

2 0 0 3 A N N U A L R E P O R T



THIS WE BELIEVE

*“When all is said and done, this
business is nothing but a symbol.*

*And when we translate this, we
find that it means a great many
people think well of its products
and that a great multitude has
faith in the integrity of the men
who make this product...*

*“The good will of the people is
the only enduring thing in any
business. It is the sole
substance... The rest is shadow!”*

*H.F. Johnson, Sr.
1927 Christmas Profit Sharing Speech*



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A MESSAGE FROM OUR CHAIRMAN

2003 was a year marked by great achievements for JohnsonDiversey, starting with the progress we made blending two strong companies into a single industry powerhouse.

The integration of Johnson Wax Professional and DiverseyLever is ahead of schedule, enabling us to focus more of our attention where it belongs – on our customers, to whom we’ve pledged to deliver the best solutions and service in our industry, every day, everywhere.

At JohnsonDiversey, we define “best solutions” to mean those that simplify the lives of our customers and make their businesses more profitable. We believe that as a result of simplifying our customers’ lives, we will win in the global marketplace. That belief, in turn, drives our approach to innovation, which is the lifeblood of our company.

Our approach to innovation starts with a strong partnership with our customers resulting in an in-depth understanding of their needs. This approach enabled us to deliver two game-changing innovations in 2003: RTD (called J-Flex outside North America), a dispensing and dilution-control platform that is transforming the way the world dispenses industrial chemicals, and TimeSaver, a high-solids floor finish that cuts labor costs in half.

Importantly, RTD and TimeSaver further our global strategic objective to establish a new standard of environmental leadership in our industry. We are deeply committed to environmental leadership, believing that it is not only the right thing to do, but that it makes good business sense. Our heritage of environmental leadership is a clear competitive advantage.

We have furthered this strategy with the launch of Responsible Solutions, a comprehensive program aimed at assuring the products we make, and the processes we use to make them, are environmentally the best they can be. Customer response has been consistently enthusiastic and we are continuing to expand the program.

In 2003, our new company’s first full year, we came together as an organization, united and focused. This is a great tribute to our 13,000 employees around the world who, through their hard work and dedication, proved that our people are our greatest strength – and that we have what it takes to seize the opportunities that lie before us.



A handwritten signature in blue ink, which appears to read "S. Curtis Johnson". The signature is fluid and cursive.

S. Curtis Johnson
Chairman

A MESSAGE FROM OUR PRESIDENT AND CEO

In 2003, JohnsonDiversey made very significant progress in realizing the initial benefits that the formation of our new company promised, notwithstanding formidable external challenges that included the war in Iraq, softness in the global economy and SARS.

Indeed, significant progress was achieved against the most challenging aspects of the integration of our legacy companies. By the end of fiscal 2003, we had effectively met the synergy target of \$150 million in benefits called for in our acquisition model. Due to effective restructuring and integration programs, treasury initiatives, and systems improvements, we reached that milestone more than a year ahead of schedule.

Likewise, our management team successfully focused the organization on maximizing the cash flow of the business. As a result, we were able to pay down \$141 million in term debt, which was \$82 million more than our lenders required.

Our earnings before interest, taxes, depreciation, and amortization (EBITDA) grew 37 percent in 2003 compared to the year before, due primarily to the acquisition of DiverseyLever and related synergy benefits and favorable foreign currency impacts. On a comparable, constant currency basis, adjusting for acquisitions and disposals, net sales grew 1.5 percent during the same period. Our top-line growth was impeded by the slow recovery of travel and tourism resulting, in part, from the ongoing threat of terrorism, the war in Iraq and SARS.

Last year, we also posted major customer wins in every region and in each of our strategic sectors. At the same time, we retained our key existing accounts.

We also launched our new employee benefits program in the U.S., continued our efforts to strengthen our global internal control systems, implemented a new treasury management system, and successfully implemented an employee health and safety initiative, reducing workplace injuries 25 percent.

In sum, 2003 was an excellent year for JohnsonDiversey. We managed our cash well and we listened to our customers closely. The combination produced solid results. Our future remains bright. None of this would have been possible without the extraordinary dedication of all of our employees worldwide, whom I want to thank for their contributions.



A handwritten signature in blue ink that reads "Gregory E. Lawton". The signature is written in a cursive, flowing style.

Gregory E. Lawton
President & CEO

KEY FINANCIAL DATA FOR THE FISCAL YEAR ENDING JANUARY 2, 2004



	(dollars in thousands)
Net Sales	\$2,947,772
Gross Profit	1,331,741
Gross Profit as a percent of net sales	45.2%
EBITDA ⁽¹⁾	327,943
EBITDA as a percent of net sales	11.1%
Net Income	24,141
Net Cash Provided by Operating Activities	273,860
Capital Expenditures	135,153
Stockholders Equity	994,895
Total Debt	1,490,662
Total Assets	3,665,327

(1) See definition of EBITDA, page 23

SEVEN STRATEGIC OBJECTIVES FOR JOHNSON DIVERSEY

In 2003, our first full year as JohnsonDiversey, we made progress in both business growth and integration of our two legacy companies – Johnson Wax Professional and DiverseyLever. The reason was a well-disciplined adherence to our seven strategic objectives, which motivate all of our key decisions and are critical to our success as a company. In the pages that follow, we offer a more detailed review of accomplishments in 2003 that flow from our seven strategic objectives.



- 1. Capture our combined economic potential** by exceeding synergy savings, integrating on plan and capturing cash for paying down debt.
- 2. Strengthen our business portfolio** with global programs that capture the full potential within each region.
- 3. Be recognized as a preferred customer partner** with distinctive partnership models, the most competitive offerings and organizational capability with sector thought leaders.
- 4. Accelerate product and solution innovation** with new business models, focused prioritized innovations and an efficiently networked organization.
- 5. Exemplify the best place for the best people** with a newly integrated organization, distinctive new JohnsonDiversey culture and a focus on training and personal development.
- 6. Implement and support strategic IT systems** with a cost-effective infrastructure, support for customer partnering and staff productivity.
- 7. Establish environmental leadership** with supporting infrastructure, demonstrated business value and focus on long-term sustainability.

ENVIRONMENTAL LEADERSHIP

As a member of the Johnson family of companies, JohnsonDiversey has a long heritage of environmental stewardship. This heritage has inspired us to further pursue environmental leadership in our industry. Some examples of recent environmental leadership achievements:

- JohnsonDiversey was first to voluntarily ban use of APEOs (Alkylphenol ethoxylates) in all new products and to commit to removing their use completely in all products by mid-2006. APEOs have come under regulatory scrutiny for their potentially harmful environmental and health impacts.
- We were first to have a guidebook of protocols and product-selection guidelines prepared in consultation with Green Seal, the Washington, D.C., non-profit group that certifies green products.
- We were first to have a global corporate headquarters, with a research and development lab, receive the prestigious Leadership in Energy and Environmental Design (LEED) certification by the U.S. Green Building Council under its green building rating system for existing facilities.

In addition to these recent accomplishments, our chairman, Curt Johnson, was elected to the board of directors of the World Wildlife Fund in 2003, following a family tradition of service to leading environmental organizations.

Leveraging Leadership Into Business Strategy

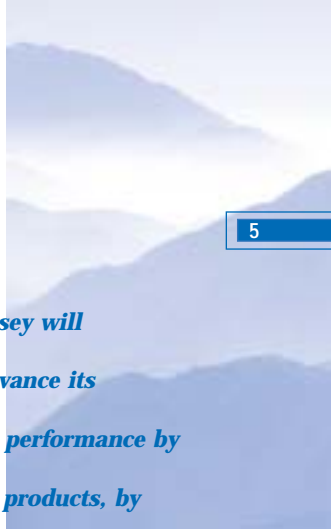
In 2003, we laid the foundation for taking our commitment to the environment to a new level by building an environmental responsibility business strategy for our customers. We began with the simple premise established by well-accepted research that because operations of buildings have a huge impact on health, safety and the environment, there are significant business implications from effective environmental practices.

Through our products, programs and

technologies, JohnsonDiversey is making the cleaning, sanitation and hygiene industry safer for people and the environment. Here are some of our environmentally responsible programs launched in 2003:

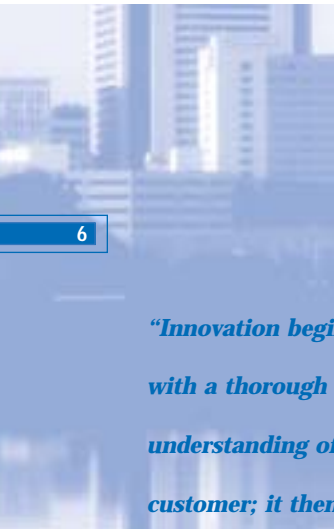
- **ResponsibleSolutions™** is a comprehensive program for assuring that our total product and service offerings are environmentally the best they can be. It means we consider health and environmental implications throughout our entire supply chain and manufacturing processes. We also offer environmentally certified products, and provide consulting and training in sound environmental practices.
- **Unique Dispensing Technology** was introduced in our innovative dilution control system that helps reduce overuse, harmful exposure for product users and spillage. This technology reduces equipment costs, lowers health risks and eliminates waste, which all contribute to solid returns for our customers' investment, plus, the containers are recyclable.
- **Healthy High Performance Cleaning** is our go-to-market strategy that helps customers realize the economic benefits of environmentally responsible cleaning and hygiene programs. The protocols and janitorial-products selection guide we wrote for this program were developed in consultation with Green Seal. It is the first guide of any type to be so developed.

In 2003, JohnsonDiversey built on its long-term heritage of environmental stewardship by launching concrete initiatives to help reduce the impact the company and its customers have on the environment. As Sam Johnson, Chairman Emeritus of S.C. Johnson, has said, "Being an environmentally responsible company makes good business sense, and in fact, gives us a competitive advantage."



"JohnsonDiversey will continue to advance its environmental performance by improving our products, by helping our customers improve their environmental profile and by actively engaging in global environmental dialogue. We will lead with other forward-thinking companies and organizations to advance human progress while sustaining the natural balance and beauty of our planet."

*S. Curtis Johnson
Chairman, JohnsonDiversey*



“Innovation begins first with a thorough understanding of the customer; it then evolves to meet their changing needs. In this way, our ever-present goal is to simplify the lives of our customers every day and everywhere.”

*Gregory E. Lawton
President and CEO,
JohnsonDiversey*

Innovation is a two-fold promise at JohnsonDiversey: the promise to provide R&D resources that lead the industry with new, more effective products and solutions, and the promise to use our innovations to simplify the lives of our customers. This innovation promise is being kept through a new disciplined ideation process as well as creative partnerships with key customers.

Innovation remains a major strategic focus for JohnsonDiversey. That focus is paying off with widely successful product and system launches that are changing how our industry operates. Here are three successful industry-leading innovations we recently launched:

Innovative Dispensing Technology

An innovative total system that we introduced last year captured the interest of the industry in one of our most successful technology launches. The system is Ready-To-Dispense™, or RTD for short. It was launched in North America where sales are well exceeding expectations. The same system was launched in Europe in early 2004 under the name J-Flex and early indicators point to the same level of market enthusiasm.

Innovative Floor Finish That Saves Time

TimeSaver SR™ floor finish is another successful innovation developed in 2003 that simplifies our customer’s lives. An ultra-high solids floor finish that literally creates a new category, TimeSaver SR floor finish builds on our generations of leadership in floor care. It was made with a patented polymer and formulation process developed by our subsidiary company, Johnson Polymer. TimeSaver SR floor finish cuts in half the time it takes to coat floors with a durable, high-gloss finish.

In fact, when TimeSaver SR floor finish was tested in the health care sector, hospitals found they were able to clean and refinish patient room floors in record time – 40 to 50 percent faster than conventional finishes.

With TimeSaver floor finish, building service contractors can now dramatically reduce the time they spend coating and re-coating floors without the need for special applicators or equipment. All that is needed to apply TimeSaver SR floor finish is a mop and bucket.

Innovative Equipment Increases Productivity

Last year, JohnsonDiversey offered customers in Europe a new innovative walk-behind scrubber drier that provides 30 to 50 percent more productivity than conventional scrubber driers. The TASKI Swingo 750 and 1250 series were designed to deliver excellence in cleaning performance, productivity and ergonomics.

One of the biggest problems for all scrubber driers is that they tend to leave traces of solution behind. But, JohnsonDiversey’s TASKI Swingo gives 100 percent edge-to-edge pick-up, regardless of the floor profile.

Innovative Customer Partnering

JohnsonDiversey has a strategic vision for developing true partnerships with its leading customers in our strategic market sectors. The aim is to achieve sustainable differentiation among thought leaders in the key sectors. The process involves jointly identifying projects that can bring significant gains to both parties, supported by joint teams for each project.

Innovation is integral to the process and is likely to come in many forms, not only in products, but also in programs, training, cleaning methods, services, auditing and other areas. The vision is of outcomes that will have the potential for broad re-application throughout our customer base.

In 2003, we developed the strategy of customer partnering and mapped out the processes to follow. We also evaluated potential candidates and identified those who we think would be ideal for customer partnering pilots. We have initiated the customer partnering process with several key leaders in market sectors.

At JohnsonDiversey, we have a constant stream of new ideas emerging from a disciplined ideation process, which will continue to produce innovations that will drive profitability and customer loyalty for many years to come. Our culture of innovation truly simplifies the lives of our customers.



“Beyond clean, we are dedicated to being the best at simplifying the lives of our customers.

We do this, in part, by partnering with our customers to exceed their expectations, every day and everywhere.”

*From The
JohnsonDiversey
Advantage*



"JohnsonDiversey may be a new company, but like all Johnson Family companies, it is built on a rich legacy of family values. We know our greatest asset is our people, for they are essential to delivering our superior customer solutions. That's what we're all about – the best people providing the best solutions."

*S. Curtis Johnson
Chairman, JohnsonDiversey*

At JohnsonDiversey, saying that our people are our greatest assets is not mere words. This knowledge comes from more than a century of valuing our people. The success of the Johnson family of companies has come from providing a working environment that is the best place we can provide for our people.

Calling JohnsonDiversey the "best place for the best people" means continually striving to hire and retain exceptional people in their fields and providing them with an outstanding working environment that facilitates their growth and productivity.

A Healthy And Safe Working Environment

One important way we have lived up to providing the best place is through our Target Zero program. Target Zero is aimed at significantly reducing on-the-job injuries. In 2003, we lowered accidents by 28 percent through the program.

Target Zero means just that: we are on our way to eliminating all injuries at work. In part, we are accomplishing this aggressive goal through insistence that all incidents or "near misses" be reported like any accident. We estimate that for every accident there are 400 "near misses." Tracking these will help our employees alter conditions to prevent future accidents.

Training And Development

In 2003, our organizational effectiveness team established a vision for using employee training and development as a catalyst for reaching our strategic objectives. In the first step of our training and development plan, we launched the "Creating Our Future" employee orientation program. Creating Our Future is an intense two-day training session designed to communicate our culture and business practices across the company.

Most of our employees experienced this training last year through a global train-the-trainer network. Creating Our Future is now transitioning to a new employee program. The training and development plan built in 2003 will result in new initiatives for developing executives, managers and specialists, such as sales leaders.

Integrating Employee Compensation And Benefits

At the end of 2003, we completed the most significant work still remaining related to our separation from Unilever and S.C. Johnson & Son with the launch of a fully integrated payroll and benefits administration system for our North American operation and Corporate Headquarters. Similar projects have been completed in three other countries previously dependent upon Unilever and/or S.C. Johnson & Son for payroll and benefits administration and work is underway in five major countries – United Kingdom, Germany, France, Spain and Switzerland.

Work on a global Human Resources Information System to capture relevant data on our 4000 managers around the world is nearing completion and should go live in the second quarter of 2004. We have implemented a global compensation program based on a new grading structure for all these managers.

The definition of "best people," like our definition of "best place," is linked with the JohnsonDiversey vision to provide our customers with the best solutions and service, every day, everywhere. We deliver this vision by having the best trained, most effective team working in an entrepreneurial company with a winning culture.

PHILANTHROPY

Giving is a deeply held value at JohnsonDiversey, a value our people live out everyday in communities throughout the world. Whether it is donating time or dollars or both, JohnsonDiversey employees and the company as a whole give generously to support the communities where we live and work.

Every year, JohnsonDiversey makes a contribution to the S.C. Johnson Fund, the philanthropic organization supported by JohnsonDiversey and its sister company, S.C. Johnson & Son, Inc. The fund disperses millions of dollars every year in the form of grants and matching funds. Employee board members recommend the organizations and individuals to whom the money is dispersed.

The fund matches employee contributions to the United Way and to qualified educational institutions on a dollar-for-dollar basis. In fact, in 2003, JohnsonDiversey was the largest per-employee donor in the State of Wisconsin, contributing \$442,000 in pledges and matching funds to the United Way of Racine County.

In addition to donations of dollars, JohnsonDiversey employees donate their time to numerous community activities. For instance, JohnsonDiversey managers, representing 30 countries, served the students of a school for the developmentally disabled in Portugal. Taking one full day out of their three-day annual meeting, held last May in Lisbon, the managers planted, landscaped and cleaned up the entire grounds of the school.

Donating Throughout The World

Around the globe, JohnsonDiversey employees offer their time, expertise and dollars. Here are just a few examples of the charitable work of our employees:

H.F. Johnson Community Services Award in Racine, Wisconsin

Every year through our H.F. Johnson

Community Service Award, JohnsonDiversey recognizes four employees who have made outstanding contributions in volunteering time to a community organization. Three of those recipients earn a \$500 contribution for their organization and a \$5,000 contribution goes to the top recipient's organization.

“Helping Hand” School Program in Mannheim, Germany

At the Geschwister-Scholl-School in the City of Mannheim, Germany, 60 JohnsonDiversey employees participated in a program called “Helping Hand” to clean every room in the school. Also, pupils from the same school won recognition in a “Clean Your City” campaign hosted by the City Council and sponsored by JohnsonDiversey.

Habitat for Humanity in Kenya

JohnsonDiversey contributed funds, time and volunteers to Habitat for Humanity in Kenya. JohnsonDiversey Kenya employees in six groups donated countless hours over the year building houses in three areas in the country: Maua, Kisii and Bomet.

Nazareth House in Cape Town, South Africa

Nazareth House in Cape Town, South Africa, is an orphanage for HIV-positive children. The Poor Sisters of Nazareth, who run the orphanage, requested a trampoline for the children. JohnsonDiversey donated two in-ground trampolines that are used daily by the children.

JohnsonDiversey's approach to giving is based on the principle of sustainable development, which is driven by the philosophy that everything we do today takes into consideration the needs of future generations. It is evident in our giving and in our very way of doing business.



“We believe in contributing to the social and economic well-being of the countries and communities where we conduct business.”

*From “This We Believe”
JohnsonDiversey’s Guiding Principles*

FORWARD – LOOKING STATEMENTS

Unless otherwise indicated, "JohnsonDiversey," "we," "us," "our," or "the Company" refer to JohnsonDiversey, Inc. and its consolidated subsidiaries.

We make statements in this annual report that are not historical facts. These "forward-looking statements" can be identified by the use of terms such as "may," "intend," "might," "will," "should," "could," "would," "expect," "believe," "estimate," "anticipate," "predict," "project," "potential," or the negative of these terms, and similar expressions. You should be aware that these forward-looking statements are subject to risks and uncertainties that are beyond our control. Further, any forward-looking statement speaks only as of the date on which it is made, and except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made or to reflect the occurrence of anticipated or unanticipated events or circumstances. New factors emerge from time to time that may cause our business not to develop as we expect, and it is not possible for us to predict all of them. Factors that may cause actual results to differ materially from those expressed or implied by the forward-looking statements include, but are not limited to, the following:

- our ability to successfully complete the integration of the DiverseyLever business, including the achievement of cost and tax savings;
- our ability to execute any of our business strategies;
- changes in general economic and political conditions, interest rates, and currency movements, including, in particular, exposure to foreign currency risks;
- the vitality of the institutional and industrial cleaning and sanitation market, particularly those sectors adversely affected by the current economic downturn, and the printing and packaging, coatings and plastics markets;
- restraints on pricing flexibility due to competitive conditions in the professional and polymer markets;
- the loss or insolvency of a significant supplier or customer;
- effectiveness in managing our manufacturing processes, including our inventory, fixed assets and system of internal control;
- changes in energy costs, the costs of raw materials and other operating expenses;
- our ability and the ability of our competitors to introduce new products and technical innovations;
- the costs and effects of complying with laws and regulations relating to the environment and to the manufacture, storage, distribution, and labeling of our products;
- the occurrence of litigation or claims;
- changes in tax, fiscal, governmental, and other regulatory policies;
- the effect of future acquisitions or divestitures or other corporate transactions;
- adverse or unfavorable publicity regarding us or our services;
- the loss of, or changes in, executive management or other key personnel;
- natural and manmade disasters, including acts of terrorism, hostilities, or war that impact our markets; and
- conditions affecting the food and lodging industry, including health-related, political, and weather-related.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Overview

We are a leading global marketer and manufacturer of cleaning, hygiene and appearance products and related services for the institutional and industrial cleaning and sanitation market. We are also a leading global supplier of environmentally compliant, water-based acrylic polymer resins for the industrial printing and packaging, coatings and plastics markets. We sell our products in more than 120 countries through our direct sales force, wholesalers and third-party distributors. Our sales are balanced geographically, with our principal markets being Europe, North America and the Asia Pacific region.

Fiscal year 2003 continued our successful integration of the DiverseyLever acquisition as we realized higher than expected synergies from restructuring and integration programs, treasury initiatives and systems improvements. Our global consolidation of facilities, people and processes are examples of these synergy programs. By the end of fiscal year 2003, we had effectively met our acquisition cost synergy target one full year earlier than planned. These savings were realized despite spending 30% less than planned on restructuring costs, some of which was deferred until fiscal year 2004. We expect to realize total synergies in excess of \$200 million by fiscal year 2005, with the completion of our remaining restructuring and integration projects, well in excess of the original cost synergy target of \$150 million.

Also in fiscal year 2003, our management team renewed its focus on maximizing the cash flows of the business and improved its management of global cash balances. As a result, we generated \$274 million in cash flows from operating activities, allowing us to pay down \$141 million in term debt, which was \$82 million greater than the scheduled payment amounts and meet all of our financial debt covenants during the year. Cash flows were improved as a result of the implementation of programs to increase the amount of securitized accounts receivables (\$59.3 million), decrease net working capital and control capital expenditures.

On February 24, 2004, we amended our senior secured credit facility agreement, including certain financial covenants, to provide for greater flexibility to complete our planned restructuring and integration programs over the next two years and, concurrently with the covenant amendment, we achieved a 50 basis point pricing reduction on our U.S. dollar denominated tranche B term debt of \$416 million. We view this amendment as an important step in our continued efforts to invest in and strengthen our business.

