U S INDUSTRIES INC NEW

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Exhibits

FORM 10-K

SEPTEMBER 30, 2000

U.S. INDUSTRIES, INC.

[illegible]

[illegible] ESS

[illegible]

[illegible] "USI" and, together with its subsidiaries, the "[illegible]" [illegible] and home [illegible] business [illegible] and [illegible] Company's [illegible] share [illegible] and [illegible] potential.

[illegible], Inc. ("USI Atlantic"), a [illegible] Industries, [illegible] "[illegible]" [illegible] other assets [illegible] (the "Demerger"). The [illegible]

In [illegible], [illegible] Atlantic merged with Zurn Industries, [illegible] ("Zurn"), [illegible] "Merger" [illegible] million, [illegible] Company's [illegible]

[illegible] statements [illegible] There were

[illegible]

[illegible] facility. The Pentair facility provides that all Pentair free [illegible], as defined, must be used to repay the outstanding balance of the [illegible]. At September [illegible], the outstanding balance on the Pentair [illegible] approximately [illegible] million. As a result of the Pentair transaction, [illegible], which will be [illegible] until the release [illegible] the Pentair facility. The Company's [illegible] of the net [illegible] and the deferred [illegible] are included in [illegible] "Other liabilities".

[illegible] interest in [illegible] and Pentair [illegible] for under [illegible] accounting and [illegible] to the [illegible] disposal date.

On September [illegible], the Company announced that its Board of Directors [illegible] to pursue a spin-off of its lighting [illegible] and its industrial [illegible]. The lighting businesses include [illegible] Inc.; [illegible]-Lite, Inc.; [illegible], Inc.; [illegible], Inc.; [illegible] Lighting, Inc.; [illegible] Lighting, Inc.; [illegible] [illegible] fixture [illegible]

[illegible]. The industrial tools business includes [illegible] plc and [illegible], [illegible] international [illegible] tools [illegible] entities [illegible] September [illegible] million and [illegible], respectively, and operating income [illegible] million, respectively, excluding [illegible] charge [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible] Bath and Plumbing Products, [illegible] The Company completed [illegible] March [illegible], [illegible] classified [illegible] "Management's Discussion [illegible] Analysis of Financial Condition and Results of Operations--Discontinued [illegible] and [illegible]". See Note 4.

BATH AND PLUMBING PRODUCTS

Bath and Plumbing Products is one of the leading bath and plumbing products businesses in North America. It manufactures and distributes a full line of bath and plumbing [illegible] under the brand names JACUZZI, ELJER [illegible] [illegible] shower [illegible], stainless steel sinks, [illegible] and other [illegible] under the brand names [illegible].

The Company's [illegible] has been to combine acquired [illegible] to realize marketing [illegible] cost savings [illegible] international growth opportunities, including product extensions [illegible] expansion into new markets. The [illegible] bath and plumbing products [illegible] North America through wholesale distributors and home centers, and [illegible] international markets, including Europe, South America, the [illegible] East and Asia.

[illegible] bath products [illegible] baths, swim [illegible] and water [illegible] products. In the past three years, [illegible] Spas and Bath [illegible] certain [illegible] installation.

Eljer is a leading North American manufacturer of [illegible] vitreous china and [illegible] plumbing, faucets and flexible plumbing [illegible].

[illegible]

[illegible]

[illegible]

[illegible]

[illegible] high electrical distributors and national accounts, [illegible] and compact fluorescent, down light fixtures, emergency and [illegible], and other fluorescent lighting fixtures.

[illegible] that LCA is the largest residential lighting [illegible] in North America, [illegible] selling [illegible] incandescent, fluorescent, pendants, [illegible], ceiling, fluorescent, [illegible] and [illegible]. Residential lighting products are sold [illegible], [illegible] and electrical distributors, [illegible], electrical [illegible].

Sales of lighting products are seasonal to a degree, [illegible] affecting construction and outdoor installation.

HARDWARE AND TOOLS

[illegible]

[illegible] hand and striking tools in North America. [illegible] products under the [illegible], TRUE TEMPER, [illegible] and [illegible], [illegible] agricultural tools, [illegible] and other [illegible] tools, [illegible] goods and [illegible].

[illegible] True Temper [illegible]

[illegible]

[illegible] industrial [illegible] industrial [illegible].

Ames, True Temper and Spear & Jackson distribute their products [illegible] through independent wholesale distributors, home centers, [illegible] and large buying groups [illegible] cooperatives. The sale of [illegible] True Temper [illegible]

[illegible]

[illegible] home centers and other mass merchants. The [illegible]

[illegible]

[illegible]

[illegible]

[illegible] children's footwear. Its [illegible] sold in [illegible] products [illegible] in the [illegible] of the industry and markets its products to sporting [illegible], [illegible] stores. [illegible] SAFETY [illegible] leading direct [illegible] safety footwear. [illegible] supplies warp [illegible] of activewear and [illegible] apparel. It [illegible] for [illegible]. [illegible] window, [illegible] [illegible] clad [illegible] seating chairs [illegible] and [illegible]. In [illegible] acquired [illegible] Components, Inc., [illegible] expand into the business of refurbishing [illegible] "[illegible]" [illegible] components [illegible] shadow masks, a [illegible] television [illegible] company [illegible] listed on the [illegible] Exchange of [illegible] and [illegible] consumer [illegible] products [illegible] for [illegible] [illegible]. [illegible], INC. is a leading manufacturer of high quality leather [illegible] trim. [illegible] for the [illegible] panels.

[illegible] industry is [illegible] highly competitive. [illegible] also [illegible] competition [illegible] United States [illegible] increase [illegible]

[illegible]

[illegible]

[illegible]

[illegible] foreign operations [illegible] of total revenues [illegible], respectively, principally [illegible] certain [illegible], Spear & Jackson and [illegible]. Identifiable assets of foreign [illegible]

[illegible] of total identifiable assets at [illegible], respectively. Foreign [illegible] assets principally [illegible] certain assets of [illegible], Spear & Jackson. [illegible] the amount of [illegible] from [illegible] in East Asia.

The Company's [illegible] sales and foreign manufacturing [illegible] subject to [illegible] including currency fluctuation, [illegible] political and economic instability, [illegible] in the [illegible] [illegible] trade and import and export [illegible] [illegible] amounts [illegible].

EMPLOYEES

As of [illegible], the Company had approximately [illegible] employees [illegible] the Company [illegible]. Approximately [illegible] employees were represented by [illegible]. The Company believes that [illegible] subsidiaries [illegible] and [illegible].

[illegible]

[illegible]

Certain present [illegible], in addition [illegible], currently or previously owned and/or leased by current or former operating units of the Company, are the subject of investigations, monitoring or remediation under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA" or "Superfund"), the Federal Resource Conservation and Recovery Act [illegible] proceedings [illegible] settlement [illegible] expenditures [illegible] these proceedings, whether [illegible] Company's [illegible].

[illegible] "PRPs" [illegible]

[illegible] Company's financial condition, results of operations or cash flows.

