US INDUSTRIES INC /DE
Form 10-Q
February 10, 2003

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

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

For the quarterly period ended December 28, 2002

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: **1-14557**

# U.S. INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware**<br>(State or other jurisdiction of<br>incorporation or organization) | **22-3568449**<br>(I.R.S. Employer<br>Identification No.) |

**777 S. Flagler Drive; Suite 1108W**
**West Palm Beach, FL 33401**
(Address of principal executive offices)

**(561) 514-3838**
(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 x No o

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

As of February 3, 2003 U.S. Industries, Inc. had one class of common stock, of which 74,747,189 shares were outstanding.

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U.S. INDUSTRIES, INC.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**U.S. INDUSTRIES, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(in millions except per share data)**
**(unaudited)**

| | Three Months Ended December 31, | |
|---|---|---|
| | **2002** | **2001** |
| Net sales | $281.3 | $254.4 |
| Operating costs and expenses: | | |
| Cost of products sold | 196.6 | 178.8 |
| Selling, general and administrative expenses | 67.1 | 61.0 |
| Operating income | 17.6 | 14.6 |
| Interest expense | (18.7) | (22.9) |
| Interest income | 0.6 | 1.9 |
| Other income (expense), net | 0.6 | (0.6) |
| Income (loss) before income taxes | 0.1 | (7.0) |
| Benefit from income taxes | 13.6 | |
| Net income (loss) | $ 13.7 | $ (7.0) |
| Earnings per share information: | | |
| Income (loss) per basic share: | $ 0.18 | $ (0.10) |
| Income (loss) per diluted share: | $ 0.18 | $ (0.10) |

**The accompanying notes are an integral part of these statements.**

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**U.S. INDUSTRIES, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(in millions)**

| | December 31, 2002 | September 30, 2002 |
|---|---|---|
| | (unaudited) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 43.9 | $ 32.1 |
| Restricted cash collateral accounts | 5.3 | 142.9 |
| Trade receivables, net | 211.0 | 230.7 |
| Inventories | 188.3 | 183.0 |
| Deferred income taxes | 31.0 | 31.0 |
| Net assets held for sale | | 103.8 |
| Income taxes receivable | 33.2 | 37.2 |
| Other current assets | 26.4 | 24.6 |
| Total current assets | 539.1 | 785.3 |
| Restricted cash collateral accounts | 13.2 | 15.4 |
| Property, plant and equipment, net | 143.5 | 144.3 |
| Pension assets | 142.9 | 140.4 |
| Insurance for asbestos claims | 145.0 | 145.0 |
| Other assets | 42.0 | 34.9 |
| Goodwill and other intangibles, net | 310.8 | 310.0 |
| | $ 1,336.5 | $ 1,575.3 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Notes payable | $ 21.8 | $ 15.3 |
| Current maturities of long-term debt | 42.2 | 275.9 |
| Trade accounts payable | 90.8 | 99.5 |
| Accrued expenses and other current liabilities | 113.0 | 131.7 |
| Total current liabilities | 267.8 | 522.4 |
| Long-term debt | 517.5 | 516.9 |
| Deferred income taxes | 14.4 | 17.9 |
| Asbestos claims | 145.0 | 145.0 |
| Other liabilities | 134.6 | 135.4 |
| Total liabilities | 1,079.3 | 1,337.6 |
| Commitments and contingencies | | |
| Stockholders equity | 257.2 | 237.7 |
| | $ 1,336.5 | $ 1,575.3 |

**The accompanying notes are an integral part of these statements.**

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**U.S. INDUSTRIES, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(in millions)**
**(unaudited)**