As a result of our May 3, 2002, acquisition of DiverseyLever, an institutional and industrial cleaning and sanitation business, from Conopco, Inc., a subsidiary of Unilever PLC and Unilever N.V., our results for the year ended January 2, 2004, include the full-year of results of the DiverseyLever business, while the results of the year ended January 3, 2003, include only eight months of post-acquisition results. Due to the timing of the acquisition, the transition of the institutional and industrial Unilever consumer brands business to a sales agency relationship with us after closing and the manner in which the DiverseyLever business was operated as a division of Unilever and not as a stand-alone business, comparative information for the acquired DiverseyLever business does not exist. Because of these factors and the extent to which integration of the businesses has occurred, historical comparisons for the annual periods are of limited relevance.

The acquisition significantly increased the size and scope of our operations and is the primary driver of the changes in each financial category discussed below for the year ended January 2, 2004, as compared to the year ended January 3, 2003, and for the year ended January 3, 2003, as compared to the year ended December 28, 2001. Except as noted, changes detailed below describe significant events that are unrelated to the acquisition.

CRITICAL ACCOUNTING POLICIES

The preparation of our 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 as of the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results may differ from these estimates under different assumptions or conditions. We believe the accounting policies that are most critical to our financial condition and results of operations and involve management's judgment and/or evaluation of inherent uncertain factors are as follows:

Revenue Recognition

We recognize revenue on product sales at the time title transfers to the customer. We record an estimated reduction to revenue for customer discount programs and incentive offerings, including allowances and other volume-based incentives. If market conditions were to decline, we may take actions to increase customer incentive offerings, possibly resulting in a reduction of gross profit margins in the period during which the incentive is offered.

In arriving at net sales, we estimate the amounts of sales deductions likely to be earned by customers in conjunction with incentive programs such as volume rebates and other discounts. Such estimates are based on written agreements and historical trends and are reviewed periodically for possible revision based on changes in facts and estimates.

Estimating Reserves and Allowances

Management estimates inventory reserves based on periodic reviews of our inventory balances to identify slow-moving or obsolete items. This determination is based on a number of factors, including new product introductions, changes in customer demand patterns and historic usage trends. Further, management estimates the allowance for doubtful accounts by analyzing accounts receivable balances by age, applying historical trend rates, analyzing market conditions and specifically reserving for identified customer balances, based on known facts, which are deemed probable as uncollectible.

Management's current estimated ranges of liabilities relating to litigation and environmental claims are based on management's best estimate of future costs. We record those costs based on what management believes is the most probable amount of the liability within the ranges or, where no amount within the range is a better estimate of the potential liability, at the minimum amount within the range.

Pension and Post-Retirement Benefits

We sponsor pension and post-retirement plans in various countries, including the United States, which are separately funded. Several statistical and judgmental factors, which attempt to anticipate future events, are used in calculating the expense and liability related to the plans. These factors include assumptions about the discount rate, expected return on plan assets, rate of future compensation increases and healthcare cost trends, as determined by us and our actuaries. In addition, our actuarial consultants also use subjective factors, such as withdrawal and mortality rates, to estimate these factors. The actuarial assumptions used by us may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, longer or shorter life spans of participants and changes in actual costs of healthcare. Actual results may significantly affect the amount of pension and other post-retirement benefit expenses recorded by us.

Goodwill and Long-Lived Assets

In accordance with Statement of Financial Accounting Standards ("SFAS") Nos. 142 and 144, management periodically reviews its long-lived assets, including intangible assets and goodwill, for impairment and assesses whether significant events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. An impairment loss is recognized when the carrying amount of an asset exceeds the anticipated future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded, if any, is calculated by the excess of the asset's carrying value over its estimated fair value. Management also periodically reassesses the estimated remaining useful lives of its long-lived assets. Changes to estimated useful lives would impact the amount of depreciation

and amortization expense recorded in our financial statements. We completed a fair value impairment analysis for the year ended January 2, 2004, as required by SFAS No. 142 and anticipated future undiscounted cash flows analysis as required by SFAS No. 144. Based on these assessments, no impairments were identified.

For an additional discussion of our critical accounting policies and a discussion of new accounting pronouncements, see Note 2 to our audited consolidated financial statements included elsewhere in this annual report.

FISCAL YEAR ENDED JANUARY 2, 2004, COMPARED TO FISCAL YEAR ENDED JANUARY 3, 2003

Net Sales

Net sales increased by \$751 million, or 34%, to \$2.9 billion for the year ended January 2, 2004, from \$2.2 billion for the year ended January 3, 2003, primarily due to the acquisition of the DiverseyLever business on May 3, 2002, and the strengthening of the Euro and certain other foreign currencies against the U.S. dollar (\$175 million). Included in net sales is sales agency fee income of \$86.8 million and \$54.3 million for the years ended January 2, 2004, and January 3, 2003, respectively, which was earned under a sales agency agreement entered into with Unilever on May 3, 2002, in connection with the acquisition.

Excluding sales agency fee income of \$86.8 million and \$54.3 million for the years ended January 2, 2004, and January 3, 2003, respectively, net sales for the professional segment increased by \$697 million, or 37%, to \$2.6 billion for the year ended January 2, 2004, from \$1.9 billion for the year ended January 3, 2003, primarily due to net sales attributable to the acquisition of the DiverseyLever business and the strengthening of the Euro and certain other foreign currencies against the dollar U.S. (\$152 million). The professional business continued to be negatively impacted by slow recoveries from the terrorist attacks of September 11, 2001, and the SARS epidemic, both of which have reduced international travel and tourism, and poor economic conditions that have depressed demand in key business sectors in North America and certain western European countries.

Net sales for the polymer segment of \$285 million for the year ended January 2, 2004, including intercompany sales to the professional segment of \$18.6 million, increased by \$21.6 million, or 8%, from \$263 million for the year ended January 3, 2003, primarily due to the strengthening of the Euro and certain other foreign currencies against the U.S. dollar (\$16 million) and volume growth of 2%, mainly in Asia Pacific and North America. This growth was partially offset by a decline in average selling prices resulting from an unfavorable product and geographical mix reflecting reduced demand for higher priced specialty polymers and faster growth in the Asia Pacific region, which has lower average selling prices than in our other polymer markets.

Gross Profit

Gross profit increased by \$345 million, or 35%, to \$1.3 billion for the year ended January 2, 2004, from \$987 million for the year ended January 3, 2003, and gross profit margin increased slightly to 45.2% for the year ended January 2, 2004, from 44.9% for the year ended January 3, 2003. The increase in gross profit was primarily due to the acquisition of the DiverseyLever business, the strengthening of the Euro and certain other foreign currencies against the U.S. dollar (\$71 million) and supply chain synergy savings, such as additional material volume purchase discounts and more efficient production and distribution processes, partially offset by unfavorable product mix and pricing under-recovery.

The professional segment's gross profit increased by \$346 million, or 39%, to \$1.2 billion for the year ended January 2, 2004, from \$898 million for the year ended January 3, 2003, primarily due to the sales growth as noted above. Gross profit margin increased to 46.4% for the year ended January 2, 2004, from 46.0% for the year ended January 3, 2003.

The polymer segment's gross profit was \$87.1 million for the year ended January 2, 2004, and \$88.4 million for the year ended January 3, 2003, and gross profit margin decreased to 32.7% for the year ended January 2, 2004, from 36.1% for the year ended January 3, 2003, primarily due to higher raw material costs and the decline in global average selling prices, partially offset by the sales volume increase discussed above.

Marketing, Administrative and General Expenses

Marketing, administrative and general expenses increased by \$284 million, or 35%, to \$1.1 billion for the year ended January 2, 2004, from \$801 million for the year ended January 3, 2003, primarily due to the acquisition of the DiverseyLever business and the strengthening of the Euro and certain other foreign currencies against the U.S. dollar (\$51 million), partially offset by synergies realized from the DiverseyLever acquisition and cost reduction programs. Integration-related costs of \$43.1 million were incurred in marketing, administrative and general expenses during the year ended January 2, 2004, consisting primarily of employee severance, information technology and facility-related costs, an increase of \$11.6 million compared to the year ended January 3, 2003.

Research and Development Expenses

Research and development expenses increased by \$10.7 million, or 17%, to \$75.1 million for the year ended January 2, 2004, from \$64.4 million for the year ended January 3, 2003, primarily due to incremental expenses attributable to the acquisition of the DiverseyLever business and the strengthening of the Euro and certain other foreign currencies against the U.S. dollar (\$4 million).

Restructuring and Integration

We have initiated an extensive restructuring and integration program in connection with the acquisition of the DiverseyLever business. Under this program, specified costs associated with the closure of former DiverseyLever operations and the involuntary termination of former DiverseyLever employees are recorded as purchase accounting adjustments. Costs under the program associated with the closure of specified pre-acquisition operations and the involuntary terminations of pre-acquisition employees are recorded as restructuring expenses in the consolidated statement of income. Also incurred under the program are costs related to the acquisition which do not meet the definition of exit costs or restructuring costs. Those costs are included in marketing, administrative and general expenses in the consolidated statement of income.

During the year ended January 2, 2004, we recorded \$10.5 million of exit costs as purchase accounting adjustments, \$12.9 million of restructuring costs and \$43.1 million of period costs in our consolidated statement of income. Non-purchase accounting related costs consisted primarily of \$20.0 million in IT implementation projects in Western Europe, Latin America, Japan and our corporate headquarters, \$16.8 million in involuntary termination and outplacement costs associated with the consolidation of global operations, \$6.2 million in facility closure and asset write-down costs and \$4.6 million related to the consolidation of the North American supply chain operations.

Restructuring expenses of \$19.6 million were incurred in the fiscal year ended January 3, 2003, in connection with a restructuring plan developed primarily for the purpose of realizing headcount reductions and rationalizing facilities resulting from the acquisition. In connection with this plan, we incurred \$11.0 million of expenses pertaining primarily to planned employee terminations and we also incurred \$8.6 million of expenses for the elimination of redundant facilities as part of the overall restructuring plan.

A summary of all costs associated with the restructuring and integration program for the years ended January 2, 2004, and January 3, 2003, and since May 4, 2002, the day following the DiverseyLever acquisition, is outlined below. The reserve balance shown below reflects the aggregate reserves for restructuring costs.

(dollars in thousands)	Year Ended	Year Ended	Total Project
	January 2, 2004	January 3, 2003	to Date May 4, 2002 - January 2, 2004
Reserve balance at beginning of period	\$ 68,858	\$ -	\$ -
Exit costs recorded as purchase accounting adjustments	10,480	70,094	80,574
Restructuring costs charged to income	12,919	19,646	32,565
Payments of accrued costs	(57,459)	(20,882)	(78,341)
Reserve balance at end of period	\$ 34,798	\$ 68,858	\$ 34,798
Period costs classified as cost of sales	\$ 2,420	\$ 2,458	\$ 4,878
Period costs classified as marketing, administrative and general expenses	43,137	31,531	74,668
Capital expenditures	55,535	15,678	71,213

Interest Expense, Net

Net interest expense increased by \$39.8 million, or 47%, to \$124.3 million for the year ended January 2, 2004, from \$84.5 million for the year ended January 3, 2003. To fund the acquisition of the DiverseyLever business in May 2002, we incurred \$1.4 billion of debt under the senior secured credit facilities and the senior subordinated notes. Due to the timing of the borrowings, the increased debt level was in place for only eight of the twelve months in the year ended January 3, 2003, versus for the entire year ended January 2, 2004. In addition, we wrote-off \$5.1 million of debt issuance costs in the fourth quarter of fiscal year 2003.

Other Income/Expense

Other income decreased by \$19.3 million to \$9.7 million for the year ended January 2, 2004, from \$29.0 million for the year ended January 3, 2003. Net other income for the year ended January 2, 2004, consisted primarily of a \$2.8 million net gain on foreign currency and derivative financial instruments and a \$3.4 million net gain on the sale of certain product lines, partially offset by a \$1.4 million loss on the dissolution of a partnership. Net other income for the year ended January 3, 2003, consisted primarily of a \$15.7 million hedging transaction gain on a forward-purchase contract of Euros related to the acquisition of DiverseyLever, a \$9.6 million gain on the sale of a non-strategic dishwashing detergent product line and a \$2.3 million gain on the sale of a non-strategic adhesives product line, partially offset by a \$3.1 million loss on the devaluation of the Argentine peso.

Provision for Income Taxes

Provision for income taxes increased by \$3.1 million to \$19.8 million for the year ended January 2, 2004, from \$16.7 million for the year ended January 3, 2003, primarily due to a higher effective tax rate, which was 45.0% for the year ended January 2, 2004, compared to 36.3% for the year ended January 3, 2003. The higher effective tax rate for the year ended January 2, 2004, was primarily due to not providing a current tax benefit for certain U.S. foreign tax credits which are not expected to be utilized prior to expiration.

Net Income

Net income decreased by \$5.5 million, or 18.4%, to \$24.1 million for the year ended January 2, 2004, from \$29.6 million for the year ended January 3, 2003. This decrease in net income was due primarily to a \$284 million increase in marketing, administrative and general expenses, a \$10.7 million increase in research and development costs, a \$39.8 million increase in net interest expense, a \$19.3 million decrease in other income and a \$3.1 million increase in the provision for income taxes, partially offset by a \$345 million increase in gross profit driven by the incremental DiverseyLever net sales and a \$6.7 million decrease in restructuring expenses, all as previously discussed. In addition to the \$12.9 million restructuring expense, expenses of \$43.1 million of integration-related costs are included in the cost of sales or marketing, administrative and general expenses discussed above, an increase of \$11.6 million compared to the year ended January 3, 2003.

EBITDA

Earnings before interest, taxes, depreciation and amortization (EBITDA) increased by \$88.1 million to \$328 million for the year ended January 2, 2004, from \$240 million for the year ended January 3, 2003. The increase in EBITDA resulted primarily from a \$345 million increase in gross profit resulting from the increased net sales, partially offset by a \$284 million increase in marketing, administrative and general expenses, a \$10.7 million increase in research and development expense and a \$19.3 million decrease in other income, all as previously discussed. Of these cost increases, \$50.1 million are related to higher depreciation and amortization expense which do not impact EBITDA.

FISCAL YEAR ENDED JANUARY 3, 2003, COMPARED TO TWELVE MONTHS ENDED DECEMBER 28, 2001

Net Sales

Net sales increased by \$1.1 billion, or 94%, to \$2.2 billion for the fiscal year ended January 3, 2003, from \$1.1 billion for the twelve months ended December 28, 2001. The primary reason for the increase was net sales attributable to the DiverseyLever business, which we acquired on May 3, 2002. Included in the net sales attributable to the acquisition is \$54.3 million of sales agency fee income for the fiscal year ended January 3, 2003, which we earned under a sales agency agreement we entered into with Unilever on May 3, 2002, in connection with the acquisition.

Net sales for the professional segment increased by \$1.0 billion, or 114%, to \$2.0 billion for the fiscal year ended January 3, 2003, from \$914 million for the twelve months ended December 28, 2001. The strengthening of the U.S.dollar against the Yen, Real, Argentine peso and other foreign currencies negatively impacted net sales by \$18.1 million. Excluding this negative currency impact, net sales of the professional segment for the fiscal year ended January 3, 2003, grew by \$1.1 billion, or 115.6%, from net sales for the twelve months ended December 28, 2001.

Net sales for the polymer segment of \$264 million for the fiscal year ended January 3, 2003, including intercompany sales to the professional segment of \$18.6 million, increased by \$22.1 million, or 9%, from \$241 million for the twelve months ended December 28, 2001. The increase in the segment's net sales was attributable primarily to volume growth of 10%, partially offset by a decline in average selling prices. Sales volume increased in Europe by 16%, Asia Pacific by 21% and North America by 5%, due primarily to new business in the printing and packaging industry and the global coatings markets. Average selling prices declined primarily due to an unfavorable product and geographical mix reflecting faster growth in Europe and the Asia Pacific region, whose product mix includes lower average selling prices than North America.

Gross Profit

Gross profit increased by \$616 million, or 108%, to \$1.1 billion for the fiscal year ended January 3, 2003, from \$572 million for the twelve months ended December 28, 2001, while gross profit margin increased to 54% for the fiscal year ended January 3, 2003, from 50% for the twelve months ended December 28, 2001. The primary reason for the increase in gross profit and gross profit margin was the acquisition of the DiverseyLever business. The gross profit margin on the acquired DiverseyLever business was higher due to a greater mix of higher-margin direct sales than the pre-acquisition business, which was focused more on lower-margin distributor sales.

The polymer segment's gross profit increased by \$15.1 million, or 17%, to \$105 million for the fiscal year ended January 3, 2003, from \$90.0 million for the twelve months ended December 28, 2001. The increase in the segment's gross profit resulted primarily from the sales volume increase discussed above, lower raw material costs and lower manufacturing costs. The increase in volume was offset partially by a decline in global average selling prices, as discussed above. In relation to gross profit margin, the reduced raw material costs and lower manufacturing costs more than offset the negative impact of the decline in global average selling prices, resulting in an increase to 40% for the fiscal year ended January 3, 2003, from 37% for the twelve months ended December 28, 2001.

Marketing, Administrative and General Expenses

Marketing, administrative and general expenses increased by \$536 million, or 114%, to \$1.0 billion for the fiscal year ended January 3, 2003, from \$468 million for the twelve months ended December 28, 2001. The primary reason for this increase was incremental expenses attributable to the DiverseyLever business. Also contributing to this increase in expenses were incremental non-cash pension charges of \$3.3 million reflecting updated actuarial valuations of the acquired DiverseyLever pension plans. Additionally, incremental insurance expenses of \$1.3 million were incurred primarily in North America, largely reflecting increased industry rates. Incremental spending on strategic initiatives related primarily to new computer systems contributed an additional \$8.5 million to the increase in marketing, administrative and general expenses for the fiscal year ended January 3, 2003.

Total synergy savings achieved through the integration of the DiverseyLever business, a key internal objective during this period, exceeded the planned targets in all regions. This was largely driven by a reduction in headcount, which also exceeded expectations. In order to achieve these synergy savings, one-time integration related costs of \$31.5 million were incurred during the period, including a non-cash charge of \$10.1 million related to the write-down of J.D. Edwards ERP software following the decision to integrate both our historic business and the DiverseyLever business onto the SAP platform in Europe.

Research and Development Expenses

Research and development expenses increased by \$26.6 million, or 70%, to \$64.4 million for the fiscal year ended January 3, 2003, from \$37.8 million for the twelve months ended December 28, 2001. The primary reason for the increase was the additional expenses attributable to the DiverseyLever business.

Restructuring Expense

Restructuring expenses of \$19.6 million were incurred in the fiscal year ended January 3, 2003, in connection with a restructuring plan developed primarily for the purpose of eliminating redundancies resulting from the acquisition. In connection with this plan, we incurred \$11.0 million of expenses pertaining primarily to planned employee terminations and we also incurred \$8.6 million of expenses for the elimination of redundant facilities as part of the overall restructuring plan.

Interest Expense Net

Net interest expense increased by \$67.7 million to \$84.5 million for the fiscal year ended January 3, 2003, from \$16.8 million for the twelve months ended December 28, 2001. An increase in the average debt balance of \$854 million for the fiscal year ended January 3, 2003, compared to the twelve months ended December 28, 2001, resulted in an increase in net interest expense of about \$41.6 million. The increased average debt balance resulted from our borrowings under the senior secured credit facilities and the issuance of the senior subordinated notes to fund the acquisition of the DiverseyLever business. The increase in interest expense attributable to the higher average debt balance was further impacted by an increase in the weighted average interest rate of 6% during the fiscal year ended January 3, 2003, compared to 5% during the twelve months ended December 28, 2001.

Other Income/Expense

Other income/expense increased by \$31.9 million to \$29.0 million of income for the fiscal year ended January 3, 2003, from \$2.9 million of expense for the twelve months ended December 28, 2001. Other income for the fiscal year ended January 3, 2003, consisted primarily of a \$15.7 million gain on a forward purchase contract for Euros entered into in connection with the acquisition, a \$9.6 million gain on the sale of a non-strategic dishwasher detergent product line in May 2002, a \$2.4 million gain on the sale of a non-strategic adhesives product line within the polymer business and a \$3.2 million gain on other foreign currency exchange related items. Partially offsetting these gains was a \$3.1 million loss in the fiscal year ended January 3, 2003, related to the devaluation of the Argentine peso.

Provision for Income Taxes

Our effective tax rate was 36.3% for the fiscal year ended January 3, 2003, compared to 31.6% for the twelve months ended December 28, 2001. The higher effective tax rate was primarily due to increased foreign tax liability as a result of the acquisition of the DiverseyLever business, for which an offsetting U.S. foreign tax credit is not recognizable.

Net Income

Net income decreased by \$2.6 million, or 8%, to \$29.6 million for the fiscal year ended January 3, 2003, from \$32.2 million for the twelve months ended December 28, 2001. This decrease in net income was due primarily to a \$536 million increase in marketing, administrative and general expenses, a \$26.6 million increase in research and development costs, a \$19.6 million restructuring expense, a \$67.7 million increase in net interest expense and a \$1.7 million increase in the provision for income taxes, offset partially by a \$616 million increase in gross profit driven by the incremental DiverseyLever net sales and a \$31.9 million increase in other income, all as previously discussed. In addition to the \$19.6 million restructuring expense, expenses of \$31.5 million of integration-related costs are included in the marketing, administrative and general expenses discussed above and \$2.5 million are included in cost of goods sold.

EBITDA

EBITDA increased by \$130 million, or 119%, to \$240 million for the fiscal year ended January 3, 2003, from \$109 million for the twelve months ended December 28, 2001. The increase in EBITDA resulted primarily from a \$616 million increase in gross profit resulting from the increased net sales and a \$31.9 million increase in other income, offset partially by a \$536 million increase in marketing, administrative and general expenses, a \$26.6 million increase in research and development expense and the \$19.6 million restructuring expense, all as previously discussed. \$64.2 million of these cost increases are related to depreciation and amortization expense and do not impact EBITDA.

LIQUIDITY AND CAPITAL RESOURCES

Comparison of Year Ended January 2, 2004, to the Year Ended January 3, 2003

Cash flows provided by operating activities were \$274 million for the year ended January 2, 2004, compared to \$231 million for the year ended January 3, 2003. The increase in net cash provided from operating activities of \$43 million during the year ended January 2, 2004, was primarily due to increased proceeds from accounts receivable securitization programs (\$64.9 million), partially offset by a net increase in operating assets and liabilities.

Cash flows used in investing activities were \$135 million for the year ended January 2, 2004, compared to \$1.5 billion for the year ended January 3, 2003. The reduction in net cash used in investing activities was primarily due to the impact of the acquisition of the DiverseyLever business, partially offset by a \$23.3 million increase in capital expenditures for property, plant and equipment and computer software.

The characteristics of our business do not generally require us to make significant ongoing capital expenditures. We made capital expenditures of about \$135 million in the year ended January 2, 2004, of which approximately \$55.5 million were in support of the integration/synergy efforts.

Cash flows used in financing activities were \$202 million for the year ended January 2, 2004, compared to cash flows provided by financing activities of \$1.4 billion for the year ended January 3, 2003. This change in net cash flows from financing activities was primarily due to the proceeds from long-term borrowings and capital contributions related to the acquisition of the DiverseyLever business.

