

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A-3

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 1-6948

SPX Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

38-1016240
(I.R.S. Employer
Identification No.)

13515 Ballantyne Corporate Place
Charlotte, NC 28277
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 704-752-4400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common	New York Stock Exchange Pacific Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2.) Yes No

State the aggregate market value of the voting stock held by non-affiliates of the registrant.

\$3,397,327,414 as of June 30, 2003

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

74,374,981 shares as of December 26, 2003

Documents incorporated by reference: Portions of the Registrant's Proxy Statement for its Annual Meeting to be held on April 23, 2003 are incorporated by reference into Part III.

EXPLANATORY NOTE

We are filing this Amendment No. 3 on Form 10-K/A in response to comments received by us from the Staff of the Securities and Exchange Commission in connection with their review of our Registration Statement on Form S-3 filed on September 30, 2003. We have not been requested to, and we are not, restating our financial results. Only certain portions of this Form 10-K/A have been amended, and the amended report does not reflect events occurring after the filing of the original Form 10-K (as previously amended), or modify or update those disclosures in any way other than as required to reflect the effects of the comments received. The filing of this Form 10-K/A shall not be deemed an admission that the original Form 10-K, when filed, knowingly included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

ITEM 1. BUSINESS

(All dollar amounts are in millions, except per share data)

FORWARD-LOOKING INFORMATION

Some of the statements in this document and any documents incorporated by reference constitute “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our businesses or our industries’ actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by any forward-looking statements. Such statements include, in particular, statements about our plans, strategies, prospects, changes and trends in our business and the markets in which we operate under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “could,” “would,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “potential” or “continue” or the negative of those terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially because of market conditions in our industries or other factors. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed in this document under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Factors That May Affect Future Results” and any documents incorporated by reference that describe risks and factors that could cause results to differ materially from those projected in these forward-looking statements.

We caution you that these risk factors may not be exhaustive. We operate in a continually changing business environment and frequently enter into new businesses and product lines. We cannot predict these new risk factors, and we cannot assess the impact, if any, of these new risk factors on our businesses or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements. Accordingly, you should not rely on forward-looking statements as a prediction of actual results. In addition, our estimates of future operating results are based on our current complement of businesses, which is constantly subject to change as we implement our “fix, sell or grow” strategy.

BUSINESS

We are a global multi-industry company that is focused on profitably growing a number of platform businesses that have scale and growth potential. We were incorporated in Muskegon, Michigan in 1912 as the Piston Ring Company and adopted our current name in 1988. Since 1968, we have been incorporated under the laws of Delaware. We operate in over 20 countries and have approximately 24,200 employees worldwide. Our strategy is to create market advantages through technology, service and product leadership, by expanding our market focus to offer full customer solutions and by building critical mass through strategic “bolt-on” acquisitions.

Our business strategy is focused on an integrated leadership process that aligns performance measurement, decision support, compensation and communications. This process includes:

- a demanding set of leadership standards to drive achievement of results with integrity;
- expanding our technological leadership and service offerings with a market focus on providing complete customer solutions;
- growing through internal development and acquisitions;
- globalization;
- continuously reviewing our businesses to determine whether a business should be fixed, grown or sold when more value can be created with another company;
- right-sizing our businesses to market and economic conditions to protect against economic downturns and take advantage of strong economic cycles; and
- focusing on continuous improvements to drive results.

As part of our business strategy, we regularly review and negotiate potential acquisitions and divestitures in the ordinary course of business, some of which are or may be material. As part of our business strategy, we regularly review and negotiate potential acquisitions and divestitures in the ordinary course of business, some of which are or may be material, and have completed numerous acquisitions and divestitures over the last several years. On October 6, 1998, we acquired General Signal Corporation, or GSX, for approximately \$2,357.5. GSX manufactured products including power transformers, mixers, valves, laboratory equipment, fare collection, and vending equipment, and auto components. On May 24, 2001 we completed the acquisition of United Dominion Industries, or UDI, for approximately \$1,951.0. UDI, which had sales of \$2,366.2 for the twelve months ended December 31, 2000, manufactured products including: electrical test and measurement solutions; cable and pipe locating devices; laboratory testing chambers; industrial ovens; electrodynamic shakers; air filtration and dehydration equipment; material handling devices; electric resistance heaters; soil, asphalt and landfill compactors; specialty farm machinery; pumps; valves; cooling towers; boilers; leak detection equipment; and aerospace components. In addition, since 1998, we have acquired the following bolt-on acquisitions:

Acquisitions — 2002

In the Technical Products and Systems segment, we completed seven acquisitions with an aggregate purchase price of \$116.6, which included the issuance of common stock valued at \$2.9. In aggregate, the acquired companies had revenues of \$161.2 in the twelve months prior to the respective dates of acquisition. These acquisitions include Dukane Communications Systems and Vance International, Inc; both of which are being integrated into our security and integrated building life-safety systems unit.

In the Industrial Products and Services segment, we completed one acquisition for a purchase price of \$13.4, which included the issuance of common stock valued at \$11.5. The acquired company had revenues of \$9.6 in the twelve months prior to the date of acquisition. The acquisition was made by our power systems business.

In the Flow Technology segment, we completed four acquisitions with an aggregate purchase price of \$128.7. The acquired companies had revenues of \$315.5 in the twelve months prior to their respective dates of acquisition. These acquisitions include the acquisition of certain assets and liabilities of Daniel Valve Company and Balcke Cooling Products Group (“Balcke”). We acquired Daniel Valve for a cash purchase price of \$72.0. Daniel Valve had revenues of \$46.7 in the twelve months prior to the date of acquisition. This acquisition is being integrated into our process and fluid systems business.

We acquired Balcke from Babcock Borsig AG for a net purchase price of approximately \$44.3, which includes debt assumed. Of the purchase price, \$14.0 is held in escrow as of December 31, 2002 to be paid in 2003. Based in Oberhausen, Germany, Balcke is a leader in the design, manufacture and marketing of dry and wet cooling system products in the global power, chemical, petro chemical and process industries. Balcke had revenues of approximately \$226.0 in the twelve months prior to the date of acquisition. This business is being integrated into our cooling technologies and services business.

In the Service Solutions segment, we completed one acquisition for a purchase price of \$5.0. The acquired company had revenues of \$4.8 in the twelve months prior to the date of acquisition. This acquisition will become part of the technical information and services business.

Acquisitions — 2001

In the Technical Products and Systems segment we completed six acquisitions with an aggregate purchase price of \$402.4. In aggregate, the acquired companies had revenues of \$260.8 in the year prior to their respective dates of acquisition. These acquisitions include Kendro Laboratory Products, L.P. by Revco Technology, SPX’s life-sciences business unit and TCI International and Central Tower by Dielectric Communications, SPX’s broadcast antenna and radio frequency transmission systems business unit. The acquisition of Kendro was completed in July 2001 for \$320.0 in cash.

In the Industrial Products and Services segment, we completed three acquisitions with an aggregate purchase price of \$52.3. In aggregate, the acquired companies had revenues of \$70.1 in the year prior to their respective dates of acquisition. These acquisitions include Carfel by our specialty engineered products.

In the Flow Technology segment, we completed three acquisitions with an aggregate purchase price of \$29.3. In aggregate, the acquired companies had revenues of \$56.8 in the year prior to their respective dates of acquisition.

Acquisitions — 2000

In the Technical Products and Systems segment, we completed seven acquisitions with an aggregate purchase price of \$44.7. In aggregate, these acquisitions had revenues of \$31.9 in the year prior to the respective date of acquisition. These acquisitions included Ziton SA (Pty) Ltd. by our fire detection and building life-safety systems business.

In the Industrial Products and Services segment, we completed five acquisitions with an aggregate purchase price of \$81.2. In aggregate, these acquisitions had revenues of \$61.7 in the year prior to their respective date of acquisition. These acquisitions include the Fenner Fluid Power Division of Fenner plc by our hydraulic power units and controlled force tools business.

In the Flow Technology segment, we completed three acquisitions with an aggregate purchase price of \$37.7. In aggregate, these acquisitions had revenues of \$33.6 in the year prior to their respective date of acquisition. These acquisitions include Copes-Vulcan by our process and fluid handling equipment business.

In the Service Solutions segment, we completed three acquisitions with an aggregate purchase price of \$12.2. In aggregate, these acquisitions had revenues of \$9.0 in the year prior to their respective date of acquisition.

Acquisitions — 1999

During 1999, we acquired businesses for an aggregate purchase price of \$96.4. The most significant of these acquisitions was the purchase of North American Transformer for \$86.0, which was made by our power systems business in the Industrial Products and Services segment. North American Transformer had revenues of \$76.6 in the year prior to its acquisition.

Acquisitions — 1998

During 1998, we made acquisitions for a cash purchase price of \$10.9.

Discontinued Operations

In the first quarter of 2003, as part of our ongoing strategic review process, we evaluated several alternatives for our Inrange Technologies Corporation subsidiary, part of our Technical Products and Systems segment, and concluded that it was a better strategic fit with another company. On May 5, 2003, the sale of Inrange to CNT closed and our portion of the cash proceeds was \$148.5, after a \$24.5 settlement of an inter-company note payable by us to Inrange. The loss on the sale of Inrange, net of tax, was \$18.9.

We have accounted for Inrange as a discontinued operation, in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment and Disposal of Long-lived Assets." The results of Inrange for all periods presented are included in the consolidated financial statements as discontinued operations. Included in the results of discontinued operations are the \$98.0 (\$57.6 after-tax) gain recorded for the September 2000 initial public offering of Inrange and the \$128.2 net cash proceeds that were received from the offering. See Note 7 for more information on the initial public offering.

SEGMENTS

Technical Products and Systems

The Technical Products and Systems segment had revenues of \$1,113.9 for the twelve months ended December 31, 2002. This segment focuses on solving customer problems with complete technology-based systems and services. Our emphasis is on growth through investment in new technology, new product introductions, alliances and acquisitions. This segment includes operating units that design, manufacture and market:

- laboratory and life science products;
- security and integrated building life-safety systems;
- broadcast and communication systems and services; and
- electrical test and measurement solutions.

Laboratory and life science products ("Life science solutions") — Our laboratory and life science products business includes Kendro, Lunaire and Lindberg. These units design and manufacture a wide range of lab application products including centrifuges, incubators, freezers, refrigerators, heat treat ovens and repository products and services. This business is well positioned to participate in the changing life science and laboratory applications markets, which continue to move through significant change with the aging global population, the need to maintain or reduce health care costs and scientific breakthroughs including human genome technology. The strategy of this platform is to provide end to end solutions in sample preparation, processing and storage as well as providing repository and aftermarket services. Kendro, the largest unit in the laboratory and life-science solutions platform, generates approximately 45% of its revenues from markets outside the United States and is positioned to provide a wide range of sample preparation, processing, storage and lab application products and services. Brand names include Revco, Harris, Puffer Hubbard, Queue, Jewett, Heraeus, Carr, Lunaire, Tenney, Blue M and Sorval. Competitors include Beckman Coulter, Eppendorf and NuAir.

Security and integrated building life-safety systems (“Security and building systems”) — Our security and building systems businesses provide a wide range of technology for the security, access and control for non-residential facility construction, corporate and personal security, business investigations and intelligence services. Edwards Systems Technology, or EST, a provider of fire detection and building life-safety systems, primarily participates in the non-residential facility construction industry. The strategy of EST is to provide a broad array of integrated products and technology to non-residential facilities including access control, monitoring, fire detection, energy management and communication systems. Consistent with this strategy, EST acquired IDenticard Systems, Inc. which provides card access systems to the markets that EST serves. The acquired company had revenues of approximately \$32.7 in the twelve months prior to the date of acquisition. The technology for EST fire detection products is driven by its worldwide license for occluded optical technology, the demand for its integrated fire and security systems and the demand generated by updated building codes in developing countries. EST’s systems take advantage of mandated fire protection standards, and the unit has launched new products to integrate additional building control systems and bring security and access control up to fire system standards. Edwards’ new products eliminate the need for separate installations for fire protection, access control and closed circuit TV systems. EST’s main competitors include Simplex, Pittway and Cerberus. Our Security and Investigations, or S&I, business provides corporate, criminal and civil security services, business intelligence, due diligence inquiries and security audits. In October 2002, we acquired Vance International, Inc. of Oakton, Virginia, a leading provider of executive protection, uniformed security and asset protection services. S&I’s main competitors include Kroll, Pinkerton, CRG and Barton.

Broadcast and communication systems and services (“Communication solutions”) — Our communication solutions business, Dielectric, is a supplier of analog and digital TV and FM antennas, HF and MF antennas, transmission lines, towers and radio frequency filter systems for the TV market, and cable dehydrator systems for communications infrastructure. Its strategy is to provide turnkey systems and services to the markets we serve. Consistent with this strategy, Dielectric acquired Flash Technology in 2003, a leading provider of lighting products for towers, and Brookstone Telecom, a field tower construction and service business. The acquired companies had revenues of approximately \$66.3 in the twelve months prior to their respective dates of acquisition. Dielectric is a leading supplier in the United States of broadcast antenna systems, including an array of new products designed for the emerging digital transmission technology, which is commonly known as High Definition Television, or HDTV. Dielectric also is a leading supplier of antennas to FM radio stations. One of the growth drivers for this business is the emergence of HDTV in the United States. It is expected that the FCC will require commercial TV broadcasters to transmit digital signals, which are required by HDTV, by the end of 2003. Since the usage of digital TV in the United States is just beginning to emerge, TV broadcasters are required to continue to transmit analog signals simultaneously with digital signals. Key competitors include ERI, Myat and Andrew.

Electrical test and measurement solutions (“Test and measurement”) — The test and measurement business includes Radiodetection, Ling Dynamic Systems, or LDS, and GFI Genfare. Radiodetection manufactures and sells portable cable and pipe locators, line management systems for locating and identifying metallic sheathed fiber optic cable, horizontal boring guidance systems and inspection cameras. This unit serves a wide customer base, including utility and construction companies, municipalities, and telecommunication companies. The unit’s revenues generally follow the industry cycles of the markets it serves. LDS engineers and sells equipment and chambers for vibration and acoustic data machines, analysis and testing. LDS predominately serves the transportation and electronics end market. Competitors include IMV and Unholtz Dickie. GFI Genfare manufactures and sells automated fare collection systems for bus and rail transit systems including, the Odyssey fare box, as well as for postal vending. While GFI Genfare actively participates in the bus market, it is a relatively small player in the rail business in which Cubic Corporation is the market leader.

Industrial Products and Services

The Industrial Products and Services segment had revenues of \$1,603.2 for the twelve month period ended December 31, 2002. The strategy of this segment is to provide “Productivity Solutions for Industry.” This segment emphasizes introducing new related services and products, as well as focusing on the replacement parts and service elements of the segment. This segment includes operating units that design, manufacture, and market:

- power systems;
- compaction equipment; and
- specialty engineered products.

Power systems — Waukesha Electric Systems provides medium power transformers, modular substations, and after-market products and services to the domestic power transmission market. Our strategy is to expand our engineering and service offerings. The acquisition of High Voltage Supply in October 2000, Power Systems Development in the fourth quarter of 2001 and Roberts Transformer in the first quarter of 2002 has expanded the replacement parts, substation maintenance, and turnkey substation offerings of this business. These products and services are sold under the Waukesha Electric Systems, High Voltage Supply, and Power Systems Development brand names to electrical utilities and heavy industries such as paper, steel, mining, chemical and petrochemical. Key transformer competitors include Kuhlman, ABB and GE-Prolec.

Compaction equipment — Based in Boppard, Germany, BOMAG's strategy is to focus on technological leadership and provide solutions to customers by lowering total cost of ownership, including maintenance costs. BOMAG provides compactors, stabilizers, tampers and rollers to the infrastructure and road construction markets. BOMAG continues to grow global market share due to its strong technology, its reputation for exceptional quality and service and its broad product offerings. BOMAG's competitors include Caterpillar, Ingersoll-Rand and Dynapac for heavy compaction equipment, and Wacker and Multiquip for light compaction products.

Specialty engineered products — Our specialty engineered products businesses provide engineered components and subsystems, material handling equipment and systems and heat and ventilation products.

Engineered components and subsystems — Our engineered components and subsystems businesses include Contech, a provider of high quality, precision aluminum and magnesium die-cast parts for automotive steering and suspension systems, Filtran, a supplier of automatic transmission filters and kits, Fenn, a supplier of precision machined components for the aerospace industry and our compact hydraulic power units and controlled force tools business. The Contech and Filtran units primarily participate in the car and light truck vehicle component industry, although Filtran also provides filters for certain industrial applications. Filtran competes primarily with Filtertek in its transmission filters line, and competes with a wide array of other suppliers in its aftermarket kits and components line, most notably Transtec and Borg Warner. Contech primarily competes with Intermet, J.L. French, and Gibbs. Our compact hydraulic power units and controlled force tools business mainly competes with Enerpac in its controlled force tools line, and with Monarch and Haldex Barnes on compact hydraulic power units. Fenn's main competitors in the aerospace market are numerous small manufacturers that specialize in machined parts for the defense industry.

Material handling equipment and systems — Our material handling equipment and systems businesses include Dock Products, a manufacturer of a broad range of material handling and other equipment for loading dock applications, and Stock Equipment, a manufacturer of coal conveyor and handling systems. The market for Dock Products is primarily driven by construction of warehouse and distribution centers, manufacturing facilities, and large footprint retail stores and the aftermarket for parts and services business. The unit manufactures dock levelers and trailer restraints, and markets them under the Serco and Kelley brand names. It also produces dock seals and shelters under the Kelley Tufseal brand, and specialty engineered dock doors under the TKO Door label. Principal competitors for Dock Products include Rite-Hite, McGuire, Overhead Door, and Poweramp.

Heat and ventilation products — Marley Engineered Products produces heating and ventilation products including: baseboard, wall unit, and portable heaters; commercial cabinet and infrared heaters; thermostats and controls; air curtains; and circulating fans. Customer buying habits are largely driven from seasonal weather patterns for the respective heating and ventilation products. Marley Engineered Products markets its products under the Berko, Qmark, Farenheat, Aztec, Patton, and Leading Edge brand names. Principal competitors include TPI, Quellet and Dimplex for heating products, and Lenexa, TPI and Air Master for ventilation products. Marley Engineered Products also manufactures and distributes a limited line of builder products such as bath fans. Its principal competitor in this line is Braun NuTone.

