

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR FISCAL YEAR ENDED JUNE 30, 1996

/  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  
1-10747

DURACELL INTERNATIONAL INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

06-1240267  
(I.R.S. EMPLOYER  
IDENTIFICATION NO.)

BERKSHIRE CORPORATE PARK, BETHEL, CT  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

06801  
(ZIP CODE)

(203) 796-4000  
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF ACT:

TITLE	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF ACT:

NONE

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

Yes  No  / /

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of September 13, 1996 was approximately \$7,453 million. Limited partnerships affiliated with Kohlberg Kravis Roberts & Co., L.P. and directors and executive officers of the registrant are considered affiliates for purposes of this calculation but should not necessarily be deemed affiliates for any other purpose.

Number of shares of Common Stock, par value \$0.01, outstanding as of September 13, 1996..... 119,403,902

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the fiscal year ended June 30, 1996 are incorporated by reference into Part I and Part II of this Report.

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## PART I

## ITEM 1. BUSINESS

Duracell International Inc. ("Duracell" or the "Company") manufactures and markets, primarily under the DURACELL(R) brand, high performance alkaline batteries, primary lithium batteries and other battery types. Duracell also markets rechargeable nickel metal hydride batteries and a lighting products line. Duracell maintains a leading position in North American and European consumer battery markets with its "copper and black" DURACELL brand alkaline batteries. Alkaline batteries accounted for approximately 83% of Duracell's sales during fiscal 1996. Duracell's batteries are sold worldwide through consumer channels, to industrial users and to manufacturers of battery-powered consumer, industrial, medical and military equipment.

Duracell has experienced 23 consecutive years of sales increases, due in large part to the expanding market for its principal product, alkaline batteries. Duracell markets consumer batteries worldwide under the DURACELL brand.

The Company is a Delaware corporation organized in 1988 at the direction of Kohlberg Kravis Roberts & Co., L.P. ("KKR") to effect the acquisition of Duracell Inc., its battery-related subsidiaries and affiliates and certain related assets from Kraft, Inc. (the "Acquisition"). The Acquisition was completed on June 24, 1988. Most of the businesses of Duracell are conducted under the same trade names used before the Acquisition.

In May 1991, the Company completed an initial public offering of 34,500,000 shares of its Common Stock and became a listed company on the New York Stock Exchange. A second public offering of 5,000,000 shares of Common Stock was completed in October 1991.

On September 12, 1996 it was announced that the Company has signed an agreement to merge with The Gillette Company. The merger is expected to be completed by the end of calendar 1996. Under the terms of the merger agreement, each outstanding share of Duracell common stock will be exchanged for .904 shares of Gillette common stock.

## FINANCIAL INFORMATION ABOUT THE COMPANY'S GEOGRAPHIC AREAS OF OPERATION

Information about Duracell's geographic areas of operation is incorporated by reference to Note 14, Geographic Areas of Operations, which appears on page 53 of Duracell's Annual Report to Shareholders for the fiscal year ended June 30, 1996.

## PRODUCTS

Duracell's battery line comprises alkaline, lithium, zinc air and nickel metal hydride rechargeable batteries. Duracell also sells zinc carbon type batteries. Alkaline batteries produce a far greater amount of energy within any given battery size than is possible in zinc carbon batteries, the dominant battery type throughout the world until the 1980s. This performance superiority has resulted in alkaline batteries steadily displacing zinc carbon batteries.

Duracell is at the forefront of primary lithium battery development and is a leading primary lithium battery manufacturer for consumer devices. Lithium batteries have performance advantages over conventional consumer batteries in certain applications, their extremely high energy density and long shelf life being the most notable advantages.

Duracell's line of zinc air batteries, most of which are "button cells," are used principally in hearing aids and medical equipment.

Over the past several years Duracell, Toshiba Battery Co., Ltd. of Japan and Varta Batterie AG of Germany have engaged in joint research and development of nickel metal hydride rechargeable cells. Nickel metal hydride rechargeable batteries are becoming the battery of choice for use in devices having high power requirements such as camcorders, portable computers and cellular phones. They are also an environmentally attractive substitute for the nickel-cadmium batteries now being used to power many such devices. During

fiscal 1995 affiliates of the three companies formed a joint venture for the purpose of constructing and operating a manufacturing facility in the United States to produce nickel metal hydride cells for use in rechargeable batteries sold by the three companies. The facility was completed during fiscal 1996 and will begin commercial production in early fiscal 1997. Duracell has a 40% interest in the joint venture, with Toshiba and Varta holding the remaining 40% and 20%, respectively.

Duracell is continuing its efforts to convince the leading manufacturers of portable computers, cellular telephones and other devices with high power requirements to design-in standardized nickel metal hydride rechargeable batteries as the power source for their devices. Duracell also plans to begin manufacturing rechargeable lithium ion batteries in the United States during fiscal 1997.

#### NORTH AMERICAN OPERATIONS

In North America, alkaline batteries account for a substantial majority of household battery sales. Duracell's management estimates that in fiscal 1996, alkaline batteries accounted for approximately 88% of the United States consumer battery market. The DURACELL brand has the leading alkaline market share.