Overview

As a result of the acquisition, we have a significant amount of indebtedness. On May 3, 2002, in connection with the acquisition of the DiverseyLever business, we issued senior subordinated notes and entered into the \$1.2 billion senior secured credit facilities. We used the proceeds of the sale of the senior subordinated notes and initial borrowings under the senior secured credit facilities, together with other available funds, to finance the cash portion of the purchase price for the DiverseyLever business and the related fees and expenses and to refinance then-existing indebtedness.

The senior secured credit facilities were amended in August 2003. This amendment reduced the interest rate payable with respect to specified tranches of debt under the senior secured credit facilities, thereby reducing borrowing costs over the remaining life of the credit facilities. In addition, the amendment increased specified credit limits and changed various administrative requirements to provide us greater operating flexibility.

The senior secured credit facilities were amended for a second time on February 24, 2004. This amendment reduced the interest rate payable for the U.S. dollar portion of the term B tranche of debt under the credit facilities, thereby reducing the borrowing cost over the remaining life of the tranche. In addition, the amendment changed various financial covenants, as described in the "Financial Covenants Under Credit Facilities" section below, and administrative requirements to provide us with greater flexibility to operate our business and to complete the integration of the DiverseyLever acquisition.

As of January 2, 2004, we had total indebtedness of \$1.7 billion, consisting of \$583 million of senior subordinated notes, \$797 million of borrowings under the senior secured credit facilities, \$95.2 million in borrowings under the receivables securitization facility and \$15.0 million in short-term credit lines, as well as \$201 million in operating lease commitments.

We have the capacity to borrow additional funds under the senior secured credit facilities, subject to compliance with the financial covenants set forth in the facilities. As of January 2, 2004, we had \$14.0 million of indebtedness outstanding under the revolving portion of the senior secured credit facilities and the ability to incur an additional \$304 million of indebtedness under those revolving facilities, of which we believe we would have been able to borrow \$43.3 million and still be in compliance with the financial covenants set forth in the senior secured credit facilities, the indentures for the senior subordinated notes and the indenture for the senior discount notes of JohnsonDiversey Holdings, Inc. (Holdings).

As of January 2, 2004, we had the following payments due with respect to contractual obligations, excluding \$6.2 million committed under letters of credit that expire at various times in 2004:

Payments Due by Period:

Contractual Obligations	Total	Payments Due by Period:			2009 and Thereafter
		2004	2005-2006	2007-2008	
		(dollars in thousands)			
Long-term debt obligations:					
Term credit facilities	\$ 783,069	\$ 27,812	\$ 61,622	\$ 202,336	\$ 491,299
Senior subordinated notes	583,365	–	–	–	583,365
Lines of credit	15,003	15,003	–	–	–
Revolving credit facilities	14,025	14,025	–	–	–
Receivables securitization facility	95,200	95,200	–	–	–
Operating leases	200,589	55,988	82,661	42,656	19,284
Capital leases	16,438	6,384	8,658	1,396	–
Purchase commitments ⁽¹⁾	84,312	19,872	42,120	22,320	–
Total contractual obligations	\$1,792,001	\$ 234,284	\$ 195,061	\$ 268,708	\$1,093,948

(1) Primarily relates to commitments of our polymer business to purchase minimum quantities of styrene monomer from certain vendors

We believe that the cash flows from operations, the anticipated cost savings and operating improvements associated with the acquisition of the DiverseyLever business and our restructuring initiatives, together with available cash, available borrowings under the senior secured credit facilities and the proceeds from our receivables securitization facility will be sufficient to meet our liquidity needs for the foreseeable future. There can be no assurance, however, that we will be able to achieve the anticipated cost savings or that our substantial indebtedness will not adversely affect our financial condition.

OFF-BALANCE SHEET ARRANGEMENTS

Since March 2001, we have funded a portion of our short-term liquidity needs through the securitization of some of our trade accounts receivable. We and some of our U.S. and foreign subsidiaries are parties to agreements whereby we and each participating subsidiary sell, on a continuous basis, all trade receivables to JWPR Corporation, or JWPRC, a wholly owned, special purpose, bankruptcy-remote subsidiary formed for the sole purpose of buying and selling receivables. Under the receivables securitization facility, we and some of our subsidiaries, irrevocably and without recourse, transfer all trade receivables to JWPRC. JWPRC, in turn, sells an undivided interest in these receivables to Falcon Asset Management Corporation for an amount equal to the value of all eligible receivables (as defined under the receivables sale agreement) less the applicable reserve.

On August 29, 2003, the receivables securitization facility was amended to include certain additional U.S. subsidiaries, expand the total potential for securitization of trade receivables to \$75 million from the previous limit of \$55 million and change the facility term to 354 days from the date of closing, renewable without fee. On October 24, 2003, the receivables securitization facility was again amended to include certain United Kingdom subsidiaries and further expand the total potential for securitization of trade receivables to \$100 million (the "October 2003 amendment"). Subsequent to our 2003 fiscal year-end, on January 5, 2004, the receivables securitization facility was amended and restated to include our Italian subsidiary and further expand the total potential for securitization of trade receivables to \$150 million.

Prior to the October 2003 amendment, the beneficial interest of accounts receivable sold under the arrangement was excluded from accounts receivable in our consolidated balance sheets in accordance with SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities—A replacement of FASB Statement No. 125." As a result of the terms of the October 2003 amendment, the limitations in the articles of incorporation of JWPRC and the requirements for sale defined in SFAS No. 140, we were no longer able to exclude the accounts receivable sold under the arrangement from our consolidated balance sheets. At January 2, 2004, \$95.2 million of eligible receivables (net of reserves) under the receivables securitization facility have been included in the consolidated accounts receivable balance. We expect to modify the articles of incorporation of JWPRC and be able to exclude accounts receivable sold under the arrangement from our consolidated balance sheet beginning in the first quarter of fiscal year 2004.

For the year ended January 2, 2004, JWPRC's cost of borrowing under the receivables securitization facility is at a weighted-average rate of about 2.29% per annum, which is significantly lower than our incremental borrowing rate.

Under the terms of the senior secured credit facilities, we must use any net proceeds from the receivables securitization facility first to prepay loans outstanding under the senior secured credit facilities. In addition, the net amount of trade receivables at any time outstanding under this and any other securitization facility that we may enter into may not exceed \$150 million in the aggregate.

FINANCIAL COVENANTS UNDER SENIOR SECURED CREDIT FACILITIES

Under the terms of the senior secured credit facilities, we are subject to certain financial covenants. The most restrictive covenants under the amended senior secured credit facilities require us to meet the following targets and ratios:

Maximum Leverage Ratio

We are required to maintain a leverage ratio for each financial covenant period of no more than the maximum ratio specified in the senior secured credit facilities for that financial covenant period. The maximum leverage ratio is the ratio of (1) our consolidated indebtedness (excluding up to \$55 million of indebtedness incurred under our receivables securitization facility and indebtedness relating to specified interest rate hedge agreements) as of the last day of a financial covenant period using a weighted-average exchange rate for the relevant prior two fiscal quarters to (2) our consolidated EBITDA, as defined in the senior secured credit facilities, for that same financial covenant period.

The amended senior secured credit facilities require that we maintain a leverage ratio of no more than the ratio set forth below for each of the financial covenant periods ending nearest the corresponding date set forth below:

	Maximum Leverage Ratio
December 31, 2003	4.25 to 1
March 31, 2004, to June 30, 2004	4.50 to 1
September 30, 2004	4.25 to 1
December 31, 2004, to June 30, 2005	3.75 to 1
September 30, 2005	3.50 to 1
December 31, 2005	3.25 to 1
March 31, 2006 and thereafter	3.00 to 1

Minimum Interest Coverage Ratio

We are required to maintain an interest coverage ratio for each financial covenant period of no less than the minimum ratio specified in the senior secured credit facilities for that financial covenant period. The minimum interest coverage ratio is the ratio of (1) our consolidated EBITDA, as defined in the senior secured credit facilities, for a financial covenant period to (2) our cash interest expense for the same financial covenant period.

The amended senior secured credit facilities require that we maintain an interest coverage ratio of no less than the ratio set forth below for each of the financial covenant periods ending nearest the corresponding date set forth below:

	Interest Coverage Ratio
December 31, 2003, to June 30, 2004	2.75 to 1
September 30, 2004	3.00 to 1
December 31, 2004, to March 31, 2005	3.25 to 1
June 30, 2005 to September 30, 2005	3.50 to 1
December 31, 2005 and thereafter	4.00 to 1

Compliance with Maximum Leverage Ratio and Minimum Interest Coverage Ratio

For our financial covenant period ended on January 2, 2004, we were in compliance with the maximum leverage ratio and minimum interest coverage ratio covenants contained in the senior secured credit facilities.

Capital Expenditures

The senior secured credit facilities prohibit us from making capital expenditures during any fiscal year ending nearest the corresponding date set forth below in any amount exceeding the following:

	Maximum Capital Expenditures (dollars in thousands)
December 31, 2003	\$161,200
December 31, 2004	122,600
December 31, 2005	107,000
December 31, 2006	110,000
December 31, 2007	113,200

We can exceed in a year the maximum capital expenditures limitation set forth above for that year by the amount, if any, by which the limitation set forth above for the previous year exceeded actual capital expenditures made in that previous year. Based on fiscal year 2003 capital expenditures of \$135 million as compared to the \$161 million maximum, we may exceed the fiscal year 2004 capital expenditure limit by an additional \$26 million. As of January 2, 2004, we were in compliance with the limitation on capital expenditures for fiscal year 2003.

Restructuring Charges

The amended senior secured credit facilities limit the amount of spending on restructuring and integration related activities in 2004 and 2005 to \$145 million in the aggregate.

Senior Discount Notes of Holdings

In connection with the acquisition of the DiverseyLever business, our parent, Holdings, issued senior discount notes with a principal amount at maturity of \$406 million to Unilever. In addition, Unilever received a one-third equity interest in Holdings. Under the indenture for the Holdings senior discount notes, the principal amount of the senior discount notes will accrete at a rate of 10.67% per annum through May 15, 2007. After May 15, 2007, interest will accrue on the accreted value of the senior discount notes at this rate, but will be payable in cash semiannually in arrears to the extent that we can distribute to Holdings the cash necessary to make the payments in accordance with the restrictions contained in the indentures for our senior subordinated notes and senior secured credit facilities. The failure by Holdings to make all or any portion of a semiannual interest payment on the senior discount notes will not constitute an event of default under the indenture for the senior discount notes if that failure results from our inability to distribute the cash necessary to make that payment in accordance with these restrictions. Instead, interest will continue to accrue on any unpaid interest at a rate of 10.67% per annum, and the unpaid interest will be payable on the next interest payment date on which we are able to distribute to Holdings the cash necessary to make the payment in accordance with the provisions contained in the indentures for the senior subordinated notes and the senior secured credit facilities. Holdings has no income from operations and no meaningful assets. Holdings receives all of its income from us and substantially all of its assets consist of its investment in us. The senior discount notes mature on May 15, 2013.

On September 11, 2003 Unilever sold the Holdings' senior discount notes to certain institutional investors. In connection with that sale, Holdings entered into a registration rights agreement with the investors pursuant to which it agreed to exchange the outstanding senior discount notes for an equal principal amount of notes registered under the Securities and Exchange Act of 1933. In September 2003, Holdings filed a registration statement on Form S-4 (Reg. No. 333-108853) with the SEC to register an aggregate of \$406 million principal amount at maturity of 10.67% senior discount notes due 2013, series B. The registration statement was declared effective by the SEC on January 8, 2004. On January 12, 2004, Holdings commenced an exchange offer for the senior discount notes. The exchange offer expired on February 20, 2004. At the close of business on February 20, 2004, the \$406 million principal amount at maturity of senior discount notes, series A were exchanged for an equivalent amount of 10.67% senior subordinated notes due 2013, series B. Holdings did not receive any proceeds from the exchange offer.

POST-CLOSING ADJUSTMENTS TO ACQUISITION CONSIDERATION

The consideration for the DiverseyLever business paid by us to Unilever at the closing of the acquisition is subject to several adjustments based upon the net debt and working capital of the parties and pension matters. Some of the adjustments to the purchase price for the DiverseyLever business and the subscription price Unilever paid for its one-third equity interest in Holdings are paid upon finalization of the adjustments while other adjustments will be paid at the time Unilever ceases to own its equity interest in Holdings. In fiscal years 2003 and 2002, specified adjustments were finalized with Unilever and were paid to Unilever as adjustments to the purchase price. As of January 2, 2004, the aggregate amount of the adjustments to the purchase price during fiscal 2003 was a decrease of \$19.8 million.

Under the acquisition agreement, because our pre-acquisition debt balance exceeded our cash balance at the closing date of the acquisition, we were required to pay to Unilever about \$11.8 million, representing a reduction to Unilever's subscription price for Holdings' equity interest. This amount, together with interest from and including the closing date, will be paid by us on the date on which Unilever ceases to own its equity interest in Holdings. The amount was recorded in our audited consolidated financial statements for fiscal year 2002 as an increase to purchase price. Also, based on our final pre-closing balance sheet, a comparison was made of the final working capital amount to a predetermined working capital amount set forth in the acquisition agreement. Because our final working capital amount exceeded the predetermined amount, Unilever will be required to pay us an amount representing a working capital adjustment to the subscription price. Based on a formula described in the acquisition agreement, Unilever will be required to pay to us about \$30.9 million, representing an increase to the subscription price for Unilever's equity interest in Holdings. The final amount of this adjustment has yet to be finalized with Unilever. However, Unilever would be required to pay the final agreed amount, together with interest from and including the closing date, to us on the date on which Unilever ceases to own its equity interest in Holdings.

In addition, based on a preliminary determination of the transferred pension assets and liabilities relating to specified plans we assumed in the acquisition, we anticipate that Unilever will be required to pay to us an aggregate of about \$115 million, representing an adjustment to the purchase price for the DiverseyLever business. This adjustment is preliminary and is expected to be agreed to with Unilever by the end of our 2004 second quarter. The majority of this adjustment is to be paid by Unilever once the amounts are agreed in respect to a plan, with the remainder to be paid, together with interest from and including the closing date, on the date on which Unilever ceases to own its equity interest in Holdings. As of January 2, 2004, we had received about \$67.5 million, including interest, representing a portion of Unilever's payment of the transferred pension adjustment. The transferred pension adjustment represents the shortfall of transferred pension assets relative to liabilities, adjusted for tax, if applicable. Under the acquisition agreement, if the transferred assets are less than 90% of the value of the transferred liabilities of specified DiverseyLever pension plans, we are required to use the amounts received from Unilever in connection with the transferred pension adjustment to fund those plans up to 90% of the value of the transferred liabilities. Any amount received from Unilever over the required funding level may be used by us for other purposes. As of January 2, 2004, we had contributed an aggregate of about \$23.2 million to the pension plans. We plan to make additional pension contributions of approximately \$20.5 million in the first half of fiscal year 2004, pending the establishment of pension plans in several countries.

The purchase price of the DiverseyLever business is also subject to adjustment relating to pension expenses of DiverseyLever's employee benefit plans for the fiscal year ended June 29, 2001. This adjustment has been finalized and agreed to with Unilever with them required to pay us \$8.4 million. We received \$5.6 million in cash from Unilever in December 2003. The remaining balance of \$2.8 million is included in the long-term receivable from Unilever.

For further discussion of the post-closing adjustments to the acquisition consideration, see Note 4 to our audited consolidated financial statements included elsewhere in this annual report.

RELATED PARTY TRANSACTIONS

Until 1999, we were part of S.C. Johnson & Son, Inc. In connection with our spin-off from S.C. Johnson & Son in 1999, we entered into a number of agreements relating to the separation and our ongoing relationship with S.C. Johnson & Son after the spin-off. A number of these agreements relate to our ordinary course of business, while others pertain to our historical relationship with S.C. Johnson & Son and our former status as a wholly owned subsidiary of S.C. Johnson & Son.

We are also party to various agreements with Unilever entered into in connection with the acquisition of the DiverseyLever business. All of the agreements with Unilever were negotiated before Unilever acquired its equity interest in our parent, Holdings, and the senior discount notes of Holdings. These agreements with Unilever are on arms-length terms.

For further discussion of the related party transactions, see Note 22 to our audited consolidated financial statements included elsewhere in this annual report.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk

As of January 2, 2004, we had about \$1.4 billion of debt outstanding under our senior secured credit facilities. After giving effect to the interest rate swap transactions that we have entered into with respect to some of the borrowings under our senior secured credit facilities, \$338 million of the debt outstanding remained subject to variable rates. In addition, as of January 2, 2004, we had \$15 million of debt outstanding under foreign lines of credit, all of which were subject to variable rates. Accordingly, our earnings and cash flows are affected by changes in interest rates. At our current level of variable rate borrowings, we do not anticipate a significant impact on earnings in the event of a reasonable change in interest rates. In the event of a significant adverse change in interest rates, management would likely take actions that would mitigate our exposure to interest rate risk; however, due to the uncertainty of the actions and their possible effects, this analysis assumes no such action. Further, this analysis does not consider the effects of the change in the level of the overall economic activity that could exist in such an environment.

Foreign Currency Risk

We conduct our business in various regions of the world and export and import products to and from many countries. Our operations may, therefore, be subject to volatility because of currency fluctuations, inflation changes and changes in political and economic conditions in these countries. Sales and expenses are frequently denominated in local currencies and results of operations may be affected adversely as currency fluctuations affect product prices and operating costs. We engage in hedging operations, including forward foreign exchange contracts, to reduce the exposure of our cash flows to fluctuations in foreign currency rates. All hedging instruments are designated and effective as hedges, in accordance with U.S. GAAP. Other instruments that do not qualify for hedge accounting are marked to market with changes recognized in current earnings. We do not engage in hedging for speculative investment reasons. There can be no assurance that our hedging operations will eliminate or substantially reduce risks associated with fluctuating currencies.

Based on our overall foreign exchange exposure, we estimate that a 10% change in the exchange rates would not materially affect our financial position and liquidity. The effect on our results of operations would be substantially offset by the impact of the hedged items.

EBITDA

EBITDA is a non-GAAP financial measure and you should not consider EBITDA as an alternative to GAAP financial measures such as (1) operating profit or net profit as a measure of our operating performance or (2) cash flows provided by operating, investing and financing activities (as determined in accordance with GAAP) as a measure of our ability to meet cash needs.

We believe that, in addition to cash flows from operating activities, EBITDA is a useful financial measurement for assessing liquidity as it provides management, investors, lenders and financial analysts with an additional basis to evaluate our ability to incur and service debt and to fund capital expenditures. In addition, various covenants under our credit facilities are based on EBITDA, as adjusted pursuant to the provisions of those facilities.

In evaluating EBITDA, management considers, among other things, the amount by which EBITDA exceeds interest costs for the period, how EBITDA compares to principal repayments on outstanding debt for the period and how EBITDA compares to capital expenditures for the period. Management believes many investors, lenders and financial analysts evaluate EBITDA for similar purposes. To evaluate EBITDA, the components of EBITDA, such as net sales and operating expenses and the variability of such components over time, should also be considered.

Accordingly, we believe that the inclusion of EBITDA in this annual report permits a more comprehensive analysis of our liquidity relative to other companies and our ability to service debt requirements. Because all companies do not calculate EBITDA identically, the presentation of EBITDA in this annual report may not be comparable to similarly titled measures of other companies.

EBITDA should not be construed as a substitute for and should be read together with net cash flows provided by operating activities as determined in accordance with GAAP. The following table reconciles EBITDA to net cash flows provided by operating activities, which is the GAAP measure most comparable to EBITDA, for each of the periods for which EBITDA is presented.

	Fiscal Year Ended		Twelve Months Ended		Six Months Ended		Fiscal Year Ended	
	January 2, 2004	January 3, 2003	December 28, 2001 (unaudited)	December 28, 2001	December 29, 2000 (unaudited)	June 29, 2001	June 30, 2000	
	(dollars in thousands)							
Net cash flows provided by operating activities	\$ 273,860	\$ 231,020	\$ 126,138	\$ 10,373	\$ 25,823	\$ 141,588	\$ 72,385	
Changes in operating assets and liabilities, net of effects from acquisitions and divestitures of businesses	(111,812)	(103,832)	(57,822)	13,334	8,857	(62,299)	(15,719)	
Changes in deferred income taxes	39,656	11,271	9,997	7,107	(2,884)	6	3,153	
Gain from divestitures	3,372	11,921	–	–	2,979	2,979	15,177	
Gain (loss) on property disposals	(12,026)	(11,626)	–	–	–	–	5,988	
Depreciation and amortization expense	(159,463)	(109,348)	(45,176)	(18,159)	(22,732)	(49,749)	(33,916)	
Amortization of debt issuance costs	(13,126)	(5,951)	–	–	–	–	–	
Interest accrued on long-term receivables – related parties	4,365	1,417	–	–	–	–	–	
Other	(685)	4,696	(943)	(1,508)	(483)	82	2,590	
Net income	24,141	29,568	32,194	11,147	11,560	32,607	49,658	
Minority interests in net income (loss) of subsidiaries	262	(315)	121	25	141	237	205	
Provision for income taxes	19,774	16,662	14,934	4,908	6,486	16,512	28,868	
Interest expenses, net	124,303	84,496	16,822	6,945	8,381	18,258	11,294	
Depreciation and amortization expense	159,463	109,348	45,176	18,159	22,732	49,749	33,916	
EBITDA	\$ 327,943	\$ 239,759	\$ 109,247	\$ 41,184	\$ 49,300	\$ 117,363	\$ 123,941	

REPORT OF INDEPENDENT AUDITORS

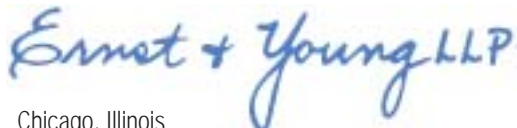
To the Board of Directors and
Stockholders of JohnsonDiversey, Inc.

We have audited the accompanying consolidated balance sheets of JohnsonDiversey, Inc., as of January 2, 2004 and January 3, 2003, and the related consolidated statements of income, stockholders' equity and cash flows for the fiscal years then ended. These consolidated 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. The consolidated financial statements of JohnsonDiversey, Inc., for the fiscal six months ended December 28, 2001 and for the fiscal year ended June 29, 2001, were audited by another auditor who has ceased operations and whose report dated June 10, 2002, expressed an unqualified opinion on those statements before the revised disclosures described in Note 22.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits 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. 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 financial statements referred to above present fairly in all material respects, the consolidated financial position of JohnsonDiversey, Inc., at January 2, 2004 and January 3, 2003, and the consolidated results of their operations and their cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed above, the consolidated financial statements of JohnsonDiversey, Inc., for the fiscal six months ended December 28, 2001 and for the fiscal year ended June 29, 2001, were audited by another auditor who has ceased operations. These financial statements have been revised to include restated and additional disclosures of related-party transactions (see Note 22). Our audit procedures with respect to the disclosures in Note 22 for the fiscal six months ended December 28, 2001 and the fiscal year ended June 29, 2001, included agreeing the amounts disclosed as related-party transactions to the Company's underlying records obtained from management. In our opinion, such disclosures are appropriate. However, we were not engaged to audit, review or apply any procedures to the financial statements of the Company for the fiscal six months ended December 28, 2001 and for fiscal year ended June 29, 2001, other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on such financial statements taken as a whole.

