US INDUSTRIES INC /DE
Form 10-Q
May 15, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 30, 2002

OR

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

For the transition period from to .

Commission file number: 1-14557

U.S. INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**22-3568449** (I.R.S.Employer Identification No.)
101 Wood Avenue South **Iselin, NJ** (Address of principal executive offices)	**08830** (Zip code)

(732) 767 0700

(Registrant's telephone number, including area code)

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

Yes ý No o

As of May 1, 2002 U.S. Industries, Inc. had one class of common stock, of which 74,506,608 shares were outstanding.

U.S. INDUSTRIES, INC.

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U.S. INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions except per share data)

(unaudited)

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001	Six Months Ended March 31, 2002	Six Months Ended March 31, 2001
Net sales	$ 276.3	$ 266.5	$ 530.7	$ 518.3
Operating costs and expenses:				
Cost of products sold	190.3	188.0	368.6	369.8
Selling, general and administrative expenses	59.5	60.3	121.0	118.3
Operating income	26.5	18.2	41.1	30.2
Interest expense	(20.0)	(23.9)	(42.9)	(43.7)
Interest income	0.7	6.6	2.6	13.6
Other expense, net	(4.2)	(2.7)	(4.8)	(7.9)
Income (loss) before income taxes, discontinued operations and cumulative effect of accounting change	3.0	(1.8)	(4.0)	(7.8)
Benefit from income taxes		0.7		3.1
Income (loss) from continuing operations	3.0	(1.1)	(4.0)	(4.7)
Income from discontinued operations, net of tax provision of $6.2 and $5.7 for the three and six months in 2001, respectively		1.7		1.8
Cumulative effect of accounting change, net of taxes of $0.8 in 2001				(0.7)
Net income (loss)	$ 3.0	$ 0.6	$ (4.0)	$ (3.6)
Income (loss) per basic share:				
Continuing operations	$ 0.04	$ (0.01)	$ (0.05)	$ (0.06)
Discontinued operations		0.02		0.02
Cumulative effect of accounting change				(0.01)
Net income (loss)	$ 0.04	$ 0.01	$ (0.05)	$ (0.05)
Income (loss) per diluted share:				
Continuing operations	$ 0.04	$ (0.01)	$ (0.05)	$ (0.06)
Discontinued operations		0.02		0.02
Cumulative effect of accounting change				(0.01)
Net income (loss)	$ 0.04	$ 0.01	$ (0.05)	$ (0.05)

Cash dividend declared per share	$		$		$		$	0.05

The accompanying notes are an integral part of these statements.

U.S. INDUSTRIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions)

	March 31, 2002 (unaudited)		September 30, 2001	
ASSETS				
Current assets:				
Cash and cash equivalents	$	32.2	$	65.2
Trade receivables, net		252.3		228.8
Inventories		182.1		191.0
Deferred income taxes		6.2		6.2
Net assets held for sale		331.7		491.6
Income taxes receivable		10.9		6.8
Investment in Strategic Notes				102.0
Other current assets		30.2		35.4
Total current assets		845.6		1,127.0
Restricted cash collateral accounts		81.8		4.4
Property, plant and equipment, net		151.6		158.5
Other assets		175.7		184.3
Goodwill and other intangibles, net		301.0		302.4
	$	1,555.7	$	1,776.6
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Notes payable	$	15.1	$	12.0
Current maturities of long-term debt		639.6		436.5
Trade accounts payable		95.9		101.3
Accrued expenses and other current liabilities		112.0		123.5
Total current liabilities		862.6		673.3
Long-term debt		381.0		778.3
Deferred income taxes		12.3		12.5
Other liabilities		103.5		112.9
Total liabilities		1,359.4		1,577.0
Commitments and contingencies				
Stockholders equity		196.3		199.6
	$	1,555.7	$	1,776.6

The accompanying notes are an integral part of these statements.