Flow Technology

The Flow Technology segment had revenues of \$1,385.7 for the twelve month period ended December 31, 2002. This segment designs, manufactures, and markets solutions and products that are used to process or transport fluids and in heat transfer applications. Our flow technology businesses focus on innovative, highly engineered new product introductions and expansion from products to systems and services to create total customer solutions. This segment includes operating units that engineer, manufacture and market the following:

- cooling technologies and services; and
- fluid systems.

Cooling technologies and services — Marley Cooling Technologies, or Marley, provides a diversified product and service offering of cooling towers for power generation, refrigeration, HVAC and industrial uses. Marley is engaged in an aggressive restructuring plan focused on the following five actions: (1) rationalizing global manufacturing capacity, (2) discontinuing or disposing of non-performing product lines and businesses, (3) progressive new product introductions, including the factory assembled Modulus™ tower and the Primus™ tower, which both reduce lead times and unit costs, (4) productivity improvements in operational and administrative functions and (5) expanding its dry cooling manufacturing capacity in China. In the third quarter of 2002, Marley completed the acquisition of certain assets and subsidiaries of the Balcke Cooling Products Group, or Balcke, from Babcock Borsig AG for a net purchase price of approximately \$44.3, which includes debt assumed. Based in Oberhausen, Germany, Balcke designs, manufactures, and markets dry and wet cooling system products in the global power, chemical, petro chemical and process industries. Balcke had revenues of approximately \$226.0 in the twelve months prior to the date of acquisition and is being integrated with Marley. Competitors include Baltimore Aircoil, Evapco, GEA, and Hamon.

Fluid systems — Our fluid systems businesses consist of process and fluid handling equipment and systems including valves, backflow prevention devices, mixers, agitators, pumps, metering systems, compressed air, dehydration products, boilers and hydronic products.

Process and fluid handling equipment — We are a producer of industrial valves for gases, liquids and slurries. We provide products primarily to water supply and wastewater treatment plants, pulp and paper manufacturing and chemical processing industries under the DeZurik, Raven, FEBCO, K-Flow, Mueller Steam, and Copes-Vulcan brand names. The acquisition of Daniel Valve in the second quarter of 2002 added complementary products and expanded our presence in the petroleum market. We compete with Fisher, Mueller, Haywood and others in this fragmented market. Under the Lightnin, Bran & Luebbe and Waukesha Cherry Burrell brand names, we manufacture and sell industrial fluid mixers, agitators, handling equipment, pumps, and metering systems, which we sell to the water, waste water treatment, chemical processing, minerals processing and sanitary industries. These units compete with Chemineer, EKATO, Milton Roy and Lewa for mixers, agitators and metering systems and with Fristam, Sudmo, Tuchenhagen and Tri-Clover for sanitary products.

Our air treatment unit manufactures filtration and dehydration products and provides services for compressed air and process gas systems. We primarily participate in the petrochemical, power generation, electronics, and light manufacturing industries as well as after-market parts and services to these industries. Our products have short lead times and therefore the revenues of this business closely follow the markets in which they participate. This unit competes with Donaldson, Domnick Hunter, American Air, PECO and NAFCO.

In February 2003, as part of our plan to form a strategic platform in compressed air dehydration and filter products and services, we purchased certain assets and subsidiaries of Hankison International from Hansen, Inc. Hankison International is a manufacturer of compressed air dehydration and filtration products. The acquired company had revenues of approximately \$64.2 for the twelve months prior to the date of acquisition.

Boilers and hydronic products — Weil-McLain, a provider of residential and commercial hydronics products, offers a complete line of gas and oil fired cast iron boilers for space heating in residential and commercial applications and ancillary equipment, which we believe, has strong brand name recognition.

Service Solutions

The Service Solutions segment had revenues of \$719.5 for the twelve month period ended December 31, 2002. The strategy of this segment is to focus on the design, manufacture and marketing of a wide range of specialty service tools, hand-held diagnostic systems and service equipment, inspection gauging systems, and technical and training information, primarily for the franchised vehicle dealer industry in North America and Europe. Major customers are franchised dealers of motor vehicle manufacturers, aftermarket vehicle service facilities, and independent distributors.

The Service Solutions segment consists of three primary units: diagnostic systems and service equipment, specialty tools and technical information and services. The diagnostic systems and service equipment unit, the largest portion of the Service Solutions segment, designs, manufactures and markets hand-held diagnostic systems and service equipment for OEMs, national accounts and independent repair facilities. Diagnostic systems are sold under the OTC, Tecnotest and Robinair brand names. The products compete with brands such as Snap-on and ESP. We intend to grow this business by developing new service capabilities and strengthening alliances in hand-held diagnostics. We are the primary global provider of specialty tools for motor vehicle manufacturers' dealership networks to General Motors, Ford and Daimler Chrysler and the primary domestic provider to Toyota, BMW and Nissan. Sales of specialty service tools essential to dealerships tend to vary with changes in vehicle systems design and the number of dealerships, and are not directly correlated to the volume of vehicles produced by the motor vehicle manufacturers. The technical information and services unit provides customers with integrated service, technical and training information for vehicle OEMs, such as Ford and BMW. This unit also administers dealer equipment programs for OEMs, including General Motors, Daimler Chrysler, Nissan Motor and Hyundai.

JOINT VENTURES

We have two primary joint ventures, EGS Electrical Group LLC and Assa Abloy Group, LLC.

EGS Electrical Group, LLC

The EGS Electrical Group is a joint venture with Emerson Electric Co. in which we hold a 44.5% interest. EGS operates primarily in the United States, Canada and Mexico and is engaged in the manufacture of electrical fittings, hazardous location lighting, and power conditioning products. We account for our investment under the equity method of accounting, on a three-month lag basis. We typically receive the majority of our share of this joint venture's earnings in cash dividends.

Assa Abloy Door Group, LLC

The Assa Abloy Door Group is a joint venture with Assa Abloy in which we hold a 20% interest. The joint venture is engaged in the manufacture, sale and distribution of door products. At the formation of the joint venture on May 31, 2001 we received \$96.0 in cash. We account for our investment under the equity method of accounting and we typically receive the majority of our share of this joint venture's earnings in cash dividends.

INTERNATIONAL OPERATIONS

We are a multinational corporation with operations in over 20 countries. Our international operations are subject to the risk of possible currency devaluation and blockage, nationalization or restrictive legislation regulating foreign investments and other risks attendant to the countries in which they are located.

Our total export sales from the United States to both affiliated and unaffiliated customers were as follows:

	2002	2001	2000
Export sales:			
To unaffiliated customers	\$305.2	\$317.9	\$209.4
To affiliated customers	79.1	59.0	61.0
Total	\$384.3	\$376.9	\$269.4

See Note 5 to our Consolidated Financial Statements for more information on our business segments and geographic areas.

RESEARCH AND DEVELOPMENT

We are actively engaged in research and development programs designed to improve existing products and manufacturing methods and to develop new products. These efforts encompass all of our products with divisional engineering teams coordinating their resources. We place particular emphasis on the development of new products that are compatible with, and build upon, our manufacturing and marketing capabilities.

We spent approximately \$95.5 on research activities relating to the development and improvement of our products in 2002, \$81.3 in 2001 and \$51.9 in 2000.

PATENTS/TRADEMARKS

We own over 900 domestic patents, including approximately 70 domestic patents that were issued in 2002, and over 600 foreign patents covering a variety of our products and manufacturing methods. We also own a number of registered trademarks. Although in the aggregate our patents and trademarks are of considerable importance in the operation of our businesses, we do not consider any single patent or trademark to be of such material importance that its absence would adversely affect our ability to conduct business as presently constituted to a significant extent. We are both a licensor and licensee of patents. For more information, please refer to "Factors That May Affect Future Results" in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

In October 2002, one of our subsidiaries filed a patent infringement lawsuit against Microsoft Corporation, in the United States District Court for the Eastern District of Virginia, Richmond Division District. We believe that we should ultimately prevail on this pending patent infringement claim. Trial is presently set for July 28, 2003. The amount of the damages cannot be fully quantified until the legal discovery process proceeds further and no assurances can be made as to the final timing and outcome of any litigation. Management formed the conclusion that we will ultimately prevail on our patent infringement claim against Microsoft based upon management's knowledge and belief with respect to the facts of the case. Management includes internal patent legal counsel and our general counsel who we believe are qualified to draw this legal conclusion.

RAW MATERIALS

We manufacture many of the components used in our products. We also purchase a variety of basic materials and component parts. We believe that we generally will be able to obtain adequate supplies of major items or reasonable substitutes at reasonable costs. Our strategy includes increasing the amount of components and sub assemblies that we outsource to other companies.

COMPETITION

Although our businesses are in highly competitive markets, our competitive position cannot be determined accurately in the aggregate or by segment since our competitors do not offer all of the same product lines or serve all of the same markets. In addition, specific reliable comparative figures are not available for many of our competitors. In most product groups, competition comes from numerous concerns, both large and small. The principal methods of competition are price, service, product performance and technical innovation. These methods vary with the type of product sold. We believe that we can compete effectively on the basis of each of these factors as they apply to the various products offered. See "Segments" above for a discussion of competitors by business.

ENVIRONMENTAL MATTERS

See “Litigation and Environmental Matters” and “Factors That May Affect Future Results” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 15, Commitments and Contingent Liabilities, of our Consolidated Financial Statements for information regarding environmental matters.

EMPLOYMENT

At December 31, 2002, we had approximately 23,400 employees. Approximately 4,000 employees are represented by seventeen domestic, collective bargaining units and various foreign collective labor arrangements. We generally have experienced satisfactory labor relations at our various locations, however on July 8, 2002, a labor contract involving hourly employees at our manufacturer of aerospace components expired without resolution, resulting in an employee strike. The labor contract dispute affected 117 employees. In 2002, we recorded \$4.2 of incremental security and consulting costs associated with the labor contract dispute. On March 8, 2003, the union employees voted to ratify a new contract, which brings closure to this labor dispute.

OTHER MATTERS

No customer or group of customers under common control accounted for more than 10% of our consolidated sales.

Our businesses maintain sufficient levels of working capital to support customer requirements, particularly inventory. Our businesses’ sales and payment terms are generally similar to our competitors.

Many of our businesses closely follow changes in the industries and end-markets they serve. In addition, certain businesses have seasonal fluctuations. Our Technical Products and Systems and Flow Technology segments tend to be strong during the third and fourth quarters due to the purchasing patterns of customers of these businesses. The Industrial Products and Services segment is usually strongest in the second quarter primarily due to the seasonal demand for products of the compaction equipment division reported in this segment. The Service Solutions segment revenues primarily follow program launch timing for diagnostic systems and service equipment, the largest unit in this segment. See “Business” for a discussion of the industries that influence our businesses.

Our website address is www.spx.com. Information on our website is not incorporated by reference herein. Copies of our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to those reports, are available on our website as soon as reasonably practicable after we file the reports with the Securities and Exchange Commission.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (“MD&A”)

The following should be read in conjunction with our Consolidated Financial Statements and the related Notes. All dollar and share amounts are in millions, except per share and per LYON data.

Forward Looking Information

Some of the statements in this document and any documents incorporated by reference constitute “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our businesses or our industries’ actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by any forward-looking statements. Such statements include, in particular, statements about our plans, strategies, prospects, changes and trends in our business and the markets in which we operate under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “could,” “would,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “potential” or “continue” or the negative of those terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially because of market conditions in our industries or other factors. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed in this document under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Factors That May Affect Future Results” and any documents incorporated by reference that describe risks and factors that could cause results to differ materially from those projected in these forward-looking statements.

We caution you that these risk factors may not be exhaustive. We operate in a continually changing business environment and frequently enter into new businesses and product lines. We cannot predict these new risk factors, and we cannot assess the impact, if any, of these new risk factors on our businesses or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements. Accordingly, you should not rely on forward-looking statements as a prediction of actual results. In addition, our estimates of future operating results are based on our current complement of businesses, which is constantly subject to change as we implement our “fix, sell or grow” strategy.

Overview

We are a global multi-industry company that is focused on profitably growing a number of platform businesses that have scale and growth potential. We are a multinational corporation with operations in over 20 countries and approximately 23,400 employees worldwide. Our strategy is to create market advantages through technology, service and product leadership by expanding our market focus to offer full customer solutions and by building critical mass through strategic acquisitions. Our business strategy is focused on an integrated leadership process that aligns performance measurement, decision support, compensation and communication.

We are a global provider of technical products and systems, industrial products and services, flow technology and service solutions. Our products are used by a broad array of customers in various industries, including chemical processing, pharmaceuticals, infrastructure, mineral processing, petrochemical, telecommunications, transportation and power generation.

Below is a summary of certain highlights included in the accompanying Consolidated Financial Statements.

Acquisitions

All business acquisitions have been accounted for using the purchase method of accounting and, accordingly, the statements of consolidated income include the results of each acquired business since the date of acquisition. The assets acquired and liabilities assumed are recorded at estimates of fair values as determined by management based on information available.. Management considers a number of factors, including third-party valuations or appraisals, when making these determinations. We finalize the allocation of purchase price to the fair value of the assets acquired and liabilities assumed when we obtain information sufficient to complete the allocation, but in any case, within one year after acquisition.

As a result of acquisitions, we incur integration expenses for the incremental costs to exit and consolidate activities at the acquired companies’ locations, to involuntarily terminate employees, and other costs to integrate operating locations and other activities of the acquired companies with us. United States generally accepted accounting principles, or GAAP, requires us to reflect these acquisition integration expenses, to the extent that they are not associated with the generation of future revenues and have no future economic benefit, as assumed liabilities in the allocation of the purchase price to the net assets acquired. On the other hand, these same principles require us to record acquisition integration expenses associated with integrating our existing operations into acquired company locations as period expenses. These expenses are recorded as “Special and Other Charges” and are discussed later in this section.

Acquisition integration liabilities are based on our integration plans, which generally focus on three key areas of integration: (1) manufacturing process and supply chain rationalization, including plant closings; (2) elimination of redundant administrative overhead and support activities; and (3) restructuring and repositioning sales and marketing organizations to eliminate redundancies. We expect that the termination of employees and consolidation of facilities will be substantially complete within one year of the date of acquisition.

Discontinued Operations

In the first quarter of 2003, as part of our ongoing strategic review process, we evaluated several alternatives for our Inrange Technologies Corporation (“Inrange”) subsidiary, part of our Technical Products and Systems segment, and concluded that it was a better strategic fit with another company. Therefore, on May 5, 2003, we completed the sale of our ownership of the outstanding shares of Inrange to Computer Network Technology Corporation (“CNT”). Our portion of the cash proceeds was \$148.5, after a \$24.5 settlement of an inter-company note payable by us to Inrange. See Note 4 of our Consolidated Financial Statements for more information on our sale of Inrange to CNT.

We have accounted for Inrange as a discontinued operation, in accordance with the provisions of SFAS No. 144, “Accounting for the Impairment and Disposal of Long-lived Assets.” The results of Inrange for all periods presented are included in the Consolidated Financial Statements as discontinued operations. In addition, unless otherwise indicated, amounts provided in this MD&A pertain to continuing operations only. Included in the results of discontinued operations are the \$98.0 (\$57.6 after-tax) gain recorded for the September 2000 initial public offering of Inrange. See Note 7 of our Consolidated Financial Statements for more information on the initial public offering.

Revenue Recognition

We recognize revenues from product sales upon shipment to the customer, except for revenues from service contracts and long-term maintenance arrangements, which are deferred and recognized on a straight line basis over the agreement period, and revenues from certain construction and installation contracts, which are recognized using the percentage-of-completion method of accounting. Under the percentage-of-completion method, revenue is recognized based on effort or costs incurred to date as compared to total estimated effort or cost of the total contract. Certain sales to distributors made with return rights and/or price protection features are recognized upon shipment to the customer. Expected returns under these contracts are approximately 0.1% of total revenues, can be reasonably estimated and are accrued for at the time of sale, and either a restocking charge is assessed on a return (up to 25% of sales price), or the customer must issue a replacement order before the return is authorized. Amounts billed for shipping and handling are included in revenue. In addition, costs incurred for shipping and handling are recorded in cost of products sold and not netted against amounts billed.

Special and Other Charges

As part of our Value Improvement Process[®], we right-size and consolidate operations to drive results. From time to time we alter our business model to better serve customer demand, fix or discontinue lower-margin product lines and rationalize and consolidate manufacturing capacity to maximize operating results. As an outcome of this process, we may incur special and other charges primarily associated with restructuring initiatives to consolidate manufacturing and sales facilities, rationalize certain product lines and asset impairments.

The components of the charges are computed based on actual cash payouts, our estimate of the realizable value of the affected tangible and intangible assets and estimated exit costs including severance and other employee benefits based on existing severance policies and local laws. The purpose of restructuring initiatives is to improve profitability, streamline operations, reduce costs, and improve efficiency.

We estimate that we will achieve operating cost reductions in 2003 and beyond through reduced employee and manufacturing costs and other facility overhead. The estimated period in which we realize savings on our restructuring actions is on average approximately twelve months from the date of completion. For restructuring actions announced in 2002, we estimate that cost savings in the twelve months following the date of completion will be approximately \$63.0 per year. Estimated costs savings will be realized in cost of products sold and selling, general, and administrative expenses.

Emerging Issues Task Force No. 94-3 “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)” provides specific requirements as to the appropriate recognition of costs associated with employee termination benefits and other exit costs. Employee termination costs are recognized when management, having the appropriate level of authority to involuntarily terminate employees, approves and commits us to the plan of termination, establishes the benefits that current employees will receive upon termination, and prior to the date of the financial statements, the benefit arrangement is communicated to employees. The communication of the benefit arrangement includes sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are terminated. All restructuring actions taken by the company are expected to be completed within one year from the time of announcement.

Other exit costs are costs resulting from an exit plan that are not associated with or that do not benefit activities that will be continued. We record those costs when they are not associated with or are not incurred to generate revenues after the exit plan's commitment date, and they meet either of the following criteria: (1) the costs are incremental to other costs that we incur in the conduct of our activities prior to the commitment date and will be incurred as a direct result of the exit plan; or (2) the costs represent amounts that we will incur under a contractual obligation that existed prior to the commitment date and will either continue after the exit plan is completed with no economic benefit to us or be a penalty incurred by us to cancel the contractual obligation.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing or other exit or disposal activities. SFAS No. 146 replaces EITF 94-3 and is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. We frequently engage in strategic restructuring and integration initiatives that include exit and disposal activities. Accordingly, we expect that SFAS No. 146 could impact the way in which we account for certain restructuring costs. In particular, SFAS No. 146 may impact the timing and amount of recorded restructuring costs as certain costs previously accrued at the date a restructuring action is initiated must now be expensed as incurred.