[illegible], the Company may receive notices of violation or may be [illegible] certain licenses or permits in the event that the [illegible] operating [illegible] with regulations or [illegible]. In [illegible] cases, the relevant agencies [illegible] meet with the [illegible] mutually acceptable methods of modifying or [illegible] the [illegible]. The Company believes that its operating [illegible] will comply with the applicable regulations and standards in a manner which will not have a material adverse effect on its financial condition, results of operations or cash flows.

The Company's subsidiaries have made capital and maintenance expenditures [illegible] with mining, water, air and solid [illegible] waste [illegible] the amount of expenditures in future years [illegible] depend on [illegible] be [illegible] time, [illegible] regulations [illegible] be [illegible] compliance cannot be predicted with [illegible] and [illegible] costs the Company [illegible] forced to [illegible] with historical on-site or off-site waste disposal. No information [illegible] available reasonably indicates that these [illegible] will have a material adverse effect on the Company's financial condition, results of operations or cash flows. Laws and regulations protecting [illegible] may in certain [illegible] impose "strict liability", rendering a person liable for environmental [illegible] without regard to negligence or fault on the part of such person.

[illegible], the Company [illegible] for [illegible] relating to [illegible] The [illegible] 13 million [illegible] cannot predict [illegible] the [illegible] of laws and regulations [illegible] enforcement [illegible], particularly with respect to [illegible], will not require material [illegible] expenditures or otherwise affect its financial condition, results of operations or cash flows in a material way, or whether the operations [illegible] be successful in meeting future demands of regulatory agencies in a manner which will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

[illegible]

The Company's subsidiaries have [illegible] United States [illegible] patents, [illegible], trademarks and trade names, [illegible] that relate to [illegible] businesses. The Company believes that certain of the [illegible]

[illegible]

[illegible] of the Company [illegible] as follows:

ITEM 2. PROPERTIES

The Company [illegible] and leases 164 properties, none of which has value that [illegible] in relation to the Company's assets as a whole. The Company [illegible] and [illegible] of the [illegible] properties [illegible] its wholly-owned [illegible] Properties, Inc.

[illegible] LEGAL PROCEEDINGS

[illegible] subsidiaries are parties to [illegible] that are [illegible], which [illegible] to the business [illegible]

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company did not submit any matter to a vote of its security holders during the fourth quarter of fiscal 2000.

PART II

[illegible] SELECTED FINANCIAL DATA

The following table sets forth the consolidated historical selected financial data of the Company.

	[illegible]	[illegible]	[illegible]	[illegible]	1996
			(IN MILLIONS, EXCEPT PER SHARE)		
Income Statement Data:					
Net sales	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Operating income	[illegible]	[illegible]	140	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Net income	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible] per share					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Diluted	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Net income per share					
Basic	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Diluted	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	--
[illegible]					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Working capital	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total assets	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total debt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

[illegible] and other related costs, [illegible] million after-tax charges to [illegible] interest rate protection agreements, [illegible] million after-tax charges [illegible], and [illegible] million after-tax charges associated with [illegible] of [illegible]'s [illegible], [illegible] million.

[illegible], respectively.

[illegible] Merger.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

[illegible]

[illegible] Plumbing [illegible] the Company [illegible] segment in [illegible] 2000 [illegible] reclassified from [illegible]'s internal [illegible]. Accordingly, all [illegible] presented have been [illegible] in this presentation. The [illegible] operations [illegible] classified as discontinued are excluded from the [illegible] discussion [illegible]. See Note [illegible] to the Consolidated Financial Statements.

	FOR THE FISCAL YEARS ENDED SEPTEMBER 30,		
	[illegible]	[illegible]	[illegible]
		(MILLIONS)	
NET SALES:			
Bath and Plumbing Products	[illegible]	[illegible]	[illegible]
Lighting Corporation of America	[illegible]	[illegible]	[illegible]
Hardware and Tools	[illegible]	[illegible]	[illegible]
Diversified	[illegible]	[illegible]	[illegible]
TOTAL NET SALES	[illegible]	[illegible]	[illegible]
OPERATING INCOME (LOSS):			
Bath and Plumbing Products	[illegible]	[illegible]	[illegible]
Lighting Corporation of America	[illegible]	[illegible]	[illegible]
Hardware and Tools	[illegible]	[illegible]	[illegible]
Diversified	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]
Corporate expenses	[illegible]	[illegible]	[illegible]
TOTAL OPERATING INCOME	[illegible]	[illegible]	[illegible]

---

1. [illegible]

2. Operating income for fiscal [illegible] includes restructuring and other charges of [illegible]. Accordingly, operating income for Bath and Plumbing Products, Lighting Corporation of America, and Diversified includes charges of [illegible], respectively.

3. [illegible]

4. [illegible]

[illegible]

[illegible]

[illegible] six months of operations from the divested [illegible] segment [illegible] twelve months of operations in the same period of the prior years. [illegible] 1.10 operating income [illegible] restructuring, goodwill impairment and [illegible] charges [illegible] and the fiscal 1999 operating income [illegible] restructuring [illegible]. Excluding these [illegible]

[illegible]

[illegible] sales of [illegible] million and operating income [illegible] million, [illegible] charges of [illegible] million [illegible] corporate [illegible], goodwill and property, plant [illegible] impairment, and [illegible] charges related to the [illegible] operations. This compared to sales of $1,[illegible] and operating [illegible] of [illegible] million in the prior year, which included [illegible] million. Excluding [illegible] operating income would have been [illegible] and [illegible] primarily [illegible] full year [illegible] and [illegible] of the [illegible] businesses, and [illegible] currency translation [illegible] operating income [illegible] water [illegible] and European HVAC [illegible] Spring [illegible] and Gate [illegible].

[illegible]

[illegible] operating income [illegible] residential [illegible] to sales [illegible] and operating income of $40 million [illegible] 1999 [illegible] in connection with [illegible] product lines [illegible] costs. Excluding [illegible] charges, operating [illegible] million in the current year and [illegible] million in the prior year. The [illegible] sales is primarily due to the full year inclusion of [illegible], acquired in [illegible] 1999, [illegible] partially offset by [illegible] residential [illegible]

[illegible]

[illegible]

[illegible]

[illegible] comprised of approximately six [illegible] March [illegible], as compared to [illegible] twelve [illegible] operations. [illegible] income of [illegible] and operating [illegible] restructuring and [illegible] related charges of [illegible] losses, [illegible] inventory [illegible] unprofitable [illegible] and [illegible] charges [illegible] infant's and children's [illegible]. The fiscal [illegible] favorable [illegible] of the charges [illegible] the Company's [illegible] operations. [illegible] these charges, operating income [illegible] would have been [illegible]

[illegible]

[illegible]

[illegible] expenses, [illegible]

[illegible]

[illegible] strategic [illegible] review, [illegible] exit these [illegible] operations [illegible] the Company [illegible] Company was not a market leader in these businesses, and the fact that significant investment would be required in order to make these businesses competitive [illegible]

[illegible] for approximately [illegible] million, [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible] all of the [illegible]

[illegible] impairment [illegible]

[illegible]

[illegible] approximately [illegible] million of the reserve is included [illegible] "Accrued expenses and other liabilities", while the [illegible] "Other [illegible]". [illegible] approximately [illegible] million of the reserve is [illegible] "Accrued expenses and other liabilities", [illegible] "Other [illegible]".