U.S. INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

	Six months ended March 31, 2002	Six months ended March 31, 2001
OPERATING ACTIVITIES:		
Loss from continuing operations	$ (4.0)	$ (4.7)
Adjustments to reconcile the loss from continuing operations to net cash used in operating activities of continuing operations:		
Depreciation and amortization	13.2	21.3
Amortization of deferred financing costs	3.4	1.9
Other operating activities, net	1.4	(0.9)
Changes in operating assets and liabilities, excluding the effects of dispositions	(44.1)	(36.3)
NET CASH USED IN OPERATING ACTIVITIES OF CONTINUING OPERATIONS	(30.1)	(18.7)
Income from discontinued operations		1.8
Decrease (increase) in net assets of discontinued operations	23.6	(38.8)
NET CASH PROVIDED BY (USED IN) DISCONTINUED OPERATIONS	23.6	(37.0)
NET CASH USED IN OPERATING ACTIVITIES	(6.5)	(55.7)
INVESTING ACTIVITIES:		
Proceeds from sale of businesses, net	143.1	7.5
Proceeds from sale of Strategic Notes, net	105.9	-
Purchases of property, plant and equipment	(8.3)	(13.3)
Proceeds from sale of excess real estate		3.2
Proceeds from sale of fixed assets	1.5	4.5
Other investing activities, net	1.1	(0.2)
NET CASH PROVIDED BY INVESTING ACTIVITIES	243.3	1.7
FINANCING ACTIVITIES:		
Proceeds from long-term debt	42.3	1,037.2
Repayment of long-term debt	(238.4)	(947.7)
Escrow deposits	(77.5)	-
Proceeds (repayment) of notes payable, net	3.5	(14.7)
Proceeds from exercise of stock options		0.3
Proceeds from sale of trade accounts receivable		29.1
Purchase of treasury stock		(43.1)
Payment of dividends		(7.7)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(270.1)	53.4
Effect of exchange rate changes on cash and cash equivalents	0.3	(12.1)
DECREASE IN CASH AND CASH EQUIVALENTS	(33.0)	(12.7)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	65.2	24.7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 32.2	$ 12.0

The accompanying notes are an integral part of these statements.

U.S. INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in millions)

(unaudited)

Note 1-Basis of Presentation

U.S. Industries, Inc., together with its subsidiaries (the Company), manufactures and distributes a broad range of consumer and industrial products. Certain amounts in the prior year have been reclassified to reflect the discontinuance of certain operations (see Note 10) and to conform them to the presentation used in the current year.

The Company operates on a 52- or 53-week fiscal year ending on the Saturday nearest to September 30. Any three or six month data contained in this Report on Form 10-Q reflects the results of operations for the 13-week and 26-week periods ended on the Saturday nearest March 31 of the respective year, but are presented as of March 31 for convenience. The Company s condensed consolidated interim financial statements as of March 31, 2002 and for the 13-week and 26-week periods ending March 31, 2002 (also referred to as the Second Quarter of 2002 and First Half of 2002 , respectively) and March 31, 2001 (also referred to as the Second Quarter of 2001 and First Half of 2001 , respectively) are unaudited. However, in the Company s opinion, these financial statements reflect all normal, recurring adjustments necessary to provide a fair presentation of its financial position, results of operations and cash flows for the periods presented. These interim financial statements are condensed, and thus, do not include all of the information and footnotes required by accounting principals generally accepted in the United States for presentation of a complete set of financial statements.

These interim results are not necessarily indicative of the results that should be expected for the full year. For a better understanding of the Company and its financial statements, the condensed interim financial statements should be read in conjunction with the Company s audited financial statements for the year ended September 30, 2001, which are included in its 2001 Annual Report on Form 10-K, filed on January 14, 2002.

On December 28, 2001, the Board of Directors approved a formal Disposal Plan in connection with the Company s obligation to pay debt amortization as set forth in the restructured debt agreements. The Disposal Plan called for the sale of five businesses, Ames True Temper, Selkirk, Lighting Corporation of America, Spear & Jackson and SiTeco Lighting, during 2002. The net assets of the discontinued businesses are included in net assets held for sale in all periods presented.

