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

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report:
February 7, 2005
(Date of earliest event reported)

RAYOVAC CORPORATION
(Exact Name of Registrant as Specified in Charter)

Wisconsin	**001-13615**	**22-2423556**
(State or other Jurisdiction of Incorporation)	**(Commission File No.)**	**(IRS Employer Identification No.)**

Six Concourse Parkway, Suite 3300, Atlanta, Georgia 30328
(Address of principal executive offices, including zip code)

(770) 829-6200
(Registrant's telephone number, including area code)

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the Registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

This Amendment to the Current Report on Form 8-K amends the Current Report on Form 8-K filed by Rayovac Corporation (the "Company" or the "Registrant") on February 11, 2005.

Item 2.01 COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS.

On February 11, 2005, the Company filed with the U.S. Securities and Exchange Commission a Current Report on Form 8-K with respect, among other events, to the Company's acquisition, on February 7, 2005, of all of the outstanding equity interests of United Industries Corporation ("United").

This Amendment to the Current Report on Form 8-K is filed solely to include the financial statements and pro forma financial information described in Item 9.01 below.

Item 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(a) *Financial Statements of Businesses Acquired.*

(i) The unaudited consolidated balance sheets of United and its subsidiaries as of September 30, 2004 and 2003 and the related consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2004 and 2003, cash flows for the nine months ended September 30, 2004 and 2003, and the notes to such consolidated financial statements (which were previously filed by United on Form 10-Q with the SEC on November 15, 2004) are included as Exhibit 99.1 to this report and incorporated herein by reference.

(ii) The audited consolidated balance sheets of United and its subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of operations and comprehensive income, cash flows and changes in stockholders' equity (deficit) for the fiscal years ended December 31, 2003, 2002 and 2001, and the notes and schedules to such consolidated financial statements, together with the report of independent auditors thereto (which were previously filed by United on Form 10-K with the SEC on March 17, 2004) are included as Exhibit 99.2 to this report and incorporated herein by reference.

(iii) The unaudited consolidated balance sheets of The Nu-Gro Corporation ("Nu-Gro") and its subsidiaries as of March 31, 2004 and 2003 and the related consolidated statements of income and comprehensive income and cash flows for the three and six months ended March 31, 2004 and 2003, and the notes to such consolidated financial statements are included as Exhibit 99.3 to this report and incorporated herein by reference.

(iv) The audited consolidated balance sheets of Nu-Gro and its subsidiaries as of September 30, 2003 and 2002 and the related consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years ended September 30, 2003 and 2002, and the notes to such consolidated financial statements, together with the report of independent auditors thereto (which were previously filed by United on Form 8-K/A with the SEC on July 9, 2004) are included as Exhibit 99.4 to this report and incorporated herein by reference.

(v) The unaudited consolidated balance sheets of United Pet Group, Inc. ("UPG") as of June 30, 2004 and the related consolidated statements of operations and comprehensive income and cash flows for the six months ended June 30, 2004 and 2003, and the notes to such consolidated financial statements (which were previously filed by United on Form 8-K/A with the SEC on October 14, 2004) are included as Exhibit 99.5 to this report and incorporated herein by reference.

(vi) The audited consolidated balance sheets of UPG December 31, 2003 and 2002 and the related consolidated statements of operations and comprehensive income, stockholders' equity (deficit) and cash flows for the years ended December 31, 2003, 2002 and 2001, and the notes to such consolidated financial statements, together with the report of independent auditors thereto (which were previously filed by United on Form 8-K/A with the SEC on October 14, 2004) are included as Exhibit 99.6 to this report and incorporated herein by reference.

(b) *Pro Forma Financial Information.*

(i) The Company's unaudited pro forma condensed consolidated balance sheet as of September 30, 2004 and the unaudited pro forma condensed consolidated statement of operations for the year ended September 30, 2004 are included as Exhibit 99.7 to this report and incorporated herein by reference. This information was previously furnished by the Company on Form 8-K with the SEC on January 31, 2005; however, certain pro forma amounts included in the Form 8-K filed with the SEC on January 31, 2005 have been updated to reflect preliminary valuation data obtained subsequent to that date.

(ii) United's unaudited pro forma financial information as of and for the nine months ended September 30, 2004 and for the year ended December 31, 2003 relating to United's acquisition of Nu-Gro and its merger with and into UPG (which were previously furnished by the Company on Form 8-K with the SEC on January 6, 2005) is included as Exhibit 99.8 to this report and incorporated herein by reference.

(c) *Exhibits*

Exhibit Number	Description of Exhibit
3.1*	Amendment to the By-laws of Rayovac Corporation, effective as of February 7, 2005
4.1*	Indenture dated as of February 7, 2005 by and among Rayovac Corporation, certain of Rayovac Corporation's domestic subsidiaries and U.S. Bank National Association
4.2*	Third Supplemental Indenture dated as of February 7, 2005 to the Indenture dated as of September 30, 2003 by and among Rayovac Corporation, certain of Rayovac Corporation's domestic subsidiaries and U.S. Bank National Association
4.3*	Registration Rights Agreement dated as of February 7, 2005 by and between Rayovac Corporation, certain of Rayovac's domestic subsidiaries, Banc of America Securities LLC, Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and ABN AMRO Incorporated
10.1*	Fourth Amended and Restated Credit Agreement dated as of February 7, 2005 by and among Rayovac Corporation, the Subsidiary Borrowers named therein, Bank of America, N.A., Citicorp North America, Inc., Merrill Lynch Capital Corporation, the other lenders party thereto, Banc of America Securities LLC, Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated
10.2*	Security Agreement dated February 7, 2005 made by Rayovac Corporation and the other persons signatory thereto

10.3*	ROV Guaranty dated as of February 7, 2005 made by certain subsidiaries of Rayovac Corporation
10.4*	KGaA Guaranty dated as of February 7, 2005 made by Rayovac Corporation and certain subsidiaries of Rayovac Corporation
10.5*	UK Guaranty dated as of February 7, 2005 made by Rayovac Corporation and certain subsidiaries of Rayovac Corporation
10.6*	Registration Rights Agreement dated as of February 7, 2005 by and between Rayovac Corporation and certain former shareholders of United Industries Corporation
10.7*	Standstill Agreement dated as of February 7, 2005 by and between Rayovac Corporation, Thomas H. Lee Equity Fund IV, L.P., THL Equity Advisors IV, LLC, Thomas H. Lee Partners, L.P. and Thomas H. Lee Advisors, L.L.C.
23.1	Consent of Independent Auditors of United Industries Corporation
23.2	Consent of Independent Auditors of The Nu-Gro Corporation
23.3	Consent of Independent Auditors of United Pet Group, Inc.
99.1	Unaudited Consolidated Financial Statements of United Industries Corporation
99.2	Audited Consolidated Financial Statements of United Industries Corporation
99.3	Unaudited Consolidated Financial Statements of The Nu-Gro Corporation
99.4	Audited Consolidated Financial Statements of The Nu-Gro Corporation
99.5	Unaudited Consolidated Financial Statements of United Pet Group, Inc.
99.6	Audited Consolidated Financial Statements of United Pet Group, Inc.
99.7	Unaudited Pro Forma Consolidated Financial Information of the Registrant
99.8	Unaudited Pro Forma Condensed Combined Financial Information of United Industries Corporation

* Previously filed with the Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on February 11, 2005 and hereby incorporated by reference herein.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: April 19, 2005

RAYOVAC CORPORATION

By: /s/ Randall J. Steward

Name: Randall J. Steward
Title: Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

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Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-59086) and Form S-8 (Nos. 333-39239, 333-41815, 333-42443, 333-68250 and 333-117567) of Rayovac Corporation of our report dated February 10, 2004 (except for Note 26, which is as of March 2, 2004) relating to the financial statements of United Industries Corporation and its subsidiaries, which appears in the Current Report on Form 8-K/A of Rayovac Corporation dated February 7, 2005.

/s/ PricewaterhouseCoopers LLP

St. Louis, Missouri
April 11, 2005

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use in this Current Report on Form 8-K/A of Rayovac Corporation of our report dated October 24, 2003, except as to Note 23, which is as of April 30, 2004, relating to the consolidated financial statements of The Nu-Gro Corporation and Subsidiaries as of September 30, 2003 and 2002 and for the years then ended. We also consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-59086) and Form S-8 (Nos. 333-39239, 333-41815, 333-42443, 333-68250 and 333-117567) of Rayovac Corporation of our report dated October 24, 2003, except as to Note 23, which is as of April 30, 2004, relating to the consolidated financial statements of The Nu-Gro Corporation and Subsidiaries, which appears in the Current Report on Form 8-K/A of Rayovac Corporation dated February 7, 2005 and filed on April 19, 2005.

Ernst & Young LLP

Chartered Accountants

Kitchener, Canada
April 15, 2005.

Exhibit 23.3

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-59086) and Form S-8 (Nos. 333-39239, 333-41815, 333-42443, 333-68250 and 333-117567) of Rayovac Corporation of our report dated February 27, 2004 relating to the financial statements of United Pet Group, Inc. and its subsidiaries, which appears in the Current Report on Form 8-K/A of Rayovac Corporation dated February 7, 2005.

/s/ PricewaterhouseCoopers LLP

Cincinnati, Ohio
April 11, 2005

Exhibit 99.1

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)
(Unaudited)

	September 30, 2004	September 30, 2003 (As Restated)	December 31, 2003
ASSETS			
Current assets:			
Cash and cash equivalents	$ 8,290	$ 44,122	$ 11,413
Accounts receivable, net of reserves of $6,699 and $3,926 at September 30, 2004 and 2003, respectively, and $2,753 at December 31, 2003	107,493	56,464	29,890
Inventories	160,003	67,570	96,795
Prepaid expenses and other current assets	19,885	10,058	15,141
Total current assets	295,671	178,214	153,239
Property, plant and equipment, net	99,365	34,360	37,153
Deferred tax asset	78,495	86,266	186,562
Goodwill	247,446	6,176	6,221
Intangible assets, net	310,898	88,342	86,872
Other assets, net	22,839	10,243	9,897
Total assets	$1,054,714	$ 403,601	$ 479,944
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Current maturities of long-term debt and capital lease obligations	$ 6,678	$ 1,341	$ 1,349
Accounts payable	41,653	15,861	29,774
Accrued expenses	67,195	59,454	39,574
Total current liabilities	115,526	76,656	70,697
Long-term debt, net of current maturities	862,445	388,096	387,657
Capital lease obligations, net of current maturities	3,222	3,333	3,191
Other liabilities	5,290	3,199	3,256
Total liabilities	986,483	471,284	464,801
Commitments and contingencies (see Notes 10 and 11)			
Stockholders' equity (deficit):			
Preferred stock (no shares of $0.01 par value Class A issued and outstanding at September 30, 2004, 40,000 authorized; 37,600 shares issued and outstanding at September 30, 2003 and December 31, 2003, 40,000 authorized)	—	—	—
Common stock (Class A and Class B shares authorized, issued and outstanding were each 51.5 million, 39.0 million and 36.0 million, respectively, as of September 30, 2004; 43.6 million, 33.2 million and 33.2 million, respectively, as of September 30, 2003 and December 31, 2003)	782	665	665
Treasury stock (3.1 million shares each of $0.01 par value Class A and Class B, at cost at September 30, 2004; 9,569 shares of each, at cost at September 30, 2003 and December 31, 2003)	(24,469)	(96)	(96)
Warrants and options	11,745	11,745	11,745
Additional paid-in capital	241,034	210,806	210,908
Accumulated deficit	(161,321)	(261,633)	(179,738)
Common stock subscription receivable	—	(23,363)	(22,534)
Common stock repurchase option	—	(2,636)	(2,636)
Common stock held in grantor trusts	(3,326)	(2,847)	(2,847)
Loans to executive officer	(215)	(324)	(324)
Accumulated other comprehensive income	4,001	—	—
Total stockholders' equity (deficit)	68,231	(67,683)	15,143
Total liabilities and stockholders' equity (deficit)	$1,054,714	$ 403,601	$ 479,944

See accompanying notes to consolidated financial statements.

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003 (As Restated)
CONSOLIDATED STATEMENTS OF OPERATIONS:				
Net sales	$171,040	$104,019	$593,578	$ 488,834
Operating costs and expenses:				
Cost of goods sold	123,511	64,750	392,776	297,302
Selling, general and administrative expenses	48,387	32,195	138,152	111,499
Total operating costs and expenses	171,898	96,945	530,928	408,801
Operating income (loss)	(858)	7,074	62,650	80,033
Interest expense	12,799	9,173	34,328	29,147
Interest income	16	568	388	1,522
Income (loss) before income taxes	(13,641)	(1,531)	28,710	52,408
Provision for income taxes	(5,184)	(698)	7,447	20,827
Net income (loss)	(8,457)	(833)	21,263	31,581
Preferred stock dividends	—	1,952	2,781	5,622
Net income (loss) available to common stockholders	$ (8,457)	$ (2,785)	$ 18,482	$ 25,959
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME:				
Net income (loss)	$ (8,457)	$ (833)	$ 21,263	$ 31,581
Other comprehensive income:				
Gain (loss) on derivative hedging instruments, net of tax of $17, $2, $17 and $300, respectively	(29)	3	(29)	489
Foreign currency translation gain (loss), net of tax of $1,859, $0, $2,470 and $0, respectively	3,028	—	4,030	—
Comprehensive income (loss)	$ (5,458)	$ (830)	$ 25,264	$ 32,070

See accompanying notes to consolidated financial statements.

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2004	2003
		(As Restated)
Cash flows from operating activities:		
Net income	$ 21,263	$ 31,581
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	24,145	12,135
Amortization and write-off of deferred financing fees	4,168	4,747
Deferred income tax expense	7,448	18,875
Gain on sale of aircraft	(1,497)	—
Stock-based compensation for shares held in grantor trusts	479	—
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	18,569	(34,670)
Inventories	24,760	18,271
Prepaid expenses	6,455	1,280
Other assets	(392)	(1,622)
Accounts payable	(41,825)	(10,968)
Accrued expenses	21,687	8,086
Other operating activities, net	1,169	(703)
Net cash flows provided by operating activities	86,429	47,012
Cash flows from investing activities:		
Purchases of property, plant and equipment	(12,036)	(6,724)
Payment for acquisition of the Nu-Gro Corporation	(146,698)	—
Payment for acquisition of United Pet Group	(371,534)	—
Proceeds from sale of aircraft	2,787	—
Proceeds from sale of WPC product lines	—	4,204
Net cash flows used in investing activities	(527,481)	(2,520)
Cash flows from financing activities:		
Proceeds from issuance of senior subordinated notes	—	86,275
Proceeds from borrowings on new senior credit facility	635,000	—
Proceeds from issuance of common stock	70,000	84
Payments received for common stock subscription receivable	—	2,863
Payments received on loans to executive officer	109	80
Payment for repurchase of senior subordinated notes	(3,100)	—
Repayment of borrowings on term debt	(181,827)	(98,127)
Payments for capital lease obligations	(3,938)	(445)
Payments for debt issuance costs	(14,922)	(2,924)
Payments for repurchase of preferred stock and accrued dividends	(57,557)	—
Payment for Bayer transactions for treasury stock	(1,500)	—
Change in book cash overdraft	—	1,506
Net cash flows provided by (used in) financing activities	442,265	(10,688)
Effect of exchange rates on cash and cash equivalents	(4,336)	—
Net increase (decrease) in cash and cash equivalents	(3,123)	33,804
Cash and cash equivalents, beginning of period	11,413	10,318
Cash and cash equivalents, end of period	$ 8,290	$ 44,122
Noncash financing activities:		
Debt assumed in Nu-Gro acquisition	$ 26,654	$ —
Bayer transactions for treasury stock (see Note 12)	$ 22,873	$ —
Execution of capital lease for aircraft	$ 3,525	$ —
Preferred stock dividends accrued	$ 2,781	$ 5,622
Retirement of preferred stock	$ 37,665	$ —

See accompanying notes to consolidated financial statements.

Note 1—Description of Business and Basis of Presentation

Under its three operating divisions, which own and license a wide variety of brand names, United Industries Corporation (the Company) manufactures and markets broad product lines in the lawn and garden, household and the pet supplies industries. Its largest operating division, Spectrum Brands, is comprised of a number of leading lawn and garden care and household products, including dry, granular lawn fertilizers, lawn fertilizer combination and lawn control products, herbicides, water-soluble and controlled-release garden and indoor plant foods, plant care products, potting soils and other growing media products, grass seed and indoor and outdoor insecticide and insect repellent products. Spectrum Brands represents the Company's largest business segment, referred to as U.S. Home & Garden, and its brands include, among others, Spectracide®, Garden Safe® and Real-Kill® in the controls category, Sta-Green®, Vigoro®, Schultz™ and Bandini® in the lawn and garden, fertilizer and growing media categories, and Hot Shot®, Cutter® and Repel® in the household category.

The Company's Canadian operating division, The Nu-Gro Corporation (Nu-Gro), manufactures and markets a number of lawn and garden and household products similar to the U.S. Home & Garden products, which are sold primarily throughout Canada, and a variety of controlled-release nitrogen products and fertilizer technology, which are sold primarily throughout the United States, with some sales in Canada and other countries. Nu-Gro represents the Company's smallest business segment, referred to as Canada, and its brands include, among others, Wilson®, So-Green®, Greenleaf® and Green Earth® in the lawn and garden categories, and IB Nitrogen®, Nitroform®, Nutralene®, S.C.U. ® and Organiform® in the fertilizer technology category.

The products of the Company's U.S. Home & Garden and Canada segments are targeted toward consumers who want products and packaging that are comparable or superior to, and sold at lower prices than, premium-priced brands, while its opening price point brands are designed for cost-conscious consumers who want quality products. The home and garden products of both segments are marketed to mass merchandisers, home improvement centers, hardware, grocery and drug chains, nurseries and garden centers.

The Company's pet supplies operating division, United Pet Group, Inc. (UPG), manufactures and markets a diverse portfolio of branded pet supplies. UPG represents the Company's second largest business segment, referred to as Pet, and its brands include, among others, Marineland®, Perfecto®, Instant Ocean® and Regent® in the aquatics category and 8-in-1®, Nature's Miracle®, Dingo®, Lazy Pet®, Wild Harvest® and One Earth® in the specialty pet category. UPG's products are sold primarily in the United States through mass merchandisers, large chain pet retailers, smaller independent pet retailers, national and regional grocery chains and consumer catalogs and websites.

As described in more detail in Note 14, the basis of the Company's segmentation has been modified since June 30, 2004 to accommodate the acquisitions of Nu-Gro and UPG (see Note 2).

The accompanying consolidated financial statements include the accounts and balances of the Company and its wholly-owned subsidiaries. All material intercompany transactions have been eliminated in consolidation. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures typically included in the Company's Annual Report on Form 10-K have been condensed or omitted for this report. As such, this report should be read in conjunction with the consolidated financial statements and accompanying notes in the Company's Annual Report on Form 10-K for the year ended December 31, 2003. Certain amounts in the 2003 consolidated financial statements included herein have been reclassified to conform to the 2004 presentation.

The accompanying consolidated financial statements are unaudited. In the opinion of management, such financial statements include all adjustments, which consist of only normal recurring adjustments, necessary for a fair presentation of the results for the periods presented. Interim results are not necessarily indicative of results for a full year. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates and assumptions.

Note 2—Acquisitions

United Pet Group, Inc.

On July 30, 2004, the Company and a wholly-owned subsidiary completed a merger of the subsidiary with and into UPG, a privately owned manufacturer and marketer of branded pet supplies. As a result of the merger, UPG and its subsidiaries became wholly-owned subsidiaries of the Company. The total purchase price included cash consideration of $371.5 million, including transaction costs of $5.0 million and the assumption of $113.3 million of outstanding debt and equity obligations, which were immediately repaid by the Company at closing. The transaction has been accounted for as an acquisition using the purchase method of accounting. Accordingly, the results of operations of UPG have been included in the Company's results of operations from July 30, 2004, the date of acquisition. The Company financed the transaction with proceeds generated from amending and increasing its credit agreement by $250.0 million, including the addition of a $75.0 million second lien term loan (see Note 9), with $70.0 million of proceeds from the issuance of 5.8 million shares each of the Company's Class A voting and Class B nonvoting common stock to affiliates of Thomas H. Lee Partners, the Company's largest shareholder, Banc of America Securities LLC and certain UPG selling shareholders (see Note 12) and the remainder from cash balances. The acquisition was executed in an attempt to further diversify the Company's product offerings, mitigate the effects of seasonality trends, decrease dependence on certain of its largest customers and expand the opportunity for future growth.

The purchase price was preliminarily allocated to assets acquired and liabilities assumed based on estimated fair values. The Company preliminarily allocated $172.5 million of the purchase price to intangible assets and $174.5 million to goodwill for consideration paid in excess of the fair value of net assets acquired, which is not deductible for tax purposes. The acquired intangible assets consist primarily of trade names, which are currently being amortized using the straight-line method over periods ranging from fifteen to forty years, and to customer relationships, which are currently being amortized using the straight-line method over periods ranging from five to ten years and other intangible assets, primarily patents, which are currently being amortized using the straight-line method over periods ranging from ten to fifteen years. Amortization expense for the two-month period ended September 30, 2004 was $1.6 million. In addition, the Company increased the value of inventory acquired from UPG by $6.0 million to reflect estimated fair value on the date of acquisition, which is currently being recorded as cost of goods sold commensurate with related subsequent sales activity during 2004. For the two months ended September 30, 2004, amortization expense of $4.0 million was recorded in cost of goods sold for this write-up of inventory to estimated fair value. The Company also increased the value of property, plant and equipment acquired from UPG by $2.0 million to reflect estimated fair value on the date of acquisition, which is currently being depreciated using the straight-line method over varying periods, the average of which is approximately 10 years.

The purchase price allocation is based on preliminary information, which is subject to adjustment upon obtaining the final report of the valuation of assets acquired and liabilities assumed by an independent third-party valuation firm. The Company is currently in the process of obtaining such report and expects the final purchase price allocation to be completed during the fourth quarter of 2004. The final purchase price allocation may differ significantly from the preliminary allocation provided herein and may change as the result of contingent payments based on the performance of a particular product line through December 31, 2005.

The following table summarizes the preliminary purchase price calculation and the preliminary estimated fair values of assets acquired and liabilities assumed as of July 30, 2004, the date of acquisition:

	July 30, 2004
Purchase price:	
Cash and liabilities assumed	$ 366,500
Transaction costs	5,034
Total purchase price	$ 371,534
Allocation of purchase price:	
Assets:	
Accounts receivable	$ 27,615
Inventories	46,901
Other current assets	9,789
Property, plant and equipment	24,902
Goodwill	174,529
Trade names	97,237
Customer relationships	47,500
Patents	27,800
Other assets	3,659
Liabilities:	
Accounts payable	(11,637)
Accrued expenses	(19,101)
Deferred income taxes	(57,660)
Total purchase price	$ 371,534

The Nu-Gro Corporation

On April 30, 2004, the Company completed the acquisition of all of the outstanding common shares of Nu-Gro, a lawn and garden products company then incorporated under the laws of Ontario, Canada. As a result of the acquisition, Nu-Gro and its subsidiaries became wholly-owned subsidiaries of the Company. The total purchase price included cash consideration of $146.7 million, including $5.3 million of related acquisition costs and the assumption of $26.7 million of outstanding debt, which was immediately repaid by the Company at closing. The transaction was financed with proceeds from the Company’s New Senior Credit Facility (see Note 9). The acquisition was executed in an attempt to expand the Company’s reach throughout North America, broaden its product offerings and customer base, vertically integrate certain of its operations, including gaining access to advanced fertilizer technologies, and to achieve economies of scale and synergistic efficiencies.

The transaction was accounted for using the purchase method of accounting and, accordingly, the results of operations have been included in the consolidated financial statements from April 30, 2004, the date of acquisition. The purchase price was preliminarily allocated to assets acquired and liabilities assumed based on estimated fair values. The Company allocated $51.1 million of the purchase price to intangible and other assets and $46.7 million to goodwill for consideration paid in excess of the fair value of net assets acquired, based on valuations obtained from an independent third-party appraisal firm, which is not deductible for tax purposes. The acquired intangible assets consist primarily of trade names, which are currently being amortized using the straight-line method over periods ranging from fifteen to forty years, and to customer relationships, which are currently being amortized using the straight-line method over periods ranging from five to ten years. In addition, the Company increased the value of inventory acquired from Nu-Gro by $5.2 million to reflect estimated fair value on the date of acquisition, which was fully amortized in cost of goods sold commensurate with related subsequent sales activity during the second quarter of 2004.

The purchase price allocation is based on preliminary information, which is subject to adjustment upon obtaining the final report of the valuation of assets acquired and liabilities assumed by an independent third-party valuation firm. The Company is currently in the process of obtaining such report and expects the final purchase price allocation to be completed during the fourth quarter of 2004. The final purchase price allocation may differ significantly from the preliminary allocation provided herein.

The following table summarizes the preliminary purchase price calculation and the preliminary estimated fair values of assets acquired and liabilities assumed as of April 30, 2004, the date of acquisition:

	April 30, 2004
Purchase price:	
Cash and liabilities assumed	$ 141,402
Transaction costs	5,296
Total purchase price	$ 146,698
Allocation of purchase price:	
Assets:	
Accounts receivable	$ 53,617
Inventories	40,937
Other current assets	1,377
Property, plant and equipment	31,676
Goodwill	46,660
Trade names	28,900
Customer relationships	19,600
Other assets	2,639
Liabilities:	
Accounts payable and accrued expenses	(31,714)
Short-term borrowings and current maturities of long-term debt	(20,951)
Long-term debt, net of current maturities	(5,703)
Deferred income taxes	(20,340)
Total purchase price	$ 146,698

With the acquisitions of Nu-Gro and UPG, the Company has become subject to foreign currency translation gains and losses, as UPG purchases certain inventory components using the Euro and the Canadian dollar is the functional currency of Nu-Gro's Canadian subsidiaries. For translation of the Canadian subsidiaries' financial statements, assets and liabilities are translated at the period-end exchange rate, while statement of operations accounts are translated at average exchange rates monthly. The resulting translation adjustments are recorded in accumulated other comprehensive income, a component of stockholders' equity. Transaction gains or losses on intercompany balances with Nu-Gro that are designated as foreign currency transactions are recorded monthly in selling, general and administrative expenses in the consolidated statement of operations. Foreign currency transactions are recorded at the prevailing exchange rate on the transaction date.

ProForma Results of Operations

The following table presents the Company's unaudited consolidated results of operations on a pro forma basis, as if the Nu-Gro and UPG acquisitions had occurred on January 1, 2004 and 2003, as applicable:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net sales	$191,171	$194,617	$803,140	$799,541
Net income (loss)	(3,056)	1,166	45,430	43,312

The unaudited pro forma consolidated financial information presented herein is not necessarily indicative of the consolidated results of operations or financial position that would have resulted had the acquisitions been completed at the beginning of or as of the periods presented, nor is it indicative of the results of operations in future periods or the future financial position of the combined companies.

Note 3—Stock-Based Compensation

The Company accounts for stock options issued to employees in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" and applies the disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," and SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123." Under APB No. 25 and related interpretations, compensation expense is recognized using the intrinsic value method for the difference between the exercise price of the options and the estimated fair value of the Company's common stock on the date of grant.

SFAS No. 123 requires pro forma disclosure of the impact on earnings as if the Company determined stock-based compensation expense using the fair value method. The following table presents net income, as reported, stock-based compensation expense that would have been recorded using the fair value method and pro forma net income that would have been reported had the fair value method been applied:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
				(As Restated)
Net income (loss), as reported	$(8,457)	$ (833)	$21,263	$ 31,581
Stock-based compensation expense using the fair value method, net of tax	351	368	818	1,088
Pro forma net income (loss)	$(8,808)	$(1,201)	$20,445	$ 30,493

Note 4—Inventories

Inventories consist of the following:

	September 30,		December 31,
	2004	2003	2003
Raw materials, components and packaging	$ 64,032	$24,607	$ 34,619
Finished goods	104,816	48,883	67,794
Allowance for obsolete and slow-moving inventory	(8,845)	(5,920)	(5,618)
Total inventories	$160,003	$67,570	$ 96,795

Note 5—Property, Plant and Equipment

Property, plant and equipment consist of the following:

	September 30,		December 31,
	2004	2003	2003
Machinery and equipment	$ 67,378	$ 35,613	$ 39,024
Office furniture, equipment and capitalized software	36,209	28,622	30,183
Transportation equipment	4,399	6,435	6,418
Leasehold improvements	6,016	3,163	3,157
Land and buildings	26,129	114	114
	140,131	73,947	78,896
Accumulated depreciation and amortization	(40,766)	(39,587)	(41,743)
Total property, plant and equipment	$ 99,365	$ 34,360	$ 37,153

For the three months ended September 30, 2004 and 2003, depreciation and amortization expense was $4.3 million and $1.8 million, respectively. For the nine months ended September 30, 2004 and 2003, depreciation and amortization expense was $10.4 million and $5.2 million, respectively.

Aircraft Replacement

In February 2004, the Company executed a capital lease agreement for the use of an aircraft for $3.5 million. In April 2004, the Company closed an agreement that was executed in March 2004 to sell the aircraft it replaced in February 2004. The carrying value of the aircraft sold was $1.2 million and proceeds from the sale were $2.8 million. Accordingly, after related expenses of $0.1 million, the Company recorded a $1.5 million gain on sale, which is included in selling, general and administrative expenses in the accompanying consolidated statement of operations for the nine months ended September 30, 2004. As of September 30, 2004 and 2003 and December 31, 2003, the cost of the aircraft held under capital lease, including taxes and closing costs, was $3.8 million, $5.3 million and $5.3 million, respectively, and related accumulated amortization was $0.2 million, $3.8 million and $4.4 million, respectively (see Note 10).

Note 6—Goodwill and Intangible Assets

Intangible assets consist of the following:

		September 30, 2004			September 30, 2003 (As Restated)			December 31, 2003		
	Amortization Period in Years	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Intangible assets:										
Trade names	5-40	$193,234	$ (7,547)	$185,687	$61,548	$ (2,558)	$58,990	$61,548	$ (2,958)	$58,590
Customer relationships	5-10	104,156	(16,792)	87,364	31,196	(6,927)	24,269	31,196	(8,566)	22,630
Patents	10-20	27,800	(232)	27,568	—	—	—	—	—	—
Supply agreements	3-10	8,601	(1,065)	7,536	5,694	(1,043)	4,651	5,694	(380)	5,314
Other intangible assets	6 mos - 25 yrs	3,657	(914)	2,743	604	(172)	432	604	(266)	338
Total intangible assets, net		$337,448	$ (26,550)	$310,898	$99,042	$ (10,700)	$88,342	$99,042	$ (12,170)	$86,872
Goodwill				247,446			6,176			6,221
Total goodwill and intangible assets, net				$558,344			$94,518			$93,093

Intangible assets include trade names, customer relationships, supply agreements and other intangible assets, which are valued upon acquisition through independent third-party appraisals, where material, or using other valuation methods. Intangible assets are amortized using the straight-line method over periods ranging from five to forty years, or three to ten years in the case of the supply agreements, the period in which their economic benefits are expected to be utilized.

Amounts recorded for goodwill in connection with the UPG acquisition totaled $174.5 million at July 30, 2004 and was allocated based on preliminary information, which is subject to adjustment upon obtaining the final report of an independent third-party valuation firm. Amounts recorded for goodwill in connection with the Nu-Gro acquisition totaled $46.7 million at April 30, 2004. See Note 14 for information regarding goodwill reported by operating segment.

Restatement

The Company had initially reflected the guidance outlined in EITF 02-17, "Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination" as of the date it finalized the allocation of the purchase price of Schultz Company, in the first quarter of 2003, and began amortizing the customer relationship intangible asset over its remaining useful life. In March 2004, the Company determined that the effect of the application of EITF 02-17 should have been applied from the date of acquisition and, as such should have resulted in a $2.4 million noncash charge for the additional amortization related to the final valuation of the $24.6 million customer relationship intangible asset. Accordingly, in the fourth quarter of 2003, the Company restated the March 31, 2003 quarterly financial information to include the noncash adjustment, which increased first quarter 2003 selling, general and administrative expenses by $2.4 million and decreased income before income tax expense and net income by $2.4 million, as the intangible assets are not deductible for tax purposes.

Operating income and net income as originally reported for the three months ended March 31, 2003 of $31,058 and $13,453, respectively, were higher than the respective restated first quarter amounts of $28,658 and $11,053 due to the additional amortization expense described above. In addition, operating income and net income as originally reported for the nine months ended September 30, 2003 of $82,433 and $33,981, respectively, were higher than the respective restated amounts of $80,033 and $31,581 due to the additional amortization expense described above.

Customer Agreement

On February 12, 2004, the Company and its largest customer executed a licensing, manufacturing and supply agreement (the Agreement). Under the Agreement, the Company will license certain of its trademarks and be the exclusive manufacturer and supplier for certain products branded with such trademarks from January 1, 2004, the effective date of the Agreement, through December 31, 2008 or such later date as is specified in the Agreement. Provided the customer achieves certain required minimum purchase volumes and other conditions during such period, and the manufacturing and supply portion of the Agreement is extended for an additional three-year period as specified in the Agreement, the Company will assign the trademarks to the customer not earlier than May 1, 2009, but otherwise within thirty days after the date upon which such required minimum purchase volumes are achieved. The carrying value of such trademarks as of February 12, 2004 was approximately $16.0 million. If the customer fails to achieve the required minimum purchase volumes or meet other certain conditions, assignment may occur at a later date, if certain conditions are met. In addition, as a result of executing the Agreement, the Company has modified the trademarks' initial amortization period of forty years and will record amortization in a manner consistent with projected sales activity over five years, because the Company believes the customer will achieve all required conditions by May 2009. For the three and nine months ended September 30, 2004, amortization expense was $0.4 million and $2.4 million, respectively. The modification of the amortization period will result in additional annual amortization expense of approximately $2.7 million in the year ending December 31, 2004.

Amortization Expense

For the three months ended September 30, 2004 and 2003, aggregate amortization expense related to intangible assets was $4.9 million and $2.0 million, respectively. For the nine months ended September 30, 2004 and 2003, aggregate amortization expense related to intangible assets was $14.4 million and $4.5 million, respectively. The following table presents estimated amortization expense for intangible assets during each of the next five years:

Year	Amount
Remainder of 2004	$ 6,633
2005	25,366
2006	25,269
2007	21,089
2008	18,284

Note 7—Other Assets

Other assets consist of the following:

	September 30, 2004	September 30, 2003	December 31, 2003
Deferred financing fees	$26,973	$ 23,394	$ 23,841
Accumulated amortization	(7,201)	(14,146)	(14,948)
Deferred financing fees, net	19,772	9,248	8,893
Other	3,067	995	1,004
Total other assets, net	$22,839	$ 10,243	$ 9,897

As described in Note 9, during the nine months ended September 30, 2004, the Company recorded deferred financing fees of $10.0 million in connection with the execution of its New Senior Credit Facility on April 30, 2004 and wrote-off $1.7 million of deferred financing fees in connection with the repayment of obligations under its Prior Senior Credit Facility. Furthermore, the Company recorded deferred financing fees of $5.0 million in connection with the amendment of its New Senior Credit Facility on July 30, 2004. These deferred financing fees are being amortized over the term of the New Senior Credit Facility.

Note 8—Accrued Expenses

Accrued expenses consist of the following:

	September 30, 2004	September 30, 2003	December 31, 2003
Advertising and promotion	$22,166	$21,862	$ 9,605
Interest	4,665	12,404	6,219
Preferred stock dividends	—	15,082	17,111
Compensation and related benefits	10,363	3,997	4,103
Commissions	1,144	505	459
Workers' compensation	2,109	127	179
Income taxes payable	3,660	840	—
Severance costs	123	258	201
Freight	2,973	1,082	1,152
Acquisition costs	7,229	—	—
Payment received under Supply Agreement	5,301	—	—
Other	7,460	3,297	545
Total accrued expenses	$67,193	$59,454	$ 39,574

As of September 30, 2004, the Company had a bank overdraft balance of $4.9 million, representing checks written by and drawn against the Company's bank balances but not reported by its lenders as borrowings against the revolving credit facility. Such balances have been reclassified to accounts payable.

Note 9—Long-Term Debt

Long-term debt, excluding capital lease obligations, consists of the following:

	September 30, 2004	September 30, 2003	December 31, 2003
New Senior Credit Facility:			
Term Loan	$507,890	$ —	$ —
Canadian Loan	53,259	—	—
Revolving Credit Facility	—	—	—
Second Lien Term Loan	74,812		
Prior Senior Credit Facility:			
Term Loan B	—	152,767	152,368
Revolving Credit Facility	—	—	—
Senior Subordinated Notes:			
9 7/8% Series B Senior Subordinated Notes	—	3,100	3,100
9 7/8% Series D Senior Subordinated Notes, including unamortized premium of $1.0 million, $1.1 million and $1.1 million, respectively	232,861	233,025	232,985
Total long-term debt	868,822	388,892	388,453
Less current maturities	(6,377)	(796)	(796)
Total long-term debt, net of current maturities	$862,445	$388,096	$ 387,657

Senior Credit Facility in Effect Prior to April 30, 2004

The senior credit facility, as amended as of March 14, 2003, in effect prior to April 30, 2004 (the Prior Senior Credit Facility), with Bank of America, N.A., Morgan Stanley Senior Funding, Inc. and Canadian Imperial Bank of Commerce was terminated and all obligations outstanding thereunder were repaid on April 30, 2004. The Prior Senior Credit Facility consisted of (1) a $90.0 million revolving credit facility; (2) a $75.0 million term loan facility (Term Loan A), which was repaid in full during the year ended December 31, 2003; and (3) a $240.0 million term loan facility (Term Loan B).

The Prior Senior Credit Facility agreement contained affirmative, negative and financial covenants. Affirmative and negative covenants placed restrictions on, among other things, levels of investments, indebtedness, insurance, capital expenditures and dividend payments. The financial covenants required the maintenance of certain financial ratios at defined levels. As of and during the nine months ended September 30, 2003 and year ended December 31, 2003, as applicable, the Company was in compliance with all covenants. Under the Prior Senior Credit Facility agreement, interest rates on the revolving credit facility and Term Loan B ranged from 1.50% to 4.00% plus LIBOR, or other base rate as provided in the Prior Senior Credit Facility agreement, depending on certain financial ratios. LIBOR was 1.16% as of September 30, 2003 and December 31, 2003. The interest rate applicable to Term Loan B was 5.11% as of September 30, 2003 and 5.12% as of December 31, 2003. Unused commitments under the revolving credit facility were subject to a 0.5% annual commitment fee.

The Prior Senior Credit Facility agreement allowed the Company to make prepayments in whole or in part at any time without premium or penalty. During the four months ended April 30, 2004, the Company made principal payments of $152.4 million to fully repay Term Loan B, which primarily represented optional principal prepayments. During the nine months ended September 30, 2003, the Company made principal payments of $28.3 million to fully repay Term Loan A and $69.2 million on Term Loan B, which primarily represented optional principal prepayments. During the year ended December 31, 2003, the Company made principal payments of $28.3 million to fully repay Term Loan A and $69.6 million on Term Loan B, which primarily represented optional principal prepayments. The optional principal prepayments were made from operating cash flows and proceeds from the New Senior Credit Facility described below and allowed the Company to remain several quarterly payments ahead of the regular payment schedule. In connection with these prepayments, the Company recorded write-offs totaling $0.2 million in previously deferred financing fees, which were included in interest expense in the consolidated statement of operations for the three months ended September 30, 2003 and $1.7 million and $1.8 million for the nine months ended September 30, 2004 and 2003, respectively.

The Prior Senior Credit Facility was secured by substantially all of the Company’s properties and assets and by substantially all of the properties and assets of the Company’s current domestic subsidiaries. The carrying amount of the Company’s obligations under the Prior Senior Credit Facility approximated fair value because the interest rates were based on floating interest rates identified by reference to market rates.

