO MAINTAIN AND REPAIR

6.01. Tenant, at its expense, shall promptly make all necessary interior, exterior, structural and non-structural repairs to the Demised Premises and the fixtures, building systems including all appurtenances and installations therein.

6.02 Tenant shall maintain the Demised Premises in good working order and repair consistent with the standards prevailing in first class commercial office projects in Madison, Wisconsin. Without limiting its obligations, Tenant, among other things shall regularly maintain, service and repair plumbing, heating, ventilation, air conditioning, sprinkler, electrical and all other mechanical systems and all equipment, machinery, fixtures and appurtenances thereto ("Mechanical Systems"); make all structural repairs when required; maintain and repair the parking lot (including any necessary repaving), vaults (if any), signs, railings, roof of the Building, exterior lighting fixtures, exterior electrical work, pipes and mains (unless owned by the utility company), curbs and utility connections; maintain and repair all sidewalks, driveways and plaza abutting the Building and on the Demised Premises; keep the Demised Premises painted and landscaped in a manner consistent with the standards prevailing in first class commercial office projects in Madison, Wisconsin; keep the Demised Premises clean and free of debris, snow and ice; and repair all broken glass. Landlord shall have no responsibility to repair or maintain the Demised Premises during the term of this Lease.

6.02. Tenant shall arrange for rubbish removal and shall provide cleaning services for the Building.

6.03. Tenant warrants to discharge any liens filed against the Demised Premises arising in connection with any work provided pursuant to this Article VI promptly after receipt of notice thereof and to pay all monies due and payable by Tenant in connection therewith.

3. Article Section 7.01(c) of the Lease is hereby modified to read as follows:

7.01. (e) Prior to commencing the alterations, Tenant or its contractors shall procure and shall thereafter maintain at all times when any work is in progress, workmen's compensation insurance, general liability insurance and standard form of fire and extended coverage insurance (with Builder's Risk endorsement, if appropriate), appropriate in coverage and amount.

Notwithstanding the foregoing, alterations that (i) are likely to materially increase the maintenance, repair or cleaning costs or (ii) change the exterior appearance of the Demised Premises, or (iii) impact adversely upon the structural integrity of the Building or (iv) detract from or diminish the vale of the Demised Premises as a commercial office project, shall be made only with the prior written consent of Landlord.

4. Article IX of the Lease is hereby deleted and restated in its entirety to read as follows:

ARTICLE IX

PAYMENT OF IMPOSITIONS-, SEPARATE TAX LOT

9.01. Tenant shall be responsible for the payment of all Impositions. Throughout the term of this lease, Tenant shall pay to Landlord as Additional Rent, within ten (10) days of receipt of Landlord's statement clearly setting forth the amount payable by Tenant, or at lease 30 days prior to the date that payments are due to the taxing authorities or any superior mortgagee whichever date is later, all Impositions for any Tax Year occurring entirely during the term of this lease. Tenant shall pay such Additional Rent notwithstanding the pendency of a contest or proceeding brought by either Landlord or Tenant.

9.02. All Impositions for the Tax Year in which the Commencement Date occurs and all Impositions for the Tax Year in which the expiration or earlier termination of the term of this lease (but not as the result of Tenant's default) occurs shall be apportioned between Landlord and Tenant on a basis consistent with the principles underlying the provisions of this Article IX, taking into consideration the portion of such Tax Year which shall have elapsed after the Commencement Date and prior to the expiration or earlier termination of the term of this lease.

9.03. In the event that Tenant shall fall to pay such Impositions, Landlord may, at its election, pay the same in accordance with the provisions of Article XIX hereof.

9.04. Landlord shall at all times have the night, but not the obligations, to contest any such Impositions in any manner permitted by law an/or to endeavor, through proceedings or otherwise, to obtain a lowering of the assessed valuations of the Demised Premises for the purpose of reducing the Impositions, Any such contest or proceeding may include prompt appeals from any judgments, decrees or orders until a determination is made by a court having final jurisdiction in the matter. All actions taken by Landlord to commence, prosecute and settle contests or proceedings shall be performed at the expense of Tenant, and Tenant shall reimburse Landlord within fifteen (15) days after

Landlord furnishes a statement specifying the costs and expenses (including reasonable attorneys' fees and expenses) incurred by Landlord.