The Company expects to satisfy operating liquidity needs through operating cash flow and borrowings under its credit facilities. The Company completed the sale of Ames True Temper and the Strategic Notes in January 2002 (see Note 4). In April 2002, the Company sold Lighting Corporation of America for $250 million (see Note 4). The net proceeds from these sales are sufficient to fund the scheduled reductions of the Company s senior debt through June 30, 2002. An additional required permanent reduction of debt of approximately $119.4 million is due on October 15, 2002, with the remaining outstanding balance under the Restructured Facilities due on November 30, 2002 (see Note 4). The Company continues to actively pursue its Disposal Plan. However, there can be no assurance when or whether the Company will consummate the remaining transactions. If the Company is unable to consummate asset disposals as outlined in its Disposal Plan in time to meet scheduled debt reductions, the Company expects to seek further restructuring of its credit facilities. Furthermore, the proceeds of the Disposal Plan, if consummated in its entirety, will be insufficient to repay the Restructured Facilities upon their maturity in November 2002. Accordingly, the Company will have to restructure or refinance its existing Restructured Facilities before their scheduled maturity in November 2002. The

Company believes it will be able to restructure or refinance its existing Restructured Facilities before their scheduled maturity in November 2002. However, there can be no assurance that it will be able to do so. As a result of the uncertainty regarding the Company s ability to make future scheduled reductions of the senior debt, the Company s auditors included a going concern explanatory paragraph in their report on the September 30, 2001 consolidated financial statements. The accompanying condensed consolidated financial statements have been prepared on a going concern basis of accounting and do not include any adjustments that might result if the Company were unable to continue as a going concern.

Note 2-Inventories

Inventories consist of the following:

	March 31, 2002	September 30, 2001
Finished products	$ 110.8	$ 115.6
Work-in process	12.9	11.5
Raw materials	58.4	63.9
	$ 182.1	$ 191.0

U.S. INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in millions)

(unaudited)

Note 3 Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, and No. 142, *Goodwill and Other Intangible Assets*, effective for the fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. SFAS No. 141 is effective commencing July 1, 2001, and the Company elected to adopt SFAS No. 142 as of October 1, 2001. Accordingly, as of October 1, 2001, the Company no longer amortizes goodwill.

SFAS No. 142, which the Company adopted on October 1, 2001, requires that goodwill be tested for impairment at the reporting unit level at adoption and at least annually thereafter, utilizing a two-step methodology. The initial step requires the Company to determine the fair value of each reporting unit and compare it to the carrying value, including goodwill, of such unit. If the fair value exceeds the carrying value, no impairment loss is recognized. However, if the carrying value of the reporting unit exceeds its fair value, the goodwill of this unit may be impaired. The amount, if any, of the impairment would then be measured in the second step. The Company performed the initial step on its two reporting units Bath & Plumbing and Rexair as of October 1, 2001. The fair values of each reporting unit exceeded the carrying values. Consequently, no impairment was recognized and the second step was not required.

As of March 31, 2002, the Company had net goodwill of $231.8 million in the Bath & Plumbing segment, compared to $233.5 million as of September 30, 2001. The decrease in the goodwill balance is due to exchange rate fluctuations.

Identifiable intangible assets as of March 31, 2002 are comprised of:

	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets	$ 0.9	$ 0.1
Non-amortizable intangible assets	68.4	
Total identifiable intangible assets	$ 69.3	$ 0.1

Amortizable intangible assets consist of patented technology, which will be amortized over its 10-year useful life. Non-amortizable intangible assets include a trade name and distributor network.

The reported net loss before the cumulative effect of accounting change of $2.9 million in the first half of 2001 would have resulted in income of $3.9 million if adjusted to exclude amortization. The following table presents actual results of operations for the second quarter and first half of 2002 and a reconciliation of reported net income (loss) to adjusted net income (loss) for the second quarter and first half of 2001.

	Second Quarter		**First Half**	
	2002	**2001**	**2002**	**2001**
Net income (loss):				
Reported income (loss)	$ 3.0	$ 0.6	$ (4.0)	$ (3.6)
Add back: Goodwill amortization - after tax		3.4		6.8
Adjusted net income (loss)	$ 3.0	$ 4.0	$ (4.0)	$ 3.2
Basic earnings (loss) per share:				
Reported net income (loss) per share	$ 0.04	$ 0.01	$ (0.05)	$ (0.05)
Add back: Goodwill amortization		0.05	-	0.09
Adjusted earnings (loss) per share - basic	$ 0.04	$ 0.06	$ (0.05)	$ 0.04
Diluted earnings (loss) per share:				
Reported net income (loss) per share	$ 0.04	$ 0.01	$ (0.05)	$ (0.05)
Add back: Goodwill amortization		0.05		0.09
Adjusted earnings (loss) per share - diluted	$ 0.04	$ 0.06	$ (0.05)	$ 0.04