The logo for Ernst & Young LLP is written in a blue, cursive script. The 'E' and 'Y' are particularly large and stylized.

Chicago, Illinois
March 19, 2004

JOHNSON DIVERSEY, INC. CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Share Data)

ASSETS	January 2, 2004	January 3, 2003
Current assets:		
Cash and cash equivalents	\$ 24,543	\$ 59,272
Accounts receivable, less allowance of \$28,089 and \$21,099, respectively	618,991	463,743
Accounts receivable – Related parties	28,965	80,922
Inventories	263,397	260,983
Deferred income taxes	20,165	37,743
Other current assets	97,928	89,681
Total current assets	1,053,989	992,344
Property, plant and equipment, net	595,483	561,835
Capitalized software, net	107,947	79,343
Goodwill, net	1,224,059	1,132,329
Other intangibles, net	418,622	387,953
Deferred income taxes	93,258	37,653
Long-term receivables – Related parties	87,663	72,475
Other assets	84,306	119,453
Total assets	\$ 3,665,327	\$ 3,383,385
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	\$ 124,228	\$ 68,119
Current portion of long-term debt	27,812	57,906
Accounts payable	298,202	218,147
Accounts payable – Related parties	62,346	110,414
Accrued expenses	435,774	382,733
Total current liabilities	948,362	837,319
Pension and other postretirement benefits	253,787	268,962
Long-term borrowings	1,338,622	1,348,270
Long-term payables – Related parties	28,309	11,750
Other liabilities	101,352	84,051
Total liabilities	2,670,432	2,550,352
Commitments and contingencies (Notes 21 and 25)	–	–
Stockholders' equity:		
Common stock – \$1.00 par value; 200,000 shares authorized; 24,422 shares issued and outstanding	24	24
Class A 8% cumulative preferred stock – \$100.00 par value; 1,000 shares authorized; no shares issued and outstanding	–	–
Class B 8% cumulative preferred stock – \$100.00 par value; 1,000 shares authorized; no shares issued and outstanding	–	–
Capital in excess of par value	736,959	734,568
Retained earnings	114,198	100,672
Accumulated other comprehensive income	145,401	1,262
Notes receivable from officers	(1,687)	(3,493)
Total stockholders' equity	994,895	833,033
Total liabilities and stockholders' equity	\$ 3,665,327	\$ 3,383,385

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

JOHNSON DIVERSEY, INC. CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands)

	Fiscal Year Ended		Fiscal Six Months Ended	Fiscal Year Ended
	January 2, 2004	January 3, 2003	December 28, 2001	June 29, 2001
Net sales:				
Net product and service sales	\$ 2,860,964	\$ 2,142,109	\$ 548,979	\$ 1,132,833
Sales agency fee income	86,808	54,286	–	–
	2,947,772	2,196,395	548,979	1,132,833
Cost of sales	1,616,031	1,209,678	276,782	557,434
Gross profit	1,331,741	986,717	272,197	575,399
Marketing, administrative and general expenses	1,084,908	801,308	228,445	471,788
Research and development expenses	75,124	64,363	18,586	38,642
Restructuring expense	12,919	19,646	–	–
Operating profit	158,790	101,400	25,166	64,969
Other expense (income):				
Interest expense	131,372	90,436	7,252	19,251
Interest income	(7,069)	(5,940)	(307)	(993)
Other expense (income), net	(9,690)	(29,011)	2,141	(2,645)
Income before taxes	44,177	45,915	16,080	49,356
Provision for income taxes	19,774	16,662	4,908	16,512
Income before minority interests	24,403	29,253	11,172	32,844
Minority interests in net income (loss) of subsidiaries	262	(315)	25	237
Net income	\$ 24,141	\$ 29,568	\$ 11,147	\$ 32,607

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

JOHNSON DIVERSEY, INC. CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in Thousands)

	Comprehensive Income	Common Stock	Preferred Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Notes Receivable from Officers	Total Stockholders' Equity
Balance, June 30, 2000		\$ 24	\$ 50	\$ 140,036	\$ 66,253	\$ 8,240	\$ -	\$ 214,603
Comprehensive income--								
Net income	\$ 32,607	-	-	-	32,607	-	-	32,607
Foreign currency translation adjustments	(5,762)	-	-	-	-	(5,762)	-	(5,762)
Unrealized losses on derivatives, net of tax	(2,013)	-	-	-	-	(2,013)	-	(2,013)
Adjustment to minimum pension liability, net of tax	1,678	-	-	-	-	1,678	-	1,678
Total comprehensive income	\$ 26,510							
Dividends declared		-	-	-	(14,576)	-	-	(14,576)
Balance, June 29, 2001		\$ 24	\$ 50	\$ 140,036	\$ 84,284	\$ 2,143	\$ -	\$ 226,537
Comprehensive income--								
Net income	\$ 11,147	-	-	-	11,147	-	-	11,147
Foreign currency translation adjustments	(2,512)	-	-	-	-	(2,512)	-	(2,512)
Unrealized gains on derivatives, net of tax	638	-	-	-	-	638	-	638
Adjustment to minimum pension liability, net of tax	(18,861)	-	-	-	-	(18,861)	-	(18,861)
Total comprehensive loss	\$ (9,588)							
Dividends declared		-	-	-	(7,289)	-	-	(7,289)
Balance, December 28, 2001		\$ 24	\$ 50	\$ 140,036	\$ 88,142	\$ (18,592)	\$ -	\$ 209,660
Comprehensive income--								
Net income	\$ 29,568	-	-	-	29,568	-	-	29,568
Foreign currency translation adjustments	51,877	-	-	-	-	51,877	-	51,877
Unrealized losses on derivatives, net of tax	(16,138)	-	-	-	-	(16,138)	-	(16,138)
Adjustment to minimum pension liability, net of tax	(15,885)	-	-	-	-	(15,885)	-	(15,885)
Total comprehensive income	\$ 49,422							
Retirement of preferred stock		-	(50)	-	-	-	-	(50)
Capital contributions		-	-	587,682	-	-	-	587,682
Dividends declared		-	-	-	(17,038)	-	-	(17,038)
Contribution of notes receivable from officers		-	-	6,850	-	-	(6,850)	-
Forgiveness of portion of notes receivable from officers		-	-	-	-	-	3,357	3,357
Balance, January 3, 2003		\$ 24	\$ -	\$ 734,568	\$ 100,672	\$ 1,262	\$ (3,493)	\$ 833,033
Comprehensive income--								
Net income	\$ 24,141	-	-	-	24,141	-	-	24,141
Foreign currency translation adjustments	145,049	-	-	-	-	145,049	-	145,049
Unrealized gains on derivatives, net of tax	2,285	-	-	-	-	2,285	-	2,285
Adjustment to minimum pension liability, net of tax	(3,195)	-	-	-	-	(3,195)	-	(3,195)
Total comprehensive income	\$ 168,280							
Capital contributions		-	-	2,391	-	-	-	2,391
Dividends declared		-	-	-	(10,615)	-	-	(10,615)
Principal payment on notes receivable from officers		-	-	-	-	-	231	231
Forgiveness of portion of notes receivable from officers		-	-	-	-	-	1,575	1,575
Balance, January 2, 2004		\$ 24	\$ -	\$ 736,959	\$ 114,198	\$ 145,401	\$ (1,687)	\$ 994,895

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

JOHNSON DIVERSEY, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

	Fiscal Year Ended		Fiscal Six Months Ended	Fiscal Year Ended
	January 2, 2004	January 3, 2003	December 28, 2001	June 29, 2001
Cash flows from operating activities:				
Net income	\$ 24,141	\$ 29,568	\$ 11,147	\$ 32,607
Adjustments to reconcile net income to net cash provided by operating activities—				
Depreciation and amortization	124,073	86,319	15,176	28,920
Amortization of intangibles	35,390	23,029	2,983	20,829
Amortization of debt issuance costs	13,126	5,951	—	—
Interest accrued on long-term receivables-related parties	(4,365)	(1,417)	—	—
Deferred income taxes	(39,656)	(11,271)	(7,107)	(6)
Gain from divestitures	(3,372)	(11,921)	—	(2,979)
Loss on property disposals	12,026	11,626	—	—
Other	685	(4,696)	1,508	(82)
Changes in operating assets and liabilities, net of effects from acquisitions of businesses—				
Accounts receivable securitization	59,300	(5,600)	—	—
Accounts receivable	11,461	(28,647)	27,333	28,459
Inventories	24,101	(5,350)	(10,244)	(1,398)
Other current assets	(10,185)	(7,752)	2,974	14,077
Other assets	22,347	7,455	(8,223)	5,062
Accounts payable and accrued expenses	(20,267)	87,001	(13,291)	5,968
Other liabilities	25,055	56,725	(11,883)	10,131
Net cash provided by operating activities	273,860	231,020	10,373	141,588
Cash flows from investing activities:				
Capital expenditures	(98,840)	(73,982)	(15,924)	(27,505)
Expenditures for capitalized computer software	(36,313)	(37,904)	(17,005)	(34,286)
Cash from property disposals	16,946	20,821	1,866	1,457
Acquisitions of businesses	(21,622)	(1,377,449)	—	(138,678)
Proceeds from divestitures	5,041	—	—	4,834
Net cash used in investing activities	(134,788)	(1,468,514)	(31,063)	(194,178)
Cash flows from financing activities:				
(Repayments of) proceeds from short-term borrowings	(53,273)	31,903	24,592	54,317
(Repayments of) proceeds from long-term borrowings	(140,639)	1,029,153	—	(337)
Capital contributions	—	385,782	—	—
Retirement of preferred stock	—	(50)	—	—
Payment of debt issuance costs	—	(68,875)	—	—
Dividends paid	(7,878)	(17,038)	(7,289)	(14,576)
Net cash provided by (used in) financing activities	(201,790)	1,360,875	17,303	39,404
Effect of exchange rate changes on cash and cash equivalents	27,989	(72,202)	(321)	1,380
Change in cash and cash equivalents	(34,729)	51,179	(3,708)	(11,806)
Beginning balance	59,272	8,093	11,801	23,607
Ending balance	\$ 24,543	\$ 59,272	\$ 8,093	\$ 11,801
Supplemental cash flows information				
Cash paid during the year:				
Interest	\$ 103,833	\$ 69,500	\$ 7,227	\$ 18,140
Income taxes	12,833	32,515	457	16,530
Noncash investing and financing activities				
Contribution of operations acquired by JohnsonDiversey Holdings, Inc.	\$ —	\$ 201,900	\$ —	\$ —

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

JOHNSONDIVERSEY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 2, 2004

(Dollars in Thousands)

(1) DESCRIPTION OF THE COMPANY

The accompanying consolidated financial statements include all of the operations, assets and liabilities of JohnsonDiversey, Inc. (formerly S.C. Johnson Commercial Markets, Inc.) (the "Company"). The Company is comprised of a Professional Business and a Polymer Business. The Professional Business is a global manufacturer of commercial, industrial and institutional building maintenance and sanitation products. The Polymer Business is a global manufacturer of polymer intermediates marketed to the printing and packaging, coatings, adhesives and related industries.

Prior to November 5, 1999, the Company was a wholly owned subsidiary of S.C. Johnson & Son, Inc. ("SCJ"). On November 5, 1999, ownership of the Company, including all of its assets and liabilities, was spun-off in a tax-free reorganization. In connection with the spin-off, Commercial Markets Holdco, Inc. ("Holdco") obtained substantially all of the shares of the Company from SCJ.

Prior to May 3, 2002, Holdco contributed its shares in the Company to Johnson Professional Holdings, Inc., a wholly owned subsidiary of Holdco.

On May 3, 2002, the Company acquired the DiverseyLever business from Conopco, Inc., a subsidiary of Unilever N.V. and Unilever PLC (together, "Unilever") (see Note 4). At the closing of the acquisition, the Company changed its name to JohnsonDiversey, Inc., and Johnson Professional Holdings, Inc., changed its name to JohnsonDiversey Holdings, Inc. ("Holdings"). In connection with the acquisition, Unilever acquired a 33-1/3% interest in Holdings, with the remaining 66-2/3% continuing to be held by Holdco.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its majority owned and controlled subsidiaries and are prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP"). All significant intercompany accounts and transactions have been eliminated. The preparation of financial statements in conformity with U.S. GAAP 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.

Year-End

Through fiscal 2001, the Company's fiscal year ended on the Friday nearest to June 30. In June 2002, the Company elected to report its results of operations on a 52/53 week year ending on the Friday nearest to December 31. Accordingly, the accompanying financial statements include the results of operations for the fiscal six months ended December 28, 2001. Operations included 52 weeks in fiscal 2001 and 2003, and 53 weeks in fiscal 2002.

Revenue Recognition

The Company recognizes revenue when risk of loss and title to the product is transferred to the customer, substantially all of which occurs at the time shipment is made. Revenues are recorded net of estimated allowances for returns, discounts and rebates.

On May 3, 2002, the Company acquired the DiverseyLever business (see Note 4). The Company did not acquire the Unilever consumer brands business of DiverseyLever. Prior to the acquisition, Unilever's consumer brand products were sold, directly or indirectly, by DiverseyLever to institutional and industrial end users. In connection with the acquisition, the Company entered into a sales agency agreement with Unilever relating to these products.

Under the sales agency agreement, the Company acts as Unilever's exclusive sales agent for the sale of its consumer brand products to institutional and industrial end-users in most countries where DiverseyLever conducted its business prior to the acquisition. In exchange for the Company's sales agency services, which include sales, promotion, collection and after-sales technical support and customer care, the Company is paid an agency fee. Sales agency fee income is recognized based on a percentage of the net proceeds of sales of Unilever consumer brand products. Expenses incurred pursuant to sales agency services are recorded as marketing, distribution, administrative and general expenses.

Rebates and Customer Incentives

Rebates granted to customers are accounted for on an accrual basis as a reduction in net sales in the period in which the related sales are recognized.

Volume rebates are supported by customer contracts, which typically extend over two- to five-year periods. In the case where rebate rates are not contractually fixed, the rates used in the calculation of accruals are estimated based on forecasted annual volumes.

Cost of Sales

Cost of sales includes material costs, packaging costs, production costs, distribution costs, including shipping and handling costs, and other factory overhead costs. In order to achieve alignment with its actual business management practices, beginning with fiscal year 2003, the Company reclassified distribution costs from marketing, administrative and general expenses to cost of sales. Fiscal year 2002 amounts have been reclassified for consistency. Distribution costs were \$271,512 and \$202,252 for the fiscal years ended January 2, 2004 and January 3, 2003, respectively, \$45,044 for the fiscal six months ended December 28, 2001, and \$88,811 for the fiscal year ended June 29, 2001.

Marketing, Administrative and General Expenses

Marketing, administrative and general expenses include advertising and promotion costs, marketing research and sales overhead costs. Administrative expenses include other administrative and general overhead costs.

Advertising Costs

The Company expenses advertising costs as incurred. Total advertising expense was \$2,622 and \$2,270 for the fiscal years ended January 2, 2004 and January 3, 2003, respectively, \$674 for the fiscal six months ended December 28, 2001, and \$1,900 for the fiscal year ended June 29, 2001.

Cash and Cash Equivalents

The Company considers all highly liquid investments, with maturities of 90 days or less at the date of purchase, to be cash equivalents. The cost of cash equivalents approximates fair value due to the short-term nature of the investments.

Accounts Receivable

The Company evaluates the collectibility of its accounts receivable based on a number of factors. For larger accounts greater than 90 days past due, an allowance for doubtful accounts is recorded based on a customer's ability and likelihood to pay based on management's review of the facts. For all other customers, the Company recognizes an allowance based on the length of time the receivable is past due based on historical experience.

Inventories

Inventories are carried at the lower of cost or market. As of January 2, 2004 and January 3, 2003, the cost of certain domestic inventories determined by the last-in, first-out ("LIFO") method amounted to \$27,482 and \$32,690, respectively. This represented 10.2% and 12.2% of total inventories, respectively. For the balance of the Company's inventories, cost is determined using the first-in, first-out ("FIFO") method. If the FIFO method of accounting had been used for all inventories, they would have been \$5,291 and \$6,745 higher than reported at January 2, 2004 and January 3, 2003, respectively. The components of inventory are as follows:

	January 2, 2004	January 3, 2003
Raw materials and containers	\$ 64,322	\$ 72,551
Finished goods	199,075	188,432
Total inventories	\$ 263,397	\$ 260,983

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Major replacements and improvements are capitalized, while maintenance and repairs which do not improve or extend the life of the respective assets are expensed as incurred. Depreciation is generally computed using the straight-line method over the estimated useful lives of the assets, which typically range from 20-40 years for buildings, 3-14 years for machinery and equipment and 5-20 years for improvements.

When properties are disposed of, the related costs and accumulated depreciation are removed from the respective accounts, and any gain or loss on disposition is reflected in other income or other expense.

Property, buildings and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When possible impairment exists, the Company utilizes estimates of undiscounted cash flows over the remaining life of the asset to measure recoverability. No such impairment exists for the periods presented.

Capitalized Software

The Company capitalizes both internal and external costs to develop computer software for internal use. These costs are accounted for under the provisions of Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 permits the capitalization of certain costs, including internal payroll costs, incurred in connection with the development or acquisition of software for internal use. Accordingly, certain costs of this internal-use software are capitalized beginning at the software application development phase.

Capitalized software costs are amortized using the straight-line method over the expected useful life of the software, which is generally five years.

Goodwill

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," effective June 30, 2001. Under SFAS No. 142, goodwill is no longer amortized, but is reviewed for impairment on an annual basis and between annual tests in certain circumstances. There was no impairment of goodwill upon adoption of SFAS No. 142, nor upon the Company's subsequent testing conducted at the beginning of the fourth quarter of both fiscal 2003 and 2002. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings. All goodwill is recorded in the Professional Business.

For the fiscal year ended June 29, 2001, goodwill amortization amounted to \$12,000, net of tax. Had SFAS No. 142 been in effect for such period, net income would have been \$44,607.

Other Intangibles

SFAS No. 142 requires purchased intangible assets other than goodwill to be amortized over their useful lives unless these lives are determined to be indefinite. Purchased intangible assets are carried at cost less accumulated amortization. Definite-lived intangible assets, which primarily include customer lists, contractual arrangements, trademarks, patents and licenses, have been assigned an estimated finite life and are amortized on a straight-line basis over periods ranging from 1 to 37 years. Indefinite-lived intangible assets, which primarily include trademarks, patents and licenses, are evaluated annually for impairment and between annual tests in certain circumstances. There was no impairment of indefinite-lived intangible assets upon adoption of SFAS No. 142, nor upon the Company's subsequent testing conducted in the fourth quarters of fiscal 2003 and 2002. There can be no assurance that future indefinite-lived intangible asset impairment tests will not result in a charge to earnings.

Impairment of Long-Lived Assets

Property, plant and equipment and other long-term assets, including amortizable intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected undiscounted cash flows is less than the carrying value of the related asset or group of assets, a loss is recognized for the difference between the fair value and carrying value of the asset or group of assets. Such analyses necessarily involve significant judgment.

Environmental Remediation Costs

The Company accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Costs of future expenditures for environmental remediation obligations are not discounted to their present value. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable. The accruals are adjusted as further information becomes available or circumstances change.

Foreign Currency Translations and Transactions

The functional currency of the Company's foreign subsidiaries is generally the local currency. Accordingly, balance sheet accounts are translated using the exchange rates in effect at the respective balance sheet dates and income statement amounts are translated using the monthly weighted-average exchange rates for the periods presented. The aggregate effects of the resulting translation adjustments are included in accumulated other comprehensive income (loss) (see Note 23) except in the case of hyper-inflationary countries, which use the U.S. dollar as the functional currency and the effects are recorded as a component of other (income) expense, net and were (\$1,828) and (\$1,404) for the fiscal years ended January 2, 2004 and January 3, 2003, respectively.

Gains and losses resulting from foreign currency transactions are recorded as a component of either cost of sales or other (income) expense, net. Total net transaction losses included in cost of sales were \$446 and \$298 for the fiscal years ended January 2, 2004 and January 3, 2003, respectively, and were not material for the fiscal six months ended December 28, 2001 and fiscal year ended June 29, 2001. Total net transaction (gains) / losses included with other (income) expense, net were (\$8,301) and (\$11,742) for the fiscal years ended January 2, 2004 and January 3, 2003, respectively, (\$524) the fiscal six months ended December 28, 2001 and \$1,425 the fiscal year ended June 29, 2001.

Stock-Based Compensation

The Company measures compensation cost for stock-based compensation plans using the intrinsic value method of accounting as prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Under the intrinsic value method, compensation cost is the excess, if any, of the fair value at grant date or other measurement date of the stock that may be purchased upon exercise of an option over the option's exercise price.

The Company has adopted those provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," which require disclosure of the pro forma effect on net earnings as if compensation cost had been recognized based upon the estimated fair value at the date of grant for options awarded. The pro forma impact of compensation expense if the Company had used the fair-value method of accounting to measure compensation expense would have reduced net income by approximately \$7,857 and \$2,990 for the fiscal years ended January 2, 2004 and January 3, 2003, respectively, \$211 for the fiscal six months ended December 28, 2001, and \$215 for the fiscal year ended June 29, 2001.

Derivative Financial Instruments

The Company utilizes certain derivative financial instruments to enhance its ability to manage foreign currency exposures. Derivative financial instruments are entered into for periods consistent with the related underlying exposures and do not constitute positions independent of those exposures. The Company does not enter into forward foreign currency exchange contracts for speculative purposes. The contracts are entered into with major financial institutions with no credit loss anticipated for the failure of counterparties to perform.

The Company recognizes all derivative financial instruments in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. Changes in the fair value of derivative financial instruments are either recognized periodically in income or in stockholders' equity as a component of comprehensive income depending on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or cash flow hedge. Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in income along with the portions of the changes in the fair values of the hedged items that relate to the hedged risks. Changes in fair values of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in other comprehensive income, net of deferred taxes. Hedge ineffectiveness was insignificant for all periods reported. Changes in fair value of derivatives not qualifying as hedges are reported in income.

Reclassifications

Certain prior period amounts have been reclassified to conform to the 2003 presentation.

New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. ("FIN") 46, "Consolidation of Variable Interest Entities." FIN 46 defines a "variable interest entity" and requires a company to consolidate such an entity if the company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns. The interpretation also requires disclosure of variable interest entities that the company is not required to consolidate but in which it has a significant variable interest. FIN 46 is immediately effective for variable interest entities created after January 31, 2003, and effective December 15, 2003, for variable interest entities created on or prior to January 31, 2003. The Company's adoption of FIN 46 has not had an impact on its consolidated financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 is intended to result in more consistent reporting of contracts as either free-standing derivative instruments subject to SFAS No. 133 in its entirety or as hybrid instruments with debt host contracts and embedded derivative features. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, and hedging relationships designated after June 30, 2003. The Company's adoption of SFAS No. 149 has not had a significant impact on its consolidated financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. Instruments that are indexed to and potentially settled in an issuer's own shares that are not within the scope of SFAS No. 150 remain subject to existing guidance. SFAS No. 150 must be applied to instruments entered into or modified after May 31, 2003, and to all other instruments that exist as of the beginning of the first interim financial reporting period beginning after December 15, 2003. The Company's adoption of SFAS No. 150 has not had and is not expected to have a significant impact on its consolidated financial position or results of operations.

