

US INDUSTRIES INC /DE

Form 10-Q/A

May 09, 2003

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

FORM 10-Q/A

Amendment No. 1

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

For the quarterly period ended March 29, 2003

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 | 22-3568449 |
| (State or other jurisdiction of incorporation or organization) | (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 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 May 1, 2003 U.S. Industries, Inc. had one class of common stock, of which 74,927,552 shares were outstanding.

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Explanatory Note

This Amendment No. 1 to the Quarterly Report on Form 10-Q of U.S. Industries, Inc. (the Company) for the quarterly period ended March 29, 2003 is being filed for the purpose of reclassifying \$8.6 million from cost of goods sold to selling, general and administrative expenses in the Company s Condensed Consolidated Statements of Operations for the second quarter and first half of fiscal 2003. Operating income, income from continuing operations, net income and all other items remain unchanged.

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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, | | Six Months Ended March 31, | |
|---|---------------------------------|----------|-------------------------------|-----------|
| | 2003 | 2002 | 2003 | 2002 |
| Net sales | \$ 283.8 | \$ 254.4 | \$ 549.7 | \$ 492.2 |
| Operating costs and expenses: | | | | |
| Cost of products sold | 192.4 | 174.0 | 376.8 | 338.8 |
| Selling, general and administrative expenses | 61.8 | 55.1 | 124.7 | 111.8 |
| Restructuring charges | 3.1 | | 3.1 | |
| Operating income | 26.5 | 25.3 | 45.1 | 41.6 |
| Interest expense | (14.2) | (19.8) | (32.6) | (42.4) |
| Interest income | 0.3 | 0.7 | 0.9 | 2.7 |
| Other expense, net | (3.1) | (4.1) | (2.5) | (4.8) |
| Income (loss) before income taxes | 9.5 | 2.1 | 10.9 | (2.9) |
| (Provision) benefit for income taxes | (3.7) | | 9.4 | |
| Net income (loss) from continuing operations | 5.8 | 2.1 | 20.3 | (2.9) |
| Discontinued operations: | | | | |
| Income (loss) from operations (net of tax provision of \$0.5 for the three months ended March 31, 2003) | 0.8 | 0.9 | | (1.1) |
| Impairment loss (net of tax benefit of \$6.5) | (39.9) | | (39.9) | |
| (Loss) income from discontinued operations | (39.1) | 0.9 | (39.9) | (1.1) |
| Net (loss) income | \$ (33.3) | \$ 3.0 | \$ (19.6) | \$ (4.0) |
| Earnings per share information: | | | | |
| (Loss) income per basic share: | | | | |
| Continuing operations | \$ 0.08 | \$ 0.03 | \$ 0.27 | \$ (0.04) |
| Discontinued operations | (0.53) | 0.01 | (0.53) | (0.01) |
| | \$ (0.45) | \$ 0.04 | \$ (0.26) | \$ (0.05) |
| (Loss) income per diluted share: | | | | |
| Continuing operations | \$ 0.08 | \$ 0.03 | \$ 0.27 | \$ (0.04) |

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| | | | | |
|-------------------------|-------------------|-------------------|-------------------|-------------------|
| Discontinued operations | (0.53) | 0.01 | (0.53) | (0.01) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | \$ (0.45) | \$ 0.04 | \$ (0.26) | \$ (0.05) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

The accompanying notes are an integral part of these statements.

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

| | March 31, 2003 | September 30, 2002 |
|--|---------------------------|-----------------------------------|
| (unaudited) | | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 17.5 | \$ 32.1 |
| Restricted cash collateral accounts | 5.9 | 142.9 |
| Trade receivables, net | 208.4 | 209.8 |
| Inventories | 169.9 | 163.7 |
| Deferred income taxes | 31.0 | 31.0 |
| Assets held for sale | 62.2 | 237.8 |
| Income taxes receivable | | 37.5 |
| Other current assets | 22.6 | 24.0 |
| Total current assets | 517.5 | 878.8 |
| Restricted cash collateral accounts | 33.1 | 15.4 |
| Property, plant and equipment, net | 126.1 | 130.0 |
| Pension assets | 142.2 | 136.0 |
| Insurance for asbestos claims | 145.0 | 145.0 |
| Other assets | 39.2 | 34.7 |
| Goodwill and other intangibles, net | 303.0 | 303.2 |
| | \$ 1,306.1 | \$ 1,643.1 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Notes payable | \$ 20.8 | \$ 15.3 |
| Current maturities of long-term debt | 31.3 | 275.9 |
| Trade accounts payable | 92.1 | 94.7 |
| Income taxes payable | 18.4 | |
| Liabilities associated with assets held for sale | 23.4 | 78.6 |
| Accrued expenses and other current liabilities | 110.8 | 128.1 |
| Total current liabilities | 296.8 | 592.6 |
| Long-term debt | 491.0 | 516.9 |
| Deferred income taxes | 11.3 | 17.4 |
| Asbestos claims | 145.0 | 145.0 |
| Other liabilities | 133.0 | 133.5 |
| Total liabilities | 1,077.1 | 1,405.4 |
| Commitments and contingencies | | |
| Stockholders' equity | 229.0 | 237.7 |
| | \$ 1,306.1 | \$ 1,643.1 |