9.05 Upon obtaining the consent of Landlord, which consent shall not be unreasonably withheld, Tenant may diligently bring any contest or proceeding described in Section 9.04 at it own expense and in its own name, or, whenever required by law or any rule or regulation in order to make such action or proceeding effective, in Landlord's name.

Landlord agrees, at the request of Tenant, to cooperate with Tenant in effecting such contest or proceeding, including, without limitation, executing any and all documents reasonably necessary in connection with such contest or proceeding, but without expense or liability to Landlord. Tenant hereby agrees to indemnify and hold Landlord harmless from all costs, expenses (including reasonable attorneys' fees and disbursements), claims, loss, liability and damage by reason of, or in connection with, any such contest or proceeding. Tenant shall keep Landlord advised as to the status of such contest or proceeding.

9.06. Landlord and Tenant agree that no settlement of any proceeding by Landlord or Tenant, as the case may be, shall result in an assessed valuation of the Demised Premises for such tax year greater than the assessed valuation of the Demised Premises for Such tax year as originally imposed, unless the other party reasonably consents thereto.

9.07. If, by reason of any contest or proceeding, all or any part of the amount of any Imposition shall be refunded or returned to Landlord, then Landlord shall promptly pay to Tenant the entire portion of the refund to the extent such amount is attributable to an Imposition paid by Tenant, less the reasonable costs incurred by Landlord in obtaining such refund.

9.08 Notwithstanding anything to the contrary in this Article IX, neither Landlord nor Tenant shall bring any contest or proceeding which would violate the terms of the Waiver of Objection to Assessed Valuation, executed by Landlord on January 15, 1985, a copy of which is annexed hereto as Exhibit H.

5. Article 10 of the Lease is hereby deleted and restated in its entirety to read as follows:

ARTICLE X

UTILITIES

10.01. From and after the Commencement Date, Tenant shall pay when due all charges for water, sewer, gas, electricity, and fuel used on or about the Demised Premises. Tenant shall promptly make such payments directly to the utility company or billing authority. In the event the utility bill cannot be directly rendered to and for the account of Tenant, Landlord may require Tenant to pay to Landlord any such amount billed by Landlord as Additional Rent within ten (10) days of receipt of Landlord's statement clearly setting forth the amount payable by Tenant. Appropriate pro rata adjustments shall be made to determine the sums payable by Tenant pursuant to this Section 10.01 in the event of a Partial Lease Year.

10.02. In no event shall Tenant's use of electric current in the Demised Premises exceed the capacity of any of the electrical conductors or other equipment in or otherwise servicing the Demised Premises.

6. Article II of the Lease is hereby deleted and restated in its entirety to read as follows:

ARTICLE XI

COMPLIANCE WITH LAWS

11.01. Subsequent to the Commencement Date, Tenant at its expense, shall diligently comply with all laws of public authorities applicable to the Demised Premises.

11.02. Tenant may, at its expense, (and, if necessary, in the name of but without expense to Landlord) contest, by appropriate proceedings prosecuted diligently and in good faith, the validity or applicability to the Demised Premises of any law of public authority, and Landlord shall cooperate with Tenant ii-i such proceedings, and shall execute any documents or pleadings reasonably required by Tenant for such purpose, provided that Landlord shall not be subject to the risk of criminal prosecution or penalty or the risk of material civil liability, nor shall the Demised Premises or any Fixed Rent or Additional Rent be in danger of being forfeited or lost by reason of noncompliance or otherwise by reason of such contest. Tenant hereby agrees to indemnify and hold Landlord harmless from all costs, expenses (including reasonable attorneys' fees and disbursements), claims, loss, liability and damage by reason of or in connection with any such proceeding unless the proceeding is due to Landlord's failure to observe or perform its obligations under this lease, in which latter event Landlord shall be entitled to enter the proceedings in place of Tenant and shall indemnify and hold Tenant harmless as aforesaid, Tenant shall keep Landlord advised as to the status of such proceedings.