(3) ACQUISITIONS

In November 2003, the Company acquired 50.1% of the outstanding shares of Daisan Kogyo Co., Ltd. ("Daisan"), Japan's leading provider of commercial cleaning products and services to the food and beverage industry, for \$12,076. The Company previously held 49.9% of the outstanding shares and accounted for its holding in Daisan on an equity basis. The Company is completing an exercise to determine the potential value of customer lists and related contracts and will assign purchase price accordingly. As of January 2, 2004, goodwill recorded with respect to the acquisition was \$7,762.

In October 2003, the Company acquired certain net assets of Southwest Auto-Chlor System L.P., an Austin, Texas-based business that markets and sells low-energy dishwashing systems, kitchen chemicals, laundry and housekeeping products and services to foodservice, lodging, healthcare and institutional customers, for \$13,577. In addition, the Company entered into non-compete arrangements with the sellers. The Company has preliminarily assigned \$11,295 of the purchase price to customer lists and related contracts, pending completion of a valuation exercise. The Company did not record goodwill as a result of the transaction.

In April 2003, the Company acquired the shares of National Brands, Inc., for \$2,665. The primary assets acquired were intellectual property rights to certain industrial tradenames. In addition, the Company entered into non-compete arrangements with the sellers. The Company did not record goodwill as a result of this transaction.

In January 2003, the Company acquired certain intangible assets of Oy Trans-Meri AB, a Finish based manufacturer and seller of chemicals and tools to the industrial and institutional markets, for \$2,087. The Company has assigned the entire purchase price to customer lists and related contracts.

In June and September 2002, in connection with the completion of the Company's "spin-off" from SCJ referred to in Note 1 above, the Company acquired business assets in Kenya, the Netherlands, South Africa, Turkey and Venezuela for a combined purchase price of \$4,022. The Company recorded goodwill of \$3,753 from these transactions.

In May 2002, the Company acquired the DiverseyLever business from Unilever, see Note 4 below.

In September 2000, the Company acquired the stock of The Butcher Company, a leading U.S. manufacturer of floor care, dilution control and commercial cleaning products, for \$131,452. The Company recorded goodwill of \$111,000 from this transaction. In addition, the Company purchased land and buildings from the previous owners of The Butcher Company for approximately \$3,200.

Each of the above acquisitions were accounted for under the purchase method of accounting. Operations from the acquisitions are included in the Company's financial statements from the respective dates of acquisition.

(4) ACQUISITION OF THE DIVERSEYLEVER BUSINESS

On May 3, 2002, the Company acquired the assets and equity interests of the DiverseyLever business – the institutional and industrial cleaning and sanitation business of Unilever. In addition, with specified exceptions, the Company and its parent, Holdings, assumed liabilities to the extent relating to, or arising out of, the DiverseyLever business. The acquisition was accounted for under the purchase method of accounting. Operations from the DiverseyLever business are included in the Company's consolidated financial statements from the date of acquisition.

The acquisition consisted of numerous individual transactions carried out by various entities within the consolidated group making up the Company and by Holdings. Holdings received \$352,059 from Unilever in exchange for a 33-1/3% equity interest in Holdings, subject to subscription price adjustments described below. The cash received from this transaction was contributed to the Company and certain of its subsidiaries to fund individual transactions at local levels. In addition, Holdings issued senior discount notes (the "Senior Discount Notes") to Unilever with a fair value of \$201,900 in exchange for certain businesses, which were contributed to the Company and certain of its subsidiaries. The obligations under the Senior Discount Notes were retained by Holdings and were not assumed by the Company. The Company does not guarantee the Senior Discount Notes nor are its assets pledged as collateral for the Senior Discount Notes.

The Company believes that the acquisition provided opportunities for revenue growth and cost savings through the integration of the DiverseyLever business. In addition, the integration of the DiverseyLever business lines provided cross-selling opportunities due to their businesses' complementary product offerings and geographic footprint. The acquisition greatly increased the Company's network of international distributors and the size of its direct sales force, thus broadening the Company's global access to existing and new end-users. The Company also believes that it can obtain significant cost savings from the rationalization of manufacturing plants, consolidation of physical distribution infrastructure and reduction of overlap in back-office and administrative functions. These factors contributed to a purchase price for the DiverseyLever business that resulted in the recognition of goodwill.

During fiscal 2003, the Company continued the process of settlement and conclusion on purchase price allocation and adjustment associated with the acquisition of the DiverseyLever business. The following represents a reconciliation of the adjustments to the preliminary allocation of purchase price from January 3, 2003 to January 2, 2004:

	January 3, 2003	Adjustments recorded in 2003	January 2, 2004
Cash purchase price	\$ 1,029,836	\$ (4,396) ^(a)	\$ 1,025,440
Senior discount notes of Holdings	201,900	—	201,900
Equity in Holdings issued to Unilever	352,059	—	352,059
Transaction-related costs	39,564	2,163 ^(b)	41,727
Net debt adjustment payable in cash	15,320	—	15,320
Net debt adjustment to subscription price	11,750	—	11,750
Working capital adjustment payable in cash	33,568	—	33,568
Working capital adjustment to subscription price	(36,540)	5,635 ^(c)	(30,905)
Pension adjustment – EBITDA	2,580	(10,950) ^(d)	(8,370)
Pension adjustment – fully funded	(108,017)	(6,490) ^(e)	(114,507)
Tax indemnification adjustment	—	(5,808) ^(f)	(5,808)
Total purchase price	1,542,020	(19,846)	1,522,174
Fair value of net tangible assets acquired	(389,603)	(30,156) ^(g)	(419,759)
Excess purchase price	1,152,417	(50,002)	1,102,415
Allocation to intellectual property	(122,941)	—	(122,941)
Allocation to other identified intangible assets	(235,394)	—	(235,394)
Goodwill	\$ 794,082	\$ (50,002)	\$ 744,080

(a) The Company and Unilever reached settlement and the Company received \$4,396 from Unilever in consideration of certain administrative and management costs retained by the Company, but not contemplated in the determination of the original cash purchase price. The cash adjustment was recorded as a reduction of purchase price and acquisition goodwill. Further adjustments are not expected.

(b) The Company recorded additional transaction-related costs of \$2,163, which were accounted for as an increase to acquisition goodwill. The Company does not expect further adjustment to goodwill as it relates to transaction-related costs.

(c) The Company and Unilever reached settlement relative to the working capital adjustment to subscription price, resulting in the Company increasing its purchase price and acquisition goodwill by \$5,635 from the preliminary estimate at January 3, 2003. Accordingly, the Company's related long-term receivable from Unilever (see Note 22) was decreased from \$36,540 as of January 3, 2003, to \$30,905 as of January 4, 2004.

(d) The Company and Unilever have substantially agreed on the pension adjustment – EBITDA resulting in a \$10,950 decrease in purchase price and acquisition goodwill from the preliminary estimate at January 3, 2003. In conjunction with the settlement, the Company received \$5,580 from Unilever and the remaining balance of \$2,790 was included in the long-term receivables from Unilever (see Note 22). Further adjustments are not expected to be significant and are anticipated to be finalized with Unilever by June 2004.

(e) The Company and Unilever have substantially agreed on the pension adjustment – fully funded resulting in a \$6,490 decrease in purchase price and acquisition goodwill from the preliminary estimate at January 3, 2003. Further adjustments are not expected to be significant and are anticipated to be finalized with Unilever by June 2004. The Company received \$23,184 and \$43,138 during the fiscal years ended January 2, 2004 and January 3, 2003, respectively, in partial settlement of the pension full-funding adjustments. As of January 2, 2004, the Company had a related long-term receivable from Unilever of \$48,185.

(f) The purchase agreement provides for Unilever indemnifying the Company for certain tax liabilities included in net tangible assets acquired. Accordingly, the Company recorded an estimated receivable from Unilever of \$5,808, of which \$5,328 was received in cash during fiscal year 2003, resulting in a decrease in purchase price and acquisition goodwill. Further adjustments are expected to be finalized and agreed with Unilever through the second quarter of fiscal 2004 and are, accordingly, subject to change.

(g) The Company recorded additional restructuring liabilities of \$21,758 (see Note 13) and associated deferred taxes of \$4,956. Based on revisions to initial assumptions, the Company reversed \$11,279 of restructuring reserves previously established in purchase accounting. Adjustments to restructuring liabilities resulted in a \$5,523 decrease in the net tangible assets acquired and an increase in acquisition goodwill from the preliminary estimates at January 3, 2003. The Company recorded \$1,700 of additional environmental reserves in adjustment of previous estimates. The adjustment resulted in a decrease in the net tangible assets acquired and an increase in acquisition goodwill from the preliminary estimates at January 3, 2003.

The Company increased the net tangible assets acquired and decreased acquisition goodwill by \$33,543 to properly reflect fair value and adjustment of previous estimates. In addition, the Company increased net tangible assets acquired and decreased acquisition goodwill by \$4,298 to revise pension liabilities, net of deferred taxes.

The Company decreased net tangible assets acquired and increased acquisition goodwill by \$973 in clarification of tax liabilities identified in (f).

The Company increased net tangible assets acquired and decreased acquisition goodwill by \$511 for the use of tax based net operating losses.

Pro Forma Results (Unaudited)

The following reflects the unaudited pro forma results for the Company giving effect to the acquisition of the DiverseyLever business and the related financings as if they had occurred at the beginning of each period.

	Fiscal Year Ended	
	January 3, 2003	December 28, 2001
Net revenues	\$ 2,658,895	\$ 2,575,492
Net income (loss)	8,867	(3,014)

(5) DIVESTITURES

In December 2003, the Company disposed of the San Diego, California-based branch of its Auto-Chlor business for \$2,973. The Company recorded a net gain of \$954 as a result of this transaction. Annualized revenues for the branch approximated \$2,500 for the year ended January 2, 2004.

In December 2003, the Company disposed of a non-strategic machine warewash and kitchen hygiene products business in Norway for \$2,024. The Company recorded a net gain of \$1,652 as a result of this transaction. Annualized revenues for the business approximated \$4,700 for the year ended January 2, 2004.

In May 2003, the Company and a joint venture partner determined that they would dissolve a non-strategic business involved in the development and distribution of cleaning machines. The Company recorded a net loss of \$1,409 as a result of this transaction. Annualized revenues for the joint venture were not significant.

In March 2003, the Company disposed of a non-strategic logistics service business in Japan for \$835 and the assumption of net liabilities by the purchaser of \$460. The Company recorded a net gain of \$1,295 as a result of this transaction. Annualized revenues for the business approximated \$7,600 for the year ended January 2, 2004.

In November 2002, the Company disposed of a non-strategic adhesives product line for \$2,500. The Company recorded a net gain of \$2,355 as a result of this transaction. Annualized revenues for the product line approximated \$2,400 for the year ended January 3, 2003.

In May 2002, the Company disposed of a non-strategic dishwasher detergent product line for \$10,444. The Company recorded a net gain of \$9,566 as a result of this transaction. Annualized revenues for the product line approximated \$6,900 for the twelve months ended December 28, 2001.

In July 2000, the Company sold its interest in the Acurid joint venture for \$4,834. The Company recorded a net gain of \$2,979 as a result of this transaction.

The disposed businesses were part of larger cash-flow generating groups and were therefore not reported as discontinued operations. Gains or losses associated with each of the above divestitures are included as a component of other (income) expense in the consolidated statement of income.

(6) ACCOUNTS RECEIVABLE SECURITIZATION

The Company and certain of its subsidiaries entered into an agreement (the "Receivables Facility") in March 2001, whereby they sell on a continuous basis certain trade receivables to JWPR Corporation ("JWPRC"), a wholly owned, consolidated special purpose, bankruptcy-remote subsidiary of the Company. JWPRC was formed for the sole purpose of buying and selling receivables generated by the Company and its subsidiaries party to the agreement. JWPRC in turn sells an undivided interest in the total accounts receivable to a nonconsolidated financial institution (the "Conduit") for an amount equal to the percentage of total receivables deemed eligible. The accounts receivable securitization arrangement is accounted for under the provisions of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities—A replacement of FASB Statement No. 125."

On August 29, 2003, the receivables securitization facility was amended to include certain additional U.S. subsidiaries, expand the total potential for securitization of trade receivables to \$75,000 from the previous limit of \$55,000 and change the facility term to 354 days from the date of closing, renewable without fee.

On October 24, 2003, the receivables securitization facility was again amended to include certain United Kingdom subsidiaries and further expand the total potential for securitization of trade receivables to \$100,000 (the "October 2003 amendment"). Prior to the October 2003 amendment the beneficial interest of accounts receivable sold under the arrangement was excluded from accounts receivable in the Company's consolidated balance sheets in accordance with SFAS No. 140. As a result of the terms of the October 2003 amendment, the limitations in the articles of incorporation of JWPRC and the requirements for sale defined in SFAS No. 140, the Company was no longer able to exclude the accounts receivable sold under the arrangement from its consolidated balance sheets. The Company expects to modify the articles of incorporation of JWPRC and be able to exclude accounts receivable sold under the arrangement from the Company's consolidated balance sheet beginning the first quarter of fiscal year 2004.

Subsequent to the Company's fiscal year-end, on January 5, 2004, the receivables securitization facility was amended and restated to include its Italian subsidiary.

As of January 2, 2004, the Company included \$95,200 of accounts receivable held by the Conduit in its consolidated balance sheet for reasons noted above. As of January 3, 2003, the Conduit held \$35,900 of accounts receivable that are not included in the accounts receivable balance reflected in the Company's consolidated balance sheet.

The Company had a retained interest of \$20,701 in the receivables of JWPRC as of January 3, 2003. The retained interest is included in the accounts receivable balance and is reflected in the consolidated balance sheet at estimated fair value.

Proceeds from the sales of receivables were used to pay down existing debt facilities. Costs associated with the sale of beneficial interests in the receivables vary on a monthly basis and are generally related to the commercial paper rate and administrative fees associated with the overall program facility. Such costs were \$1,149 and \$1,061 for the years ended January 2, 2004 and January 3, 2003, respectively, and are included in other (income) expense, net in the consolidated statements of income.

The Company and the subsidiaries party to the agreements have retained responsibility for servicing accounts receivable of JWPRC corresponding to each of them. No servicing asset or liability has been recorded because the benefits of servicing are expected to be just adequate to compensate the Company and subsidiaries for their servicing responsibilities.

(7) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net, consisted of the following:

	January 2, 2004	January 3, 2003
Land and improvements	\$ 75,051	\$ 65,510
Buildings and leasehold improvements	210,600	165,755
Equipment	606,662	529,029
Capital leases	22,735	17,273
Construction in progress	26,163	35,883
	941,211	813,450
Less—Accumulated depreciation	(345,728)	(251,615)
Property, plant and equipment, net	\$595,483	\$561,835

(8) CAPITALIZED SOFTWARE

Capitalized software, net, consisted of the following:

	January 2, 2004	January 3, 2003
Capitalized software	\$ 138,365	\$ 90,954
Less—Accumulated amortization	(30,418)	(11,611)
	\$ 107,947	\$ 79,343

Amortization expense related to capitalized software was \$20,509 and \$9,253 for the fiscal years ended January 2, 2004 and January 3, 2003, respectively, \$1,807 for the fiscal six months ended December 28, 2001, and \$1,357 for the fiscal year ended June 29, 2001. No amortization of capitalized software was incurred prior to the last six months of fiscal 2001, as no projects were put in service prior to July 2001.

During the fiscal years ended January 2, 2004 and January 3, 2003, the Company capitalized \$1,589 and \$3,311, respectively, of interest in connection with its ongoing software projects. Periodically, the Company assesses potential impairment of capitalized software balances. During the fiscal years ended January 2, 2004 and January 3, 2003, the Company recorded impairment charges of \$2,336 and \$10,114, respectively. All charges were included in marketing, administrative and general expense and were related to the integration of computer systems in connection with the acquisition of the DiverseyLever business.

(9) GOODWILL

Changes in the balance of the goodwill account are as follows:

	Fiscal Year Ended	
	January 2, 2004	January 3, 2003
Balance at beginning of year	\$1,132,329	\$ 271,958
Acquisitions	7,889	797,835
Divestitures	(1,179)	-
Post-acquisition adjustments to purchase price	(50,002)	-
Impact of foreign currency fluctuations	135,022	62,536
Balance at end of year, net of accumulated amortization	\$1,224,059	\$1,132,329

(10) OTHER INTANGIBLES

Other intangibles consisted of the following:

	Weighted-Average Useful Lives	Fiscal Year Ended	
		January 2, 2004	January 3, 2003
Amortizable intangible assets:			
Trademarks, patents and licenses	10 years	\$ 47,268	\$ 39,935
Customer lists, contracts and other intangibles	12 years	294,569	256,456
Non-amortizable intangible assets			
Trademarks, patents and licenses	-	136,469	117,551
Customer lists, contracts and other intangibles	-	4,044	1,727
		482,350	415,669
Less – Accumulated amortization		(63,728)	(27,716)
Other intangibles, net		\$418,622	\$387,953

Amortization expense for other intangibles was \$35,390 and \$23,029 for the fiscal years ended January 2, 2004 and January 3, 2003, respectively.

The aggregate amounts of anticipated amortization of intangible assets for each of the next five fiscal years and thereafter are as follows:

Year	
2004	\$ 35,430
2005	32,831
2006	31,464
2007	28,851
2008	27,314
Thereafter	122,219
	\$278,109

(11) INDEBTEDNESS AND CREDIT ARRANGEMENTS

The Company's indebtedness and credit arrangements consisted of the following:

	January 2, 2004	January 3, 2003
Short-term borrowings:		
Lines of credit	\$ 15,003	\$ 35,419
Revolving credit facilities	14,025	32,700
Receivables securitization facility	95,200	–
	\$ 124,228	\$ 68,119
Long-term borrowings:		
Term loan A	\$ 92,973	\$ 167,325
Term loan B	672,129	676,489
Term loan C	17,967	29,239
Senior subordinated notes	583,365	533,123
	1,366,434	1,406,176
Less – Current portion	27,812	57,906
	\$1,338,622	\$1,348,270

In connection with the acquisition of DiverseyLever, the Company entered into senior secured credit facilities consisting of three term loan facilities and U.S. dollar/euro- and U.S. dollar/yen-based revolving credit facilities. The term loan facilities consist of: a tranche A term loan, maturing in May 2008, and bearing interest at floating rates based on LIBOR, plus 325 basis points (4.40% and 4.90% at January 2, 2004 and January 3, 2003, respectively), with scheduled principal reductions semiannually; a tranche B term loan, maturing in November 2009, and bearing interest at floating rates based on LIBOR plus 275 basis points at January 2, 2004 (3.91%), and 350 basis points at January 3, 2003 (5.19%), and EURIBOR plus 325 basis points at January 2, 2004 (5.40%), and 350 basis points at January 3, 2003 (6.76%), with scheduled principal reductions semiannually; and a tranche C term loan, maturing in May 2008, and bearing interest at floating rates based on Canadian dollar LIBOR plus 275 basis points at January 2, 2004 (5.49%), and U.S. dollar LIBOR plus 325 basis points at January 3, 2003 (4.63%), with scheduled principal reductions semiannually.

The Company's U.S. dollar/euro- and yen-based revolving credit facilities are structured as follows: the aggregate principal amount of the U.S. dollar/euro revolving credit facility is \$210,000, of which the full amount is available to be borrowed at January 2, 2004; and the aggregate principal amount of the yen revolving credit facility is ¥11,526,300 (\$107,771), of which up to ¥10,026,300 (\$93,746) is available to be borrowed at January 2, 2004. At January 2, 2004, borrowings were \$0 and ¥1,500,000 (\$14,025) under the U.S. dollar/euro and yen facilities, respectively. The revolving facilities bear interest at floating rates based on LIBOR, plus a variable, leverage ratio-based spread of 250-325 basis points, which as of January 2, 2004 and January 3, 2003, was 2.83% and 6.5%, respectively.

The senior secured credit facilities were amended in August 2003. This amendment reduced the interest rate payable with respect to specified tranches of debt under the senior secured credit facilities, thereby reducing borrowing costs over their remaining life. In addition, the amendment increased specified credit limits and changed various administrative requirements. The senior secured credit facilities were amended for a second time on February 24, 2004. This amendment reduced the interest rate payable for the U.S. dollar portion of the tranche B term loan under the senior secured credit facilities, thereby reducing the borrowing cost over the remaining life of the tranche. In addition, the amendment changed various financial covenants and administrative requirements to provide the Company with greater flexibility to operate our business.

On May 3, 2002, the Company issued \$300,000 and €225,000 of 9.625% senior subordinated notes due 2012 to finance a portion of the cash purchase price of the DiverseyLever business. In January 2003, the Series A senior subordinated notes were converted to series B senior subordinated notes (the "Senior Subordinated Notes") with the same interest rates and due dates under an exchange offer filed with the SEC.

As of October 24, 2003, the accounting treatment for the Company's receivables securitization facility (see Note 6) requires that \$95,200 accounts receivable sold to the Conduit be included in accounts receivable, with offset to short term borrowings, on the Company's consolidated balance sheet.

Scheduled Maturities of Long-Term Borrowings

Aggregate scheduled maturities of long-term borrowings in each of the next five fiscal years and thereafter are as follows:

Year	
2004	\$ 27,812
2005	30,811
2006	30,811
2007	33,809
2008	168,527
Thereafter	1,074,664
	\$1,366,434

Financial Covenants

Under the terms of its senior secured credit facilities, the Company is subject to specified financial covenants. The most restrictive covenants under the senior secured credit facilities require the Company to meet the following targets and ratios:

Maximum Leverage Ratio. The Company is required to maintain a leverage ratio for each financial covenant period of no more than the maximum ratio specified in the senior secured credit facilities for that financial covenant period. The maximum leverage ratio is the ratio of: (i) the Company's consolidated indebtedness (excluding up to \$55 million of indebtedness incurred under the Company's receivables securitization facility and indebtedness relating to specified interest rate hedge agreements) as of the last day of a financial covenant period using a weighted-average exchange rate for the relevant prior two fiscal quarters to (ii) the Company's consolidated EBITDA for the same financial covenant period. EBITDA is generally defined in the senior secured credit facilities as earnings before interest, taxes, depreciation and amortization, plus the addback of specified expenses. The senior secured credit facilities require that the Company's maximum leverage ratio not exceed a continuously declining range from 4.25 to 1 for the financial covenant period ending nearest December 31, 2003, to 3.0 to 1 for the financial covenant periods ending nearest March 31, 2006.