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)

| | Six months ended March 31, | |
|--|-------------------------------|----------------|
| | 2003 | 2002 |
| OPERATING ACTIVITIES: | | |
| Net income (loss) from continuing operations | \$ 20.3 | \$ (2.9) |
| Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities of continuing operations: | | |
| Depreciation and amortization | 11.8 | 12.3 |
| Amortization of deferred financing costs | 6.3 | 3.4 |
| Deferred income tax benefit | (14.5) | |
| Gain on sale of excess real estate | (3.4) | |
| Other, net | 1.9 | 0.8 |
| Changes in operating assets and liabilities | 26.2 | (31.8) |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES OF CONTINUING OPERATIONS | 48.6 | (18.2) |
| Net loss from discontinued operations | (39.9) | (1.1) |
| Adjustments to reconcile the net loss from discontinued operations to net cash used in operating activities of discontinued operations: | | |
| Impairment loss | 39.9 | |
| Change in net assets of discontinued operations | (21.7) | 12.6 |
| NET CASH (USED IN) PROVIDED BY DISCONTINUED OPERATIONS | (21.7) | 11.5 |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | 26.9 | (6.7) |
| INVESTING ACTIVITIES: | | |
| Proceeds from sale of businesses, net | 103.8 | 143.1 |
| Proceeds from sale of Strategic Notes, net | | 105.9 |
| Purchases of property, plant and equipment | (5.5) | (7.9) |
| Proceeds from sale of excess real estate | 10.8 | |
| Proceeds from sale of fixed assets | 0.1 | 1.5 |
| Other investing activities, net | | 1.1 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 109.2 | 243.7 |
| FINANCING ACTIVITIES: | | |
| Proceeds from long-term debt | 16.4 | 42.3 |
| Repayment of Restructured Facilities | (128.2) | (238.4) |
| Repayment of Senior Notes | (159.6) | |
| Escrow deposits | (58.4) | (77.5) |
| Escrow withdrawals | 178.1 | |
| Payment of financing fees | (8.9) | |
| Proceeds from notes payable, net | 5.4 | 3.5 |
| NET CASH USED IN FINANCING ACTIVITIES | (155.2) | (270.1) |

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| | | |
|--|---------|---------|
| Effect of exchange rate changes on cash and cash equivalents | 4.5 | 0.1 |
| DECREASE IN CASH AND CASH EQUIVALENTS | (14.6) | (33.0) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 32.1 | 65.2 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 17.5 | \$ 32.2 |

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 (*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 reflect the discontinuance of certain operations (see Note 13) and to conform them to the presentation used in the current period in accordance with Statement of Financial Accounting Standards No. 144. In April 2003, the Board of Directors authorized, subject to the approval of the Company's shareholders, a change in the name of U.S. Industries, Inc. to Jacuzzi Brands, Inc.

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, 2003 and for the 13-week and 26-week periods ending March 31, 2003 (also referred to as the *Second Quarter of 2003* and *First Half of 2003* , respectively) and March 31, 2002 (also referred to as the *Second Quarter of 2002* and *First Half of 2002* , 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 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 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.

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

Note 3-Inventories

Inventories consist of the following:

| | March 31, 2003 | September 30, 2002 |
|-------------------|---------------------------|-----------------------------------|
| Finished products | \$ 109.9 | \$ 101.8 |
| Work-in process | 12.2 | 13.3 |
| Raw materials | 47.8 | 48.6 |
| | \$ 169.9 | \$ 163.7 |

Note 4-Goodwill and Other Intangible Assets

As of March 31, 2003, the Company had net goodwill of \$229.4 million in the Bath & Plumbing segment, compared to \$229.6 million as of September 30, 2002. The decrease in the goodwill balance is primarily due to exchange rate fluctuations. In connection with the Company's decision to dispose of its swimming pool, pool equipment, hearth and water systems businesses, which were included in the Bath & Plumbing segment (see Note 13), the Company performed an interim impairment test for the remaining goodwill within the reporting unit. The fair value of the remaining portion of the reporting unit exceeded the adjusted carrying value.

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

| | March 31, 2003 | | 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 is being 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:

| March 31, | September 30, |
|----------------------|--------------------------|
|----------------------|--------------------------|