We continually review whether events and circumstances subsequent to the acquisition of any long-lived assets, goodwill and intangible assets have occurred that indicate the remaining estimated useful lives of those assets may warrant revision or that the remaining balance of those assets may not be recoverable.

If events and circumstances indicate that the long-lived assets, including intangible assets subject to amortization, should be reviewed for possible impairment, we use projections to assess whether future cash flows or operating income (before amortization) on a non-discounted basis related to the tested assets are likely to exceed the recorded carrying amount of those assets to determine if a write-down is appropriate. If impairment is identified, a loss is recorded to the extent that the carrying value of the impaired assets exceeds their fair values as determined by applying the provisions of SFAS No. 144 "Accounting for the Impairment and Disposal of Long-Lived Assets," or SFAS No. 144, in 2002. See "— New Accounting Pronouncements" in this section for further discussion.

These charges can vary significantly from period to period and as a result, we may experience fluctuations in our reported net income and earnings per share due to the timing of restructuring actions. See Note 6 to our Consolidated Financial Statements for further discussion on our special and other charges.

Litigation and Environmental Matters

Numerous claims, complaints and proceedings arising in the ordinary course of business, including but not limited to those relating to environmental matters, competitive issues, contract issues, intellectual property matters, personal injury and product liability claims, and workers' compensation have been filed or are pending against us and certain of our subsidiaries. Additionally, we may become subject to significant claims of which we are unaware currently or the claims that we are aware of may result in our incurring a significantly greater liability than we anticipate. This may also be true in connection with past or future acquisitions. While we maintain property, cargo, auto, product, general liability, and directors' and officers' liability insurance and have acquired rights under similar policies in connection with our acquisitions which we believe cover a portion of these claims, this insurance may be insufficient or unavailable to protect us against potential loss exposures. In addition, we have been increasing our self-insurance limits over the past several years. While we believe we are entitled to indemnification from third parties for some of these claims, these rights may be insufficient or unavailable to protect us against potential loss exposures.

In our opinion, these matters are either without merit or are of a kind that should not have a material adverse effect individually or in the aggregate on our financial position, results of operations, or cash flows. However, we cannot assure you that recoveries from insurance or indemnification claims will be available or that any of these claims or other matters will not have a material adverse effect on our financial position, results of operations or cash flows.

It is our policy to comply fully with applicable environmental requirements. We are currently involved in various investigatory and remedial actions at our facilities and at third-party waste disposal sites. An estimate of loss, including expenses, from legal actions or claims is accrued when events exist that make the loss or expenses probable and we can reasonably estimate them. Our environmental accruals cover anticipated costs, including investigation, remediation, and operation and maintenance of clean-up sites. Our estimates are primarily based on investigations and remediation plans established by independent consultants, potentially responsible third parties, and regulatory agencies at third party offsite disposal locations. Accordingly, our estimates may change based on future developments including new or changes in environmental laws or policies, a difference in costs required to complete anticipated actions from estimates provided, future findings of investigation or remediation actions, or alteration to the expected remediation plans. It is our policy to realize a change in estimates once it becomes probable and can be reasonably estimated. In determining our accruals, we do not discount environmental or other legal accruals and do not reduce them by anticipated insurance recoveries. We do take into account third-party indemnification from financially viable parties in determining our accruals where there

is no dispute regarding the right to indemnification. While we believe that our accruals related to environmental, litigation, and claims are sufficient and that these items and our rights to available insurance and indemnity will be resolved without material adverse effect on our financial position, results of operations and liquidity, individually or in the aggregate, we cannot assure you that our accruals and right to indemnity and insurance will be sufficient or that these items will be resolved without a material adverse effect on our financial position, results of operations and liquidity, individually or in the aggregate.

Use of Estimates

The preparation of our Consolidated Financial Statements in conformity with GAAP requires us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of our Consolidated Financial Statements, and the reported amounts of revenues and expenses during the reporting period. We evaluate these estimates and judgments on an ongoing basis and base our estimates on experience, current and expected future conditions, third party evaluations and various other assumptions that we believe are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results may differ from the estimates and assumptions used in our Consolidated Financial Statements and related Notes.

Listed below are the significant estimates and assumptions used in the preparation of our financial statements. Certain other estimates and assumptions are further explained in our Notes to Consolidated Financial Statements. The following should be read in conjunction with our Consolidated Financial Statements and the related Notes.

Allowance for Doubtful Accounts—We estimate losses for uncollectable accounts based on the aging of the accounts receivable and the evaluation of the likelihood of success in collecting the receivable.

Impairment of Long-Lived Assets and Intangibles Subject to Amortization—We continually review whether events and circumstances subsequent to the acquisition of any long-lived assets, or intangible assets subject to amortization, have occurred that indicate the remaining estimated useful lives of those assets may warrant revision or that the remaining balance of those assets may not be recoverable. If events and circumstances indicate that the long-lived assets should be reviewed for possible impairment, we use projections to assess whether future cash flows on a non-discounted basis related to the tested assets are likely to exceed the recorded carrying amount of those assets, to determine if a write-down is appropriate. Should impairment be identified, a loss would be reported to the extent that the carrying value of the impaired assets exceeds their fair values as determined by valuation techniques appropriate in the circumstances that could include the use of similar projections on a discounted basis.

In determining the estimated useful lives of definite lived intangibles, we consider the nature, competitive position, life cycle position, and historical and expected future operating cash flows of each acquired asset, as well as our commitment to support these assets through continued investment and legal infringement protection.

Goodwill and Indefinite Lived Intangible Assets—Goodwill and indefinite lived intangible assets are tested for impairment at least annually to determine whether the carrying value of goodwill and indefinite lived intangible assets exceed their implied fair value. The fair value of reporting units is based on discounted projected cash flow but we also consider factors such as market capitalization and comparable industry price multiples. We employ cash flow projections that are believed to be reasonable under current and forecasted circumstances, the results of which form the basis for making judgments about the carrying values of the reported net assets of our reporting units. Many of our businesses closely follow changes in the industries and end-markets that they serve. Accordingly, estimates and judgments that effect the future cash flow projections including principal methods of competition including volume, price, service, product performance and technical innovations are considered. Actual results may differ from these estimates under different assumptions or conditions. See Note 10 to our Consolidated Financial Statements for more information.

Accrued Liabilities—We make estimates and judgments in establishing accruals as required under GAAP, including the following:

- **Legal**—It is our policy to accrue for estimated losses from legal actions or claims, including legal expenses, when events exist that make the realization of the loss or expenses probable and they can be reasonably estimated. In 2002, we settled approximately \$26.7 of legal claims and related fees previously accrued for in connection with product disputes, patent litigation, supplier disputes and other commercial claims.
- **Environmental Remediation Costs**—Costs incurred to investigate and remediate environmental issues are expensed unless they extend the economic useful life of related assets. Liabilities are recorded and expenses are reported when it is probable that an obligation has been incurred and the amounts can be reasonably estimated. Our environmental accruals cover anticipated costs, including investigation, remediation, and operation and maintenance of clean-up sites. Our estimates are primarily based on investigations and remediation plans established by independent consultants, regulatory agencies and potentially responsible third-parties. Environmental obligations are not discounted and are not reduced by anticipated insurance recoveries. In 2002, we paid approximately \$4.5 associated with environmental remediation and received approval from the State of Connecticut for a favorable remedial action plan to address a soil contamination site, which reduced our remediation obligation by \$11.3.

- **Self-Insurance**—We are primarily self-insured for workers’ compensation, automobile, product, and general liability costs and we believe that we maintain adequate reserves to cover our retained liability. Our accrual for self-insurance liability is determined by management and is based on claims filed and an estimate of claims incurred but not yet reported. Management considers a number of factors, including third-party actuary valuations, when making these determinations. We maintain third party stop-loss insurance policies to cover all liability costs in excess of predetermined amounts.
- **Warranty**—In the normal course of business we issue product warranties for specific product lines and provide for the estimated future warranty cost in the period in which the sale is recorded. We provide for the estimate of warranty cost based on contract terms and historical warranty loss experience that is periodically adjusted for recent actual experience. Because warranty estimates are forecasts that are based on the best available information, claims costs may differ from amounts provided. Adjustments to initial obligations for warranties are made as changes in the obligations become reasonably estimable.

Financial Instruments

We use interest rate swaps to manage our exposures to fluctuating interest rate risk on our variable rate debt portfolio. We use interest rate swaps as a cash flow hedge to reduce the risk of fluctuating interest rates by fixing a known cash flow that will be expended at future dates for the payment of interest. We do not enter into financial instruments for speculative or trading purposes.

On January 1, 2001, we adopted Statement of Financial Accounting Standards (SFAS) No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended by SFAS No. 137 and SFAS No. 138. These rules require that derivative instruments be reported in the consolidated financial statements at fair value. Changes in the fair value of derivatives are to be recorded each period in earnings or other comprehensive income, depending on whether the derivative is designated and effective as part of a hedged transaction and on the type of hedge transaction. Gains or losses on derivative instruments reported in other comprehensive income must be reclassified as earnings in the period in which earnings are affected by the underlying hedged item, and the ineffective portion of all hedges must be recognized in earnings in the current period. These standards can result in additional volatility in reported earnings, other comprehensive income and accumulated other comprehensive income. See Note 14 to our Consolidated Financial Statements for further discussion of the impact of these standards.

Initially, upon adoption of the derivative accounting requirements, and prospectively, on the date a derivative contract is entered into, SFAS No. 133 requires that a qualifying derivative be designated as either (1) a hedge of a recognized asset or liability or an unrecognized firm commitment (a fair value hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (a cash flow hedge), or (3) a hedge of a net investment in a foreign operation (a net investment hedge).

We formally document our hedge relationships, including identification of the hedging instruments and the hedged items, as well as our risk management objectives and strategies for undertaking the hedge transaction. Derivatives are recorded in the balance sheets at fair value in other assets or other liabilities. We also formally assess, both at inception and quarterly thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged item.

The effective portion of the changes in the fair value of our interest rate swaps, which are designated as cash flow hedges, is recorded in accumulated other comprehensive loss, net of tax. Ineffectiveness is recorded as a component of interest expense. Changes in fair value are assessed quarterly based on dealer quotes.

Stock Based Compensation

We have a stock based compensation plan, including stock option and restricted stock awards. We account for our stock-based employee compensation under Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees,” and, accordingly, except for restricted stock awards, no stock option expense is recognized. We have adopted the disclosure only provisions of Statement of Financial Accounting Standards (“SFAS”) No. 148, “Accounting for Stock-Based Compensation — Transition and Disclosure, an amendment of FASB Statement No. 123.” Refer to revised Notes 1 and 16 of our Consolidated Financial Statements for the disclosure information required under SFAS No. 148.

Business Segment Information

We are a global multi-industry company that is focused on profitably growing our businesses that have scale and growth potential. Our strategy is to create market advantages through technology, service and product leadership, by expanding our market focus to offer full customer solutions and by building critical mass through strategic acquisitions. We aggregate certain operating segments in accordance with the criteria defined in SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information.” The primary aggregation factors considered in determining the segments were the nature of products sold, production processes and types of customers for these products. In determining our segments, we apply the threshold criteria of SFAS No. 131 to operating income or loss of each segment before considering special and other charges, including those recorded in cost of products sold. This is consistent with the way our chief operating decision maker evaluates the results of each segment. Our results of operations are reported in four segments: Technical Products and Systems, Industrial Products and Services, Flow Technology and Service Solutions.

Technical Products and Systems

The Technical Products and Systems segment focuses on solving customer problems with complete technology-based systems and services. Our emphasis is on growth through investment in new technology, new product introductions, alliances, and acquisitions. This segment includes operating units that design, manufacture and market laboratory and life science products and services, security and integrated building life-safety systems and services, broadcast and communications systems, and electrical test and measurement solutions.

Industrial Products and Services

The strategy of the Industrial Products and Services segment is to provide "Productivity Solutions for Industry." This segment emphasizes introducing new related services and products, as well as focusing on the replacement parts and service elements of the segment. This segment includes operating units that design, manufacture and market power systems, compaction equipment, engineered components and subsystems, material handling equipment and systems and heat and ventilation products.

Flow Technology

The Flow Technology segment designs, manufactures and markets solutions and products that are used to process or transport fluids and heat transfer applications. This segment includes operating units that design and manufacture cooling technology products and services, process and fluid handling equipment and boilers and hydronic products.

Service Solutions

The Service Solutions segment consists of three primary units: diagnostic systems and service equipment, specialty tools and technical information and services. The strategy of this segment is to focus on the design, manufacture and marketing of a wide range of specialty service tools, hand-held diagnostic systems and service equipment, inspection gauging systems, and technical and training information, primarily for the franchised vehicle dealer industry in North America and Europe. Major customers are franchised dealers of motor vehicle manufacturers, aftermarket vehicle service facilities, and independent distributors.

Seasonality, Competition and Trends

Many of our businesses closely follow changes in the industries and end-markets that they serve. In addition, certain businesses have seasonal fluctuations. Our Technical Products and Systems and Flow Technology segments tend to be stronger during the third and fourth quarters due to the purchasing patterns of customers at these businesses. The Industrial Products and Services segment is usually strongest in the second quarter primarily due to the seasonal demand for products of the compaction equipment division reported in this segment. The Service Solutions segment revenues primarily follow program launch timing for diagnostic systems and service equipment, the largest unit in this segment. In aggregate, our businesses generally tend to be stronger in the second half of the year, particularly in the fourth quarter. As described in the following section, we expect 2003 operating profits derived from the power generation markets to be \$40.0 to \$45.0 lower than 2002 which will predominately impact the first half of 2003. Accordingly, we expect reported net income in the second half of 2003 to be stronger than the first half on a relative basis compared with prior years.

Although our businesses operate in highly competitive markets, our competitive position cannot be determined accurately in the aggregate or by segment since our competitors do not offer all of the same product lines or serve all of the same markets. In addition, specific reliable comparative figures are not available for many of our competitors. In most product groups, competition comes from numerous concerns, both large and small. The principal methods of competition are price, service, product performance and technical innovations. These methods vary with the type of product sold. We believe we can compete effectively on the basis of each of these factors as they apply to the various products we offer. See Item 1. Business for discussion of competitors by business.

In 2002, we reported revenues of \$4,822.3 compared to \$3,853.4 in 2001. Organic revenues, which are revenues excluding acquisitions or dispositions, declined approximately 2.2% in 2002 compared to 2001. The decline in organic revenues was a result of many factors including, but not limited to, global economic conditions, particularly conditions in U.S. industrial markets, and the negative impact of volume and pricing dynamics at our power systems businesses.

We define forecasted trends as follows: 'Soften' — Future organic revenues are expected to have an unfavorable trend in 2003 compared to the prior year; 'Continue' — Future trends are expected to be similar in 2003 compared to the prior year; 'Strengthen' — Future organic revenues are expected to have a favorable trend in 2003 compared to the prior year.

Primary platforms that experienced organic revenue growth for the year are summarized below. Also summarized is the annual forecasted trend based on information available on the date of this report.

Segment	Platform	Annual Forecasted Trend	Comments
Technical Products and Systems	Security and integrated building life-safety systems	Continue	Despite continued softness in U.S. non-residential building construction, the unit is expected to continue realizing single digit organic revenue growth from continued demand for security, compliance and litigation services, as well as high-end fire detection products.
	Broadcast and communication systems and services	Continue	Supported by the High-Definition TV, or HDTV, rollout in the U.S. and the ability to provide turn-key systems to customers, this unit is expected to realize single digit organic revenue growth.
Industrial Products and Services	Compaction equipment	Continue	This unit experienced gains in market share in 2002 resulting in organic revenue growth for the year. The road construction markets are expected to remain soft and without continued market share gains, organic revenues in this business will be flat. Growth is expected in the Asian market with the opening of a new manufacturing facility near Shanghai, China in 2002. This unit is highly cyclical by quarter, with the second quarter traditionally the highest revenue period in the year.
	Engineered components and subsystems	Continue	This unit experienced low single digit organic revenue growth in 2002. The unit is expected to perform at similar levels due to continued demand for aerospace defense components and high integrity die-cast parts. The demand for car and light truck vehicles in the U.S. strongly influences the demand for filtration and die-cast products included in this unit and accordingly, the actual organic revenues for this unit.
Flow Technology	Cooling technologies and services	Soften	Low single digit organic revenue growth was experienced in 2002. Revenue performance is expected to soften in 2003 due to the impact of revenue declines in the U.S. power market offsetting the global demand for cooling technology products and services.

Primary platforms that experienced organic revenue declines for the year are summarized below. Also summarized is the annual forecasted trend based on information available on the date of this report.

Segment	Platform	Annual Forecasted Trend	Comments
Technical Products and Systems	Laboratory and life science products	Strengthen	Organic revenues were down slightly in 2002, with future organic revenue growth expected for this unit. Capital spending in the laboratory and life science markets is expected to be supplemented with new repository business as well as continued demand for bio-preparation, processing and storage equipment.
	Electrical test and measurement solutions	Continue	Demand for telecommunication line management systems is expected to remain below prior year levels. In addition, demand for automated fare collection systems is highly correlated to contract timing on large municipal contracts, which causes fluctuations from quarter to quarter.
Industrial Products and Services	Power systems	Soften	Power generation end markets continue to experience reduced demand and pricing pressures. Accordingly, our power systems unit experienced a sharp decline in revenues in the second half of 2002. This trend is expected to continue with revenues expected to decline in this business by over 30% in 2003 compared to 2002. In 2003, operating profits derived from the power generation markets are expected to decline \$40.0 to \$45.0, which includes the negative effect that the power market is expected to have at our cooling technologies platform.
Flow Technology	Fluid systems	Continue	Cyclical demand for short-cycle products in power, chemical and mineral processing and industrial markets is expected to remain soft.
Service Solutions	Specialty tools and technical information and services	Strengthen	The primary demand for products in this segment is driven from new vehicle launches, new vehicle technology, such as integrated electronics, and regulatory changes. While the outlook for domestic OEM dealer and aftermarket tools is consistent with the prior year, slightly higher organic revenues are expected due to regulatory changes and new vehicle launches in Europe.

Joint Ventures

We have two primary joint ventures EGS Electrical Group, LLC and Assa Abloy Door Group, LLC.

EGS Electrical Group, LLC

The EGS Electrical Group is a joint venture with Emerson Electric Co. in which we hold a 44.5% interest. EGS operates primarily in the United States, Canada and Mexico and is engaged in the manufacture of electrical fittings, hazardous location lighting, and power conditioning products. We account for our investment under the equity method of accounting, on a three-month lag basis. We typically receive the majority of our share of this joint venture's earnings in cash dividends.