Minimum Interest Coverage Ratio. The Company is required to maintain an interest coverage ratio for each financial covenant period of no less than the minimum ratio specified in the senior secured credit facilities for that financial covenant period. The minimum interest coverage ratio is the ratio of: (i) the Company's consolidated EBITDA for a financial covenant period to (ii) the Company's cash interest expense for that same financial period. The senior secured credit facilities require that the Company's minimum interest coverage ratio not exceed a continuously increasing range from 2.75 to 1 for the financial covenant period ending nearest December 31, 2003, to 4.0 to 1 for the financial covenant periods ending nearest December 31, 2005.

Capital Expenditures. The senior secured credit facilities prohibit the Company from making capital expenditures during any year in an amount exceeding a continuously declining range from \$161,200 in 2003 to \$113,200 in 2007. The Company can exceed the limitation in any year by the amount, if any, by which the limitation for the previous year exceeded actual capital expenditures made in that previous year.

Restructuring Charges. The senior secured credit facilities limit the amount of spending on restructuring and integration related activities in 2004 and 2005 to \$145,000 in the aggregate.

In addition, the senior secured credit facilities contain covenants that restrict the Company's ability to declare dividends and to redeem and repurchase capital stock. The senior secured credit facilities also limit the Company's ability to incur additional liens, engage in sale-leaseback transactions and incur additional indebtedness and make investments.

As of January 2, 2004, the Company was in compliance with all covenants under the senior secured credit facilities.

Indentures for the Notes

The indentures for the senior subordinated notes of the Company restrict the Company's ability and the ability of its restricted subsidiaries to, among other things, incur additional indebtedness; pay dividends on, redeem or repurchase capital stock; issue or allow any person to own preferred stock of restricted subsidiaries; in the case of non-guarantor subsidiaries, guarantee indebtedness without also guaranteeing the notes; in the case of restricted subsidiaries, create or permit to exist dividend or payment restrictions with respect to the Company; make investments; incur or permit to exist liens; enter into transactions with affiliates; merge, consolidate or amalgamate with another company; and, transfer or sell assets.

As of January 2, 2004, the Company was in compliance with all covenants under the indentures for the senior subordinated notes.

Cross Defaults

The Company's failure to comply with the covenants in its senior secured credit facilities or its indentures for the senior subordinated notes or the Company's inability to comply with financial ratio tests or other restrictions could result in an event of default under the indentures for the Senior Subordinated Notes or the senior secured credit facilities. Additionally, a payment default or default that results in the acceleration of indebtedness aggregating \$25,000 or more, including, without limitation, indebtedness under the senior secured credit facilities, the indentures for the Senior Subordinated Notes and indebtedness under the Company's receivables securitization facility and foreign lines of credit, is also an event of default under the senior secured credit facilities, the indentures for the Senior Subordinated Notes and the indenture for Holdings' senior discount notes. Further, specified defaults under the credit facilities and the indentures for the Senior Subordinated Notes constitute defaults under the Company's receivables securitization facility, some of the Company's foreign lines of credit and the Company's license agreements with SCJ. A default, if not cured or waived, may permit acceleration of the Company's indebtedness or result in a termination of its license agreements.

Interest Rate Swaps

In connection with term loan B, the Company is party to seven interest rate swaps, as described in Note 12.

Stockholders' Agreement

In connection with the acquisition of DiverseyLever, Holdings entered into a stockholders' agreement with its stockholders – Holdco and Marga B.V., a subsidiary of Unilever N.V. The stockholders' agreement limits Holdings' and the Company's ability to effect various transactions, including among others, entering into certain transactions with affiliates, issuing additional shares of capital stock or other equity or equity-related interests, incurring certain types of indebtedness and making certain investments.

(12) FINANCIAL INSTRUMENTS

The Company has operations in 120 countries and approximately 67% of the Company's revenues are generated outside the U.S. The Company's activities expose it to a variety of market risks, including the effects of changes in foreign currency exchange rates and interest rates. These financial risks are monitored and managed by the Company as an integral part of its overall risk management program.

The Company maintains a foreign currency risk management strategy that uses derivative instruments (foreign currency forward contracts) to protect its interests from fluctuations in earnings and cash flows caused by the volatility in currency exchange rates. Movements in foreign currency exchange rates pose a risk to the Company's operations and competitive position, since exchange rate changes may affect the profitability and cash flow of the Company, and business and/or pricing strategies of competitors.

Certain of the Company's foreign business unit sales and purchases are denominated in the customers' or vendors' local currency. The Company purchases foreign currency forward contracts as hedges of foreign currency denominated receivables and payables and as hedges of forecasted sales and purchases that are denominated in foreign currencies. These contracts are entered into to protect against the risk that the future dollar-net-cash inflows and outflows resulting from such sales, purchases, firm commitments or settlements will be adversely affected by changes in exchange rates.

At January 2, 2004 and January 3, 2003, the Company held foreign currency forward contracts with a notional amount of \$216,644 and \$81,926, respectively, for the purpose of hedging foreign currency denominated receivables and payables. Because the terms of such contracts are primarily less than three months, the Company has not elected hedge accounting treatment for these contracts. The Company records the changes in the fair value of these contracts within other (income) expense in the consolidated statement of earnings. Total net unrealized (gains) losses recognized on foreign currency forward contracts was \$1,212 and \$(949) for the fiscal years ended January 2, 2004 and January 3, 2003, respectively, \$(53) for the fiscal six months ended December 28, 2001 and \$(313) for the fiscal year ended June 29, 2001.

As of January 2, 2004, the Company was not party to any forward exchange contracts for the purpose of hedging future cash flows. As of January 3, 2003, the Company was party to 48 such forward exchange contracts for a notional amount of \$20,063. Net unrealized gains of \$0 and \$83 are included in other comprehensive income as of January 2, 2004 and January 3, 2003, respectively.

The Company is also party to seven interest rate swaps entered into in May 2002. The latest expiration date is May 2007. These swaps were purchased to hedge the Company's floating interest rate exposure on term loan B (see Note 11) with a final maturity of November 2009. Under the terms of these swaps, the Company pays a fixed rate of 4.8% and receives three-month LIBOR on the notional amount of U.S. dollar swaps and three-month EURIBOR on the notional amount of Euro swaps for the life of the swaps. Unrealized gains and losses on these interest rate swaps are recognized in other comprehensive income, net of tax. The net unrealized loss included in other comprehensive income was \$15,228 and \$17,010 for the years ended January 2, 2004 and January 3, 2003, respectively. There was no ineffectiveness related to the interest rate swap agreements for the years ended January 2, 2004 and January 3, 2003.

Total realized (gains) losses on derivative instruments, which were recorded in other (income) expense in the consolidated statement of income, were \$1,777 and \$(4,849) for the fiscal years ended January 2, 2004 and January 3, 2003.

(13) RESTRUCTURING LIABILITIES

During fiscal year 2002, in connection with the acquisition of the DiverseyLever business, the Company recorded liabilities for the involuntary termination of former DiverseyLever employees, mainly in administrative, finance, human resources and manufacturing positions, and other exit costs associated with the former DiverseyLever facilities ("exit plans"). The Company recorded an estimated liability in the amount of \$70,094, of which \$63,635 was for severance and related benefits pertaining to the involuntary termination of approximately 1,000 DiverseyLever employees and \$6,459 was for exit plan costs. During the year ended January 2, 2004, the Company recognized liabilities of \$18,224 for the involuntary termination of 299 additional former DiverseyLever employees and \$3,534 for other exit plan costs, which were recorded as an adjustment to purchase accounting. The Company's exit plans provide for the planned termination of 1,299 total employees, of which 998 and 471 were actually terminated as of January 2, 2004 and January 3, 2003, respectively.

Additionally, the Company developed plans to restructure certain facilities that it owned prior to the acquisition of the DiverseyLever business ("restructuring plans"), primarily for the purpose of eliminating redundancies resulting from the acquisition of the DiverseyLever business. During fiscal year 2002, in connection with these restructuring plans, the Company recorded restructuring plan liabilities of \$19,646, of which \$10,991 pertained to the planned involuntary termination of approximately 240 pre-acquisition employees of the Company and \$8,655 pertained to the elimination of redundant facilities. During the year ended January 2, 2004, the Company recognized additional restructuring plan liabilities of \$14,411 for the involuntary termination of 121 additional pre-acquisition employees and \$3,065 for additional other restructuring plan costs. The Company's restructuring plans provide for the planned termination of 361 pre-acquisition employees, of which 340 and 151 were actually terminated as of January 2, 2004 and January 3, 2003, respectively.

	Exit Plans			Restructuring Plans		
	Employee-Related	Other	Total	Employee-Related	Other	Total
Liability established in purchase accounting	\$ 63,635	\$ 6,459	\$ 70,094	\$ -	\$ -	\$ -
Liability recorded as restructuring expense	-	-	-	10,991	8,655	19,646
Cash paid ⁽¹⁾	(11,672)	(380)	(12,052)	(5,267)	(3,563)	(8,830)
Liability balances as of January 3, 2003	51,963	6,079	58,042	5,724	5,092	10,816
Liability established in purchase accounting	18,224	3,534	21,758	-	-	-
Liability recorded as restructuring expense	-	-	-	14,411	3,065	17,476
Liability reclassifications ⁽³⁾	(2,908)	2,908	-	(1,769)	1,769	-
Liability adjustments ⁽²⁾	(7,952)	(3,327)	(11,279)	(906)	(3,651)	(4,557)
Cash paid ⁽¹⁾	(34,506)	(5,783)	(40,289)	(12,287)	(4,882)	(17,169)
Liability balances as of January 2, 2004	\$ 24,821	\$ 3,411	\$ 28,232	\$ 5,173	\$ 1,393	\$ 6,566

(1) Cash paid includes the effects of foreign exchange.

(2) Liability adjustments include reductions to previously established plan obligations based on revisions to initial assumptions and removal of liabilities related to impaired long-lived assets in accordance with SFAS No. 144, which were charged to marketing, administrative and general expenses in the consolidated statement of income. Accordingly, all charges related to the liability adjustments were recorded in the proper period.

(3) Liability reclassifications include reclassification between previously determined employee-related and other plan liabilities based on clarification of original assumptions. All charges related to the liability reclassifications were recorded in the proper period.

(14) OTHER (INCOME) EXPENSE, NET

The components of other (income) expense, net in the consolidated statements of income, include the following:

	Fiscal Year Ended		Fiscal Six Months Ended	Fiscal Year Ended
	January 2, 2004	January 3, 2003	December 28, 2001	June 29, 2001
Net gain on sale of product lines	\$ (3,372)	\$(11,921)	\$ -	\$ -
Net loss on partnership dissolution	1,410	-	-	-
Gain on Acurid divestiture	-	-	-	(2,979)
Gain on acquisition-related forward contract	-	(15,711)	-	-
Loss on devaluation of Argentine peso	-	3,054	2,000	-
Revaluation gains on unhedged positions and ineffective portion of hedge instruments	(2,824)	(15)	-	-
Other, net	(4,904)	(4,418)	141	334
	\$ (9,690)	\$(29,011)	\$ 2,141	\$ (2,645)

The Company purchased forward currency contracts to hedge the Company's exposure to the Euro in connection with the DiverseyLever acquisition. A total of € 340,000 notional amount forward currency contracts were purchased on February 12, 2002 and March 5, 2002. The Company received proceeds of \$15,711 upon settlement of the contracts from the date of inception to May 3, 2003, the date of the DiverseyLever acquisition, when the contracts were settled. Although the Company entered into the forward contract to hedge its foreign currency exposure, U.S. GAAP prohibits accounting for the gain on the forward contract as an adjustment to the purchase price. Accordingly, the Company recognized the proceeds as a nonoperating gain in the income statement.

(15) INCOME TAXES

The income tax provision for the Company has been calculated as if the entities included in the Company's consolidated financial statements file separately from their parent holding company, Holdings, except with respect to U.S. foreign tax credits for which no tax benefit is taken by the Company, unless such benefit is expected to be realized by Holdings. The Company allocates its income tax liability between affiliates based on each affiliate's ability to utilize tax attributes on a stand-alone basis.

As a result of the separation from SCJ in 1999, the Company and its parent, Holdco, entered into a tax sharing agreement to allocate responsibility for taxes between SCJ and the Company. In accordance with the terms of the agreement, the Company owed SCJ approximately \$1,300, of which \$650 was paid in October 2002, \$300 was paid in October 2003, and \$350 was satisfied by offsetting other audit adjustments favorable to the Company.

The provision for income taxes was comprised of:

	Fiscal Year Ended		Fiscal Six Months Ended	Fiscal Year Ended
	January 2, 2004	January 3, 2003	December 28, 2001	June 29, 2001
Current:				
Federal	\$ 10,225	\$ 14,422	\$ 186	\$ 5,571
State	23	811	979	1,334
Foreign	18,864	8,852	10,850	9,613
Deferred taxes	(9,338)	(7,423)	(7,107)	(6)
	\$ 19,774	\$ 16,662	\$ 4,908	\$ 16,512

A reconciliation of the difference between the statutory U.S. federal income tax rate to the Company's effective income tax rate is as follows:

	Fiscal Year Ended		Fiscal Six Months Ended	Fiscal Year Ended
	January 2, 2004	January 3, 2003	December 28, 2001	June 29, 2001
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	(1.2)	1.1	5.5	3.4
Effect of foreign operations	6.0	2.5	(10.0)	(7.3)
Increase in valuation allowance	6.0	0.0	0.0	0.0
Other	(0.8)	(2.3)	0.0	2.4
Effective income tax rate	45.0%	36.3%	30.5%	33.5%

Deferred income taxes are recorded to reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year end.

The differences between the tax bases of assets and liabilities and their financial reporting amounts that give rise to significant portions of deferred income tax liabilities or assets include the following:

	January 2, 2004	January 3, 2003
Deferred tax assets:		
Employee benefits	105,012	\$ 77,758
Inventories	5,168	–
Accrued expenses	46,932	31,111
Net operating loss carryforwards	98,620	76,518
Foreign tax credits	13,249	
Other (net)	15,654	1,500
Valuation allowance	(46,189)	(28,789)
	\$238,446	\$158,098
Deferred tax liabilities:		
Tangible assets	\$ 24,460	\$ 22,974
Intangible assets	100,563	50,241
Inventories	–	9,389
Other (net)	–	98
	\$125,023	\$ 82,702

The Company has foreign net operating loss carryforwards totaling \$236,660 that expire as follows: fiscal 2005 – \$29,914; fiscal 2006 – \$13,584; fiscal 2007 – \$24,798; fiscal 2008 – \$32,126; fiscal 2009 and beyond – \$55,227; and, no expiration – \$81,011. The Company also has foreign tax credit carryforwards totaling \$11,135 that expire as follows: fiscal 2004 – \$649; fiscal 2005 – \$152; fiscal 2006 – \$270; fiscal 2007 – \$4,728; and, fiscal 2008 – \$5,336. The Company also has U.S. federal and state net operating loss carryforwards totaling \$6,325 and \$236,152, respectively. The federal carryforward expires in nineteen years, while the state net operating loss carryforwards expire in various amounts over one to twenty years. Valuation allowances of \$46,189 and \$28,789 as of January 2, 2004 and January 3, 2003, respectively, have been provided for deferred income tax benefits related to the foreign loss carryforwards and U.S. foreign tax credits that may not be realized. The valuation allowance at January 2, 2004, includes \$3,993 related to acquired foreign loss carryforwards. Any tax benefits subsequently recognized for the acquired foreign loss carryforwards will be allocated to reduce goodwill.

Pretax income from foreign operations was \$87,048 and \$25,138, for the fiscal years ended January 2, 2004 and January 3, 2003, respectively, \$36,357 for the fiscal six months ended December 28, 2001 and \$70,311 for the fiscal year ended June 29, 2001. Federal and state income taxes are provided on international subsidiary income distributed to or taxable in the U.S. during the year. As of January 2, 2004, federal and state taxes have not been provided for the repatriation of unremitted earnings of certain foreign subsidiaries, which are considered to be permanently invested. A determination of the unrecognized deferred tax liability associated with permanently reinvested foreign subsidiary earnings is not practicable.

(16) DEFINED-BENEFIT PLANS

The Company provides retirement and other defined-benefits to its employees worldwide. The retirement benefits are provided mainly through pension and other defined-benefit plans. Under the acquisition agreement with Unilever, the Company has agreed to maintain the employees' benefit programs for DiverseyLever employees joining the Company at their current level for at least three years. Otherwise, the Company reserves the right to amend or terminate its employee benefit plans at any time. Employees around the world participate in various local pension and other defined-benefit plans. These plans provide benefits that are generally based on years of credited service and a percentage of the employee's eligible compensation, either earned throughout that service or during the final years of employment. Some smaller plans also provide long-service payments. Under the constitutions of Unilever's plans, the Company's plans will receive transfer payments based on an equitable distribution of funds in respect of transferring employees. Any shortfall in those payments relative to the transferring liability, measured using U.S. GAAP at the time of the agreement, will be settled by a cash payment from Unilever to the Company. The Company received \$23,184 and \$43,138 from Unilever in settlement of the agreement during the fiscal years ended January 2, 2004 and January 3, 2003, respectively.

Global Defined Benefit Pension Plans

The following table provides a summary of the changes in the Company's plans' benefit obligations, assets and funded status during 2003 and 2002, and the amounts recognized in the consolidated balance sheets, in respect of those countries ("disclosed countries") where the pension liabilities exceeded a certain threshold (approximately \$5 million).

Fiscal Year Ended

	January 2, 2004			January 3, 2003		
	North America Plans	Japan Plans	Rest of World Plans	North America Plans	Japan Plans	Rest of World Plans
Change in benefit obligations:						
Benefit obligation at beginning of period	\$ 156,744	\$ 79,754	\$ 309,924	\$ 87,573	\$ 64,852	\$ –
Purchase accounting adjustment	890	206	(75,540)	–	–	–
Service cost	6,389	2,717	17,540	5,132	2,193	10,282
Interest cost	11,419	2,024	11,944	9,347	2,034	9,231
Plan participant contributions	352	–	1,763	–	–	997
Actuarial loss or (gain)	12,983	(4,322)	3,596	1,976	6,430	29,406
Benefits paid	(7,975)	(5,709)	(6,856)	(7,007)	(4,911)	(1,993)
Gain/(loss) due to exchange rate movements	5,775	9,240	44,180	(68)	5,580	32,821
Plan amendments	(655)	208	–	–	–	–
Acquisitions	–	2,260	1,491	59,791	3,576	239,532
Curtailments, settlements and special termination benefits	–	(3,577)	2,104	–	–	(10,352)
Benefit obligation at end of period	\$ 185,922	\$ 82,801	\$ 310,146	\$ 156,744	\$ 79,754	\$ 309,924
Change in plan assets:						
Fair value of plan assets at beginning of period	\$ 105,226	\$ 33,389	\$ 150,016	\$ 63,821	\$ 29,582	\$ –
Purchase accounting adjustment	1,320	–	(47,978)	–	–	–
Actual return on plan assets	16,934	(125)	9,355	(8,908)	160	(19,575)
Employer contribution	19,330	3,758	28,520	8,704	5,016	8,157
Plan participant contributions	352	–	1,763	–	–	997
Benefits paid	(7,975)	(4,583)	(6,856)	(7,007)	(4,911)	(1,993)
Gain/(loss) due to exchange rate movements	3,547	4,114	19,733	(46)	3,542	17,596
Acquisitions	–	1,415	–	48,662	–	150,779
Settlements	–	(114)	–	–	–	(5,945)
Fair value of plan assets at end of period	\$ 138,734	\$ 37,854	\$ 154,553	\$ 105,226	\$ 33,389	\$ 150,016
Net amount recognized:						
Funded status	\$ (47,189)	\$ (44,948)	\$ (155,592)	\$ (51,518)	\$ (46,365)	\$ (159,908)
Employer contributions between measurement date and year-end	–	–	–	–	191	–
Unrecognized net actuarial loss/(gain)	53,708	36,313	43,387	48,817	38,877	54,278
Unrecognized prior service cost	(369)	(341)	–	314	(550)	–
Unrecognized transition obligation	–	1,181	–	–	1,317	–
Net amount recognized	\$ 6,150	\$ (7,795)	\$ (112,205)	\$ (2,387)	\$ (6,530)	\$ (105,630)
Net amount recognized in consolidated balance sheets consists of:						
Prepaid benefit cost	\$ 12,023	\$ –	\$ 1,504	\$ 11,034	\$ –	\$ 1,264
(Accrued) benefit liability	(51,387)	(44,962)	(113,992)	(55,170)	(43,304)	(106,900)
Intangible assets	246	840	–	979	748	–
Accumulated other comprehensive income	45,268	36,327	283	40,770	36,026	6
Net amount recognized	\$ 6,150	\$ (7,795)	\$ (112,205)	\$ (2,387)	\$ (6,530)	\$ (105,630)

Pension plans with accumulated benefit obligations in excess of plan assets at year end were as follows:

	Fiscal Year Ended					
	January 2, 2004			January 3, 2003		
	North America Plans	Japan Plans	Rest of World Plans	North America Plans	Japan Plans	Rest of World Plans
Projected benefit obligation	\$ 152,350	\$ 82,801	\$ 240,973	\$ 139,424	\$ 79,754	\$ 299,122
Accumulated benefit obligation	151,664	79,595	181,160	136,658	74,825	209,417
Fair value of plan assets	109,932	37,854	105,058	91,802	33,389	138,799

Actuarial calculations were computed using the following weighted-average rates:

	Fiscal Year Ended					
	January 2, 2004			January 3, 2003		
	North America Plans	Japan Plans	Rest of World Plans	North America Plans	Japan Plans	Rest of World Plans
Weighted-average discount rate	6.25%	2.00%	4.81%	6.94%	2.50%	5.04%
Weighted-average rate of increase in future compensation levels	3.57%	4.00%	3.01%	4.44%	4.68%	3.15%
Weighted-average expected long-term rate of return on plan assets	8.83%	0.00%	6.51%	9.23%	0.28%	6.53%

The components of net periodic benefit cost for the fiscal years ended January 2, 2004 and January 3, 2003, respectively, the fiscal six months ended December 28, 2001, and the fiscal year ended June 29, 2001 were as follows:

	Fiscal Year Ended						Fiscal Six Months Ended		Fiscal Year Ended	
	January 2, 2004			January 3, 2003			December 28, 2001		June 29, 2001	
	North America Plans	Japan Plans	Rest of World Plans	North America Plans	Japan Plans	Rest of World Plans	U.S. Plans	Japan Plans	U.S. Plans	Japan Plans
Service cost	\$ 6,389	\$ 2,717	\$ 17,540	\$ 5,132	\$ 2,193	\$ 10,282	\$ 2,207	\$ 1,031	\$ 3,901	\$ 2,112
Interest cost	11,419	2,024	11,943	9,347	2,034	9,231	3,016	1,129	5,973	2,225
Expected return on plan assets	(10,139)	—	(7,521)	(8,769)	(83)	(7,040)	(3,152)	(65)	(7,375)	(113)
Amortization of net loss (gain)	2,331	2,541	1,514	1,459	2,111	—	384	597	72	1,274
Amortization of transition obligation (asset)	—	240	—	1	224	—	—	98	(420)	270
Amortization of prior service cost	28	(47)	—	33	(44)	—	19	—	31	—
Effect of curtailments and settlements	—	1,015	—	—	—	—	—	—	—	—
Net periodic pension cost	\$ 10,028	\$ 8,490	\$ 23,476	\$ 7,203	\$ 6,435	\$ 12,473	\$ 2,474	\$ 2,790	\$ 2,182	\$ 5,768

The amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the plan.