[11.03. Notwithstanding any provision of this lease to the contrary, if, after the Building and Improvements are completed in accordance with the Plans and Specifications, any future law of public authority applicable to the Demised Premises requires changes or alterations to be made which under generally accepted accounting principles would be deemed to be capital expenditures, then it is agreed that Tenant shall do the work (subject to Landlord's night to approve the cost thereof and, at its election, to perform the work at the same or lower estimated cost, including the reasonable costs of any required architects and/or engineers) and the cost thereof shall apportioned between Landlord an Tenant on a straight-line basis over a period of eighteen (18) years; it being agreed, for the purpose of this lease, that any such expenditure shall be deemed to have a useful life expectancy of eighteen (18) years. The cost of the expenditure shall be initially paid in full by Tenant at the time of performance of the work, but shall ultimately be allocated so that Tenant shall only be responsible for that portion thereof attributable to the period up to the Expiration Date (as same may be extended in accordance with the terms of this lease) and Landlord shall be responsible for that portion attributable to the period after the Expiration Date. Landlord shall reimburse Tenant on the Expiration Date for that portion of the cost allocable to Landlord as hereinabove provided, with simple interest thereon at an annual rate of 10% from the date of Tenant's final payment for the work.]

7. Section 15.03. of the Lease shall be modified to eliminate any reference to Sections 31.01., 31.02. and 31.03. by deleting the entire third sentence of Section 15.03.

8. Article XVII of the Lease is hereby deleted and restated in its entirety to read as follows:

ARTICLE XVII

INDEMNIFICATION

17.01. Tenant shall indemnify and save Landlord harmless from and against all liabilities, obligations, damages, penalties, claims, costs, charges and expenses, including reasonable architect's and attorneys' fees, which may be imposed upon or incurred by or asserted against Landlord by reason of any of the following occurrences during the time of this lease:

(a) any work or thing done in, on or about the Demised Premises, or any part thereof, by Tenant or any party other than Landlord or its agents;

(b) any use, non-use, possession, occupation condition, operation, maintenance or management of the Demised Premises, or any part thereof,

(c) any negligence on the part of Tenant or any of its agents, contractors, servants, employees, subtenants, licensees or invitees;

(d) any accident, injury or damage to any person or property occurring in, on or about the Demised Premises or any part thereof, except if arising in connection with Landlord's Work or the breach of Landlord's maintenance and repair obligations under Article VI hereof (provided that Tenant gave Landlord prompt notice of any potentially dangerous condition requiring repair of which Tenant was actually aware); or

(e) any failure on the part of Tenant to perform or comply with any of the covenants, agreements, terms, provisions, conditions or limitations contained in this lease on its part to be performed or complied with.

In case any action or proceeding is brought against Landlord by reason of any such claim, Tenant, upon written notice from Landlord, shall at Tenant's expense resist and defend such action or proceeding by counsel approved by Landlord in writing, which approval shall not be unreasonably withheld. The obligations of Tenant under this

Section 17.01 arising by reason of any such occurrence taking place during the ten-n of this lease shall survive the expiration or early termination of this lease.

17.02. Landlord shall indemnify and save Tenant harmless from and against all liabilities, obligations, damages, penalties, claims, costs, charges and expenses (including reasonable architects' and attorneys' fees) which may be imposed upon or incurred by or asserted against Tenant by reason of any of the following occurrences:

(a) any negligence on the part of Landlord or any of its agents, contractors, servants, employees, subtenants, licensees or invitees;

(b) any failure on the part of Landlord to perform or comply with any of the covenants, agreements, terms, provisions, conditions or limitations contained in this lease on its part to be performed or complied with.

In case any action or proceeding is brought against Tenant by reason of any such claim, Landlord, upon written notice from Tenant, shall at Landlord's expense resist and defend such action or proceeding. The obligations of Landlord under this Section 27.02 arising by reason of any such occurrence taking place prior to or during the term of this lease shall survive the expiration or early termination of this lease.

9. Article XXII of the Lease is hereby deleted and restated in Its entirety to read as follows:

ARTICLE XXII

OPTIONS TO EXTEND TERM

22.01. Provided that Tenant shall not then be in default with respect to any material covenant of this lease beyond the expiration of the applicable grace period, if any, Tenant shall have the option to extend the term of this lease for an additional period of ten (10) years (the "Extended Term"); provided, however, that (a) Tenant shall notify Landlord not earlier than twenty-four (24) months and not later than the date which is eighteen (18) months prior to the then Expiration Date that Tenant desires such extension and (b) such extension shall be on the same terms, covenants and conditions as are contained in this lease, except with respect to (1) the annual Fixed Rent which shall be determined in the manner provided for in Section 22.02, (ii) such provisions in this lease which apply only to the initial term, and (111) the option herein granted to extend the initial term of this lease.