Assa Abloy Door Group, LLC

The Assa Abloy Door Group is a joint venture with Assa Abloy in which we hold a 20% interest. The joint venture is engaged in the manufacture, sale and distribution of door products. At the formation of the joint venture on May 31, 2001 we received \$96.0 in cash. We account for our investment under the equity method of accounting and we typically receive the majority of our share of this joint venture's earnings in cash dividends. The joint venture agreement includes a put and call arrangement that allows for the sale of our 20% interest in the joint venture to Assa Abloy in June 2003 for a minimum price of \$74.0 in cash. If we put or Assa Abloy calls our 20% ownership interest, no loss will be recorded and as specified in the put and call agreement, the final settlement price for our 20% interest will be calculated based upon a pre-determined formula, which may result in a sales price greater than \$74.0. Any sales price in excess of \$74.0 would result in a corresponding gain. We intend to exercise our put right.

Results of Operations

On May 24, 2001, we completed the acquisition of United Dominion Industries Limited ("UDI"). UDI manufactured proprietary engineered and flow technology products primarily for industrial and commercial markets worldwide. UDI, which had sales of \$2,366.2 for the twelve months ended December 31, 2000, is included in our financial statements beginning May 25, 2001. Accordingly, the acquisition of UDI significantly impacts the results of operations in 2002, which include the results of UDI for the entire period, including cost reductions associated with the integration of the UDI businesses, whereas 2001 includes the results of UDI from May 25, 2001. The following table summarizes selected financial data on the results of operations for UDI for the year ended December 31, 2000:

	<u>2000</u> <u>U.S. GAAP</u>
Revenues	\$ 2,366.2
Gross margin	717.6
% of revenues	30.3%
Selling, general and administrative expense	492.0
% of revenues	20.8%

In addition to the acquisition of UDI, during 2001 we completed twelve acquisitions for an aggregate purchase price of \$484.0, net of cash acquired. In the aggregate, the acquired companies had revenues in the twelve months prior to the respective dates of acquisition of \$260.8 in the Technical Products and Systems, \$70.1 in the Industrial Products and Services and \$56.8 in the Flow Technology segments. During 2002, we completed thirteen acquisitions for an aggregate purchase price of \$263.7, net of cash acquired. In the aggregate, based on information provided by the sellers, the companies had revenues in the twelve months prior to the respective dates of acquisition of \$161.2 in the Technical Products and Systems, \$9.6 in the Industrial Products and Services, \$315.5 in the Flow Technology and \$4.8 in the Service Solutions segments. These acquisitions are not material individually or in the aggregate. For further discussion on acquisitions and divestitures, see Note 4 to our Consolidated Financial Statements.

The requirements of Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations", and the amortization provisions of SFAS No. 142, "Goodwill and Other Intangible Assets", were effective for any business combination initiated after July 1, 2001. We have not amortized goodwill and indefinite-lived intangibles for acquisitions completed after this date. With respect to goodwill and intangible assets acquired prior to July 1, 2001, we adopted the remaining provisions of SFAS No. 142 effective January 1, 2002. Upon adoption of this standard, we ceased amortization of all remaining goodwill and intangible assets deemed to have indefinite useful lives. In connection with the transition provisions of SFAS No. 142, we have recorded a change in accounting principle, which resulted in a non-cash charge to earnings of \$148.6 in the first quarter of 2002.

Consolidated Reported Results

	2002	2001	2000
Revenues	\$4,822.3	\$3,853.4	\$2,445.3
Gross margin (1)	1,565.2	1,247.9	785.6
% of revenues	32.5%	32.4%	32.1%
Selling, general and administrative expense (2)	866.3	672.3	413.7
% of revenues	18.0%	17.4%	16.9%
Goodwill and intangible amortization	7.3	61.8	35.1
Special charges	81.8	60.5	81.4
Operating income	609.8	453.3	255.4
Other income (expense), net	(2.0)	(10.0)	23.6
Equity earnings in joint ventures	36.6	35.0	34.3
Interest expense, net	(170.0)	(133.7)	(110.3)
Income before income taxes	474.4	344.6	203.0
Provision for income taxes	(185.5)	(154.7)	(83.1)
Income from continuing operations before change in accounting principle	288.9	189.9	119.9
Income (loss) from discontinued operations, net of tax	(12.9)	(16.9)	69.6
Change in accounting principle	(148.6)	—	—
Net income	\$ 127.4	\$ 173.0	\$ 189.5
Capital expenditures	\$ 88.5	\$ 136.9	\$ 118.1
Depreciation and amortization	120.8	149.4	94.0

- (1) Includes \$12.6, \$8.6 and \$12.3 of charges to cost of products sold in 2002, 2001 and 2000 respectively, associated with discontinued product lines and other product changes associated with restructuring initiatives.
- (2) Includes a \$15.6 net gain in 2001 associated with the Snap-on patent arbitration award and other legal matters.

Consolidated Results of Operations: 2002 Compared to 2001

Revenues – Revenues of \$4,822.3 in 2002 increased by \$968.9, or 25.1%, from \$3,853.4 in 2001. By segment, revenues increased by 27.0% in the Technical Products and Systems segment, 15.2% in the Industrial Products and Services segment, 51.9% in the Flow Technology segment and 7.0% in the Service Solutions segment. The increase in revenues was primarily due to the acquisition of UDI on May 24, 2001 and bolt-on acquisitions completed in 2001 and 2002. Revenues in 2001 included seven months of the UDI businesses. The primary platforms that experienced organic revenue growth in 2002 compared to 2001 were our security and integrated building life safety systems and broadcast and communications systems platforms in our Technical Products and Systems segment, our cooling technologies and services platform in our Flow Technology segment and our compaction equipment platform in our Industrial Products and Services segment. The primary platforms that experienced organic revenue declines included our power systems platform, which affected the Industrial Products and Services segment, our Fluid Systems platform in the Flow Technology segment and our Service Solutions segment.

Gross margin – In 2002 gross profit margins were 32.5% compared to 32.4% reported in 2001. We recorded charges to cost of products sold of \$12.6 and \$8.6 in 2002 and 2001, respectively, for discontinued products associated with restructuring and other product changes. Despite a significant decline in demand in our power systems business we experienced consistent gross margins due to progressive cost reduction actions across the company.

Selling, general and administrative expense (SG&A) – In 2002, SG&A expense was \$866.3 compared to \$672.3 in 2001, an increase of \$194.0. The increase can be attributed primarily to the acquisition of UDI on May 24, 2001. In 2001 only seven months of these expenses were included in the results of operations where these expenses were included for the entire year 2002. As a percent of revenues, these expenses increased from 17.4% in 2001 to 18.0% in 2002. The increase in the percent of revenues is due to a net gain recorded in the fourth quarter of 2001. On December 27, 2001, we received a favorable arbitration awarded associated with a patent infringement claim against Snap-on. In addition, we realized expense associated with certain commercial legal matters, including the VSI contract litigation. It is our policy to recognize gains when realized and accrue for estimated losses from legal actions or claims, including legal expenses, when events exist that make the realization of the loss expenses probable and they can be reasonably estimated. Accordingly, in total we recognized a \$15.6 net gain that was recorded as a reduction in SG&A in the fourth quarter of 2001.

Goodwill and intangible amortization – In 2002, intangible amortization was \$7.3 compared to goodwill and intangible amortization of \$61.8 in 2001. On July 20, 2001 the Financial Accounting Standards Board issued SFAS No. 141, “Business Combinations”, and SFAS No. 142, “Goodwill and Other Intangible Assets”. The requirements of SFAS No. 141 and amortization provisions of SFAS No. 142 were effective for any business combination initiated after July 1, 2001. We have not amortized goodwill and indefinite-lived intangibles for acquisitions completed after this date. With respect to goodwill and intangible assets acquired prior to July 1, 2001, companies are required to adopt SFAS No. 142 in their fiscal year beginning after December 15, 2001. We adopted the remaining provisions of SFAS No. 142 effective January 1, 2002. Upon adoption of this standard, we ceased amortization of all remaining goodwill and intangible assets deemed to have indefinite useful lives.

Special and other charges – We recorded special charges of \$81.8 in 2002 and \$60.5 in 2001. The special charges were primarily associated with restructuring initiatives to consolidate manufacturing and sales facilities, rationalize certain product lines and asset impairments. In addition, we recorded charges to cost of goods sold of \$12.6 and \$8.6 in 2002 and 2001, respectively, for discontinued product lines and other product charges associated with restructuring initiatives.

	<u>2002(1)</u>	<u>2001(2)</u>
Employee termination costs	\$ 43.2	\$ 18.1
Facility consolidation costs	10.4	13.9
Other cash costs	9.1	9.6
Non cash asset write-downs	31.7	25.9
In-process technology	—	1.6
Total	\$ 94.4	\$ 69.1

(1) \$12.6 of non cash inventory write-downs is recorded as a component of cost of products sold.

(2) \$8.6 of non cash inventory write-downs is recorded as a component of cost of products sold.

Other expense, net – In 2002, other expense of \$2.0 is primarily related to a loss of \$10.3 on the sale of substantially all of the assets and liabilities of a non-strategic machinery equipment product line and a material handling product line, which was mainly offset by a gain on the settlement of a contract dispute. In 2001, other expense of \$10.0 primarily is comprised of an \$11.8 loss on the sale of our electric motor product line recognized in the second quarter.

Interest expense, net – In 2002, interest expense was \$170.0 compared to \$133.7 in 2001. The higher interest expense is due to the acquisition of UDI on May 24, 2001 and the refinancings in 2002, which resulted in an \$8.2 early extinguishment of debt charge as well as \$14.8 for interest rate swaps terminated in connection with the refinancing of our credit facility in December 2002.

Income taxes – The effective income tax rate in 2002 was 39.1% compared to 44.9% in 2001. The effective income tax rate is higher in 2001 primarily due to the amortization of nondeductible goodwill. On January 1, 2002, we adopted Statement of Financial Accounting Standards (“SFAS”) No. 142, “Goodwill and Other Intangible Assets”. SFAS No. 142 requires that goodwill and indefinite lived intangible assets are no longer amortized and accordingly, we discontinued amortization of these assets on the date of adoption.

Change in Accounting Principle – On July 20, 2001, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 141, “Business Combinations” and SFAS No. 142, “Goodwill and Other Intangible Assets.” These pronouncements change the accounting for business combinations, goodwill and intangible assets. The requirements of SFAS No. 141 are effective for any business combination accounted for by the purchase method that is completed after June 30, 2001 and the amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, we adopted the provisions of SFAS No. 142, as required, on January 1, 2002. In connection with adopting the provisions of SFAS No. 142, our transition impairment testing resulted in a \$148.6 impairment of recorded goodwill associated with our automotive filtration systems business and hydraulic systems business. Accordingly, this amount was written-off as a transition impairment charge and recorded as a change in accounting principle. The impaired goodwill was not deductible for income tax purposes. See Note 10 to our Consolidated Financial Statements for further discussion on the impact of adopting SFAS No. 141 and SFAS No. 142.

Consolidated Results of Operations: 2001 Compared to 2000

Revenues – Revenues of \$3,853.4 in 2001 increased by \$1,408.1, or 57.6%, from \$2,445.3 in 2000. By segment, revenues increased by 55.7% in the Technical Products and Systems segment, 55.8% in the Industrial Products and Services segment, and 218.2% in the Flow Technology segment. The increase in revenues in each segment is primarily due to the acquisition of UDI on May 24, 2001 and

bolt-on acquisitions completed in 2001 and 2000. Revenues in 2001 included seven months of the UDI businesses. The Service Solutions segment revenues declined by 4.2% primarily due to the decision to exit the emissions business and the timing of new product launches of specialty tool programs in 2000. The primary units that experienced organic revenue growth in the period included our security and building systems and broadcast and communications systems and services platforms in our Technical Products and Systems segment, strong demand for power systems and precision die-castings in our Industrial Products and Services segment. In addition to the decline in revenues at our Service Solutions segment, the primary units that experienced organic revenue declines included our compaction equipment platform and hydraulic tools and filtration units, which are reported in the Industrial Products and Services segment.

Gross Margin - In 2001 gross profit margins were 32.4% compared to 32.1% reported in 2000. We recorded charges to cost of products sold of \$8.6 and \$12.3 in 2001 and 2000, respectively, for discontinued products associated with restructuring and other product changes. In aggregate, gross profit margins of the acquired UDI businesses were slightly lower than the reported margins of 32.1% in 2000. Improvement in gross profit margins were achieved primarily as a result of progressive cost reduction actions across the company and savings associated with the integration of UDI including manufacturing process and supply chain rationalization, plant closings, discontinuance of non-performing product lines and progressive material savings through the use of a reverse auction procurement model.

Selling, general and administrative expense (SG&A) - In 2001, SG&A expense was \$672.3 compared to \$413.7 in 2000, an increase of \$258.6. The increase can be attributed primarily to the acquisition of UDI on May 24, 2001. As a percent of revenues, these expenses increased from 16.9% in 2000 to 17.4% in 2001. These expenses increased as a percent of revenue primarily due to the acquisition of UDI which had higher average SG&A expenses as a percent of revenues compared to the level reported in 2000. On December 27, 2001, we received a favorable arbitration awarded associated with a patent infringement claim against Snap-on. In addition, we realized expense associated with certain commercial legal matters, including the VSI contract litigation. It is our policy to recognize gains when realized and accrue for estimated losses from legal actions or claims, including legal expenses, when events exist that make the realization of the loss expenses probable and they can be reasonably estimated. Accordingly, in total we recognized a \$15.6 net gain that was recorded as a reduction in SG&A in the fourth quarter of 2001.

Goodwill and intangible amortization - In 2001, goodwill and intangible amortization was \$61.8 compared to \$35.1 in 2000. The increase can be attributed primarily to the acquisition of UDI on May 24, 2001 and bolt-on acquisitions completed in 2001 and 2000.

Special and other charges - We recorded special charges of \$60.5 in 2001 and \$81.4 in 2000. The special charges were primarily associated with restructuring initiatives to consolidate manufacturing and sales facilities, rationalize certain product lines and asset impairments. In addition, we recorded charges to cost of goods sold of \$8.6 and \$12.3 in 2001 and 2000, respectively, for discontinued product lines and other product changes associated with restructuring initiatives.

	<u>2001(1)</u>	<u>2000(2)</u>
Employee termination costs	\$ 18.1	\$ 13.9
Facility consolidation costs	13.9	17.1
Other cash costs	9.6	1.5
Non cash asset write-downs	25.9	61.2
In-process technology	1.6	—
	<u> </u>	<u> </u>
Total	\$ 69.1	\$ 93.7

(1) \$8.6 of non cash inventory write-downs is recorded as a component of cost of products sold.

(2) \$12.3 of non cash inventory write-downs is recorded as a component of cost of products sold.

Other income (expense), net — In 2001, other expense of \$10.0 primarily is comprised of the loss on the sale of our electric motor product line recognized in the second quarter. In 2000, other income of \$23.6 is primarily comprised of the settlement of a patent infringement suit against American Power Conversion Corporation. We received gross proceeds of \$48.0 and recognized a gain of \$23.2, net of legal costs and other related expenses. The infringement award related to a previously divested business, accordingly, it was recorded as other income in the second quarter of 2000.

Interest expense, net — In 2001, interest expense was \$133.7 compared to \$110.3 in 2000. The higher interest expense in 2001 is due to the acquisition of UDI on May 24, 2001. Interest expense in 2000 included \$15.0 associated with a debt refinancing in the first quarter.

Income taxes — The effective income tax rate in 2001 was 44.9% compared to 40.9% in 2000. The effective income tax rate is higher in both years than the U.S. statutory income tax rate primarily due to the amortization of nondeductible goodwill and the effect of state income taxes. The 2001 effective income tax rate was also impacted by the acquisition of UDI on May 24, 2001, which led to higher non-deductible goodwill amortization in the period.

SEGMENT RESULTS OF OPERATIONS:
Segment Reported Results

	2002	2001	2000
Revenues:			
Technical Products and Systems	\$ 1,113.9	\$ 877.0	\$ 563.2
Industrial Products and Services	1,603.2	1,391.4	893.3
Flow Technology	1,385.7	912.5	286.8
Service Solutions	719.5	672.5	702.0
Total	\$ 4,822.3	\$ 3,853.4	\$ 2,445.3
Segment income:			
Technical Products and Systems	\$ 222.9	\$ 179.3	\$ 125.0
Industrial Products and Services	233.0	186.5	156.6
Flow Technology	219.3	136.0	35.2
Service Solutions	86.5	68.5	69.1
Total Segment Income	761.7	570.3	385.9
General Corporate	(57.5)	(47.9)	(36.8)
Special and Other Charges	(94.4)	(69.1)	(93.7)
Total Consolidated Operating Income	\$ 609.8	\$ 453.3	\$ 255.4

Segment Results of Operations: 2002 Compared to 2001
Technical Products and Systems

Revenues – Revenues increased from \$877.0 in 2001 to \$1,113.9 in 2002, an increase of \$236.9, or 27.0%. The increase is primarily due to the acquisition of UDI on May 24, 2001. The results of operations included UDI for seven months in 2001. Organic revenues were approximately flat with the prior year primarily due to lower revenues at laboratory and life science products and electrical test and measurement solutions, offset by strong revenues at our security and integrated building life-safety systems platform and strong revenues for HDTV products in our broadcast and communication systems and services platform.

Segment Income – Segment income increased from \$179.3 in 2001 to \$222.9 in 2002, an increase of \$43.6, or 24.3%. The increase is primarily due to the acquisition of UDI on May 24, 2001, integration of bolt-on acquisitions and cost reduction actions across the segment. The results of operations included UDI for seven months in 2001. As a percent of revenues, segment income declined from 20.4% in 2001 to 20.0% in 2002. The decrease is primarily due to the acquisition of UDI and bolt-on acquisitions completed in the segment which had lower average segment margins than those of the segment.

Industrial Products and Services

Revenues - Revenues increased from \$1,391.4 in 2001 to \$1,603.2 in 2002, an increase of \$211.8, or 15.2%. The increase is primarily due to the acquisition of UDI on May 24, 2001. The results of operations included UDI for seven months in 2001. Organic revenues declined low single digits. Power generation end markets continue to experience reduced demand and pricing pressures and our power systems unit experienced a sharp decline in revenues in the second half of 2002.