The Company also has an unfunded supplemental separation pay plan. This plan provides retirement benefits for employees formerly with SCJ who were hired before 1995. The projected benefit obligation was \$7,131 and \$6,972 as of January 2, 2004 and January 3, 2003, respectively, and is included in pension and other postretirement benefits on the consolidated balance sheet. The accumulated benefit obligation was \$4,858 and \$4,336 as of January 2, 2004 and January 3, 2003, respectively.

U.S. Defined Benefit Pension Plans

The following represents the weighted-average asset allocation by asset category for the Company's U.S. defined benefit pension plans:

Asset Class	Allocation ⁽¹⁾	Target
Non-U.S. equities	9.9%	8 – 12%
U.S. equities	40.9%	40 – 44%
U.S. fixed income	36.7%	38 – 42%
Real estate	3.0%	2 – 6%
Private equity	1.1%	0 – 2%
Cash equivalents	8.4%	0 – 5%

(1) Asset allocations are as of October 31, 2003.

Employer Contributions

The Company expects to contribute approximately \$15,300 to its U.S. defined benefit pension plans during fiscal year 2004.

Investment Policies & Strategies

A diversified strategic asset allocation that efficiently and prudently generates investment returns that will meet the objectives of the trust is developed by an asset / liability study for each trust. These studies incorporate specific plan objectives as well as long-term capital market returns and volatilities. Managers are selected to manage assets in given asset class based on their ability to provide returns at or above a passive investment in their asset class. These managers are evaluated annually on their risk adjusted returns. The actual asset allocations are monitored and adjusted back toward the strategic target when appropriate.

Investment guidelines have been developed and provided to the managers.

A number of philosophical beliefs are inherent in the allocation of fund assets.

Over the long term, equities are expected to outperform fixed income investments. The long-term nature of the trust makes it well suited to bear the added volatility from equities in exchange for the greater long-term expected return. Accordingly, the trusts' asset allocation usually favors a higher allocation to equities versus fixed income unless circumstances warrant otherwise.

Non-U.S. equities serve to diversify some of the volatility of the U.S. equity market while providing comparable long-term returns. Additionally, Non-U.S. equities expand the investment opportunities of the funds.

Alternative asset classes, such as private equity and real estate, may be utilized for additional diversification and return potential where appropriate.

Fixed income managers will be afforded the opportunity to invest in essentially all sectors of the fixed income market albeit restricted in some instances by investment guidelines to limit exposure to the more volatile security sectors.

Long-Term Rate of Return Assumptions

The expected long-term rate of return on assets assumption was chosen from the range of likely results of compound average annual returns over a long-term time horizon. Historical returns are volatilities are modeled to determine the final asset allocations that best meet the objectives of asset / liability studies. These asset allocations, when viewed over a long-term historical view of the capital markets, yield an expected return on assets in excess of a 9% return.

Additional Information

On the measurement date, October 31, 2003, the allocation of trust assets to cash equivalents was higher than target due to recent trust merger activities and a pending evaluation of the asset allocation by a new investment consultant.

(17) OTHER POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits, the Company provides for a portion of healthcare, dental, vision and life insurance benefits for certain retired employees. Covered employees retiring from the Company on or after attaining age 50 who have rendered at least ten years of service to the Company are entitled to post-retirement healthcare, dental and life insurance benefits. These benefits are subject to deductibles, co-payment provisions and other limitations. Contributions made by the Company are equivalent to benefits paid. The Company may change or terminate the benefits at any time. The Company has elected to amortize the transition obligation over a 20-year period. In connection with the change in the Company's fiscal year end to the Friday nearest December 31, the Company changed the measurement date of the post-retirement plan. The plan's adjustment to post-retirement expense will be recorded prospectively over the balance of the fiscal year. The status of these plans, including a reconciliation of benefit obligations, a reconciliation of plan assets and the funded status of the plans follows:

	Fiscal Year Ended	
	January 2, 2004	January 3, 2003
Change in benefit obligations:		
Benefit obligation at beginning of period	\$ 64,814	\$ 42,848
Purchase accounting adjustment	1,549	–
Service cost	2,966	2,183
Interest cost	4,910	3,992
Actuarial loss (gain)	9,199	(211)
Benefits paid	(4,774)	(1,369)
Loss due to exchange rate movements	1,047	376
Plan amendments	(3,360)	–
Acquisitions	336	16,995
Benefit obligation at end of period	\$ 76,687	\$ 64,814
Change in plan assets:		
Fair value of plan assets at beginning of period	\$ –	\$ –
Actual return on plan assets	–	–
Employer contribution	4,639	297
Plan participants contribution	135	–
Benefits paid	(4,774)	(297)
Fair value of plan assets at end of period	\$ –	\$ –
Net amount recognized:		
Funded status	\$(76,687)	\$(64,814)
Employer contributions between measurement date and year-end	151	–
Unrecognized transition obligation	2,581	7,216
Unrecognized net actuarial loss	18,208	9,449
Unrecognized prior service cost	553	–
Accrued benefit costs	\$(55,194)	\$(48,149)

The accumulated post-retirement benefit obligations were determined using a weighted-average discount rate of 6.19% and 6.91% at January 2, 2004 and January 3, 2003, respectively. The components of net periodic benefit cost for the fiscal years ended January 2, 2004 and January 3, 2003, respectively, the fiscal six months ended December 28, 2001, and the fiscal year ended June 29, 2001 were as follows:

	Fiscal Year Ended		Fiscal Six Months Ended	Fiscal Year Ended
	January 2, 2004	January 3, 2003	December 28, 2001	June 29, 2001
Service cost	\$2,966	\$2,183	\$ 755	\$1,179
Interest cost	4,910	3,992	1,236	1,824
Amortization of net (gain)/loss	332	380	–	(84)
Amortization of transition obligation	722	722	361	722
Net periodic benefit cost	\$8,930	\$7,277	\$2,352	\$ 3,641

For the fiscal year ended January 2, 2004, healthcare cost trend rates were assumed to be in a range of 2% to 3% for international plans and a range of 7% to 9% downgrading to 5% by 2008 for domestic plans. For the fiscal year ended January 3, 2003, healthcare cost trend rates were assumed to be in a range of 2% to 3% for international plans and a range of 8% to 10% downgrading to 5% by 2008 for domestic plans. The assumed healthcare cost trend rate has a significant effect on the amounts reported for the healthcare plans. A one percentage point change on assumed healthcare cost trend rates would have the following effect for the fiscal year ended January 2, 2004:

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost components	\$ 1,693	\$(1,306)
Effect on post-retirement benefit obligation	12,408	5,421

(18) OTHER EMPLOYEE BENEFIT PLANS

The Company has a discretionary profit-sharing plan covering certain employees. Under the plan, the Company expensed \$16,656 and \$19,411 for the fiscal years ended January 2, 2004 and January 3, 2003, respectively, \$9,287 for the fiscal six months ended December 28, 2001, and \$23,224 for the fiscal year ended June 29, 2001.

The Company has various defined contribution benefit plans which cover certain employees. Participants can make voluntary contributions in accordance with the provisions of their respective plan, which includes a 401(k) tax-deferred option. The Company accrued \$4,656 and \$3,611 for matching contributions during the fiscal years ended January 2, 2004 and January 3, 2003, respectively. In addition, the Company contributed \$1,266 and \$2,314 to the DiverseyLever, Inc. Retirement Plan, a defined contribution plan for former DiverseyLever employees, for the fiscal years ended January 2, 2004 and January 3, 2003, respectively.

(19) FAIR VALUE OF FINANCIAL INSTRUMENTS

The book values and estimated fair values of financial instruments are reflected below:

	January 2, 2004		January 3, 2003	
	Book Value	Fair Value	Book Value	Fair Value
Short-term borrowings and current portion of long term debt	\$ 152,040	\$ 152,040	\$ 126,025	\$ 126,025
Long-term borrowings	1,338,622	1,405,910	1,348,270	1,364,264

The fair values of long-term borrowings were estimated using quoted market prices. Short-term borrowings, which are at current market rates, approximate fair value.

(20) STOCK-BASED COMPENSATION

The Company has a Long-Term Incentive Plan (the "Plan") that provides for the right to purchase stock of Holdco for certain senior management of the Company. Prior to July 1, 2001, the Plan provided for the award of one share of restricted stock and one stock option for every four shares purchased. Shares are acquired at a formula value, which is an estimation of fair value by the Company based on overall Holdco performance. All restricted shares vest over a three-to-four year period from the grant date and have an exercise period of ten years from the date of grant. Stock options have an exercise term of ten years from the date of grant. Also, employees that remain with the Company for four years after spin-off are granted debt forgiveness of at least 50% of the purchase price of the stock. For the fiscal year ended June 29, 2001, 18,222 shares of restricted stock and 1,302 options were issued under the Plan. Further, the board of directors approved discretionary stock options to certain employees under the Plan. For the fiscal year ended June 29, 2001, total discretionary stock options issued under the plan were 29,295.

Subsequent to June 30, 2001, the Plan was modified so that all awards granted under the Plan were stock option grants. Newly issued stock options vest over four years and have an exercise period of seven years from the date of grant. Options issued under the modified plan were 161,712, none and 39,836 for the periods ended January 2, 2004, January 3, 2003 and December 28, 2001, respectively. Further, the board of directors approved discretionary stock options to certain employees under the modified plan. Discretionary stock options issued under the Plan were 24,725, none and 9,850 for the periods ended January 2, 2004, January 3, 2003 and December 28, 2001, respectively.

The board of directors approved the grant of 15,750 and 11,200 restricted shares of Holdco stock to certain officers of the Company during the fiscal six months ended December 28, 2001, and the fiscal year ended June 29, 2001, respectively. These shares vest on the sooner of the Company achieving certain identified performance criteria or 10 years from the date of grant and continuous employment.

The Company conducted an equity offering ("First Supplemental Sale") of shares of Holdco stock to senior management and directors in November 2001. Restricted shares of stock were granted in conjunction with the First Supplemental Sale at the rate of one restricted share for every two shares purchased. Restricted shares issued under the First Supplemental Sale were 7,088 for the fiscal six months ended December 28, 2001. The restricted shares issued were valued at the stockholder valuation date nearest the grant date and vest over four years.

The Company conducted an equity offering ("Second Supplemental Sale") of shares of Holdco stock to senior management and directors in March 2003. Restricted shares of stock were granted in conjunction with the Second Supplemental Sale at the rate of three restricted shares for every five shares purchased. Restricted shares issued under the Second Supplemental Sale were 8,496 for the fiscal year ended January 2, 2004. The restricted shares issued were valued at the stockholder valuation date nearest the grant date and vest over two years.

Compensation expense recorded by the Company related to restricted stock and debt forgiveness was \$1,449 and \$1,865 for the fiscal years ended January 2, 2004 and January 3, 2003, respectively, \$445 for the fiscal six months ended December 28, 2001, and \$674 for the fiscal year ended June 29, 2001.

A summary of stock option activity and average exercise price is as follows:

	Number of Shares	Weighted-Average Exercise Price
Shares under option at June 30, 2000	40,402	\$ 82.63
Options granted	36,997	114.16
Options lapsed or surrendered	(143)	99.39
Options exercised	(126)	97.39
Shares under option at June 29, 2001	77,130	97.74
Options granted	49,686	136.05
Options lapsed or surrendered	(260)	103.97
Shares under option at December 28, 2001	126,556	112.74
Options granted	–	–
Options lapsed or surrendered	–	–
Options exercised	(1,814)	83.52
Shares under option at January 3, 2003	124,742	113.17
Options granted	186,437	111.22
Options lapsed or surrendered	(4,748)	121.92
Options exercised	(2,326)	84.79
Shares under option at January 2, 2004	304,105	\$112.05

Information related to stock options outstanding and stock options exercisable as of January 2, 2004, is as follows:

Weighted-Average Price Range ⁽¹⁾	Number of Shares		Weighted-Average Remaining Contractual Life (in Years)
	Outstanding	Exercisable	
\$ 82.63	35,867	35,867	6
114.16	36,175	289	7
136.05	47,268	320	5
106.93	87,578	360	6
115.07	97,217	185	7
	304,105	37,021	6

(1) Outstanding and exercisable.

Options held by employees that were exercisable at January 2, 2004, were 37,021. The weighted-average exercise price for options exercisable at January 2, 2004 was \$83.74.

(21) LEASE COMMITMENTS

The Company leases certain plant, office and warehouse space as well as machinery, vehicles, data processing and other equipment under long-term, noncancelable operating leases. Certain of the leases have renewal options at reduced rates and provisions requiring us to pay maintenance, property taxes and insurance. Generally, all rental payments are fixed. The Company's assets and obligations under capital lease arrangements are not significant. At January 2, 2004, the future payments for all operating leases with remaining lease terms in excess of one year, and excluding maintenance, taxes and insurance, in each of the next five fiscal years and thereafter were as follows:

Year	
2004	\$ 55,988
2005	46,968
2006	35,693
2007	22,405
2008	20,251
Thereafter	19,284
	<hr/>
	\$ 200,589

Total rent expense under all leases was \$64,666 and \$44,527 for the fiscal years ended January 2, 2004 and January 3, 2003, respectively, \$13,947 for the fiscal six months ended December 28, 2001, and \$28,472 for the fiscal year ended June 29, 2001.

(22) RELATED-PARTY TRANSACTIONS

The Company purchases certain raw materials and products from SCJ, which, like the Company, is majority-owned by the descendants of Samuel Curtis Johnson. Total inventory purchased from SCJ was \$26,981 and \$31,340 for the fiscal years ended January 2, 2004 and January 3, 2003, respectively, \$17,200 for the fiscal six months ended December 28, 2001, and \$35,500 for the fiscal year ended June 29, 2001.

SCJ also provides certain administrative, business support and general services, such as accounting, payroll and shared facility services to the Company. In addition, the Company leases certain facilities from SCJ. Charges for these services and leases totaled \$33,398 and \$35,523 for the fiscal years ended January 2, 2004 and January 3, 2003, respectively, \$18,600 for the fiscal six months ended December 28, 2001, and \$38,900 for the fiscal year ended June 29, 2001. Of these amounts \$11,470 and \$10,836 for the fiscal years ended January 2, 2004 and January 3, 2003, respectively, \$4,424 for the fiscal six months ended December 28, 2001, and \$8,016 for the fiscal year ended June 29, 2001 represent amounts paid to reimburse SCJ for payroll, benefit and other costs paid by SCJ on behalf of the Company.

The Company licenses the use of certain trade names, housemarks and brand names from SCJ. Payments to SCJ under the license agreements governing the names and marks totaled \$4,083 and \$2,649 for the fiscal years ended January 2, 2004 and January 3, 2003, respectively, \$1,400 for the fiscal six months ended December 28, 2001, and \$3,000 for the fiscal year ended June 29, 2001.

SCJ purchases certain raw materials and products from the Company. Total inventory purchased by SCJ from the Company was \$23,946 and \$24,709 for the fiscal years ended January 2, 2004 and January 3, 2003, respectively, \$14,400 for the fiscal six months ended December 28, 2001, and \$23,400 and for the fiscal year ended June 29, 2001.

The Company has a banking relationship with the Johnson Financial Group, which is majority-owned by the descendants of Samuel Curtis Johnson. Service fees paid to the Johnson Financial Group totaled \$104 and \$45, for the fiscal years ended January 2, 2004 and January 3, 2003, respectively. There have been no loans outstanding with Johnson Financial Group for the fiscal years ended January 2, 2004 and January 3, 2003.

The Company leases its North American headquarters building from Willow Holdings, Inc., which is controlled by the descendants of Samuel Curtis Johnson. The Company's operating lease costs were \$766 and \$301 for the fiscal years ended January 2, 2004 and January 3, 2003, respectively.

Several of the Company's employees are indebted to the Company in connection with their purchases of shares of class C common stock of Holdco (see Note 24). These loans were outstanding in the amount of \$1,687 and \$3,493, net of the forgiven portion, as of January 2, 2004 and January 3, 2003, respectively.

On May 3, 2002, in connection with the acquisition of the DiverseyLever business from Unilever, the Company entered into a sales agency agreement, a transitional services agreement and a dispensed products license agreement with Unilever. The sales agency agreement terminates on May 2, 2007. Payments from Unilever under the sales agency agreement totaled \$86,808 and \$54,286, for the fiscal years ended January 2, 2004 and January 3, 2003, respectively.

Under the dispensed products license agreement, Unilever has granted the Company a license to use certain intellectual property relating to the products the Company sells for use in certain personal care product dispensing systems. The dispensed products license agreement expires on May 2, 2007, and automatically renews for successive one-year periods unless terminated by either party under certain circumstances. Payments to Unilever under the dispensed products license agreement totaled \$959 and \$336, for the fiscal years ended January 2, 2004 and January 3, 2003, respectively.

Under the transitional services agreement, Unilever provides the Company with a wide range of support services that are intended to ensure the smooth transition of the DiverseyLever business from Unilever to the Company. Unilever will provide most services for no more than 24 months. Under the transitional services agreement, Unilever provided most services until May 2, 2003. Accordingly, most of the services under the transitional services agreement have been terminated. Payments to Unilever under the transitional services agreement totaled \$9,548 and \$12,219, for the fiscal years ended January 2, 2004 and January 3, 2003, respectively.

During the fiscal years ended January 2, 2004 and January 3, 2003, the Company reimbursed Unilever \$5,028 and \$2,842, respectively, for payroll and benefit-related costs paid by Unilever on behalf of the Company.

The Company purchases certain raw materials and products from Unilever, acts as a co-packer for Unilever and also sells certain finished goods to Unilever as a customer. Total purchases of inventory by the Company from Unilever were \$67,751 and \$40,185, respectively, for the fiscal years ended January 2, 2004 and January 3, 2003. Total sales of finished product by the Company to Unilever were \$43,565 and \$16,915, for the fiscal years ended January 2, 2004 and January 3, 2003, respectively.

The Company recognized interest income of \$5,290 and \$1,452 for the fiscal years ended January 2, 2004 and January 3, 2003, respectively, related to certain long-term acquisition related receivables from Unilever. The Company received \$925 and \$35 during the fiscal years ended January 2, 2004 and January 3, 2003, respectively, in partial settlement of the interest due.

Related-party receivables and payables at January 2, 2004 and January 3, 2003, consist of the following:

	January 2, 2004	January 3, 2003
Included in accounts receivable – Related parties:		
Receivable from Holdco	\$ 2,137	\$1,924
Receivable from JDHI	1,439	–
Receivable from SCJ	2,365	3,969
Receivable from Unilever	22,544	37,676
Short-term acquisition-related receivable from Unilever	480	37,353
Long-term acquisition-related receivable from Unilever	87,663	72,475
Included in accounts payable – Related parties:		
Payable to SCJ	3,929	4,755
Payable to Unilever	58,247	93,341
Payable to other related parties	170	–
Short-term acquisition-related payable to Unilever	–	12,318
Long-term acquisition-related payables to Unilever	27,790	11,750
Long-term payable to other related parties	519	–
Included in equity:		
Notes receivable from employees	1,687	3,493

(23) OTHER COMPREHENSIVE INCOME

Components of accumulated other comprehensive income (loss) are disclosed, net of tax, in the consolidated statements of stockholders' equity. The following table reflects the gross other comprehensive income (loss) and related income tax (expense) benefit.

	Fiscal Year Ended	
	January 2, 2004	January 3, 2003
Foreign currency translation adjustments:		
Balance at beginning of year	\$ 64,808	\$ 12,931
Foreign currency translation adjustments	140,503	51,877
Tax effect of current period settlement of permanently invested loans	4,546	–
Balance at end of year	209,857	64,808
Adjustment to minimum pension liability:		
Balance at beginning of year	(46,033)	(30,148)
Adjustments to minimum pension liability	(5,076)	(28,225)
Tax effect of current period changes	1,881	12,340
Balance at end of year	(49,228)	(46,033)
Unrealized gains (losses) on derivatives:		
Balance at beginning of year	(17,513)	(1,375)
Gains (losses) in fair value of derivatives	1,264	(35,860)
Reclassification of gains (losses) realized in net income	1,580	9,913
Tax effect of current period changes	(559)	9,809
Balance at end of year	(15,228)	(17,513)
Total accumulated other comprehensive income, net	\$145,401	\$ 1,262

(24) STOCKHOLDERS' EQUITY

In connection with the acquisition of the DiverseyLever business, Holdings made cash (\$385,782) and noncash (\$201,900) capital contributions to the Company during fiscal year 2002, which were recorded as additional paid-in capital.

The Class A 8% Cumulative Preferred Stock and the Class B 8% Cumulative Preferred Stock of the Company were both redeemed by the Company at par value on June 3, 2002 for \$50. Holdings, the holder of the preferred stock, contributed the proceeds back to the Company. This amount is in addition to the equity contributions discussed above.

During calendar years 1999 and 2000, the Company received notes from several of its executive officers in connection with their purchases of shares of Class C common stock of Holdco, which currently owns two-thirds of the equity interests of Holdings, the Company's parent. A minimum of 50% of the balance due on the notes is being forgiven over a four-year vesting period. The notes were recorded by Holdco with an increase to equity and the Company recorded a charge for the amortization of the amount to be forgiven over the vesting period, with a corresponding payable to Holdco.

In connection with the acquisition of the DiverseyLever business in May 2002, and related financings, the senior discount notes were recorded by the Company and the Company's liability to Holdco was reclassified as an offset to the carrying value of the senior discount notes. The carrying value of the senior discount notes has been classified as a contra-equity account.

(25) CONTINGENCIES

The Company is subject to various legal actions and proceedings in the normal course of business. Although litigation is subject to many uncertainties and the ultimate exposure with respect to these matters cannot be ascertained, the Company does not believe the final outcome of any current litigation will have a material effect on the Company's financial position, results of operations or cash flows.

The Company has purchase commitments for materials, supplies, and property, plant and equipment incidental to the ordinary conduct of business. In the aggregate, such commitments are not in excess of current market prices. Additionally, the Company normally commits to some level of marketing related expenditures that extend beyond the fiscal year. These marketing expenses are necessary in order to maintain a normal course of business and the risk associated with them is limited. It is not expected that these commitments will have a material effect on the Company's financial position, results of operations or cash flows.

The Company maintains environmental reserves for remediation and monitoring expenses at two of its domestic facilities. While the ultimate exposure at these sites continues to be evaluated, the Company does not anticipate a material effect on its financial position or results of operations.

