

JACUZZI BRANDS INC  
Form 10-Q  
August 12, 2003

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

**FORM 10-Q**

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

For the quarterly period ended June 28, 2003

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**

**JACUZZI BRANDS, INC.**

(formerly 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.)

**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  No

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

As of July 31, 2003 Jacuzzi Brands, Inc. had one class of common stock, of which 74,948,832 shares were outstanding.

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(formerly U.S. Industries, Inc.)

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**JACUZZI BRANDS, INC. (F/K/A U.S. INDUSTRIES, INC.)**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in millions except per share data)  
(unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2003	2002	2003	2002
Net sales	\$ 315.5	\$ 289.9	\$ 865.2	\$ 782.1
Operating costs and expenses:				
Cost of products sold	221.4	194.6	599.2	535.3
Selling, general and administrative expenses	64.7	60.8	188.4	170.7
Restructuring and severance charges	5.2	6.4	8.3	6.4
Operating income	24.2	28.1	69.3	69.7
Interest expense	(14.3)	(17.3)	(46.9)	(59.7)
Interest income	0.4	0.6	1.3	3.3
Other expense, net	(1.0)	(2.4)	(3.5)	(7.2)
Income before income taxes and discontinued operations	9.3	9.0	20.2	6.1
(Provision) benefit for income taxes	(3.6)	(4.3)	5.8	(4.3)
Income from continuing operations	5.7	4.7	26.0	1.8
Discontinued operations:				
(Loss) income from operations (net of tax benefit (provision) of \$0.2, \$(0.7), \$0.2, and \$(0.7), respectively)	(0.4)	2.3	(0.4)	1.2
(Loss) gain on disposals (net of tax benefit of \$6.5 for the nine months ended June 30, 2003)		15.0	(39.9)	15.0
(Loss) income from discontinued operations	(0.4)	17.3	(40.3)	16.2
Net income (loss)	\$ 5.3	\$ 22.0	\$( 14.3)	\$ 18.0
Earnings per share information:				
Basic income (loss) per share:				
Continuing operations	\$ 0.08	\$ 0.06	\$ 0.35	\$ 0.02
Discontinued operations	(0.01)	0.24	(0.54)	0.22
	\$ 0.07	\$ 0.30	\$ (0.19)	\$ 0.24
Diluted income (loss) per share:				
Continuing operations	\$ 0.08	\$ 0.06	\$ 0.35	\$ 0.02
Discontinued operations	(0.01)	0.24	(0.54)	0.22

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\$ 0.07	\$ 0.30	\$ (0.19)	\$ 0.24
<b>■</b>	<b>■</b>	<b>■</b>	<b>■</b>

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

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**JACUZZI BRANDS, INC. (F/K/A U.S. INDUSTRIES, INC.)**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in millions)

	<b>June 30, 2003</b>	<b>September 30, 2002</b>
<b>(unaudited)</b>		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 21.4	\$ 32.1
Restricted cash collateral accounts	41.5	142.9
Trade receivables, net	233.9	209.8
Inventories	172.3	163.7
Deferred income taxes	32.1	31.0
Assets held for sale	11.8	237.8
Income taxes receivable		37.5
Other current assets	40.6	24.0
	553.6	878.8
Restricted cash collateral accounts		15.4
Property, plant and equipment, net	129.2	130.0
Pension assets	145.7	136.0
Insurance for asbestos claims	145.0	145.0
Other assets	34.1	34.7
Goodwill, net	231.9	229.6
Other intangible assets, net	73.5	73.6
	\$1,313.0	\$1,643.1
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Notes payable	\$ 21.7	\$ 15.3
Current maturities of long-term debt	72.8	275.9
Trade accounts payable	103.3	94.7
Income taxes payable	12.7	
Liabilities associated with assets held for sale	5.9	78.6
Accrued expenses and other current liabilities	122.0	128.1
	338.4	592.6
Total current liabilities		592.6
Long-term debt	441.4	516.9
Deferred income taxes	10.7	17.4
Asbestos claims	145.0	145.0
Other liabilities	128.4	133.5
	1,063.9	1,405.4
Total liabilities		1,405.4
Commitments and contingencies		
Stockholders equity	249.1	237.7
	\$1,313.0	\$1,643.1

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





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**JACUZZI BRANDS, INC. (F/K/A U.S. INDUSTRIES, INC.)**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in millions)  
(unaudited)