[illegible]

[illegible] expenses [illegible] charges related to the [illegible] business [illegible] charges related to the [illegible] segment, [illegible] million gain [illegible] sales. The [illegible]

INTEREST EXPENSE

[illegible] increase from [illegible]. The increase is due to higher average levels of outstanding [illegible] with higher [illegible] interest rates. The increase in debt level [illegible] attributable to the Company's [illegible] partially [illegible] from the [illegible] majority [illegible] interest in the [illegible] million [illegible] The increase in [illegible] primarily [illegible] the sale [illegible]

[illegible] related to [illegible] from pension [illegible] benefit [illegible] taxes includes [illegible] million [illegible] to the settlement [illegible] fiscal [illegible] the effective rate would have been approximately [illegible]

[illegible]

[illegible]

[illegible] Transactions", [illegible]

[illegible]

[illegible] the "[illegible]" [illegible]

[illegible] stated value of approximately [illegible] million and [illegible] [illegible] SILLC. The Company currently has [illegible] representatives on the [illegible]. As of August [illegible], the Company has [illegible] market and sell [illegible] assumed [illegible] of the [illegible]

[illegible]

In the second quarter [illegible], Pamida, Inc. ("Pamida") [illegible] "Pamida" [illegible]

[illegible]

[illegible] under the [illegible] cash flow, [illegible] of the Pamida [illegible]

the [illegible] million [illegible] "[illegible]".

The Company's [illegible] interest in [illegible] and Pamida [illegible] the equity [illegible] approximately [illegible]

In the second quarter of fiscal [illegible], the Company [illegible] businesses. The [illegible] operation [illegible] for those businesses [illegible] approximately [illegible] million, which [illegible] segment [illegible]

[illegible] operations. The [illegible] million, [illegible]

[illegible]

[illegible]

[illegible]

[illegible] April 19[illegible], the [illegible] completed the sale of its investment in [illegible] resulting in a [illegible] million after-tax gain. In January 19[illegible], [illegible] completed the sale of its remaining interest in the Power Systems [illegible] approximately [illegible] million. [illegible] was realized [illegible].

[illegible]

[illegible] fiscal 19[illegible] [illegible] million [illegible] fiscal [illegible]. The fiscal [illegible] restructuring and other related charges of [illegible] million [illegible] the fiscal [illegible] operating income includes goodwill impairment, restructuring and other related charges of [illegible] million. Excluding these charges, operating income [illegible] million in fiscal 199[illegible] [illegible] million in fiscal 199[illegible], [illegible].

[illegible]

[illegible] operating income [illegible] million [illegible] margin [illegible] operating income [illegible] fiscal 199[illegible], which includes goodwill impairment, restructuring and other related charges of [illegible] million. [illegible] charges of [illegible] payments to certain employees [illegible] [illegible]

significantly higher sales and [illegible] and [illegible] operations, higher sales and [illegible] June 199[illegible] [illegible] July 199[illegible] and the full year [illegible] fiscal 199[illegible] [illegible]

[illegible]

[illegible] America [illegible] fiscal 199[illegible] sales of [illegible] million and [illegible] operating income [illegible] fiscal [illegible] [illegible]

[illegible]

[illegible] fiscal 1999 sales of $442 million and operating [illegible] of $2[illegible] million. This compares to fiscal 1998 sales of $375 million and an operating [illegible] million, which includes charges of $[illegible] million. The fiscal [illegible] impairments of goodwill and property, plant and equipment [illegible] Company's [illegible] and severance [illegible] with the [illegible] of the [illegible] Ames. [illegible] subsequently [illegible] October 1998 [illegible]. Excluding the above-mentioned charges, Hardware and Tools [illegible] operating income of $2[illegible] million in fiscal 1998. The increase in sales [illegible] attributable to the [illegible] True Temper acquisition. The increase in operating income was the [illegible] True Temper acquisition and the elimination of prior year losses [illegible] operation.

DIVERSIFIED

Diversified had fiscal 1999 sales of $[illegible] million and operating [illegible] of $[illegible] million, which includes unusual charges of $7 million. This compares to fiscal 1998 sales of $[illegible] million and operating income of $[illegible], which includes [illegible] million. The fiscal 1999 charges [illegible] closure and [illegible] operation [illegible], impairment [illegible] charges [illegible] the closure of [illegible] facility which produces infant's and children's footwear. The fiscal 1998 charges are [illegible] fiscal [illegible] the Company's [illegible] charges [illegible] impairment of goodwill at the [illegible] business, [illegible] severance and impairment [illegible] operations [illegible] in connection with management [illegible] and [illegible] with the [illegible] of [illegible] million [illegible] the elimination of the [illegible] business in the [illegible] of fiscal 1998.

13

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

The merger, integration and other costs also includes investment banking, legal and accounting fees and other miscellaneous costs, as well as costs related to [illegible] payments to certain [illegible] employees.

[illegible], the [illegible] million of merger, restructuring and [illegible], the Company [illegible] related to the [illegible] and the [illegible] of manufacturing and warehouse [illegible] which were restructured. [illegible] tax benefit [illegible] million, these charges reduced income from continuing operations [illegible] fiscal 1998 by [illegible] million.

OTHER (INCOME) EXPENSE, NET

Other (income) expense, net, in fiscal 1998 was income of [illegible] primarily reflecting gains on the sale of real estate. [illegible] expense, net in fiscal 1997 was an expense of [illegible] million. [illegible] in anticipation of the offering of senior notes, the Company entered into [illegible] interest rate [illegible] agreements. [illegible] principal [illegible] of the agreements, [illegible] million, [illegible] after-tax to write-off the [illegible] the [illegible].

INTEREST AND TAXES

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible] equity decreased [illegible] million principally due to [illegible] Company's common stock [illegible] the [illegible] Spear, Leeds & Kellogg [illegible] Jackson payment [illegible] the [illegible] Company's common stock price, and [illegible] dividends [illegible] million.

[illegible] the Company paid approximately [illegible] to its [illegible] 1997, 1998 and [illegible] an [illegible] paid in the next [illegible] months. [illegible] of the restructuring.

During fiscal [illegible], the Board of Directors authorized [illegible] repurchase [illegible]. In April [illegible], the Board [illegible] authorized [illegible] of share repurchases. [illegible] 30, [illegible], the Company [illegible] million of its common stock [illegible] treasury [illegible] common stock [illegible] Spear & Jackson for [illegible] equity instrument [illegible] were utilized to [illegible] approximately [illegible] million of its common stock. At the [illegible] can be settled [illegible] June [illegible] program [illegible] funded from cash [illegible] the sale of a minority interest [illegible] segment and [illegible] under the Company's [illegible] facilities. [illegible]

[illegible]

[illegible] Spear & Jackson [illegible] segment. [illegible] Spear & Jackson, the Company made additional cash payments [illegible] million [illegible] million [illegible] owners of Spear & Jackson. [illegible] purchase agreement [illegible] additional cash payments [illegible] the [illegible] value of the Company's common [illegible] equal to [illegible] the value of the Company's stock at the end of the [illegible] the [illegible] June [illegible] [illegible]

[illegible]

[illegible] million, [illegible] million and [illegible] million, denominated in German marks, British pounds and [illegible], respectively. These [illegible] hedge the Company's net [illegible] in foreign operating companies. The total foreign denominated [illegible] under the [illegible] Credit Agreement.