U.S. INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in millions)

(unaudited)

Note 4-Long-Term Debt

Long-term debt consists of the following:

	March 31, 2002	September 30, 2001
7.125% Senior Notes due October 15, 2003, net	$ 249.3	$ 249.1
7.25% Senior Notes due December 1, 2006, net	124.0	123.9
Restructured Facilities, Rexair	129.8	166.2
Restructured Facilities, U.S. Industries	508.6	665.3
Other long-term debt	8.9	10.3
	1,020.6	1,214.8
Less current maturities	(639.6)	(436.5)
Long-term debt	$ 381.0	$ 778.3

On August 15, 2001, the Company finalized a comprehensive restructuring of its bank debt and the bank debt of Rexair Inc. (Rexair), which was reacquired from Strategic Industries, LLC (Strategic) on the same date. For more detailed information on these facilities (the Restructured Facilities), refer to the Company s Annual Report on Form 10-K for the year ended September 30, 2001. The Restructured Facilities require cumulative permanent reductions of the Company s senior debt over the term of the facilities, which mature on November 30, 2002. In addition, the Senior Notes and Restructured Facilities contain cross default and cross acceleration provisions.

On January 14, 2002, the Company sold Ames True Temper to Wind Point Partners V, L.P. and Wind Point Partners IV, L.P. and their affiliates for approximately $165.0 million, before transaction costs and preliminary working capital adjustments totaling approximately $21.9 million. The net proceeds approximated the carrying value of the businesses. The entire net cash proceeds were applied to reduce the Company s funded and unfunded senior debt, approximately $44 million of which were deposited into cash collateral accounts for the benefit of the holders of the Company s Senior Notes and certain other creditors. The remainder was remitted to the Lenders under the Restructured Facilities, and the total facilities were permanently reduced by that amount.

On January 16, 2002, the Company sold its Strategic Notes and equity interest in Strategic to Strategic and its affiliates for approximately $105.9 million, net of transaction costs of approximately $1.7 million. The net proceeds approximated the carrying value of the Strategic Notes and equity investment. The entire net cash proceeds were applied to reduce the Company s funded and unfunded senior debt, approximately $32 million of which were deposited into cash collateral accounts for the benefit of the holders of the Company s Senior Notes and certain other creditors. The remainder was remitted to the Lenders under the Restructured Facilities, and the total facilities were permanently reduced by that amount. The proceeds from the sale of Ames True Temper and the Strategic Notes satisfied the required permanent reductions of the Company s senior debt through March 31, 2002.

On April 26, 2002, the Company sold Lighting Corporation of America for $250.0 million in cash, before estimated transaction costs and preliminary working capital adjustments totaling approximately $39.7 million. The net proceeds approximated the carrying value of the business. The entire net cash proceeds were applied to reduce the Company s funded and unfunded senior debt, approximately $64 million of which were deposited into cash collateral accounts for the benefit of the holders of the Company s Senior Notes and certain other creditors. The remainder was remitted to the Lenders under the Restructured Facilities, and the total facilities were permanently reduced by that amount.

At May 1, 2002, excluding all amounts related to the amended Rexair Credit Facility, the Company had approximately $556.5 million committed under the Restructured Facilities, of which approximately $382.0 million had been utilized and the balance of $174.5 million was available. Also at May 1, 2002, $15.8 million was available for borrowing solely by Rexair under the amended Rexair Credit Facility. These amounts are net of letters of credit outstanding of $20.7 million. The total commitment under the amended Rexair Credit Facility will be reduced by $5.0 million on May 31, 2002. The Company had letters of credit outstanding with other financial institutions totaling $28.6 million as of May 1, 2002.