New Senior Credit Facility in Effect as of April 30, 2004

In conjunction with the closing of the acquisition of Nu-Gro, on April 30, 2004, the Company entered into a new $510.0 million senior credit facility (the New Senior Credit Facility) with Bank of America, N.A., Banc of America Securities LLC, Citigroup Global Markets, Inc., Citicorp North America, Inc. and certain other lenders to retire the indebtedness under its Prior Senior Credit Facility and execute a new senior credit facility at more favorable rates, to provide funds for the Nu-Gro acquisition, to repurchase all of its outstanding preferred stock, along with accrued but unpaid dividends thereon, and for general working capital purposes. The New Senior Credit Facility consists of (1) a $125.0 million U.S. dollar denominated revolving credit facility; (2) a $335.0 million U.S. dollar denominated term loan facility; and (3) a Canadian dollar denominated term loan facility valued at U.S. $50.0 million. Subject to the terms of the New Senior Credit Facility agreement, the revolving loan portion of the New Senior Credit Facility matures on April 30, 2010, and the term loan obligations under the New Senior Credit Facility mature on April 30, 2011. The term loan obligations are to be repaid in 28 consecutive quarterly installments and commenced on June 30, 2004, with a final installment due on March 31, 2011. All of the loan obligations are subject to mandatory prepayment upon certain events, including sales of certain assets, issuances of indebtedness or equity or from excess cash flow. The New Senior Credit Facility agreement also allows the Company to make voluntary prepayments, in whole or in part, at any time without premium or penalty.

The New Senior Credit Facility agreement contains affirmative, negative and financial covenants that are more favorable than those of the Prior Senior Credit Facility. The negative covenants place restrictions on, among other things, levels of investments, indebtedness, capital expenditures and dividend payments that the Company may make or incur. The financial covenants require the maintenance of certain financial ratios at defined levels. Under the New Senior Credit Facility agreement, interest rates on the new revolving credit facility can range from 1.75% to 2.50% plus LIBOR, or from 0.75% to 1.50% plus a base rate, subject to adjustment and depending on certain financial ratios. As of September 30, 2004, the term loans were subject to interest rates equal to 2.50% plus LIBOR or 1.50% plus a base rate, as provided in the New Senior Credit Facility agreement. LIBOR was 2.01% as of September 30, 2004. The weighted average interest rate applicable to the Company's outstanding borrowings under its New Senior Credit Facility was 4.18% as of September 30, 2004. Unused commitments under the new revolving credit facility are subject to a 0.5% annual commitment fee. Unused availability under the new revolving credit facility was $124.0 million as of September 30, 2004, which is reflective of $6.0 million of standby letters of credit pledged as collateral (see Note 10). The New Senior Credit Facility is secured by substantially all of the Company's properties and assets and substantially all of the properties and assets of the Company's current and future domestic subsidiaries. The carrying amount of the Company's obligations under the New Senior Credit Facility approximate fair value because the interest rates are based on floating interest rates identified by reference to market rates.

In connection with the closing of the Nu-Gro acquisition, Bank of America, N.A., Canada Branch, separately loaned the Company Cdn $110.0 million for structuring purposes, which loan was repaid on April 30, 2004.

Amendment to New Senior Credit Facility in Effect as of July 30, 2004

On July 30, 2004, in connection with the closing of and to partially fund its merger with UPG, the Company amended and restated the credit agreement related to the New Senior Credit Facility to increase the revolving credit facility from $125.0 million to $130.0 million, increase the U.S. term loan from $335.0 million to $510.0 million, add a $75.0 million second lien term loan and leave the Canadian term loan of U.S. $50.0 million unchanged for a total New Senior Credit Facility, as amended, of $765.0 million. Subject to the terms of the New Senior Credit Facility agreement, as amended, the second lien term loan is to be repaid in 29 consecutive quarterly installments commencing on September 30, 2004, with a final installment due on September 30, 2011, and matures on October 31, 2011. Interest on the second lien term loan accrues at 4.50% plus LIBOR or 3.5% plus a base rate, subject to adjustment and depending on certain financial ratios. The second lien term loan is subject to affirmative, negative and financial covenants. The Company incurred $5.0 million in costs related to the amendment, which were recorded as deferred financing fees and are being amortized over the remaining term of the New Senior Credit Facility. The amendment did not change any other key terms or existing covenants of the New Senior Credit Facility.

Senior Subordinated Notes

In November 1999, the Company issued $150.0 million in aggregate principal amount of 9 7/8% Series B senior subordinated notes (the Series B Notes) due April 1, 2009. Interest accrued at a rate of 9 7/8% per annum, payable semi-annually on April 1 and October 1. As described in more detail below, as of September 30, 2004, there were no Series B Notes outstanding.

In March 2003, the Company issued $85.0 million in aggregate principal amount of 9 7/8% Series C senior subordinated notes (the Series C Notes) due April 1, 2009. Interest accrued at a rate of 9 7/8% per annum, payable semi-annually on April 1 and October 1. As described in more detail below, as of September 30, 2004, there were no Series C Notes outstanding.

In May 2003, the Company registered $235.0 million in aggregate principal amount of 9 $^{7}/_{8}$% Series D senior subordinated notes (the Series D Notes and collectively with the Series B Notes and Series C Notes, the Senior Subordinated Notes), with terms substantially similar to the Series B Notes and Series C Notes, with the United States Securities and Exchange Commission and offered to exchange the Series D Notes for up to 100% of the Series B Notes and Series C Notes. The exchange offering closed in July 2003, resulting in $85.0 million, or 100%, of the Series C Notes being exchanged and $146.9 million, or 98%, of the Series B Notes being exchanged. On April 14, 2004, the Company repurchased all of the remaining Series B Notes outstanding, together with accrued interest and repurchase premium of 4.938%, for $3.3 million. As of September 30, 2004, $232.9 million of the Series D Notes, including unamortized premium, were outstanding and no Series B Notes or Series C Notes were outstanding.

The fair value of the Senior Subordinated Notes was $240.0 million, $243.2 million and $242.1 million as of September 30, 2004 and 2003 and December 31, 2003, respectively, based on their quoted market price on such dates. The fair value at September 30, 2004 reflects the repurchase of all outstanding Series B Notes in April 2004, as previously described. In accordance with the indentures that govern them, the Senior Subordinated Notes are full and unconditionally and jointly and severally guaranteed by the Company's wholly-owned domestic subsidiaries (see Note 15).

Debt Covenants

The Company's agreements that govern the New Senior Credit Facility and the Senior Subordinated Notes contain a number of significant covenants that could restrict or limit the Company's ability to:

- incur more debt;
- pay dividends, subject to financial ratios and other conditions;
- make other distributions;
- issue stock of subsidiaries;
- make investments;
- repurchase stock;
- create subsidiaries;
- create liens;
- enter into transactions with affiliates;
- merge or consolidate; and
- transfer and sell assets.

The ability to comply with these provisions may be affected by events beyond the Company's control. The breach of any of these covenants will result in a default under the applicable debt agreement or instrument and could trigger acceleration of repayment under the applicable agreements. Any default under such agreements might adversely affect the Company's growth, financial condition, results of operations and the ability to make payments on indebtedness or meet other obligations. As of and during the nine months ended September 30, 2004 and 2003 and year ended December 31, 2003, the Company was in compliance with all covenants under the Prior Senior Credit Facility, the New Senior Credit Facility and the Senior Subordinated Notes in effect as of such dates.

Future Principal Payments

As of September 30, 2004, aggregate future principal payments of long-term debt, excluding capital lease obligation, are as follows:

Year	Amount
Remainder of 2004	$ 1,594
2005	6,377
2006	6,377
2007	6,377
2008	6,377
Thereafter	840,759
	867,861
Unamortized premium on Senior Subordinated Notes	961
	$868,822

Note 10—Commitments and Contingencies

Commitments

In the normal course of business, the Company is a party to certain guarantees and financial instruments with off-balance sheet risk, such as standby letters of credit and indemnifications, which are not reflected in the accompanying consolidated balance sheets. As of September 30, 2004 and 2003 and December 31, 2003, the Company had $6.0 million, $2.5 million and $2.7 million, respectively, in standby letters of credit pledged as collateral to support the lease of its primary distribution facility in St. Louis, a U.S. customs bond, certain product purchases, various workers' compensation obligations and transportation equipment. These agreements mature at various dates through September 2005 and may be renewed as circumstances warrant. Such financial instruments are valued based on the amount of exposure under the instruments and the likelihood of performance being required. In the Company's past experience, no claims have been made against these financial instruments nor does management expect the exposure to material losses resulting therefrom to be anything other than remote. As a result, the Company determined such agreements do not have significant value and has not recorded any related amounts in its accompanying consolidated financial statements.

The Company is the lessee under a number of equipment and property leases. It is common in such commercial lease agreements for the Company to agree to indemnify the lessor for the value of the property or equipment leased should it be damaged during the course of the Company's operations. The Company expects that any losses that may occur with respect to the leased property would be covered by insurance, subject to deductible amounts. As a result, the Company determined such indemnifications do not have significant value and has not recorded any related amounts in its accompanying consolidated financial statements for such remote loss exposure.

The Company is the lessee of several operating facilities from Rex Realty, Inc., a company owned by certain of the Company's stockholders and operated by a former executive and past member of its Board of Directors. The operating leases expire at various dates through December 31, 2010. The Company has options to terminate the leases on an annual basis by giving advance notice of at least one year. The Company also leases a portion of its operating facilities from the same company under a sublease agreement expiring on December 31, 2005 with minimum annual rentals of $0.7 million. The Company has two five-year options to renew this lease, beginning January 1, 2006. Rent expense under these leases was $0.7 million for the three months ended September 30, 2004, $0.3 million for the three months ended September 30, 2003, $1.3 million for the nine months ended September 30, 2004 and $0.9 million for the nine months ended September 30, 2003.

The Company is obligated under additional operating leases for other operations and the use of warehouse space. The leases expire at various dates through January 31, 2015. Five of the leases provide for as many as five options to renew for five years each. Aggregate rent expense under these leases was $2.8 million for the three months ended September 30, 2004, $1.8 million for the three months ended September 30, 2003, $8.3 million for the nine months ended September 30, 2004 and $5.4 million for the nine months ended September 30, 2003.

The following table presents future minimum lease payments due under operating and capital leases as of September 30, 2004:

Year	Operating Leases		Capital Lease	Total
	Affiliate	Other		
Remainder 2004	$ 1,556	$ 4,388	$ 227	$ 6,171
2005	3,854	9,694	457	14,005
2006	3,898	8,346	457	12,701
2007	3,140	6,678	457	10,275
2008	2,397	6,029	457	8,883
Thereafter	3,118	25,340	2,370	30,828
Total minimum lease payments	$17,963	$60,475	4,425	$82,863
Less amount representing interest			(990)	
Present value of net minimum lease payments			$3,435	

Contingencies

The Company is involved from time to time in routine legal matters and other claims incidental to its business. When it appears probable in management's judgment that the Company will incur monetary damages or other costs in connection with such claims and proceedings, and such costs can be reasonably estimated, liabilities are recorded in the consolidated financial statements and charges are recorded to results of operations. Management believes that it is remote the resolution of such routine matters and other incidental claims will have a material adverse impact on the Company's consolidated financial position, results of operations or liquidity.

Note 11—Accounting for Derivative Instruments and Hedging Activities

In the normal course of business, the Company is exposed to fluctuations in raw materials prices, foreign currency exchange rates and interest rates. The Company has established policies and procedures that govern the management of these exposures through the use of derivative hedging instruments. The Company's objective in managing its exposure to such fluctuations is to decrease the volatility of earnings and cash flows associated with changes in certain raw materials prices, foreign currency exchange rates and interest rates. To achieve this objective, the Company periodically enters into derivative instrument agreements with values that change in the opposite direction of anticipated cash flows. Derivative instruments related to forecasted transactions are considered to hedge future cash flows, and the effective portion of any gains or losses is included in accumulated other comprehensive income until earnings are affected by the variability of cash flows. Any remaining gain or loss is recognized currently in results of operations.

The Company formally documents, designates and assesses the effectiveness of any transactions that receive hedge accounting treatment. The cash flows of derivative hedging instruments utilized by the Company are generally expected to be highly effective in achieving offsetting cash flows attributable to fluctuations in the cash flows of the hedged risk. Changes in the fair value of agreements designated as derivative hedging instruments are reported as either an asset or liability in the accompanying consolidated balance sheets with the associated unrealized gains or losses reflected in accumulated other comprehensive income. As of September 30, 2004, the Company had five outstanding agreements representing derivative hedging instruments. Such agreements are comprised of one foreign currency forward agreement, which is described below, and four agreements designated as hedges against forecasted purchases of granular urea and diammonium phosphates, materials used in the production of fertilizer, with maturity dates ranging through December 2004 and an aggregate contract value upon execution of $2.1 million. Such derivative hedging instruments had an unrealized loss of less than $0.1 million as of September 30, 2004, which is included in accumulated other comprehensive income in the accompanying consolidated balance sheet as of such date. Amounts included in accumulated other comprehensive income, which were subsequently reclassified into cost of goods sold for the nine months ended September 30, 2004 and 2003 included a net loss of $0.2 million and a net gain of $1.4 million, respectively. No such amounts were reclassified into cost of goods sold for the three months ended September 30, 2004 and 2003. Although derivative hedging instruments were used for forecasted purchases of granular urea throughout 2003, no such instruments were outstanding as of September 30, 2003 and December 31, 2003.

The Company also had one foreign currency forward agreement outstanding as of September 30, 2004 designated as a hedge against exchange rate fluctuations of the Euro, used to purchase certain components from European suppliers. The agreement matures in December 2004 and had an aggregate contract value upon execution of less than $0.1 million. The unrealized gain on such agreement as of September 30, 2004, included in accumulated other comprehensive income in the accompanying consolidated balance sheet as of such date, and any amounts reclassified into cost of goods sold for the three and nine months ended September 30, 2004 were nominal. No such derivative hedging instruments were used as hedges against exchange rate fluctuations during 2003.

If it becomes probable that a forecasted transaction will not occur, any gains or losses in accumulated other comprehensive income will be recognized in results of operations. The Company has not incurred any material gains or losses for hedge ineffectiveness or due to excluding a portion of the value from measuring effectiveness. The Company has not generally entered into derivatives or other hedging arrangements for trading or speculative purposes but may consider doing so in the future if strategic circumstances warrant, and its bank covenants and bond indentures permit, such transactions. While management expects its derivative hedging instruments to manage the Company’s exposure to the potential fluctuations described above, no assurance can be provided that such instruments will be effective in fully mitigating exposure to these risks, nor can assurance be provided that the Company will be successful in passing on pricing increases to its customers.

Note 12—Stockholders’ Equity

Bayer Transactions

On June 14, 2002, the Company consummated a transaction with Bayer Corporation and Bayer Advanced, L.L.C. (together referred to herein as Bayer), which allows the Company to gain access to certain Bayer active ingredient technologies through a Supply Agreement and to perform certain merchandising services for Bayer through an In-Store Service Agreement. In consideration for the Supply and In-Store Service Agreements, and in exchange for the promissory notes previously issued to Bayer by U.S. Fertilizer, the Company issued to Bayer 3,072,000 shares of Class A voting common stock valued at $15.4 million and 3,072,000 shares of Class B nonvoting common stock valued at $15.4 million (collectively representing approximately 9.3% of the Company’s fully-diluted common stock) and recorded $0.4 million of related issuance costs. The Company reserved for the entire face value of the promissory notes due from U.S. Fertilizer, as the Company did not believe the notes were collectible and an independent third party valuation did not ascribe any significant value to them. The independent third party valuation also indicated that value should be ascribed to the repurchase option, which is reflected in stockholders’ equity (deficit) in the accompanying consolidated balance sheets as of September 30, 2003 and December 31, 2003.

Under the terms of the agreements, Bayer was required to make payments to the Company, which total $5.0 million annually through June 15, 2009, the present value of which equaled the value assigned to the common stock subscription receivable as of June 14, 2002, which has been reflected in stockholders’ equity (deficit) in the accompanying consolidated balance sheets as of September 30, 2003 and December 31, 2003. The common stock subscription receivable was to be repaid by Bayer in 28 quarterly installments of $1.25 million, the first of which was received at closing on June 17, 2002. The difference between the value ascribed to the common stock subscription receivable and the installment payments received has been recorded as interest income in the accompanying consolidated statements of operations for the nine months ended September 30, 2004 and 2003.

The value of the Supply Agreement has been and is being amortized to cost of goods sold over the period in which its economic benefits are expected to be utilized, which was initially anticipated to be over a three to five-year period. The Company has been amortizing the obligation associated with the In-Store Service Agreement to revenues over the seven-year life of the agreement, the period in which its obligations were originally expected to be fulfilled. However, in December 2002, the Company and Bayer amended the In-Store Service Agreement to reduce the scope of services provided by approximately 80%. As a result, the Company reduced its obligation under the In-Store Service Agreement accordingly and reclassified $3.6 million to additional paid-in capital to reflect the increase in value of the In-Store Service Agreement.

On October 22, 2003, the Company gave notice to Bayer regarding the termination of the In-Store Service Agreement, as amended. Upon termination, which became effective on December 21, 2003, the Company was relieved of its obligation to perform merchandising services for Bayer. Accordingly, the remaining liability of $0.7 million on the date of termination was recognized in selling, general and administrative expenses as a benefit in the consolidated statement of operations for the year ended December 31, 2003.

Following the termination of the In-Store Service Agreement, on December 22, 2003, the Company exercised its option to repurchase all outstanding common stock previously issued to Bayer. Bayer disputed the Company’s interpretation of a related agreement (the Exchange Agreement) as to the calculation of the repurchase price. As a result, the Company and Bayer entered negotiations to determine an agreed upon repurchase price based on equations included in the Exchange Agreement and other factors. The Company commenced an arbitration proceeding against Bayer to resolve the dispute on January 30, 2004. However, the Company and Bayer reached a negotiated settlement of the dispute on February 23, 2004, pursuant to which Bayer agreed to deliver all of its shares of the Company’s common stock to the Company in exchange for a cash payment of $1.5 million, cancellation of $22.5 million in remaining payments required to be made in connection with the common stock subscription receivable and forgiveness of interest related to such payments of $0.3 million.

The Company recorded treasury stock of $24.4 million, based on the consideration given to Bayer, reduced the common stock subscription receivable by $22.5 million, the remaining balance on the date of repurchase, and reversed the common stock repurchase option of $2.6 million, as a result of its exercise, and recorded a corresponding amount to additional paid-in capital. As a result of this transaction, both parties agreed that the Exchange Agreement and In-Store Service Agreement are fully terminated, with the exception of certain provisions contained therein that expressly survive termination, and that the Supply Agreement shall remain in full force and effect according to its terms. Under the terms of the Supply Agreement, any remaining balance at January 30, 2009 is unconditionally and immediately payable to the Company by Bayer regardless of whether or not the Company purchases ingredients under the Supply Agreement. As of September 30, 2004, the remaining balance of the Supply Agreement, net of amortization, and excluding accrued interest of $0.5 million, was $4.8 million.

Based on the independent third party valuation as of June 14, 2002, the original transaction date, the Company assigned a fair value of $30.7 million to the transaction components recorded in connection with the common stock issued to Bayer. The following table presents the values of these components as of September 30, 2004 and 2003 and December 31, 2003 based on such valuation and as a result of the activities and transactions previously described, net of amortization and excluding accrued interest:

Description	September 30, 2004	September 30, 2003	December 31, 2003
Common stock subscription receivable	$ —	$23,363	$ 22,534
Supply Agreement	4,779	5,314	5,314
Repurchase option	—	2,636	2,636
In-Store Service Agreement	—	663	—
	$4,779	$31,976	$ 30,484

Bayer recently sent notice to the Company purporting to terminate the Supply Agreement, effective August 17, 2004, as well as $5.2 million, the remaining amount due under the Supply Agreement. The Company responded by notifying Bayer that it did not have a right to terminate and has since held the amount in escrow. The parties were in agreement that the amount due in the event of termination at that time was $5.2 million, including $0.5 million of accrued interest. The outcome of the Company’s disagreement with Bayer concerning termination of the Supply Agreement is not expected to have a material adverse impact on the Company’s consolidated financial position, results of operations or cash flows.

Issuance of Common Stock

As described in Note 2, in connection with, and to partially fund, its acquisition of UPG, on July 30, 2004, the Company issued 5.8 million shares each of its Class A voting and Class B nonvoting common stock to affiliates of Thomas H. Lee Partners, its largest stockholder, Banc of America Securities LLC and certain UPG selling stockholders for proceeds of $70.0 million.

Repurchase of Preferred Stock

In conjunction with the financing activities described in Note 9, on April 30, 2004, the Company repurchased all 37,600 shares of its outstanding Class A nonvoting preferred stock for $57.6 million, including $19.9 million for all accrued dividends thereon. Such repurchase resulted in a reduction of additional paid-in capital of $37.7 million.

Note 13—Fair Value of Financial Instruments

The Company has estimated the fair value of its financial instruments as of September 30, 2004 and 2003 and December 31, 2003 using available market information or other appropriate valuation methods. Considerable judgment, however, is required in interpreting data to develop estimates of fair value. Accordingly, the estimates presented in the accompanying consolidated financial statements are not necessarily indicative of the amounts the Company would realize in a current market exchange.

The carrying amounts of cash, accounts receivable, accounts payable and other current assets and liabilities approximate fair value because of the short maturity of such instruments. The Company's Senior Credit Facility bears interest at current market rates and, thus, carrying value approximates fair value as of September 30, 2004 and 2003 and December 31, 2003. The Company is exposed to interest rate volatility with respect to the variable interest rates of the New Senior Credit Facility. The fair value of the Senior Subordinated Notes was $240.0 million, $243.2 million and $242.1 million as of September 30, 2004 and 2003 and December 31, 2003, respectively, based on their quoted market price on such dates.

Note 14—Segment Information

As of September 30, 2004, the Company reported its operating results using three reportable business segments: U.S. Home & Garden (represents 62% of third quarter 2004 net sales), Canada (represents 13% of third quarter 2004 net sales) and Pet (represents 25% of third quarter 2004 net sales). The basis of the Company's segmentation was modified since December 31, 2003 to accommodate the acquisitions of Nu-Gro and UPG. The Company's previously-existing segments at December 31, 2003 have been combined into the new U.S. Home & Garden segment due to their similar nature. This change represents the only reclassifications of 2003 segment information required to achieve comparability of financial information for the periods presented herein. The acquisition of Nu-Gro represents the second reportable segment, Canada, and the aquisition of UPG represents the third reportable segment, Pet.

Segments were established primarily by operating division, which represents the operating structure of the Company and the basis upon which management, including the Chief Executive Officer who is the chief operating decision-maker of the Company, reviews and assesses the Company's financial performance. The table which follows presents selected financial segment information in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," for the three and nine months ended September 30, 2004 and 2003. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies in Note 2 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003, as applicable. The segment financial information presented below includes comparative periods prepared on a basis consistent with the current year presentation. Operating results have been presented for the Canada segment since April 30, 2004, the date Nu-Gro was acquired, and for the Pet segment since July 30, 2004, the date UPG was acquired.

Statement of Operations Information:	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003 (As Restated)
Net sales:				
U.S. Home & Garden	$104,342	$104,019	$493,775	$ 488,834
Canada	23,615	—	56,720	—
Pet	43,083	—	43,083	—
Total net sales	171,040	104,019	593,578	488,834
Operating costs and expenses:				
Cost of goods sold	123,511	64,750	392,776	297,302
Selling, general and administrative expenses	48,387	32,195	138,152	111,499
Total operating costs and expenses	171,898	96,945	530,928	408,801
Operating income (loss) by segment:				
U.S. Home & Garden	(1,049)	7,074	63,924	80,033
Canada	(657)	—	(2,122)	—
Pet	848	—	848	—
Total operating income (loss)	(858)	7,074	62,650	80,033
Interest expense	12,799	9,173	34,328	29,147
Interest income	16	568	388	1,522
Income (loss) before income tax expense (benefit)	(13,641)	(1,531)	28,710	52,408
Income tax expense (benefit)	(5,184)	(698)	7,447	20,827
Net income (loss)	$ (8,457)	$ (833)	$ 21,263	$ 31,581
Operating margin:				
U.S. Home & Garden	-1.0%	6.8%	12.9%	16.4%
Canada	-2.8%	—	-3.7%	—
Pet	2.0%	—	2.0%	—
Total operating margin	-0.5%	6.8%	10.6%	16.4%

Operating income represents earnings before interest expense, interest income and income tax expense. Operating income is one measure of profitability used by management to assess the Company’s financial performance. Operating margin represents operating income as a percentage of net sales.

The majority of the Company’s sales are conducted with customers in the United States. As a percentage of total net sales, for the three months ended September 30, 2004, the Company’s net sales in the United States were 88%, net sales in Canada were 10%, and remaining international sales were less than 2%. For the three and nine months ended September 30, 2003, the Company’s international sales, including Canada, comprised less than 2% of total net sales. In addition, no single item comprised more than 10% of the Company’s net sales. For the three months ended September 30, 2004, the Company’s three largest customers were responsible for 20%, 18% and 17% of net sales. For the nine months ended September 30, 2004, the Company’s three largest customers were responsible for 25%, 15% and 14% of net sales. Of these sales for the nine months ended September 30, 2004, 96% relate to the U.S. Home & Garden segment, less than 1% relates to the Canada segment and nearly 4% relate to the Pet segment.

As of September 30, 2004, approximately 6% of the Company's total assets were located in Canada while the remaining assets were located in the United States. The table which follows presents segment information with respect to certain of the Company's balance sheet information:

Balance Sheet Information:	As of September 30, 2004	As of September 30, 2003 (As Restated)	As of December 31, 2003
U.S. Home & Garden:			
Property, plant and equipment, net	$ 41,809	$ 34,360	$ 37,153
Capital expenditures (year-to-date)	13,470	6,724	11,674
Goodwill	26,257	6,176	6,221
Total assets	538,558	403,601	479,944
Canada:			
Property, plant and equipment, net	32,610	—	—
Capital expenditures (year-to-date)	1,442	—	—
Goodwill	46,660	—	—
Total assets	114,136	—	—
Pet:			
Property, plant and equipment, net	24,946	—	—
Capital expenditures (year-to-date)	649	—	—
Goodwill	174,529	—	—
Total assets	402,020	—	—

Note 15—Financial Information for Guarantor Subsidiaries

The Company's Senior Subordinated Notes are full and unconditionally and jointly and severally guaranteed by all of the Company's existing domestic subsidiaries. The Company's subsidiaries are 100% owned by the Company. The consolidating financial information, which follows, has been prepared in accordance with the requirements for presentation of such information. The Company believes that separate financial statements concerning each guarantor subsidiary would not be material to investors and that the information presented herein provides sufficient detail to determine the nature of the aggregate financial position, results of operations and cash flows of the guarantor subsidiaries. The guarantor subsidiaries' information presented herein represents the Company's domestic subsidiaries, including the UPG subsidiaries and U.S. subsidiaries of Nu-Gro, while the non-guarantor subsidiaries' financial information represents the Company's foreign subsidiaries, which are comprised only of the Canadian subsidiaries of Nu-Gro.

The Company's investment in subsidiaries is accounted for using the equity method of accounting. Earnings of the subsidiaries are reflected in the respective investment accounts of the parent company accordingly. The investments in subsidiaries and all intercompany balances and transactions have been eliminated. Various assumptions and estimates were used to establish the financial statements of such subsidiaries for the information presented herein.

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES

BALANCE SHEET

AS OF SEPTEMBER 30, 2004

(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 5,301	$ 475	$ 2,514	$ —	$ 8,290
Accounts receivable, net	53,938	40,662	12,893	—	107,493
Inventories	55,613	73,257	31,133	—	160,003
Prepaid expenses and other current assets	11,511	5,970	2,404	—	19,885
Total current assets	126,363	120,364	48,944	—	295,671
Equipment and leasehold improvements, net	35,980	32,032	31,353	—	99,365
Investment in subsidiaries	483,172	—	—	(483,172)	—
Intercompany assets	127,121	—	—	(127,121)	—
Deferred tax asset	156,644	(65,583)	(12,566)	—	78,495
Goodwill	5,616	191,408	50,422	—	247,446
Intangible assets, net	40,578	251,727	18,593	—	310,898
Other assets, net	20,637	2,078	124	—	22,839
Total assets	$ 996,111	$ 532,026	$ 136,870	$ (610,293)	$1,054,714
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Current maturities of long-term debt and capital lease obligations	$ 6,678	$ —	$ —	$ —	$ 6,678
Accounts payable	20,581	16,663	4,409	—	41,653
Accrued expenses	33,492	25,771	7,932	—	67,195
Total current liabilities	60,751	42,434	12,341	—	115,526
Long-term debt, net of current maturities	862,445	—	—	—	862,445
Capital lease obligations, net of current maturities	3,222	—	—	—	3,222
Other liabilities	4,019	724	547	—	5,290
Intercompany liabilities	—	56,405	70,716	(127,121)	—
Total liabilities	930,437	99,563	83,604	(127,121)	986,483
Commitments and contingencies					
Stockholders' equity:					
Common stock	782	—	—	—	782
Treasury stock	(24,469)	—	—	—	(24,469)
Warrants and options	11,745	—	—	—	11,745
Investment from parent	—	444,488	52,271	(496,759)	—
Additional paid-in capital	241,034	—	—	—	241,034
Accumulated deficit	(159,924)	(12,025)	(2,959)	13,587	(161,321)
Common stock held in grantor trusts	(3,326)	—	—	—	(3,326)
Loans to executive officer	(215)	—	—	—	(215)
Accumulated other comprehensive income	47	—	3,954	—	4,001
Total stockholders' equity	65,674	432,463	53,266	(483,172)	68,231
Total liabilities and stockholders' equity	$ 996,111	$ 532,026	$ 136,870	$ (610,293)	$1,054,714

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES

BALANCE SHEET

AS OF SEPTEMBER 30, 2003

(Unaudited) (As Restated)

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	$ 43,382	$ 740	$ —	$ 44,122
Accounts receivable, net	53,946	2,518	—	56,464
Inventories	34,783	32,787	—	67,570
Prepaid expenses and other current assets	9,751	307	—	10,058
Total current assets	141,862	36,352	—	178,214
Equipment and leasehold improvements, net	29,618	4,742	—	34,360
Investment in subsidiaries	25,499	—	(25,499)	—
Intercompany assets	67,693	5,938	(73,631)	—
Deferred tax asset	85,840	426	—	86,266
Goodwill, net	6,176	—	—	6,176
Intangible assets, net	37,899	50,443	—	88,342
Other assets, net	9,522	721	—	10,243
Total assets	$ 404,109	$ 98,622	$ (99,130)	$ 403,601
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)				
Current liabilities				
Current maturities of long-term debt and capital lease obligation	$ 1,341	$ —	$ —	$ 1,341
Accounts payable	12,295	3,566	—	15,861
Accrued expenses	57,590	1,864	—	59,454
Total current liabilities	71,226	5,430	—	76,656
Long-term debt, net of current maturities	388,096	—	—	388,096
Capital lease obligation, net of current maturities	3,333	—	—	3,333
Other liabilities	3,199	—	—	3,199
Intercompany liabilities	5,938	67,693	(73,631)	—
Total liabilities	471,792	73,123	(73,631)	471,284
Commitments and contingencies				
Stockholders' equity (deficit):				
Preferred stock	—	—	—	—
Common stock	665	—	—	665
Treasury stock	(96)	—	—	(96)
Warrants and options	11,745	—	—	11,745
Investment from parent	—	23,708	(23,708)	—
Additional paid-in capital	210,806	—	—	210,806
Accumulated deficit	(261,633)	1,791	(1,791)	(261,633)
Common stock subscription receivable	(23,363)	—	—	(23,363)
Common stock repurchase option	(2,636)	—	—	(2,636)
Common stock held in grantor trust	(2,847)	—	—	(2,847)
Loans to executive officer	(324)	—	—	(324)
Total stockholders' equity (deficit)	(67,683)	25,499	(25,499)	(67,683)
Total liabilities and stockholders' equity (deficit)	$ 404,109	$ 98,622	$ (99,130)	$ 403,601

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES

BALANCE SHEET

AS OF DECEMBER 31, 2003

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	$ 11,132	$ 281	$ —	$ 11,413
Accounts receivable, net	25,548	4,342	—	29,890
Inventories	56,677	40,118	—	96,795
Prepaid expenses and other current assets	14,989	152	—	15,141
Total current assets	108,346	44,893	—	153,239
Equipment and leasehold improvements, net	32,641	4,512	—	37,153
Investment in subsidiaries	18,950	—	(18,950)	—
Intercompany assets	82,982	10,768	(93,750)	—
Deferred tax asset	186,542	20	—	186,562
Goodwill	—	6,221	—	6,221
Intangible assets, net	46,554	40,318	—	86,872
Other assets, net	5,059	4,838	—	9,897
Total assets	$ 481,074	$ 111,570	$ (112,700)	$ 479,944
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Current maturities of long-term debt and capital lease obligation	$ 1,349	$ —	$ —	$ 1,349
Accounts payable	23,024	6,750	—	29,774
Accrued expenses	36,686	2,888	—	39,574
Total current liabilities	61,059	9,638	—	70,697
Long-term debt, net of current maturities	387,657	—	—	387,657
Capital lease obligation, net of current maturities	3,191	—	—	3,191
Other liabilities	3,256	—	—	3,256
Intercompany liabilities	10,768	82,982	(93,750)	—
Total liabilities	465,931	92,620	(93,750)	464,801
Commitments and contingencies				
Stockholders' equity:				
Preferred stock	—	—	—	—
Common stock	665	—	—	665
Treasury stock	(96)	—	—	(96)
Warrants and options	11,745	—	—	11,745
Investment from parent	—	27,925	(27,925)	—
Additional paid-in capital	210,908	—	—	210,908
Accumulated deficit	(179,738)	(8,975)	8,975	(179,738)
Common stock subscription receivable	(22,534)	—	—	(22,534)
Common stock repurchase option	(2,636)	—	—	(2,636)
Common stock held in grantor trusts	(2,847)	—	—	(2,847)
Loans to executive officer	(324)	—	—	(324)
Total stockholders' equity	15,143	18,950	(18,950)	15,143
Total liabilities and stockholders' equity	$ 481,074	$ 111,570	$ (112,700)	$ 479,944

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES

STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004

(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$110,836	$ 55,956	$ 17,760	$ (13,512)	$ 171,040
Operating costs and expenses:					
Cost of goods sold	72,360	53,486	14,843	(17,178)	123,511
Selling, general and administrative expenses	(4,106)	44,306	4,521	3,666	48,387
Total operating costs and expenses	68,254	97,792	19,364	(13,512)	171,898
Operating income (loss)	42,582	(41,836)	(1,604)	—	(858)
Interest expense	812	10,981	1,006	—	12,799
Interest income	16	—	—	—	16
Income (loss) before income taxes	41,786	(52,817)	(2,610)	—	(13,641)
Provision for income taxes	16,284	(20,433)	(1,035)	—	(5,184)
Equity loss in subsidiaries	33,958	—	—	(33,958)	—
Net loss	$ (8,456)	$ (32,384)	$ (1,575)	$ 33,958	$ (8,457)

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES

STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003

(Unaudited)

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$94,305	$ 24,630	$ (14,916)	$ 104,019
Operating costs and expenses:				
Cost of goods sold	56,989	24,471	(16,710)	64,750
Selling, general and administrative expenses	27,682	2,719	1,794	32,195
Total operating costs and expenses	84,671	27,190	(14,916)	96,945
Operating income (loss)	9,634	(2,560)	—	7,074
Interest expense	9,032	141	—	9,173
Interest income	568	—	—	568
Income (loss) before income taxes	1,170	(2,701)	—	(1,531)
Provision for income taxes	326	(1,024)	—	(698)
Equity loss in subsidiaries	1,677	—	(1,677)	—
Net loss	$ (833)	$ (1,677)	$ 1,677	$ (833)

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES

STATEMENT OF OPERATIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004

(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$435,189	$ 232,659	$ 46,527	$(120,797)	$ 593,578
Operating costs and expenses:					
Cost of goods sold	268,979	182,438	41,298	(99,939)	392,776
Selling, general and administrative expenses	100,223	50,660	8,127	(20,858)	138,152
Total operating costs and expenses	369,202	233,098	49,425	(120,797)	530,928
Operating income	65,987	(439)	(2,898)	—	62,650
Interest expense	21,626	10,827	1,875	—	34,328
Interest income	388	—	—	—	388
Income before income taxes	44,749	(11,266)	(4,773)	—	28,710
Provision for income taxes	17,004	(7,743)	(1,814)	—	7,447
Equity loss in subsidiaries	6,482	—	—	(6,482)	—
Net income (loss)	$ 21,263	$ (3,523)	$ (2,959)	$ 6,482	$ 21,263

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES

STATEMENT OF OPERATIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003

(Unaudited) (As Restated)

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$404,518	$ 174,064	$ (89,748)	$ 488,834
Operating costs and expenses:				
Cost of goods sold	232,263	152,234	(87,195)	297,302
Selling, general and administrative expenses	95,623	18,429	(2,553)	111,499
Total operating costs and expenses	327,886	170,663	(89,748)	408,801
Operating income	76,632	3,401	—	80,033
Interest expense	28,719	428	—	29,147
Interest income	1,522	—	—	1,522
Income before income taxes	49,435	2,973	—	52,408
Provision for income taxes	18,785	2,042	—	20,827
Equity income in subsidiaries	(931)	—	931	—
Net income	$ 31,581	$ 931	$ (931)	$ 31,581

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES

STATEMENT OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004

(Unaudited)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income (loss)	$ 21,263	$ (3,523)	$ (2,959)	$ 6,482	$ 21,263
Adjustments to reconcile net income (loss) to net cash flows provided by (used in) operating activities:					
Depreciation and amortization	24,145	—	—	—	24,145
Amortization and write-off of deferred financing fees	4,168	—	—	—	4,168
Deferred income tax expense (benefit)	7,448	—	—	—	7,448
Gain on sale of aircraft	(1,497)	—	—	—	(1,497)
Stock-based compensation for shares held in grantor trust	479	—	—	—	479
Equity (income) loss in subsidiaries	6,482	—	—	(6,482)	—
Changes in operating assets and liabilities, net of effects from acquisitions:					
Accounts receivable	107,347	13,814	18,205	(120,797)	18,569
Inventories	(98,745)	30,956	(7,390)	99,939	24,760
Prepaid expenses	3,511	4,549	(1,605)	—	6,455
Other assets	(6,687)	6,419	(124)	—	(392)
Accounts payable	(12,796)	(15,044)	(13,985)	—	(41,825)
Accrued expenses	9,631	4,124	7,932	—	21,687
Other operating activities, net	(20,618)	382	547	20,858	1,169
Net cash flows provided by operating activities	44,131	41,677	621	—	86,429
Cash flows from investing activities:					
Purchases of equipment and leasehold improvements	(12,036)	—	—	—	(12,036)
Payment for acquisition of the Nu-Gro Corporation	(146,698)	—	—	—	(146,698)
Payment for acquisition of United Pet Group	(371,534)	—	—	—	(371,534)
Proceeds from sale of aircraft	2,787	—	—	—	2,787
Net cash flows used in investing activities	(527,481)	—	—	—	(527,481)
Cash flows from financing activities:					
Proceeds from borrowings on new senior credit facility	635,000	—	—	—	635,000
Proceeds from issuance of common stock	70,000	—	—	—	70,000
Payments received on loans to executive officer	109	—	—	—	109
Repayment for repurchase of senior subordinated notes	(3,100)	—	—	—	(3,100)
Repayment of borrowings on term debt	(181,827)	—	—	—	(181,827)
Payments for capital lease obligation	(3,938)	—	—	—	(3,938)
Payments for debt issuance costs	(14,922)	—	—	—	(14,922)
Payments for repurchase of preferred stock and accrued dividends	(57,557)	—	—	—	(57,557)
Payments for Bayer transactions for treasury stock	(1,500)	—	—	—	(1,500)
Other financing and intercompany activities	39,590	(41,483)	1,893	—	—
Net cash flows provided by (used in) financing activities	481,855	(41,483)	1,893	—	442,265
Effect of exchange rates on cash and cash equivalents	(4,336)	—	—	—	(4,336)
Net increase (decrease) in cash and cash equivalents	(5,831)	194	2,514	—	(3,123)
Cash and cash equivalents, beginning of period	11,132	281	—	—	11,413
Cash and cash equivalents, end of period	$ 5,301	$ 475	$ 2,514	$ —	$ 8,290

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES

STATEMENT OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003

(Unaudited) (As Restated)

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:				
Net income	$ 31,581	$ 931	$ (931)	$ 31,581
Adjustments to reconcile net income to net cash flows provided by operating activities:				
Depreciation and amortization	3,945	8,190	—	12,135
Amortization of deferred financing fees	4,747	—	—	4,747
Deferred income tax expense	18,518	357	—	18,875
Equity income in subsidiaries	(931)	—	931	—
Changes in operating assets and liabilities:				
Accounts receivable	52,766	2,312	(89,748)	(34,670)
Inventories	(76,221)	7,297	87,195	18,271
Prepaid expenses and other current assets	(218)	1,498	—	1,280
Other assets	(4,844)	3,222	—	(1,622)
Accounts payable	1,199	(12,167)	—	(10,968)
Accrued expenses	12,098	(4,012)	—	8,086
Other operating activities, net	(3,838)	582	2,553	(703)
Net cash flows provided by operating activities	38,802	8,210	—	47,012
Cash flows from investing activities:				
Purchases of equipment and leasehold improvements	(6,724)	—	—	(6,724)
Proceeds from sale of WPC product lines	4,204	—	—	4,204
Net cash flows used in investing activities	(2,520)	—	—	(2,520)
Cash flows from financing activities:				
Proceeds from additional debt	86,275	—	—	86,275
Proceeds from issuance of common stock	84	—	—	84
Payments received for common stock subscription receivable	2,863	—	—	2,863
Payments received on loans to executive officer	80	—	—	80
Repayment of borrowings on debt	(98,127)	—	—	(98,127)
Payments for capital lease obligations	(445)	—	—	(445)
Payments for debt issuance costs	(2,924)	—	—	(2,924)
Change in book cash overdraft	1,506	—	—	1,506
Other financing and intercompany activities	7,597	(7,597)	—	—
Net cash flows used in financing activities	(3,091)	(7,597)	—	(10,688)
Net increase in cash and cash equivalents	33,191	613	—	33,804
Cash and cash equivalents, beginning of period	10,191	127	—	10,318
Cash and cash equivalents, end of period	$ 43,382	$ 740	$ —	$ 44,122

Exhibit 99.2

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
United Industries Corporation and Subsidiaries:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, of cash flows, and of changes in stockholders' equity (deficit) present fairly, in all material respects, the financial position of United Industries Corporation and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

St. Louis, Missouri
February 10, 2004, except for Note 26 which is
as of March 2, 2004

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)

	December 31, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,413	$ 10,318
Accounts receivable, less reserves of $2,753 and $3,171 at December 31, 2003 and 2002, respectively	29,890	23,321
Inventories	96,795	87,762
Prepaid expenses and other current assets	15,141	11,350
Total current assets	153,239	132,751
Equipment and leasehold improvements, net	37,153	34,218
Deferred tax asset	186,562	105,141
Goodwill	6,221	28,612
Intangible assets, net	86,872	72,256
Other assets, net	9,897	13,025
Total assets	$ 479,944	$ 386,003
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current maturities of long-term debt and capital lease obligation	$ 1,349	$ 9,665
Accounts payable	29,774	27,063
Accrued expenses	39,574	45,221
Total current liabilities	70,697	81,949
Long-term debt, net of current maturities	387,657	391,493
Capital lease obligation, net of current maturities	3,191	3,778
Other liabilities	3,256	5,019
Total liabilities	464,801	482,239
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock (37,600 shares of $0.01 par value Class A issued and outstanding, 40,000 shares authorized)	—	—
Common stock (33.2 million shares each of $0.01 par value Class A and Class B issued and outstanding, 43.6 million shares of each authorized at December 31, 2003; 33.1 million shares each of $0.01 par value Class A and Class B issued and outstanding, 43.6 million shares of each authorized at December 31, 2002)	665	664
Treasury stock (9,569 shares each of $0.01 par value Class A and Class B, at cost)	(96)	—
Warrants and options	11,745	11,745
Additional paid-in capital	210,908	210,480
Accumulated deficit	(179,738)	(287,592)
Common stock subscription receivable	(22,534)	(25,761)
Common stock repurchase option	(2,636)	(2,636)
Common stock held in grantor trusts	(2,847)	(2,700)
Loans to executive officer	(324)	(404)
Accumulated other comprehensive income (loss)	—	(32)
Total stockholders' equity (deficit)	15,143	(96,236)
Total liabilities and stockholders' equity (deficit)	$ 479,944	$ 386,003

See accompanying notes to consolidated financial statements.