[illegible] commercial paper [illegible] outstanding at [illegible]. The [illegible]

[illegible]

[illegible] Facility [illegible] termination date is [illegible] 28, 2001. Accordingly, the Company has classified this borrowing as long-term. Borrowings under the [illegible] Facility bear interest at either the [illegible] base rate or LIBOR, plus [illegible] basis points, based on the Company's senior unsecured debt rating for the [illegible] Facility. [illegible] the Company's [illegible] for the [illegible]

Other [illegible] borrowings at September 30, [illegible] primarily consist of notes payable, [illegible] weighted average interest rate of [illegible], with maturities [illegible]. The Company [illegible] Credit Agreement and accordingly, the Company has classified [illegible] as long-term [illegible] at September [illegible]

[illegible]

In August [illegible], the Company's shelf registration [illegible] filed with the Commission in order to register [illegible] million in debt securities became effective. The Company [illegible] to issue debt securities [illegible] this registration statement [illegible]

[illegible] September [illegible] the Company [illegible] Board of Directors [illegible]

[illegible]

[illegible] Upon the spin-off, the Company anticipates receiving [illegible] as repayment of intercompany debt. [illegible] third party financing in order to repay [illegible].

[illegible]

[illegible] interest rate protection agreements were [illegible] September [illegible] with payments in October [illegible] the agreements [illegible] Notes [illegible]

16

[illegible] the Company [illegible] charge [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible] Notes to the Consolidated Financial Statements.

[illegible]

[illegible], in the normal course of doing business, is exposed to the risks [illegible] changes in interest rates and currency exchange rates. To limit the [illegible], the Company [illegible] transactions [illegible] authorized pursuant to the Company's policies and procedures. [illegible] Consolidated Financial Statements. The Company does not [illegible] transactions for trading purposes.

To manage [illegible] interest rate movements the Company [illegible] interest rate protection agreements. [illegible] the Company's overall exposure to interest rate changes, at September [illegible], [illegible] and [illegible] a hypothetical [illegible] basis points across all maturities of the Company's floating rate debt obligations, after considering interest rate protection agreements, [illegible] Company's pre-tax earnings by [illegible] million [illegible] fiscal [illegible].

The Company [illegible] foreign currency [illegible] hedge its net investments in foreign subsidiaries. [illegible] September [illegible], [illegible] denominated in German marks, [illegible] guilders, while [illegible] borrowings at September [illegible], [illegible] are denominated in German marks, [illegible] Hong Kong [illegible] in the relevant

[illegible]

currency [illegible] September [illegible] risk [illegible] underlying [illegible].

The Company [illegible] foreign currency exchange [illegible] international operations [illegible] points. The Company [illegible] limited use of financial [illegible] risk.

FOREIGN CURRENCY MATTERS

[illegible] of the Company's [illegible] September [illegible] rates, [illegible] of September [illegible].

[illegible]

[illegible] Company's [illegible] results of operations [illegible].

[illegible]

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of [illegible]".

[illegible]

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

[illegible]

[illegible]

[illegible] INDUSTRIES, INC.

[illegible] STATEMENT OF [illegible]

[illegible]

	[illegible] SEPTEMBER [illegible]		
	[illegible]	[illegible]	[illegible]
Net sales	[illegible]	[illegible]	[illegible]
Operating costs and expenses:			
Cost of sales	[illegible]	[illegible]	[illegible]
Selling, general and administrative expenses		[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Operating income		[illegible]	[illegible]
Interest expense	[illegible]	[illegible]	[illegible]

[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	--	--
[illegible]	3	--	--
[illegible], net	[illegible]	[illegible]	[illegible]
[illegible] income taxes, discontinued operations and [illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	154	[illegible]
[illegible]			
[illegible] net of income taxes of [illegible] and [illegible]	--	[illegible]	[illegible]
Loss on disposal, net of income taxes of [illegible] and [illegible]	--	[illegible]	[illegible]
[illegible] operations	--	[illegible]	[illegible]
[illegible]		141	[illegible]
Extraordinary [illegible]	--	--	
Net income [illegible]	[illegible]	$ 141	$ [illegible]
Earnings [illegible] per [illegible] share:			
Income [illegible] operations	[illegible]	$ 1.67	[illegible]
Loss from discontinued operations	--	(0.14)	([illegible])
Extraordinary [illegible]	--	--	[illegible]
Net [illegible]	[illegible]	$ 1.53	[illegible]
[illegible]			
[illegible]	[illegible]	$ [illegible]	$ [illegible]
[illegible]	--	[illegible]	[illegible]
[illegible]	--	--	[illegible]
Net income [illegible]	[illegible]	$ [illegible]	$ [illegible]

See notes to consolidated financial statements.

[illegible]

U.S. INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN MILLIONS)

	FOR THE FISCAL YEARS ENDED SEPTEMBER 30,

[illegible] on cash and cash equivalents	[illegible]	[illegible]	[illegible]
[illegible] in cash and cash equivalents	[illegible]	[illegible]	[illegible]
[illegible] beginning of period	[illegible]	[illegible]	[illegible]
[illegible] end of period	[illegible]	[illegible]	[illegible]

See [illegible] consolidated financial [illegible]

[illegible]

[illegible] INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[illegible]

[illegible] distributes [illegible] broad [illegible] segmented into three segments: Bath and [illegible] Products, [illegible] and Hardware and [illegible]. The Company completed [illegible] transactions, [illegible] the equity [illegible].

[illegible] currently [illegible] Columbia Lighting, Inc.; [illegible], Inc.; [illegible], Inc.; [illegible], Inc.; Architectural [illegible], Inc.; Spaulding Lighting, Inc.; Progress Lighting, Inc.; [illegible]. The [illegible] include [illegible] September [illegible], respectively, [illegible]

NOTE [illegible]

FISCAL [illegible] year ends on the Saturday nearest [illegible] September [illegible]

PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the [illegible]

USE OF ESTIMATES: [illegible] with [illegible] estimates [illegible] statements [illegible] estimates.

CASH EQUIVALENTS: [illegible] have maturities of ninety days or less when purchased.

[illegible]

[illegible] United States, Europe [illegible]

[illegible], INC.