| | Three months ended December 31, | |
|---|---|---|
| | **2002** | **2001** |
| OPERATING ACTIVITIES: | | |
| Net income (loss) | $ 13.7 | $ (7.0) |
| Adjustments to reconcile the income (loss) to net cash used in operating activities of continuing operations: | | |
| Depreciation and amortization | 6.2 | 6.7 |
| Amortization of deferred financing costs | 4.7 | 1.7 |
| Benefit from deferred income taxes | (13.9) | |
| Gain on sale of excess real estate | (3.4) | |
| Other operating activities, net | 1.1 | 1.1 |
| Changes in operating assets and liabilities | (12.7) | (12.8) |
| NET CASH USED IN OPERATING ACTIVITIES OF CONTINUING OPERATIONS | (4.3) | (10.3) |
| Decrease in net assets of discontinued operations | | 16.0 |
| NET CASH PROVIDED BY DISCONTINUED OPERATIONS | | 16.0 |
| NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES | (4.3) | 5.7 |
| INVESTING ACTIVITIES: | | |
| Proceeds from sale of businesses, net | 103.8 | |
| Purchases of property, plant and equipment | (3.0) | (5.2) |
| Proceeds from sale of excess real estate | 10.8 | |
| Proceeds from sale of fixed assets | | 1.3 |
| Other investing activities, net | | (0.1) |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | 111.6 | (4.0) |
| FINANCING ACTIVITIES: | | |
| Proceeds from long-term debt | 26.4 | 28.1 |
| Repayment of Restructured Facilities | (100.6) | (45.3) |
| Repayment of Senior Notes | (159.6) | |
| Escrow deposits | (38.0) | |
| Escrow withdrawals | 178.1 | |
| Payment of financing fees | (8.9) | |
| Proceeds from notes payable, net | 6.0 | 0.6 |
| NET CASH USED IN FINANCING ACTIVITIES | (96.6) | (16.6) |
| Effect of exchange rate changes on cash and cash equivalents | 1.1 | 3.8 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 11.8 | (11.1) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 32.1 | 65.2 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 43.9 | $ 54.1 |

**The accompanying notes are an integral part of these statements.**

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**U.S. INDUSTRIES, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Tabular amounts in millions)**
**(unaudited)**

**Note 1-Basis of Presentation**

U.S. Industries, Inc. ( USI and, together with its subsidiaries the Company ) is a leading international producer of bath and plumbing products. The Company serves residential markets through Jacuzzi, Inc.; Sundance Spas, Inc.; Eljer Plumbingware, Inc. and related subsidiaries ( Jacuzzi ) and commercial/institutional markets through Zurn Industries, Inc. ( Zurn ). The Company also manufactures premium RAINBOW® vacuum cleaner systems through Rexair Inc. ( Rexair ). Certain amounts in the prior period have been reclassified to conform them to the presentation used in the current period.

The Company operates on a 52- or 53-week fiscal year ending on the Saturday nearest to September 30. Any three-month data contained in this Report on Form 10-Q reflects the results of operations for the 13-week period ended on the Saturday nearest December 31 of the respective year, but are presented as of December 31 for convenience. The Company s condensed consolidated interim financial statements as of December 31, 2002 and for the 13-week period ending December 31, 2002 (also referred to as the First Quarter of 2003 ) and December 31, 2001 (also referred to as the First Quarter of 2002 ) 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 principles 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, 2002, which are included in its 2002 Annual Report on Form 10-K, filed on December 24, 2002.

**Note 2- New Accounting Pronouncements**

In November 2002, the Financial Accounting Standards Board ( FASB ) issued Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ( FIN 45 ). This interpretation elaborates on disclosures to be made by a guarantor in its interim and annual financial statements with regard to its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 are effective for interim and annual periods ending after December 15, 2002, and we have adopted those requirements for our financial statements included in this Form 10-Q. The initial recognition and initial measurement requirements of FIN 45 are effective prospectively for guarantees issued or modified after December 31, 2002. The adoption of the recognition and initial measurement requirements of FIN 45 is not expected to have a material impact on the Company s financial position and results of operations.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure* ( SFAS 148 ). SFAS 148 amends Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ( SFAS 123 ), and provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure requirements of SFAS 123 to require more prominent and frequent disclosures in financial statements about the effects of stock-based compensation. The transition guidance and annual disclosure provisions of SFAS 148 are effective for financial statements issued for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The adoption of SFAS 148 is not expected to have an impact on the Company s financial position and results of operations.