In connection with the acquisition of the DiverseyLever business, the Company conducted environmental assessments and investigations at DiverseyLever facilities in various countries. These investigations disclosed the likelihood of soil and/or groundwater contamination, or potential environmental regulatory matters. The Company continues to evaluate the nature and extent of the identified contamination and is preparing plans to address the contamination. An estimate of costs has been made based on the expected extent of contamination and the expected likelihood of recovery for some of these costs from Unilever under the purchase agreement. Based on the estimate process, the Company recorded a liability of \$10,100 during fiscal year 2002 and increased the liability to \$11,800 during fiscal year 2003. To the extent that contamination is determined to be in violation of local environmental laws, the Company intends to seek recovery from Unilever under indemnification clauses contained in the purchase agreement.

In connection with the acquisition of DiverseyLever, Holdings entered into a stockholders' agreement with its stockholders, Holdco and Marga B.V. Under the stockholders' agreement, at any time after May 3, 2007, Holdings has the option to purchase, and Unilever has the right to require Holdings to purchase, the shares of Holdings then beneficially owned by Unilever. If, after May 3, 2010, Holdings is unable to fulfill its obligations in connection with the put option, Unilever may require Holdings to take certain actions, including selling certain assets of the Company.

Under the stockholders' agreement, Holdings may be required to make payments to Unilever in each year from 2007 through 2010 so long as Unilever continues to beneficially own 5% or more of Holdings' outstanding shares. The amount of each payment will be equal to 25% of the amount by which the cumulative cash flows of Holdings and its subsidiaries, on a consolidated basis, for the period from the closing of the acquisition through the end of the fiscal year preceding the payment (not including any cash flow with respect to which Unilever received payment in a prior year), exceeds \$727,500 in 2006, \$975,000 in 2007, \$1,200,000 in 2008 or \$1,425,000 in 2009. The aggregate amount of these payments cannot exceed \$100,000. Payment of these amounts, which may be funded with cash flows generated by the Company, is subject to compliance with the agreements relating to Holdings and the Company's senior indebtedness including, without limitation, the senior secured credit facilities, the senior subordinated notes and the Senior Discount Notes of Holdings.

(26) SEGMENT INFORMATION

Information regarding the Company's operating segments is shown below. Each segment is individually managed with separate operating results that are reviewed regularly by the executive management. Each segment's accounting policies are consistent with those used by the Company. The operating segments are:

Professional—The Professional Business is a global manufacturer of commercial, industrial and institutional cleaning and sanitation products. In addition, the Professional Business provides services to customers including pest control, hood and duct cleaning, facility maintenance, and warewashing.

Polymer—The Polymer Business is a global manufacturer of polymer intermediates marketed to the printing and packaging, coatings, and plastics industries. The Polymer Business sells products to the Professional Business, all of which are eliminated in consolidation.

The following table represents operating segment information:

	Fiscal Year Ended January 2, 2004			
	Professional	Polymer	Eliminations/Other	Total Company
Net sales	\$2,681,283	\$285,101	\$(18,612)	\$2,947,772
Operating profit	121,862	36,928	–	158,790
Total assets	3,538,526	208,288	(81,487)	3,665,327
Goodwill, net	1,223,316	743	–	1,224,059
Depreciation and amortization	150,364	9,099	–	159,463
Capital expenditures, excluding capitalized computer software	94,371	4,469	–	98,840
Interest expense	131,337	752	(717)	131,372
Interest income	6,784	1,002	(717)	7,069

	Fiscal Year Ended January 3, 2003			
	Professional	Polymer	Eliminations/Other	Total Company
Net sales	\$1,951,458	\$263,489	\$(18,552)	\$2,196,395
Operating profit	70,736	30,664	–	101,400
Total assets	3,255,084	174,843	(46,542)	3,383,385
Goodwill, net	1,131,789	540	–	1,132,329
Depreciation and amortization	100,952	8,396	–	109,348
Capital expenditures, excluding capitalized computer software	65,704	8,278	–	73,982
Interest expense	90,689	1,094	(1,347)	90,436
Interest income	6,635	652	(1,347)	5,940

	Fiscal Six Months Ended December 28, 2001			
	Professional	Polymer	Eliminations/Other	Total Company
Net sales	\$ 437,407	\$120,941	\$(9,369)	\$ 548,979
Operating profit	15,696	12,005	(2,535)	25,166
Total assets	764,698	147,155	14,431	926,284
Goodwill, net	271,765	193	–	271,958
Depreciation and amortization	12,808	3,849	1,502	18,159
Capital expenditures, excluding capitalized computer software	13,401	2,434	89	15,924
Interest expense	12,694	857	(6,299)	7,252
Interest income	351	641	(685)	307

	Fiscal Year Ended June 29, 2001			
	Professional	Polymer	Eliminations/Other	Total Company
Net sales	\$ 912,616	\$240,450	\$(20,233)	\$1,132,833
Operating profit	51,865	16,710	(3,606)	64,969
Total assets	761,134	142,537	9,877	913,548
Goodwill, net	272,795	–	–	272,795
Depreciation and amortization	38,497	8,153	3,099	49,749
Capital expenditures, excluding capitalized computer software	22,084	4,045	1,376	27,505
Interest expense	24,512	2,818	(8,079)	19,251
Interest income	1,301	1,842	(2,150)	993

Pertinent financial data by geographical location is as follows:

	North America	Europe	Japan	Americas	Asia Pacific	Eliminations/ Other	Total Company
Net sales:							
Fiscal year ended							
January 2, 2004	\$1,012,390	\$1,376,416	\$278,614	\$128,253	\$170,711	\$(18,612)	\$2,947,772
Fiscal year ended							
January 3, 2003	884,075	860,191	239,303	103,875	127,503	(18,552)	2,196,395
Fiscal six months ended							
December 28, 2001	282,780	101,055	114,577	28,583	33,925	(11,941)	548,979
Fiscal year ended							
June 29, 2001	590,220	198,713	236,343	64,323	63,846	(20,612)	1,132,833
Long-lived assets:							
January 2, 2004	852,076	1,130,104	195,083	89,861	84,562	–	2,351,686
January 3, 2003	843,158	1,009,388	176,596	77,641	69,413	–	2,176,196

(27) SUBSIDIARY GUARANTORS OF SENIOR SUBORDINATED NOTES

The Senior Subordinated Notes are guaranteed by certain of the Company's wholly owned subsidiaries (the "Guarantor Subsidiaries"). Such guarantees are full and unconditional, to the extent allowed by law, and joint and several. Separate financial statements of the Guarantor Subsidiaries are not presented because the guarantors are unconditionally, jointly and severally liable under the guarantees, and we believe such separate statements or disclosures would not be useful to investors. The following supplemental financial information sets forth, on an unconsolidated basis, statements of income, balance sheets and statements of cash flows information for the Company ("Parent Company"), for the Guarantor Subsidiaries and for the Company's non-guarantor subsidiaries (the "Non-guarantor Subsidiaries"), each of which were determined on a combined basis with the exception of eliminating investments in combined subsidiaries and certain reclassifications, which are eliminated at the consolidated level. The supplemental financial information reflects the investments of the Company in the Guarantor Subsidiaries and Non-guarantor Subsidiaries using the equity method of accounting.

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS FOR THE FISCAL YEAR ENDED
JANUARY 2, 2004:**

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net product and service sales	\$ 637,276	\$ 361,882	\$ 2,004,010	\$(142,204)	\$ 2,860,964
Sales agency fee income	7,139	116	79,553	–	86,808
	644,415	361,998	2,083,563	(142,204)	2,947,772
Cost of sales	361,047	244,374	1,152,806	(142,196)	1,616,031
Gross profit	283,368	117,624	930,757	(8)	1,331,741
Marketing, administrative and general expenses	308,118	67,309	709,481	–	1,084,908
Research and development	28,437	11,928	34,759	–	75,124
Restructuring expense	1,089	–	11,830	–	12,919
Operating profit	(54,276)	38,387	174,687	(8)	158,790
Other expense (income):					
Interest expense	115,601	935	100,272	(85,436)	131,372
Interest income	(31,026)	(55,214)	(6,265)	85,436	(7,069)
Other (income) expense, net	(132,265)	(4,410)	(8,389)	135,374	(9,690)
Income before taxes	(6,586)	97,076	89,069	(135,382)	44,177
Provision for income taxes	(30,989)	22,286	28,477	–	19,774
Income before minority interests	24,403	74,790	60,592	(135,382)	24,403
Minority interests in net income of subsidiaries	–	–	262	–	262
Net income	\$ 24,403	\$ 74,790	\$ 60,330	\$(135,382)	\$ 24,141

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS FOR THE FISCAL YEAR ENDED
JANUARY 3, 2003:**

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net product and service sales	\$ 505,604	\$ 366,671	\$ 1,345,797	\$(75,963)	\$ 2,142,109
Sales agency fee income	4,947	109	49,230	–	54,286
	510,551	366,780	1,395,027	(75,963)	2,196,395
Cost of sales	280,426	236,976	768,239	(75,963)	1,209,678
Gross profit	230,125	129,804	626,788	–	986,717
Marketing, administrative and general expenses	221,822	71,496	513,895	(5,905)	801,308
Research and development	17,020	12,413	34,930	–	64,363
Restructuring expense	8,794	–	10,852	–	19,646
Operating profit	(17,511)	45,895	67,111	5,905	101,400
Other expense (income):					
Interest expense	76,674	2,728	66,140	(55,106)	90,436
Interest income	(21,143)	(36,092)	(3,811)	55,106	(5,940)
Other (income) expense, net	(92,555)	(9,826)	(10,390)	83,760	(29,011)
Income before taxes	19,513	89,085	15,172	(77,855)	45,915
Provision for income taxes	(9,740)	24,168	2,234	–	16,662
Income before minority interests	29,253	64,917	12,938	(77,855)	29,253
Minority interests in net loss of subsidiaries	–	–	(315)	–	(315)
Net income	\$ 29,253	\$ 64,917	\$ 13,253	\$(77,855)	\$ 29,568

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS FOR THE FISCAL SIX MONTHS ENDED DECEMBER 28, 2001:

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$ 115,884	\$ 161,931	\$ 280,847	\$ (9,683)	\$ 548,979
Cost of sales	48,990	95,530	141,945	(9,683)	276,782
Gross profit	66,894	66,401	138,902	–	272,197
Marketing, administrative and general expenses	66,975	46,700	114,770	–	228,445
Research and development	6,874	7,615	4,097	–	18,586
Operating profit	(6,955)	12,086	20,035	–	25,166
Other expense (income):					
Interest expense	6,622	4,484	4,722	(8,576)	7,252
Interest income	(77)	(7,601)	(1,205)	8,576	(307)
Other (income) expense, net	(29,643)	1,497	1,728	28,559	2,141
Income before taxes	16,143	13,706	14,790	(28,559)	16,080
Provision for income taxes	4,908	4,372	4,718	(9,090)	4,908
Income before minority interests	11,235	9,334	10,072	(19,469)	11,172
Minority interests in net income of subsidiaries	–	–	25	–	25
Net income	\$ 11,235	\$ 9,334	\$ 10,047	\$(19,469)	\$ 11,147

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS FOR THE FISCAL YEAR ENDED JUNE 29, 2001:

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$ 253,275	\$ 335,225	\$ 565,083	\$ (20,750)	\$ 1,132,833
Cost of sales	92,400	204,455	281,329	(20,750)	557,434
Gross profit	160,875	130,770	283,754	–	575,399
Marketing, administrative and general expenses	139,309	97,944	234,535	–	471,788
Research and development	14,616	15,541	8,485	–	38,642
Operating profit	6,950	17,285	40,734	–	64,969
Other expense (income):					
Interest expense	17,265	12,778	7,779	(18,571)	19,251
Interest income	(9,099)	(9,125)	(1,340)	18,571	(993)
Other (income) expense, net	(50,572)	671	(4,534)	51,790	(2,645)
Income before taxes	49,356	12,961	38,829	(51,790)	49,356
Provision for income taxes	16,512	4,342	13,007	(17,349)	16,512
Income before minority interests	32,844	8,619	25,822	(34,441)	32,844
Minority interests in net income of subsidiaries	–	–	237	–	237
Net income	\$ 32,844	\$ 8,619	\$ 25,585	\$(34,441)	\$ 32,607

CONDENSED CONSOLIDATING BALANCE SHEET AT JANUARY 2, 2004:

Assets	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Current assets:					
Cash and cash equivalents	\$ —	\$ 1,187	\$ 23,356	\$ —	\$ 24,543
Accounts receivable	14,670	10,947	622,339	—	647,956
Intercompany receivables	192,040	355,876	31,216	(579,132)	—
Inventories	34,232	29,526	199,695	(56)	263,397
Other current assets	31,909	7,555	81,004	(2,375)	118,093
Total current assets	272,851	405,091	957,610	(581,563)	1,053,989
Property, plant and equipment, net	153,734	47,016	394,733	—	595,483
Capitalized software, net	93,857	3,856	10,234	—	107,947
Goodwill and other intangibles, net	131,010	199,848	1,291,808	20,015	1,642,681
Deferred income taxes	80,503	—	12,755	—	93,258
Intercompany advances	439,591	586,976	33,033	(1,059,600)	—
Other assets	141,468	1,794	28,709	(2)	171,969
Investments in subsidiaries	1,591,819	35,978	—	(1,627,797)	—
Total assets	\$ 2,904,833	\$ 1,280,559	\$ 2,728,882	\$ (3,248,947)	\$ 3,665,327
Liabilities and stockholders' equity					
Current liabilities:					
Short-term borrowings	\$ —	\$ —	\$ 124,228	\$ —	\$ 124,228
Current portion of long-term debt	21,810	—	6,002	—	27,812
Accounts payable	60,043	19,556	280,949	—	360,548
Intercompany payables	473,782	10,587	95,404	(579,773)	—
Accrued expenses	163,050	24,287	256,944	(8,507)	435,774
Total current liabilities	718,685	54,430	763,527	(588,280)	948,362
Intercompany note payable	—	167,757	891,845	(1,059,602)	—
Long-term borrowings	1,070,262	—	268,360	—	1,338,622
Other liabilities	120,991	34,642	226,909	906	383,448
Total liabilities	1,909,938	256,829	2,150,641	(1,646,976)	2,670,432
Stockholders' equity	994,895	1,023,730	578,241	(1,601,971)	994,895
Total liabilities and equity	\$ 2,904,833	\$ 1,280,559	\$ 2,728,882	\$ (3,248,947)	\$ 3,665,327

CONDENSED CONSOLIDATING BALANCE SHEET AT JANUARY 3, 2003:

Assets	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Current assets:					
Cash and cash equivalents	\$ 4,301	\$ 6,282	\$ 48,689	\$ –	\$ 59,272
Accounts receivable	43,705	17,856	483,104	–	544,665
Intercompany receivables	175,866	164,877	12,713	(353,456)	–
Inventories	38,350	36,848	187,279	(1,494)	260,983
Other current assets	28,925	10,838	87,661	–	127,424
Total current assets	291,147	236,701	819,446	(354,950)	992,344
Property, plant and equipment, net	170,044	61,687	330,104	–	561,835
Capitalized software, net	56,290	4,831	18,222	–	79,343
Goodwill and other intangibles, net	152,247	207,973	1,149,306	10,756	1,520,282
Deferred income taxes	23,261	1,125	13,267	–	37,653
Intercompany advances	243,817	562,487	–	(806,304)	–
Other assets	120,441	6,123	66,462	(1,098)	191,928
Investments in subsidiaries	1,442,427	45,668	–	(1,488,095)	–
Total assets	\$ 2,499,674	\$ 1,126,595	\$ 2,396,807	\$ (2,639,691)	\$ 3,383,385
Liabilities and stockholders' equity					
Current liabilities:					
Short-term borrowings	\$ 32,700	\$ –	\$ 35,419	\$ –	\$ 68,119
Current portion of long-term debt	48,005	–	9,901	–	57,906
Accounts payable	62,158	18,110	248,293	–	328,561
Intercompany payables	182,767	10,162	163,605	(356,534)	–
Accrued expenses	107,268	52,764	222,767	(66)	382,733
Total current liabilities	432,898	81,036	679,985	(356,600)	837,319
Intercompany note payable	–	2,868	806,687	(809,555)	–
Long-term borrowings	1,100,193	–	248,077	–	1,348,270
Other liabilities	133,550	26,969	204,207	37	364,763
Total liabilities	1,666,641	110,873	1,938,956	(1,166,118)	2,550,352
Stockholders' equity	833,033	1,015,722	457,851	(1,473,573)	833,033
Total liabilities and equity	\$ 2,499,674	\$ 1,126,595	\$ 2,396,807	\$ (2,639,691)	\$ 3,383,385

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS FOR THE FISCAL YEAR ENDED
JANUARY 2, 2004:**

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net cash provided by (used in) operating activities	\$209,418	\$(110,305)	\$ 189,029	\$ (14,282)	\$ 273,860
Cash flows from investing activities:					
Capital expenditures, net	(60,514)	(797)	(56,896)	–	(118,207)
Acquisitions of businesses	40,427	7,108	(48,381)	(20,776)	(21,622)
Proceeds from divestitures	2,830	–	2,211	–	5,041
Net cash (used in) provided by investing activities	(17,257)	6,311	(103,066)	(20,776)	(134,788)
Cash flows from financing activities:					
Proceeds from (repayments of) short-term borrowings	62,957	(124)	(58,902)	(57,204)	(53,273)
Proceeds from (repayments of) long-term borrowings	(240,578)	164,889	50,887	(115,837)	(140,639)
Proceeds from (repayments of) additional paid in capital	(61,016)	(73,009)	9,054	124,971	–
Dividends paid	(7,856)	(78,644)	(4,506)	83,128	(7,878)
Net cash provided by (used in) financing activities	(246,493)	13,112	(3,467)	35,058	(201,790)
Effect of exchange rate changes on cash and cash equivalents	50,031	85,787	(107,829)	–	27,989
Change in cash and cash equivalents	(4,301)	(5,095)	(25,333)	–	(34,729)
Beginning balance	4,301	6,282	48,689	–	59,272
Ending balance	\$ –	\$ 1,187	\$ 23,356	\$ –	\$ 24,543

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS FOR THE FISCAL YEAR ENDED JANUARY 3, 2003:

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net cash provided by (used in) operating activities	\$ (271,407)	\$(508,012)	\$ 123,419	\$ 887,020	\$ 231,020
Cash flows from investing activities:					
Capital expenditures, net	(30,427)	(12,703)	(47,935)	–	(91,065)
Acquisitions of businesses	(1,614,178)	(132,693)	(1,080,856)	1,450,278	(1,377,449)
Net cash used in investing activities	(1,644,605)	(145,396)	(1,128,791)	1,450,278	(1,468,514)
Cash flows from financing activities:					
Proceeds from (repayments of) short-term borrowings	67,020	3,199	112,787	(151,103)	31,903
Proceeds from (repayments of) long-term borrowings	937,527	2,868	881,464	(792,706)	1,029,153
Increase (decrease) in intercompany payables/receivables	(53,556)	2,200	51,356	–	–
Proceeds from (repayments of) additional paid in capital	1,048,801	647,490	135,060	(1,445,569)	385,782
Retirement of preferred shares	(50)	–	–	–	(50)
Payment of debt issuance costs	(63,111)	–	(5,764)	–	(68,875)
Dividends paid	(17,038)	(45,925)	(6,329)	52,254	(17,038)
Net cash provided by (used in) financing activities	1,919,593	609,832	1,168,574	(2,337,124)	1,360,875
Effect of exchange rate changes on cash and cash equivalents	–	48,905	(121,107)	–	(72,202)
Change in cash and cash equivalents	3,581	5,329	42,095	174	51,179
Beginning balance	720	953	6,594	(174)	8,093
Ending balance	\$ 4,301	\$ 6,282	\$ 48,689	\$ –	\$ 59,272

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS FOR THE FISCAL SIX MONTHS ENDED DECEMBER 28, 2001:

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net cash provided by (used in) operating activities	\$ (16,728)	\$ 9,447	\$ 40,422	\$ (22,768)	\$ 10,373
Cash flows from investing activities:					
Capital expenditures, net	(15,312)	(1,605)	(14,146)	–	(31,063)
Cash flows from financing activities:					
Proceeds from (repayments of) short-term borrowings	31,429	–	(6,837)	–	24,592
Increase (decrease) in intercompany payables/receivables	7,111	255	(7,366)	–	–
Dividends paid	(7,290)	(7,145)	(15,622)	22,768	(7,289)
Net cash provided by (used in) financing activities	31,250	(6,890)	(29,825)	22,768	17,303
Effect of exchange rate changes on cash and cash equivalents	–	–	(321)	–	(321)
Change in cash and cash equivalents	(790)	952	(3,870)	–	(3,708)
Beginning balance	1,525	–	10,276	–	11,801
Ending balance	\$ 735	\$ 952	\$ 6,406	\$ –	\$ 8,093

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS FOR THE FISCAL YEAR ENDED JUNE 29, 2001:

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net cash provided by (used in) operating activities	\$ 98,577	\$ 51,683	\$ 25,768	\$(34,440)	\$ 141,588
Cash flows from investing activities:					
Capital expenditures, net	(50,505)	(4,626)	(5,203)	–	(60,334)
Acquisitions of businesses	(138,678)	–	–	–	(138,678)
Proceeds from divestitures	4,834	–	–	–	4,834
Net cash used in investing activities	(184,349)	(4,626)	(5,203)	–	(194,178)
Cash flows from financing activities:					
Proceeds from (repayments of) short-term borrowings	(69,000)	–	(14,683)	–	(54,317)
Increase (decrease) in intercompany payables/receivables	29,667	(42,957)	13,290	–	–
Proceeds from (repayments of) long-term borrowings	–	–	(337)	–	(337)
Dividends paid	(14,576)	(7,915)	(26,525)	34,440	(14,576)
Net cash provided by (used in) financing activities	84,091	(50,872)	(28,255)	34,440	39,404
Effect of exchange rate changes on cash and cash equivalents	–	–	1,380	–	1,380
Change in cash and cash equivalents	(1,681)	(3,815)	(6,310)	–	(11,806)
Beginning balance	3,206	3,815	16,586	–	23,607
Ending balance	\$ 1,525	\$ –	\$10,276	\$ –	\$ 11,801

(28) QUARTERLY FINANCIAL DATA (UNAUDITED)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	April 4, 2003	March 29, 2002	July 4, 2003	June 28, 2002	October 3, 2003	September 27, 2002	January 2, 2004	January 3, 2003
Net sales	\$697,504	\$267,379	\$761,951	\$566,001	\$731,370	\$674,025	\$756,947	\$688,990
Gross profit	315,257	113,555	348,497	260,460	331,147	309,495	336,840	303,207
Net income (loss)	3,182	5,166	8,452	32,274	10,367	5,695	2,140 ^(a)	(13,567)

(a) During the fourth quarter of fiscal year 2003, the Company recorded adjustments to increase interest expense by \$3.9 million (pre-tax) for the impact of fiscal year 2003 term debt pre-payments on debt issuance costs and to increase compensation expense by \$2.4 million (pre-tax) for stock plans and loan forgiveness that had been previously recorded at Holdco on behalf of certain officers of the Company. None of these adjustments had a material effect on prior quarters.

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