Segment Income - Segment income increased from \$186.5 in 2001 to \$233.0 in 2002, an increase of \$46.5, or 24.9%. The increase is primarily due to the acquisition of UDI on May 24, 2001. The results of operations included UDI for seven months in 2001. As a percent of revenues, segment income increased from 13.4% in 2001 to 14.5% in 2002. The increase in operating margins is primarily due to the integration of the UDI businesses and restructuring actions across the segment. Improved segment results were experienced in a number of businesses including our compaction equipment, high integrity die-cast parts and our aerospace defense components businesses.

Flow Technology

Revenues - Revenues increased from \$912.5 in 2001 to \$1,385.7 in 2002, an increase of \$473.2, or 51.8%. The increase is primarily due to the acquisition of UDI on May 24, 2001 and the acquisition of Balcke Cooling Products Group ("Balcke") in July of 2002. The results of operations included UDI for seven months in 2001. Balcke had revenues of approximately \$226.0 in the twelve months prior to the date of acquisition. Organic revenues declined low single digits primarily due to lower organic revenues at our Fluid Systems platform. Partially offsetting the decline at Fluid Systems was mid single digit organic revenue growth in cooling technologies and services.

Segment Income - Segment income increased from \$136.0 in 2001 to \$219.3 in 2002, an increase of \$83.3, or 61.3%. The increase is primarily due to the acquisition of UDI on May 24, 2001, integration of bolt-on acquisitions and cost reduction actions across the segment. The results of operations included UDI for seven months in 2001. As a percent of revenues, segment income increased from 14.9% in 2001 to 15.8% in 2002. The increase is primarily due to the integration of UDI and cost reduction actions across the segment.

Service Solutions

Revenues - Revenues increased from \$672.5 in 2001 to \$719.5 in 2002, an increase of \$47.0, or 7.0%. The increase is primarily due to the acquisition of UDI on May 24, 2001. The results of operations included UDI for seven months in 2001. Organic revenues were approximately flat with the prior year.

Segment Income - Segment income increased from \$68.5 in 2001 to \$86.5 in 2002, an increase of \$18.0, or 26.3%. The increase is primarily due to the acquisition of UDI on May 24, 2001. The results of operations included UDI for seven months in 2001. As a percent of revenues, segment income increased from 10.2% in 2001 to 12.0% in 2002. The increase is primarily due to cost reduction actions in the segment, higher revenues and a favorable product mix.

Segment Results of Operations: 2001 Compared to 2000

Technical Products and Systems

Revenues - Revenues increased from \$563.2 in 2000 to \$877.0 in 2001, an increase of \$313.8, or 55.7%. The increase is primarily due to the acquisition of UDI on May 24, 2001 and Kendro Laboratory Products, L.P. ("Kendro") on July 23, 2001 and strong organic revenues. The results of operations included UDI for seven months in 2001. Kendro had revenues of \$204.8 in the year prior to the date of acquisition. Organic revenues increased primarily due to strong revenues at the laboratory and life science products, security and integrated building life-safety systems and broadcast and communication systems and services platforms.

Segment Income - Segment income increased from \$125.0 in 2001 to \$179.3 in 2002, an increase of \$54.3, or 43.4%. The increase is primarily due to the acquisition of UDI on May 24, 2001 and the integration of bolt-on acquisitions. The results of operations included UDI for seven months in 2001. As a percent of revenues, segment income declined from 22.2% in 2000 to 20.4% in 2001. The decrease is primarily due to the acquisition of UDI and bolt-on acquisitions completed in the segment which had lower average segment margins than those of the segment.

Industrial Products and Services

Revenues - Revenues increased from \$893.3 in 2000 to \$1,391.4, an increase of \$498.1, or 55.8%. The increase is primarily due to the acquisition of UDI on May 24, 2001 and strong organic revenues. The results of operations included UDI for seven months in 2001. Organic revenues increases were experienced primarily at our power systems platform and our high integrity die-cast parts business. Lower organic revenues were experienced at our compaction equipment platform, due to a soft U.S. market, and at our hydraulic tools and filtration units due to lower volumes.

Segment Income - Segment income increased from \$156.6 in 2000 to \$186.5 in 2001, an increase of \$29.9, or 19.1%. The increase is primarily due to the acquisition of UDI on May 24, 2001. The results of operations included UDI for seven months in 2001. As a percent of revenues, segment income decreased from 17.5% in 2000 to 13.4% in 2001. The decrease is primarily due to the acquisition of UDI which had lower average segment margins than those of the segment.

Flow Technology

Revenues - Revenues increased from \$286.8 in 2000 to \$912.5, an increase of \$625.7. The increase is primarily due to the acquisition of UDI on May 24, 2001 and bolt-on acquisitions completed in 2000 and 2001. The results of operations included UDI for seven months in 2001. Organic revenues increased with strong organic revenues realized in our cooling technologies platform.

Segment Income - Segment income increased from \$35.2 in 2000 to \$136.0 in 2001, an increase of \$100.8. The increase is due to the acquisition of UDI on May 24, 2001, integration of bolt-on acquisitions and cost reduction actions across the segment. The results of

operations included UDI for seven months in 2001. As a percent of revenues, segment income increased from 12.3% in 2000 to 14.9% in 2001. The increase is primarily due to the acquisition and integration of UDI which had higher average segment margins than those of the segment and cost reduction actions across the segment.

Service Solutions

Revenues -- Revenues decreased from \$702.0 in 2000 to \$672.5, a decrease of \$29.5. Organic revenues declined by low double digits in 2001 compared to 2000. The decrease is primarily due the decision to exit the emissions business in 2000 and the timing of new product launches of specialty tool programs in 2000.

Segment Income - Segment income decreased from \$69.1 in 2000 to \$68.5 in 2001, a decrease of \$0.6. As a percent of revenues, segment income increased from 9.8% in 2000 to 10.2% in 2001. The improvement in segment margins was achieved despite the lower revenues primarily due to cost reduction actions.

Research and Development

Internal research and development costs are expensed to selling, general, and administrative expense, as incurred. Costs incurred in the research and development of new software included in products are charged to expense as incurred until technological feasibility is established. After technological feasibility is established, additional costs are capitalized in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed" until the product is available for general release. Such costs are amortized over the lesser of three years or the economic life of the related products and the amortization is included in cost of products sold. We expensed as a component of selling, general, and administrative expense, approximately \$95.5 of research and development costs in 2002, \$81.3 in 2001 and \$51.9 in 2000.

Pension Plans

We recorded net pension income of \$26.9 in 2002, \$38.2 in 2001, and \$45.6 in 2000. The calculation of pension benefit income uses an expected rate of return on plan assets. The difference between the estimated return and the actual return is treated as an unrecognized gain or loss and this amount is amortized into the calculation of pension results in future periods. As of December 31, 2002, the aggregate unrecognized loss position of our pension plans was \$443.1. The majority of this unrecognized loss stems from the unexpected recent decline in the performance of U.S. financial markets coupled with historic lows in interest rates. Future net pension income or expense is dependent upon many factors including level of employee participation in the plans, plan amendments, discount rates and the changes in market value of the plans' assets, which, in turn depends on a variety of economic conditions. Accordingly, there can be no assurance that future periods will include similar amounts of net pension income. Based on an assumed expected long-term rate of return on assets of 8.50% in 2003 and the change in our unrecognized loss position during 2002, we expect net pension income to decrease by approximately \$20.0 in 2003.

The funded status of our pension plans is dependent upon many factors, including returns on invested assets and the level of market interest rates. The recent dramatic declines in the performance of the U.S. financial markets coupled with historic lows in long-term interest rates have resulted in a \$220.0 underfunded status for our pension plans compared to a \$86.1 funded status at December 31, 2001. Our German pension plans account for \$46.6 of the underfunded status at December 31, 2002, as plans in Germany are typically not funded in accordance with local regulations. We made no cash contributions to our primary domestic pension plans in 2002. The underfunded status of our primary domestic pension plans did not have any impact on required cash contributions in 2002 and we do not expect to make any material cash contributions in 2003.

In accordance with accounting rules, when the accumulated benefit obligation of a pension plan exceeds the plan assets, a minimum pension liability must be recognized. As a result of the decline in the funded status of our pension plans for reasons described above, we were required to record an adjustment to increase our minimum pension liability at December 31, 2002. This adjustment also required the elimination of the pension asset previously recorded as a result of the historical over-funded position of our pension plans. We recorded this non-cash, non-income statement adjustment, net of tax, as a component of accumulated other comprehensive loss in the Consolidated Statement of Shareholders' Equity. The total pension adjustment amount recorded to the accumulated other comprehensive loss account at December 31, 2002 was \$226.8.

Weighted-average pension assumptions at December 31, 2002 and December 31, 2001 include the following:

	December 31,	
	2002	2001
Weighted average actuarial assumptions used were:		
Discount rate	6.67%	7.17%
Rate of increase in compensation levels	4.42%	4.46%
Expected long-term rate of return on assets	9.44%	9.84%

The discount rate and rate of increase in compensation levels for 2002 were used to value our benefit obligation and funded status as of December 31, 2002. The expected long-term rate of return on assets was used to calculate the pension benefit income for 2002. A one-percentage point increase or decrease to the 2002 assumed expected long-term rate of return of our primary domestic pension plans would have a \$12.0 relative effect on 2002 net pension income. The expected long-term rate of return assumption for the 2003 pension benefit income calculation is expected to be approximately 8.50%. It is our policy to review the pension assumptions annually. Pension benefit income is determined using assumptions as of the beginning of the year, while the funded status is determined using assumptions as of the end of the year. The assumptions are determined by management and established at the respective balance sheet date using the following principles: (1) The expected long-term rate of return on plan assets is established based upon historical actual asset returns and the expectations of asset returns over the expected period to fund participant benefits based on the current investment mix of our plans; (2) The discount rate is set based on the yield of high quality fixed income investments, commonly defined as fixed income investments with at least a Moody's AA credit rating; and (3) The rate of increase in compensation levels is established based on management's expectations of current and foreseeable future increases in compensation. In addition, management also considers advice from independent actuaries. A benchmark study completed by our independent actuaries has shown that our choice of assumptions is comparable to other organizations with a plan measurement date of December 31, 2002.

Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We periodically assess the realizability of deferred tax assets and the adequacy of deferred tax liabilities including the results of local, state, federal or foreign statutory tax audits or estimates and judgments used. Realization of deferred tax assets associated with the net operating loss and credit carryforwards is dependent upon generating sufficient taxable income prior to their expiration. We believe that there is a risk that certain of these net operating loss and credit carryforwards may expire unused and, accordingly, have established a valuation allowance against them. Although realization is not assured for the remaining deferred tax assets, we believe it is more likely than not that the deferred tax assets will be realized through future taxable earnings or alternative tax strategies. However, deferred tax assets could be reduced in the near term if our estimates of taxable income during the carryforward period are significantly reduced or alternative tax strategies are no longer viable. The valuation allowance increased by \$22.3 in 2002, and \$24.7 in 2001.

The amount of income tax that we pay annually is dependent on various factors, including the timing of certain deductions. These deductions can vary from year to year and consequently, the amount of income taxes paid in future years may be greater than amounts paid in 2002 and 2001.

Undistributed earnings of our foreign subsidiaries amounted to approximately \$460.9 at December 31, 2002. A deferred tax estimate of \$40.0 has been provided for the foreign earnings of certain subsidiaries. With the exception of these subsidiaries, the remaining foreign earnings are considered indefinitely reinvested. Accordingly, no provision for U.S. federal and state income taxes or foreign withholding taxes has been made. If these earnings were distributed, we would be subject to U.S. income taxes (subject to a reduction for foreign tax credits) and withholding taxes payable to the various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable; however, unrecognized foreign tax credit carryovers would be available to reduce some portion of the U.S. liability. Withholding taxes of approximately \$21.0 would be payable upon remittance of all previously unremitted earnings at December 31, 2002.

Liquidity and Financial Condition

Listed below are the cash flows from (used in) operating, investing and financing activities and the net change in cash and cash equivalents for the twelve months ended 2002, 2001 and 2000.

	2002	2001	2000
Cash flows from (used in) continuing operations			
Cash flow from operating activities	\$ 448.5	\$ 483.0	\$ 165.6
Cash flow used in investing activities	(232.7)	(485.2)	(298.9)
Cash flow from (used in) financing activities	(90.2)	416.7	53.9
Cash flows from (used in) discontinued operations	(29.7)	(28.2)	74.3
Net increase (decrease) in cash and equivalents	\$ 95.9	\$ 386.3	\$ (5.1)

In 2002, cash flows from operating activities were \$448.5 compared to cash flows from operating activities of \$483.0 in 2001. The decrease in operating cash flow was primarily due to \$85.8 cash spending on restructuring activities compared to \$50.8 in 2001, the discontinuance of a vendor financing program at our compaction equipment business which resulted in a cash outflow of \$21.5,

and a net increase in working capital outflows. The increase in restructuring spending as compared to 2001, was primarily due to the completion of UDI integration actions as well as the completion of previously initiated restructuring actions. At December 31, 2002, a total of \$48.7 of restructuring liabilities remained on the consolidated balance sheet as disclosed in Note 6 of our Consolidated Financial Statements. With the exception of certain multi-year operating lease and other contractual obligations, we anticipate that the liabilities related to restructuring actions will be paid within one year from the period in which the action was initiated. In addition, we expect to take charges against earnings in 2003 in connection with implementing additional cost reduction actions at certain of our businesses. We have estimated these charges to be between \$80.0 and \$100.0, but they could be higher or lower than this range. Where we cannot fully quantify the amount of cash and non-cash portion of the charges in 2003, we expect that the operating cash outflow associated with these actions will also be in the range of \$80.0 to \$100.0.

The primary driver of the working capital outflows in 2002 was the timing of certain payments, which were partially offset with working capital improvements, measured as a percent of revenue, at our Service Solutions segment, our Flow Technology segment, and our compaction equipment business, as well as cash received from a legal award.

In 2002, cash flows used in investing activities were \$232.7, a decrease of \$252.5 compared to cash flows used in investing activities of \$485.2 in 2001. The decrease was primarily due to the following:

- Proceeds from asset sales in 2002 were \$100.9 compared to \$182.9 in 2001. Cash proceeds from asset sales in 2002 were primarily composed of the divestures of a non-strategic machinery and material handling product line, as well as sales of non-core plant and equipment. Cash proceeds from asset sales in 2001 were generated from the disposition of seven product lines as well as \$96.0 received from the sale of our door products business into a joint venture with Assa Abloy whereby we also received a 20% ownership in the joint venture.
- Cash used for business acquisitions was \$271.1, or 53.3%, greater in 2001 as compared to 2002. In 2001, acquisition spending included cash used for the UDI acquisition as well as \$320.0 for the acquisition of Kendro, our largest bolt-on acquisition in history in terms of purchase price. Excluding the cash spent in 2001 for Kendro and UDI, cash used for acquisitions increased \$98.5, or 70.8%, as compared to 2001 as we completed thirteen bolt-on acquisitions in 2002.
- Cash used for capital expenditures was \$88.5 in 2002 compared to \$136.9 in 2001. The decrease in capital expenditures was primarily due to the fact that 2001 results included incremental spending on various plant expansion projects as well as new capital deployed at the recently acquired UDI businesses. In addition, 2002 was positively impacted by a disciplined cost containment program to reduce capital spending in businesses that are experiencing cyclical end market demand changes.
- A measure of cash flow performance used by analysts and investors that follow multi-industrial companies is free cash flow, which is defined as cash flows from operating activities less capital expenditures. Cash flows from operating activities of \$448.5, \$483.0, \$165.6 in 2002, 2001 and 2000, respectively, less respective capital expenditures of \$88.5, \$136.9 and \$118.1 resulted in free cash flow in 2002, 2001 and 2000 of \$360.0, \$346.1 and \$47.5, respectively.

In 2002, cash used in financing activities was \$90.2 compared to cash from financing activities of \$416.7 in 2001. The change resulted from the following:

- Net borrowings were \$24.9 in 2002 compared to \$371.8 in 2001. In 2002, we amended and restated our senior credit facility, which resulted in a \$387.7 net reduction of our variable rate debt portfolio, and we paid down \$58.0 of other indebtedness. These payments were offset by the issuance of \$500.0 in senior notes in December 2002. Net borrowings in 2001 were higher than 2002 primarily due to the 2001 issuance of the February LYONs and the refinancing of debt acquired from UDI.
- In 2002, we repurchased 3.6 shares of our common stock for \$172.9 in cash. We did not repurchase any common stock in 2001.
- In 2002, we received \$24.2 from the exercise of stock warrants. This was offset by \$28.1 of cash paid for other financing activities including the termination of four interest rate swaps.

In 2001, cash flows from operating activities were \$483.0 compared to cash flows from operating activities of \$165.6 in 2000. Excluding the \$69.0 in taxes paid in 2000 on the sale of Best Power, operating cash flow increased \$248.4. The increase in operating cash flow was primarily due to increased cash net income and improvements in working capital. Non-cash charges to net income for depreciation and amortization of goodwill and intangibles increased by \$55.4 from the prior year due to the acquisition of UDI. Improvements in working capital were realized largely due to implementation of our Value Improvement Process at the former UDI units, which reinforces appropriate use of capital. The changes in working capital were primarily from improvements in inventory turns and accounts payable days outstanding. Included in operating activities, were cash outflows of \$50.8 and \$27.9 in 2001 and 2000, respectively, associated with restructuring activities. The \$22.9 increase in restructuring spending as compared to 2000 was primarily related to \$29.0 spent in 2001 on UDI integration actions.

In 2001, cash flows used in investing activities were \$485.2, an increase of \$186.3 compared to cash flow used in investing activities of \$298.9 in 2000. The increase was primarily due to the following:

- Cash used for business acquisitions increased by \$343.3, or 207.6%, compared to 2000. The increase was primarily driven by the acquisition of Kendro for \$320.0, net of cash received, the largest bolt-on acquisition in our history, offset by decreased spending on other bolt-on acquisitions. In total, cash used for acquisitions excluding Kendro and UDI was \$139.1 in 2001 compared to \$165.4 in 2000.

- Cash used for capital expenditures was \$136.9 in 2001 compared to \$118.1 in 2000. The increase in capital expenditures was primarily due to incremental spending on various plant expansion projects as well as new capital deployed at the UDI businesses acquired in May 2001.
- Offsetting a portion of the cash uses in 2001 was \$182.9 of proceeds from the sale of assets. Included in assets sales were seven divested product lines. These sales included our electric motor product line, a petroleum pump product line acquired with UDI, and five others obtained in the UDI acquisition. In addition, on May 31, 2001, we sold our door products business into a joint venture with Assa Abloy and received \$96.0 in cash and a 20% ownership interest in the joint venture. There were no product line or business divestitures in 2000.