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**U.S. INDUSTRIES, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**(Tabular amounts in millions)**
**(unaudited)**

**Note 2 - New Accounting Pronouncements (continued)**

In November 2002, the EITF reached a consensus on Issue 00-21, *Multiple-Deliverable Revenue Arrangements* ( EITF 00-21 ). EITF 00-21 addresses how to account for arrangements that may involve the delivery or performance of multiple products, services, and/or rights to use assets. The consensus mandates how to identify whether goods or services or both which are to be delivered separately in a bundled sales arrangement should be accounted for separately because they are separate units of accounting. The guidance can affect the timing of revenue recognition for such arrangements, even though it does not change rules governing the timing or pattern of revenue recognition of individual items accounted for separately. The final consensus will be applicable to agreements entered into in fiscal years beginning after June 15, 2003 with early adoption permitted. Additionally, companies will be permitted to apply the consensus guidance to all existing arrangements as the cumulative effect of a change in accounting principle in accordance with APB Opinion No. 20, *Accounting Changes*. The Company is assessing, but at this point does not believe the adoption of EITF 00-21 will have a material impact on its financial position or results of operations.

In January 2003, the FASB issued Interpretation Number 46, *Consolidation of Variable Interest Entities* ( FIN 46 ). This interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, addresses consolidation by business enterprises of variable interest entities. Under current practice, two enterprises generally have been included in consolidated financial statements because one enterprise controls the other through voting interests. FIN 46 defines the concept of variable interests and requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among the parties involved. This interpretation applies immediately to variable interest entities created after January 31, 2003. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The interpretation may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years with a cumulative-effect adjustment as of the beginning of the first year restated. The Company is assessing, but at this point does not believe the adoption of FIN 46 will have a material impact on its financial position or results of operations.

**Note 3 - Inventories**

Inventories consist of the following:

| | December 31, 2002 | September 30, 2002 |
|---|---|---|
| Finished products | $114.3 | $110.2 |
| Work-in process | 13.4 | 14.2 |
| Raw materials | 60.6 | 58.6 |
| | $188.3 | $183.0 |

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**U.S. INDUSTRIES, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**(Tabular amounts in millions)**
**(unaudited)**

**Note 4-Goodwill and Other Intangible Assets**

As of December 31, 2002, the Company had net goodwill of $237.2 million in the Bath & Plumbing segment, compared to $236.4 million as of September 30, 2002. The increase in the goodwill balance is primarily due to exchange rate fluctuations.

Identifiable intangible assets, which are included in the Rexair segment, are comprised of:

| | December 31, 2002 | | September 30, 2002 | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Amortizable intangible assets | $ 0.9 | $ 0.1 | $ 0.9 | $ 0.1 |
| Non-amortizable intangible assets | 72.8 | | 72.8 | |
| Total identifiable intangible assets | $73.7 | $ 0.1 | $73.7 | $ 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.

**Note 5-Long-Term Debt**

Long-term debt consists of the following:

| | December 31, 2002 | September 30, 2002 |
|---|---|---|
| 7.125% Senior Notes, net | $ 11.6 | $ 249.5 |
| 7.25% Senior Notes, net | 69.8 | 124.1 |
| 11.25% Senior Notes, net | 133.4 | |
| Restructured Facilities, Rexair | 71.0 | 92.8 |
| Restructured Facilities, U.S. Industries | 265.1 | 317.5 |
| Other long-term debt | 8.8 | 8.9 |
| | 559.7 | 792.8 |
| Less current maturities | (42.2) | (275.9) |
| Long-term debt | $ 517.5 | $ 516.9 |

On September 9, 2002, the Company commenced an Exchange Offer to exchange cash and notes with an interest rate of 11.25% payable December 31, 2005 (the New Notes ) for all outstanding 7.125% Notes due October 2003. In connection with the Exchange Offer, the Company also solicited consents from a majority of the 7.125% Note holders to a proposed amendment to the indenture under which the 7.125% Notes were issued so that the cash deposited into a cash collateral account from the sales of the Company s non-core assets that is proportionally allocable to tendering holders could be used to pay the cash consideration in the Exchange Offer.