[illegible]

	SEPTEMBER [illegible]	
	[illegible]	[illegible]
	(IN MILLIONS)	
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]

Inventories are [illegible] at the lower of cost, determined [illegible] first-in, first-out [illegible], [illegible] methods, [illegible] percentage of [illegible]

	SEPTEMBER [illegible]	
	[illegible]	[illegible]
	(IN MILLIONS)	
First-in, first-out (FIFO) [illegible]	[illegible]	[illegible]
Last-in, first-out (LIFO) [illegible]	[illegible]	[illegible]

[illegible]

PROPERTY, PLANT AND EQUIPMENT:

	SEPTEMBER [illegible]	
	[illegible]	[illegible]
	(IN MILLIONS)	
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]

Property, plant and equipment is stated on the basis of cost less accumulated depreciation.

[illegible]

[illegible] ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

[illegible]

	FOR THE FISCAL YEARS ENDED DECEMBER [illegible], [illegible]		
	[illegible]	[illegible]	[illegible]
		IN MILLIONS	
Depreciation	[illegible]	[illegible]	[illegible]
Amortization of [illegible]		[illegible]	[illegible]
Amortization of [illegible] franchise costs	[illegible]	[illegible]	
Amortization of [illegible] restaurant [illegible]		[illegible]	[illegible]
Amortization of [illegible]		[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]

[illegible] from twenty [illegible] years, and [illegible] equipment [illegible]

OTHER ASSETS: [illegible] buildings [illegible] carried at the lower of cost or fair value less costs to sell. The carrying value of [illegible] was [illegible] million and [illegible] million [illegible]

[illegible]

[illegible] value methodology [illegible] applied [illegible] determine the recoverable value for [illegible] basis using ranges of fair values [illegible] from [illegible] appraisers. In [illegible] these ranges, the independent appraisers [illegible] information, [illegible] of each [illegible] management's best estimate [illegible] the future prospects of each [illegible] financial [illegible] [illegible] comparable [illegible] [illegible] market prices, capitalization and trading [illegible] other information [illegible] relevant. In [illegible] these valuations and considering the [illegible] a [illegible] of enterprise value and goodwill [illegible]

[illegible]

[illegible] INDUSTRIES, INC.

[illegible] CONSOLIDATED FINANCIAL STATEMENTS [illegible]

[illegible]
[illegible] also [illegible] unallocated [illegible] of the Company.

Goodwill [illegible] straight-line basis over [illegible] periods [illegible] from [illegible] years, [illegible] Accumulated [illegible] and [illegible] September [illegible], respectively.

ACCRUED EXPENSES AND OTHER LIABILITIES: Accrued expenses and other liabilities [illegible]

	[illegible]	
	[illegible]	[illegible]
	(IN MILLIONS)	
Compensation related [illegible]	[illegible]	[illegible]
Other	[illegible]	[illegible]
	[illegible]	[illegible]

[illegible] The [illegible] Company's [illegible] at September [illegible] assets and liabilities [illegible]

[illegible] between the [illegible] [illegible]

[illegible] Revenue is recognized upon [illegible] to the customer [illegible] and return [illegible]

[illegible]

[illegible] believes the effect of the adoption will not be material to its results of operations, financial position or cash flows.

[illegible] COSTS: [illegible] costs are expensed as incurred. Such amounts [illegible] million and [illegible] million for [illegible], [illegible] and 1994, [illegible].

[illegible] COSTS: [illegible] and development [illegible] are expensed as incurred. [illegible] $4 million, [illegible] million and [illegible] million for fiscal [illegible], [illegible] and [illegible], respectively.

[illegible] INDUSTRIES, INC.

NOTES TO [illegible] FINANCIAL STATEMENTS -- (CONTINUED)

NOTE [illegible]

[illegible] FAIR VALUE [illegible]: The fair value [illegible] are as follows:

	[illegible]		199[illegible]	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
			(In millions)	
[illegible]	[illegible]		[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]

The fair value of the Company's [illegible] approximates [illegible] due to their floating [illegible] maturity. The Company also has several interest rate swap agreements [illegible] various periods. The notional amount of these agreements were [illegible] as of September [illegible], [illegible] million [illegible] the fair value of [illegible] agreements, [illegible] instruments [illegible] approximately [illegible] September [illegible], [illegible] million.

[illegible]: The Company [illegible]

[illegible] interest rate swap agreements [illegible] financial statements. The fair values [illegible] rate swap [illegible] financial statements [illegible] qualify as [illegible] the financial statements [illegible] agreement [illegible] in the [illegible].

[illegible]

[illegible], [illegible] repayment of a derivative contract are recorded in a manner [illegible] designation of the derivative in view of the nature [illegible] hedged transaction. Amounts arising at the [illegible] [illegible] are deferred and amortized [illegible] over the period of interest rate exposure, [illegible] [illegible] [illegible] the designated item.

[illegible] COMPREHENSIVE INCOME: [illegible] foreign currency [illegible] and unrealized gains and losses on marketable securities classified as available-for-sale.

[illegible], INC.

NOTES TO [illegible] FINANCIAL STATEMENTS [illegible]

NOTE [illegible]
[illegible] accumulated other comprehensive income (loss) [illegible] of the following:

	[illegible]	[illegible]	[illegible]
		[illegible]	
December [illegible]	[illegible]	[illegible]	[illegible]
Fiscal [illegible]	[illegible]	[illegible]	[illegible]
December [illegible]	[illegible]	[illegible]	[illegible]
Fiscal [illegible]	[illegible]	[illegible]	[illegible]
December [illegible]	[illegible]	[illegible]	[illegible]
Fiscal [illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

[illegible] September [illegible] reportable [illegible]

[illegible] 1998, the Financial [illegible]

[illegible] Employees". The Company continues to account for its stock-based [illegible] under [illegible]. See Note [illegible].

[illegible], the [illegible] Accounting Standards [illegible] No. 44 [illegible]. Management anticipates that [illegible] interpretation [illegible].

[illegible]

[illegible] INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS [illegible]

NOTE [illegible] ACCOUNTING POLICIES [illegible]

[illegible]: The following is a reconciliation of [illegible] the [illegible] and [illegible] of the [illegible] and diluted earnings [illegible] per [illegible] calculation:

	[illegible]		
	[illegible]	[illegible]	PER SHARE AMOUNT
	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]			
[illegible]		[illegible]	
[illegible]		[illegible]	
[illegible]		[illegible]	
Earnings [illegible]	[illegible]	[illegible]	[illegible]

	[illegible]		
	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]			
[illegible]		[illegible]	
[illegible]		[illegible]	
[illegible]	[illegible]	[illegible]	[illegible]

	FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998		
	[illegible]	[illegible]	PER SHARE [illegible]
	(IN MILLIONS EXCEPT PER SHARE)		
[illegible]	[illegible]	[illegible]	$1.73
Effect of [illegible]			
[illegible]		.7	
[illegible]		[illegible]	
[illegible]	[illegible]	[illegible]	[illegible]

[illegible] shares that would [illegible] the fulfillment [illegible] that would [illegible] the restriction [illegible] shares, the [illegible] contract. [illegible] years [illegible] in the computation [illegible] because the option's [illegible] was [illegible] price of the common shares.