Duracell competes with several major brands in the highly competitive United States battery market. Eveready Battery Company, a subsidiary of Ralston Purina Company, manufactures Energizer brand alkaline batteries and is Duracell's primary U.S. competitor. Other U.S. competitors include Rayovac Corporation and numerous imported brands.

In Canada, the DURACELL brand has the leading alkaline market share in a market where Duracell's management estimates that alkaline batteries account for approximately 75% of the consumer battery market. Eveready Battery Company is Duracell's primary Canadian competitor.

#### INTERNATIONAL OPERATIONS

Duracell's international operations are divided organizationally into two groups: Europe and Other International Markets, consisting of Mexico, South America, the Caribbean, the Middle East, India, Africa, China, the Pacific Rim and various other developing alkaline markets.

Although Duracell is truly a pan-European battery business, Duracell's European operations concentrate on the largest markets, namely the United Kingdom, Germany, France, Spain and Italy. Duracell Europe also has a strong brand presence in Scandinavia, the Benelux countries, Portugal and Austria. The Eastern European countries offer significant potential for growth, and Duracell has established business units in a number of them, including: Hungary, Czechia, Poland and Russia. The DURACELL brand is the leading alkaline battery brand in Europe. Duracell also markets a series of national brands, most notably SUPERPILA (Italy), DAIMON (Germany) and HELLESENS/TUDOR (Scandinavia). In Europe, the DURACELL brand competes with the Energizer brand and numerous national alkaline brands, several of which are important brands in the country of their manufacture, but DURACELL is in most instances the leading alkaline brand. In European markets, where zinc carbon batteries maintain a higher market share than in North America, Duracell sells more zinc carbon batteries than it sells in any other market.

The DURACELL brand competes with numerous brands in Other International Markets. Most of the batteries sold by Duracell in Other International Markets are alkaline batteries. Although Duracell has achieved a high alkaline share in numerous countries included in Other International Markets, overall alkaline sales as a percentage of total battery sales are low as compared to zinc carbon battery sales. Duracell's management believes that the countries comprising Duracell's Other International Markets have significant potential for continued alkaline penetration.

In fiscal 1996, Duracell acquired Eveready South Africa, the leading consumer battery company in that country. In May, 1996 Duracell announced the intended acquisition of STC Corporation's SUNPOWER trademark and consumer battery sales and distribution operations in South Korea, for approximately \$115 million. SUNPOWER is a major battery brand in South Korea. Completion of the transaction is expected by the end of calendar 1996.

In fiscal 1994, Duracell formed joint venture companies in both China and India to manufacture and distribute DURACELL brand alkaline batteries. Duracell holds a controlling interest in each of these companies. China and India offer significant growth opportunities for Duracell due to the size of these markets. New alkaline manufacturing facilities in these countries were substantially completed during fiscal 1996, and production is expected to begin at both facilities by the end of calendar 1996.

#### MARKETING AND DISTRIBUTION

Duracell promotes its batteries through a variety of means, including television advertising, store displays and trade and consumer promotions. Duracell's advertising emphasizes the long service life of DURACELL batteries and product differentiation, such as the new Duracell(R) PowerCheck(TM) batteries featuring an on-label tester. Duracell sponsors various trade and consumer promotions intended to foster brand awareness and to maintain favorable, multiple display positions in retail stores. Duracell distributes its products principally through retailers, ranging from mass merchandisers and warehouse clubs to sole proprietor outlets.

Each of Duracell's principal foreign subsidiaries has its own sales and marketing staffs. Major accounts are serviced by the local sales force. Smaller retail accounts are usually serviced through local distributors.

Duracell works closely with many original equipment manufacturers in their development of new battery-powered devices designed to be used with Duracell's batteries. Such efforts have been instrumental in developing the consumer primary lithium battery market and are essential to Duracell's success in selling standard size nickel metal hydride batteries and successfully introducing lithium ion rechargeable batteries.

#### MANUFACTURING AND RAW MATERIALS

Duracell manufactures batteries in the United States, Canada, Mexico, South Africa, the United Kingdom and Belgium. Duracell's Aarschot, Belgium facility is believed to be the largest alkaline battery plant in the world. Construction of alkaline manufacturing facilities in China and India is substantially complete.

Duracell's plants are modern and its manufacturing process is highly automated. Labor costs represent a relatively small portion of product cost. In the United States and Europe, Duracell manufactures many of the components used in its assembly of alkaline batteries. The most significant raw materials used by Duracell in its manufacture of alkaline batteries are steel, zinc and electrolytic manganese dioxide powder. There is a variety of worldwide sources for these raw materials and Duracell's management believes it will continue to have access to adequate quantities of such materials at competitive prices.

Duracell is presently purchasing cells used in its production of rechargeable nickel metal hydride batteries from Toshiba Battery Co., Ltd. The U.S. joint venture formed by affiliates of Duracell, Toshiba and Varta has completed the construction of a new nickel metal hydride cell manufacturing facility in Mebane, North Carolina. See Note 2 to the Consolidated Financial Statements.

#### SEASONALITY

Worldwide battery sales are significantly greater in the second half of the calendar year than the first half as a result of industry-wide marketing programs and consumers' traditionally strong purchases of battery-powered products during the holiday season.

#### BACKLOG

The vast majority of Duracell's sales are made through consumer sales channels; therefore, most customer orders are satisfied within only a few business days. Consequently, Duracell's order backlog is not significant.

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