In 2001, cash flows from financing activities were \$416.7, an increase of \$362.8 compared to cash flows used in financing activities of \$53.9 in 2000. The increase was the result of:

- Net borrowings of \$371.8 in 2001 compared to \$177.5 in 2000. The increase was primarily driven by the issuance of the February LYONs and the refinancing of debt acquired from UDI. The acquired debt of UDI was refinanced primarily by restating our credit facility on May 24, 2001 and cash proceeds from the May LYONs.

Debt

The following summarizes the debt outstanding and unused credit availability, as of December 31, 2002:

	<u>Total Commitment</u>	<u>Amount Outstanding</u>	<u>Unused Credit Availability</u>
Revolving loan	\$ 500.0	\$ 0.0	\$ 416.8(1)
Tranche A term loan	225.0	225.0	—
Tranche B term loan	410.3	410.3	—
Tranche C term loan	683.7	683.7	—
LYONs, net of unamortized discount of \$551.6	858.2	858.2	—
7.5% senior notes	500.0	500.0	—
Other borrowings	17.7	17.7	—
	<u> </u>	<u> </u>	<u> </u>
Total	\$ 3,194.9	\$ 2,694.9(2)	\$ 416.8

- (1) The unused credit availability is reduced by \$83.2 of letters of credit outstanding as of December 31, 2002.
(2) Short-term debt and current maturities of long-term debt were \$280.3 as of December 31, 2002.

Under our Restated Credit Agreement, aggregate maturities of the senior credit facility are \$34.5 in 2004, \$45.8 in 2005, \$57.0 in 2006, \$62.6 in 2007 and \$172.6 in 2008. Although no amounts are borrowed under our revolving credit loans at December 31, 2002, any future borrowings under these loans would mature in 2008, when the facility expires, but could be repaid at any time before 2008. Other borrowings are primarily revolving lines of credit at foreign locations that are refinanced as they come due and therefore are classified as long-term.

Restated Credit Agreement

On July 25, 2002, we refinanced our existing Tranche B and Tranche C term loans and amended and restated our Credit Agreement. The primary purpose of the July refinancing and amendment of our Credit Agreement was to modify certain covenant provisions to provide for enhanced overall flexibility, as well as increased flexibility for international growth and to extend the maturity of our Tranche B and Tranche C term loans. The refinancing did not impact the terms or applicable rates on our Tranche A term loans or our revolver. We received proceeds of \$450.0 from our new Tranche B term loans and \$750.0 from our new Tranche C term loans and we used \$96.4 of cash on hand to complete the transaction. This transaction resulted in a net \$96.4 reduction in our debt obligations under these loans.

On December 27, 2002, we refinanced our existing Tranche A term loan and revolving loans and amended and restated our Credit Agreement ("Restated Credit Agreement"). The purpose of this refinancing was to extend the maturity of our Tranche A term loan and revolving loans, reduce the available borrowing capacity of the revolving loans by \$100.0, and reduce the applicable rates on our Tranche A term loan. We received proceeds of \$225.0 from our new Tranche A term loan. These cash proceeds as well as proceeds from our \$500.0 senior note issuance were used to pay off our existing Tranche A term loan and reduce Tranche B and C term loans.

As of December 31, 2002, we had outstanding under our Restated Credit Agreement:

- (a) \$225.0 of aggregate principal amount of Tranche A term loans,
- (b) \$410.3 of aggregate principal amount of Tranche B term loans, and
- (c) \$683.7 of aggregate principal amount of Tranche C term loans.

In addition, the Restated Credit Agreement provides for a commitment to provide revolving credit loans of up to \$500.0. As of December 31, 2002, the revolving credit loans were unused; however, the aggregate available borrowing capacity was reduced by \$83.2 of letters of credit outstanding as of December 31, 2002.

Under the Restated Credit Agreement, the term loans bear interest, at our option, at LIBOR plus the Applicable Rate or the ABR plus the Applicable Rate. During 2002, interest on the term loans was calculated using LIBOR and we intend to select LIBOR as the borrowing rate in the future. The Applicable Rate for the revolving loan and Tranche A term loan is based upon the Consolidated Leverage Ratio as defined in the Restated Credit Agreement. The Applicable Rate is as follows:

	<u>LIBOR based borrowings</u>	<u>ABR based borrowings</u>
Tranche A term loans and revolving loans	Between 1.75% and 2.25%	Between 0.75% and 1.25%
Tranche B term loans	2.25%	1.25%
Tranche C term loans	2.50%	1.50%

Our \$500.0 of revolving loans available under the Restated Credit Agreement are also subject to annual commitment fees between 0.25% and 0.5% on the unused portion of the loans. At December 31, 2002, no amounts were borrowed against the \$500.0 revolving loans.

The Restated Credit Agreement is secured by a pledge of 100% of the stock of substantially all of our domestic subsidiaries and 66% of the stock in our foreign subsidiaries and a security interest in substantially all of our assets and all of the assets of our wholly owned domestic subsidiaries (excluding, however our interest in EGS and Door joint ventures).

The Restated Credit Agreement contains covenants, the most restrictive of which are two financial condition covenants. The first financial condition covenant does not permit the Consolidated Leverage Ratio (as defined in the Restated Credit Agreement) on the last day of any period of four consecutive fiscal quarters to exceed 3.5 to 1.00 for the period ending June 30, 2002 and 3.25 to 1.00 thereafter. The second financial condition covenant does not permit the Consolidated Interest Coverage Ratio (as defined in the Restated Credit Agreement) for any period of four consecutive fiscal quarters to be less than 3.50 to 1.00. For the year ending December 31, 2002, our Consolidated Leverage Ratio was 2.43 to 1.00 and our Consolidated Interest Coverage Ratio was 7.39 to 1.00.

The Restated Credit Agreement also includes covenant provisions regarding, among other things, indebtedness, liens, investments, guarantees, acquisitions, dispositions, sales and leaseback transactions, restricted payments, and transactions with affiliates. We have not paid cash dividends in 2002 or 2001, and we currently have no plans to pay cash dividends on our common stock. Under the Restated Credit Agreement covenants, our ability to pay cash dividends in a fiscal year is limited to the lesser of \$20.0 or 25% of our consolidated net income in the immediate preceding fiscal year, if our consolidated leverage ratio, pro forma for a cash dividend, is greater than 2.5 to 1.0. If this ratio is less than 2.5 to 1.0, we have the ability to pay cash dividends in a fiscal year in an amount up to 25% of our consolidated net income in the immediate preceding fiscal year, which in 2001 was \$43.3. Based on available information, we do not expect these covenants to restrict our liquidity, financial condition or access to capital resources in the foreseeable future.

We are permitted to prepay the Tranche A, Tranche B and the Tranche C term loans in whole or in part at any time without penalty or premium. We are not allowed to reborrow any amounts that we repay on the Tranche A, Tranche B or Tranche C term loans.

The final maturity for each loan is as follows:

	<u>Date of Final Maturity</u>
Revolving loans	March 31, 2008
Tranche A term loans	March 31, 2008
Tranche B term loans	September 30, 2009
Tranche C term loans	March 31, 2010

The Restated Credit Agreement also requires scheduled principal payments of the term loans and mandatory prepayments from net proceeds arising in connection with certain asset sales or dispositions and issuances of subordinated debt under certain circumstances.

The revolving loans may be borrowed, prepaid and reborrowed. Letters of credit and swing line loans are also available under the revolving credit facility. On the date of the closing of the Restated Credit Agreement, no revolving loans were outstanding. The facility provides for the issuance of letters of credit in U.S. Dollars, Euros, and Pounds Sterling at any time during the revolving availability period, in an aggregate amount not exceeding \$250.0. Letters of credit issued under this facility reduce the aggregate amount available under the revolving loan commitment.

Early Extinguishment of Debt

During 2002, we recorded an \$8.2 charge for the write-off of financing fees associated with the early extinguishment of debt as a result of the July and December refinancing described above. This charge was recorded as a component of interest expense.

In the first quarter of 2000, we paid down our existing Tranche B debt of \$412.5 and revolver of \$50.0, and replaced the existing credit facility with a new \$1,487.5 credit facility. We recorded a \$15.0 charge associated with the early extinguishment of debt as a result of this refinancing. This charge was recorded as a component of interest expense.

These charges were accounted for in accordance with EITF 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments" as well as SFAS No. 145.

7.5% Senior Notes

On December 27, 2002, we issued \$500.0 of 7.5% senior notes pursuant to our universal shelf registration statement, which allows for the issuance of an additional \$500.0 of securities after consideration of these notes. These notes mature on January 1, 2013. The net proceeds of \$486.0 were used to refinance the Tranche A term loan of our senior credit facility, reduce the Tranche B and Tranche C term loans of our senior credit facility and for general corporate purposes, including the possible repayment of debt. These notes are unsecured and rank equally with all of our existing and future unsecured senior indebtedness, but are effectively junior to our senior secured debt and obligations of our subsidiaries.

The indenture governing the notes contains a number of covenants that limit our ability and the ability of our subsidiaries, other than an unrestricted subsidiary under the indenture, to incur additional debt, pay dividends and repurchase stock, make other restricted payments, including, without limitation, investments, create liens, enter into sale leaseback transactions, enter into agreements that restrict dividends from subsidiaries, sell or otherwise dispose of assets, including capital stock of subsidiaries, enter into transactions with our affiliates, and enter into mergers or consolidations. As of December 31, 2002, our capacity to make restricted payments, which include paying cash dividends, purchasing subordinated debt prior to maturity and making restricted investments, was limited to \$238.4. The covenants contained in the indenture are subject to a number of qualifications and limitations. Under the indenture, none of our subsidiaries are prohibited from paying dividends to us.

Liquid Yield Option Notes

On February 6, 2001, we issued Liquid Yield Option(TM) Notes ("February LYONs") at an original price of \$579.12 per \$1,000 principal amount at maturity, which represents an aggregate initial issue price of \$576.1 and an aggregate principal amount of \$994.8 due at maturity on February 6, 2021. On May 9, 2001, we issued Liquid Yield Option(TM) Notes ("May LYONs") at an original price of \$579.12 per \$1,000 principal amount at maturity, which represents an aggregate initial issue price including the over allotment exercised by the original purchaser of \$240.3 and an aggregate principal amount \$415.0 due at maturity on May 9, 2021.

The LYONs have a yield to maturity of 2.75% per year, computed on a semi-annual bond equivalent basis, calculated from the date of issuance. We will not pay cash interest on the LYONs prior to maturity unless contingent interest becomes payable. The LYONs are unsecured and unsubordinated obligations and are debt instruments subject to United States federal income tax contingent payment debt regulations. Even if we do not pay any cash interest on the LYONs, bondholders are required to include interest in their gross income for United States federal income tax purposes. This imputed interest, also referred to as tax original issue discount, accrues at a rate equal to 9.625% on the February LYONs and 8.75% on the May LYONs. The rate at which the tax original issue discount accrues for United States federal income tax purposes exceeds the stated yield of 2.75% for the accrued original issue discount. In the event that either the February or May LYONs are put to the company or redeemed by the company, the respective imputed interest deduction less the original issue discount of 2.75% would be recaptured at the time of the put or redemption. The amount of the recapture calculated on the first put date is approximately \$11.8 and \$48.3 on May 9, 2003 and February 6, 2004, respectively.

The LYONs are subject to conversion to SPX common shares only if certain contingencies are met. These contingencies include:

- (1) Our average stock price exceeding predetermined accretive values of SPX's stock price each quarter (see below);
- (2) During any period in which the credit rating assigned to the LYONs by either Moody's or Standard & Poor's is at or below a specified level;
- (3) Upon the occurrence of certain corporate transactions, including a change in control.

In addition, a holder may surrender for conversion, at the accreted value, a LYON for redemption even if it is not otherwise convertible at such time.

The conversion rights based on predetermined accretive values of SPX's stock include, but are not limited to, the following provisions:

	February LYONs	May LYONs
Initial Conversion Rate (shares of common stock per LYON)	9.6232	8.8588
Initial Stock Price	\$ 50.15	\$ 55.40
Initial Accretion Percentage	135%	120%
Accretion Percentage Decline Per Quarter	0.3125%	0.125%
Conversion Trigger Prices — For the Next Twelve Months:		
2003 First Quarter	\$ 84.19	\$ 81.54
2003 Second Quarter	\$ 84.57	\$ 82.01
2003 Third Quarter	\$ 84.95	\$ 82.49
2003 Fourth Quarter	\$ 85.33	\$ 82.97

Holders may surrender LYONs for conversion into shares of common stock in any calendar quarter, if, as of the last day of the preceding calendar quarter, the closing sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of such preceding calendar quarter is more than the specified percentage beginning at 135% and declining 0.3125% per quarter thereafter for the February LYONs, beginning at 120% and declining 0.125% per quarter thereafter for the May LYONs of the accreted conversion price per share of common stock on the last trading day of such preceding calendar quarter. The accreted conversion price per share as of any day will equal the issue price of a LYON plus the accrued original issue discount to that day, divided by the number of shares of common stock issuable upon conversion of a LYON on that day.

We may redeem all or a portion of the February LYONs for cash at any time on or after February 6, 2006 at predetermined redemption prices. February LYONs holders may require us to purchase all or a portion of their LYONs on February 6, 2004 for \$628.57 per LYON, February 6, 2006 for \$663.86 per LYON, or February 6, 2011 for \$761.00 per LYON. We may redeem all or a portion of the May LYONs for cash at any time on or after May 9, 2005. May LYONs holders may require us to purchase all or a portion of their LYONs on May 9, 2003 for \$611.63 per LYON, May 9, 2005 for \$645.97 per LYON or May 9, 2009 for \$720.55 per LYON. For either the February LYONs or May LYONs, we may choose to pay the purchase price in cash, shares of common stock or a combination of cash and common stock.

There are various factors that a LYON holder would use in deciding to exercise their put option. These factors include the price and volatility of our common stock, the interest yield on the LYONs above the risk free interest rate and other quantitative and qualitative factors. Based upon these factors, at the time of the filing of this Form 10-K, we believe that it is probable, but cannot determine with certainty, that the holders of the May LYONs will exercise their put right and require us to repurchase the majority or all of their LYONs on May 9, 2003. If all the May LYONs were settled in cash on May 9, 2003, we would be required to pay the holders approximately \$253.8. Accordingly \$251.4, the accreted value of the May LYONs at December 31, 2002, has been classified as current in our Consolidated Balance Sheet at December 31, 2002.

Under GAAP, the LYONs are not included in the diluted income per share of common stock calculation unless a LYON is expected to be converted for stock or one of the three contingent conversion tests summarized above are met. If the LYONs were to be put, we expect to settle them for cash and none of the contingent conversion tests have been met, accordingly, they are not included in the diluted income per share of common stock calculation. If converted, the February LYONs and May LYONs would be exchanged for a total of 13.2 shares of our common stock. If the LYONs had been converted as of January 1, 2002, the diluted income per share of common stock from continuing operations would have been \$3.22 per share for the period ended December 31, 2002.

Other Financing Agreements

Our compaction equipment business, part of the Industrial Products and Services segment, utilizes an accounts receivable securitization facility pursuant to which the unit has an agreement to sell, on a revolving basis without recourse, certain qualified receivables, of which \$31.3 had been sold under the agreement at December 31, 2002. The agreement allows for the sale of up to \$36.5 of certain qualified receivables to an unaffiliated third party entity and continues on an evergreen revolving basis unless we provide a three-month notice under the agreement to discontinue the facility. We expect to utilize the agreement in the foreseeable future. If we did not renew the contract, the impact on our financial condition or cash flows would not be material. Previously, our compaction equipment business also utilized a vendor financing program that was discontinued during the second quarter of 2002.

As of December 31, 2002, except for the following items, we do not have any other material guarantees, off-balance sheet arrangements or purchase commitments: (1) \$167.6 of certain standby letters of credit outstanding, of which \$83.2 reduce the available borrowing capacity on our revolving loans and (2) approximately \$135.9 of surety bonds. Of the total letters of credit and surety bonds outstanding at December 31, 2002, \$193.4 is commercial bid, performance or warranty arrangements related to sales contracts with customers of which the fees are reimbursed by the customer.

Financial Instruments

We have entered into interest rate protection agreements (“swaps”) to hedge the potential impact of increases in interest rates on our variable rate debt portfolio. Our swaps are accounted for as cash flow hedges and as of December 31, 2002, we had outstanding swaps with maturities to November 2009 that effectively convert \$1,300.0 of our variable rate debt to a fixed rate of approximately 6.9%. As a result of the Restated Credit Agreement, we extended the maturities of our variable rate Tranche A term loans to March 2008, Tranche B term loans to September 2009 and Tranche C terms loans to March 2010. Associated with these extended maturities, we entered into additional variable to fixed rate interest rate swap agreements beginning in 2004 and maturing in 2009. As of December 31, 2002, the pre-tax accumulated derivative loss recorded in accumulated other comprehensive loss was \$81.8 and a long-term liability of \$81.1 has been recorded to recognize the fair value of these swaps. Based on the unrealized losses of our swaps at December 31, 2002, we expect to reclassify \$43.2 of our current derivative loss from accumulated other comprehensive loss into interest expense during 2003 as the hedged transactions occur. Due to fluctuations in interest rates however, the derivative loss recorded in accumulated other comprehensive loss is subject to change prior to its reclassification into earnings. The ineffective portion of these swaps in 2002 and 2001 has been recognized in earnings as a component of interest expense and is not material. We do not enter into financial instruments for speculative or trading purposes.

In 2002, in connection with the Restated Credit Agreement, we terminated four interest rate swaps with an aggregate notional amount \$400.0 at a cash cost of \$15.5. These interest rate swaps were included in the portfolio of interest rate swaps designated as a cash flow hedge of our variable rate debt portfolio. Because a portion of the future interest payments hedged by these swaps was no longer probable of occurring, we recognized \$14.8 in interest expense to reclassify into earnings, from accumulated other comprehensive loss, the fair value of the portion of the swap portfolio hedging future cash flows that no longer are probable of occurring.