[illegible]

[illegible] STATEMENTS [illegible]

[illegible]

[illegible], "ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES", [illegible] accounting and reporting [illegible] derivative instruments and hedging activities. It requires the Company to [illegible] all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. [illegible] fair value, cash flow, [illegible] required [illegible] fair value [illegible] balance sheet [illegible]. The Company will [illegible]

[illegible]

[illegible] no longer be [illegible] for as permanent equity. Instead, the contracts would be classified as temporary [illegible] equity. [illegible]

[illegible]

The Company [illegible] permanent equity. [illegible] the EITF, [illegible] the Company [illegible] settlement [illegible].

NOTE [illegible]

[illegible] been [illegible]

In [illegible], the Company [illegible] for approximately [illegible]

[illegible]

NOTE 3--ACQUISITIONS (CONTINUED)

In [illegible], the Company purchased the assets of [illegible] "Gatsby" for approximately [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible] the Company to make a $[illegible] million payment. This portion of the payment was [illegible] as an adjustment to Paid In Capital as it was based upon the market value of the Company's common stock price. The remainder of the cash payment [illegible] satisfaction [illegible] in the [illegible].

In [illegible], the Company purchased the assets of Siemens AG' European [illegible], for $[illegible] million. The [illegible] is a leading European [illegible] and [illegible] lighting [illegible] for commercial and industrial use. The business, renamed SiTeco, [illegible] manufacturing facilities in Germany, [illegible] and Slovenia. The results of SiTeco are included in the Lighting [illegible] of Americas Segment, [illegible] the Company is pursuing a spin-off.

NOTE [illegible]--DISCONTINUED OPERATIONS AND DISPOSITIONS OF BUSINESSES

[illegible]

In November [illegible], the Company [illegible] European [illegible] estimated [illegible].

In March [illegible] "[illegible] Transactions", the Company [illegible] of a majority [illegible] Diversified segment. The consideration for the [illegible] included a combination of cash and notes.

In the fiscal [illegible], the Company [illegible]

[illegible]

[illegible], INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

NOTE [illegible]--DISCONTINUED OPERATIONS AND DISPOSITIONS OF BUSINESSES--(CONTINUED)

The Company [illegible]

In [illegible], the Company [illegible] equity interest [illegible]

[illegible] "[illegible]" [illegible] underwriting, [illegible] interest in [illegible].

[illegible] of the [illegible] transaction, the Company guaranteed [illegible]'s new [illegible] (the "[illegible] Facility") [illegible] March [illegible], [illegible] primarily responsible for the repayment of indebtedness [illegible] Facility. The [illegible] Facility [illegible] [illegible] December [illegible], [illegible] the [illegible] Facility [illegible] million. As a result of the [illegible] transaction, the Company [illegible] gain, which will be [illegible] release of the [illegible] Facility. The Company's [illegible] of the net [illegible] gain [illegible] million [illegible] included in [illegible] "[illegible] Liabilities".

The Company's [illegible] the equity method [illegible]. The Company [illegible] [illegible] in [illegible].

[illegible]

[illegible] relating [illegible] operations. [illegible] million, which approximates [illegible] value. The Company [illegible] [illegible].

[illegible] value. The [illegible] businesses were [illegible] and [illegible].

[illegible]

[illegible] INDUSTRIES, INC.

[illegible] FINANCIAL STATEMENTS [illegible]

[illegible]

[illegible]

[illegible] million [illegible].

[illegible]

[illegible]

[illegible] the Company completed the sale of this [illegible] which resulted in a realized [illegible].

[illegible] quarter of fiscal [illegible], the Company adopted a plan to [illegible] Industries, Inc. ("[illegible]"), [illegible] furniture [illegible]. In [illegible], the Company [illegible] million [illegible] the [illegible] between the estimated [illegible] value and [illegible] assets and [illegible]. [illegible], the Company [illegible] approximately [illegible] million.

Management believes that the [illegible] of the [illegible] are not expected to have a material impact on the future [illegible] and liquidity of the Company.

The [illegible] as follows [illegible]:

	[illegible]
	FOR THE FISCAL YEAR ENDED [illegible]
Net sales	[illegible]
[illegible]	[illegible]

NOTE [illegible]

During fiscal [illegible], the Company [illegible] certain operations in the [illegible] segment. As a result of this strategic review, the Company [illegible] the European [illegible] and to exit [illegible]. [illegible], the Company [illegible] the [illegible] of these [illegible], [illegible] that the Company [illegible].

[illegible]

[illegible], INC.

[illegible] FINANCIAL STATEMENTS [illegible]

NOTE [illegible]

[illegible] Company [illegible], [illegible] million [illegible] impairment [illegible]. In addition, the Company [illegible], [illegible] million, [illegible].

In [illegible], the Company [illegible] of other [illegible] the Company incurred severance and [illegible] costs [illegible] goodwill impairment charge of $[illegible] million. In addition, the [illegible] charges of $[illegible] million as a result of the [illegible] three product lines. [illegible] employees. The Company [illegible] Accordingly, the [illegible] remaining machinery and equipment [illegible] and the [illegible] will be sold.

In January [illegible], a decision was made to close the [illegible] corporate office in Dallas, Texas, which [illegible] employees. The Company recorded a charge of $[illegible] million [illegible] In addition, [illegible] severance costs of $[illegible] million, [illegible]

[illegible] impairment [illegible] goodwill [illegible] policy [illegible] Note 1. In [illegible] impairment [illegible] accounting policy [illegible] & [illegible] enterprise level [illegible]

During [illegible] the Company reviewed the long-term [illegible] Company's [illegible]

- [illegible]

- [illegible]

- [illegible]

- [illegible]

[illegible]

[illegible]

[illegible]

[illegible] with the reorganization [illegible] business units, due to [illegible] of impairment, the Company evaluated the recoverability of certain long-lived assets, [illegible] goodwill at Garden State Tanning and Keller [illegible]. In [illegible] the fair value of Garden State Tanning the Company [illegible] Garden State Tanning's [illegible] Asian economic crisis, [illegible] capital investment that [illegible] Garden State Tanning [illegible] long-term financial plan [illegible] the fair value of Keller [illegible] the Company [illegible] inability to [illegible] business due to aggressive competition, [illegible] questions from [illegible] Keller Ladder's [illegible] analysis of [illegible] similar companies. In determining the amount of the impairment, the Company compared the net [illegible] estimated fair values of Garden State [illegible] Keller [illegible] goodwill [illegible] Tanning [illegible]. In October [illegible] certain assets [illegible]. In March [illegible] disposed [illegible] State Tanning as part of the disposition [illegible] equity interest [illegible].

[illegible] the closing of [illegible] manufacturing [illegible] bath and plumbing products, [illegible] operations. [illegible]

[illegible] manufacturing plan and [illegible] manufacturing facility. The [illegible] facility was completed [illegible] its production [illegible] offshore vendors. The [illegible] million [illegible] the costs of terminating [illegible] employees and [illegible] assets. In addition, the [illegible] million [illegible] first quarter [illegible]

[illegible]

[illegible]

[illegible], INC.