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Dollars in thousands)

	Year Ended December 31,		
	2003	2002	2001
CONSOLIDATED STATEMENTS OF OPERATIONS:			
Net sales	$536,146	$479,990	$273,344
Operating costs and expenses:			
Cost of goods sold	328,238	305,644	148,371
Selling, general and administrative expenses	139,042	113,162	74,689
Facilities and organizational rationalization	—	—	5,550
Total operating costs and expenses	467,280	418,806	228,610
Operating income	68,866	61,184	44,734
Interest expense	38,237	33,811	35,841
Interest income	2,024	1,401	—
Income before income tax expense (benefit)	32,653	28,774	8,893
Income tax expense (benefit)	(82,851)	3,438	2,167
Net income	115,504	25,336	6,726
Preferred stock dividends	7,650	6,880	2,292
Net income available to common stockholders	$107,854	$ 18,456	$ 4,434
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME:			
Net income	$115,504	$ 25,336	$ 6,726
Other comprehensive income:			
Gain (loss) on interest rate swaps, net of tax of $120	—	513	(513)
Gain (loss) on derivative hedging instruments, net of tax of $20	32	(32)	—
Comprehensive income	$115,536	$ 25,817	$ 6,213

See accompanying notes to consolidated financial statements.

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Year Ended December 31,		
	2003	2002	2001
Cash flows from operating activities:			
Net income	$115,504	$ 25,336	$ 6,726
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	16,645	10,240	4,918
Amortization and write-off of deferred financing fees	5,358	3,280	2,691
Deferred income tax expense (benefit)	(84,065)	3,055	2,022
Changes in operating assets and liabilities, net of effects from acquisitions and disposition:			
Accounts receivable	(9,421)	26,579	(1,641)
Inventories	(10,954)	(19,894)	(2,085)
Prepaid expenses	(1,159)	(3,283)	(134)
Other assets	(507)	5,995	9
Accounts payable	3,091	(13,885)	4,834
Accrued expenses	(12,861)	7,723	6,292
Accrued facilities and organizational rationalization costs	(1,942)	(3,216)	5,158
Dursban related costs	—	(82)	(5,985)
Other operating activities, net	(2,424)	(3,633)	2,597
Net cash flows from operating activities	17,265	38,215	25,402
Cash flows from investing activities:			
Purchases of equipment and leasehold improvements	(11,674)	(6,450)	(7,916)
Purchase of facilities and equipment from U.S. Fertilizer	—	(4,000)	—
Purchase of fertilizer brands	—	—	(37,500)
Payments for Schultz merger, net of cash acquired	—	(38,300)	—
Payments for WPC Brands acquisition, net of cash acquired	—	(19,500)	—
Proceeds from sale of WPC non-core product lines	4,204	—	—
Net cash flows used in investing activities	(7,470)	(68,250)	(45,416)
Cash flows from financing activities:			
Proceeds from issuance of senior subordinated notes	86,275	—	—
Proceeds from additional term debt	—	90,000	8,450
Proceeds from borrowings on revolver	40,000	—	—
Proceeds from issuance of common stock	282	17,500	—
Proceeds from issuance of preferred stock	—	—	21,969
Payments received for common stock subscription receivable	5,000	2,500	—
Payments received on loans to executive officer	80	48	—
Repayment of borrowings on term debt	(98,236)	(14,858)	(10,983)
Repayment of debt assumed in Schultz merger	—	(20,662)	—
Repayment of borrowings on revolver	(40,000)	(23,450)	—
Payments for capital lease obligation	(587)	(405)	(367)
Payments for debt issuance costs	(2,924)	(4,700)	—
Payments for treasury stock	(96)	—	—
Change in cash overdraft	1,506	(5,620)	945
Net cash flows from (used in) financing activities	(8,700)	40,353	20,014
Net increase in cash and cash equivalents	1,095	10,318	—
Cash and cash equivalents, beginning of year	10,318	—	—
Cash and cash equivalents, end of year	$ 11,413	$ 10,318	$ —
Noncash financing activities:			
Common stock issued in Schultz merger	$ —	$ 6,000	$ —
Common stock issued related to Bayer agreements	$ —	$ 30,720	$ —
Debt assumed in Schultz merger	$ —	$ 20,577	$ —
Preferred stock dividends accrued	$ 7,650	$ 6,880	$ 2,292
Common stock issued to grantor trusts	$ 147	$ —	$ —

See accompanying notes to consolidated financial statements.

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
(Dollars in thousands)

	Class A Nonvoting Preferred Stock		Class A Voting Common Stock		Class B Nonvoting Common Stock		Treasury Stock		Warrants and Options	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balance at January 1, 2001	15,000	$ —	27,650,000	$ 277	27,650,000	$ 277	—	$ —	3,200	$ 2,784
Net income	—	—	—	—	—	—	—	—	—	—
Issuance of common stock	—	—	71,000	1	71,000	1	—	—	—	—
Issuance of common stock options	—	—	—	—	—	—	—	—	600	456
Issuance of preferred stock and preferred stock warrants	22,600	—	—	—	—	—	—	—	6,300	8,505
Preferred stock dividends	—	—	—	—	—	—	—	—	—	—
Loan to executive officer	—	—	—	—	—	—	—	—	—	—
Unrealized loss on interest rate swap, net of taxes	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2001	37,600	—	27,721,000	278	27,721,000	278	—	—	10,100	11,745
Net income	—	—	—	—	—	—	—	—	—	—
Issuance of common stock for Schultz acquisition and related financing	—	—	2,290,000	24	2,290,000	24	—	—	—	—
Issuance of common stock	—	—	60,000	—	60,000	—	—	—	—	—
Issuance of common stock to Bayer	—	—	3,072,000	30	3,072,000	30	—	—	—	—
Amendment to Bayer agreement	—	—	—	—	—	—	—	—	—	—
Proceeds for subscription receivable	—	—	—	—	—	—	—	—	—	—
Preferred stock dividends	—	—	—	—	—	—	—	—	—	—
Loan to executive officer	—	—	—	—	—	—	—	—	—	—
Payment on loan to executive officer	—	—	—	—	—	—	—	—	—	—
Realized loss on interest rate swap, net of taxes	—	—	—	—	—	—	—	—	—	—
Changes in fair value of derivative hedging instruments	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2002	37,600	—	33,143,000	332	33,143,000	332	—	—	10,100	11,745
Net income	—	—	—	—	—	—	—	—	—	—
Issuance of common stock	—	—	14,731	—	14,731	—	—	—	—	—
Proceeds for subscription receivable, net of interest	—	—	—	—	—	—	—	—	—	—
Preferred stock dividends	—	—	—	—	—	—	—	—	—	—
Payment on loan to executive officer	—	—	—	—	—	—	—	—	—	—
Stock option exercise	—	—	45,000	0.5	45,000	0.5	—	—	—	—
Tax benefit of stock option exercise	—	—	—	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	19,138	(96)	—	—
Changes in fair value of derivative hedging instruments	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2003	37,600	$ —	33,202,731	$332.50	33,202,731	$332.50	19,138	$ (96)	10,100	$11,745

	Additional Paid-in Capital	Accumulated Deficit	Common Stock Subscription Receivable	Common Stock Repurchase Option	Common Stock Held in Grantor Trusts	Loans to Executive Officer	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
Balance at January 1, 2001	$139,081	$ (310,482)	$ —	$ —	$(2,700)	$ —	$ —	$ (170,763)
Net income	—	6,726	—	—	—	—	—	6,726
Issuance of common stock	(2)	—	—	—	—	—	—	—
Issuance of common stock options	—	—	—	—	—	—	—	456
Issuance of preferred stock and preferred stock warrants	13,464	—	—	—	—	—	—	21,969
Preferred stock dividends	—	(2,292)	—	—	—	—	—	(2,292)
Loan to executive officer	400	—	—	—	—	(400)	—	—
Unrealized loss on interest rate swap, net of taxes	—	—	—	—	—	—	(513)	(513)
Balance at December 31, 2001	152,943	(306,048)	—	—	(2,700)	(400)	(513)	(144,417)
Net income	—	25,336	—	—	—	—	—	25,336
Issuance of common stock for Schultz acquisition and related financing	22,866	—	—	—	—	—	—	22,914
Issuance of common stock	600	—	—	—	—	—	—	600
Issuance of common stock to Bayer	30,430	—	(27,321)	(2,636)	—	—	—	533
Amendment to Bayer agreement	3,641	—	—	—	—	—	—	3,641
Proceeds for subscription receivable	—	—	1,560	—	—	—	—	1,560
Preferred stock dividends	—	(6,880)	—	—	—	—	—	(6,880)
Loan to executive officer	—	—	—	—	—	(52)	—	(52)
Payment on loan to executive officer	—	—	—	—	—	48	—	48
Realized loss on interest rate swap, net of taxes	—	—	—	—	—	—	513	513
Changes in fair value of derivative hedging instruments	—	—	—	—	—	—	(32)	(32)
Balance at December 31, 2002	210,480	(287,592)	(25,761)	(2,636)	(2,700)	(404)	(32)	(96,236)

Net income	—	115,504	—	—	—	—	—	115,504
Issuance of common stock	147	—	—	—	(147)	—	—	—
Proceeds for subscription receivable, net of interest	—	—	3,227	—	—	—	—	3,227
Preferred stock dividends	—	(7,650)	—	—	—	—	—	(7,650)
Payment on loan to executive officer	—	—	—	—	—	80	—	80
Stock option exercise	179	—	—	—	—	—	—	180
Tax benefit of stock option exercise	102	—	—	—	—	—	—	102
Purchase of treasury stock	—	—	—	—	—	—	—	(96)
Changes in fair value of derivative hedging instruments	—	—	—	—	—	—	32	32
Balance at December 31, 2003	$210,908	$ (179,738)	$ (22,534)	$ (2,636)	$(2,847)	$ (324)	$ —	$ 15,143

See accompanying notes to consolidated financial statements.

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except where indicated)

Note 1—Description of Business

Under a variety of brand names, and operating as Spectrum Brands, the Company manufactures and markets one of the broadest lines of products in the industry, including herbicides and indoor and outdoor insecticides, as well as insect repellents, fertilizers, growing media and soils. The Company's value brands are targeted toward consumers who want products and packaging that are comparable or superior to, and at lower prices than, premium-priced brands, while its opening price point brands are designed for cost conscious consumers who want quality products. The Company's products are marketed to mass merchandisers, home improvement centers, hardware, grocery and drug chains, nurseries and garden centers.

As described in more detail in Note 18, the Company's operations are divided into three business segments: Lawn and Garden, Household and Contract. The Company's lawn and garden brands include, among others, Spectracide®, Garden Safe®, Real-Kill® and No-Pest® in the controls category, as well as Sta-Green®, Vigoro®, Schultz™ and Bandini® brands in the lawn and garden fertilizer and growing media categories. The Company's household brands include, among others, Hot Shot®, Cutter® and Repel®. The Contract segment represents a variety of compounds and chemicals, such as cleaning solutions and other consumer products.

Note 2—Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated during consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Such investments are recorded at cost which approximates market value.

Inventories

Inventories are reported at the lower of cost or market. Cost is determined using a standard costing system that approximates the first-in, first-out method and includes raw materials, direct labor and overhead. An allowance for obsolete or slow-moving inventory is recorded based on the Company's analysis of inventory levels and future sales forecasts. In the event that estimates of future usage and sales differ from actual results, the allowance for obsolete or slow-moving inventory may be adjusted. For the years ended December 31, 2003 and 2002, amounts recorded to cost of goods sold for obsolete or slow-moving inventory included a decrease of $0.2 million and an increase of $3.1 million, respectively. As of December 31, 2003 and 2002, the allowance for obsolete or slow-moving inventory was $5.6 million and $5.8 million, respectively.

Capitalized Software Costs

Capitalized software costs are included in equipment and leasehold improvements in the accompanying consolidated balance sheets. Once the underlying assets are placed into service, costs are amortized using the straight-line method over periods of related benefit, generally ranging from three to five years. As of December 31, 2003 and 2002, the Company had $2.1 million and $4.4 million, respectively, in unamortized capitalized software costs related primarily to the Company's enterprise resource planning (ERP) implementation, including capitalized internal costs of $0.1 million and $0.4 million as of December 31, 2003 and 2002, respectively. The Company placed certain modules of the ERP system into service and began recognizing amortization expense thereon in the fourth quarter of 2003. Related amortization expense was $0.5 million for the year ended December 31, 2003 and $0.1 million for each of the years ended December 31, 2002 and 2001. The implementation is expected to be finalized in 2005.

Equipment and Leasehold Improvements

Expenditures for equipment and leasehold improvements and those that substantially increase the useful lives of assets are capitalized and recorded at cost. Maintenance, repairs and minor renewals are expensed as incurred. When equipment is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any related gains or losses are reflected in results of operations. Depreciation is recorded using the straight-line method over management's estimate of the useful lives of the related assets. Machinery and equipment are depreciated over periods ranging from three to twelve years. Office furniture and equipment are depreciated over periods ranging from five to ten years. Transportation equipment is depreciated over periods ranging from three to ten years. Leasehold improvements are amortized over the shorter of the lease term or the useful life of the related asset which generally range from five to thirty-nine years. Property held under capital lease is amortized over the term of the lease.

Goodwill and Intangible Assets

The Company has acquired intangible assets or made acquisitions in the past that resulted in the recording of goodwill or intangible assets. Under generally accepted accounting principles in effect prior to 2002, these assets were amortized over their estimated useful lives, and were tested periodically to determine if they were recoverable from operating earnings over their useful lives. Beginning in 2002, goodwill is no longer amortized and is subject to impairment testing at least annually. The Company also evaluates the recoverability of goodwill and intangible assets for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such events or changes in circumstances could include such factors as changes in technological advances, fluctuations in the fair value of such assets or adverse changes in customer relationships or vendors. Recoverability is evaluated by brand and product type, which represent the reporting unit components within the Company's operating segments (see Note 18). If a review using current market rates, discounted or undiscounted cash flows, as applicable, and other methods indicates that the carrying value of goodwill or other intangible assets are not recoverable, the carrying value of such asset is reduced to estimated fair value. No impairments existed as of December 31, 2003 and 2002. Prior to 2002, goodwill was amortized using the straight-line method over 40 years and recorded in selling, general and administrative expenses in the accompanying consolidated statement of operations (see Note 7).

Long-Lived Assets

On January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." In accordance with SFAS No. 144, the Company periodically evaluates the recoverability of long-lived assets, including equipment and leasehold improvements, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If a review indicates that the carrying value of an asset is not recoverable based on its undiscounted future cash flows, a loss is recognized for the difference between its fair value and carrying value. Adoption of SFAS No. 144 did not have a material impact on the Company's consolidated financial statements. No impairments existed as of December 31, 2003 and 2002.

Derivative Instruments and Hedging Activities

The Company periodically uses interest rate and commodity price derivative hedging instruments to reduce fluctuations in cash flows. Using these agreements, the Company agrees to exchange, at specified intervals, the difference between fixed and variable amounts calculated by reference to an agreed-upon notional amount or index. Derivative hedging instruments are recorded at fair value in the consolidated balance sheets as assets or liabilities, as applicable. The Company does not enter into derivatives or other hedging arrangements for trading or speculative purposes (see Note 16).

Revenue Recognition

Revenue is recognized when title and risk of loss transfer to the customer. Net sales represent gross sales less any applicable customer discounts from list price, customer returns and promotion expense through cooperative programs with retailers. The provision for customer returns is based on historical sales returns and analysis of credit memo and other relevant information. If the historical or other data used to develop these estimates do not properly reflect future returns, net sales may require adjustment. Sales reductions related to returns were $15.1 million, $7.4 million and $6.5 million for the years ended December 31, 2003, 2002 and 2001, respectively. Amounts included in accounts receivable reserves for product returns were $1.4 million and $2.0 million as of December 31, 2003 and 2002, respectively.

Promotion Expense

The Company advertises and promotes its products through national and regional media. Products are also advertised and promoted through cooperative programs with retailers. Advertising and promotion costs are expensed as incurred, although costs incurred during interim periods are generally expensed ratably in relation to revenues. Management develops an estimate of the amount of costs that have been incurred by the retailers under cooperative programs based on an analysis of specific programs offered to them and historical information. Actual costs incurred may differ significantly from estimates if factors such as the level of participation and success of the retailers' programs or other conditions differ from expectations. Promotion expense, including cooperative programs with customers, is recorded as a reduction of sales and was $39.8 million, $41.3 million and $24.4 million for the years ended December 31, 2003, 2002 and 2001, respectively. Accrued advertising and promotion expense was $9.6 million and $16.4 million as of December 31, 2003 and 2002, respectively. In addition, advertising costs are incurred irrespective of promotions. Such costs are included in selling, general and administrative expenses in the accompanying consolidated statements of operations and were $11.1 million, $3.3 million and $1.3 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Research and Development

The Company's research and development activities focus on applied research using the strength and knowledge of its active ingredient suppliers and strategic active ingredient partners but also include the development of new products, new methods of delivery and identification of shifts in consumer needs and preferences. Research and development costs are expensed as incurred and are included in selling, general and administrative expenses in the accompanying consolidated statements of operations. Research and development costs were $2.4 million, $2.1 million and $3.1 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Shipping and Handling Costs

Certain shipping and handling costs are included in selling, general and administrative expenses in the accompanying consolidated statements of operations. These costs primarily comprise personnel and other general and administrative costs associated with the Company's distribution facilities and, to a lesser extent, some costs related to goods shipped between the Company's facilities. These costs were $21.5 million, $15.7 million and $13.4 million for the years ended December 31, 2003, 2002 and 2001, respectively. The remaining shipping and handling costs, including supplies received from vendors, are included in cost of goods sold in the accompanying consolidated statements of operations. All revenues billed to customers for freight on goods purchased from the Company are recorded in net sales.

Stock-Based Compensation

The Company accounts for stock options issued to employees in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" and applies the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123." Under APB No. 25 and related interpretations, compensation expense is recognized using the intrinsic value method for the difference between the exercise price of the options and the estimated fair value of the Company's common stock on the date of grant (see Note 19).

SFAS No. 123 requires pro forma disclosure of the impact on earnings as if the Company determined stock-based compensation expense using the fair value method. The following table presents net income, as reported, stock-based compensation expense that would have been recorded using the fair value method and pro forma net income that would have been reported had the fair value method been applied:

	Year Ended December 31,		
	2003	2002	2001
Net income, as reported	$115,504	$25,336	$ 6,726
Stock-based compensation expense using the fair value method, net of tax	1,421	2,709	251
Pro forma net income	$114,083	$22,627	$ 6,475

Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial reporting basis and the tax basis of assets and liabilities at enacted tax rates expected to be in effect when such amounts are recovered or settled. Management judgment is required to determine income tax expense, deferred tax assets and any related valuation allowance and deferred tax liabilities. The Company will establish a valuation allowance if it determines that it is more likely than not that some portion or all of its deferred tax assets will not be realized. Changes in the valuation allowance are included in the Company's consolidated statements of operations as income tax expense or benefit, as appropriate (see Note 21).

Earnings Per Share

Earnings per share information is not required for presentation as the Company does not have publicly traded stock.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of trade accounts receivable. The Company performs ongoing credit evaluations of its customers' financial conditions. The Company is dependent on three customers for the majority of its sales. Net sales to these customers, as a percentage of total net sales, were:

	Year Ended December 31,		
	2003	2002	2001
The Home Depot	32%	33%	25%
Lowe's	20%	23%	22%
Wal*Mart	19%	18%	17%
Total	71%	74%	64%

As of December 31, 2003 and 2002, these three customers were responsible for 53% and 62% of accounts receivable, respectively.

Supplemental Cash Flow Information

For the years ended December 31, 2003, 2002 and 2001, the Company paid interest of $32.3 million, $32.4 million and $36.0 million, respectively. For the years ended December 31, 2003, 2002 and 2001, the Company paid income taxes of $1.0 million, $0.4 million and $0.2 million, respectively.

Reclassifications

Certain reclassifications have been made to the prior years' amounts to conform to the current year presentation.

Note 3—Acquisitions and Disposition

Schultz Company Merger

On May 9, 2002, a wholly-owned subsidiary of the Company completed a merger with and into Schultz, a manufacturer of horticultural products and specialty items and a distributor of potting soil, soil conditioners and other growing media, whose products are distributed primarily to retail outlets throughout the United States and Canada. The merger was executed to achieve economies of scale and synergistic efficiencies due to the complementary nature of the businesses. As a result of the merger, Schultz became a wholly-owned subsidiary of the Company. The total purchase price included cash payments of $38.3 million, including related acquisition costs of $5.0 million, issuance of 600,000 shares of Class A voting common stock valued at $3.0 million and issuance of 600,000 shares of Class B nonvoting common stock valued at $3.0 million and the assumption of $20.6 million of outstanding debt, which was immediately repaid by the Company at closing. In exchange for cash, common stock and the assumption of debt, the Company received all of the outstanding shares of Schultz. The assets acquired included acquired intangible assets which consist of trade names and other intellectual property which are being amortized over 25 to 40 years. In addition, the Company was required to write-up the value of inventory acquired from Schultz by $1.5 million to properly reflect its fair value.

The following table summarizes the fair values of the assets acquired and liabilities assumed as of the merger date:

Description	Amount
Current assets	$41,937
Equipment and leasehold improvements	3,322
Intangible assets	42,398
Other assets	811
Total assets acquired	88,468
Current liabilities	20,091
Long-term debt	20,662
Other liabilities	1,125
Total liabilities assumed	41,878
Net assets acquired	$46,590

This transaction was accounted for using the purchase method of accounting and, accordingly, the results of operations of the assets acquired and liabilities assumed have been included in the consolidated financial statements from the date of acquisition. The purchase price was allocated to assets acquired and liabilities assumed based on estimated fair values. The initial purchase price allocation was based on preliminary information, which was subject to adjustment upon obtaining complete valuation information. During the second quarter of 2003, the Company obtained the final valuation report from an independent third party valuation firm of the assets acquired and liabilities assumed, the values of which are reflected in the table above. The valuation report indicated the full value of the purchase price should be allocated to trade names, customer relationships and other identifiable intangible assets obtained in the merger with no value ascribed to goodwill. As a result, the Company reclassified $19.8 million from goodwill and $4.8 million from other intangible assets, recorded in the preliminary allocation, to customer relationships and is amortizing the customer relationships intangible asset using the straight-line method over four years, the remaining useful life as of the reclassification date. In addition, in 2003, the Company applied the guidance outlined in EITF 02-17, "Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination." The application of this guidance from the date of acquisition resulted in a noncash charge of $2.4 million for the additional amortization related to the final valuation of the $24.6 million customer relationship intangible asset.

The Company's funding sources for the Schultz merger included an additional $35.0 million add-on to Term Loan B of the Company's Senior Credit Facility in May 2002 (see Note 12), an additional $10.0 million add-on to the Company's Revolving Credit Facility, the issuance of 1,690,000 shares of Class A voting common stock to UIC Holdings, L.L.C. for $8.5 million and the issuance of 1,690,000 shares of Class B nonvoting common stock to UIC Holdings, L.L.C. for $8.5 million. The issuance of shares to UIC Holdings, L.L.C. was a condition precedent to the amendment of the Senior Credit Facility. The fair value of the shares issued of $5 per share was determined by an independent third party valuation.

WPC Brands, Inc. Acquisition

On December 6, 2002, a wholly-owned subsidiary of the Company completed the acquisition of WPC Brands, Inc. (WPC Brands), a manufacturer and distributor of various leisure-time consumer products, including a full line of insect repellents, institutional healthcare products and other proprietary and private label products. The acquisition was executed to enhance the Company's insect repellent product lines and to strengthen its presence at major customers. The total purchase price was $19.5 million in cash in exchange for all of the outstanding shares of WPC Brands. Intangible assets acquired in the acquisition consist of trade names and other intellectual property which are being amortized over 25 to 40 years. In addition, the Company was required to write-up the value of inventory acquired from WPC Brands by $1.3 million to properly reflect its fair value.

The following table summarizes the fair values of the assets acquired and liabilities assumed as of the date of acquisition:

Description	Amount
Current assets	$ 7,428
Equipment and leasehold improvements	887
Intangible assets	12,800
Goodwill	1,115
Other assets	1,439
Total assets acquired	23,669
Current liabilities	1,309
Other liabilities	1,417
Total liabilities assumed	2,726
Net assets acquired	$20,943

This transaction was accounted for using the purchase method of accounting and, accordingly, the results of operations of the assets acquired and liabilities assumed have been included in the consolidated financial statements from the date of acquisition. The purchase price was allocated to assets acquired and liabilities assumed based on estimated fair values. The initial purchase price allocation was based on preliminary information, which was subject to adjustment upon obtaining complete valuation information. During the fourth quarter of 2003, the Company obtained the final valuation report from an independent third party valuation firm of the assets acquired and liabilities assumed, the values of which are reflected in the table above. The valuation report indicated the purchase price should be allocated to trade names and customer relationships obtained in the acquisition with $1.1 million ascribed to goodwill, which is not deductible for tax purposes. As a result, the Company reclassified $4.8 million from trade names and $2.6 million from goodwill, recorded in the preliminary allocation, to customer relationships and certain other tangible assets. The Company is amortizing the customer relationships intangible asset using the straight-line method over their remaining useful lives which range from six to ten years.

The Company's funding source for the WPC Brands acquisition was a portion of the proceeds received from an additional $25.0 million add-on to Term Loan B of the Company's Senior Credit Facility in December 2002 (see Note 12).

The Company's unaudited consolidated results of operations on a pro forma basis, as if the Schultz and WPC Brands transactions had occurred on January 1, 2001, include net sales of $556.5 million and $388.3 million for the years ended December 31, 2002 and 2001, respectively, and net income of $28.4 million and $6.8 million for the years ended December 31, 2002 and 2001, respectively. This unaudited pro forma financial information does not purport to be indicative of the consolidated results of operations that would have been achieved had these transactions been completed as of the assumed date or which may be obtained in the future.

WPC Brands Disposition

During May 2003, the Company consummated the sale of all of the non-core product lines acquired in the WPC Brands acquisition. The product lines sold included, among others, water purification tablets, first-aid kits and fish attractant products. Total assets and operating results associated with the product lines sold were not significant to the Company's consolidated financial position or results of operations. No gain or loss was recorded as the sale price was approximately equal to the net book value of the assets and liabilities included in the sale.

Note 4—Strategic Transactions

U.S. Fertilizer Transactions

On October 3, 2002, the Company purchased certain assets from U.S. Fertilizer, for a cash purchase price of $12.1 million and forgiveness of certain U.S. Fertilizer promissory notes previously obtained from Bayer, as described further below. The assets acquired included certain inventory for $8.1 million and equipment at two facilities and real estate at one of the two facilities for $4.0 million. These facilities, located in Orrville, Ohio and Sylacauga, Alabama previously fulfilled over half of the Company's fertilizer requirements.

Also on October 3, 2002, the Company executed a tolling agreement with U.S. Fertilizer, whereby U.S. Fertilizer supplies the Company with fertilizer. The tolling agreement requires the Company to be responsible for certain raw materials, capital expenditures and other related costs for U.S. Fertilizer to manufacture and supply the Company with fertilizer products. The agreement does not require a minimum volume purchase from U.S. Fertilizer, but provides for a fixed monthly payment of $0.7 million through the term of the tolling agreement, which expires on September 30, 2007. The fixed monthly payment is included in the Company's standard inventory costs and is not expensed monthly as a period cost as it relates to the overall cost of the inventory purchased from U.S. Fertilizer and resold by the Company. In addition, beginning on March 1, 2004 and on each anniversary thereafter, the fixed payment is subject to certain increases for labor, materials, inflation and other reasonable costs as outlined in the tolling agreement. The agreement provides the Company with certain termination rights without penalty upon a breach of the agreement by U.S. Fertilizer or upon the Company's payment of certain amounts as set forth therein.

Bayer Transactions

On June 14, 2002, the Company consummated a transaction with Bayer Corporation and Bayer Advanced, L.L.C. (together referred to herein as Bayer) which allows the Company to gain access to certain Bayer active ingredient technologies through a Supply Agreement and to perform certain merchandising services for Bayer through an In-Store Service Agreement. In consideration for the Supply and In-Store Service Agreements, and in exchange for the promissory notes previously issued to Bayer by U.S. Fertilizer, the Company issued to Bayer 3,072,000 shares of Class A voting common stock valued at $15.4 million and 3,072,000 shares of Class B nonvoting common stock valued at $15.4 million (collectively representing approximately 9.3% of the Company's fully-diluted common stock) and recorded $0.4 million of related issuance costs. The Company reserved for the entire face value of the promissory notes due from U.S. Fertilizer, as the Company did not believe the notes were collectible and an independent third party valuation did not ascribe any significant value to them. The independent third party valuation also indicated that value should be ascribed to the repurchase option which is reflected in stockholders' equity in the accompanying consolidated balance sheets as of December 31, 2003 and 2002.

Under the terms of the agreements, Bayer was required to make payments to the Company which total $5.0 million annually through June 15, 2009, the present value of which equaled the value assigned to the common stock subscription receivable as of June 14, 2002, which has been reflected in stockholders' equity in the accompanying consolidated balance sheets as of December 31, 2003 and 2002. The common stock subscription receivable was to be repaid by Bayer in 28 quarterly installments of $1.25 million, the first of which was received at closing on June 17, 2002. The difference between the value ascribed to the common stock subscription receivable and the installment payments received has been recorded as interest income in the accompanying consolidated statements of operations for the years ended December 31, 2003 and 2002.

The value of the Supply Agreement has been and is being amortized to cost of goods sold over the period in which its economic benefits are expected to be utilized which was initially anticipated to be over a three to five-year period. The Company has been amortizing the obligation associated with the In-Store Service Agreement to revenues over the seven-year life of the agreement, the period in which its obligations were originally expected to be fulfilled. However, in December 2002, the Company and Bayer amended the In-Store Service Agreement to reduce the scope of services provided by approximately 80%. As a result, the Company reduced its obligation under the In-Store Service Agreement accordingly and reclassified $3.6 million to additional paid-in capital to reflect the increase in value of the In-Store Service Agreement.

The In-Store Service Agreement provided the Company with the right to terminate and, effective after any such termination, the right to repurchase all of its common stock issued to Bayer at a price based on equations included in the Exchange Agreement. Under the terms of the Exchange Agreement, the Company was provided the right to offset Bayer's payment obligations against the repurchase price. Upon exercise of such repurchase option, Bayer had and continues to have the right to terminate the Supply Agreement. Because Bayer is both a competitor and a supplier, the Company has continually reevaluated the value of its shareholder relationship with Bayer.

On October 22, 2003, the Company gave notice to Bayer regarding the termination of the In-Store Service Agreement, as amended. Upon termination, which became effective on December 21, 2003, the Company was relieved of its obligation to perform merchandising services for Bayer. Accordingly, the remaining liability of $0.7 million on the date of termination was fully written off and recorded in selling, general and administrative expenses in the accompanying consolidated statement of operations for the year ended December 31, 2003.

Based on the independent third party valuation as of June 14, 2002, the original transaction date, the Company assigned a fair value of $30.7 million to the transaction components recorded in connection with the common stock issued to Bayer. The following table presents the values of these components as of such date and as of December 31, 2003 and 2002:

	December 31,		June 14,
Description	**2003**	**2002**	**2002**
Common stock subscription receivable	$22,534	$25,761	$27,321
Supply Agreement	5,314	5,694	5,694
Repurchase option	2,636	2,636	2,636
In-Store Service Agreement	—	(893)	(4,931)
	$30,484	$33,198	$30,720

Following the termination of the In-Store Service Agreement, in December 2003, the Company gave notice to Bayer regarding its exercise of the option to repurchase all outstanding common stock previously issued to Bayer (see Note 26).

Note 5—Inventories

Inventories consist of the following:

	December 31,	
	2003	**2002**
Raw materials	$34,619	$27,853
Finished goods	67,794	65,750
Allowance for obsolete and slow-moving inventory	(5,618)	(5,841)
Total inventories	$96,795	$87,762

Note 6—Equipment and Leasehold Improvements

Equipment and leasehold improvements consist of the following:

	December 31, 2003	December 31, 2002
Machinery and equipment	$ 39,024	$ 39,609
Office furniture, equipment and capitalized software	30,183	26,299
Transportation equipment	6,418	6,313
Leasehold improvements	3,157	9,512
Land and buildings	114	1,099
	78,896	82,832
Accumulated depreciation and amortization	(41,743)	(48,614)
Total equipment and leasehold improvements, net	$ 37,153	$ 34,218

During the first quarter of 2003, the Company recorded a write-off of leasehold improvements related to leased office space that was exited in 2003 and disposed of certain equipment related to a manufacturing facility previously closed during 2002 with an aggregate gross historical cost of $10.3 million. No gain or loss was recognized in connection with the write-off and disposal as the assets were fully depreciated.

For the years ended December 31, 2003, 2002 and 2001, depreciation expense was $7.4 million, $7.3 million and $4.7 million, respectively. As of December 31, 2003 and 2002, the cost of the aircraft held under capital lease was $5.3 million and related accumulated amortization was $4.4 million and $3.2 million, respectively.

Note 7—Goodwill and Intangible Assets

Goodwill and intangible assets consist of the following:

		December 31, 2003			December 31, 2002		
	Amortization Period in Years	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Intangible assets:							
Trade names	20-40	$61,548	$ (2,958)	$58,590	$64,025	$ (1,918)	$ 62,107
Customer relationships	5-10	31,196	(8,566)	22,630	—	—	—
Supply agreement	7	5,694	(380)	5,314	5,694	(894)	4,800
Other intangible assets	25	604	(266)	338	5,401	(52)	5,349
Total intangible assets		$99,042	$ (12,170)	86,872	$75,120	$ (2,864)	72,256
Goodwill				6,221			28,612
Total goodwill and intangible assets, net				$93,093			$100,868

On January 1, 2002, the Company adopted SFAS No. 141, “Business Combinations” and SFAS No. 142, “Goodwill and Other Intangible Assets.” SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting and broadens the criteria for recording intangible assets separately from goodwill. SFAS No. 142, among other things, eliminates the amortization of goodwill and indefinite-lived intangible assets and requires them to be tested for impairment at least annually. At adoption in 2002 and at December 31, 2003 and 2002, the Company performed an impairment analysis of its goodwill. No impairment charges resulted from these analyses. The Company has and will continue to test goodwill for impairment annually, in the fourth quarter of each year, or more frequently as warranted by events or changes in circumstances.

Intangible assets include trade names, customer relationships, a supply agreement and other intangible assets, which are valued at acquisition through independent appraisals, where material, or using other valuation methods. Intangible assets are amortized using the straight-line method over periods ranging from 5 to 40 years, or in the case of the supply agreement, over the period in which its economic benefits are expected to be utilized, initially anticipated to be a three to five-year period. The useful lives of intangible assets were not revised as a result of the adoption of SFAS No. 142.

During the year ended December 31, 2002, after giving effect to the purchase price reallocations described below, total goodwill in the amount of $1.1 million was recorded in connection with acquisitions. No amounts were recorded for goodwill during the year ended December 31, 2003. The following table presents the reclassifications and reallocations described, and changes in the carrying value of goodwill by segment, for the year ended December 31, 2003:

					Goodwill by Segment			
	Trade Names	Customer Relationships	Supply Agreement	Other Intangible Assets	Lawn & Garden	Household	Contract	Total
Goodwill and intangible assets at December 31, 2001	$37,500	$ —	$ —	$ —	$ 3,478	$ 2,079	$ 59	$ 43,116
Acquired during the year	26,525	—	5,694	5,401	17,668	4,417	911	60,616
Goodwill and intangible assets at December 31, 2002	64,025	—	5,694	5,401	21,146	6,496	970	103,732
Purchase price reallocation for Schultz	2,317	24,896	—	(4,797)	(15,021)	(3,970)	(783)	2,642
Purchase price reallocation for WPC Brands	(4,794)	6,300	—	—	(1,922)	(605)	(90)	(1,111)
Goodwill and intangible assets at December 31, 2003	61,548	31,196	5,694	604	$ 4,203	$ 1,921	$ 97	105,263
Accumulated amortization	(2,958)	(8,566)	(380)	(266)				(12,170)
Goodwill and intangible assets, net at December 31, 2003	$58,590	$ 22,630	$ 5,314	$ 338				$ 93,093

As prescribed by SFAS No. 142, prior period operating results were not restated. However, a reconciliation follows which reflects net income as reported by the Company and adjusted to reflect the impact of SFAS No. 142, as if it had been effective for the periods presented:

	Year Ended December 31, 2001
Net income, as reported	$ 6,726
Amortization of goodwill, net of tax	46
Net income, as adjusted	$ 6,772

For the years ended December 31, 2003, 2002 and 2001, aggregate amortization expense related to intangible assets was $9.3 million, $2.9 million and $0.2 million, respectively. The following table presents estimated amortization expense for intangible assets during each of the next five years (see Note 26):

Year Ended December 31,	Amount
2004	$12,639
2005	12,537
2006	12,484
2007	6,329
2008	1,275

Note 8—Other Assets

Other assets consist of the following:

	December 31, 2003	December 31, 2002
Deferred financing fees	$ 23,841	$ 22,432
Accumulated amortization	(14,948)	(10,382)
Deferred financing fees, net	8,893	12,050
Other	1,004	975
Total other assets, net	$ 9,897	$ 13,025

In connection with its issuance of 9 7/8% Series C senior subordinated notes in March 2003 and subsequent registration of and exchange for 9 7/8% Series D senior subordinated notes in June and July 2003 (see Note 12), the Company recorded $2.2 million of deferred financing fees which are being amortized over the term of the notes through April 1, 2009. In connection with the repayment of a portion of its outstanding obligations under the Senior Credit Facility in March 2003, using proceeds from the issuance of such notes, the Company recorded a write-off of $1.3 million of previously deferred financing fees. In connection with the prepayments on Term Loan B of $23.3 million in June 2003 and $20.0 million in September 2003, the Company recorded a write-off of $0.5 million of previously deferred financing fees. Both of these charges were included in interest expense in the accompanying consolidated statement of operations for the year ended December 31, 2003.

