

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	