U.S. INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in millions)

(unaudited)

Note 5-Commitments and Contingencies

The Company is subject to a wide range of environmental protection laws. The Company has remedial and investigatory activities underway at approximately 49 sites, of which it has been named as a Potentially Responsible Party ("PRP") at 15 "superfund" sites pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 or comparable statutes. The Company accrues an amount for each case when the likelihood of an unfavorable outcome is probable. As of March 31, 2002, the Company had accrued $6.1 million in continuing operations ($0.6 million accrued as current liabilities; $5.5 million as non-current liabilities) for known environmental-related matters. The Company believes that the range of liability for such matters is between $6.2 million and $11.2 million (including cases where the likelihood of an unfavorable outcome is only reasonably possible). For more detailed information regarding management s assessment of this potential liability, refer to the Company s Annual Report on Form 10-K for the year ended September 30, 2001.

Certain of the Company s subsidiaries are defendants or plaintiffs in lawsuits that have arisen in the normal course of business. While certain of these matters involve substantial amounts, it is management s opinion, based on the advice of counsel, that the ultimate resolution of such litigation will not have a material adverse effect on the Company s financial condition, results of operations or cash flows.

In June 1998, the Company acquired Zurn Industries, Inc. (Zurn). Zurn is a wholly-owned subsidiary of the Company. Zurn, along with many other companies, is a codefendant in numerous asbestos related lawsuits pending in the United States. Plaintiffs claims against Zurn allege personal injuries allegedly caused by exposure to asbestos used primarily in industrial boilers formerly manufactured by Zurn. Zurn did not manufacture asbestos or asbestos components but purchased it from other suppliers. As of March 31, 2002, the number of asbestos claims pending against Zurn was approximately 59,000.

Since Zurn received its first asbestos claim in the 1980 s, Zurn has settled or otherwise disposed of approximately 38,000 asbestos claims. Zurn s insurers have paid all settlement costs relating to these claims in an aggregate amount that has not eroded the available insurance coverage by a material amount. Defense costs are currently being paid by Zurn s insurers without eroding the coverage amounts of its insurance policies.

Zurn estimates that its potential liability for asbestos claims pending against it and for claims estimated to be filed through 2011 is approximately $107 million. This estimate is based on its view of the current and anticipated number of asbestos claims, the timing and amounts of asbestos payments and the status of ongoing litigation, defense strategies and settlement initiatives. However, there are inherent uncertainties involved in estimating both the number of future asbestos claims as well as future settlement costs, and the actual liability could exceed Zurn s estimate due to changes in facts and circumstances after the date of the estimate. Further, while there is presently no reasonable basis for estimating Zurn s asbestos liability beyond 2011, such liability may continue beyond 2011, and such liability could be substantial.

Zurn s available insurance to cover its potential asbestos liability is between approximately $300 million to $368 million. Zurn believes, based on its experience in defending the claims and the amount of insurance coverage available, that it has sufficient insurance to cover the pending and reasonably estimable future claims. This conclusion was reached after considering the insurance payments made to date by Zurn s insurance carriers, existing insurance policies, and the advice of insurance coverage counsel with respect to applicable insurance coverage law relating to the terms and conditions of those policies. After review of the foregoing with Zurn and its consultants, the Company believes that the resolution of Zurn s pending and reasonably estimable asbestos claims will not have a material adverse effect on the Company s financial condition, results of operations or cash flows.

The Company continues to guarantee the lease payments of an Ames True Temper master distribution center. The lease obligation will expire in 2015. The lease payments total $3.6 million for 2002, and increase by 2.25% each year thereafter. The Company obtained a security interest and indemnification from Ames True Temper on the lease that would enable it to exercise remedies in the event of default.