Note 9—Accrued Expenses

Accrued expenses consist of the following:

	December 31, 2003	December 31, 2002
Advertising and promotion	$ 9,605	$16,401
Facilities rationalization	—	1,563
Interest	6,219	3,777
Cash overdraft	—	1,506
Noncompete agreement	350	1,770
Preferred stock dividends	17,111	9,492
Salaries and benefits	3,644	4,357
Severance costs	201	869
Freight	1,152	441
Other	1,292	5,045
Total accrued expenses	$39,574	$45,221

Note 10—Charge for Facilities and Organizational Rationalization

During the fourth quarter of 2001, the Company recorded an $8.5 million charge related to facilities, product line and organizational rationalization, which primarily affected its Lawn and Garden segment results. The components of the charge included $2.7 million for obsolete inventory primarily related to the discontinuance of its Spectracide Pro® product line and damaged product from the warehouse consolidation and move, which was recorded in costs of goods sold, $2.1 million for severance costs associated with an early voluntary retirement program that was offered to 85 employees during December 2001, a $3.5 million charge during the fourth quarter of 2001 related to the warehouse consolidation project, primarily attributable to facility exit costs and resultant duplicate rent payments in 2002 and $0.2 million was recorded in selling, general and administrative expenses. Cash flows from operating activities affected by this charge were $1.9 million, $3.5 million and $3.1 million during the years ended December 31, 2003, 2002 and 2001, respectively.

The following table presents amounts charged against the facilities and organizational rationalization accrual:

	Facilities Rationalization	Severance Costs	Total Costs
Balance at January 1, 2001	$ —	$ —	$ —
Provision charged to accrual	3,500	2,050	5,550
Charges against the accrual	—	(392)	(392)
Balance at December 31, 2001	3,500	1,658	5,158
Charges against the accrual	(1,937)	(1,279)	(3,216)
Balance at December 31, 2002	1,563	379	1,942
Charges against the accrual	(1,403)	(379)	(1,782)
Reversal of the accrual	(160)	—	(160)
Balance at December 31, 2003	$ —	$ —	$ —

During the year ended December 31, 2003, the Company recorded $1.8 million against the accrual which represented final costs to complete the facilities and organizational rationalization plan. Upon completion of the plan, approximately $0.2 million in unnecessary costs remained in the accrual which were fully reversed and recorded as a reduction of selling, general and administrative expenses in the accompanying consolidated statement of operations for the year ended December 31, 2003.

Note 11—Dursban Related Expenses

During the year ended December 31, 2000, the U.S. Environmental Protection Agency (EPA) and manufacturers of the active ingredient Dursban entered into a voluntary agreement that provided for withdrawal of virtually all residential uses of Dursban. Formulation of Dursban products intended for residential use ceased by December 1, 2000 and formulators discontinued the sale of such products to retailers after February 1, 2001. Retailers were not allowed to sell Dursban products after December 31, 2001. Accordingly, a charge of $8.0 million was recorded in September 2000 for costs associated with this agreement, including customer markdowns, inventory write-offs and related disposal costs, which primarily affected the Company's Lawn and Garden segment results. All of the Company's accrued costs associated with this agreement and additional amounts totaling under $0.1 million were incurred by December 31, 2002.

The following table presents amounts charged against the Dursban accrual:

	December 31,	
	2002	2001
Balance at beginning of year	$ 82	$ 6,066
Charges against the accrual	(82)	(5,984)
Balance at end of year	$—	$ 82

Note 12—Long-Term Debt

Long-term debt, excluding capital lease obligations, consists of the following:

	December 31,	
	2003	2002
Senior Credit Facility:		
Term Loan A	$ —	$ 28,250
Term Loan B	152,368	222,465
Revolving Credit Facility	—	—
Senior Subordinated Notes:		
9 7/8% Series B Senior Subordinated Notes	3,100	150,000
9 7/8% Series D Senior Subordinated Notes, including unamortized premium of $1.1 million	232,985	—
Total long-term debt	388,453	400,715
Less current maturities	(796)	(9,222)
Total long-term debt, net of current maturities	$387,657	$391,493

Senior Credit Facility

The Senior Credit Facility, as amended as of March 14, 2003, was provided by Bank of America, N.A., Morgan Stanley Senior Funding, Inc. and Canadian Imperial Banc of Commerce and consists of (1) a $90.0 million revolving credit facility (the Revolving Credit Facility); (2) a $75.0 million term loan facility (Term Loan A); and (3) a $240.0 million term loan facility (Term Loan B). The Revolving Credit Facility and Term Loan A mature on January 20, 2005 and Term Loan B matures on January 20, 2006. The Revolving Credit Facility is subject to a clean-down period during which the aggregate amount outstanding under the Revolving Credit Facility shall not exceed $10.0 million for 30 consecutive days during the period between August 1 and November 30 in each calendar year. As of December 31, 2003 and 2002, the clean-down period had been completed and no amounts were outstanding under the Revolving Credit Facility. There were no compensating balance requirements during any of the periods presented herein.

On February 13, 2002, the Senior Credit Facility was amended to increase Term Loan B from $150.0 million to $180.0 million and provide additional liquidity and flexibility for capital expenditures subsequent to the acquisition of various fertilizer brands in December 2001. The Company incurred $1.1 million in fees related to the amendment which were recorded as deferred financing fees and are being amortized over the remaining term of the Senior Credit Facility. The amendment did not change any other existing covenants of the Senior Credit Facility.

On May 8, 2002, in connection with the Company’s merger with Schultz, the Senior Credit Facility was amended to increase Term Loan B from $180.0 million to $215.0 million, increase the Revolving Credit Facility from $80.0 million to $90.0 million and provide additional flexibility for capital expenditures. The Company incurred $2.2 million in fees related to the amendment which were recorded as deferred financing fees and are being amortized over the remaining term of the Senior Credit Facility. The amendment did not change any other existing covenants of the Senior Credit Facility.

On December 6, 2002, in connection with the Company’s acquisition of WPC Brands, the Senior Credit Facility was amended to increase Term Loan B from $215.0 million to $240.0 million and provide additional flexibility for capital expenditures. The Company incurred $1.1 million in fees related to the amendment which were recorded as deferred financing fees and are being amortized over the remaining term of the Senior Credit Facility. The amendment did not change any other existing covenants of the Senior Credit Facility.

On March 14, 2003, the Senior Credit Facility was amended to permit the offering of 9 7/8% Series C senior subordinated notes due 2009 (the Series C Notes) and 9 7/8% Series D senior subordinated notes due 2009 (the Series D Notes). The Company issued the Series C Notes in March 2003 and offered the Series D Notes in June and July 2003 in exchange for outstanding Series B Notes and Series C Notes. The amendment did not change any other existing covenants of the Senior Credit Facility.

The principal amount of Term Loan A was to be repaid in 24 consecutive quarterly installments commencing June 30, 1999 with a final installment due January 20, 2005. However, in connection with the issuance of the Series C Notes, as described below, the Company used a portion of the proceeds to repay the outstanding balance under Term Loan A. The principal amount of Term Loan B is to be repaid in 28 consecutive quarterly installments commencing June 30, 1999 with a final installment due January 20, 2006. The Company used a portion of the proceeds from the issuance of the Series C Notes to repay $25.9 million of the balance under Term Loan B.

The Senior Credit Facility agreement contains restrictive affirmative, negative and financial covenants. Affirmative and negative covenants place restrictions on, among other things, levels of investments, indebtedness, insurance, capital expenditures and dividend payments. The financial covenants require the maintenance of certain financial ratios at defined levels. As of and during the years ended December 31, 2003 and 2002, the Company was in compliance with all covenants. While the Company does not anticipate an event of non-compliance in the foreseeable future, such an event would require the Company to request a waiver or an amendment to the Senior Credit Facility. Amending the Senior Credit Facility could result in changes to the Company's borrowing capacity or its effective interest rates. Under the terms of the Senior Credit Facility agreement, interest rates on the Revolving Credit Facility, Term Loan A and Term Loan B range from 1.50% to 4.00% above LIBOR, depending on certain financial ratios. LIBOR was 1.16% as of December 31, 2003 and 1.38% as of December 31, 2002. Unused commitments under the Revolving Credit Facility are subject to a 0.5% annual commitment fee. The interest rate of Term Loan A was 4.67% as of December 31, 2002. The interest rate of Term Loan B was 5.19% and 5.42% as of December 31, 2003 and 2002, respectively.

The Senior Credit Facility may be prepaid in whole or in part at any time without premium or penalty. During the year ended December 31, 2003, the Company made principal payments of $28.3 million to fully repay Term Loan A and $69.6 million on Term Loan B, which primarily represented optional principal prepayments. During the year ended December 31, 2002, the Company made principal payments of $11.0 million on Term Loan A and $2.0 million on Term Loan B, which included optional principal prepayments of $6.3 million on Term Loan A and $1.1 million on Term Loan B. In connection with the prepayments in 2003, the Company recorded write-offs totaling $1.8 million in previously deferred financing fees which are included in interest expense in the accompanying consolidated statement of operations for the year ended December 31, 2003. The optional payments were made to remain several quarterly payments ahead of the regular payment schedule. According to the Senior Credit Facility agreement, each prepayment may be applied to the next principal repayment installments. The Company remains several principal payments ahead of schedule on Term Loan B and intends to pay a full year of principal installments in 2004 in accordance with the terms of the Senior Credit Facility.

The Senior Credit Facility is secured by substantially all of the properties and assets of the Company and its current and future domestic subsidiaries. The carrying amount of the Company's obligations under the Senior Credit Facility approximates fair value because the interest rates are based on floating interest rates identified by reference to market rates.

In connection with the execution of the definitive agreement to acquire The Nu-Gro Corporation (Nu-Gro) and to finance the repurchase of the Company's outstanding Series B Notes, the repurchase of its Class A nonvoting preferred stock and the repayment of accrued dividends thereon, the Company has obtained a commitment letter from Bank of America, N.A., Banc of America Securities LLC, Citigroup Global Markets, Inc. and Citicorp North America, Inc. for the refinancing of its existing Senior Credit Facility (see Note 26).

Senior Subordinated Notes

In November 1999, the Company issued $150.0 million in aggregate principal amount of 9 7/8% Series B senior subordinated notes (the Series B Notes) due April 1, 2009. Interest accrues at a rate of 9 7/8% per annum, payable semi-annually on April 1 and October 1. As described in more detail below, as of December 31, 2003, $3.1 million of the Series B Notes were outstanding.

In March 2003, the Company issued $85.0 million in aggregate principal amount of 9 7/8% Series C Notes due April 1, 2009 in a private placement. Gross proceeds from the issuance were $86.3 million and included a premium of $1.275 million which is being amortized over the term of the Series C Notes using the effective interest method. Interest on the Series C Notes accrued at a rate of 9 7/8% per annum, payable semi-annually on April 1 and October 1. Net proceeds of $84.1 million were used to repay $30.0 million of the Revolving Credit Facility, fully repay $28.3 million outstanding under Term Loan A and repay $25.9 million outstanding under Term Loan B. The Series C Notes were issued with terms substantially similar to the Series B Notes. In connection with its issuance of the Series C Notes, the Company recorded $2.2 million of deferred financing fees which are being amortized over the term of the Series C Notes. As described in more detail below, as of December 31, 2003, there were no Series C Notes outstanding.

In May 2003, the Company registered $235.0 million in aggregate principal amount of 9 7/8% Series D Notes (collectively with the Series B Notes and Series C Notes, the Senior Subordinated Notes), with terms substantially similar to the Series B Notes and Series C Notes, with the U.S. Securities and Exchange Commission and offered to exchange the Series D Notes for up to 100% of the Series B Notes and Series C Notes. The exchange offering closed in July 2003, resulting in $85.0 million, or 100%, of the Series C Notes being exchanged and $146.9 million, or 98%, of the Series B Notes being exchanged. As of December 31, 2003, $3.1 million of the Series B Notes and $231.9 million of the Series D Notes were outstanding.

The Company's indentures governing all of the outstanding Senior Subordinated Notes contain a number of significant covenants that could restrict the Company's ability to:

- incur more debt;
- pay dividends or make other distributions;
- issue stock of subsidiaries;
- make investments;
- repurchase stock;
- create subsidiaries;
- create liens;
- enter into transactions with affiliates;
- enter into sale and leaseback transactions;
- merge or consolidate; and
- transfer and sell assets.

The ability to comply with these provisions may be affected by events beyond the Company's control. The breach of any of these covenants will result in a default under the applicable debt agreement or instrument and could trigger acceleration of repayment under the applicable agreements. Any default under the Company's indentures governing the Senior Subordinated Notes might adversely affect the Company's growth, financial condition, results of operations and the ability to make payments on the Senior Subordinated Notes or meet other obligations. As of and during the years ended December 31, 2003 and 2002, the Company was in compliance with all covenants.

The fair value of the Senior Subordinated Notes was $243.2 million and $151.5 million as of December 31, 2003 and 2002, respectively, based on their quoted market price on such dates. In accordance with the indentures that govern them, the Senior Subordinated Notes are unconditionally and jointly and severally guaranteed by the Company's wholly-owned subsidiaries (see Note 24).

Aggregate future principal payments of long-term debt, excluding unamortized premium and capital lease obligation, as of December 31, 2003 are as follows:

Year Ended December 31,	Amount
2004	$ 796
2005	75,985
2006	75,587
2007	—
2008	—
Thereafter	235,000
	$387,368

Note 13—Commitments

The Company leases several of its operating facilities from Rex Realty, Inc., a company owned by certain of the Company's stockholders and operated by a former executive and past member of the Board of Directors of the Company. The operating leases expire at various dates through December 31, 2010. The Company has options to terminate the leases on an annual basis by giving advance notice of at least one year. As of December 31, 2002, notice had been given on one such lease. The Company leases a portion of its operating facilities from the same company under a sublease agreement expiring on December 31, 2005 with minimum annual rentals of $0.7 million. The Company has two five-year options to renew this lease, beginning January 1, 2006. For the years ended December 31, 2003, 2002 and 2001, rent expense under these leases was $1.2 million, $2.3 million and $2.3 million, respectively.

The Company is obligated under additional operating leases for other operations and the use of warehouse space. The leases expire at various dates through January 31, 2015. Five of the leases provide for as many as five options to renew for five years each. For the years ended December 31, 2003, 2002 and 2001, aggregate rent expense under these leases was $7.2 million, $3.8 million and $5.1 million, respectively.

In March 2000, the Company entered into a capital lease agreement for $5.3 million for its aircraft. The Company is obligated to make monthly payments of $0.1 million, with a balloon payment of $3.2 million in February 2005. The Company has the option of purchasing the aircraft following the expiration of the lease agreement for a nominal amount.

The following table presents future minimum payments due under operating and capital leases as of December 31, 2003:

	Operating Leases			
Year Ended December 31,	**Affiliate**	**Other**	**Capital Lease**	**Total**
2004	$1,216	$ 7,325	$ 552	$ 9,093
2005	1,234	7,246	3,191	11,671
2006	1,253	6,321	—	7,574
2007	1,271	5,053	—	6,324
2008	1,290	5,023	—	6,313
Thereafter	2,639	22,920	—	25,559
Total minimum lease payments	$8,903	$53,888	3,743	$66,534
Less amount representing interest			(253)	
Present value of net minimum lease payments			$3,490	

Note 14—Contingencies

In the normal course of business, the Company is a party to certain guarantees and financial instruments with off-balance sheet risk, such as standby letters of credit and indemnifications, which are not reflected in the accompanying consolidated balance sheets. As of December 31, 2003 and 2002, the Company had $2.7 million and $1.9 million, respectively, in standby letters of credit pledged as collateral to support the lease of its primary distribution facility in St. Louis, a U.S. customs bond, certain product purchases, various workers' compensation obligations and transportation equipment. These agreements mature at various dates through November 2004 and may be renewed as circumstances warrant. Such financial instruments are valued based on the amount of exposure under the instruments and the likelihood of performance being required. In the Company's past experience, no claims have been made against these financial instruments nor does management expect any losses to result from them. As a result, we determined such agreements do not have significant value and have not recorded any related amounts in the accompanying consolidated financial statements.

The Company is the lessee under a number of equipment and property leases, as previously described. It is common in such commercial lease agreements for the Company to agree to indemnify the lessor for the value of the property or equipment leased should it be damaged during the course of the Company's operations. The Company expects that any losses that may occur with respect to the leased property would be covered by insurance, subject to deductible amounts. As a result, we determined such indemnifications do not have significant value and have not recorded any related amounts in the accompanying consolidated financial statements.

The Company has entered into certain commitments to purchase granular urea during its peak production season in 2004. See Note 16 for information regarding these commitments.

The Company is involved from time to time in routine legal matters and other claims incidental to its business. When it appears probable in management's judgment that the Company will incur monetary damages or other costs in connection with such claims and proceedings, and such costs can be reasonably estimated, liabilities are recorded in the consolidated financial statements and charges are recorded to results of operations. Management believes that it is remote the resolution of such routine matters and other incidental claims, taking into account established reserves and insurance, will have a material adverse impact on the Company's consolidated financial position, results of operations or liquidity.

Note 15—Stockholders' Equity

During the second quarter of 2003, 90,000 stock options were exercised at a price of $2.00 per share (per share dollars not in thousands). In connection with this transaction, the related stockholder surrendered 9,569 shares each of Class A and Class B common stock to the Company, valued at less than $0.1 million in the aggregate based on the estimated fair value per share as determined by the Company's Board of Directors on the date of surrender, to satisfy income tax withholding requirements. The Company recorded the transaction as treasury stock which is presented as a reduction of stockholders' equity in the accompanying consolidated balance sheet as of December 31, 2003.

In connection with its merger with Schultz in May 2002, the Board of Directors adopted resolutions, which were approved by the Company's stockholders, to amend the Company's Certificate of Incorporation to increase the Company's total authorized Class A voting common stock from 37,600,000 shares to 43,600,000 shares and increase the Company's total authorized Class B nonvoting common stock from 37,600,000 shares to 43,600,000 shares. In addition, as part of the purchase of Schultz, the Company issued 600,000 shares of Class A voting common stock valued at $3.0 million and 600,000 shares of Class B nonvoting common stock valued at $3.0 million. In addition, to raise equity to partially fund the merger, the Company issued 1,690,000 shares of Class A voting common stock to UIC Holdings, L.L.C. for $8.5 million and 1,690,000 shares of Class B nonvoting common stock to UIC Holdings, L.L.C. for $8.5 million.

In connection with its transaction with Bayer in June 2002, the Company issued 3,072,000 shares of Class A voting common stock valued at $15.4 million and 3,072,000 shares of Class B nonvoting common stock valued at $15.4 million and recorded $0.4 million of related issuance costs. As further described in Note 4, the Company repurchased these shares in February 2004.

In connection with the Company's December 2001 transaction with U.S. Fertilizer, the Board of Directors adopted resolutions, which were approved by the Company's stockholders, to amend the Company's Certificate of Incorporation to:

- Authorize issuance of 22,600 shares of $0.01 par value Class A nonvoting preferred stock to UIC Holdings, L.L.C. for $1,000 per share, the fair value as determined by the Board of Directors using a multiple of cash flows method, for net cash proceeds of $22.0 million. Dividends accrue at 15% of liquidation value which equals $1,000 per share. Dividends, to the extent not paid on December 31 of each year, are cumulative. As of December 31, 2003 and 2002, 37,600 shares of preferred stock were outstanding and accrued dividends were $17.1 million and $9.5 million, respectively.
- Increase the Company's total authorized Class A voting common stock from 34,100,000 to 37,600,000 shares to accommodate the granting of stock purchase warrants to UIC Holdings, L.L.C., which received a 10-year warrant to purchase up to 3,150,000 shares of Class A voting common stock for $3.25 per share, the fair value as determined by the Board of Directors using a multiple of cash flows method. These stock purchase warrants were issued in conjunction with the preferred stock.

- Increase the Company's total authorized Class B nonvoting common stock from 34,100,000 to 37,600,000 shares to accommodate the granting of stock purchase warrants to UIC Holdings, L.L.C., which received a 10-year warrant to purchase up to 3,150,000 shares of Class B nonvoting common stock for $3.25 per share, the fair value as determined by the Board of Directors using a multiple of cash flows method. These stock purchase warrants were issued in conjunction with the preferred stock.

Of the 37,600 shares of preferred stock outstanding at December 31, 2003, 37,145 shares are held by UIC Holdings, L.L.C. which is owned by the Thomas H. Lee Equity Fund IV, L.P. which beneficially owned 84% of the Company's outstanding common stock, as of December 31, 2003, and represents three of the Company's seven members of the Board of Directors. The remaining outstanding shares of preferred stock are owned by current and former members of the Company's management.

The Company valued the 6,300,000 warrants issued above at $1.35 per warrant using the Black-Scholes option pricing model at the date of grant. Accordingly, proceeds of $8.5 million received from the issuance of the preferred stock were allocated to the warrants.

Note 16—Accounting for Derivative Instruments and Hedging Activities

In the normal course of business, the Company is exposed to fluctuations in interest rates and raw materials prices. The Company has established policies and procedures that govern the management of these exposures through the use of derivative hedging instruments, including swap agreements. The Company's objective in managing its exposure to such fluctuations is to decrease the volatility of earnings and cash flows associated with changes in interest rates and certain raw materials prices. To achieve this objective, the Company periodically enters into swap agreements with values that change in the opposite direction of anticipated cash flows. Derivative instruments related to forecasted transactions are considered to hedge future cash flows, and the effective portion of any gains or losses is included in accumulated other comprehensive income until earnings are affected by the variability of cash flows. Any remaining gain or loss is recognized currently in results of operations.

As of December 31, 2003, the Company had no outstanding derivative hedging instruments but had purchase agreements to effectively fix 29% of its 2004 urea purchases. The average contract price of the Company's derivative hedging instruments as of December 31, 2002, intended to fix the price of forecasted urea prices through April 2003, was approximately $135 per ton. The average purchase price of the Company's purchase agreements as of December 31, 2003 and 2002 was approximately $185 and $130 per ton, respectively. While management expects these agreements to manage the Company's exposure to such price fluctuations, no assurance can be provided that the agreements will be effective in fully mitigating exposure to these risks, nor can assurance be provided that the Company will be successful in passing on pricing increases to its customers.

The Company formally documents, designates and assesses the effectiveness of any transactions that receive hedge accounting treatment. The cash flows of derivative hedging instruments the Company enters into are generally expected to be highly effective in achieving offsetting cash flows attributable to fluctuations in the cash flows of the hedged risk. Changes in the fair value of agreements designated as derivative hedging instruments are reported as either an asset or liability in the accompanying consolidated balance sheets with the associated unrealized gains or losses reflected in accumulated other comprehensive income. As of December 31, 2002, an unrealized loss of less than $0.1 million, related to derivative instruments designated as cash flow hedges was recorded in accumulated other comprehensive income. Although derivative hedging instruments were used throughout the year, no such instruments were outstanding as of December 31, 2003. Such instruments at December 31, 2002 represented hedges on forecasted purchases of raw materials during the first half of 2003 and matured by May 2003. The amounts recorded in accumulated other comprehensive income were subsequently reclassified into cost of goods sold in the same period in which the underlying hedged transactions affected earnings. No unrealized gains or losses were recorded in accumulated other comprehensive income as of December 31, 2003. However, during the year ended December 31, 2003, $1.4 million of net gains on derivative hedging instruments for raw materials purchases were reclassified into cost of goods sold in the same period in which the underlying hedged transactions affected earnings. No such amounts were recorded for raw materials purchases during the year ended December 31, 2002.

If it becomes probable that a forecasted transaction will not occur, any gains or losses in accumulated other comprehensive income will be recognized in results of operations. The Company has not incurred any gains or losses for hedge ineffectiveness or due to excluding a portion of the value from measuring effectiveness. The Company has not generally entered into derivatives or other hedging arrangements for trading or speculative purposes but may consider doing so in the future if strategic circumstances warrant and its bank covenants and bond indentures permit such transactions.

The following table summarizes the Company's derivative hedging instruments and related unrealized gain (loss) as of December 31, 2002 only, as no such instruments were outstanding as of December 31, 2003 (amounts not in thousands):

Number of Contracts	Maturity Date	Notional Amount in Tons	Weighed Average Contract Price	Contract Value Upon Effective Contract Date	Contract Value at December 31, 2002	Unrealized Gain (Loss) at December 31, 2002
3	January 30, 2003	14,500	$133.00	$ 1,928,500	$ 1,916,465	$ (12,035)
3	February 28, 2003	15,000	135.00	2,025,000	2,010,000	(15,000)
2	March 28, 2003	10,000	135.50	1,355,000	1,353,300	(1,700)
1	April 24, 2003	5,000	137.00	685,000	681,650	(3,350)
9		44,500		$ 5,993,500	$ 5,961,415	$ (32,085)

The following table summarizes the Company's purchase commitments of granular urea as of December 31, 2003 (amounts not in thousands):

Number of Commitments	Expected Purchase Month	Commitment Amount in Tons	Weighted Average Purchase Price	Value of Purchase Commitment on Commitment Date
6	January 2004	13,477	$ 187.98	$ 2,533,406
7	February 2004	5,300	182.83	968,999
7	March 2004	5,000	183.00	915,000
6	April 2004	2,900	185.17	536,993
26		26,677		$ 4,954,398

The following table summarizes the Company's purchase commitments of granular urea as of December 31, 2002 (amounts not in thousands):

Number of Commitments	Expected Purchase Month	Commitment Amount in Tons	Weighted Average Purchase Price	Value of Purchase Commitment on Commitment Date
3	January 2003	18,750	$ 126.93	$ 2,380,000
2	February 2003	18,500	128.20	2,472,500
5		37,250		$ 4,852,500

In April 2001, the Company entered into two interest rate swaps that fixed the interest rate as of April 30, 2001 for $75.0 million in variable rate debt under its Senior Credit Facility. The interest rate swaps settled on April 30, 2002 and a derivative hedging loss of $0.5 million was reclassified from accumulated other comprehensive income into interest expense.

Note 17—Fair Value of Financial Instruments

The Company has estimated the fair value of its financial instruments as of December 31, 2003 and 2002 using available market information or other appropriate valuation methods. Considerable judgment, however, is required in interpreting data to develop estimates of fair value. Accordingly, the estimates presented in the accompanying consolidated financial statements are not necessarily indicative of the amounts the Company would realize in a current market exchange.

The carrying amounts of cash, accounts receivable, accounts payable and other current assets and liabilities approximate fair value because of the short maturity of such instruments. The Company's Senior Credit Facility bears interest at current market rates and, thus, carrying value approximates fair value as of December 31, 2003 and 2002. The Company is exposed to interest rate volatility with respect to the variable interest rates of the Senior Credit Facility. The estimated fair values of the Company's Senior Subordinated Notes of $243.2 million and $151.5 million, respectively, as of December 31, 2003 and 2002 are based on quoted market prices.

Note 18—Segment Information

During the third quarter of 2002, the Company began reporting its operating results using three reportable segments: Lawn and Garden, Household and Contract. Segments were established primarily by product type which represents the basis upon which management, including the Chief Executive Officer who is the chief operating decision maker of the Company, reviews and assesses the Company's financial performance. The Lawn and Garden segment primarily consists of dry, granular lawn fertilizers, lawn fertilizer combination and lawn control products, herbicides, water-soluble and controlled-release garden and indoor plant foods, plant care products, potting soils and other growing media products and insecticide products. Products are marketed to mass merchandisers, home improvement centers, hardware, grocery and drug chains, nurseries and garden centers. This segment includes, among others, the Company's Spectracide, Garden Safe, Schultz, Vigoro, Sta-Green, Real-Kill and No-Pest brands.

The Household segment represents household insecticides and insect repellents that allow consumers to repel insects and maintain a pest-free household. The Household segment includes the Company's Hot Shot, Cutter and Repel brands, as well as a number of private label and other products.

The Contract segment includes a variety of compounds and chemicals, such as cleaning solutions and other consumer products.

The following table presents selected financial segment information in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," for the years ended December 31, 2003, 2002 and 2001. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies in Note 2, as applicable. The segment financial information presented includes comparative periods prepared on a basis consistent with the current year presentation.

	Year Ended December 31,		
	2003	2002	2001
Net sales:			
Lawn and Garden	$393,263	$352,269	$169,267
Household	132,285	108,752	101,186
Contract	10,598	18,969	2,891
Total net sales	536,146	479,990	273,344
Operating costs and expenses:			
Cost of goods sold	328,238	305,644	148,371
Selling, general and administrative expenses	139,042	113,162	74,689
Facilities and organizational rationalization	—	—	5,550
Total operating costs and expenses	467,280	418,806	228,610
Operating income (loss) by segment:			
Lawn and Garden	38,461	38,064	24,637
Household	30,538	23,159	20,280
Contract	(133)	(39)	(183)
Total operating income	68,866	61,184	44,734
Interest expense	38,237	33,811	35,841
Interest income	2,024	1,401	—
Income before income tax expense (benefit)	32,653	28,774	8,893
Income tax expense (benefit)	(82,851)	3,438	2,167
Net income	$115,504	$ 25,336	$ 6,726
Operating margin:			
Lawn and Garden	9.8%	10.8%	14.6%
Household	23.1%	21.3%	20.0%
Contract	-1.3%	-0.2%	-6.3%
Total operating margin	12.8%	12.7%	16.4%

Operating income represents earnings before interest expense, interest income and income tax expense (benefit). Operating income is the measure of profitability used by management to assess the Company's financial performance. Operating margin represents operating income as a percentage of net sales.

The majority of the Company's sales are conducted with customers in the United States. The Company's international sales comprise less than 2% of total annual net sales. In addition, no single item comprises more than 10% of the Company's net sales. For the years ended December 31, 2003, 2002 and 2001, the Company's three largest customers were responsible for 71%, 74% and 64% of net sales, respectively. As of December 31, 2003 and 2002, these three customers were responsible for 53% and 62% of accounts receivable, respectively.

As the Company's assets support production across all segments, they are managed on an entity-wide basis at the corporate level and are not recorded or analyzed by segment. Substantially all of the Company's assets are located in the United States.

Note 19—Stock-Based Compensation

The Company grants stock options to eligible employees, officers and directors pursuant to the 2001 Stock Option Plan, as amended (the Plan), which is administered by the Compensation Committee of the Company's Board of Directors. The Plan provides for an aggregate of 5,931,332 shares of the Company's common stock that may be issued in the form of Class A voting common stock, Class B nonvoting common stock or a combination thereof. The options to purchase shares of common stock have a maximum life of ten years and are subject to time and performance-based vesting schedules which generally range from two to ten years. If certain performance targets are met, the maximum vesting period could be shortened to four years. Options are generally granted with an exercise price equal to or greater than the estimated fair value of the Company's common stock on the grant date and expire ten years thereafter. After termination of employment, unvested options are forfeited immediately, within thirty days or within one year, as provided under the Plan.

On May 20, 2003, the Board of Directors adopted a resolution to provide for an additional 131,332 shares of common stock that may be issued, bringing the total number of shares available for issuance under the Plan to 5,931,332 shares.

The following table presents a summary of activity for options of the Plan (amounts not in thousands):

	Year Ended December 31,			
	2003		2002	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of year	5,760,000	$ 2.75	5,036,000	$ 2.39
Granted	198,000	5.00	939,000	4.56
Exercised	(90,000)	2.00	—	—
Forfeited	(72,918)	3.43	(215,000)	2.09
Options outstanding, end of year	5,795,082	$ 2.83	5,760,000	$ 2.75
Weighted average remaining contractual life (years)	7.44		8.35	
Options exercisable, end of year	3,650,691	$ 2.78	1,556,032	$ 2.54
Weighted average fair value of options granted	$ 1.52		$ 1.40	

The following table presents information about stock options outstanding and exercisable under the Plan as of December 31, 2003 (amounts not in thousands):

	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$2.00 to $3.25	4,511,750	7.21	$ 2.26	2,991,636	7.26	$ 2.34
$4.00 to $5.00	1,283,332	8.22	4.84	659,055	7.95	4.77
	5,795,082	7.44	2.83	3,650,691	7.44	2.78

As of December 31, 2003, 136,250 shares were available for future grants and 3,650,691 shares were vested and exercisable under the Plan.

SFAS No. 123 requires pro forma disclosure of the impact on earnings as if the Company determined stock-based compensation expense using the fair value method, as presented in Note 2. The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model and the following weighted average assumptions for the years ended December 31, 2003 and 2002: expected volatility of zero, risk-free interest rate of 3.61% and 4.61%, respectively, dividend yield of zero and an expected life of ten years. The Company's employee stock options have characteristics different than those of traded options and changes in the input assumptions can materially affect the estimate of fair value. In addition, pro forma amounts are presented for disclosure purposes only and may not be representative of pro forma net income which may be obtained in the future. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the related vesting periods.

Note 20—Employee Benefit Plans

The Company has a 401(k) savings plan for substantially all of its employees with six months or more of continuous service. The 401(k) plan allows participants to defer a portion of eligible compensation on a tax-deferred basis. Under provisions of the 401(k) plan, the Company matches 50% of each employee's contributions up to 6% of gross earnings. The matching amount increases to 75% of such employee's contributions up to 6% of gross earnings after ten years of service. For the years ended December 31, 2003, 2002 and 2001, the matching contribution amounted to $1.0 million, $0.7 million and $0.6 million, respectively.

The Company also sponsors two deferred compensation plans for certain members of its senior management team. The plans are administered by the Compensation Committee of the Board of Directors. The plans provide for the establishment of grantor trusts for the purpose of accumulating funds to purchase shares of the Company's common stock for the benefit of the plan participants. One plan allows participants to contribute an unlimited amount of earnings to the plan while the other provides for contributions of up to 20% of a participant's annual bonus. The Company does not provide matching contributions to these plans and has the right, under certain circumstances, to repurchase shares held in the grantor trusts. As of December 31, 2003 and 2002, the value of common stock held in the grantor trusts was $2.8 million and $2.7 million, respectively.

Note 21— Income Taxes

Income tax expense (benefit) consists of the following:

	Year Ended December 31,		
	2003	2002	2001
Current:			
Federal	$ 216	$ —	$ —
State and local	998	383	165
Total current	1,214	383	165
Deferred:			
Federal	18,132	9,252	3,426
State and local	1,940	1,938	225
Valuation allowance reduction	(104,137)	(8,135)	(1,649)
Total deferred	(84,065)	3,055	2,002
Total income tax expense (benefit)	$ (82,851)	$ 3,438	$ 2,167

The following table presents a reconciliation of income tax expense using the statutory rate of 35% and income tax expense (benefit):

	Year Ended December 31,		
	2003	2002	2001
Statutory tax expense	$ 11,429	$10,071	$ 3,113
Tax effect of:			
Valuation allowance reduction	(104,137)	(8,135)	(1,649)
Non-deductible intangible asset amortization	2,925	—	—
State and local taxes, net of federal tax benefit	1,909	845	641
Gain on sale of assets	678	—	—
Nondeductible expenses and other	4,345	657	62
Total income tax expense (benefit)	$ (82,851)	$ 3,438	$ 2,167

The following table presents the components of the net deferred tax asset:

	December 31,	
	2003	2002
Deferred tax assets:		
Goodwill	$151,705	$ 172,355
Net operating loss carryforwards	35,762	35,920
Co-op advertising	3,747	3,566
Inventories	2,135	1,547
Deferred compensation	1,082	1,026
Facilities and organizational rationalization	—	511
Other, net	2,574	2,675
Gross deferred tax assets	197,005	217,600
Valuation allowance	—	(104,137)
Total deferred tax assets	197,005	113,463
Deferred tax liabilities:		
Equipment and leasehold improvements	(2,216)	(3,013)
Other, net	(10)	—
Total deferred tax liabilities	(2,226)	(3,013)
Net deferred tax asset	$194,779	$ 110,450

The temporary difference for goodwill represents the step-up in tax basis due to the Company's recapitalization in 1999 while maintaining historical basis for financial reporting purposes. This benefit is available to be utilized through 2014.

Based on historical levels of income and the length of time required to utilize its deferred tax assets, the Company originally established a 50% valuation allowance against the tax deductible goodwill deduction that was created in 1999 in connection with the recapitalization of the Company and for certain net operating loss carryforwards that were generated in 1999 through 2003. The valuation allowance was based on management's estimates of future taxable income by jurisdiction in which the deferred tax assets were expected to be recoverable. During the fourth quarter of 2003, the Company determined that it was more likely than not that it would fully utilize its deferred tax assets and that it was no longer necessary to maintain a valuation allowance. Accordingly, the Company recorded a full reversal of the valuation allowance of $104.1 million, which is included in the accompanying consolidated statement of operations for the year ended December 31, 2003.

The valuation allowance was $104.1 million as of December 31, 2002. For the years ended December 31, 2003, 2002 and 2001, the valuation allowance was reduced by $104.1 million, $8.1 million and $1.6 million, respectively. In addition, as of December 31, 2003, the Company had a net operating loss carryforwards of $94.1 million. If not utilized, the net operating loss carryforwards will begin to expire in 2019.

The following table presents the current and non-current components of the net deferred tax asset:

	December 31,	
	2003	2002
Current (prepaid expenses and other current assets)	$ 8,217	$ 5,309
Non-current	186,562	105,141
	$194,779	$110,450

Note 22—Unaudited Quarterly Financial Information

The table below presents selected historical quarterly financial information for the Company. This information is derived from unaudited quarterly financial statements of the Company and includes, in the opinion of management, only normal and recurring adjustments that the Company considers necessary for a fair presentation of the results for such periods.

Restatement

The Company had initially reflected the guidance outlined in EITF 02-17, "Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination" (see Note 3) as of the date the Company finalized the allocation of the purchase price, in the first quarter of 2003, and began amortizing the customer relationship intangible asset over its remaining useful life. In March 2004, the Company determined that the effect of the application of EITF 02-17 should have been applied from the date of acquisition and, as such should have resulted in a $2.4 million noncash charge for the additional amortization related to the final valuation of the $24.6 million customer relationship intangible asset. Accordingly, the Company has restated the March 31, 2003 quarterly financial information to include the noncash adjustment, which has increased first quarter 2003 selling, general and administrative expenses by $2.4 million and decreased income before income tax expense and net income by $2.4 million, as the intangible assets are not deductible for tax purposes.

	Year Ended December 31, 2003			
	As Restated First(1)	Second	Third	Fourth
Net sales	$ 178,812	$206,003	$104,019	$ 47,312
Gross profit	70,057	82,206	39,269	16,376
Operating income (loss)	28,658	44,301	7,074	(11,167)
Net income (loss)	11,053	21,361	(833)	83,923

(1) Operating income and net income as originally reported of $31,058 and $13,453, respectively, were higher than the respective restated first quarter amounts of $28,658 and $11,053 due to the additional amortization expense described above.

	Year Ended December 31, 2002			
	First	Second	Third	Fourth
Net sales	$136,391	$195,136	$100,677	$ 47,786
Gross profit	49,228	72,825	35,468	16,825
Operating income (loss)	21,989	40,488	7,901	(9,194)
Net income (loss)	10,162	26,420	417	(11,663)

Due to the seasonal nature of the Company's business, net sales in the first and second quarters typically exceed net sales in the third and fourth quarters.