22.02. (a) Fixed Rent payable by Tenant during the Extended Term of this lease shall be equal to $2,600,00 per annum, subject to the CPI Adjustments hereinafter described.

(b) If the term is extended pursuant to Section 22.01 hereunder, the first day of the Extended Term shall be the Fifth CPI Adjustment Date. The initial fixed rent for the extended term shall be equal to

$$\$2{,}600{,}000 \text{ per annum} \times \frac{\text{(Fifth Adjustment CPI)}}{\text{Beginning CPI}}$$

(c) The seventh anniversary of the commencement date of the Extended Term shall also be a CPI Adjustment Date (the "Sixth CPI Adjustment Date"). If the CPI for the Sixth CPI Adjustment Date has increased over the CPI for the Fifth CPI Adjustment Date, then the fixed rent for the remainder of the Extended Term shall equal

$$\text{Fixed Rent as of the Fifth CPI Adjustment Date } [1+.6 \times (\frac{\text{Sixth Adjustment CPI}}{\text{Fifth Adjustment CPI}} - 1)]$$

Notwithstanding anything to the contrary, the Fixed Rent during the Extended Lease shall never be less than $2,600,000 per annum.

10. Section 29.01 of the Lease is hereby deleted and restated in its entirety to read as follows:

29.01. Landlord and its authorized representatives shall have the light, upon reasonable advance notice to Tenant, to enter the Demised Premises or any part or parts thereof, during Business Hours, accompanied by a duly authorized representative of Tenant. If Tenant makes such representative available: (i) to examine the Demised Premises to ascertain if Tenant has performed its obligations under this lease- (11) to show the Demised Premises to prospective purchasers or mortgagee; (iii) during the period commencing eighteen (18) months prior to the end of the term of this lease (if Tenant shall not have exercised the applicable option to extent the term pursuant to Article XXII), to show the Demised Premises to prospective tenants; (iv) for the purpose of making such repairs in or to the Demised Premises as may be provided for by this lease or as may be mutually agreed upon by the parties; and (v) to conduct such environmental and engineering tests and studies as Landlord reasonably deems necessary or appropriate in connection with a prospectus or actual sale or refinancing of the property. Landlord shall be allowed to take all materials into the Demised Premises that may be required for such repairs and actions. Landlord's rights under this Section 29.01. shall be exercised in such manner as to cause the least practicable interference with Tenant's use and occupancy of the Demised Premises.

11. Article XXXI shall be deleted in its entirety.

12. Section 32.06 is hereby deleted and restated in its entirety to read as follows:

32.06. Landlord or its agents shall not be liable for any injury or damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, water, rain or snow or leaks from any part of the Building or from pipes, appliances or plumbing works or from the roof, street or subsurface, or from any other place or by dampness or by any other cause of whatsoever nature, unless caused by or due to the act or neglect of Landlord, its agents, servants or employees or caused by or due to Landlord's failure to comply with its obligations under this lease. Tenant shall give prompt notice to Landlord in case of fire or other casualty or accidents occurring in the Demised Premises.

13. Except as modified herein, all remaining terms and conditions of the Lease shall remain in full force and effect.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Agreement as of the date first written above.

SPG PARTNERS, a Wisconsin (general partnership ("Landlord")

By: /s/ Lionel N. Sterling

Lionel N. Sterling
General Partner

By: /s/ Robert B. Goergen

Robert B. Goergen
General Partner

By: /s/ Tom Pyle

Tom Pyle
General Partner

RAYOVAC CORPORATION, a Wisconsin corporation ("Tenant")

By: /s/ James A. Broderick

This schedule contains summary financial information extracted from the consolidated financial statements of the Company as of and for the three months ended January 3, 1999 and is qualified in its entirety by reference to those statements.

3-MOS
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JAN-03-1999
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