U.S. INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in millions)

(unaudited)

Note 6-Comprehensive Income

The components of comprehensive income are as follows:

	Second Quarter		First Half	
	2002	**2001**	**2002**	**2001**
Net income (loss)	$ 3.0	$ 0.6	$ (4.0)	$ (3.6)
Foreign currency translation:				
Adjustment arising during the period	(1.9)	(13.6)	(1.9)	(10.9)
Reclassification adjustment in earnings		1.0		6.0
Derivative instruments and hedging activities:				
Fair value adjustment arising during period		(0.8)	(0.3)	0.4
Reclassification adjustment in earnings	0.7	(0.9)	1.1	(0.9)
Comprehensive income (loss)	$ 1.8	$ (13.7)	$ (5.1)	$ (9.0)

Note 7-Earnings Per Share

The Company s basic and diluted weighted average number of common shares outstanding was 73.6 million and 73.5 million for the second quarter of 2002 and 2001, respectively. For the first half of 2002 and 2001, the Company s weighted average number of common shares outstanding was 73.5 million and 74.7 million, respectively. Options to purchase 6.1 million shares were not included in the Company s computation of diluted earnings per share in all periods presented. The effect of assuming that 0.7 million and 0.8 million shares of restricted stock vested in the second quarter and first half of 2002, respectively, was also excluded from the computation of diluted earnings per share. Likewise, both the second quarter and first half of 2001 exclude the effect of assuming that 1.1 million shares of restricted stock vested from the computation of diluted earnings per share.

Note 8-Income Taxes

The Company has not recorded an income tax benefit on its loss from continuing operations in the first half of 2002 because of the uncertainty of its ultimate realization. The Company recorded a $3.1 million tax benefit on its loss from continuing operations of $7.8 million (an effective tax rate of approximately 39.5%) in the comparable period of fiscal 2001.

Note 9-Segment Data

The Company currently operates in two reportable business segments Bath & Plumbing and Rexair. The Company has redefined its business segments for fiscal 2002 due to the acquisition of Rexair on August 15, 2001. The Rexair segment consists solely of the Rexair business. The following is a summary of the significant accounts and balances by segment, reconciled to the consolidated totals.

U.S. INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in millions)

(unaudited)

		Bath & Plumbing	Rexair	Corporate	Consolidated Total
Net Sales					
Second Quarter	2002	$ 249.9	$ 26.4	$	$ 276.3
	2001	266.5			266.5
First Half	2002	477.7	53.0		530.7
	2001	518.3			518.3
Total Operating Income (Loss)					
Second Quarter	2002	$ 21.9	$ 7.7	$ (3.1)	$ 26.5
	2001	23.3		(5.1)	18.2
First Half	2002	36.1	15.3	(10.3)	41.1
	2001	40.1		(9.9)	30.2
Capital Expenditures					
Second Quarter	2002	$ 3.0	$ 0.1	$	$ 3.1
	2001	6.5		0.2	6.7
First Half	2002	8.1	0.2		8.3
	2001	13.1		0.2	13.3
Depreciation and Amortization					
Second Quarter	2002	$ 5.2	$ 0.8	$ 0.4	$ 6.4
	2001	8.1		1.2	9.3
First Half	2002	10.7	1.5	1.0	13.2
	2001	19.4		1.9	21.3
Assets (1)					
As of March 31, 2002		$ 897.3	$ 114.0	$ 544.4	$ 1,555.7
As of September 30, 2001		902.6	118.4	755.6	1,776.6

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(1) Corporate assets include net assets held for sale of $331.7 million as of March 31, 2002 and $491.6 million as of September 30, 2001.

The Company has experienced some seasonality in its Bath and Plumbing segment. Sales of several products such as spas and swimming pool equipment are sensitive to weather conditions and tend to experience a significant decrease in sales during the fall and winter months (predominantly the first and second fiscal quarters). Sales are also affected when weather affects outside construction and installation.

Note 10-Acquisition/Disposition of Businesses and Discontinued Operations

Acquisition of Business

Contemporaneously with the closing of its debt restructuring on August 15, 2001, the Company reacquired the 75% equity interest in Rexair, the manufacturer of Rainbow vacuum cleaners, previously sold to Strategic as part of the Diversified transactions in March 2000. The results of Rexair are now included in the Rexair segment. The Company accounted for Rexair under the equity method of accounting during the time period from March 24, 2000 until August 15, 2001 when the Company held only a 25% equity interest.

Disposition of Business

During the first quarter of 2001, the Company sold its European HVAC business for proceeds of $7.5 million, which approximated its carrying value. The operating results of this business were included in the Bath & Plumbing segment prior to its disposal.