[illegible] FINANCIAL STATEMENTS [illegible]

[illegible]

[illegible], was substantially completed during fiscal 199[illegible]. In [illegible], during the third and fourth quarters of fiscal [illegible], the Company [illegible] by [illegible] million, primarily due to voluntary [illegible] termination [illegible] resulted in lower severance costs.

[illegible] that [illegible] was [illegible] the [illegible] the expected benefits from the [illegible] were [illegible], reduced [illegible] costs [illegible]. The final [illegible] will be [illegible] of [illegible]. The Company [illegible] approximately [illegible] annual [illegible], all of the [illegible].

The [illegible] of the [illegible] impairment [illegible]:

	[illegible]	[illegible]	[illegible]
		IN MILLIONS	
[illegible]	[illegible]	[illegible]	[illegible]
[illegible] equipment	[illegible]	[illegible]	[illegible]
[illegible] other costs	--	--	[illegible]
[illegible]		--	[illegible]
[illegible]		[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]		--	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

The [illegible] and other costs [illegible] include [illegible], legal and [illegible] and other miscellaneous costs, [illegible] costs related to [illegible] payments to certain [illegible].

[illegible]

	AT SEPTEMBER [illegible],	
	[illegible]	199[illegible]
	(IN MILLIONS)	
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible], U.S. dollar[illegible]	[illegible]	[illegible]
[illegible], foreign currencies[illegible]	[illegible]	[illegible]
Commercial paper[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
Long-term debt[illegible]	[illegible]	[illegible]

[illegible] long-term debt for the [illegible] are [illegible]

	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]

In [illegible], [illegible] and [illegible] American Holdings, [illegible] ("[illegible]"), a wholly owned [illegible] Atlantic Corp. ("[illegible]") [illegible] issued [illegible] "[illegible] Notes" [illegible]

[illegible]

[illegible] the Notes [illegible] the Company [illegible]

[illegible]

[illegible]

[illegible]

[illegible] as defined under the respective plan provisions. The Company's [illegible] to the plans sufficient to meet the [illegible] funding requirements set forth in the Employee Retirement Income [illegible], as amended, plus such additional amounts as the Company [illegible] appropriate from time to time.

[illegible] of its subsidiaries [illegible] in the United States also participate in multi-employer plans, [illegible] benefits to union employees. [illegible] relating to defined [illegible] made [illegible] plans' provisions. [illegible] multi-employer [illegible] requirements.

The [illegible] benefit [illegible] groups of retirees.

[illegible], INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS [illegible]

NOTE [illegible] RETIREMENT PLANS - CONTINUED

The [illegible] pension [illegible] Company's defined [illegible] pension expense for [illegible] multi-employer [illegible] employees in the United States are presented below:

[illegible]

	PENSION BENEFITS		
	[illegible]	[illegible]	[illegible]
[illegible]			
[illegible]	[illegible]	[illegible]	[illegible]
Rate of [illegible]	[illegible]	[illegible]	[illegible]
Expected [illegible] rate of [illegible]	[illegible]	[illegible]	[illegible]

	[illegible] BENEFITS		
	[illegible]	1999	[illegible]
		IN MILLIONS	
COMPONENTS OF NET PERIODIC BENEFIT COST			
Defined Benefit Plans:			
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]		[illegible]	
[illegible]		[illegible]	
[illegible]		--	--
Net [illegible]		[illegible]	[illegible]

[illegible], INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

[illegible] PLANS [illegible]

[illegible] projected [illegible] of the [illegible]

PENSION BENEFITS

(IN MILLIONS)

[illegible]

Prepaid benefits

Accrued benefits

[illegible]

[illegible] operating leases [illegible]:

	[illegible]		
	[illegible]	[illegible]	[illegible]
		(IN [illegible])	
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]

[illegible] rental [illegible] leases as [illegible]:

	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
Total minimum lease payments	[illegible]

NOTE [illegible]

[illegible]

	[illegible]		
	[illegible]	[illegible]	[illegible]
		[illegible]	
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]

[illegible]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

[illegible]

[illegible] for federal, foreign, and state income taxes [illegible]

	FOR THE FISCAL YEARS ENDED SEPTEMBER 30,		
		[illegible]	[illegible]
		IN MILLIONS	
Current:			
Federal		[illegible]	[illegible]
Foreign		[illegible]	[illegible]
State		[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]
Deferred	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]

[illegible]

	FOR THE FISCAL YEARS ENDED SEPTEMBER 30,		
		[illegible]	[illegible]
		IN MILLIONS	
[illegible]		[illegible]	[illegible]
[illegible]		[illegible]	[illegible]
[illegible]		[illegible]	[illegible]
[illegible]		[illegible]	[illegible]
[illegible]		[illegible]	[illegible]
[illegible]		[illegible]	[illegible]
[illegible]		[illegible]	[illegible]
[illegible]		[illegible]	[illegible]
		[illegible]	[illegible]

[illegible], INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

[illegible]

[illegible] such tax reserves no longer [illegible] paid in capital in fiscal [illegible].

[illegible] 1998 [illegible] were [illegible] million, [illegible] respectively.

[illegible] INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

[illegible]

[illegible] Merger, [illegible]

[illegible]

	FOR THE FISCAL YEARS ENDED		
	[illegible]	1998	1996
	(IN MILLIONS, EXCEPT PER SHARE)		
Net income (loss) -- as reported	[illegible]	[illegible]	[illegible]
Net income (loss) -- pro forma	[illegible]	[illegible]	[illegible]
Net income (loss) per share -- as reported basic	[illegible]	[illegible]	[illegible]
Net income (loss) per share -- as reported diluted	[illegible]	[illegible]	[illegible]
Net income (loss) per share -- pro forma basic	[illegible]	[illegible]	[illegible]
Net income (loss) per share -- pro forma diluted	[illegible]	[illegible]	[illegible]

[illegible]

[illegible], INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE [illegible] -- STOCK OPTION AND STOCK COMPENSATION PLANS -- (CONTINUED)

The fair value of each option grant was estimated at the date of grant using the Black-Scholes model with the following assumptions:

Expected dividend yield:	
[illegible]	[illegible]
[illegible]	[illegible]
Expected stock price volatility:	
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
Risk-free interest rate:	
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
Expected life of options	[illegible]

[illegible]

[illegible]

[illegible]

	[illegible]		[illegible]		1998	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
[illegible]	[illegible]	$14.73	[illegible]	[illegible]	[illegible]	$15.48
[illegible]	[illegible]	12.13	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	9.16	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	19.4[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	$13.71	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible], INC.

[illegible] STATEMENTS [illegible]

[illegible]

	[illegible]			[illegible]	
[illegible]	NUMBER OF OPTIONS	[illegible]	[illegible]	NUMBER OF OPTIONS	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

[illegible]

[illegible]

[illegible] Common [illegible]. Thereafter, separate Rights certificates will be [illegible] and [illegible] will entitle its holder to purchase such number of [illegible] of the Company's Series A [illegible] Preferred Stock [illegible] the exercise price of the Rights. Each [illegible] terms [illegible] Company's [illegible].