	Nine months ended June 30,	
	2003	2002
<b>OPERATING ACTIVITIES:</b>		
Income from continuing operations	\$ 26.0	\$ 1.8
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities of continuing operations:		
Depreciation and amortization	17.1	19.1
Amortization of deferred financing costs	8.1	5.2
Deferred income tax benefit	(15.0)	(0.5)
(Gain) loss on sale of excess real estate	(3.5)	(0.1)
Other, net	3.0	2.0
Changes in operating assets and liabilities, net	1.3	(41.6)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES OF CONTINUING OPERATIONS</b>	<b>37.0</b>	<b>(14.1)</b>
(Loss) income from discontinued operations	(40.3)	16.2
Adjustments to reconcile (loss) income from discontinued operations to net cash (used in) provided by operating activities of discontinued operations:		
Loss (gain) on disposals of discontinued operations	39.9	(15.0)
Change in net assets of discontinued operations	(8.8)	39.9
<b>NET CASH (USED IN) PROVIDED BY DISCONTINUED OPERATIONS</b>	<b>(9.2)</b>	<b>41.1</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>27.8</b>	<b>27.0</b>
<b>INVESTING ACTIVITIES:</b>		
Proceeds from sale of businesses, net	120.5	385.7
Proceeds from sale of Strategic Notes, net		105.9
Purchases of property, plant and equipment	(11.4)	(11.1)
Proceeds from sale of excess real estate	11.0	0.1
Proceeds from sale of fixed assets	0.1	1.5
Other investing activities, net		1.2
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>120.2</b>	<b>483.3</b>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from long-term debt	42.1	81.9
Repayment of Restructured Facilities	(162.0)	(479.6)
Repayment of Senior Notes	(159.6)	
Escrow deposits	(60.9)	(148.6)
Escrow withdrawals	178.1	
Payment of financing fees	(8.9)	
Proceeds from notes payable, net	5.5	4.4
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(165.7)</b>	<b>(541.9)</b>

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Effect of exchange rate changes on cash and cash equivalents	7.0	11.8
DECREASE IN CASH AND CASH EQUIVALENTS	(10.7)	(19.8)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	32.1	65.2
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 21.4	\$ 45.4

The accompanying notes are an integral part of these statements.

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**JACUZZI BRANDS, INC. (F/K/A U.S. INDUSTRIES, INC.)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Tabular amounts in millions)**  
**(unaudited)**

**Note 1 Basis of Presentation**

We manufacture and distribute a broad range of consumer and industrial products through our three business segments Bath Products, Plumbing Products and Rexair. See Note 11 for changes made to our business segments. In April 2003, our Board of Directors authorized a change in the name of the corporation to Jacuzzi Brands, Inc., which was approved by stockholders on June 4, 2003.

We operate on a 52- or 53-week fiscal year ending on the Saturday nearest to September 30. Any three or nine month data contained in this Report on Form 10-Q reflects the results of operations for the 13-week and 39-week periods ended on the Saturday nearest June 30 of the respective year, but are presented as of June 30 for convenience. Our condensed consolidated interim financial statements as of June 30, 2003 and for the 13-week and 39-week periods ending June 30, 2003 (also referred to as the Third Quarter of 2003 and Year to Date 2003, respectively) and June 30, 2002 (also referred to as the Third Quarter of 2002 and Year to Date 2002, respectively) are unaudited. However, in our opinion, these financial statements reflect all normal, recurring adjustments necessary to provide a fair presentation of our 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. The balance sheet at September 30, 2002 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

Certain amounts have been reclassified in our prior year statements to conform them to the presentation used in the current year.

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 our financial statements, the condensed interim financial statements should be read in conjunction with our audited financial statements for the year ended September 30, 2002, which are included in our 2002 Annual Report on Form 10-K, filed on December 24, 2002.

**Note 2- New Accounting Pronouncements**

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*. We are assessing, but at this point do not believe the adoption of EITF 00-21 will have a material impact on our 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. We are assessing, but at this point do not believe the adoption will have a material impact on our financial position or results of operations.

In May 2003, the FASB issued Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This Statement is effective for financial instruments entered into



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**JACUZZI BRANDS, INC. (F/K/A U.S. INDUSTRIES, INC.)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
 (Tabular amounts in millions)  
 (unaudited)

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

or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. We do not believe the adoption of this Statement will have a material impact on our financial position or results of operations.

**Note 3-Inventories**

Inventories consist of the following:

	June 30, 2003	September 30, 2002
Finished products	\$ 110.1	\$ 101.8
Work-in process	12.1	13.3
Raw materials	50.1	48.6
	<u>\$ 172.3</u>	<u>\$ 163.7</u>

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

Net goodwill by reporting unit is as follows:

	June 30, 2003	September 30, 2002
Bath Products	\$ 106.1	\$ 103.8
Plumbing Products	125.8	125.8
	<u>\$ 231.9</u>	<u>\$ 229.6</u>

In connection with our decision to dispose of our swimming pool, pool equipment, hearth and water systems businesses, which were included in our previously defined Bath & Plumbing segment (see Note 11), we performed an interim impairment test for the remaining goodwill within the reporting unit in accordance with SFAS No. 142. No impairment was indicated.

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

	June 30, 2003		September 30, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible asset	\$ 0.9	\$ 0.2	\$ 0.9	\$ 0.1
Non-amortizable intangible assets	72.8		72.8	

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Total identifiable intangible assets	\$73.7	\$ 0.2	\$73.7	\$ 0.1
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