Note 23—Related Party Transactions

ProfessionalServices Agreement

The Company has a professional services agreement with THL Equity Advisors IV, L.L.C. and Thomas H. Lee Capital, L.L.C., both affiliates of the Thomas H. Lee Partners, L.P., which indirectly owns UIC Holdings, L.L.C., the majority owner of the Company. The professional services agreement has a term of three years, beginning January 20, 1999, and automatically extends for successive one-year periods thereafter, unless either party gives thirty days notice prior to the end of the term. Under the terms of the agreement, THL Equity Advisors IV, L.L.C. receives $62.5 thousand per month for management and other consulting services provided to the Company and reimbursement of any related out-of-pocket expenses. During each of the years in the three-year period ended December 31, 2003, the Company paid $0.75 million under this agreement, which is included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

StockholdersAgreement

The Company has entered into a stockholders agreement with UIC Holdings, L.L.C. and certain other stockholders. Under the agreement, the Class A common stockholders are required to vote their shares of common stock for any sale or reorganization that has been approved by the Board of Directors or a majority of the stockholders. The stockholders agreement also grants the stockholders the right to effect the registration of their common stock for sale to the public, subject to certain conditions and limitations. If the Company elects to register any of its securities under the Securities Act of 1933, as amended, the stockholders are entitled to notice of such registration, subject to certain conditions and limitations. Under the stockholders agreement, the Company is responsible to pay costs of the registration effected on behalf of the stockholders, other than underwriting discounts and commissions.

RecapitalizationAgreement

The recapitalization agreement with UIC Holdings, L.L.C., which the Company entered into in connection with its recapitalization in 1999, contains customary provisions, including representations and warranties with respect to the condition and operations of the business, covenants with respect to the conduct of the business prior to the recapitalization closing date and various closing conditions, including the continued accuracy of the representations and warranties. In general, these representations and warranties expired by April 15, 2000. However, representations and warranties with respect to tax matters will survive until thirty days after the expiration of the applicable statute of limitations; representations with respect to environmental matters expired December 31, 2003. Representations and warranties with respect to ownership of stock do not expire. The total consideration paid to redeem the Company's common stock is subject to adjustments based on the excess taxes of previous stockholders arising from the Company's Section 338(h)(10) election under the IRS tax code.

Pursuant to the recapitalization agreement, and in consideration of payments received thereunder, certain former executives agreed that for a period ending on the fourth anniversary of the recapitalization closing date not to own, control, participate or engage in any line of business in which the Company is actively engaged or any line of business competitive with it anywhere in the United States and any other country in which it conducts business at the date of recapitalization closing. In addition, each of these former executives has agreed that for a period ending on the fourth anniversary of the recapitalization closing date not to contact, approach or solicit for the purpose of offering employment to or hiring any person employed by the Company during the four-year period.

Pursuant to the recapitalization, the Company redeemed a portion of its common stock held by certain stockholders and UIC Holdings, L.L.C. which were purchased by certain members of senior management. In the recapitalization, certain executives collectively received an aggregate of $4.0 million in cash. In addition, $2.7 million was used to purchase 540,000 shares of common stock through grantor trusts for the benefit of said executives, which is reflected as a reduction of stockholders' equity in the accompanying consolidated balance sheets.

Loans to Chief Executive Officer

On September 28, 2001, the Company entered into a loan agreement with Robert L. Caulk, the President, Chief Executive Officer and Chairman of the Board of Directors of the Company, for $400,000 which matures on September 28, 2006 (the 2001 Loan). On March 8, 2002, the Company entered into a loan agreement with Mr. Caulk for $51,685 which matures on March 8, 2007 (the 2002 Loan). The purpose of both loans was to allow Mr. Caulk to purchase shares of the Company's common and preferred stock. Each loan bears interest at LIBOR on its effective date which is subsequently adjusted on each loan's respective anniversary date. The interest rate in effect for the 2002 Loan was 1.18% and 1.96% as of December 31, 2003 and 2002, respectively. The interest rate in effect for the 2001 Loan was 1.08% and 1.81% as of December 31, 2003 and 2002, respectively. Interest on both loans is payable annually, based on outstanding accrued amounts on December 31 of each year. Principal payments on both loans are based on 25% of the gross amount of each annual bonus awarded to Mr. Caulk and are immediately payable, except that principal payments on the 2002 Loan are immediately payable only if all amounts due under the 2001 Loan are fully paid. Any unpaid principal and interest on both loans is due upon maturity. The outstanding principal balance for the 2001 Loan was $274,000 and $352,000 as of December 31, 2003 and 2002, respectively. The outstanding principal balance of the 2002 Loan was $51,685 as of December 31, 2003 and 2002. The loans are reflected as a reduction of stockholders' equity in the accompanying consolidated balance sheets.

Leases With Stockholders and Former Executive and Member of the Board of Directors

As described in more detail in Note 13, the Company leases several of its operating facilities from Rex Realty, Inc., a company that is owned by stockholders who own, in the aggregate, approximately 5% of the Company's common stock and is operated by a former executive and past member of the Board of Directors.

Equity Transactions With UIC Holdings, L.L.C.

As described in more detail in Note 15, during the years ended December 31, 2002 and 2001, the Company issued common and preferred stock and stock purchase warrants to UIC Holdings, L.L.C. In connection with the Schultz merger in May 2002, the Company issued 1,690,000 shares each of Class A voting and Class B nonvoting common stock to UIC Holdings, L.L.C. for $16.9 million. In connection with the U.S. Fertilizer transaction in December 2001, the Company issued 22,600 shares of $0.01 par value Class A nonvoting preferred stock to UIC Holdings, L.L.C. for $1,000 per share, the fair value as determined by the Board of Directors using a multiple of cash flows method, for net cash proceeds of $22.0 million and a 10-year warrant to purchase up to 3,150,000 shares each of the Company's Class A voting and Class B nonvoting common stock for $3.25 per share, the fair value of the Company's common stock at the time the warrants were issued as determined by the Board of Directors using a multiple of cash flows method. In November 2000, the Company issued 15,000 shares of $0.01 par value Class A nonvoting preferred stock to UIC Holdings, L.L.C. for $1,000 per share, the fair value as determined by the Board of Directors using a multiple of cash flows method, for net cash proceeds of $15.0 million and a 10-year warrant to purchase up to 1,600,000 shares each of the Company's Class A voting and Class B nonvoting common stock for $2.00 per share, the fair value of the Company's common stock at the time the warrants were issued as determined by the Board of Directors using a multiple of cash flows method.

Note 24—Financial Information for Subsidiary Guarantors

The Company's Senior Subordinated Notes are unconditionally and jointly and severally guaranteed by all of the Company's existing subsidiaries. The Company's subsidiaries are 100% owned by the Company. The consolidating financial information below is presented as of and for the years ended December 31, 2003 and 2002 and has been prepared in accordance with the requirements for presentation of such information. No consolidating financial information has been presented for 2001 as all of the Company's existing subsidiaries were formed in 2002. The Company believes that separate financial statements concerning each guarantor subsidiary would not be material to investors and that the information presented herein provides sufficient detail to determine the nature of the aggregate financial position, results of operations and cash flows of the guarantor subsidiaries.

The Company's investment in subsidiaries is accounted for using the equity method of accounting. Earnings of the subsidiaries are reflected in the respective investment accounts of the parent company accordingly. The investments in subsidiaries and all intercompany balances and transactions have been eliminated. Various assumptions and estimates were used to establish the financial statements of such subsidiaries for the information presented herein.

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES
BALANCE SHEET
AS OF DECEMBER 31, 2003

	Parent	Subsidiary Guarantors	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	$ 11,132	$ 281	$ —	$ 11,413
Accounts receivable, net	25,548	4,342	—	29,890
Inventories	56,677	40,118	—	96,795
Prepaid expenses and other current assets	14,989	152	—	15,141
Total current assets	108,346	44,893	—	153,239
Equipment and leasehold improvements, net	32,641	4,512	—	37,153
Investment in subsidiaries	18,950	—	(18,950)	—
Intercompany assets	82,982	10,768	(93,750)	—
Deferred tax asset	186,542	20	—	186,562
Goodwill	—	6,221	—	6,221
Intangible assets, net	46,554	40,318	—	86,872
Other assets, net	5,059	4,838	—	9,897
Total assets	$ 481,074	$ 111,570	$ (112,700)	$ 479,944
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)				
Current liabilities:				
Current maturities of long-term debt and capital lease obligation	$ 1,349	$ —	$ —	$ 1,349
Accounts payable	23,024	6,750	—	29,774
Accrued expenses	36,686	2,888	—	39,574
Total current liabilities	61,059	9,638	—	70,697
Long-term debt, net of current maturities	387,657	—	—	387,657
Capital lease obligation, net of current maturities	3,191	—	—	3,191
Other liabilities	3,256	—	—	3,256
Intercompany liabilities	10,768	82,982	(93,750)	—
Total liabilities	465,931	92,620	(93,750)	464,801
Commitments and contingencies				
Stockholders' equity (deficit):				
Preferred stock	—	—	—	—
Common stock	665	—	—	665
Treasury stock	(96)	—	—	(96)
Warrants and options	11,745	—	—	11,745
Investment from parent	—	27,925	(27,925)	—
Additional paid-in capital	210,908	—	—	210,908
Accumulated deficit	(179,738)	(8,975)	8,975	(179,738)
Common stock subscription receivable	(22,534)	—	—	(22,534)
Common stock repurchase option	(2,636)	—	—	(2,636)
Common stock held in grantor trusts	(2,847)	—	—	(2,847)
Loans to executive officer	(324)	—	—	(324)
Total stockholders' equity (deficit)	15,143	18,950	(18,950)	15,143
Total liabilities and stockholders' equity (deficit)	$ 481,074	$ 111,570	$ (112,700)	$ 479,944

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES
BALANCE SHEET
AS OF DECEMBER 31, 2002

	Parent	Subsidiary Guarantors	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	$ 10,191	$ 127	$ —	$ 10,318
Accounts receivable, net	18,492	4,829	—	23,321
Inventories	47,678	40,084	—	87,762
Prepaid expenses and other current assets	9,544	1,806	—	11,350
Total current assets	85,905	46,846	—	132,751
Equipment and leasehold improvements, net	26,510	7,708	—	34,218
Investment in subsidiaries	22,777	—	(22,777)	—
Intercompany assets	63,643	—	(63,643)	—
Deferred tax asset	104,357	784	—	105,141
Goodwill	—	28,612	—	28,612
Intangible assets, net	47,678	24,578	—	72,256
Other assets, net	11,830	1,195	—	13,025
Total assets	$ 362,700	$ 109,723	$ (86,420)	$ 386,003
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)				
Current liabilities:				
Current maturities of long-term debt and capital lease obligation	$ 9,665	$ —	$ —	$ 9,665
Accounts payable	11,330	15,733	—	27,063
Accrued expenses	39,345	5,876	—	45,221
Total current liabilities	60,340	21,609	—	81,949
Long-term debt, net of current maturities	391,493	—	—	391,493
Capital lease obligation, net of current maturities	3,778	—	—	3,778
Other liabilities	3,325	1,694	—	5,019
Intercompany liabilities	—	63,643	(63,643)	—
Total liabilities	458,936	86,946	(63,643)	482,239
Commitments and contingencies				
Stockholders' equity (deficit):				
Preferred stock	—	—	—	—
Common stock	664	—	—	664
Warrants and options	11,745	—	—	11,745
Investment from parent	—	24,317	(24,317)	—
Additional paid-in capital	210,480	—	—	210,480
Accumulated deficit	(287,592)	(1,540)	1,540	(287,592)
Common stock subscription receivable	(25,761)	—	—	(25,761)
Common stock repurchase option	(2,636)	—	—	(2,636)
Common stock held in grantor trust	(2,700)	—	—	(2,700)
Loans to executive officer	(404)	—	—	(404)
Accumulated other comprehensive income	(32)	—	—	(32)
Total stockholders' equity (deficit)	(96,236)	22,777	(22,777)	(96,236)
Total liabilities and stockholders' equity (deficit)	$ 362,700	$ 109,723	$ (86,420)	$ 386,003

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2003

	Parent	Subsidiary Guarantors	Eliminations	Consolidated
Net sales	$442,147	$193,275	$ (99,276)	$ 536,146
Operating costs and expenses:				
Cost of goods sold	256,675	169,275	(97,712)	328,238
Selling, general and administrative expenses	104,758	35,848	(1,564)	139,042
Equity (income) loss in subsidiaries	7,436	—	(7,436)	—
Total operating costs and expenses	368,869	205,123	(106,712)	467,280
Operating income (loss)	73,278	(11,848)	7,436	68,866
Interest expense	37,667	570	—	38,237
Interest income	2,024	—	—	2,024
Income (loss) before income tax expense (benefit)	37,635	(12,418)	7,436	32,653
Income tax benefit	(77,869)	(4,982)	—	(82,851)
Net income (loss)	$115,504	$ (7,436)	$ 7,436	$ 115,504

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2002

	Parent	Subsidiary Guarantors	Eliminations	Consolidated
Net sales	$435,001	$ 54,716	$ (9,727)	$ 479,990
Operating costs and expenses:				
Cost of goods sold	265,928	46,514	(6,798)	305,644
Selling, general and administrative expenses	105,964	10,127	(2,929)	113,162
Equity (income) loss in subsidiaries	1,540	—	(1,540)	—
Total operating costs and expenses	373,432	56,641	(11,267)	418,806
Operating income (loss)	61,569	(1,925)	1,540	61,184
Interest expense	33,804	7	—	33,811
Interest income	1,401	—	—	1,401
Income (loss) before income tax expense (benefit)	29,166	(1,932)	1,540	28,774
Income tax expense (benefit)	3,830	(392)	—	3,438
Net income (loss)	$ 25,336	$ (1,540)	$ 1,540	$ 25,336

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2003

	Parent	Subsidiary Guarantors	Eliminations	Consolidated
Cash flows from operating activities:				
Net income (loss)	$ 115,504	$ (7,436)	$ 7,436	$ 115,504
Adjustments to reconcile net income (loss) to net cash flows from (used in) operating activities:				
Depreciation and amortization	5,676	10,969	—	16,645
Amortization and write-off of deferred financing fees	5,358	—	—	5,358
Deferred income tax expense (benefit)	(84,829)	764	—	(84,065)
Equity (income) loss in subsidiaries	7,436	—	(7,436)	—
Changes in operating assets and liabilities, net of effects from disposition:				
Accounts receivable	89,367	487	(99,276)	(9,421)
Inventories	(108,632)	(34)	97,712	(10,954)
Prepaid expenses	(2,813)	1,654	—	(1,159)
Other assets	(3,517)	3,010	—	(507)
Accounts payable	12,074	(8,983)	—	3,091
Accrued expenses	(9,865)	(2,996)	—	(12,861)
Facilities and organizational rationalization costs	(1,942)	—	—	(1,942)
Other operating activities, net	(6,252)	2,264	1,564	(2,424)
Net cash flows from (used in) operating activities	17,566	(301)	—	17,265
Cash flows from investing activities:				
Purchases of equipment and leasehold improvements	(11,674)	—	—	(11,674)
Proceeds from sale of WPC non-core product lines	4,204	—	—	4,204
Net cash flows used in investing activities	(7,470)	—	—	(7,470)
Cash flows from financing activities:				
Proceeds from issuance of senior subordinated notes	86,275	—	—	86,275
Proceeds from borrowings on revolver	40,000	—	—	40,000
Proceeds from issuance of common stock	282	—	—	282
Payments received for common stock subscription receivable	5,000	—	—	5,000
Payments received on loans to executive officer	80	—	—	80
Repayment of borrowings on term debt	(98,236)	—	—	(98,236)
Repayment of borrowings on revolver	(40,000)	—	—	(40,000)
Payments for capital lease obligation	(587)	—	—	(587)
Payments for debt issuance costs	(2,924)	—	—	(2,924)
Payments for treasury stock	(96)	—	—	(96)
Change in cash overdraft	1,506	—	—	1,506
Other financing and intercompany activities	(455)	455	—	—
Net cash flows from (used in) financing activities	(9,155)	455	—	(8,700)
Net increase in cash and cash equivalents	941	154	—	1,095
Cash and cash equivalents, beginning of year	10,191	127	—	10,318
Cash and cash equivalents, end of year	$ 11,132	$ 281	$ —	$ 11,413

UNITED INDUSTRIES CORPORATION AND SUBSIDIARIES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2002

	Parent	Subsidiary Guarantors	Eliminations	Consolidated
Cash flows from operating activities:				
Net income (loss)	$ 25,336	$ (1,540)	$ 1,540	$ 25,336
Adjustments to reconcile net income (loss) to net cash flows from operating activities:				
Depreciation and amortization	7,991	2,249	—	10,240
Amortization of deferred financing fees	3,280	—	—	3,280
Deferred income tax expense	3,438	—	—	3,438
Equity (income) loss in subsidiaries	1,540	—	(1,540)	—
Changes in operating assets and liabilities, net of effects from acquisitions:				
Accounts receivable	12,726	23,580	(9,727)	26,579
Inventories	(5,383)	(21,309)	6,798	(19,894)
Prepaid expenses	(3,054)	(229)	—	(3,283)
Other assets	5,995	—	—	5,995
Accounts payable	(9,331)	(4,554)	—	(13,885)
Accrued expenses	5,175	2,548	—	7,723
Facilities and organizational rationalization costs	(3,216)	—	—	(3,216)
Dursban related costs	(82)	—	—	(82)
Other operating activities, net	(6,945)	—	2,929	(4,016)
Net cash flows from operating activities	37,470	745	—	38,215
Cash flows from investing activities:				
Purchases of equipment and leasehold improvements	(965)	(5,485)	—	(6,450)
Purchase of facilities and equipment from U.S. Fertilizer	(4,000)	—	—	(4,000)
Payments for Schultz merger, net of cash acquired	(38,300)	—	—	(38,300)
Payments for WPC Brands acquisition, net of cash acquired	(19,500)	—	—	(19,500)
Net cash flows used in investing activities	(62,765)	(5,485)	—	(68,250)
Cash flows from financing activities:				
Proceeds from additional term debt	90,000	—	—	90,000
Proceeds from issuance of common stock	17,500	—	—	17,500
Payments received for common stock subscription receivable	2,500	—	—	2,500
Payments received on loans to executive officer	48	—	—	48
Repayment of borrowings on term debt	(14,858)	—	—	(14,858)
Repayment of debt assumed in Schultz merger	—	(20,662)	—	(20,662)
Repayment of borrowings on revolver	(23,450)	—	—	(23,450)
Payments for capital lease obligation	(405)	—	—	(405)
Payments for debt issuance costs	(4,700)	—	—	(4,700)
Change in cash overdraft	(5,620)	—	—	(5,620)
Other financing and intercompany activities	(25,529)	25,529	—	—
Net cash flows from financing activities	35,486	4,867	—	40,353
Net increase in cash and cash equivalents	10,191	127	—	10,318
Cash and cash equivalents, beginning of year	—	—	—	—
Cash and cash equivalents, end of year	$ 10,191	$ 127	$ —	$ 10,318

Note 25—Recently Issued Accounting Standards

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities—an interpretation of ARB No. 51," which requires variable interest entities to be consolidated by their primary beneficiaries. A primary beneficiary is the party that absorbs a majority of the entity's expected losses or receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. In December 2003, the FASB revised FIN 46 to provide companies with clarification of key terms, additional exemptions for application and an extended initial application period. FIN 46 is currently effective for all variable interest entities created or modified after January 31, 2003 and special purpose entities created on or before January 31, 2003. The FASB's December 2003 revision to FIN 46 makes the Interpretation effective for all other variable interests beginning March 31, 2004. The Company has no special purpose, or variable interest, entities. Therefore, the adoption of FIN 46, as revised, is not expected to have a material impact on the Company's consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is effective for contracts entered into or modified after December 31, 2003 and for hedging relationships designated after December 31, 2003. The provisions of this Statement that relate to Statement 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. The adoption of SFAS No. 149 did not have a material impact on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity and requires the classification of such financial instruments as liabilities (or assets in certain circumstances). Many of those instruments were previously permitted to be classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. The adoption of SFAS No. 150 did not have a material impact on the Company's consolidated financial statements.

Note 26—Subsequent Events

Aircraft Lease

In February 2004, the Company executed a capital lease agreement for the use of a corporate aircraft for $4.6 million. The Company is actively seeking to identify a buyer for its existing corporate aircraft held under capital lease.

Bayer Transactions

Following the termination of the In-Store Service Agreement, in December 2003, the Company gave notice to Bayer regarding its exercise of the option to repurchase all outstanding common stock previously issued to Bayer. Bayer disputed the Company's interpretation of the Exchange Agreement and its calculation of the repurchase price. As a result, the Company and Bayer entered negotiations to determine an agreed upon repurchase price based on equations included in the Exchange Agreement and other factors. The Company commenced an arbitration proceeding against Bayer to resolve the dispute on January 30, 2004. However, the Company and Bayer reached a negotiated settlement of the dispute on February 23, 2004, pursuant to which Bayer agreed to deliver all of its shares of the Company's common stock to the Company in exchange for a cash payment of $1.5 million, cancellation of $22.5 million in remaining payments required to be made in connection with the common stock subscription receivable and forgiveness of interest related to such payments of $0.3 million.

The Company recorded treasury stock of $24.4 million, based on the consideration given to Bayer, reduced the common stock subscription receivable by $22.5 million, the remaining balance on the date of repurchase, and reversed the common stock repurchase option of $2.6 million as a result of its exercise and recorded a corresponding amount to additional paid-in capital. As a result of this transaction, both parties agreed that the Exchange Agreement and In-Store Service Agreement are fully terminated, with the exception of certain provisions contained therein that expressly survive termination, and that the Supply

Agreement shall remain in full force and effect according to its terms. Under the terms of the Supply Agreement, any remaining balance at January 30, 2009 is unconditionally and immediately payable to the Company by Bayer regardless of whether the Company purchases ingredients under the Supply Agreement or not. As of December 31, 2003, the remaining balance of the Supply Agreement was $5.3 million.

CustomerAgreement

In February 2004, the Company and its largest customer executed a licensing, manufacturing and supply agreement (the Agreement), which is subject to approval by the Company's lenders and Board of Directors. Under the Agreement, the Company will license certain of its trademarks and be the exclusive manufacturer and supplier for certain products branded with such trademarks from January 1, 2004, the effective date of the Agreement, through December 31, 2008 or such later date as is specified in the Agreement. Provided the customer achieves certain required minimum purchase volumes and other conditions during such period, and the manufacturing and supply portion of the Agreement is extended for an additional three-year period as specified in the Agreement, the Company will assign the trademarks to the customer not earlier than May 1, 2009, but otherwise within thirty days after the date upon which such required minimum purchase volumes are achieved. The carrying value of such trademarks as of December 31, 2003 was estimated at $16.0 million. If the customer fails to achieve the required minimum purchase volumes or meet other certain conditions, assignment may occur at a later date, if certain conditions are met. In addition, as a result of executing the Agreement, the Company has modified the trademarks' initial amortization period of 40 years and will record amortization in a manner consistent with projected sales activity over five years, commensurate with the term of the Agreement.

DefinitiveAgreement for Nu-Gro Acquisition

In March 2004, the Company and a newly-created wholly-owned subsidiary of the Company entered into a definitive agreement to acquire all of the outstanding common shares of Nu-Gro, a lawn and garden products company incorporated under the laws of Ontario, Canada, for an aggregate purchase price of $143.8 million in cash. Shares of Nu-Gro's common stock are publicly traded on the Toronto Stock Exchange. Consummation of the transaction is subject to customary conditions to closing, including regulatory, court and Nu-Gro shareholder approval. The Company expects to close the transaction during the second quarter of 2004. In connection with the definitive agreement, the Company also entered into an agreement with Oakwest Corporation Limited and certain related Nu-Gro shareholders who together hold approximately 26% of Nu-Gro's shares, pursuant to which such stockholders have agreed to vote in favor of the transaction. The transaction will be accounted for by the Company as an acquisition, and accordingly, the results of operations of Nu-Gro will be included in the Company's results of operations from the date of acquisition.

Refinancing

In connection with the execution of the Nu-Gro definitive agreement and to finance the repurchase of the Company's outstanding Series B Notes, the repurchase of its outstanding Class A nonvoting preferred stock and the repayment of accrued dividends thereon, the Company has obtained a commitment letter from Bank of America, N.A., Banc of America Securities LLC, Citigroup Global Markets, Inc. and Citicorp North America, Inc. for the refinancing of its existing Senior Credit Facility. The commitment letter provides for a $510.0 million amended and restated senior secured credit facility consisting of a new seven-year $385.0 million term loan facility and a new six-year $125.0 million revolving credit facility. Principal and interest payments on the new senior credit facility will be payable in consecutive quarterly installments and will bear interest at rates more favorable than the existing Senior Credit Facility, subject to adjustment depending on certain financial ratios. Consummation of the refinancing is subject to negotiation of mutually agreeable definitive agreements, completion of the Nu-Gro acquisition and other customary closing conditions and is expected to occur by the second quarter of 2004. In addition, Bank of America, N.A. has agreed to loan the Company up to $105.0 million in connection with the acquisition of all of the outstanding shares of Nu-Gro, which loan will be due and payable one business day after funding of the loan. This loan is being used to achieve favorable tax results and is expected to be repaid immediately.

REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors
United Industries Corporation and Subsidiaries:

Our audits of the consolidated financial statements referred to in our report dated February 10, 2004, except for Note 26 which is as of March 2, 2004, appearing in this Annual Report on Form 10-K also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

St. Louis, Missouri
February 10, 2004

UNITED INDUSTRIES CORPORATION
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
(Dollars in thousands)

Column A	Column B	Column C	Column D	Column E
Description	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
Year ended December 31, 2003:				
Accounts receivable reserves	$ 3,171	$ 1,743	$ (2,161)	$ 2,753
Allowance for obsolete and slow-moving inventory	5,841	1,885	(2,108)	5,618
Valuation allowance for deferred tax assets	104,137	—	(104,137)	—
Accrued advertising and promotion expense	16,401	52,676	(59,165)	9,912
Year ended December 31, 2002:				
Accounts receivable reserves	$ 1,147	$ 2,055	$ (31)	$ 3,171
Allowance for obsolete and slow-moving inventory	2,700	5,424	(2,283)	5,841
Valuation allowance for deferred tax assets	112,272	—	(8,135)	104,137
Accrued advertising and promotion expense	12,125	41,296	(37,020)	16,401
Year ended December 31, 2001:				
Accounts receivable reserves	$ 777	$ 568	$ (198)	$ 1,147
Allowance for obsolete and slow-moving inventory	999	2,700	(999)	2,700
Valuation allowance for deferred tax assets	113,921	—	(1,649)	112,272
Accrued advertising and promotion expense	5,520	24,432	(17,827)	12,125

Exhibit 99.3

THE NU-GRO CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
Unaudited

As at [In Thousands, Cdn $]	Mar. 31 2004	Mar. 31 2003	Sept. 30 2003
	$	$	$
ASSETS			
CURRENT			
Cash	**3,190**	5,991	16,974
Accounts receivable, less reserves of $626 and $337 as at March 31, 2004 and 2003, respectively, and $415 at September 30, 2003	**54,824**	48,539	22,605
Inventories [note 3]	**55,323**	41,400	36,308
Prepaid and other expenses	**1,788**	2,219	1,852
TOTAL CURRENT ASSETS	**115,125**	98,149	77,739
Investment in equity accounted investee	**1,460**	—	879
Property, plant and equipment [note 4]	**39,242**	38,892	37,517
Trademarks	**6,379**	6,741	6,320
Goodwill	**9,904**	8,426	8,278
TOTAL ASSETS	**172,110**	152,208	130,733
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT			
Bank indebtedness [note 5]	**22,783**	17,203	—
Accounts payable	**22,848**	18,382	12,076
Accrued liabilities [note 6]	**9,029**	11,342	9,261
Income taxes payable	**816**	1,283	1,914
Current portion of long-term debt [note 5]	**5,225**	6,008	5,617
TOTAL CURRENT LIABILITIES	**60,701**	54,218	28,868
Long-term debt [note 5]	**8,101**	11,389	9,744
Deferred income taxes	**2,662**	2,208	2,679
TOTAL LIABILITIES	**71,464**	67,815	41,291
SHAREHOLDERS' EQUITY			
Share capital [note 7]			
Common stock, 17,275,042 issued and outstanding, unlimited authorized at March 31, 2004 (16,020,792 issued and outstanding at March 31, 2003)(16,128,692 issued and outstanding at September 30, 2003)	**40,063**	29,096	29,734
Warrants	**—**	1,288	1,288
Retained earnings	**63,870**	54,469	61,146
Accumulated other comprehensive loss	**(3,287)**	(460)	(2,726)
TOTAL SHAREHOLDERS' EQUITY	**100,646**	84,393	89,442
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**172,110**	152,208	130,733

See accompanying notes

THE NU-GRO CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Unaudited

CONSOLIDATED STATEMENTS OF INCOME

For the three and six months ended March 31 [In Thousands, Cdn $ except per share data]	Three Months		Six Months	
	2004	2003	2004	2003
	$	$	$	$
NET SALES	**56,313**	54,355	**83,370**	84,897
Cost of sales, excluding depreciation	**42,861**	40,925	**63,832**	64,764
	13,452	13,430	**19,538**	20,133
EXPENSES				
Sales, administration and marketing	**5,630**	5,120	**10,517**	9,650
Depreciation and amortization	**1,389**	1,320	**2,710**	2,664
Interest on long-term debt	**216**	288	**448**	589
Interest - other	**152**	186	**155**	180
Other income	**(62)**	—	**(127)**	—
	7,325	6,914	**13,703**	13,083
Income before income taxes	**6,127**	6,516	**5,835**	7,050
Income tax expense	**2,273**	2,296	**2,143**	2,530
NET INCOME	**3,854**	4,220	**3,692**	4,520
EARNINGS PER COMMON SHARE [note 8]				
Basic	**0.23**	0.27	**0.22**	0.28
Diluted	**0.23**	0.26	**0.22**	0.28
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	**16,798**	15,917	**16,463**	15,906
Diluted	**17,086**	16,105	**16,814**	16,091

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three and six months ended March 31 [In Thousands, Cdn $]	Three Months		Six Months	
	2004	2003	2004	2003
	$	$	$	$
Net income	**3,854**	4,220	**3,692**	4,520
Other comprehensive income:				
Currency gains/(losses) on U.S. translated subsidiaries	222	(1,853)	(561)	(1,990)
COMPREHENSIVE INCOME	**4,076**	2,367	**3,131**	2,530

See accompanying notes

THE NU-GRO CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

For the six months ended March 31 [In Thousands, Cdn $]	Six Months 2004	2003
	$	$
OPERATING ACTIVITIES		
Net income	**3,692**	4,520
Adjustments to reconcile net income to net cash flows used in operating activities:		
Depreciation and amortization	**2,710**	2,664
Gain on sale of property, plant and equipment	**(65)**	—
Changes in non-cash working capital items [note 9]	**(34,610)**	(28,782)
CASH USED IN OPERATING ACTIVITIES	**(28,273)**	(21,598)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(6,118)**	(1,340)
Acquisitions [note 10]	**(8,504)**	(1,419)
Investment in equity accounted investee	**(580)**	—
Proceeds on sales of property, plant and equipment	**1,000**	—
CASH USED IN INVESTING ACTIVITIES	**(14,202)**	(2,759)
FINANCING ACTIVITIES		
Bank indebtedness	**22,783**	17,203
Issuance of common shares for cash	**9,041**	460
Dividends	**(968)**	—
Repayment of long-term debt	**(2,035)**	(2,227)
CASH PROVIDED BY FINANCING ACTIVITIES	**28,821**	15,436
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**(130)**	(769)
NET DECREASE IN CASH DURING PERIOD	**(13,784)**	(9,690)
Cash, beginning of period	**16,974**	15,681
CASH, END OF PERIOD	**3,190**	5,991
SUPPLEMENTARY INFORMATION		
Interest paid	**603**	769
Receipt of mortgage receivable for sale of facility	**1,200**	—
Issuance of promissory note payable for acquisition	**—**	300
Income taxes paid	**3,271**	3,644

See accompanying notes

THE NU-GRO CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
Unaudited
March 31, 2004 and 2003

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

The Company (The Nu-Gro Corporation and its subsidiaries) manufactures and sells packaged consumer and commercial lawn and garden products including fertilizers, grass seed, soils, herbicides, rodenticides and insecticides. Nu-Gro's brand names include CIL®, Wilson®, Vigoro®, Pickseed®, So-Green®, Plant-Prod®, Greenleaf® and Green Earth®. Through its subsidiaries in Canada and the U.S., the Company produces and distributes controlled release nitrogen raw material to the fertilizer industry worldwide.

The accompanying consolidated financial statements include the accounts and balances of the Company and its wholly owned subsidiaries. All material intercompany transactions have been eliminated in consolidation. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, certain information and footnote disclosures typically included in the Company's annual consolidated financial statements have been condensed or omitted for this report. As such, this report should be read in conjunction with the consolidated financial statements and accompanying notes in the Company's annual consolidated financial statements and accompanying notes for the year ended September 30, 2003.

The accompanying consolidated financial statements are unaudited. In the opinion of management, such statements include all adjustments, which consist of only normal recurring adjustments, necessary for fair presentation of the results for the periods presented. Interim results are not necessarily indicative of results for a full year. Because our products are used primarily in the spring and summer seasons, our business is highly seasonal. As a result, results for the three and six months ended March 31, 2004 and 2003 are not indicative of annual results. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. STOCK-BASED COMPENSATION

The Company accounts for stock options issued to employees in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" and applies the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123." Under APB No. 25 and related interpretations, compensation expense is recognized using the intrinsic value method for the difference between the exercise price of the options and the estimated fair value of the Company's common stock on the date of grant. Consideration received by the Company on the exercise of stock options is credited to share capital.

SFAS No. 123 requires pro forma disclosure of the impact on earnings as if the Company determined stock-based compensation expense using the fair value method. The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model.

The following table presents net income, as reported, stock-based compensation expense that would have been recorded using the fair value method and pro forma net income that would have been reported had the fair value method been applied:

For the three and six months ended March 31 [In Thousands, Cdn $ except per share data]	Three Months		Six Months	
	2004	**2003**	**2004**	**2003**
Net income, as reported	**3,854**	4,220	**3,692**	4,520
Stock-based compensation expense using the fair value method, net of tax	**(13)**	(25)	**(26)**	(50)
Pro forma net income	**3,841**	4,195	**3,666**	4,470
As reported – basic EPS	**0.23**	0.27	**0.22**	0.28
As reported –diluted EPS	**0.23**	0.26	**0.22**	0.28
Pro forma basic EPS	**0.23**	0.26	**0.22**	0.28
Pro forma diluted EPS	**0.23**	0.26	**0.22**	0.28

3. INVENTORIES

Inventories consist of the following:

[In Thousands, Cdn $]	March 31, 2004	March 31, 2003	September 30, 2003
Raw materials and packaging	**14,420**	14,453	12,166
Bulk fertilizer	**11,171**	7,360	11,035
Packaged goods	**32,550**	22,211	14,855
Allowance for obsolete and slow-moving inventory	**(2,818)**	(2,624)	(1,748)
	55,323	41,400	36,308

4. PROPERTY, PLANT AND EQUIPMENT

March 31, 2004 [In Thousands, Cdn $]	Cost	Accumulated Depreciation/ Amortization	Net Book Value
Land	**1,861**	**—**	**1,861**
Buildings and leasehold improvements	**24,846**	**6,518**	**18,328**
Machinery and equipment	**33,471**	**15,625**	**17,846**
Print plates	**1,236**	**686**	**550**
Computer software/hardware	**2,804**	**2,147**	**657**
	64,218	**24,976**	**39,242**

March 31, 2003 [In Thousands, Cdn $]	Cost	Accumulated Depreciation/ Amortization	Net Book Value
Land	1,350	—	1,350
Buildings and leasehold improvements	22,356	5,637	16,719
Machinery and equipment	33,114	13,115	19,999
Print plates	1,117	601	516
Computer software/hardware	2,169	1,861	308
	60,106	21,214	38,892

September 30, 2003 [In Thousands, Cdn $]	Cost	Accumulated Depreciation/ Amortization	Net Book Value
Land	1,302	—	1,302
Buildings and leasehold improvements	20,955	5,964	14,991
Machinery and equipment	32,688	14,214	18,474
Print plates	1,283	749	534
Computer software/hardware	2,293	2,058	235
Assets held for sale	2,334	353	1,981
	60,855	23,338	37,517

For the three months ended March 31, 2004 and 2003 and the year ended September 30, 2003, depreciation and amortization expense on property, plant and equipment was $1,287,000, $1,194,000 and $4,867,000, respectively. Depreciation and amortization expense on property, plant and equipment for the six months ended March 31, 2004 is $2,501,000 [$2,425,000 for the six months ended March 31, 2003].

On November 14, 2003, the Company sold its Tillsonburg facility for $2,200,000 consisting of $1,000,000 in cash and a mortgage receivable for $1,200,000.

On December 18, 2003, the Company purchased the Brantford facility it previously leased. The purchase price was $4,500,000 including land, building and machinery and equipment.

5. BANK INDEBTEDNESS AND LONG-TERM DEBT

[In Thousands, Cdn $]	March 31, 2004	March 31, 2003	September 30, 2003
Term bank loans payable in monthly principal installments of $274 [$333 in 2003], plus interest at rates ranging from 6.20% to 6.81%. The loans mature at dates ranging from April 2005 to November 2005. A $7.0 million first mortgage of lease and a general security agreement has been provided as collateral.	**11,387**	14,673	13,030
Term bank loans payable in monthly principal installments of $65 plus interest at bank prime rate plus 0.25% [0.25% to 0.75% in 2003]. The term loans mature at dates ranging from April 2004 to December 2004. A general security agreement has been provided as collateral.	**1,939**	2,724	2,331
	13,326	17,397	15,361
Current portion	**5,225**	6,008	5,617
	8,101	11,389	9,744

The Company has available to it an operating line of $35,500,000 Canadian [or U.S. equivalent] at an interest rate of bank prime [3.75% at March 31, 2004 (4.75% at March 31, 2003; 4.50% at September 30, 2003)] for Canadian dollar borrowings and U.S. base rate [4.00% at March 31, 2004 (4.25% at March 31, 2003; 4.00% at September 30, 2003)] for U.S. dollar borrowings. As at March 31, 2004, $20,170,000 of the operating line was being utilized [$20,619,000 as at March 31, 2003; $0 as at September 30, 2003]. The bank indebtedness amounts on the accompanying consolidated balance sheets include certain amounts for outstanding checks, partially offset by positive cash balances at the Canadian subsidiaries. Collateral for the bank revolving operating lines of credit includes a general assignment of all inventories and accounts receivable as presented on the consolidated financial statements less potential prior-ranking claims. The facility is due and payable on demand from the bank and the bank may terminate this facility at any time, without notice or demand.

6. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

[In Thousands, Cdn $]	March 31, 2004	March 31, 2003	September 30, 2003
Customer programs	**4,520**	5,125	3,635
Freight	**954**	585	1,213
Salaries and benefits	**1,207**	1,743	2,645
Other	**2,348**	3,889	1,768
	9,029	11,342	9,261

7. SHARE CAPITAL

Changes in share capital are as follows:

Six months ended	March 31, 2004 Number of Shares/Warrants	March 31, 2004 Cdn $ [000's]	March 31, 2003 Number of Shares/Warrants	March 31, 2003 Cdn $ [000's]
COMMON SHARES				
Balance, beginning of period	**16,128,692**	**29,734**	15,893,292	28,631
Issued pursuant to existing warrants	**1,144,350**	**10,323**	100,000	380
Issued pursuant to existing stock options	**2,000**	**6**	27,500	85
Balance, end of period	**17,275,042**	**40,063**	16,020,792	29,096
WARRANTS				
Balance, beginning of period	**1,180,000**	**1,288**	1,280,000	1,293
Warrants exercised	**(1,144,350)**	**(1,249)**	(100,000)	(5)
Warrants expired	**(35,650)**	**(39)**	—	—
Balance, end of period	**—**	**—**	1,180,000	1,288
Total balance, end of period		**40,063**		30,384

On or prior to February 21, 2004, 1,144,350 outstanding warrants were exercised for total consideration of $9,035,000. A total of 35,650 warrants were not exercised and expired on February 22, 2004.