[illegible] the Rights will expire on [illegible], or at [illegible] group of [illegible] of the [illegible] Common [illegible].

[illegible] Board of Directors authorized [illegible] purchase [illegible] million. In April [illegible], the Board [illegible] million of share repurchases. [illegible] the Company [illegible] million of its common [illegible] treasury [illegible] was purchased [illegible]. During [illegible] the [illegible] common [illegible] were [illegible] of the [illegible], such contracts can be settled [illegible], shares or a [illegible] program [illegible] premiums, [illegible] majority interest [illegible] segment [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible] Company is subject to a wide range of environmental [illegible] laws. The [illegible]

[illegible] manner, [illegible] The Company [illegible]

U.S. INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

[illegible]

[illegible] the year ended [illegible] income taxes [illegible] year ended [illegible]

	FOR FISCAL YEAR ENDED SEPTEMBER 30,		
	[illegible]	199[illegible]	[illegible]
		IN MILLIONS	
TOTAL ASSETS:			
Bath and Plumbing Products	[illegible]	$1,357	[illegible]
Lighting Corporation of America	[illegible]	516	[illegible]
Hardware and Tools	[illegible]	448	[illegible]
Diversified	--	621	[illegible]
	[illegible]	2,944	[illegible]
Corporate	[illegible]	[illegible]	[illegible]
Total [illegible]	[illegible]	[illegible]	[illegible]
Net assets held for sale [illegible]	--	--	[illegible]
Total assets	[illegible]	[illegible]	[illegible]
DEPRECIATION AND AMORTIZATION:			
Bath and Plumbing Products		[illegible]	[illegible]
Lighting Corporation of America		[illegible]	[illegible]
Hardware and Tools	[illegible]	[illegible]	
Diversified	[illegible]	[illegible]	[illegible]
Total depreciation and amortization	[illegible]	[illegible]	[illegible]
CAPITAL EXPENDITURES:			
Bath and Plumbing Products	[illegible]	[illegible]	[illegible]
Lighting Corporation of America	[illegible]	[illegible]	[illegible]
Hardware and Tools		[illegible]	
Diversified	[illegible]	[illegible]	
Total capital expenditures	[illegible]	[illegible]	[illegible]

U.S. INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

[illegible]

The following table presents certain data by geographic areas:

	Years Ended December 31,		
	[illegible]	[illegible]	[illegible]
	(In millions)		
NET SALES			
United States	[illegible]	[illegible]	[illegible]
Foreign	[illegible]	[illegible]	[illegible]
Total net sales	[illegible]	[illegible]	[illegible]
OPERATING INCOME			
United States	[illegible]	[illegible]	[illegible]
Foreign	[illegible]	[illegible]	[illegible]
Total operating income	[illegible]	[illegible]	[illegible]
LONG-LIVED ASSETS			
United States	[illegible]	[illegible]	[illegible]
Foreign	[illegible]	[illegible]	[illegible]
Total long-lived assets	[illegible]	[illegible]	[illegible]

---

(1) [illegible] respectively. Operating income for the year ended [illegible]

NOTE 18—QUARTERLY FINANCIAL DATA (UNAUDITED)

[illegible]

[illegible]

[illegible] SUPPLEMENTAL [illegible] INFORMATION

[illegible] financial statements [illegible] Notes, [illegible]

[illegible] Notes and the Credit [illegible] the 7.[illegible] Notes [illegible] the Credit Agreement [illegible]

[illegible] OF THE [illegible]

[illegible] "[illegible]" in Item 1 of [illegible]

[illegible] "[illegible]" or [illegible] in connection [illegible] by reference.

The information to be included under the caption "Executive Compensation" in the Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

[illegible] under the caption "Ownership of Common Stock" [illegible]

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

[illegible]

[illegible] FINANCIAL STATEMENT [illegible] AND [illegible] FORM [illegible]

A. [illegible]

[illegible] Statements [illegible] following:

[illegible]

Notes [illegible] Financial Statements

[illegible] Statements [illegible]

[illegible]

[illegible] AND [illegible]

Management [illegible] Compensatory Plans and Arrangements [illegible]

B. [illegible]

[illegible]	--	[illegible], 1998 [illegible] Holdings, Inc., [illegible] Industries, [illegible] Industries, [illegible] (incorporated by reference to the Company's [illegible] filed April [illegible], [illegible]).
[illegible]	--	[illegible] Industries, Inc. [illegible] Facility dated March [illegible], [illegible].
10.[illegible]	--	Employment Agreement, dated [illegible], [illegible] (incorporated by reference to the [illegible]).
[illegible]	--	[illegible] Agreement, dated [illegible], [illegible] Agreement, dated February [illegible], 199[illegible] [illegible].
[illegible]	--	Employment Agreement, [illegible], [illegible].
[illegible]	--	[illegible] Agreement, [illegible] Company [illegible].
[illegible]	--	Employment Agreement, [illegible] [illegible].
10.[illegible]	--	Employment Agreement, dated [illegible], [illegible].
[illegible]	--	[illegible] Agreement, dated [illegible] the Company [illegible].
[illegible]	--	[illegible] Employment Agreement, dated [illegible], of [illegible] (filed as Exhibit [illegible] 10-K [illegible]).
[illegible]	--	[illegible] Industries, Inc. [illegible] [illegible].
[illegible]	--	[illegible] Industries, Inc. [illegible].
[illegible]	--	[illegible] Industries, Inc. [illegible].
[illegible]	--	[illegible].
[illegible]	--	[illegible] Agreement, dated [illegible], [illegible] [illegible] Atlantic, [illegible] and Bank of America [illegible] and Savings Association, as Agent, [illegible] (incorporated by reference to [illegible] Form 8-K filed on June 10, 199[illegible]).
[illegible]	--	[illegible] Agreement [illegible], dated [illegible], [illegible], [illegible] Bank [illegible], [illegible] (filed [illegible]).
10.[illegible]	--	[illegible], dated [illegible], [illegible].
[illegible]	--	[illegible] Agreement [illegible], [illegible] (filed [illegible]).
[illegible]	--	[illegible].
[illegible]	--	[illegible].
27.[illegible]	--	[illegible].

[illegible]

[illegible]

[illegible]

SIGNATURES

[illegible] requirements [illegible] securities [illegible] thereunto duly authorized. [illegible]

[illegible]

By: [illegible]

[illegible]

Pursuant to the requirements of the Securities Exchange Act [illegible], this report [illegible]

[illegible]	COLUMN B	COLUMN C [illegible]		COLUMN D	COLUMN E
[illegible]	BALANCE AT [illegible]	[illegible]	[illegible]	DEDUCTIONS	BALANCE AT END OF PERIOD
[illegible] Allowance for doubtful accounts..........	[illegible]	[illegible]		[illegible]	[illegible]
[illegible] Allowance for doubtful accounts..........	[illegible]	[illegible]		[illegible]	[illegible]
[illegible] Allowance for doubtful accounts..........	[illegible]	[illegible]		[illegible]	[illegible]

a [illegible] written off, net of recoveries

b [illegible]

[illegible]