Discontinued Operations

On December 28, 2001, the Board of Directors approved a formal Disposal Plan in connection with the Company s obligation to pay debt amortization as set forth in the restructured debt agreements. The Disposal Plan called for the sale of five businesses, Ames True Temper, Selkirk, Lighting Corporation of America, Spear & Jackson and SiTeco Lighting,

U.S. INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in millions)

(unaudited)

Note 10-Acquisition/Disposition of Businesses and Discontinued Operations (continued)

during 2002. The Company completed the sale of Ames True Temper in January 2002 and the sale of Lighting Corporation of America in April 2002 (see Note 4 for more information on these disposals).

The operating results of these businesses were classified as discontinued operations in 2001 and, in accordance with APB No. 30, their estimated fiscal 2002 operating income (loss) was included in the Company s expected loss on disposal which was recorded in September 2001. Consequently, the operating results of these businesses for the second quarter and first half of 2002 are not reflected in the Company s Condensed Consolidated Statements of Operations. Summarized results of discontinued operations are as follows:

	Second Quarter		First Half	
	2002	**2001**	**2002**	**2001**
Net sales	$ 226.7	$ 362.5	$ 513.8	$ 667.3
Operating income	8.2	16.0	19.7	19.6

The decrease in operating income for the second quarter of 2002 when compared to the prior year was largely due to the disposal of Ames True Temper. Ames True Temper had $8.1 million of operating income in the second quarter of 2001, compared to an operating loss of $1.5 million in the second quarter of 2002, prior to its disposal on January 14, 2002. This decrease is offset in the year to date period primarily due to non-recurring charges of $5.2 million incurred in the first quarter of 2001. These charges consisted of $3.8 million related to opening a new master distribution center at Ames True Temper and $1.4 million related to product sourcing initiatives at Lighting Corporation of America. Operating income in the prior year also includes goodwill amortization of $1.4 million and $2.8 million for the second quarter and first half of 2001, respectively.

Also included in net income from discontinued operations were after-tax losses of $0.5 million and $1.9 million in the second quarter and first half of 2001, respectively, mainly attributable to the settlement of certain claims surrounding the previously disposed Power Systems businesses and a $7.0 million after tax loss on the sale of the Company s Saws Division of Spear & Jackson in the second quarter of 2001.

Amounts classified as net assets held for sale consist of the following:

	March 31, 2002	September 30, 2001
Net current assets	$ 112.8	$ 144.8
Property, plant and equipment, net	170.7	277.3
Other non-current assets and liabilities, net	48.2	69.5
Net assets held for sale	$ 331.7	$ 491.6

Note 11-Derivatives and Hedging Activities

Effective October 1, 2000, the Company adopted Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, which requires that all derivative instruments be reported on the balance sheet at fair value and establishes criteria for designation and effectiveness of hedging relationships. The Company hedged a portion of its variable-rate debt by entering into an interest rate swap in which the Company agrees to exchange, at specified intervals, the calculated difference between fixed and variable interest amounts on $90 million of its debt. The swap, which matures on June 30, 2002, is designated as a cash flow hedge of the underlying variable-rate interest payments and is recorded as a current liability in the Company s balance sheet. Since an assessment of the hedging relationship revealed that it was 100% effective, the unrealized loss is recorded in accumulated other comprehensive income (loss) (OCI) within stockholders equity. As of March 31, 2002, there was an unrealized loss of $0.6 million in OCI related to this contract. The amounts in OCI will be recognized as additional interest expense over the term of the swap agreement.

U.S. INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in millions)

(unaudited)

Note 12-Supplemental Joint Issuer and Guarantor Financial Information

The following represents the supplemental consolidating condensed financial statements of U.S. Industries, Inc. (USI), USI Global and USIAH which are the jointly obligated issuers of the Company s Senior Notes, and USI Atlantic, which is the guarantor of the Notes, and their subsidiaries which are not guarantors of the Notes, as of March 31, 2002 and September 30, 2001 and for the three and six months ended March 31, 2002 and 2001, respectively. Certain of the other subsidiaries have pledged their stock and assets as collateral for the Senior Notes. Separate consolidated financial statements of USI, USI Global, USI Atlantic and USIAH are not presented, as management has determined that they would not be material to investors. Refer to the Company s Annual Report on Form 10-K for the year ended September 30, 2001 with respect to certain security interests in favor of the holders of the Notes.