In the first quarter of 2003, approximately $238.2 million or 95% of the 7.125% Notes were tendered and accepted for exchange. All Note holders who tendered their 7.125% Notes received an amount of cash and principal amount of New Notes that together equaled the principal amount of the 7.125% Notes tendered. The transaction resulted in $104.8 million paid to the Note holders from the 7.125% Notes escrow account, New Notes issued of $133.4 million and a gross balance remaining of 7.125% Notes amounting to $11.8 million. All other terms of the New Notes are substantially similar to those of the 7.125% Notes. A consent payment of $15 per $1,000 principal amount of the New Notes issued was paid out of the Company s general working capital to all holders who delivered their consents on or prior to the consent date, resulting in an additional payment to tendering note holders of approximately $2.0 million. These costs were capitalized and will be amortized over the term of the New Notes.

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**U.S. INDUSTRIES, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**(Tabular amounts in millions)**
**(unaudited)**

**Note 5-Long-Term Debt (continued)**

On October 24, 2002, the Company commenced an offer to purchase up to $54.8 million in aggregate principal amount of its outstanding 7.25% Notes due December 1, 2006. In the first quarter of 2003, an amount just shy of 100% of the 7.25% Notes were tendered and accepted for exchange. The transaction resulted in $54.8 million paid to the Note holders from the 7.25% Notes escrow account.

On October 18, 2002, the Company completed the sale of SiTeco Lighting to funds advised by JPMorgan Partners, the private equity arm of JPMorgan Chase & Company. Net proceeds of approximately $103.8 million were applied to reduce the Company s funded and unfunded senior debt, including $34.0 million deposited into escrow accounts for the benefit of the holders of the Company s Senior Notes and certain other creditors.

Also in October 2002, the Restructured Facilities were amended, extending the maturity of the facilities to October 4, 2004. In conjunction with this amendment, the Company paid $6.9 million in fees. For more detailed information on these facilities (the Restructured Facilities or Restructured Debt Facility ), refer to the Company s Annual Report on Form 10-K for the year ended September 30, 2002. The Restructured Facilities require cumulative permanent reductions of the Company s senior debt over the term of the facilities. In addition, the Senior Notes and Restructured Facilities contain cross-default and cross-acceleration provisions.

During the first quarter of 2003, the Company received funds of $16.6 million related primarily to the sale of excess real estate and an income tax refund. These funds were applied to reduce the Company s funded and unfunded senior debt, including $4.0 million deposited into escrow accounts for the benefit of the holders of the Company s Senior Notes and certain other creditors. In January 2003, the Company received funds totaling $48.3 million related primarily to a federal income tax refund, and in February 2003, the Company received $8.6 million upon granting a license for certain technology which was the subject of patent litigation. These funds will also be applied to reduce the Company s funded and unfunded senior debt, including $20.4 million deposited into escrow accounts for the benefit of the holders of the Company s Senior Notes and certain other creditors. Amounts that will be applied to reduce the Restructured Facilities are classified as current maturities as of December 31, 2002. These debt reductions satisfy all of the required permanent reductions of the Company s senior debt required prior to maturity.

At December 31, 2002, excluding all amounts related to the Rexair Credit Facility, the Company had approximately $355.0 million committed under the Restructured Facilities, of which approximately $271.5 million had been utilized and the balance of $83.5 million was available. Also at December 31, 2002, $13.7 million was available for borrowing solely by Rexair under the Rexair Credit Facility. The amounts committed under the Restructured Facilities for the Company and Rexair include letters of credit outstanding of $13.7 million. The Company also had letters of credit outstanding with other financial institutions totaling $31.3 million as of December 31, 2002. Approximately $12.6 million has been deposited in escrow for the benefit of these letters of credit.

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**U.S. INDUSTRIES, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**(Tabular amounts in millions)**
**(unaudited)**

**Note 6-Commitments and Contingencies**

*Warranties*

The Company records a reserve for future warranty costs based on current unit sales, historical experience and management s judgment regarding anticipated rates of warranty claims and cost per claim. The adequacy of the recorded warranty liabilities is assessed each quarter and adjustments are made as necessary. The specific terms and conditions of the warranties vary depending on the products sold and the countries in which the Company does business. Changes in the warranty liability during the period are as follows:

| | |
|---|---|
| Balance at September 30, 2002 | $11.7 |
| Warranty accrual | 5.4 |
| Cash payments | (3.3) |
| Balance at December 31, 2002 | $13.8 |

*Guarantees & Indemnifications*

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 totaled $3.6 million for fiscal 2002, and increase by 2.25% each year thereafter. In connection with the sale of Ames True Temper in January 2002, 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.