The following table presents the maximum number of common shares that would be outstanding if all instruments outstanding at March 31, 2004 were exercised:

Common shares	17,275,042
Stock options	283,900
	17,558,942

8. EARNINGS PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months		Six Months	
	2004	2003	2004	2003
Numerator for basic and diluted earnings per share available to common stockholders (000's Cdn $)	**$ 3,854**	$ 4,220	**$ 3,692**	$ 4,520
Denominator for basic earnings per share - weighted average shares outstanding (000's)	**16,798**	15,917	**16,463**	15,906
Effect of dilutive securities (000's):				
Warrants	—	1	—	—
Employee stock options	288	187	352	184
Dilutive potential common shares (000's)	**288**	188	**352**	184
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions (000's)	**17,086**	16,105	**16,814**	16,091
Earnings per share (Cdn $)				
Basic	**$ 0.23**	$ 0.27	**$ 0.22**	$ 0.28
Diluted	**$ 0.23**	$ 0.26	**$ 0.22**	$ 0.28

9. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

For the three and six months ended March 31 [In Thousands, Cdn $]	Six Months	
	2004	2003
Increase in accounts receivable	(29,230)	(27,930)
Increase in inventories	(14,041)	(7,000)
Decrease (increase) in prepaid and other expenses	103	(324)
Increase in accounts payable	9,885	4,324
(Decrease) increase in accrued liabilities	(232)	3,167
Decrease in income taxes payable	(1,095)	(1,019)
	(34,610)	(28,782)

10. ACQUISITIONS

a) On November 3, 2003, the Company acquired certain assets and liabilities of Greenleaf Products Inc., Later Chemicals Ltd. and Midpoint Products Inc. to complement the portfolio of products and to provide customers with efficiencies in terms of sales contracts, product offering, customer service training, supply chain management and in-store merchandising. Operating results from the acquired businesses were recorded from the date of acquisition. The cash purchase price of $8,504,000 was allocated as follows:

[In Thousands, Cdn $]	$
Accounts receivable	3,194
Inventories	5,134
Goodwill	1,675
Trademarks	500
Property, plant and equipment	219
Accounts payable	(2,218)
	8,504

As a result of these acquisitions, assuming the acquisitions had taken effect at the beginning of the period, a pro forma consolidated statement of income for the six months ended March 31, 2004 would have reported higher sales of $1,185,000 and lower net income of $175,000. Pro forma basic and diluted earnings per share would have decreased by $0.01 to $0.21.

b) On October 10, 2002, the Company acquired the Canadian consumer water-soluble fertilizer business of Plant Products Co. Ltd. The purchase price of $1,719,000 was allocated as follows:

[In Thousands, Cdn $]	$
Inventories	969
Property, plant and equipment	200
Trademarks	50
Goodwill	500
	1,719

Funded By:

[In Thousands, Cdn $]	$
Cash	1,419
Promissory note payable	300
	1,719

11. SEGMENT INFORMATION

The Company has three reportable segments: consumer products, professional products and fertilizer raw material.

The consumer products segment comprises a variety of fertilizer, soil and pesticide products primarily for the retail lawn and garden industry in Canada. The professional products segment comprises a variety of fertilizer and pesticide products primarily for the golf and professional industry in Canada. The fertilizer raw material segment represents the manufacture and distribution of controlled release nitrogen raw material to the fertilizer industry worldwide. Segments were established primarily by product type and the customer base which represents the basis upon which management, including the Chief Executive Officer who is the chief operating decision maker of the Company, reviews and assesses the Company's financial performance. Segment profit is the primary measure of profitability used by management to assess the Company's financial performance.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company accounts for inter-segment sales as if the sales were to third parties, that is, at current market prices.

Three months ended March 31 [In Thousands, Cdn $]	CONSUMER PRODUCTS		PROFESSIONAL PRODUCTS		FERTILIZER RAW MATERIAL		TOTAL	
	2004	2003	2004	2003	2004	2003	2004	2003
Sales to external customers	**31,539**	22,505	**3,271**	5,221	**21,503**	26,629	**56,313**	54,355
Inter-segment sales	**—**	—	**—**	—	**2,826**	952	**2,826**	952
Segment profit	**6,351**	4,881	**839**	1,091	**4,567**	5,664	**11,757**	11,636
Sales, administration and marketing							**5,630**	5,120
Income before income taxes							**6,127**	6,516
Components comprising segment profit:								
Depreciation and amortization	**612**	519	**108**	100	**669**	701	**1,389**	1,320
Interest expense	**251**	314	**50**	71	**67**	89	**368**	474
Other (income)	**—**	—	**—**	—	**(62)**	—	**(62)**	—
Income tax expense (recovery)	**766**	734	**(13)**	(107)	**1,520**	1,669	**2,273**	2,296
Total assets	**95,417**	70,564	**28,690**	27,501	**48,003**	54,143	**172,110**	152,208
Capital expenditures:								
Excluding business acquisitions	**942**	484	**—**	226	**—**	—	**942**	710
Business acquisitions	**—**	—	**—**	—	**—**	—	**—**	—
Additions to trademarks	**—**	—	**—**	—	**—**	—	**—**	—
Additions to goodwill	**—**	—	**—**	—	**—**	—	**—**	—

Six months ended March 31 [In Thousands, Cdn $]	CONSUMER PRODUCTS		PROFESSIONAL PRODUCTS		FERTILIZER RAW MATERIAL		TOTAL	
	2004	2003	2004	2003	2004	2003	2004	2003
Sales to external customers	**40,186**	28,451	**9,512**	13,987	**33,672**	42,459	**83,370**	84,897
Inter-segment sales	**—**	—	**—**	—	**3,339**	4,223	**3,339**	4,223
Segment profit	**7,215**	5,496	**2,466**	3,064	**6,671**	8,140	**16,352**	16,700
Sales, administration and marketing							**10,517**	9,650
Income before income taxes							**5,835**	7,050
Components comprising segment profit:								
Depreciation and amortization	**1,035**	839	**334**	413	**1,341**	1,412	**2,710**	2,664
Interest expense	**349**	415	**118**	189	**136**	165	**603**	769
Other (income)	**—**	—	**(65)**	—	**(462)**	—	**(527)**	—
Income tax expense (recovery)	**234**	257	**28**	(101)	**1,881**	2,374	**2,143**	2,530
Total assets	**95,417**	70,564	**28,690**	27,501	**48,003**	54,143	**172,110**	152,208
Capital expenditures:								
Excluding business acquisitions	**6,118**	959	**—**	381	**—**	—	**6,118**	1,340
Business acquisitions	**219**	200	**—**	—	**—**	—	**219**	200
Additions to trademarks	**500**	50	**—**	—	**—**	—	**500**	50
Additions to goodwill	**1,675**	500	**—**	—	**—**	—	**1,675**	500

12. SUBSEQUENT EVENT

On April 30, 2004, the Company's publicly held shares (Toronto Stock Exchange listed "NU") were tendered to a subsidiary of United Industries Corporation of St. Louis, MO ("United") under the Arrangement Agreement dated March 1, 2004 and amended March 19, 2004 in exchange for $11.00 per share at which time the Company became a 100% owned subsidiary of United. Prior to the exchange of shares for cash, a dividend of $0.12 per share was paid to shareholders of record on April 30, 2004. On the date of tender, all outstanding bank debt was repaid in full and credit facilities described in note 5 were cancelled.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Directors of
The Nu-Gro Corporation:

We have audited the accompanying consolidated balance sheets of **The Nu-Gro Corporation and Subsidiaries (the "Company")** as of September 30, 2003 and 2002 and the related consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of September 30, 2003 and 2002 and the consolidated results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

On October 24, 2003, except as to Note 20[b], which is as of November 3, 2003, we reported separately to the shareholders of the Company on the consolidated financial statements as of September 30, 2003 and 2002 and for the years then ended, audited in accordance with Canadian generally accepted auditing standards and prepared in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Ernst & Young LLP, Chartered Accountants

Kitchener, Canada,
October 24, 2003
(except as to note 23 which is as of April 30, 2004).

THE NU-GRO CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

As at September 30

[In Thousands, Cdn $]	**2003**	**2002**
	$	**$**
ASSETS		
CURRENT		
Cash	**16,974**	15,681
Accounts receivable, less reserves of $415 and $518 as at September 30, 2003 and 2002, respectively [note 3]	**22,605**	21,278
Inventories [note 5]	**36,308**	33,817
Prepaid and other expenses	**1,852**	1,975
TOTAL CURRENT ASSETS	**77,739**	72,751
Investment in equity accounted investee	**879**	—
Property, plant and equipment [note 6]	**37,517**	40,066
Trademarks [note 7]	**6,320**	7,123
Goodwill [note 8]	**8,278**	8,071
TOTAL ASSETS	**130,733**	128,011
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Accounts payable	**12,076**	14,182
Accrued liabilities [note 10]	**9,261**	8,175
Income taxes payable	**1,914**	2,397
Current portion of long-term debt [note 11]	**5,617**	6,655
TOTAL CURRENT LIABILITIES	**28,868**	31,409
Long-term debt [note 11]	**9,744**	12,970
Deferred income taxes [note 15]	**2,679**	2,230
TOTAL LIABILITIES	**41,291**	46,609
Commitments [notes 17 & 18]		
SHAREHOLDERS' EQUITY		
Share capital [note 12]		
Common stock, 16,128,692 issued and outstanding, unlimited authorized at September 30, 2003 (15,893,292 issued and outstanding at September 30, 2002).	**29,734**	28,533
Warrants	**1,288**	1,391
Retained earnings	**61,146**	49,948
Accumulated other comprehensive (loss) income [note 13]	**(2,726)**	1,530
TOTAL SHAREHOLDERS' EQUITY	**89,442**	81,402
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**130,733**	128,011

See accompanying notes

THE NU-GRO CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years ended September 30

CONSOLIDATED STATEMENTS OF INCOME

[In Thousands, Cdn $, except for earnings per share]	2003	2002
	$	$
NET SALES	**193,474**	174,665
Cost of sales, excluding depreciation	**147,033**	130,280
	46,441	44,385
EXPENSES		
Sales, administration and marketing	**21,160**	20,211
Depreciation and amortization [notes 6 & 7]	**5,305**	5,402
Equity investment income [note 4]	**—**	(60)
Interest on long-term debt	**1,105**	1,361
Interest – other	**280**	624
	27,850	27,538
Income before income taxes	**18,591**	16,847
Income taxes [note 15]	**6,592**	6,040
NET INCOME	**11,999**	10,807
EARNINGS PER COMMON SHARE [note 14]		
Basic	**0.75**	0.72
Diluted	**0.74**	0.71

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[In Thousands, Cdn $]	2003	2002
	$	$
Net income	**11,999**	10,807
Other comprehensive income:		
Currency gains/(losses) on U.S. translated subsidiaries	**(4,256)**	160
COMPREHENSIVE INCOME	**7,743**	10,967

See accompanying notes

THE NU-GRO CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended September 30

[In thousands, Cdn $]	Common Stock		Warrants		Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Total Shareholders' Equity
	Shares	Amounts	Shares	Amounts			
	#	$	#	$	$	$	$
Balance at September 30, 2001	13,706,292	15,738	200,000	206	39,141	1,370	56,455
Issuance of common stock and warrants	2,187,000	12,795	1,180,000	1,288	—	—	14,083
Warrants exercised	—	—	(100,000)	(103)	—	—	(103)
Net income	—	—	—	—	10,807	—	10,807
Gain on translation of foreign operations	—	—	—	—	—	160	160
Balance at September 30, 2002	**15,893,292**	**28,533**	**1,280,000**	**1,391**	**49,948**	**1,530**	**81,402**
Issuance of common stock	235,400	1,201	—	—	—	—	1,201
Warrants exercised	—	—	(100,000)	(103)	—	—	(103)
Net income	—	—	—	—	11,999	—	11,999
Dividends	—	—	—	—	(801)	—	(801)
(Loss) on translation of foreign operations	—	—	—	—	—	(4,256)	(4,256)
Balance at September 30, 2003	**16,128,692**	**29,734**	**1,180,000**	**1,288**	**61,146**	**(2,726)**	**89,442**

See accompanying notes

THE NU-GRO CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended September 30

[In Thousands, Cdn $]	2003	2002
	$	$
OPERATING ACTIVITIES		
Net income	**11,999**	10,807
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	**5,305**	5,402
Equity investment income	**—**	(60)
Deferred income taxes	**449**	427
Changes in non-cash working capital items [note 16]	**(6,652)**	7,784
NET CASH PROVIDED BY OPERATING ACTIVITIES	**11,101**	24,360
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(2,688)**	(3,725)
Investment in joint venture	**(879)**	—
Acquisitions [note 4[c]]	**(1,419)**	(361)
NET CASH USED IN INVESTING ACTIVITIES	**(4,986)**	(4,086)
FINANCING ACTIVITIES		
Bank indebtedness	**—**	(15,264)
Issuance of common shares and warrants for cash [note 12]	**1,098**	13,680
Dividends	**(801)**	—
Repayment of long-term debt	**(4,264)**	(5,034)
NET CASH USED IN FINANCING ACTIVITIES	**(3,967)**	(6,618)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**(855)**	68
NET INCREASE IN CASH DURING YEAR	**1,293**	13,724
Cash, beginning of year	**15,681**	1,957
CASH, END OF YEAR	**16,974**	15,681
SUPPLEMENTARY INFORMATION		
Interest paid	**1,385**	1,985
Issuance of promissory note payable for acquisition	**—**	300
Income taxes paid	**6,961**	3,149

See accompanying notes

1. DESCRIPTION OF BUSINESS

The Company (The Nu-Gro Corporation and its subsidiaries) manufactures and sells packaged consumer and commercial lawn and garden products including fertilizers, grass seed, soils, herbicides, rodenticides and insecticides. Nu-Gro's brand names include CIL®, Wilson®, Vigoro®, Pickseed®, So-Green®, Plant-Prod®, Greenleaf® and Green Earth®. Through its subsidiaries in Canada and the U.S., the Company produces and distributes controlled release nitrogen raw material to the fertilizer industry worldwide.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles in the United States of America. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company, its wholly owned Canadian subsidiaries SCU Nitrogen Inc., Wilson Laboratories Inc., Nu-Gro IP Inc., EroGreen Seeds Inc., Mor-Pac Limited, and its wholly-owned U.S. subsidiaries, Nu-Gro America Corp., Nu-Gro Technologies Inc., and IB Nitrogen Inc.

The purchase accounting method has been used to account for all acquisitions and the results of operations of businesses acquired are included only from the effective date of their respective acquisitions. Intercompany balances and transactions, including profits in inventories, are eliminated during consolidation. The purchase price for each acquisition was allocated to assets acquired and liabilities assumed based on estimated fair values.

During fiscal 2003, the Company entered into a joint venture agreement with Agronomic Growth Industries. The Company's 50% interest in this joint venture, The Nu-Spec Corporation, is accounted for using the equity method, which separately records the net investment in the investee including debt, equity and accumulated earnings on the balance sheet, and separately records the Company's proportionate share of the investee's income/loss on the consolidated statements of income.

During fiscal 2002, the Company purchased the remaining 50% interest in Mor-Pac Limited (note 4[b]).

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid temporary cash investments, with an original maturity of three months or less when purchased, to be cash equivalents. Cash equivalents are carried at cost, which approximates market value.

INVENTORIES

Inventories are valued at the lower of cost and market value with cost being determined on the first-in, first-out basis. Finished goods cost includes an applicable share of direct labor and manufacturing expenses. Market value is net realizable value for packaged goods and is replacement cost for raw materials, packaging and bulk fertilizer. An allowance for obsolete or slow-moving inventory is recorded based on the Company's analysis of inventory levels and future sales forecasts. In the event that estimates of future usage and sales differ from actual results, the allowance for obsolete or slow-moving inventory may be adjusted.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost, which includes capitalized interest incurred during the construction period. Depreciation and amortization is provided on the straight-line basis over the expected lives of the assets commencing when the asset is available for use or in the case of leasehold improvements, the lease term, if shorter, using the following useful lives:

Buildings and leasehold improvements	10 –20 years
Machinery and equipment	5 – 10 years
Print plates	3 years
Computer software/hardware	3 years

Maintenance, repairs and minor renewals are expensed as incurred. When equipment is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any related gains or losses are reflected in results of operations.

LONG-LIVED ASSETS

The Company evaluates the recoverability of long-lived assets, including equipment and leasehold improvements, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If a review indicates that the carrying value of an asset is not recoverable based on its undiscounted future cash flows, a loss is recognized for the difference between its fair value and carrying value.

TRADEMARKS

Trademarks are carried at cost. Amortization is provided on a straight-line basis over 20 years, which is the expected asset life.

GOODWILL

The Company has acquired or made acquisitions in the past that resulted in the recording of goodwill. Goodwill represents the excess of the purchase price consideration over the fair value of net assets of acquired businesses. Under generally accepted accounting principles in effect prior to fiscal 2002, these assets were amortized over their estimated useful lives, and were tested periodically to determine if they were recoverable from operating earnings over their useful lives. Beginning effective October 1, 2001, goodwill is no longer amortized and is subject to impairment testing at least annually. The Company also evaluates the recoverability of goodwill for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such events or changes in circumstances could include such factors as changes in technological advances, fluctuations in the fair value of such assets or adverse changes in customer relationships or vendors. Recoverability is evaluated by the reporting unit components within the Company’s operating segments (see Note 21 [A]). If a review using current market rates, discounted or undiscounted cash flows, as applicable, and other methods indicates that the carrying value of goodwill is not recoverable, the carrying value of such asset is reduced to estimated fair value. No impairments existed as of September 30, 2003 and 2002. Prior to fiscal 2002, goodwill was amortized using the straight-line method over 20 years and recorded as part of depreciation and amortization in the accompanying consolidated statements of income.

INCOME TAXES

Income taxes are accounted for under the liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial reporting basis and the tax basis of assets and liabilities at enacted tax rates expected to be in effect when such amounts are recovered or settled.

FOREIGN CURRENCY TRANSLATION

The financial statements of the Company’s foreign operations, which are considered self-sustaining, are translated into Canadian dollars as follows:

- Assets and liabilities – at the rates of exchange in effect at the balance sheet date.
- Revenue and expense items – at rates of exchange approximating the average rates of exchange for the year.

- Exchange gains and losses arising on translation of the accounts of the foreign operations are deferred and taken to the consolidated statements of comprehensive income.

Transactions denominated in foreign currencies are recorded at exchange rates in effect at the related transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Resulting exchange gains or losses are included in the consolidated statements of income.

REVENUE RECOGNITION

Revenue is recognized when title and risk of loss transfers to the customer, which occurs upon shipment. Net sales represent gross sales less any applicable customer discounts from list price, customer returns and customer rebate programs.

SHIPPING EXPENSE

All revenues billed to customers for freight on goods purchased from the Company are recorded in net sales. Shipping and handling costs, which include freight out, distribution personnel, and warehousing and transfer costs, are included in cost of sales and amounted to $15,346,000 [$14,596,000 in 2002].

ADVERTISING EXPENSE

The Company advertises and promotes its products through national and regional media. Advertising and promotion costs are expensed as incurred, although costs incurred during interim periods are generally expensed ratably in relation to revenues. Advertising and promotion costs are included in sales, administration and marketing on the consolidated statements of income and were $4,779,000 and $4,796,000 for the years ended September 30, 2003 and 2002, respectively.

STOCK-BASED COMPENSATION PLAN

The Company has a stock-based compensation plan, which is described in note 12 [d]. The stock options are granted with an exercise price equal to the fair market value of the shares on the day of grant of the options. The Company accounts for stock options issued to employees in accordance with Accounting Principles Board (APB) Opinion No. 25, “Accounting for Stock Issued to Employees” and applies the disclosure provisions of SFAS No. 123, “Accounting for Stock-Based Compensation,” and SFAS No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123.” Under APB No. 25 and related interpretations, compensation expense is recognized using the intrinsic value method for the difference between the exercise price of the options and the estimated fair value of the Company’s common stock on the date of grant. Consideration received by the Company on the exercise of stock options is credited to share capital.

SFAS No. 123 requires pro forma disclosure of the impact on earnings as if the Company determined stock-based compensation expense using the fair value method. The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model. The following table presents net income, as reported, stock-based compensation expense that would have been recorded using the fair value method and pro forma net income and pro forma earnings per share that would have been reported had the fair value method been applied:

[In Thousands, except earnings per share, Cdn $]	**2003**	**2002**
	$	**$**
Net income, as reported	**11,999**	10,807
Stock-based compensation expense using the fair value method, net of tax	**(50)**	(100)
Pro forma net income	**11,949**	10,707
As reported – basic EPS	**0.75**	0.72
As reported – diluted EPS	**0.74**	0.71
Pro forma basic EPS	**0.75**	0.71
Pro forma diluted EPS	**0.74**	0.70

EARNINGS PER SHARE

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the potential dilution of securities by adding other common stock equivalents in the weighted average number of common shares outstanding during the period, if dilutive, and is calculated using the treasury stock method.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

CONCENTRATION OF CREDIT RISK

The Company's accounts receivable relate primarily to product sales to a range of customers in Canada and United States. Credit limits, credit evaluation and account monitoring procedures are utilized to minimize the risk of loss. Allowance for doubtful account reserves are based on managements' review of current overdue receivables, discussion with customers, credit trade references and historical payment patterns. Sales to geographic regions and to a major customer are presented in note 21[B].

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of cash, accounts receivable, accounts payable, accrued liabilities and income taxes payable approximate fair values due to the immediate or short-term maturities of these financial instruments. The fair value of obligations under long-term debt, calculated at the present value of future contractual payments of principal and interest, discounted at the current market rates of interest available to the Company for debt instruments with similar terms and maturity, is disclosed in note 11.

4. ACQUISITIONS

a) On October 10, 2002, the Company acquired the Canadian consumer water soluble fertilizer business of Plant Products Co. Ltd. to complement the portfolio of products and to provide customers with efficiencies in terms of sales contracts, product offering, customer service, training, supply chain management and in-store merchandising. The purchase price of $1,719,000 is allocated, based on estimated fair values, as follows:

[In Thousands, Cdn $]	$
Inventories	969
Property, plant and equipment	200
Trademarks	50
Goodwill	500
	1,719

Funded By:

[In Thousands, Cdn $]	$
Cash	1,419
Promissory note payable	300
	1,719

The non-interest bearing promissory note payable was due and payable in full on or before May 31, 2003. The note was paid in May 2003.

The acquired goodwill that was deductible for tax purposes was $500,000.

b) In June 2002, the Company acquired the remaining 50% interest in Mor-Pac Limited and the remaining 30% interest in EroGreen Seeds Inc. Previously, Mor-Pac was accounted for using the equity method. Both companies are now wholly owned subsidiaries and are fully consolidated as at September 30, 2002. The amounts paid on these transactions amounted to $250,000 and was allocated, based on estimated fair values, as follows:

[In Thousands, Cdn $]	$
Property, plant and equipment	720
Goodwill	250
Net working capital	(231)
Assumption of debt	(489)
	250

The purchase price was financed by the issuance of a promissory note payable in the amount of $180,000, payable in annual installments of $60,000 over three years, bearing interest at 5% and cash consideration of $70,000.

As a result of these acquisitions, assuming the acquisitions had occurred at the beginning of the period, a pro forma consolidated statement of income for fiscal 2002 would have reported higher sales of $1,216,000 and higher net income of $60,000. Pro forma basic and diluted earnings per share would have remained unchanged. For fiscal 2003, 100% of the results of operations of the acquired entities are included in the consolidated statement of income.

The goodwill on these transactions is not deductible for tax purposes.

c) Cash used in acquisition activities is comprised of the following:

[In Thousands, Cdn $]	2003	2002
	$	$
Purchase of certain assets of Plant Products Co. Ltd.	**1,419**	—
Purchase of equity interest in EroGreen Seeds Inc.	—	70
Payment of Nutralene and Nitroform additional consideration	—	291
	1,419	361

5. INVENTORIES

[In Thousands, Cdn $]	2003	2002
	$	$
Raw materials and packaging	**12,166**	12,786
Bulk fertilizer	**11,035**	8,463
Packaged goods	**14,855**	14,463
Allowance for obsolete and slow-moving inventory	**(1,748)**	(1,895)
	36,308	33,817

6. PROPERTY, PLANT AND EQUIPMENT

2003 [In Thousands, Cdn $]	Cost	Accumulated Depreciation/ Amortization	Net Book Value
	$	$	$
Land	**1,302**	—	**1,302**
Buildings and leasehold improvements	**20,955**	**5,964**	**14,991**
Machinery and equipment	**32,688**	**14,214**	**18,474**
Print plates	**1,283**	**749**	**534**
Computer software/hardware	**2,293**	**2,058**	**235**
Assets held for sale	**2,334**	**353**	**1,981**
	60,855	**23,338**	**37,517**

Assets held for sale include the Tillsonburg, Ontario property, plant and equipment. These assets form part of the professional products segment. No impairment has been recorded as proceeds exceeded book value at the date of disposition in November 2003 (note 23[c]).

2002 [In Thousands, Cdn $]	Cost	Accumulated Depreciation/ Amortization	Net Book Value
	$	$	$
Land	1,353	—	1,353
Buildings and leasehold improvements	22,068	5,096	16,972
Machinery and equipment	34,737	13,810	20,927
Print plates	1,489	1,005	484
Computer software/hardware	2,014	1,684	330
	61,661	21,595	40,066

Depreciation and amortization expense on property, plant and equipment is $4,867,000 [$4,945,000 in 2002].

7. TRADEMARKS

[In Thousands, Cdn $]	2003	2002
	$	$
Trademarks	**8,544**	9,078
Less accumulated amortization	**2,224**	1,955
NET BOOK VALUE	**6,320**	7,123

During the year, trademark additions amounted to $50,000 [$0 in 2002]. Amortization expense on trademarks is $438,000 [$457,000 in 2002]. The following table presents estimated amortization expense for trademarks during each of the next five years:

Fiscal year	Cdn $
	[000's]
2004	424
2005	424
2006	424
2007	424
2008	424

8. GOODWILL

[In Thousands, Cdn $]	2003	2002
	$	$
NET BOOK VALUE	**8,278**	8,071

During the year, goodwill additions amounted to $500,000 [$250,000 in 2002].

9. AVAILABLE LINE OF CREDIT

The Company has available to it an operating line of $35,500,000 Canadian [or U.S. equivalent] at an interest rate of bank prime [4.50% at September 30, 2003 (4.50% at September 30, 2002)] for Canadian dollar borrowings and U.S. base rate [4.00% at September 30, 2003 (4.75% at September 30, 2002)] for U.S. dollar borrowings. There was no balance outstanding on the operating line of credit as at September 30, 2003 [$0 as at September 30, 2002]. Collateral for the bank revolving operating lines of credit includes a general assignment of all inventories and accounts receivable as presented on the consolidated financial statements less potential prior-ranking claims. The facility is due and payable on demand from the bank and the bank may terminate this facility at any time, without notice or demand. Covenant compliance is discussed in note 11.

10. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

[In Thousands, Cdn $]	2003	2002
	$	$
Customer programs	**3,635**	3,136
Freight	**1,213**	1,006
Salaries and benefits	**2,645**	2,470
Other	**1,768**	1,563
	9,261	8,175

11. LONG-TERM DEBT

[In Thousands, Cdn $]	2003	2002
	$	$
Term bank loans payable in monthly principal installments of $274 [$333 in 2002], plus interest at rates ranging from 6.20% to 6.81%. The loans mature at dates ranging from April 2005 to November 2005. A $7.0 million first mortgage of lease and a general security agreement has been provided as collateral.	**13,030**	18,101
Term bank loans payable in monthly principal installments of $65 plus interest at bank prime rate plus 0.25% [0.25% to 0.75% in 2002]. The term loans mature at dates ranging from December 2003 to December 2004. A general security agreement has been provided as collateral.	**2,331**	1,524
	15,361	19,625
Current portion	**5,617**	6,655
	9,744	12,970

The aggregate fair value of the long-term debt is estimated at $15,677,000 at September 30, 2003 ($20,000,000 at September 30, 2002) based on the discounted future cash flows using current market rates of interest available for debt instruments with similar terms.

The principal repayments on long-term debt are as follows:

Fiscal year	Cdn $
	[000's]
2004	5,617
2005	5,310
2006	4,434
	15,361

The term bank loans and line of credit agreement (referred to as the “Credit Facilities”) contain restrictive affirmative, negative and financial covenants. Affirmative and negative covenants place restrictions on among other things, levels of investment, indebtedness, insurance, capital expenditures and dividend payments. The financial covenants require the maintenance of certain financial ratios at defined levels, measured monthly and quarterly. As of and during the years ended September 30, 2003 and 2002, the Company was in compliance with all covenants

12. SHARE CAPITAL

(A) AUTHORIZED

The authorized capital of the Company consists of an unlimited number of non-voting preferred shares issuable in series and an unlimited number of common shares.

(B) CHANGES IN SHARE CAPITAL

	2003		2002	
	Number of Shares/Warrants	Cdn $	Number of Shares/Warrants	Cdn $
		[000's]		[000's]
COMMON SHARES				
Balance, beginning of year	**15,893,292**	**28,533**	13,706,292	15,738
Equity issue	**—**	**—**	2,000,000	12,037
Issued pursuant to existing stock options and warrants	**235,400**	**1,201**	187,000	758
Balance, end of year	**16,128,692**	**29,734**	15,893,292	28,533
WARRANTS				
Balance, beginning of year	**1,280,000**	**1,391**	200,000	206
Warrants issued on equity issue	**—**	**—**	1,180,000	1,288
Warrants exercised	**(100,000)**	**(103)**	(100,000)	(103)
Balance, end of year	**1,180,000**	**1,288**	1,280,000	1,391
Total balance, end of year		**31,022**		29,924

The following table presents the maximum number of common shares that would be outstanding if all instruments outstanding at September 30, 2003 were exercised:

Common shares	16,128,692
Warrants	1,180,000
Stock options	285,900
	17,594,592

As at October 24, 2003, there is no change to the number of common shares, warrants, or stock options outstanding.

(C) EQUITY ISSUE

On February 21, 2002, the Company issued 2,000,000 units at $7.00/unit for gross proceeds of $14.0 million ($13,325,000 net of after tax issuance costs). Each unit consisted of one (1) common share and one-half (1/2) warrant. Each full warrant entitles the holder to purchase an additional common share at $8.00 during the twenty-four (24) month period subsequent to purchase of the units. Net cash proceeds on the equity issue amounted to $13,025,000 after all agent fees (which included the granting of 180,000 additional warrants on similar terms except that 120,000 warrants, with a fair value of $1.46 on the grant date, can be exercised at $7.00 per share). Fair value of warrants granted for the $8.00 exercise price was determined by using the Black-Scholes option-pricing model resulting in a value of $1.05 per warrant.

(D) STOCK OPTIONS

Stock options have been granted to certain senior employees and directors of the Company for the purchase of common shares with vesting occurring on a graduated basis up to a seven-year period. Stock options outstanding expire at various dates up to 2007. As at September 30, 2003 there are 285,900 options outstanding; 257,568 of which are vested. There are no shares available for future grants under the plan. A summary of option activity is shown below:

Options Outstanding	**Number**	**Exercise Price Cdn $ Range**	**Weighted Average Exercise Price Cdn $**
Balance, September 30, 2001	510,000	2.90 - 6.45	4.29
Granted during year	25,000	6.00	6.00
Exercised during year	(87,000)	2.90 – 3.55	3.21
Forfeited during year	(16,000)	3.55	3.55
Balance, September 30, 2002	432,000	2.90 – 6.45	4.63
Exercised during year	(135,400)	3.55 – 6.40	5.34
Forfeited during year	(10,700)	3.55 – 6.00	5.08
Balance, September 30, 2003	285,900	2.90 – 6.45	4.28

The weighted average characteristics of options outstanding and exercisable as at September 30, 2003 are as follows:

	Options Outstanding			**Options Exercisable**		
Range of Exercise Price Cdn $	**Number Outstanding**	**Weighted Average Remaining Life in Years**	**Weighted Average Exercise Price Cdn $**	**Number Outstanding**	**Weighted Average Remaining Life in Years**	**Weighted Average Exercise Price Cdn $**
2.90 – 3.55	162,500	2.7	3.03	152,500	2.8	2.99
5.50 – 6.45	123,400	2.1	5.94	105,068	2.0	5.89
TOTAL	285,900	2.4	4.28	257,568	2.5	4.17

(E) WARRANTS

There are 1,180,000 warrants outstanding; 120,000 are exercisable at $7.00 until February 21, 2004 and 1,060,000 are exercisable at $8.00 until February 21, 2004. During each of the years ended September 30, 2003 and 2002, 100,000 warrants were exercised at $3.75 per share.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

Other accumulated comprehensive income arises on the translation of foreign currency denominated assets and liabilities of self-sustaining foreign operations. The decrease in the balance during the year is predominately due to the decrease in the U.S. exchange rate in 2003 compared to 2002.

14. EARNINGS PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	2003	2002
Numerator for basic and diluted earnings per share available to common stockholders (000's Cdn $)	**$11,999**	$10,807
Denominator for basic earnings per share - weighted average shares outstanding (000's)	**15,971**	15,023
Effect of dilutive securities (000's):		
Warrants	8	46
Employee stock options	181	213
Dilutive potential common shares (000's)	**189**	259
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions (000's)	**16,160**	15,282
Earnings per share (Cdn $)		
Basic	**$ 0.75**	$ 0.72
Diluted	**$ 0.74**	$ 0.71

Excluded from the calculations above are anti-dilutive warrants. In total 1,060,000 warrants [1,060,000 warrants in 2002] were excluded from the diluted earnings per share calculation.

15. INCOME TAXES

The Company's provision for income taxes is comprised of:

[In Thousands, Cdn $]	2003	2002
	$	$
Income before income taxes - Canada	**12,166**	8,784
Income before income taxes - US	**6,425**	8,063
Income before income taxes	**18,591**	16,847
Income taxes at combined Canadian federal and provincial rates of 37% in 2003 [39% in 2002]	**6,901**	6,494
Increase (decrease) in income taxes applicable to:		
Foreign tax rate differential	**(18)**	(140)
Manufacturing and processing deduction	**(85)**	(410)
Large corporations tax	**73**	50
Benefit of tax loss carryforward	**(245)**	—
Other items	**(34)**	46
	6,592	6,040
Represented by:		
Current income taxes:		
Canadian federal	**2,552**	2,257
Canadian provincial	**1,978**	1,543
U.S. federal	**1,394**	1,573
U.S. State and local	**219**	240
Total current income taxes	**6,143**	5,613
Deferred income taxes:		
Canadian federal	**315**	259
Canadian provincial	**161**	133
U.S. federal	**(24)**	31
U.S. State and local	**(3)**	4
Total deferred income taxes	**449**	427
	6,592	6,040

The Company’s deferred income tax expense is comprised of the following timing differences:

[In Thousands, Cdn $]	2003	2002
	$	$
Property, plant and equipment	**308**	802
Trademarks	**(380)**	299
Financing costs	**53**	(240)
Other	**468**	(434)
TOTAL	**449**	**427**

The tax effects of the temporary differences that give rise to the liability for deferred income taxes are as follows:

[In Thousands, Cdn $]	2003	2002
	$	$
Property, plant and equipment	**2,273**	1,702
Trademarks	**350**	454
Financing costs	**(187)**	(240)
Inventories	**249**	249
Other	**(6)**	65
TOTAL	**2,679**	**2,230**

16. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

The changes in operating assets and liabilities consist of:

[In Thousands, Cdn $]	2003	2002
	$	$
Increase in accounts receivable	**(2,915)**	(224)
(Increase) decrease in inventories	**(2,758)**	3,063
Increase in prepaid and other expenses	**(39)**	(135)
(Decrease) increase in accounts payable	**(1,892)**	2,129
Increase in accrued liabilities	**1,180**	60
(Decrease) increase in income taxes payable	**(228)**	2,891
NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS	**(6,652)**	7,784

17. OPERATING LEASES

The minimum annual lease payments under operating leases for rental of buildings, machinery and equipment over the next five years in aggregate are as follows:

Fiscal year	Cdn $
	[000's]
2004	605
2005	266
2006	191
2007	122
2008	97
TOTAL FUTURE MINIMUM LEASE PAYMENTS	1,281

For the years ended September 30, 2003 and 2002, aggregate operating rental expense was $850,000 and $650,000, respectively.

18. COMMITMENTS

The Company has entered into several supply agreements, some of which require the purchase of a specified minimum amount of raw materials. The agreements have varying terms extending to 2009. The current minimum annual amount of purchases is approximately $7,500,000 as at September 30, 2003.

19. RELATED PARTY TRANSACTIONS

Transactions with related parties are measured at the exchange amount, and are presented below:

[In Thousands, Cdn $]	2003	2002
	$	$
Transactions with Oakwest Corporation Limited, a shareholder of the Company:		
Consulting fees paid during the year	**72**	72
Transactions with Mor-Pac Limited, to date control acquired:		
Purchases of packaged products during the period	—	1,176

20. BUSINESS INTERRUPTION INSURANCE PROCEEDS

In fiscal 2001, the Company's primary supplier of urea was shutdown due to a major malfunction of its manufacturing equipment. As a result of the loss of this supplier and the inability to source the high-grade urea elsewhere, a business interruption insurance claim was initiated. In fiscal 2002, the amounts received and recorded as a reduction in cost of sales was $700,000.

21. SEGMENT INFORMATION

(A) OPERATING SEGMENTS

The Company has three reportable segments: consumer products, professional products and fertilizer raw material.

The consumer products segment comprises a variety of fertilizer, soil and pesticide products primarily for the retail lawn and garden industry in Canada. The professional products segment comprises a variety of fertilizer and pesticide products primarily for the golf and professional industry in Canada. The fertilizer raw material segment represents the manufacture and distribution of controlled release nitrogen raw material to the fertilizer industry worldwide. Segments were established primarily by product type and the customer base which represents the basis upon which management, including the Chief Executive Officer who is the chief operating decision maker of the Company, reviews and assesses the Company's financial performance. Segment profit is the primary measure of profitability used by management to assess the Company's financial performance.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company accounts for inter-segment sales as if the sales were to third parties, that is, at current market prices.

	CONSUMER PRODUCTS		PROFESSIONAL PRODUCTS		FERTILIZER RAW MATERIAL		TOTAL	
[In Thousands, Cdn $]	2003	2002	2003	2002	2003	2002	2003	2002
	$	$	$	$	$	$	$	$
Sales to external customers	**74,825**	62,670	**38,895**	34,250	**79,754**	77,745	**193,474**	174,665
Intersegment sales	**—**	—	**—**	—	**9,926**	7,284	**9,926**	7,284
Segment profit	**14,387**	11,329	**8,906**	7,579	**16,458**	18,150	**39,751**	37,058
Sales, administration and marketing							**21,160**	20,211
Income before income taxes							**18,591**	16,847
Components comprising segment profit:								
Depreciation and amortization	**1,673**	1,639	**850**	908	**2,782**	2,855	**5,305**	5,402
Interest expense	**748**	799	**353**	450	**284**	736	**1,385**	1,985
Income tax expense	**1,374**	748	**851**	501	**4,367**	4,791	**6,592**	6,040
Total assets	**52,541**	45,792	**30,121**	24,760	**48,071**	57,459	**130,733**	128,011
Capital expenditures:								
Excluding business acquisitions	**1,702**	1,266	**672**	547	**314**	1,912	**2,688**	3,725
Business acquisitions	**200**	—	**—**	720	**—**	—	**200**	720
Additions to trademarks	**50**	—	**—**	—	**—**	—	**50**	—
Additions to goodwill	**500**	250	**—**	—	**—**	—	**500**	250

(B) GEOGRAPHIC

The following geographic information is presented based on location for property, plant and equipment, corporate jurisdiction for trademarks and goodwill, and in the case of sales, the location of the customer.

	CANADA		U.S.		OTHER		TOTAL	
[In Thousands, Cdn $]	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
	$	$	$	$	$	$	$	$
Sales to external customers	**111,887**	95,967	**75,820**	71,522	**5,767**	7,176	**193,474**	174,665
Property, plant and equipment	**34,725**	36,121	**2,792**	3,945	**—**	—	**37,517**	40,066
Trademarks	**4,026**	4,233	**2,294**	2,890	**—**	—	**6,320**	7,123
Goodwill	**6,605**	6,105	**1,673**	1,966	**—**	—	**8,278**	8,071

On a consolidated basis, the Company has one major customer, Canadian Tire Corporation, whose net sales represent 14% of the Company’s net sales [14% in 2002]. As of September 30, 2003 and 2002, this customer was responsible for 8% and 7% of accounts receivable, respectively.