	Second Quarter 2002						
	USI	USI Global	USI Atlantic	USIAH	Other Subsidiaries	Eliminations	Consolidated
Net sales	$	$	$	$	$ 276.3	$	$ 276.3
Operating costs and expenses:							
Cost of products sold					190.3		190.3
Selling, general and administrative expenses	3.1				56.4		59.5
Operating income (loss)	(3.1)				29.6		26.5
Interest expense	(9.8)	(6.1)			(4.1)		(20.0)
Interest income	0.5				0.2		0.7
Intercompany interest income (expense), net	(7.4)	15.1			(7.7)		
Other expense, net	(2.5)				(1.7)		(4.2)
Other intercompany income (expense)		(15.4)		15.4			
Minority interest income (expense)	(13.8)			13.8			
Equity in earnings of investees, net	39.1	8.0	30.8	1.6		(79.5)	
Income before income taxes and discontinued operations	3.0	1.6	30.8	30.8	16.3	(79.5)	3.0
Provision (benefit) for income taxes							
Income from continuing operations	3.0	1.6	30.8	30.8	16.3	(79.5)	3.0
Income from discontinued operations							
Net income	$ 3.0	$ 1.6	$ 30.8	$ 30.8	$ 16.3	$ (79.5)	$ 3.0

				Second Quarter 2001			
		USI	USI		Other		
	USI	Global	Atlantic	USIAH	Subsidiaries	Eliminations	Consolidated
Net sales	$	$	$	$	$ 266.5	$	$ 266.5
Operating costs and expenses:							
Cost of products sold					188.0		188.0
Selling, general and administrative expenses	5.0				55.3		60.3
Operating income (loss)	(5.0)				23.2		18.2
Interest expense	(11.8)	(11.5)			(0.6)		(23.9)
Interest income	6.0				0.6		6.6
Intercompany interest income (expense), net	(6.9)	15.6			(8.7)		
Other expense, net	(1.4)				(1.3)		(2.7)
Other intercompany income (expense)		(15.4)		15.4			
Minority interest income (expense)	(15.4)			15.4			
Equity in earnings of investees, net	21.3	4.2	15.9	(2.6)		(38.8)	
Income (loss) before income taxes and discontinued operations	(13.2)	(7.1)	15.9	28.2	13.2	(38.8)	(1.8)
Provision (benefit) for income taxes	(13.8)	(4.5)		12.3	5.3		(0.7)
Income (loss) from continuing operations	0.6	(2.6)	15.9	15.9	7.9	(38.8)	(1.1)
Income from discontinued operations					1.7		1.7
Net income (loss)	$ 0.6	$ (2.6)	$ 15.9	$ 15.9	$ 9.6	$ (38.8)	$ 0.6

U.S. INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in millions)

(unaudited)

Note 12-Supplemental Joint Issuer and Guarantor Financial Information (continued)

	First Half 2002						
	USI	USI Global	USI Atlantic	USIAH	Other Subsidiaries	Eliminations	Consolidated
Net sales	$	$	$	$	$ 530.7	$	$ 530.7
Operating costs and expenses:							
Cost of products sold					368.6		368.6
Selling, general and administrative expenses	10.2				110.8		121.0
Operating income (loss)	(10.2)				51.3		41.1
Interest expense	(19.9)	(14.7)			(8.3)		(42.9)
Interest income	1.9				0.7		2.6
Intercompany interest income (expense), net	(14.6)	30.3			(15.7)		
Other expense, net	(1.6)				(3.2)		(4.8)
Other intercompany income (expense)		(30.8)		30.8			
Minority interest income (expense)	(29.2)			29.2			
Equity in earnings of investees, net	69.6	9.1	53.9	(6.1)		(126.5)	
Income (loss) before income taxes and discontinued operations	(4.0)	(6.1)	53.9	53.9	24.8	(126.5)	(4.0)
Provision (benefit) for income taxes							
Income (loss) from continuing operations	(4.0)	(6.1)	53.9	53.9	24.8	(126.5)	(4.0)
Income from discontinued operations							
Net income (loss)	$ (4.0)						