The Company has sold a number of assets and operating entities over the last several years and has, on occasion, provided indemnification for liabilities relating to product liability, environmental and other claims. The Company has recorded reserves totaling approximately $10.5 million for asserted and potential unasserted claims related to these liabilities.

*Litigation*

The Company is subject to a wide range of environmental protection laws. Approximately 22 present and former operating sites, or portions thereof, currently or previously owned and/or leased by current or former operating units of the Company have remedial and investigatory activities underway. In addition, the Company has been named as a Potentially Responsible Party ( PRP ) at 13 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 December 31, 2002, the Company had accrued $10.2 million ($0.6 million accrued as current liabilities; $9.6 million as non-current liabilities), including $6.0 million for discontinued operations, for various environmental liabilities of which the Company is aware. The Company believes that the liability for such matters could reach $15.2 million if it included 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, 2002.

In June 1998, the Company acquired Zurn Industries, Inc., which itself owned various subsidiaries ( Zurn ). Zurn is a wholly-owned subsidiary of the Company. Zurn, along with many other companies, is a co-defendant in numerous asbestos related lawsuits pending in the United States. Plaintiffs claims primarily allege personal injuries allegedly caused by exposure to asbestos used primarily in industrial boilers. Zurn did not manufacture asbestos or asbestos components but purchased it from other suppliers. As of December 31, 2002, the number of asbestos claims pending against Zurn was approximately 60,000.

Since Zurn received its first asbestos claim in the 1980 s, Zurn has settled, agreed to settle or otherwise disposed of approximately 77,000 asbestos claims. Zurn s insurers have paid or have agreed to pay all settlement costs relating to these claims. Defense costs are currently being paid by Zurn s insurers without eroding the coverage amounts of its insurance policies.

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**U.S. INDUSTRIES, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**(Tabular amounts in millions)**
**(unaudited)**

**Note 6-Commitments and Contingencies (continued)**

Zurn estimates that its potential liability for asbestos claims pending against it and for claims estimated to be filed through 2012 is approximately $145 million. This estimate is based on its view of the current and anticipated number of future asbestos claims, the timing and amounts of asbestos payments, the status of ongoing litigation and the potential impact of 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. Zurn s present estimate of its asbestos liability is predicated on the assumption that its recent vigorous defense strategy will enable it to reduce both its claim frequency and claim severity in the future. While Zurn believes there is evidence, in recent claims settlements, for such an impact of a successful defense strategy, if the defense strategy ultimately is not successful, to the extent assumed by Zurn, the severity and frequency of asbestos claims could increase substantially above Zurn s estimates. Further, while there is presently no reasonable basis for estimating Zurn s asbestos liability beyond 2012, such liability may continue beyond 2012, and such liability could be substantial.

Zurn s analysis of its available insurance to cover its potential asbestos liability is approximately $340 million. This total includes $68 million in insurance coverage under certain excess policies which is in dispute with one of Zurn s insurers. Subject to completion of a definitive settlement agreement, the parties have preliminarily agreed to the terms of settlement of an action commenced by Zurn in the United States District Court of the Western District of Pennsylvania seeking, among other things, a declaration that the insurance coverage limits of certain excess policies provide $68 million in coverage. Under the terms of the proposed settlement, Zurn s available insurance to cover its potential asbestos liability would be approximately $340 million.

Zurn believes, based on its experience in defending and dismissing such 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 Zurn s experience in asbestos litigation, the insurance payments made to date by Zurn s insurance carriers, existing insurance policies, the industry ratings of the insurers 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.

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.

**Note 7-Comprehensive Income**

The components of comprehensive income are as follows:

| | First Quarter | |
|---|---|---|
| | **2003** | **2002** |
| Net income (loss) | $ 13.7 | $ (7.0) |
| Foreign currency translation: | | |
| Adjustment arising during the period | 5.5 | |
| Reclassification adjustment in earnings | | |
| Derivative instruments and hedging activities: | | |
| Fair value adjustment arising during period | | (0.3) |
| Reclassification adjustment in earnings | | 0.4 |
| Comprehensive income (loss) | | |