22. RECENTLY ISSUED ACCOUNTING STANDARDS

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46 (FIN 46), “Consolidation of Variable Interest Entities—an interpretation of ARB No. 51,” which requires variable interest entities to be consolidated by their primary beneficiaries. A primary beneficiary is the party that absorbs a majority of the entity’s expected losses or receives a majority of the entity’s expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. The Company has no special purpose, or variable interest, entities. Therefore, the adoption of FIN 46, as revised, is not expected to have a material impact on the Company’s consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities.” SFAS No. 149 amends and clarifies financial reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities.” SFAS No. 149 is effective for contracts entered into or modified after December 31, 2003 and for hedging relationships designated after December 31, 2003. The provisions of this Statement that relate to Statement 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. The adoption of SFAS No. 149 did not have a material impact on the Company’s consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.” This statement establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity and requires the classification of such financial instruments as liabilities (or assets in certain circumstances). Many of those instruments were previously permitted to be classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. The adoption of SFAS No. 150 did not have a material impact on the Company’s consolidated financial statements.

23. SUBSEQUENT EVENTS

(A) On October 10, 2003, the Company entered into an agreement to acquire for $4,500,000 the land, building and certain equipment it leased in Brantford, Ontario. The transaction closed in December 2003.

(B) On November 3, 2003, the Company finalized an agreement to purchase certain assets and liabilities of Greenleaf Products Inc., Later Chemicals Ltd. and Midpoint Product Inc. The adjusted purchase price, which is subject to final turnback claims for inventory and accounts receivables, was $8,504,000, funded entirely in cash.

(C) On November 14, 2003, the Company sold its Tillsonburg facility for $2,200,000. Proceeds consisted of $1,000,000 in cash and a mortgage receivable for $1,200,000, bearing no interest and payable over three years in monthly installments of $33,000.

(D) On or prior to February 21, 2004, 1,144,350 outstanding warrants were exercised for total consideration of $9,035,000. A total of 35,650 warrants were not exercised and expired on February 22, 2004.

(E) On April 30, 2004, the Company's publicly held shares (Toronto Stock Exchange listed "NU") were tendered to a subsidiary of United Industries Corporation of St. Louis, MO ("United") under the Arrangement Agreement dated March 1, 2004 and amended March 19, 2004 in exchange for $11.00 per share at which time the Company became a 100% owned subsidiary of United. Prior to the exchange of shares for cash, a dividend of $0.12 per share was paid to shareholders of record on April 30, 2004. On the date of tender, all outstanding bank debt was repaid in full.

Exhibit 99.5

United Pet Group, Inc.

Consolidated Balance Sheets (Unaudited)
June 30, 2004 and December 31, 2003

(In Thousands, Except Share and Per Share Amounts)

	June 30, 2004	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 3,344	$ 10,306
Accounts receivable - trade, net of allowances of $3,668 and $3,087, respectively	25,013	24,915
Inventory, net	40,479	31,209
Prepaid expenses and other current assets	2,115	3,188
Deferred income taxes	3,982	4,295
Total current assets	74,933	73,913
Property and equipment, net	23,041	22,555
Other assets, noncurrent	3,262	1,493
Deferred income taxes	1,514	3,307
Deferred financing costs	1,587	1,962
Goodwill	50,937	50,309
Intangible assets, net	30,785	13,140
Total assets	$ 186,059	$ 166,679
Liabilities and Stockholders’ Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 9,388	$ 8,242
Accrued expenses	13,585	14,735
Borrowings under revolver	15,500	—
Notes payable, current portion	8,994	10,765
Warrant obligation	8,407	1,958
Total current liabilities	55,874	35,700
Notes payable	75,433	79,471
Note payable - related party	5,000	5,000
Other liabilities	346	141
Total liabilities	136,653	120,312
Commitments and contingencies (Note 15)		
Redeemable Preferred Stock:		
Redeemable preferred stock; $0.01 par value;		
Class A authorized 697,000 shares, none issued and outstanding at June 30, 2004 and December 31, 2003, respectively	—	—
Class B authorized 2,428,618 shares; none issued and outstanding at June 30, 2004 and December 31, 2003, respectively	—	—
Convertible participating preferred stock; $0.01 par value;		
Class A authorized 1,742,449 shares; 1,742,449 issued and outstanding at June 30, 2004 and December 31, 2003, respectively	43,000	43,000
Class B authorized 679,072 shares; 679,072 issued and outstanding at June 30, 2004 and December 31, 2003, respectively	20,000	20,000
Class C authorized 63,942 shares; 60,254 issued and outstanding at June 30, 2004 and December 31, 2003, respectively	1,225	1,225
Total redeemable preferred stock	64,225	64,225
Stockholders’ Equity (Deficit):		
Common stock: $0.01 par value;		
Common authorized 5,000,000 shares; 993,222 and 965,722 issued and outstanding at June 30, 2004 and December 31, 2003, respectively	11	10
Class A authorized 500,000 shares; 23,000 issued and outstanding at June 30, 2004 and December 31, 2003, respectively	—	—
Additional paid-in capital	2,748	1,495
Accumulated deficit	(15,221)	(17,791)
Accumulated other comprehensive income	27	104
Receivable from stockholders	(2,384)	(1,676)
Total stockholders’ equity (deficit)	(14,819)	(17,858)
Total liabilities and stockholders’ equity (deficit)	$ 186,059	$ 166,679

The accompanying notes are an integral part of these consolidated financial statements.

United Pet Group, Inc.
Consolidated Statements of Operations and Comprehensive Income (Unaudited)

For the Six Months Ended June 30, 2004 and 2003

(In Thousands)

	Six months ended June 30,	
	2004	**2003**
Net sales	$ 122,204	$ 100,090
Cost of goods sold	77,269	65,510
Gross profit	44,935	34,580
Operating expenses:		
Selling, general and administrative	25,568	22,228
Research and development	1,322	1,343
Facility closure costs	—	92
Non-capitalizable transaction related costs	—	190
Total operating expenses	26,890	23,853
Income from operations	18,045	10,727
Other income (expense):		
Interest expense, including change in warrant obligation	(10,399)	(3,854)
Other income, net	108	76
Income before income taxes	7,754	6,949
Provision for income taxes	5,184	2,913
Net income	2,570	4,036
Unrealized loss on hedge activities (net of tax benefit of $47)	(77)	—
Comprehensive income	$ 2,493	$ 4,036

The accompanying notes are an integral part of these consolidated financial statements.

United Pet Group, Inc.
Consolidated Statements of Cash Flows (Unaudited)

For the Six Months Ended June 30, 2004 and 2003

(In Thousands)

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Cash flows from operating activities:		
Net income	$ 2,570	$ 4,036
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,615	1,963
Deferred income taxes	1,478	—
Fair market value adjustment for warrant obligations	6,449	471
Changes in assets and liabilities, net of effects of business acquisitions:		
Accounts receivable	1,280	927
Inventory	(8,322)	(3,551)
Prepaid expenses and other current assets	1,003	(605)
Accounts payable	609	(1,925)
Accrued expenses and other liabilities	(686)	1,950
Net cash provided by operating activities	6,996	3,266
Cash flows from investing activities:		
Purchases of property and equipment	(2,018)	(2,291)
Business acquisition, net of cash received	(20,945)	(12,649)
Purchase of other assets, noncurrent	(686)	(71)
Net cash used in investing activities	(23,649)	(15,011)
Cash flows from financing activities:		
Deferred financing costs	—	(717)
Proceeds from line of credit	15,500	—
Proceeds from notes payable	—	15,000
Repayments of notes payable	(5,809)	(6,618)
Net cash provided by financing activities	9,691	7,665
Net decrease in cash	(6,962)	(4,080)
Cash at beginning of period	10,306	10,178
Cash at end of period	$ 3,344	$ 6,098
Noncash financing activities:		
Recording of goodwill and deferred tax asset related to Pets 'N People, Inc. (Note 7)	$ 628	$ —
Net issuance of restricted stock awards in exchange for notes receivable	$ 708	$ —

The accompanying notes are an integral part of these consolidated financial statements.

(In Thousands, Except Share Amounts)

1. Description of Business and Basis of Presentation

United Pet Group, Inc. (the "Company") is a manufacturer and marketer of aquatics products and specialty pet supply products for birds, small animals, dogs and cats. The Company reports financial results as one operating unit and sells its products primarily to distributors and retailers in the United States.

The accompanying consolidated financial statements include the accounts and balances of the Company and its majority-owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, certain information and footnote disclosures typically included in the Company's annual consolidated financial statements have been condensed or omitted for this report. As such, this report should be read in conjunction with the Company's annual consolidated financial statements and accompanying notes as of and for the year ended December 31, 2003.

The accompanying consolidated financial statements are unaudited. In the opinion of management, such statements include all adjustments, which consist of only normal recurring adjustments, necessary for fair presentation of the results for the periods presented. Interim results are not necessarily indicative of results for a full year. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Stock-Based Compensation

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of APB No. 25, "Accounting for Stock Issued to Employees," and complies with the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." Under APB No. 25, compensation cost, if any, is recognized over the respective vesting period based on the excess, if any, on the date of grant, of the fair value of the Company's common stock over the grant price. No compensation expense was recorded for the six month periods ended June 30, 2004 and 2003. Had the Company applied the provisions set forth in SFAS No. 123, the Company's net income would not be materially different from the amount presented for the six month periods ended June 30, 2004 and 2003.

3. Acquisition

On January 1, 2004, the Company completed its acquisition of substantially all of the assets and business of Dingo Brand, LLC ("Dingo"). The purchase price was $20,389 in cash plus related expenses of $626. The Company financed the acquisition with available cash and borrowings under its revolving credit facility. The purchase agreement includes a contingent payment provision that could result in additional purchase consideration of up to $6,000 subject to the attainment of specified sales levels of Dingo's products as defined. The Company is in the process of obtaining an independent appraisal of the value of the acquired trademarks and patents. The acquired business sells and distributes a line of dog chew and treat products. The purchase price has been preliminarily allocated as follows:

Cash	$ 100
Accounts receivable	1,378
Inventories	948
Prepaids	7
Patents	12,728
Trade names	6,364
Other intangibles	70
Property, plant and equipment	28
Accounts payable	(537)
Accrued expenses	(71)
	$21,015

The acquired patents are being amortized on a straight-line basis over their remaining lives, which range from 13 years to 20 years. Trade names are being amortized on a straight-line basis over their estimated useful lives of 30 years.

4. Inventory

Inventory consists of the following at June 30, 2004 and December 31, 2003:

	2004	2003
Raw materials and work-in-process	$24,470	$19,794
Finished goods	19,362	14,092
	43,832	33,886
Less: Reserve for obsolescence	(3,353)	(2,677)
Inventory, net	$40,479	$31,209

5. Property and Equipment

Property and equipment consist of the following at June 30, 2004 and December 31, 2003:

	Depreciation Lives	2004	2003
Land, buildings and improvements	20-40 years	$ 7,155	$ 6,422
Machinery and equipment	3-10 years	29,004	27,737
Office furniture and equipment	3-10 years	7,735	7,321
Leasehold improvements	Lease term (incl. renewals)	4,990	4,832
Construction in progress	—	1,315	1,535
		50,199	47,847
Less accumulated depreciation and amortization		(27,158)	(25,292)
Property and equipment, net		$ 23,041	$ 22,555

Depreciation expense related to property and equipment was $1,560 and $1,468 for the six months ended June 30, 2004 and 2003, respectively.

6. Deferred Financing Costs

Deferred financing costs consist of costs associated with establishment of the Company's credit facilities on July 29, 1999 and various subsequent amendments to those facilities, and those costs associated with the revisions to the credit agreement made in 2003. Such costs are being amortized on a straight-line basis over the term of the related debt. Deferred financing fees net of accumulated amortization were $1,587 and $1,962 at June 30, 2004 and December 31, 2003, respectively. Amortization expense of $375 and $242 for the six months ended June 30, 2004 and 2003, respectively, was charged to interest expense.

7. Goodwill

The Company records goodwill in accordance with the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," which eliminates the amortization of goodwill as of the effective date of adoption. In addition, SFAS No. 142 requires goodwill be evaluated annually for impairment for each reporting unit. The Company determined that its reporting units are the respective operating locations. The Company performed its annual impairment assessment as of December 31, 2003 and those tests indicate that none of the goodwill for any of its reporting units is impaired. For purposes of the impairment test, the fair value of the reporting units is estimated using a multiple of earnings before interest, taxes, depreciation and amortization.

The changes in the carrying amount of goodwill are as follows:

Balance as of December 31, 2002	$43,498
Goodwill related to the Pets 'N People, Inc., acquisition	6,811
Balance as of December 31, 2003	50,309
Additional goodwill related to the Pets 'N People, Inc., acquisition	628
Balance as of June 30, 2004	$50,937

The additional goodwill related to the Pets 'N People, Inc. acquisition resulted primarily from the requirement to convert Pets 'N People, Inc., from a cash-basis taxpayer to an accrual-basis taxpayer. This method change resulted in the recording of a deferred tax liability of $628 and corresponding goodwill of $628.

8. Intangible Assets

Intangible assets consist of the following at June 30, 2004 and December 31, 2003:

	2004	2003
Trade names and patents (15-30 year life)	$33,075	$14,677
Less accumulated amortization	(2,944)	(2,518)
	30,131	12,159
Non-compete agreement (24 month life)	1,308	1,308
Less accumulated amortization	(654)	(327)
	654	981
Intangible assets, net	$30,785	$13,140

Intangible assets are being amortized on a straight-line basis over the lives noted above. Amortization expense related to intangible assets was $680 and $253 for the six months ended June 30, 2004 and 2003, respectively.

9. Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and debt obligations approximate fair value.

The Company accounts for foreign exchange contracts using SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. SFAS No. 133, as amended, defines derivatives, requires that derivatives be carried at fair value on the balance sheet, and provides for hedge accounting when certain conditions are met. Changes in the fair value of derivative instruments designated as "cash flow" hedges, to the extent the hedges are highly effective, are recorded in other comprehensive income, net of related tax effects. The ineffective portion of the cash flow hedge, if any, is recognized as current-period earnings. Other comprehensive income is reclassified to current-period earnings when the hedged transaction affects earnings. The Company assesses, both at inception of the hedge and on an ongoing basis, whether derivatives used as hedging instruments are highly effective in offsetting the changes in the fair value or cash flow of hedged items. If it is determined that a derivative is not highly effective as a hedge or ceases to be highly effective, the Company discontinues hedge accounting prospectively. At December 31, 2003, the company has entered into a forward contract that has been designated as a cash flow hedge. The contract runs through December 2004 and requires monthly purchases of Euros at stated monthly rates to be used in the purchase of inventory. The contract was marked to market at June 30, 2004 resulting in an asset of $49, and December 31, 2003 resulting in an asset of $173. This asset has been included in other current assets.

10. Accrued Expenses

Accrued expenses consist of the following at June 30, 2004 and December 31, 2003:

	2004	2003
Compensation and related benefits	$ 4,916	$ 6,144
Casualty and insurance	2,239	2,396
Other	6,430	6,195
Accrued expenses	$13,585	$14,735

11. Line of Credit

On June 13, 2003, in connection with the Company's acquisition of Pets 'N People, Inc., the Company amended its existing Credit Agreement to provide for borrowings of $15,000 under a new Term Loan C and increased its revolving line of credit to $24,500. At June 30, 2004, the outstanding balance under the line of credit was $15,500 with interest rates ranging from 4.55% to 6.00%. At December 31, 2003, the Company had no outstanding borrowings under the revolving line of credit. Interest is payable at LIBOR or the base rate plus the applicable margin, as defined in the Credit Agreement. The revolving line of credit expires in July 2005.

The Credit Agreement is collateralized by substantially all of the Company's assets. Under the terms of the Credit Agreement, the Company is required to maintain certain financial ratios and other financial conditions. The Credit Agreement also restricts the Company from incurring certain additional indebtedness, or selling substantial assets, and limits certain investments, capital expenditures and stockholder loans. At June 30, 2004 and December 31, 2003, the Company was in compliance with its financial covenants under the Credit Agreement.

12. Notes Payable

Notes payable consist of the following June 30, 2004 and December 31, 2003:

	2004	2003
Term Loan A at 4.59% (LIBOR + 3.25%), interest payable in periodic installments. Principal payable in increasing quarterly installments, final maturity July 2005.	$ 8,465	$ 13,641
Term Loan B at 4.84% (LIBOR + 3.50%), interest payable in periodic installments. Principal payable in increasing quarterly installments, final maturity July 2006.	36,218	36,670
Term Loan C at 5.09% (LIBOR + 3.75%), interest payable in periodic installments. Principal payable in increasing quarterly installments, final maturity July 2006.	14,744	14,925
Note payable, senior subordinated debt, interest payable in semi-annual installments at 12.0%, due July 2007.	25,000	25,000
Total	84,427	90,236
Less current portion	(8,994)	(10,765)
Long-term portion	$75,433	$ 79,471

13. Warrants

At June 30, 2004 and December 31, 2003, warrants to purchase approximately 160,000 shares of the Company's common stock were outstanding. The warrants were issued to the note holders of the senior subordinated debt in connection with the respective financing arrangement. The warrants are exercisable through June 29, 2009 at an exercise price of $.01 per share and include certain call options and put rights, as further defined in the applicable warrant purchase agreement.

The warrants can be put to the Company at fair value anytime subsequent to June 2004. Interest expense has been recorded to adjust the warrant obligation liability to estimated fair value in accordance with the guidance of EITF 00-19. At June 30, 2004 and December 31, 2003, the Company has accrued $8,407 and $1,958, respectively, in warrant obligations for the value of the warrants. Interest expense related to the warrants was $6,449 and $471 for the six-month periods ended June 30, 2004 and 2003, respectively.

14. Notes Payable - Related Party

The Company has an unsecured note payable to a shareholder who is a member of the board of directors. The note is subordinated to the bank debt and to the senior subordinated notes. Interest is payable semi-annually at 10% per annum. The note is payable on January 2008.

15. Contingency - Litigation

The Company is involved from time to time in routine legal matters and other claims incidental to its business. When it appears probable in management's judgment that the Company will incur monetary damages or other costs in connection with such claims and proceedings, and such costs can be reasonably estimated, liabilities are recorded in the consolidated financial statements and charges are recorded to results of operations. Management believes that it is remote the resolution of such matters and other incidental claims will have a material adverse impact on the Company's consolidated financial position, results of operations or liquidity.

16. Concentration of Credit Risk

Financial instruments which subject the Company to concentrations of credit risk consist primarily of cash equivalents and trade accounts receivable. The Company maintains cash and cash equivalents with various domestic financial institutions. From time to time, the Company's cash balances with any one financial institution may exceed Federal Deposit Insurance Corporation insurance limits.

As of June 30, 2004 and December 31, 2003, three customers comprised in the aggregate 72% and 64% of accounts receivable. For the six month periods ended June 30, 2004 and 2003, these customers comprised in the aggregate 63% and 66% of sales. For the six-month periods ending June 30, 2004 and 2003, each of these customers comprised more than 10% of sales.

17. Subsequent Event

On July 30, 2004, the Company merged with a subsidiary of United Industries Corporation ("United") under an Agreement and Plan of Merger dated June 14, 2004, in exchange for cash consideration of $360 million (adjusted for minimum net working capital as defined in the Agreement and Plan of Merger) at which time the Company became a 100% owned subsidiary of United. At the time of the acquisition, all outstanding bank debt was repaid in full and credit facilities described in Notes 11, 12 and 14 were retired. All warrant holders were paid the fair value of their common stock as of the closing date, net of any exercise price (see Note 13). All fully-vested, exercisable stock options as of the closing date were exercised. All receivables from stockholders and related interest were satisfied as of the closing date. Preferred stockholders were paid their liquidity preference as of the closing date.

Exhibit 99.6

Report of Independent Auditors

To the Board of Directors and Stockholders of
United Pet Group, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of United Pet Group, Inc. and its subsidiaries (the "Company") at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 and Note 7, effective January 1, 2002, the Company adopted the provisions of Statements of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

/s/ PricewaterhouseCoopers LLP

Cincinnati, Ohio
February 27, 2004

United Pet Group, Inc.
Consolidated Balance Sheets
December 31, 2003 and 2002
(In Thousands, Except Share and Per Share Amounts)

	2003	2002
Assets		
Current assets:		
Cash and cash equivalents	$ 10,306	$ 10,178
Accounts receivable - trade, net of allowances of $3,087 and $2,936, respectively	24,915	21,230
Inventory, net	31,209	29,438
Prepaid expenses and other current assets	3,188	2,641
Deferred income taxes	4,295	4,730
Total current assets	73,913	68,217
Property and equipment, net	22,555	20,025
Other assets, noncurrent	1,493	1,106
Deferred income taxes	3,307	10,531
Deferred financing costs	1,962	1,774
Goodwill	50,309	43,498
Intangible assets, net	13,140	5,984
Total assets	$166,679	$151,135
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 8,242	$ 10,040
Accrued expenses	14,735	12,511
Notes payable, current portion	10,765	9,368
Warrant obligations, current	1,958	—
Total current liabilities	35,700	31,919
Notes payable	79,471	77,869
Note payable - related party	5,000	5,000
Other liabilities	141	1,336
Total liabilities	120,312	116,124
Commitments and contingencies (Note 15)		
Redeemable Preferred Stock:		
Redeemable preferred stock; $0.01 par value;		
Class A authorized 697,000 shares, -0- and 197,000 issued and outstanding at December 31, 2003 and 2002, respectively	—	258
Class B authorized 2,428,618 shares; none issued and outstanding at December 31, 2003 and 2002, respectively	—	—
Convertible participating preferred stock; $0.01 par value;		
Class A authorized 1,742,449 shares; 1,742,449 issued and outstanding at December 31, 2003 and 2002, respectively	43,000	43,000
Class B authorized 679,072 shares; 679,072 issued and outstanding at December 31, 2003 and 2002, respectively	20,000	20,000
Class C authorized 63,942 shares; 60,254 issued and outstanding at December 31, 2003 and 2002, respectively	1,225	1,225
Total redeemable preferred stock	64,225	64,483
Stockholders' Equity (Deficit):		
Common stock: $0.01 par value;		
Common authorized 5,000,000 shares; 965,722 and 954,222 issued and outstanding at December 31, 2003 and 2002, respectively	10	10
Class A authorized 500,000 shares; 23,000 issued and outstanding at December 31, 2003 and 2002	—	—
Additional paid-in capital	1,495	1,325
Accumulated deficit	(17,791)	(29,298)
Accumulated other comprehensive income (loss)	104	(3)
Receivable from stockholders	(1,676)	(1,506)
Total stockholders' equity (deficit)	(17,858)	(29,472)
Total liabilities and stockholders' equity (deficit)	$166,679	$151,135

The accompanying notes are an integral part of these consolidated financial statements.

United Pet Group, Inc.
Consolidated Statements of Operations and Comprehensive Income
For the Years Ended December 31, 2003, 2002 and 2001
(In Thousands)

	2003	2002	2001
Net sales	$217,808	$204,501	$194,500
Cost of goods sold	140,527	133,027	130,769
Gross profit	77,281	71,474	63,731
Operating expenses:			
Selling, general and administrative	46,654	43,731	45,089
Research and development	2,504	2,630	2,451
Facility closure costs	92	75	1,279
Non-capitalizable transaction related costs	590	768	—
Total operating expenses	49,840	47,204	48,819
Income from operations	27,441	24,270	14,912
Other income (expense):			
Interest expense, including change in warrant obligation	(8,202)	(7,987)	(10,458)
Other income, net	13	135	294
Income before income taxes and cumulative effect of accounting change	19,252	16,418	4,748
Provision for income taxes	7,738	6,669	2,186
Income before cumulative effect of accounting change	11,514	9,749	2,562
Cumulative effect of accounting change	—	3,397	—
Net income	11,514	6,352	2,562
Foreign currency translation adjustment	—	—	(3)
Unrealized gain on hedge activities (net of tax due of $66)	107	—	—
Comprehensive income	$ 11,621	$ 6,352	$ 2,559

The accompanying notes are an integral part of these consolidated financial statements.

United Pet Group, Inc.
Consolidated Statements of Stockholders' Equity (Deficit)
For the Years Ended December 31, 2003, 2002 and 2001
(In Thousands, Except Share Amounts)

	Common Stock		Class A Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Receivable from Stockholders	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount					
Balance at December 31, 2000	889,722	$ 9	23,000	$ —	$ 1,049	$ (38,065)	$ —	$ (1,229)	$ (38,236)
Cancellation of restricted stock awards	(4,000)				(20)			20	—
Issuance of restricted stock awards	4,000				18			(18)	—
Accrued dividend						(49)			(49)
Foreign currency translation							(3)		(3)
Net income						2,562			2,562
Balance at December 31, 2001	889,722	9	23,000	—	1,047	(35,552)	(3)	(1,227)	(35,726)
Issuance of restricted stock awards	64,500	1			278			(279)	—
Accrued dividend						(98)			(98)
Net income						6,352			6,352
Balance at December 31, 2002	954,222	10	23,000	—	1,325	(29,298)	(3)	(1,506)	(29,472)
Issuance of restricted stock awards	11,500				170			(170)	—
Accrued dividend						(7)			(7)
Unrealized gain on hedge activities (net of tax due of $66)							107		107
Net income						11,514			11,514
Balance at December 31, 2003	965,722	$ 10	23,000	$ —	$ 1,495	$ (17,791)	$ 104	$ (1,676)	$ (17,858)

The accompanying notes are an integral part of these consolidated financial statements.

United Pet Group, Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2003, 2002 and 2001
(In Thousands)

	2003	2002	2001
Cash flows from operating activities:			
Net income	$ 11,514	$ 6,352	$ 2,562
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for returns and doubtful accounts	151	140	414
Provision for obsolescence	264	113	296
Fair market value adjustment for warrant obligations	942	320	—
Depreciation and amortization	4,523	6,947	9,266
Deferred income taxes	4,133	3,655	203
Changes in assets and liabilities, net of effects of business acquisitions:			
Accounts receivable	(1,761)	1,948	(2,242)
Inventory	(2,011)	15	536
Prepaid expenses and other current assets	(7)	(847)	173
Accounts payable	(2,407)	(2,001)	634
Accrued expenses and other liabilities	1,384	1,543	3,815
Net cash provided by operating activities	16,725	18,185	15,657
Cash flows from investing activities:			
Restricted cash	—	—	563
Purchases of property and equipment	(5,446)	(3,848)	(3,394)
Business acquisition, net of cash received	(12,649)	—	—
Perfecto Holding Corp. purchase price adjustment	—	(52)	9,191
Other assets and intangible assets	(396)	604	(445)
Net cash (used in) provided by investing activities	(18,491)	(3,296)	5,915
Cash flows from financing activities:			
Deferred financing costs	(840)	—	(378)
Net repayment on line of credit	—	—	(4,415)
Proceeds from notes payable	15,000	—	—
Repayments of notes payable	(12,001)	(8,216)	(13,871)
Redemption of Class A Preferred Stock	(265)	(655)	—
Net cash provided by (used in) financing activities	1,894	(8,871)	(18,664)
Net increase in cash	128	6,018	2,908
Cash at beginning of year	10,178	4,160	1,252
Cash at end of year	$ 10,306	$10,178	$ 4,160
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 6,872	$ 7,130	$ 10,345
Income taxes	$ 3,069	$ 4,260	$ 378
Noncash financing activity:			
Net issuance (repurchase) of restricted stock awards in exchange for notes receivable	$ 170	$ 279	$ (2)

The accompanying notes are an integral part of these consolidated financial statements.

1. Summary of Significant Accounting Policies

Organization and Business

United Pet Group, Inc. (the "Company") is a manufacturer and marketer of aquatics products and specialty pet supply products for birds, small animals, dogs and cats. The Company reports financial results as one operating unit and sells its products primarily to distributors and retailers in the United States.

Basis of Presentation

These financial statements present the consolidated financial position of United Pet Group, Inc. and its majority owned subsidiaries in which the Company maintains a controlling interest.

Cash and Cash Equivalents

Cash includes currency on hand and demand deposits. The Company considers all highly liquid temporary investments with an original maturity of three months or less to be cash equivalents.

Inventory

Inventory is reported at the lower of cost or market. Cost is determined using a standard costing system that approximates the first-in, first-out method and includes raw materials, direct labor and overhead. An allowance for obsolete or slow-moving inventory is recorded based on an analysis of inventory levels and future sales forecasts.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets, ranging from three to forty years. Leasehold improvements are amortized over the shorter of the estimated useful life or the life of the lease. The Company capitalizes mold and die costs once a product design has been finalized. Maintenance and repairs are charged to expense as incurred while renewals and improvements are capitalized. Upon the sale or retirement of property and equipment, the accounts are relieved of the cost and the related accumulated depreciation, with any resulting gain or loss included in the consolidated statement of operations.

During 2002, the Company changed the depreciable lives of some classes of property and equipment. This change reflected the adoption of consistent depreciation methods and lives across each of the Company's operating companies. The change was made prospectively and resulted in an expense reduction in 2002 of approximately $1,183.

Goodwill

The Company has made acquisitions that have resulted in the recording of goodwill. Goodwill has been recorded as the excess of purchase price over the estimated fair value of net assets acquired under the purchase method of accounting. Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" and ceased amortizing goodwill as of that date. SFAS No. 142 requires the Company to evaluate goodwill for impairment at the reporting unit level at least annually. Goodwill impairment testing is conducted annually and is also reviewed when events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable. Prior to the adoption of SFAS No. 142, goodwill was amortized using the straight-line method over 15 years.

Intangible Assets

Intangible assets are comprised of trade names, patents and various other intangible assets. Such assets were recorded at their estimated fair market value as of the date of acquisition under the purchase method of accounting. These assets are being amortized using the straight-line method over their estimated useful lives ranging from 24 months to 30 years.

Long-Lived Assets

On January 1, 2002, the Company adopted the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." In accordance with SFAS No. 144, the Company periodically evaluates the recoverability of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If a review indicates that the carrying value of an asset is not recoverable based on its undiscounted future cash flows, a loss is recognized for the difference between its fair value and carrying value. No impairments existed as of December 31, 2003 and 2002.

Equity Investments

The Company accounts for two investments acquired in connection with an acquisition using the equity method. The carrying value of one of the investments was approximately $458 and $608 at December 31, 2003 and 2002, respectively, and is included in other assets, noncurrent in the consolidated balance sheet. The other investment had nominal value and was sold during 2003 at book value resulting in no gain or loss. For the years ended December 31, 2003, 2002, and 2001, income from these equity investments was insignificant.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and debt obligations approximate fair value.

The Company accounts for foreign exchange contracts using SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. SFAS No. 133, as amended, defines derivatives, requires that derivatives be carried at fair value on the balance sheet, and provides for hedge accounting when certain conditions are met. Changes in the fair value of derivative instruments designated as "cash flow" hedges, to the extent the hedges are highly effective, are recorded in other comprehensive income, net of related tax effects. The ineffective portion of the cash flow hedge, if any, is recognized as current-period earnings. Other comprehensive income is reclassified to current-period earnings when the hedged transaction affects earnings. The Company assesses, both at inception of the hedge and on an ongoing basis, whether derivatives used as hedging instruments are highly effective in offsetting the changes in the fair value or cash flow of hedged items. If it is determined that a derivative is not highly effective as a hedge or ceases to be highly effective, the Company discontinues hedge accounting prospectively. At December 31, 2002, the Company did not have any derivative instruments in place. At December 31, 2003, the Company has entered into a forward contract that has been designated as a cash flow hedge. The contract runs through December 2004 and requires monthly purchases of Euros at stated monthly rates to be used in the purchase of inventory. The contract was marked to market at December 31, 2003 resulting in an asset of $173, which has been included in other current assets.

Stock-Based Compensation

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of APB No. 25, "Accounting for Stock Issued to Employees," and complies with the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." Under APB No. 25, compensation cost, if any, is recognized over the respective vesting period based on the excess, if any, on the date of grant, of the fair value of the Company's common stock over the grant price. No compensation expense was recorded for the years ended December 31, 2003, 2002 or 2001. Had the Company applied the provisions set forth in SFAS No. 123, the Company's net income would not be materially different from the amount presented for the years ended December 31, 2003, 2002, and 2001.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes under SFAS No. 109, "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and the tax basis of assets and liabilities using enacted tax rates in effect for the period in which the differences are expected to reverse. The Company will establish a valuation allowance if it determines that it is more likely than not that some portion or all of its deferred tax assets will not be realized.

Revenue Recognition

Revenue is recognized when pervasive evidence of an arrangement exists, delivery has occurred, the buyer's price is fixed and determinable, and collection is reasonably assured. Provisions for unsaleable items, warranty costs and sales incentives are recorded at the time of shipment. To date, returns have been consistent with management's expectations and the Company has not experienced significant warranty claims. Beginning in 2002, the Company adopted EITF 01-09 that requires the value of consideration paid by the Company to retailers to be accounted for as a reduction of revenue. All years presented have been stated in conformity with EITF 01-09.

Warranty Obligations

The Company records a liability for potential warranty obligations based on historical activity and experience, which is included in accrued expenses. A reconciliation of the warranty liability is as follows:

Balance at December 31, 2001	$ 126
Accruals for estimated warranty costs	412
Settlements made in cash during the year	(409)
Balance at December 31, 2002	129
Accruals for estimated warranty costs	357
Settlements made in cash during the year	(361)
Balance at December 31, 2003	$ 125

Advertising Expenses

The Company expenses all advertising costs as incurred. Total advertising expense incurred for the years ended December 31, 2003, 2002 and 2001 was approximately $2,358, $2,416 and $2,347, respectively. Advertising costs shown as a reduction to gross sales were $1,818, $1,716 and $1,686 for 2003, 2002 and 2001, respectively. Advertising costs charged to selling and marketing expenses were $540, $700 and $661, respectively.

Shipping and Handling and Costs

Shipping and handling costs incurred in connection with the delivery of goods to the customer are included as a component of selling, general and administrative expenses. Shipping and handling costs were $12,907, $12,306 and $12,296 for the years ended December 31, 2003, 2002 and 2001, respectively.

Research and Development

Research and development costs are expensed as incurred. Research and development costs consist primarily of salaries, benefits, supplies, outside product testing costs and occupancy expenses related to the product development area.

Facility Closure Costs

During 2003, the Company initiated a plan of facility closure related to the Lazy Pet business unit. The plan called for the closure of the Tijuana, Mexico location in mid-2003. In connection with this plan, all facility employees were terminated and certain employees were provided severance. As a result of these facility closure activities, the Company recorded a charge of $92 which consisted primarily of severance and other expenses associated with closing the facility and relocating inventory to the Company's remaining facilities. Substantially all of these funds had been expended by December 31, 2003.

During 2001, the Company initiated a formal plan of facility closure, primarily related to the Company's Perfecto business unit. The plan called for the shutdown and sublease of the Phoenix operating location. In connection with the plan, all facility employees were terminated and certain employees were provided severance. As a result of the facility closure plan in 2001, the Company recorded a charge of $1,279 which consisted of an $810 charge for lease payments net of expected sublease through 2007 and a $469 charge for employee termination and other exit costs. Details relating to the Perfecto facility closure costs follow:

Initial estimate of closure costs	$1,279
Lease payments	(164)
Termination and exit costs	(195)
Remaining estimated closure costs at December 31, 2001	920
Lease payments	(212)
Termination and exit costs	(125)
Remaining estimated closure costs at December 31, 2002	583
Lease payments	(122)
Remaining estimated closure costs at December 31, 2003	$ 461

Non-Capitalizable Transaction Related Costs

Non-capitalizable transaction costs represent costs associated with evaluating the now-abandoned acquisition of another entity, and the non-capitalizable portion of costs associated with completed acquisitions.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Acquisitions

On June 13, 2003, the Company purchased all of the issued and outstanding capital stock of Pets 'N People, Inc. and Mother's Little Miracle (together "PNP") from its shareholders for an aggregate purchase price of $12,649 including related fees and expenses. The acquisition of PNP was made in order to enter new markets and create new categories for the customer's products. PNP is engaged in the sale and distribution of stain and odor control products for pets. The acquisition was financed through an amendment to the Company's existing credit agreement to provide for additional borrowings of $15,000 under a new Term Loan C. The acquisition of PNP has been accounted for under the purchase method of accounting. Goodwill of $6,811 recognized under the transaction is not being amortized. The Company also entered into non-compete agreements with the Company's former owners, the value of which is being amortized on a straight-line basis over the term of the agreements which expire in June 2005. The acquired trade names and trademarks are being amortized on a straight-line basis over their estimated useful lives of 30 years. No tax amortization is allowable for the goodwill, trade names and trademarks, or non-compete agreements. The purchase price has been allocated to:

Accounts receivable	$ 2,075
Non-compete covenants	1,308
Trade names and trademarks	6,795
Goodwill	6,811
Accounts payable	(609)
Accrued liabilities/other	(631)
Deferred tax liability	(3,100)
	$12,649

PNP's results of operations have been included in the consolidated statement of operations since the date of acquisition.

3. Concentrations of Credit Risk

Financial instruments which subject the Company to concentrations of credit risk consist primarily of cash equivalents and trade accounts receivable. The Company maintains cash and cash equivalents with various domestic financial institutions. From time to time, the Company's cash balances with any one financial institution may exceed Federal Deposit Insurance Corporation insurance limits.

As of December 31, 2003 and 2002, three customers comprised in the aggregate 64% and 60% of accounts receivable. For the years ended December 31, 2003, 2002 and 2001, three customers comprised in the aggregate 64%, 62% and 57% of sales. For the years ended December 31, 2003 and 2002, each of these customers comprised more than 10% of sales. For the year ended December 31, 2001, two of these customers comprised more than 10% of sales.

4. Inventory

Inventory consists of the following at December 31, 2003 and 2002:

	2003	2002
Raw materials and work-in-process	$19,794	$19,530
Finished goods	14,092	12,321
	33,886	31,851
Less: Reserve for obsolescence	(2,677)	(2,413)
Inventory, net	$31,209	$29,438

5. Property and Equipment

Property and equipment consist of the following at December 31, 2003 and 2002:

	Depreciation Lives	2003	2002
Land, buildings and improvements	20-40 years	$ 6,422	$ 5,998
Machinery and equipment	3-10 years	27,737	24,671
Office furniture and equipment	3-10 years	7,321	6,032
Leasehold improvements	Lease term (incl. renewals)	4,832	4,402
Construction in progress	—	1,535	1,913
		47,847	43,016
Less accumulated depreciation and amortization		(25,292)	(22,991)
Property and equipment, net		$ 22,555	$ 20,025

Depreciation expense related to property and equipment was $2,916, $2,524 and $3,797 for the years ended December 31, 2003, 2002, and 2001, respectively.

6. Deferred Financing Costs

Deferred financing costs consist of costs associated with the establishment of the Company's credit facilities on July 29, 1999 and various subsequent amendments to those facilities, and those costs associated with the revisions to the credit agreement made in 2003. Such costs are being amortized on a straight-line basis over the term of the related debt. Deferred financing fees net of accumulated amortization were $1,962 and $1,774 at December 31, 2003 and 2002, respectively. Amortization expense of $651, $502 and $454 was charged to interest expense for the years ended December 31, 2003, 2002 and 2001, respectively.

7. Goodwill

The Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002. The adoption of SFAS No. 142 eliminates the amortization of goodwill as of the effective date of adoption.

The following is a summary of the impact of adopting SFAS No. 142:

	2003	2002	2001
Reported net income	$11,514	$6,352	$2,562
Addback: Goodwill amortization (net of tax of $1,978)	—	—	4,945
Adjusted net income	$11,514	$6,352	$7,507

In addition, SFAS No. 142 requires goodwill be evaluated annually for impairment beginning in 2002 for each reporting unit. The first, or transition, evaluation was performed as of January 1, 2002. As of January 1, 2002, the Company determined that its reporting units are the respective operating locations. The Company's initial impairment test indicated that goodwill related to one of its reporting components was impaired. This resulted in the Company recognizing a noncash goodwill impairment loss of approximately $3,397 for the year ended December 31, 2002. This loss is reflected as a cumulative effect of accounting change in the accompanying consolidated statements of operations and comprehensive income. The impairment loss resulted from the change in approach for impairment testing to a fair value approach required under SFAS No. 142 from the undiscounted cash flow approach permitted under SFAS No. 121. The Company's initial impairment test did not indicate any impairment related to the goodwill of any of its other reporting units. The Company also performed its annual impairment assessment as of December 31, 2003 and 2002 and those tests indicate that none of the goodwill for any of its reporting units is impaired. For purposes of the impairment test, the fair value of the reporting units is estimated using a multiple of earnings before interest, taxes, depreciation and amortization.