Current Liquidity and Principal Payments

We use operating leases to finance certain asset purchases when economically supported by our internal evaluation model. These leases are primarily used to fund capital equipment programs to match payment terms with the expected production use of the equipment, although the expected useful or economic life of the asset is greater. At December 31, 2002, we had \$193.5 of future minimum rental payments under leases with remaining non-cancelable terms in excess of one year. The following is a summary of our primary contractual obligations:

Contractual Obligations:	Total	Due within 1 year	Due within 2-3 years	Due within 4-5 years	Due after 5 years
Accounts Receivable Securitization (1)	\$ 31.3	\$ 31.3	\$ —	\$ —	\$ —
Short-Term Debt (2)	251.4	251.4	—	—	—
Long-Term Debt	2,443.5	28.9	80.3	119.6	2,214.7
Future Minimum Lease Payments (3)	193.5	42.4	58.7	40.9	51.5
Total Contractual Cash Obligations (4)	\$2,919.7	\$ 354.0	\$ 139.0	\$ 160.5	\$2,266.2

- (1) Our compaction equipment business, part of the Industrial Products and Services segment, utilizes an accounts receivable securitization facility pursuant to which the unit has an agreement to sell, on a revolving basis without recourse, certain qualified receivables. See the “Debt” section of this MD&A for more information on this financing arrangement.
- (2) Represents the accreted value of the May LYONs as of December 31, 2002.
- (3) Represents rental payments under leases with remaining non-cancelable terms in excess of one year.
- (4) We do not expect to make any material cash contributions to our primary domestic pension plans in the near future. In 2002, we made cash contributions of \$19.2 pursuant to our postretirement benefit plan obligations and we expect to make a similar level of contributions to these plans in 2003.

At December 31, 2002, we had \$541.3 of cash available for use and an unused \$500.0 revolver under our restated credit facility. When adjusted by the \$83.2 of letters of credit outstanding at January 31, 2003, \$416.8 of the revolver was available for use.

We believe that current cash and equivalents, cash flows from operations and our unused revolving credit facility will be sufficient to fund working capital needs, planned capital expenditures, other operational cash requirements, and required debt service obligations. In addition, we have the ability and may elect to refinance the LYONs, if put, with other debt.

We have a shelf registration statement for 8.4 shares of common stock that may be issued for acquisitions and we have filed a shelf registration statement enabling us to sell up to \$1,000.0 of securities of which \$500.0 has been used for the offering of our 7.5% senior notes in December 2002. The remaining availability under this shelf registration statement may be used in connection with an offering of debt securities and/or common stock for general corporate purposes or for the refinancing of existing debt. In addition, other financing instruments may be used from time to time including but not limited to private placement instruments, operating leases, capital leases, and securitizations. We expect that we will continue to access these markets as appropriate to maintain liquidity and to provide sources of funds for general corporate purposes or to refinance existing debt. In the first quarter of 2003 we entered into an agreement to securitize and sell, on a continuous basis, up to \$130.0 of accounts receivable. It is expected that in mid-2003 we will utilize all or a portion of the amount available under this agreement.

We were in compliance with all covenants included in our capital financing instruments as of December 31, 2002 and at December 27, 2002, the date of the most recent refinancing. We have not paid cash dividends in 2002, 2001 or 2000, and we have no current plans to pay cash dividends on our common stock.

Financial instruments that potentially subject us to significant concentrations of credit risk consist of cash and temporary investments, trade accounts receivable and interest rate protection agreements.

Cash and temporary investments and our interest rate protection agreements are placed with various high-quality financial institutions throughout the world, and exposure is limited at any one institution. We periodically evaluate the credit standing of these financial institutions.

We are exposed to credit losses in the event of nonperformance by counter parties to our interest rate protection agreements, but have no other off-balance-sheet credit risk of accounting loss. We anticipate, however, that counter parties will be able to fully satisfy their obligations under the contracts. We do not obtain collateral or other security to support financial instruments subject to credit risk, but we do monitor the credit standing of counter parties.

Concentrations of credit risk arising from trade accounts receivable are due to selling to a large number of customers in a particular industry. We perform ongoing credit evaluations of our customers' financial conditions and obtain collateral or other security when appropriate. No one customer accounts for more than 10% of our revenues.

We continually review each of our businesses pursuant to our "fix, sell or grow" strategy. These reviews could result in selected acquisitions to expand an existing business or result in the disposition of an existing business. Additionally, we have stated that we would consider a larger acquisition, more than \$1,000.0 in revenues, if certain criteria were met. There can be no assurances that these acquisitions will not have an impact on our capital financing requirements, will be integrated successfully, or that they may not have a negative effect on our operations. In addition "Factors That May Affect Future Results" that follows, "Business Segment Information" included in the MD&A on page 21 of this Form 10-K and "Item. 1 Business" included on page 1 of the original Form 10-K should be read for an understanding of the risks, uncertainties, and trends facing our businesses.

NEW ACCOUNTING PRONOUNCEMENTS

The following is a summary of new accounting pronouncements that apply or may apply to our business.

On July 20, 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." These pronouncements change the accounting for business combinations, goodwill and intangible assets. The requirements of SFAS No. 141 are effective for any business combination accounted for by the purchase method that is completed after June 30, 2001 and the amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, we adopted the provisions of SFAS No. 142, as required, on January 1, 2002. See Note 10 to the Consolidated Financial Statements for further discussion on the impact of adopting SFAS No. 141 and SFAS No. 142.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." The provisions of SFAS No. 143 require that asset retirement obligations that are identifiable upon acquisition and construction, and during the operating life of a long-lived asset be recorded as a liability using the present value of the estimated cash flows. A corresponding amount would be capitalized as part of the asset's carrying amount and amortized to expense over the asset's useful life. We have adopted the provisions of SFAS No. 143 effective January 1, 2003. The adoption of this statement has not had and is not expected to have a material impact on our financial position, results of operations or cash flows.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and also supersedes the provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions." SFAS No. 144 retains the requirements of SFAS No. 121 to (a) recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flow and (b) measure an impairment loss as the difference between the carrying amount and the fair value of the asset. SFAS No. 144 establishes a single model for accounting for long-lived assets to be disposed of by sale. As required, we have adopted the provisions of SFAS No. 144 effective January 1, 2002, and the effect of adoption was not material to our financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This Statement also rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers." This Statement amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Effective July 1, 2002, we early adopted the provisions of SFAS No. 145. In accordance with the provisions regarding the gains and losses from the extinguishment of debt, we recorded a charge, to interest expense, as a result of our July and December 2002 refinancings. In addition, in 2000, we had previously recorded a \$8.8 (\$15.0 pre-tax) loss on early extinguishment of debt as an extraordinary item. In accordance with the adoption of SFAS No. 145, we have, in this presentation of 2000 results, reclassified the \$15.0 pre-tax loss to interest expense and the related tax benefit of \$6.2 to income tax expense. See Note 13 to our Consolidated Financial Statements for further discussion of the loss on early extinguishment of debt recorded in 2002.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing or other exit or disposal activities. Previous accounting guidance was provided by EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 replaces EITF 94-3 and is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. We frequently engage in strategic restructuring and integration initiatives that include exit and disposal activities. Accordingly, SFAS No. 146 has impacted the timing of recognition of certain restructuring costs, but has not had a material impact on our financial position and results of operations.

In November 2002, the FASB issued Financial Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that a guarantor must recognize, at the inception of a guarantee, a liability for the fair value of the obligation that it has undertaken in issuing a guarantee. FIN 45 also addresses the disclosure requirements that a guarantor must include in its financial statements for guarantees issued, including matters such as commercial product warranties. The disclosure requirements in this interpretation are effective for financial statements ending after December 15, 2002. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. We adopted the recognition provisions of FIN 45 effective January 1, 2003 for guarantees issued or modified after December 31, 2002. The adoption of FIN 45 did not have an impact on our financial position, results of operations or cash flows. Refer to Note 2 of the Consolidated Financial Statements for the additional disclosure information as required by FIN 45.

In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation-Transition and Disclosure- an amendment of FASB Statement No. 123." This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. As of December 31, 2002, we have adopted the disclosure-only provisions of SFAS 148 and will continue to account for stock-based compensation under APB Opinion No. 25, "Accounting for Stock Issued to Employees." The adoption of SFAS No. 148 had no impact on our financial position or results of operations.

In January 2003, the FASB issued Financial Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities," an interpretation of Accounting Research Bulletin 51, "Consolidated Financial Statements". FIN 46 requires that unconsolidated variable interest entities be consolidated by their primary beneficiaries and applies immediately to variable interest entities created after January 31, 2003 and to existing entities in the periods beginning after June 15, 2003. Currently, we are still assessing the provisions of FIN 46; however adoption has not had an impact on our financial portion or results of operations.

Subsequent Events

On May 9, 2003, 0.387 of the May LYONs were put to us and settled in cash for \$236.9, their accreted value as of May 9, 2003. The 0.028 May LYONs that remain outstanding subsequent to the put have an accreted value of approximately \$17.0 and are classified as long-term debt.

In June 2003, we issued \$300.0 of 6.25% senior notes pursuant to our universal shelf registration statement. These notes mature on June 15, 2011. These notes are unsecured and rank equally with all of our existing and future unsecured senior indebtedness, but are effectively junior to our senior secured debt and obligations of our subsidiaries.

In July 2003, we sold our 20% interest in the Assa Abloy door joint venture for \$76.2 in cash, which resulted in a small gain.

From January 1, 2003 through September 4, 2003, we repurchased 4.550 shares of our common stock on the open market, for cash of \$171.4, of which 0.650 shares of common stock were repurchased for cash of \$28.0 subsequent to June 30, 2003. We are subject to various restrictions under our senior secured credit agreement and senior note indenture, which limit our ability to repurchase our stock for cash. The amount available under these restrictions increases by, among other things, 50% of periodic Consolidated Net Income, as defined in each debt instrument. Under the most restrictive covenant, which is presently in our senior note indenture, our available capacity is \$116.6 as of September 4, 2003, which includes periodic Consolidated Net Income through June 30, 2003 and all shares repurchased through September 4, 2003.

FACTORS THAT MAY AFFECT FUTURE RESULTS

Our indebtedness may affect our business and may restrict our operating flexibility.

At December 31, 2002, we had approximately \$2,694.9 in total indebtedness. On that same date, we had \$416.8 of available borrowing capacity under our revolving senior credit facility after giving effect to \$83.2 reserved for letters of credit outstanding, which reduce the availability under our revolving senior credit facility. In addition, at December 31, 2002, our cash balance was \$541.3. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 13 to our Consolidated Financial Statements for further discussion. Subject to certain restrictions set forth in the senior credit facility and the indenture, we may incur additional indebtedness in the future, including indebtedness incurred to finance, or which is assumed in connection with, acquisitions. We may in the future renegotiate or refinance our senior credit facility with agreements that have different or more stringent terms or split our senior credit facility into two or more facilities with different terms. The level of our indebtedness could:

- limit cash flow available for general corporate purposes, such as acquisitions and capital expenditures, due to the ongoing cash flow requirements for debt service;
- limit our ability to obtain, or obtain on favorable terms, additional debt financing in the future for working capital, capital expenditures or acquisitions;
- limit our flexibility in reacting to competitive and other changes in the industry and economic conditions generally;
- expose us to a risk that a substantial decrease in net operating cash flows due to economic developments or adverse developments in our business could make it difficult to meet debt service requirements; and
- expose us to risks inherent in interest rate fluctuations because the existing borrowings are, and any new borrowings may be at variable rates of interest, which could result in higher interest expense in the event of increases in interest rates.

Our ability to make scheduled payments of principal of, to pay interest on, or to refinance our indebtedness and to satisfy our other debt obligations, including our obligations to repurchase the Liquid Yield Option Notes (LYONs) if the holders of the LYONs require us to repurchase their securities beginning in May 2003 for the May LYONs and February 2004 for the February LYONs will depend upon our future operating performance, which may be affected by general economic, financial, competitive, legislative, regulatory, business and other factors beyond our control. We will not be able to control many of these factors, such as the economic conditions in the markets in which we operate and initiatives taken by our competitors. In addition, there can be no assurance that future borrowings or equity financing will be available for the payment or refinancing of our indebtedness. If we are unable to service our indebtedness, whether in the ordinary course of business or upon acceleration of such indebtedness, we may be forced to pursue one or more alternative strategies, such as restructuring or refinancing our indebtedness, selling assets, reducing or delaying capital expenditures, revising implementation of or delaying strategic plans or seeking additional equity capital. If we are required to take any of these actions, it could have a material adverse effect on our business, financial condition and results of operations. In addition, we cannot assure you that we would be able to take any of these actions, that these actions would enable us continue to satisfy our capital requirements or that these actions would be permitted under the terms of our various debt agreements.

We may not be able to finance future needs or adapt our business plan to changes in economic or business conditions because of restrictions placed on us by our senior credit facility, the indenture governing our senior notes and any existing or future instruments governing our other indebtedness.

Our senior credit facility, the indenture governing our notes and other agreements governing our other indebtedness contain, or may contain, a number of significant restrictions and covenants that limit our ability to make distributions or other payments to our investors and creditors unless certain financial tests or other criteria are satisfied. We also must comply with certain specified financial ratios and tests. In some cases, our subsidiaries are subject to similar restrictions that may restrict their ability to make distributions to us. In addition, our senior credit facility and these other agreements contain or may contain additional affirmative and negative covenants as described under “Management’s Discussion and Analysis.” All of these restrictions could affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities, such as acquisitions, as they arise.

If we do not comply with these or other covenants and restrictions contained in our senior credit facility, the indenture governing our senior notes and other agreements governing our indebtedness, we could be in default under those agreements, and the debt, together with accrued interest, could then be declared immediately due and payable. If we default under our senior credit facility, the lenders could cause all of our outstanding debt obligations under our senior credit facility to become due and payable, require us to apply all of our cash to repay the indebtedness or prevent us from making debt service payments on any subordinated indebtedness we owe. If our debt is accelerated, we may not be able to repay our debt or refinance it. Even if we are able to obtain new financing, we may not be able to repay our debt or borrow sufficient funds to refinance it. In addition, any default under our senior credit facility or agreements governing our other indebtedness could lead to an acceleration of debt under other debt instruments that contain cross-acceleration or cross-default provisions. If the indebtedness under our senior credit facility and the indenture governing our senior notes is accelerated, we may not have sufficient assets to repay amounts due under our senior credit facility, our senior notes, or the LYONs that we have issued, or under other debt securities then outstanding. Our ability to comply with these provisions of our senior credit facility, the indenture and other agreements governing our other indebtedness may be affected by changes in the economic or business conditions or other events beyond our control. In addition, complying with our covenants may also cause us to take actions that are not favorable to us and may make it more difficult for us to successfully execute our business strategy and compete against companies that are not subject to such restrictions.

Our failure to successfully integrate recent acquisitions, as well as any future acquisitions, could have a negative effect on our operations; our acquisitions could cause unexpected financial difficulties.

As part of our business strategy, we evaluate potential acquisitions in the ordinary course, some of which could be material. We made thirteen acquisitions in 2002 for an aggregate purchase price of \$263.7. Our acquisitions involve a number of risks and present financial, managerial and operational challenges, including:

- adverse effects on our reported operating results due to charges to earnings, including impairment charges associated with goodwill and indefinite lived intangibles;
- diversion of management attention from running our existing businesses;
- difficulty with integration of personnel and financial and other systems;
- increased expenses, including compensation expenses resulting from newly-hired employees;
- increased foreign operations that may be difficult to assimilate;
- assumption of known and unknown liabilities and increased litigation; and
- potential disputes with the sellers of acquired businesses, technology, services or products.

We may not be able to integrate successfully the technology, operations and personnel of any acquired business. Our integration activities may place substantial demand on our management, operational resources and financial and internal control systems. Customer dissatisfaction or performance problems with an acquired business, technology, service or product could also have a material adverse effect on our reputation and business. In addition, any acquired business, technology, service or product could underperform relative to our expectations. We also could experience financial or other setbacks if any of the businesses that we have acquired or may acquire in the future have problems or liabilities of which we are not aware or that are substantially greater than we anticipate. In addition, as a result of future acquisitions, we may further increase our debt level, or if we issue equity securities to pay for acquisitions, significantly dilute our existing shareholders.

We may not achieve the expected cost savings and other benefits of our acquisitions.

As a result of our acquisitions, we incur integration expenses for the incremental costs to exit and consolidate activities, to involuntarily terminate employees, and for other costs to integrate operating locations and other activities of these companies with us. A significant portion of these expenses are cash expenses. Generally accepted accounting principles require that these acquisition integration expenses, which are not associated with the generation of future revenues and have no future economic benefit, be reflected as assumed liabilities in the allocation of the purchase price to the net assets acquired. On the other hand, these same principles require that acquisition integration expenses associated with integrating our operations into locations of the acquired company must be recorded as expense. Accordingly, these expenses are not included in the allocation of the purchase price of the company acquired. Over the past five years, we have recorded several special charges to our results of operations associated with cost reductions, integrating acquisitions and achieving operating efficiencies. We believe that our actions have been required to improve our operations and, as described above, we will, if necessary, record future charges, which may be material, as appropriate to address costs and operational efficiencies.

Our plan is to achieve cost savings associated with integrating our acquisitions. This plan is sometimes a consideration in the price we are willing to pay for acquisitions. Our current integration strategy for acquisitions focuses on three key areas of cost savings: (1) manufacturing process and supply chain rationalization, including plant closings; (2) elimination of redundant administrative overhead and support activities; and (3) restructuring and repositioning sales and marketing organizations to eliminate redundancies in these activities. While we anticipate that we will achieve cost savings associated with integrating our acquisitions, cost savings expectations are inherently estimates that are difficult to predict and are necessarily speculative in nature. In addition, we cannot assure you that unforeseen factors will not offset the estimated cost savings or other benefits from our acquisitions. As a result, our actual cost savings, if any, and other anticipated benefits could differ or be delayed, compared to our estimates and the other information contained in this report.

We may not be able to consummate acquisitions at our prior rate, which could negatively impact us.

We may not be able to consummate acquisitions at similar rates to our past acquisition rates, which could materially impact our growth rate, results of operations, cash flows and stock price. Our ability to continue to achieve our goals may depend upon our ability to identify and successfully acquire companies, businesses and product lines, to effectively integrate them and to achieve cost effectiveness. We also may need to raise additional funds to consummate these acquisitions. In addition, changes in our stock price may adversely affect our ability to consummate acquisitions. Competition for acquisitions in our business areas could also result in higher prices for these businesses, which may also impact our acquisition rate or the success rate of our acquisitions.

The loss of key personnel and any inability to attract and retain qualified employees could materially adversely impact our operations.