The changes in the carrying amount of goodwill are as follows:

Balance at December 31, 2001	$46,843
Additional goodwill relating to acquisition of Perfecto Manufacturing	52
Impairment losses	(3,397)
Balance as of December 31, 2002	43,498
Goodwill related to acquisition	6,811
Balance as of December 31, 2003	$50,309

8. Intangible Assets

Intangible assets consist of the following at December 31, 2003 and 2002:

	2003	2002
Trade names, trademarks and patents (15-30 year life)	$14,677	$ 7,872
Less accumulated amortization	(2,518)	(1,888)
	12,159	5,984
Non-compete agreement (24 month life)	1,308	—
Less accumulated amortization	(327)	—
	981	—
Intangible assets, net	$13,140	$ 5,984

Intangible assets are being amortized on a straight-line basis over the lives noted above. Amortization expense related to intangible assets was $956, $524, and $498 for the years ended December 31, 2003, 2002, and 2001, respectively. The estimated amortization expense related to these intangible assets over the next five years is as follows:

Year Ended December 31,	
2004	$1,403
2005	1,076
2006	749
2007	749
2008	749
Thereafter	8,414

9. Accrued Expenses

Accrued expenses consist of the following at December 31, 2003 and 2002:

	2003	2002
Compensation and related benefits	$ 6,144	$ 5,361
Casualty and insurance	2,396	1,848
Other	6,195	5,302
Accrued expenses	$14,735	$12,511

10. Line of Credit

The Company has entered into a credit agreement (the "Credit Agreement") consisting of a $22,000 revolving line of credit and term loans of up to $93,000 ("Term Loan A and Term Loan B" - see Note 11). On July 29, 2000, the revolving line of credit was reduced from $22,000 to $14,500. On June 13, 2003, in connection with the Company's acquisition of PNP, the Company amended its existing Credit Agreement to provide for additional borrowing of $15,000 under a new Term Loan C and increased its revolving line of credit to $24,500. At December 31, 2003 and 2002, the Company had no outstanding borrowings under the revolving line of credit. Interest is payable at LIBOR or the base rate plus the applicable margin, as defined in the Credit Agreement. Pursuant to the terms of the Credit Agreement, the amount of term loans A, B and C was limited to $72,420 when the Credit Agreement was amended on June 13, 2003. The revolving line of credit expires in July 2005.

The Credit Agreement is collateralized by substantially all of the Company's assets. Under the terms of the Credit Agreement, the Company is required to maintain certain financial ratios and other financial conditions. The Credit Agreement also restricts the Company from incurring certain additional indebtedness, or selling substantial assets, and limits certain investments, capital expenditures and stockholder loans. At December 31, 2003, the Company was in compliance with its financial covenants under the Credit Agreement.

11. Notes Payable

Notes payable consist of the following at December 31, 2003 and 2002:

	2003	2002
Term Loan A at 4.66% (LIBOR + 3.50%), interest payable in periodic installments. Principal payable in increasing quarterly installments ($10,231 due in 2004), final maturity July 2005.	$ 13,641	$23,309
Term Loan B at 4.85% (LIBOR + 3.75%), interest payable in periodic installments. Principal payable in increasing quarterly installments ($384 due in 2004), final maturity July 2006.	36,670	38,928
Term Loan C at 5.125% (LIBOR + 4.00%), interest payable in periodic installments. Principal payable in increasing quarterly installments ($150 due in 2004) final maturity July 2006.	14,925	—
Note payable, senior subordinated debt, interest payable in semi-annual installments at 12.0%, due July 2007.	25,000	25,000
Total	90,236	87,237
Less current portion	(10,765)	(9,368)
Long-term portion	$ 79,471	$77,869

Maturities Due December 31,	Amount
2004	$10,765
2005	21,799
2006	32,672
2007	25,000
Thereafter	—

12. Notes Payable – Related Party

The Company has a $5,000 unsecured note payable to a shareholder who is a member of the board of directors. The note is subordinated to the bank debt and to the senior subordinated notes. Interest is payable semi-annually at 10% per annum. The note is payable in full in January 2008.

13. Employee Benefit Plan

Certain subsidiaries maintain a 401(K) savings and profit sharing plan that is available to substantially all of those subsidiaries' employees. Under the plan, employees can make voluntary contributions not to exceed the lesser of an amount equal to 16% of their compensation or limits established by the Internal Revenue Code. The Company makes discretionary contributions, which vest over time. Contributions made by employees are vested immediately. Company contributions during the years ended December 31, 2003, 2002 and 2001 were approximately $963, $785 and $822, respectively.

14. Redeemable Preferred Stock

Class A Redeemable Preferred Stock

The Class A Redeemable Preferred shares are redeemable at the occurrence of either a) a qualifying public offering of the Company's securities, or b) requisite holders of Class B Redeemable Preferred or Convertible Preferred Stock make an election to redeem all of their outstanding shares, or c) July 16, 2003, or d) upon election by the Company to redeem Class A Redeemable Preferred from the holders thereof on a pro rata basis. On December 31, 2002 and July 16, 2003, the Company redeemed 500,000 shares and 197,000 shares, respectively, of Class A Redeemable Preferred Stock for $1.00 per share. Accumulated dividends of $155 and $68 associated with the redeemed shares were also paid on December 31, 2002 and July 16, 2003, respectively. After the July 16, 2003 redemption, no Class A Redeemable Preferred Stock remains outstanding.

Class B Redeemable Preferred Stock

While there are no shares outstanding, this series of stock has certain liquidation and redemption features as defined in the Company's charter.

Class A, Class B and Class C Convertible Participating Preferred Stock

The Class A, Class B and Class C Convertible Participating Preferred Stock (collectively referred to hereafter as the "Convertible Preferred Stock") are redeemable at stated value a) on, or after, November 8, 2004, upon a vote to redeem all shares at the redemption price per share by a majority of the holders of Convertible Preferred, or b) at any time on, or after, August 14, 2001, upon a vote to redeem such number of shares of Convertible Preferred Stock as would yield an aggregate of $23 million, using the redemption price per share, or c) an extraordinary transaction as defined, including a business combination ("Extraordinary Transaction"). These shares rank junior to Class A Redeemable Preferred as to payments of dividends and distributions and will automatically be converted into one share of Common Stock and Class B Redeemable Preferred Stock upon the occurrence of a qualified public offering. In the event Liquidation/Extraordinary Transaction entitlements, on an as if converted to Common Stock and Class B Redeemable Preferred Stock basis, are larger as to amount, than those the Convertible Preferred stockholders are otherwise entitled to, then such greater amounts shall be paid. Shares are entitled to vote with Common Stock on an as converted basis.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" ("FAS 150"). The standard specifies that instruments within its scope embody obligations of the issuer and that, therefore, the issuer must classify them as liabilities. This statement was originally effective for the Company for periods beginning after December 15, 2003. However, on November 7, 2003, the FASB issued FASB Staff Position No. FAS 150-3 (FSP 150-3) which extends the effective date for FAS 150 by one year for instruments issued by nonpublic, non-SEC registrants that are mandatorily redeemable on fixed dates for amounts that are either fixed or determined by reference to an interest rate index, currency index, or other external index. For all other financial instruments of nonpublic, non-SEC registrants that are mandatorily redeemable, FAS 150 is deferred indefinitely. As a result, the application of FAS 150 for the Company has been deferred indefinitely pending the FASB's continued consideration.

The activity in the Redeemable Preferred Stock accounts is as follows:

	Class A Redeemable Preferred Stock		Class A Convertible Participating Preferred Stock		Class B Convertible Participating Preferred Stock		Class C Convertible Participating Preferred Stock	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balance at December 31, 2000	697,000	$ 766	1,742,449	$43,000	679,072	$20,000	60,254	$ 1,225
Accrued dividend		49						
Balance at December 31, 2001	697,000	815	1,742,449	43,000	679,072	20,000	60,254	1,225
Redemption of Class A Redeemable Participating Stock	(500,000)	(655)						
Accrued dividend		98						
Balance at December 31, 2002	197,000	258	1,742,449	43,000	679,072	20,000	60,254	1,225
Redemption of Class A Redeemable Participating Stock	(197,000)	(265)						
Accrued dividend		7						
Balance at December 31, 2003	—	$ —	1,742,449	$43,000	679,072	$20,000	60,254	$ 1,225

15. Commitments and Contingencies

Leases

The Company leases four of its operating facilities from related parties with expiration dates of November 2006, April 2007, July 2008 and August 2008. The monthly lease payments approximate fair market value for all four of these leases.

Rent expense was approximately $4,422, $4,355 and $4,363 for the years ended December 31, 2003, 2002 and 2001, respectively. Included in rent expense are lease payments to related parties of approximately $2,152, $2,125 and $2,036 for the years ended December 31, 2003, 2002 and 2001, respectively.

The following summarizes future minimum lease payments, net of expected sublease payments, required under operating leases with remaining noncancelable terms of one year or more:

Year Ending December 31,	Third Party Operating Leases	Related-Party Operating Leases
2004	$ 1,881	$ 2,209
2005	1,660	2,241
2006	1,287	2,266
2007	811	1,524
2008	514	973
Thereafter	527	—
Total minimum lease payments	$ 6,680	$ 9,213

Litigation

The Company is involved from time to time in routine legal matters and other claims incidental to its business. When it appears probable in management's judgment that the Company will incur monetary damages or other costs in connection with such claims and proceedings, and such costs can be reasonably estimated, liabilities are recorded in the consolidated financial statements and charges are recorded to results of operations. Management believes that it is remote the resolution of such matters and other incidental claims will have a material adverse impact on the Company's consolidated financial position, results of operations or liquidity.

16. Income Taxes

The provision for income taxes consists of the following for the years ended December 31, 2003, 2002, and 2001:

	2003	2002	2001
Current:			
Federal	$3,125	$2,454	$1,628
State	480	560	355
	3,605	3,014	1,983
Deferred:			
Federal	3,508	2,884	156
State	625	771	47
	4,133	3,655	203
Income tax expense	$7,738	$6,669	$2,186

The Company's effective tax rate varies from the Federal statutory rate of 35% for 2003 and 34% for 2002 and 2001, primarily as a result of state and local taxes, net of Federal tax benefit, non-deductible adjustments and amortization of goodwill from stock acquisitions in 2003 and 2002, respectively, and other non-deductible items, as summarized below:

	2003	2002	2001
Statutory Tax Expense	$6,738	$5,582	$1,614
Tax Effect of:			
Non-deductible asset amortization	—	—	163
State and local taxes net of federal benefit	918	879	265
Nondeductible expenses	82	208	144
Income tax expense	$7,738	$6,669	$2,186

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The following are the components of the net deferred tax assets at December 31, 2003 and 2002:

	2003	2002
Deferred tax assets:		
Amortization	$ 5,759	$11,815
A/R reserves and sales adj. reserves	1,160	986
Inventory	1,523	2,057
Capital loss carryforward	23	23
Accrued liabilities	1,438	1,449
Net operating loss carryforward	53	—
Interest expense - warrants	218	215
Other	6	6
Total deferred tax assets	10,180	16,551
Deferred tax liabilities:		
Fixed assets	(2,511)	(1,290)
Other	(67)	—
Net deferred tax liability	(2,578)	(1,290)
Net deferred tax assets	7,602	15,261
Less current portion	4,295	4,730
Deferred income taxes	$ 3,307	$10,531

17. Stockholders' Equity

Common Stock and Class A Common Stock

Common stockholders are entitled to one vote per share, while Class A Common Stock has no voting rights, other than those required by law. Dividends are declared and paid at the discretion of the Board of Directors for Common and Class A Common Stock. To the extent such dividends are effected, the holders of Convertible Preferred Stock will participate in such dividends on an as if converted to common shares basis. Each share of Class A Common Stock will automatically be converted into one share of Common Stock upon the Company's initial public offering.

Stock Incentive Plan

On July 29, 1999, the Company adopted the Second Restated 1997 Stock Option and Grant Plan (the "Plan"), superseding all individual entities' plans. An aggregate of 750,000 shares of Common Stock or Class A Common Stock, subject to adjustment for stock splits, stock dividends and similar events, has been authorized and reserved for issuance upon exercise of stock options, stock appreciation rights ("SARs"), restricted stock awards ("restricted awards"), unrestricted stock awards ("unrestricted awards"), performance share awards ("performance awards"), and dividend equivalent rights awards ("dividend awards").

The Plan provides for the issuance of nonqualified and incentive stock options to employees, non-employee members of the board and consultants. Incentive stock options may not be granted at less than 100% of the fair market value of the Company's common stock on the date of grant (110% if granted to an employee who owns 10% or more of the common stock). Options vest in accordance with the award agreement and generally expire 10 years after the award date (5 years if granted to an employee who owns 10% or more of the common stock outstanding).

The Plan provides for the issuance of SARs concurrently or independently with the grant of stock options. SARs granted concurrently with a stock option vest according to the terms of the stock option.

The Plan provides for the issuance of restricted awards, unrestricted awards, performance awards, and dividend awards. The terms of these awards are determined on the grant date. Restricted awards are nontransferable until vested. Dividend awards are issued concurrently or independently of other awards.

At December 31, 2003, 2002 and 2001, 331,088, 319,588 and 255,088 shares of restricted common stock awards issued to employees of the Company were outstanding. The restricted stock awards were issued at purchase prices ranging from $2.50 to $14.84 per share, the estimated fair value at the respective dates of grant, and vest 25% on the date of grant and 25% per year thereafter. At December 31, 2003, 2002 and 2001, 289,213, 201,095 and 144,304 restricted stock awards were vested, respectively.

On the date of grant, the Company made loans to and received promissory notes from each recipient of restricted stock awards in an amount substantially equal to the purchase price of the relevant shares; each recipient used the proceeds of the loans to fund the purchase of the restricted shares. The notes bear interest rates ranging from 4.99% to 6.73% and are included in receivable from stockholders, which have been offset against stockholders' equity.

The Company uses the intrinsic value method of accounting for stock-based compensation prescribed by APB No. 25, and accordingly adopted the disclosure-only provisions of SFAS No. 123 and SFAS No. 148.

The following table summarizes stock option activity for the period noted. All options listed below were issued to officers, directors, and employees.

	Options Outstanding	Weighted-Average Exercise Price
Outstanding at December 31, 2000	84,639	$ 3.38
Granted	—	—
Expired or canceled	(11,237)	3.55
Exercised	—	
Outstanding at December 31, 2001	73,402	3.36
Granted	—	
Expired or canceled	(9,166)	3.32
Exercised	—	
Outstanding at December 31, 2002	64,236	3.40
Granted	1,250	14.84
Expired or canceled	(14,403)	3.32
Exercised	—	
Outstanding at December 31, 2003	51,083	3.70
Weighted-average remaining contractual life of options granted at December 31, 2002	2.25 years	

Exercise prices vary from $2.50 to $14.84 and expiration dates vary from October 2008 to August 2013.

The fair value of each option granted was estimated on the date of grant using the minimum value method with the following assumptions: (i) risk-free interest rates of 3.86% to 6.44%; (ii) expected option life of 7 years; (iii) expected forfeitures rate of 0; and (iv) no expected dividends. Weighted-average fair value of options granted was $3.51 for the year ended December 31, 2003.

Warrants

At December 31, 2003 and 2002, warrants to purchase approximately 160,000 shares of the Company's common stock were outstanding. The warrants were issued to the noteholders of the senior subordinated debt in connection with the respective financing agreement. The warrants are exercisable through June 29, 2009 at an exercise price of $0.01 per share and include certain call options and put rights, as further defined in the applicable warrant purchase agreement.

The warrants can be put to the Company at fair value anytime subsequent to June 2004. Interest expense has been recorded to adjust the warrant obligation liability to estimated fair value in accordance with the guidance of EITF 00-19. At December 31, 2003 and 2002, the Company has accrued $1,958 and $1,016, respectively, for the value of the warrants, which is included as a separate line in the current liabilities section of the consolidated balance sheet at December 31, 2003 and as a component of noncurrent liabilities at December 31, 2002. Interest expense related to the warrants was $942, $320 and $-0- for the years ended December 31, 2003, 2002 and 2001, respectively.

18. Subsequent Event

On January 1, 2004, the Company completed its acquisition of substantially all of the assets and business of Dingo Brand, LLC ("Dingo"). The purchase price was $20,389 in cash plus related expenses of $626. The Company financed the acquisition with available cash and borrowings under its revolving credit facility. The purchase agreement includes a contingent payment provision that could result in additional consideration of up to $6,000 subject to the attainment of specified sales levels of Dingo's products as defined. The Company is in the process of obtaining an independent appraisal of the value of the acquired trademarks and patents. The acquired business sells and distributes a line of dog chew and treat products. The purchase price has been preliminarily allocated as follows:

Cash	$ 100
Accounts receivable	1,378
Inventories	948
Prepaids	7
Patents	12,728
Trademarks	6,364
Other intangibles	70
Property, plant and equipment	28
Accounts payable	(537)
Accrued expenses	(71)
	$21,015

Exhibit 99.7

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL DATA

The following unaudited pro forma condensed consolidated balance sheet as of September 30, 2004 and the unaudited pro forma condensed consolidated statement of operations for the fiscal year ended September 30, 2004 are based on the consolidated financial statements of Rayovac and United after giving effect to Rayovac's acquisition of Microlite, United's acquisitions of Nu-Gro and United Pet Group and consummation of the respective transactions, including the acquisition of United, and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed consolidated financial data.

The unaudited pro forma condensed consolidated balance sheet as of September 30, 2004 has been derived from Rayovac's condensed consolidated balance sheet as of September 30, 2004 and United's unaudited consolidated balance sheet as of September 30, 2004, adjusted to give effect to the transactions as if they had occurred on September 30, 2004. The unaudited pro forma condensed consolidated statement of operations for the fiscal year ended September 30, 2004 gives effect to the transactions as if they occurred at the beginning of the period presented. The unaudited pro forma condensed consolidated statement of operations for the fiscal year ended September 30, 2004 gives effect to United's acquisition of Nu-Gro, which occurred on April 30, 2004, Rayovac's acquisition of Microlite, which occurred on May 28, 2004, and United's acquisition of United Pet Group, which occurred on July 30, 2004, as if each acquisition occurred at the beginning of the period presented. The unaudited pro forma condensed consolidated statement of operations excludes non-recurring items directly attributable to the transactions.

The unaudited pro forma condensed consolidated financial data are based on preliminary estimates and assumptions set forth in the notes to such information. Pro forma adjustments are necessary to reflect the estimated purchase price for the respective transactions, the new debt and equity structure and to adjust amounts related to United's assets and liabilities to a preliminary estimate of their fair values. Pro forma adjustments are also necessary to reflect interest expense and the income tax effect related to the pro forma adjustments.

The pro forma adjustments and allocation of purchase price are based on preliminary estimates of the fair value of the assets acquired and liabilities assumed. The final purchase price allocation will be completed after asset and liability valuations are finalized. This final valuation will be based on the assets and liabilities of United that exist as of the date of the completion of the transactions. Any final adjustments may change the allocation of purchase price which could affect the fair value assigned to the assets and liabilities and could result in a change to the unaudited pro forma condensed consolidated financial data. In addition, the impact of integration activities and other changes in United's assets and liabilities prior to completion of the transactions could cause material differences in the information presented.

The unaudited pro forma condensed consolidated financial data are presented for informational purposes only and have been derived from, and should be read in conjunction with, "Selected Financial Data – Rayovac", "Selected Financial Data – United" and the consolidated financial statements of Rayovac and United, including the notes thereto. The pro forma adjustments, as described in the notes to the unaudited pro forma condensed consolidated financial data, are based on currently available information and certain adjustments that we believe are reasonable. They are not necessarily indicative of our consolidated financial position or results of operations that would have occurred had the transactions taken place on the dates indicated, nor are they necessarily indicative of future consolidated financial position or results of operations.

Unaudited Pro Forma Condensed Consolidated Balance Sheet
As of September 30, 2004
(in thousands)

	Rayovac Corporation (1)	United Industries (2)	Pro Forma Adjustments (3)	Rayovac & United Pro Forma Combined
ASSETS				
Current assets:				
Cash and cash equivalents	$ 15,789	$ 8,290	$ 45(a)	$ 24,124
Receivables, net	289,632	107,493	—	397,125
Inventories	264,726	160,003	15,000(b)	439,729
Deferred income taxes	19,233	—	6,731(c)	25,964
Other current assets	61,132	19,885	—	81,017
Total current assets	650,512	295,671	21,776	967,959
Property, plant and equipment, net	182,396	99,365	—	281,761
Goodwill	320,577	247,446	361,790(d)	929,813
Intangible assets, net	422,106	310,898	191,802(e)	924,806
Deferred income taxes	—	78,495	43,533(f)	122,028
Other assets	60,378	22,839	(7,714)(g)	75,503
Total assets	$1,635,969	$1,054,714	$ 611,187	$3,301,870
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Current maturities of long-term debt	$ 23,895	$ 6,678	$ (3,464)(h)	$ 27,109
Accounts payable	228,052	41,653	—	269,705
Accrued liabilities	146,711	67,195	(6,565)(h)	207,341
Total current liabilities	398,658	115,526	(10,029)	504,155
Long term debt, net of current maturities	806,002	865,667	137,874(h)	1,809,543
Deferred income taxes	7,272	—	120,422(i)	127,694
Other non-current liabilities	106,614	5,290	—	111,904
Total liabilities	1,318,546	986,483	248,267	2,553,296
Minority interest in equity of consolidated subsidiary	1,379	—	—	1,379
Total shareholders' equity	316,044	68,231	362,920(j)	747,195
Total liabilities and shareholders' equity	$1,635,969	$1,054,714	$ 611,187	$3,301,870

(1) Condensed consolidated balance sheet for Rayovac, as obtained from the Company's Annual Report on Form 10-K for the period ended September 30, 2004.

Notes to Unaudited Pro Forma Condensed Consolidated Balance Sheet

(2) Condensed consolidated balance sheet for United, as obtained from the Quarterly Report on Form 10-Q for the period ended September 30, 2004.

(3) The total estimated consideration as shown in the table below is allocated to the assets and liabilities of United as if the transactions had occurred on September 30, 2004. The allocation set forth below is preliminary. The unaudited pro forma condensed combined financial information assumes that the historical values of United's current assets, current liabilities and property plant and equipment approximate fair value, except as adjusted, pending forthcoming appraisals and other financial information.

The allocation of consideration to acquired intangible assets is subject to the finalization of independent appraisals completed after the completion of the combination transactions. The actual amounts recorded when the independent appraisals are completed may differ materially from the pro forma amounts presented below (in thousands).

Total purchase price:	
Issuance of Rayovac common stock	$ 439,175
Cash consideration	70,000
Assumption of United debt	871,445
Acquisition related costs	33,700
	$1,414,320
Preliminary allocation of purchase price, reflecting the transactions:	
Estimated adjustments to reflect assets and liabilities at fair value:	
Historical value of assets acquired, excluding goodwill, as of September 30, 2004	807,268
Historical value of liabilities assumed	(986,483)
Write-off of United deferred financing fees	(19,772)
Current deferred taxes association with the write-off of United deferred financing fees	7,513
Adjustment to eliminate United bond premium	900
Inventory valuation	15,000
Current deferred tax asset recognized on inventory valuation	(5,700)
Assumption of United debt	871,445
Incremental identified intangible assets	191,802
Incremental deferred tax liability on identified intangibles	(76,889)
Goodwill acquired (including $247,446 of pre-acquisition goodwill)	609,236
	$1,414,320

(a) Net change in cash after completion of the transactions.

(b) Adjustment to the estimated purchase accounting valuation related to inventory.

(c) Tax benefits associated with the anticipated write-off of Rayovac and United unamortized debt issuance costs and purchase accounting adjustments to inventory.

(d) Estimated value of incremental goodwill associated with the transactions.

(e) Estimated value of incremental intangible assets acquired in the transactions.

(f) Write-off of existing deferred taxes on intangible assets.

(g) Write-off of United unamortized debt issuance costs of $19,772 and Rayovac unamortized debt issuance costs of $12,942 related to debt to be refinanced less the estimated $25,000 of deferred financing costs to be incurred in connection with the transactions.

(h) Net additional debt and accrued expenses incurred after repayment of United debt, $868,822, and accrued interest, $4,665, at September 30, 2004.

(i) Represents deferred taxes recognized at a 38 percent rate on preliminary net assets acquired.

(j) Reflects the following adjustments affecting equity:

Issuance of common stock (13,750 shares @ $31.94)	$439,175
Historical value of United net assets acquired	(68,231)
Rayovac debt financing cost write-off, net of tax	(8,024)
	$362,920

Note: The stock price of $31.94 used in the calculation of the purchase price is based on a five day closing price average beginning two days prior to Rayovac's announcement of the acquisition of United.

Unaudited Pro Forma Condensed Consolidated Statement of Operations
Year Ended September 30, 2004
(in thousands)

	Rayovac Corporation (1)	Microlite (2)	Pro Forma Adjustments	Rayovac Combined	United Industries (6)	United Pet Group (7)	NuGro (8)	Pro Forma Adjustments	United Industries Combined	Pro Forma Adjustments	Rayovac & United Pro Forma Combined
Net sales	$ 1,417,186	$ 37,618	$ —	$1,454,804	$ 640,890	$206,834	$89,819	$ —	$ 937,543	$ —	$ 2,392,347
Cost of goods sold	811,894	28,294	—	840,188	423,712	136,554	69,853	7,884(9)	638,003	(55,528)(13)	1,422,663
Restructuring and related charges	(781)	—	—	(781)	—	—	—	—	—	—	(781)
Gross profit	606,073	9,324	—	615,397	217,178	70,280	19,966	(7,884)	299,540	55,528	970,465
Operating expenses:											
Selling, general and administrative expenses	437,629	15,695	3,241(3)	456,565	165,695	55,312	11,760	1,148(10)	233,915	44,970(13)	735,450
Restructuring and related charges	12,224	—	—	12,224	—	—	—	—	—	—	12,224
	449,853	15,695	3,241	468,789	165,695	55,312	11,760	1,148	233,915	44,970	747,674
Operating Income (loss)	156,220	(6,371)	(3,241)	146,608	51,483	14,968	8,206	(9,032)	65,625	10,558	222,791
Interest expense	65,702	4,366	(2,252)(4)	67,816	42,528	7,308	591	1,228(11)	51,655	10,437(14)	129,908
Other (income) expense, net	64	(50)	—	14	—	—	—	—	—	(890)(15)	(876)
Minority interest	(78)	—	—	(78)	—	—	—	—	—	—	(78)
Income (loss) from continuing operations before income taxes	90,532	(10,687)	(989)	78,856	8,955	7,660	7,615	(10,260)	13,970	1.011	93,837
Income tax expense (benefit)	34,372	—	— (5)	34,372	(96,231)	5,856	2,793	(3,899)(12)	(91,481)	384(16)	(56,725)(17)
Income from continuing operations	56,160	(10,687)	(989)	44,484	105,186	1,804	4,822	(6,361)	105,451	627	150,562
Loss/(Income) from discontinued operations, net of tax	380	—	—	380	—	—	—	—	—	—	380
Net income (loss)	$ 55,780	$ (10,687)	$ (989)	$ 44,104	$ 105,186	$ 1,804	$ 4,822	$ (6,361)	$ 105,451	$ 627	$ 150,182
Basic net income per common share	$ 1.68										$ 3.19
Weighted average shares of common stock outstanding	33,433,000										47,183,000(18)
Diluted net income per common share	$ 1.62										$ 3.11
Weighted average shares in common stock outstanding	34,620,000										48,370,000(18)

(1) Consolidated statement of operations for Rayovac, as obtained from the Company’s Annual Report on Form 10-K for the period ended September 30, 2004.

Notes to Unaudited Pro Forma Condensed Consolidated Statement of Operations

(2) Represents the unaudited historical operating results for Microlite for the period from October 1, 2003 to May 28, 2004.

(3) Reclassification of Microlite expenses from interest expense to selling, general and administrative expenses to conform to the Rayovac presentation.

(4) Reclassification of Microlite expenses to conform to Rayovac's presentation, net of additional interest expense incurred in connection with the acquisition of Microlite.

(5) No net income tax benefit has been recognized in connection with Microlite's operating loss for the period from October 1, 2003 to May 28, 2004. Based on historical levels of income and the length of time required to utilize its deferred tax assets, Rayovac determined that it was more likely than not that it would not fully utilize its Microlite deferred tax assets and therefore recorded a valuation allowance against the benefit of such losses.

(6) Represents the historical operating results for United Industries for the twelve-month period ended September 30, 2004, including the results of United Pet Group from July 30, 2004, its date of acquisition, through September 30, 2004, and Nu-Gro from April 30, 2004, its date of acquisition, through September 30, 2004.

(7) Represents the historical operating results for United Pet Group for the period from October 1, 2003 to July 30, 2004.

(8) Represents the historical operating results for Nu-Gro for the period from October 1, 2003 to April 30, 2004.

(9) Represents a reclassification of $7.7 million from selling, general and administrative expenses related to freight costs to conform with the accounting treatment for such costs by United Industries. The adjustment also includes an adjustment to record incremental depreciation expense related to property and equipment acquired in the United Pet Group acquisition based on estimated fair values. Such property and equipment is being depreciated using the straight-line method over varying periods, the average of which is approximately 10 years.

10) Represents an adjustment to record approximately $8.8 million of incremental amortization expense related to intangible assets (other than goodwill) acquired in the United Pet Group and Nu-Gro acquisitions, based on estimated fair values. Intangible assets acquired included trade names, patents and customer relationships. The majority of acquired trade names are being amortized using the straight-line method over periods ranging from 5 to 40 years, while several trade names have been determined to have indefinite lives. Patents acquired and customer relationships are being amortized using the straight-line method over 15 years and 5 years, respectively. This adjustment is offset by the reclassification of $7.7 million of freight costs from selling, general and administrative expenses to cost of goods sold to conform with the accounting treatment for such costs by United Industries.

(11) Represents the change in interest expense related to the new senior credit facility executed by United Industries on April 30, 2004, a portion of the proceeds of which were used to finance the Nu-Gro acquisition, and the amendment of such senior credit facility on July 30, 2004, a portion of the proceeds of which were used to finance the United Pet Group acquisition.

(12) Represents the income tax benefit associated with the adjustments described herein to arrive at an estimated pro forma 2004 statutory tax rate of 38%.

(13) Represents a reclassification of freight costs from cost of goods sold to selling, general and administrative expenses to conform with the accounting treatment for such costs by Rayovac Corporation, net of a reduction of amortization expense (included in selling, general and administrative expenses only) of $10,558, reflecting projected amortization of identified intangibles. Intangible assets acquired included trade names, patents and customer relationships. The majority of acquired trade names have been assigned indefinite lives. Customer relationships have been assigned a 12 1/2 year life.

(14) Represents increased interest expense, net of a reclassification of interest income, associated with the debt issued and refinanced in connection with the transactions. The effect of a 0.125 percent change in the expected interest rate on the approximately $739 million of variable rate debt to be refinanced in connection with the transactions is approximately $0.9 million.

(15) Represents a reclassification of interest income from interest expense, net, to conform to Rayovac's presentation.

(16) Represents the income tax benefit associated with the adjustments described herein to arrive at an estimated pro forma 2004 statutory tax rate of 38%.

(17) Includes a reduction of income tax expense of $104.1 million, reflecting a full reversal of United's valuation allowance originally established against the tax deductible goodwill deduction and certain net operating loss carryforwards that were generated in 1999 through 2003. Based on historical levels of income and the length of time required to utilize its deferred tax assets, the Company determined that it was more likely than not that it would fully utilize its deferred tax assets and that it was no longer necessary to maintain a valuation allowance. The following table excludes this one-time adjustment from income tax expense in arriving at net income:

	Rayovac & United Pro Forma Combined	Tax Adjustment	Pro Forma Adjusted
Income from continuing operations before income taxes	93,837	—	93,837
Income tax expense (benefit)	(56,725)	104,137	47,412
Income from continuing operations	150,562	(104,137)	46,425
Loss from discontinued operations (net of tax)	380	—	380
Net income	150,182	(104,137)	46,045

(18) Increase to weighted shares outstanding due to the assumed issuance of 13.75 million shares of Rayovac common stock on October 1, 2003.

Exhibit 99.8

United Industries Corporation
Unaudited Pro Forma Condensed Combined Financial Information
For the Nine Months Ended September 30, 2004 and
For the Year Ended December 31, 2003
(Dollars in thousands, except where indicated)

The following unaudited pro forma condensed combined financial information related to United Industries Corporation (United Industries or the Company) and its acquisition of The Nu-Gro Corporation (Nu-Gro) and its merger with and into United Pet Group, Inc. (UPG) is included for the nine months ended September 30, 2004 and for the year ended December 31, 2003.

The acquisition of Nu-Gro closed on April 30, 2004 and the acquisition of UPG closed on July 30, 2004; the information regarding the transactions, including required financial and pro forma financial information has been previously filed with the U.S. Securities and Exchange Commission. The respective purchase price allocations ascribed to the Nu-Gro and UPG acquisitions have been presented in the Company's Form 10-Q for the third quarter of 2004, previously filed with the U.S. Securities and Exchange Commission. The pro forma information contained herein includes the required pro forma operating results of Nu-Gro and UPG.

The unaudited pro forma condensed combined financial information presents how the combined financial statements of (1) United Industries, a manufacturer and marketer of value-oriented products for the consumer lawn and garden care and household insect control markets in the United States, (2) Nu-Gro, a manufacturer and marketer of consumer lawn and garden products and supplier of controlled release nitrogen and other fertilizer technologies in Canada, and (3) UPG, a privately held marketer and manufacturer of premium branded pet supplies, may have appeared had the businesses actually been combined at the beginning of the periods presented herein. The unaudited pro forma condensed combined financial information shows the impact of the acquisitions of Nu-Gro and UPG on the Company's historical results of operations under the purchase method of accounting with United Industries treated as the acquirer. Under this method of accounting, United Industries recorded the assets and liabilities of Nu-Gro and UPG at their estimated fair values as of April 30, 2004 and July 30, 2004, respectively, the respective dates the acquisitions were completed.

The unaudited pro forma condensed combined income statements present the historical financial information of United Industries, Nu-Gro, and UPG for the nine months ended September 30, 2004 and the year ended December 31, 2003 and give effect to the acquisitions as if they had been completed at the beginning of the periods presented.

The unaudited pro forma condensed combined financial information has been derived from and should be read in conjunction with the historical consolidated financial statements and the related notes of United Industries, as filed in its quarterly and annual reports with the U.S. Securities and Exchange Commission, and the historical consolidated financial statements and the related notes of Nu-Gro and UPG. The unaudited pro forma condensed combined financial information includes estimated adjustments to record the assets and liabilities of Nu-Gro and UPG at their respective fair values and represents management's estimates based on available information. The final allocation of the purchase price will be determined upon completion of a final valuation, from an independent third-party valuation firm, to determine the fair values of Nu-Gro's and UPG's tangible and identifiable intangible assets and liabilities as of the acquisition date. Increases or decreases in the fair value of the net assets, commitments, executory contracts and other items of Nu-Gro and UPG may change the amount of the purchase price allocated to goodwill and other assets and liabilities and may impact the income statements due to adjustments in yield or amortization of the adjusted assets or liabilities.

The unaudited pro forma condensed combined financial information is not necessarily indicative of the results of operations that would have resulted had the acquisitions been completed at the beginning of the periods presented, nor is it indicative of the results of operations in future periods of the combined companies. In addition, the allocations of the purchase prices which impact the income statements are subject to adjustment and may vary materially from the actual purchase price allocations that will be recorded upon receipt of a final independent third-party valuation report.

United Industries Corporation
Pro Forma Condensed Combined Income Statement

Nine Months Ended September 30, 2004

($ in Thousands)

	United Industries (1)	United Pet Group (2)	The Nu-Gro Corporation (3)	Pro Forma Adjustments	United Industries Combined
Net sales	$ 593,578	$142,333	$ 67,234	$ —	$803,145
Cost of goods sold	392,776	96,366	51,443	5,904(4)	546,489
Gross profit	200,802	45,967	15,791	(5,904)	256,656
Operating expenses	138,152	41,992	7,375	208(5)	187,727
Income from operations	62,650	3,975	8,416	(6,112)	68,929
Interest expense, net	33,940	5,020	413	320(6)	39,693
Income (loss) before income taxes	28,710	(1,045)	8,003	(6,432)	29,236
Income tax expense (benefit)	7,447	2,694	2,937	(2,444)(7)	10,634
Net income (loss)	$ 21,263	$ (3,739)	$ 5,066	$ (3,988)	$ 18,602

United Industries Corporation
Pro Forma Condensed Combined Income Statement

Year Ended December 31, 2003

($ in Thousands)

	United Industries (1)	United Pet Group (2)	The Nu-Gro Corporation (3)	Pro Forma Adjustments	United Industries Combined
Net sales	$ 536,146	$231,974	$ 155,193	$ —	$923,313
Cost of goods sold	328,238	155,748	117,293	7,918(4)	609,197
Gross profit	207,908	76,226	37,900	(7,918)	314,116
Operating expenses	139,042	43,351	22,866	3,760(5)	209,019
Income from operations	68,866	32,875	15,034	(11,678)	105,097
Interest expense, net	36,213	7,412	1,121	3,632(6)	48,378
Income before income taxes	32,653	25,463	13,913	(15,310)	56,719
Income tax expense (benefit)	(82,851)	8,752	4,904	(5,818)(7)	(75,013)
Net income (loss)	$ 115,504	$ 16,711	$ 9,009	$ (9,492)	$131,732

United Industries Corporation
Pro Forma Footnotes

Nine months ended September 30, 2004:

(1) Represents the historical operating results for United Industries for the nine months ended September 30, 2004, including the results of United Pet Group from July 30, 2004, its date of acquisition, through September 30, 2004, and Nu-Gro from April 30, 2004, its date of acquisition, through September 30, 2004.

(2) Represents the historical operating results for United Pet Group for the period from January 1, 2004 to July 30, 2004.

(3) Represents the historical operating results for Nu-Gro for the period from January 1, 2004 to April 30, 2004.

(4) Represents an adjustment to record incremental depreciation expense related to property and equipment acquired in the United Pet Group acquisition based on estimated fair values. Such property and equipment is being depreciated using the straight-line method over varying periods, the average of which is approximately 10 years. The adjustment also includes a reclassification of $5.8 million from selling, general and administrative expenses related to freight costs to conform with the accounting treatment for such costs by United Industries.

(5) Represents an adjustment to record incremental amortization expense related to intangible assets (other than goodwill) acquired in the United Pet Group and Nu-Gro acquisitions, based on estimated fair values. Intangible assets acquired included trade names, patents and customer relationships. The majority of acquired trade names are being amortized using the straight-line method over periods ranging from 5 to 40 years, while several trade names have been determined to have indefinite lives. Patents acquired and customer relationships are being amortized using the straight-line method over 15 years and 5 years, respectively.

(6) Represents the change in interest expense related to the new senior credit facility executed by United Industries on April 30, 2004, a portion of the proceeds of which were used to finance the Nu-Gro acquisition, and the amendment of such senior credit facility on July 30, 2004, a portion of the proceeds of which were used to finance the United Pet Group acquisition.

(7) Represents the income tax benefit associated with the adjustments described herein to arrive at an estimated pro forma 2004 statutory tax rate of 38%.

Twelve months ended December 31, 2003:

(1) Represents the historical operating results for United Industries for the twelve-month period ended December 31, 2003.

(2) Represents the historical operating results for United Pet Group for the twelve-month period ended December 31, 2003.

(3) Represents the historical operating results for Nu-Gro for the twelve-month period ended December 31, 2003.

(4) Represents an adjustment to record incremental depreciation expense related to property and equipment acquired in the United Pet Group acquisition based on estimated fair values. Such property and equipment is being depreciated using the straight-line method over varying periods, the average of which is approximately 10 years. The adjustment also includes a reclassification of $7.7 million from selling, general and administrative expenses related to freight costs to conform with the accounting treatment for such costs by United Industries.

(5) Represents an adjustment to record incremental amortization expense related to intangible assets (other than goodwill) acquired in the United Pet Group and Nu-Gro acquisitions, based on estimated fair values. Intangible assets acquired included trade names, patents and customer relationships. The majority of acquired trade names are being amortized using the straight-line method over periods ranging from 5 to 40 years, while several trade names have been determined to have indefinite lives. Patents acquired and customer relationships are being amortized using the straight-line method over 15 years and 5 years, respectively.

(6) Represents the change in interest expense related to the new senior credit facility executed by United Industries on April 30, 2004, a portion of the proceeds of which were used to finance the Nu-Gro acquisition, and the amendment of such senior credit facility on July 30, 2004, a portion of the proceeds of which were used to finance the United Pet Group acquisition, as if the acquisitions and related financing activities had occurred on January 1, 2003.

(7) Represents the income tax benefit associated with the adjustments described herein to arrive at an estimated pro forma 2004 statutory tax rate of 38%.