We are dependent on the continued services of our management team, including our Chairman of the Board, President and Chief Executive Officer. The loss of these personnel without adequate replacement could have a material adverse effect. Additionally, we need qualified managers and skilled employees with technical and manufacturing industry experience in order to operate our business successfully. From time to time, there may be a shortage of skilled labor, which may make it more difficult and expensive for us to attract and retain qualified employees. If we are unable to attract and retain qualified individuals or our costs to do so increase significantly, our operations would be materially adversely affected.

Many of the industries in which we operate are cyclical, and, accordingly, our business is subject to changes in the economy; pressure from original equipment manufacturers to reduce costs could adversely affect our business.

Many of the business areas in which we operate are subject to specific industry and general economic cycles. Certain businesses are subject to industry cycles, including, but not limited to, the automotive industries, which influence our Service Solutions and Industrial Products and Services segments, the electric power and infrastructure markets, which influence our Industrial Products and Services and Flow Technology segments, process equipment, chemical and petrochemical markets, which influence our Flow Technology segment, the non-residential facility construction markets which influence our Technical Products and Systems and Industrial Products and Services segments and the laboratory and life science markets. Accordingly, any downturn or competitive pricing pressures in those or other markets in which we participate could adversely affect us. The recent difficulties at Enron, Dynegy, NRG and other independent power producers has led to a change in the buying habits of some customers in the power generation markets. Demand and price levels for transformers dropped in 2002 and the demand for cooling towers in this market softened in the second half of 2002. Accordingly, we expect that in 2003, operating profit from these products will be lower by approximately \$40.0 to \$45.0 with a majority of the impact occurring in the first half of 2003. A decline in automotive sales and production may not only affect our sales of components, tools and services to vehicle manufacturers and their dealerships, but also sales of components, tools and services to aftermarket customers, and could result in a decline in our results of operations or a deterioration in our financial condition. Similar cyclical changes could also affect aftermarket sales of products in our other segments. There is also substantial and continuing pressure from the major original equipment manufacturers, particularly in the automotive industry, to reduce costs, including the cost of products and services purchased from outside suppliers such as us. If in the future we were unable to generate sufficient cost savings to offset price reductions, our gross margins could be materially adversely affected. If demand changes and we fail to respond accordingly, our results of operations could be materially adversely affected in any given quarter or period. The downturns in the business cycles of our different operations may occur at the same time, which could exacerbate any material adverse effects to our business. See "Management's Discussion and Analysis of Results of Operations and Financial Condition — Business Segment Information." In addition, certain of our businesses have seasonal fluctuations. In aggregate, our businesses generally tend to be stronger in the second half of the year, particularly in the fourth quarter. As described above, we expect 2003 operating profits derived from the power generation markets will predominately impact the first half of 2003. Accordingly, we expect reported net income in the second half of 2003 to be significantly stronger than the first half on a relative basis compared with prior years.

Consistent with most multi-industry, capital goods companies, our businesses have been impacted in 2002 by the soft economic conditions. There can be no assurance that the economic downturn will not worsen or that we will be able to sustain existing or create additional cost reductions to offset economic conditions, and the unpredictability and changes in the industrial markets in the current environment could continue and may adversely impact our results. Cost reduction actions often result in charges against earnings. We expect to take charges against earnings in 2003 in connection with implementing additional cost reduction actions at certain of our businesses. We have estimated these charges to be between \$80.0 and \$100.0, but they could be higher or lower than this range. These charges can vary significantly from period to period and as a result, we may experience fluctuations in our reported net income and earnings per share due to the timing of restructuring actions, which in turn can cause fluctuations in our stock price.

Further, the preparation of our consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. We evaluate these estimates and judgments on an ongoing basis and base our estimates on experience, current and expected further conditions, third party evaluations and various other assumptions that we believe are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Certain estimates and judgments that affect the future cash flow projections including principal methods of competition including volume, price, service, product performance and technical innovations are considered. Actual results may differ from the estimates and assumptions used in the financial statements and related notes.

If future cash flows are insufficient to recover the carrying value of our goodwill and indefinite lived intangibles, a material non-cash charge to earnings could result.

At December 31, 2002, we had goodwill and intangible assets of approximately \$3,126.4 and shareholders' equity of approximately \$1,692.4. Effective January 1, 2002, we adopted Statement of Financial Accounting Standard No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142"). SFAS No. 142 states that goodwill and indefinite lived intangible assets are no longer amortized but are reviewed for impairment annually (or more frequently if impairment indicators arise). In accordance with the transition provisions of SFAS No. 142, we recorded a non-cash impairment charge of \$148.6 during the first quarter of 2002. As a policy, we will conduct annual impairment testing to determine if we will be able to recover all or a portion of the carrying value of goodwill and indefinite lived intangibles. If future cash flows are insufficient to recover the carrying value of our goodwill and indefinite lived intangibles, we may be required to write off a portion of the balance. Many of our businesses closely follow changes in the industries and end-markets that they serve. Accordingly, estimates and judgments that effect the future cash flow projections including principal methods of competition including volume, price, service, product performance and technical innovations are considered. Actual results may differ from these estimates under different assumptions or conditions. Based on the results of the impairment testing performed, no impairment of goodwill or indefinite-lived intangibles exists as of December 31, 2002. We continue to monitor impairment indicators in the industries and markets with cyclical demand and pricing behavior including telecommunications, power systems and industrial hydraulic power units and controlled force tools.

A portion of our revenues are generated through long-term fixed price contracts which could expose us to various risks including the risks of cost overruns, inflation and credit risks associated with certain customers.

A portion of our revenues (estimated at less than 5%) and earnings are generated through long-term fixed price contracts. We recognize revenues from certain of these contracts using the percentage-of-completion method of accounting whereby revenue and expenses, and thereby profit, in a given period are determined based on our estimates as to the project status and the costs remaining to complete a particular project. To the extent that we underestimate the remaining cost to complete a project, we may overstate the revenues and profit in a particular period. Further, certain of these contracts and our other contracts provide for penalties for failure to timely perform our obligations under a contract, or require that we, at our expense, correct and remedy to the satisfaction of the other party, certain defects. We may enter into additional long-term fixed price contracts of this type or other performance obligations in the future and there is no assurance that expenses relating to these provisions will not have a material adverse effect on our revenues and earnings.

We are subject to environmental and similar laws and potential liability relating to certain claims, complaints and proceedings, including those relating to environmental and other matters, arising in the ordinary course of business.

We are subject to various environmental laws, ordinances, regulations, and other requirements of government authorities in the United States and other nations. These requirements may include, for example, those governing discharges from and materials handled as part of our operations, the remediation of soil and groundwater contaminated by petroleum products or hazardous substances or wastes, and the health and safety of our employees. Under certain of these laws, ordinances or regulations, a current or previous owner or operator of property may be liable for the costs of investigation, removal or remediation of certain hazardous substances or petroleum products on, under, or in its property, without regard to whether the owner or operator knew of, or caused, the presence of the contaminants, and regardless of whether the practices that resulted in the contamination were legal at the time they occurred. The presence of, or failure to remediate properly, these substances may have adverse effects, including, for example, substantial investigative or remedial obligations and limitations on the ability to sell or rent that property or to borrow funds using that property as collateral. Under certain of these laws, ordinances or regulations, a party that disposes of hazardous substances or wastes at a third party disposal facility may also become a responsible party required to share in the costs of site investigation and environmental remediation. In connection with our acquisitions and divestitures, we may assume or retain significant environmental liabilities. Although we perform extensive due diligence with respect to acquisitions, divestitures and continuing operations, there may be environmental liabilities of which we are not aware. Future developments related to new or existing environmental matters or changes in environmental laws or policies could lead to material costs for environmental compliance or cleanup. There can be no assurance that these liabilities and costs will not have a material adverse effect on our results of operations or financial position in the future. See Note 15 to our Consolidated Financial Statements for further discussion.

Numerous claims, complaints and proceedings arising in the ordinary course of business, including but not limited to those relating to environmental matters, competitive issues, contract issues, intellectual property matters, personal injury and product liability claims, and workers' compensation have been filed or are pending against us and certain of our subsidiaries. Additionally, we may become subject to significant claims of which we are currently unaware or the claims that we are unaware of may result in our incurring a significantly greater liability than we anticipate. This may also be true in connection with past or future acquisitions. While we maintain property, cargo, auto, product, general liability, and directors' and officers' liability insurance and have acquired rights under similar policies in connection with these acquisitions which we believe cover a portion of these claims, this insurance may be insufficient or unavailable to protect us against potential loss exposures. In addition, we have been increasing our self-insurance limits over the past several years. While we believe we are entitled to indemnification from third parties for some of these claims, these rights may be insufficient or unavailable to protect us against potential loss exposures.

In our opinion, these matters are either without merit or are of a kind that should not have a material adverse effect individually and in the aggregate on our financial position, results of operations, or cash flows. However, we cannot assure you that recoveries from insurance or indemnification claims will be available or that any of these claims or other matters will not have a material adverse effect on our financial position, results of operations or cash flows. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

It is our policy to comply fully with applicable environmental requirements. We are currently involved in various investigatory and remedial actions at our facilities and at third party waste disposal sites. An estimate of loss, including expenses, from legal actions or claims is accrued when events exist that make the loss or expenses probable and we can reasonably estimate them. Our environmental accruals cover anticipated costs, including investigation, remediation, and operation and maintenance of clean-up sites. Our estimates are primarily based on investigations and remediation plans developed by independent consultants, regulatory agencies and potentially responsible third parties. Accordingly, our estimates may change based on future developments including new or changes in environmental laws or policies, a difference in costs required to complete anticipated actions from estimates provided, future findings of investigation or remediation actions, or alteration to the expected remediation plans. It is our policy to realize a change in estimates once it becomes probable and can be reasonably estimated. In determining our accruals, we do not discount environmental or other legal accruals and do not reduce them by anticipated insurance recoveries. We do take into account third-party indemnification from financially viable parties in determining our accruals where there is no dispute regarding the right to indemnification. While we believe that our accruals related to environmental, litigation and claims are sufficient and that these items and our rights to available insurance and indemnity will be resolved without material adverse effect on our financial position, results of operations and liquidity, individually or in the aggregate, we cannot assure you that our accruals and right to indemnity and insurance will be sufficient or that these items will be resolved without a material adverse effect on our financial position, results of operations and liquidity, individually or in the aggregate.

We are subject to work stoppages, union negotiations, labor disputes and other matters associated with our labor force, which may adversely impact our profitability and cause us to incur incremental costs.

As of December 31, 2002, we had approximately 23,400 employees. Approximately 4,000 of our employees are represented by over seventeen domestic, collective bargaining units and various foreign collective labor arrangements. While we generally have experienced satisfactory relations at our various locations, we are subject to work stoppages, local, regional and national union negotiations and potential labor disputes. Further, we may be subject to work stoppages, which are beyond our control at our suppliers or customers.

On July 8, 2002, a labor contract involving hourly employees at our manufacturer of aerospace components expired without resolution, resulting in an employee strike. The labor contract dispute affected 117 employees. In 2002, we recorded \$4.2 of incremental security and consulting costs associated with the labor contract dispute. On March 8, 2003, the union employees voted to ratify a new contract, which brings closure to this labor dispute.

Difficulties presented by international economic, political, legal, accounting and business factors could negatively affect our interests and business effort.

In 2002, approximately 32.3% of our sales were international, including export sales. We are seeking to increase our sales outside the United States. Our international operations require us to comply with the legal requirements of foreign jurisdictions and expose us to the political consequences of operating in foreign jurisdictions. Our foreign business operations also are subject to the following risks:

- difficulty in managing, operating and marketing our international operations because of distance, as well as language and cultural differences;
- increased strength of the U.S. dollar will increase the effective price of our products sold in U.S. dollars, which may have a material adverse effect on sales or require us to lower our prices and also decrease our reported revenues or margins in respect of sales conducted in foreign currencies to the extent we are unable or determine not to increase local currency prices; likewise, decreased strength of the U.S. dollar could have a material adverse effect on the cost of materials and products purchased overseas;
- difficulty entering new international markets due to greater regulatory barriers than the United States and differing political systems;
- increased costs due to domestic and foreign customs and tariffs, potentially adverse tax consequences, including imposition or increase of withholding and other taxes on remittances and other payments by subsidiaries, and transportation and shipping expenses;
- credit risk or financial condition of local customers and distributors;
- potential difficulties in staffing and labor disputes;
- risk of nationalization of private enterprises;
- government embargos or foreign trade restrictions such as anti-dumping duties;
- increased costs of transportation or shipping;
- environmental laws and regulations;
- ability to obtain supplies from foreign vendors and ship products internationally during times of crisis or otherwise;
- potential difficulties in protecting intellectual property;
- increased worldwide hostilities including, but not limited to, possible military action in Iraq;
- potential imposition of restrictions on investments; and
- local political, economic and social conditions, including the possibility of hyperinflationary conditions and political instability in certain countries.

As we continue to expand our international operations, these and other risks associated with international operations are likely to increase. In addition, as we enter new geographic markets, we may encounter significant competition from the primary participants in those markets who may have significantly greater market knowledge and substantially greater resources than we do.

Future increases in the number of shares of our outstanding common stock could adversely affect our common stock price or dilute our earnings per share.

Sales of a substantial number of shares of common stock into the public market, or the perception that these sales could occur, could have a material adverse effect on our stock price. If certain conditions are met, the LYONs could be converted into shares of our common stock. The shares are covered by the February LYONs and the May LYONs have been registered under the Securities Act. Subject to adjustment, the LYONs could be converted into an aggregate of 13.2 shares of common stock. In addition, as of December 31, 2002, approximately 18.4 shares of our common stock are issuable upon exercise of outstanding stock options by employees and non-employee directors. Additionally, we may issue a significant number of additional shares in connection with our acquisitions. We also have a shelf registration statements for 8.4 shares of common stock that may be issued in acquisitions and we also have filed a shelf registration statement for a total of \$1,000.0, of which \$500.0 has been used for the offering of our senior notes and the remainder of which may be used in connection with an offering of debt securities and/or common stock for general corporate purposes. Any such additional shares also could have a dilutive effect on our earnings per share.

Provisions in our corporate documents and Delaware law may delay or prevent a change in control of our company, and, accordingly, we may not consummate a transaction that our stockholders consider favorable.

Provisions of our Certificate of Incorporation and By-laws may inhibit changes in our control not approved by our Board. These provisions include, for example, a staggered board of directors; a prohibition on stockholder action by written consent; a requirement that special stockholder meetings be called only by our Chairman, President and Chief Executive Officer or our board; advance notice requirements for stockholder proposals and nominations; limitations on stockholders' ability to amend, alter or repeal the By-laws; enhanced voting requirements for certain business combinations involving substantial stockholders; the authority of our board to issue, without stockholder approval, preferred stock with terms determined in its discretion; and limitations on stockholders' ability to remove directors. We also have a shareholder rights plan designed to make it more costly and thus more difficult to gain control of us without the consent of our Board. In addition, we are afforded the protections of Section 203 of the Delaware General Corporation Law, which could have similar effects. In general, Section 203 prohibits us from engaging in a "business combination" with an "interested stockholder" (each as defined in Section 203) for at least three years after the time the person became an interested stockholder unless certain conditions are met.

Our technology is important to our success.

Because many of our products rely on proprietary technology, we believe that the development and protection of our intellectual property rights is critical to the success of our business. In order to maintain our market positions, we need to continually develop and introduce high quality, technologically advanced and cost effective products on a timely basis. The failure to do so could result in a significant competitive disadvantage.

Additionally, despite our efforts to protect our proprietary rights, unauthorized parties or competitors may copy or otherwise obtain and use our products or technology. The steps we have taken may not prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

SPX CORPORATION AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002

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All schedules are omitted because they are not applicable, or not required or because the required information is included in the consolidated financial statements or notes thereto.

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of SPX Corporation:

We have audited the accompanying consolidated balance sheets of SPX CORPORATION AND SUBSIDIARIES (the "Company") as of December 31, 2002 and 2001, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of EGS Electrical Group, Inc ("EGS") the investment in which is reflected in the accompanying consolidated financial statements using the equity method of accounting (see Note 8) for the year ended September 30, 2000. The Company's equity of \$174.4 in EGS's net assets of September 30, 2000 and of \$30.1 in EGS's net income for the year then ended are included in the accompanying financial statement. The financial statements of EGS for the period ended September 30, 2000 were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for EGS in the 2000 consolidated financial statements, is based solely on the report of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 14 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by Statements of Financial Accounting Standards No. 137, *Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133*, and No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, and as interpreted by the FASB and the Derivatives Implementation Group through *Statement 133 Implementation Issues*, as of January 1, 2001.

As discussed in Notes 2, 3 and 10 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets as of January 1, 2002 to conform to Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

As discussed in Notes 3 and 13 to the consolidated financial statements, the Company changed its method of accounting for early extinguishment of debt in 2002 to conform to Statement of Financial Accounting Standards No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections* and, retroactively restated the 2000 consolidated financial statements to reclassify loss on early extinguishment of debt, net of income taxes from an extraordinary item to interest expense and provision for income taxes.

As discussed in Notes 4 and 7 to the consolidated financial statements, the Company sold its common stock investment in Inrange Technologies Corporation, a consolidated subsidiary in June 2003. The balances, gain on sale and results of operations and cash flows of Inrange prior to the sale are included in income (loss) from discontinued operations in the accompanying consolidated financial statements.

As discussed in Notes 1 and 16, certain pro forma amounts included in Notes 1 and 16 to the consolidated financial statements have been revised.

/s/ Deloitte & Touche LLP

Charlotte, North Carolina
September 4, 2003

INDEPENDENT AUDITORS' REPORT

The Board of Members EGS Electrical Group, LLC:

We have audited the accompanying consolidated balance sheet of EGS Electrical Group, LLC and subsidiaries as of September 30, 2000, and the related consolidated statements of income, members' equity and comprehensive income, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated financial statements of EGS Electrical Group, LLC and subsidiaries as of September 30, 1999 were audited by other auditors whose report thereon dated October 29, 1999, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of EGS Electrical Group, LLC and subsidiaries as of September 30, 2000, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Chicago, Illinois
December 18, 2000

SPX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Year ended December 31,		
	2002	2001	2000
	(In millions, except per share data)		
Revenues	\$ 4,822.3	\$ 3,853.4	\$ 2,445.3
Costs and expenses:			
Cost of products sold	3,257.1	2,605.5	1,659.7
Selling, general and administrative	866.3	672.3	413.7
Goodwill and intangible amortization	7.3	61.8	35.1
Special charges	81.8	60.5	81.4
Operating income	609.8	453.3	255.4
Other income (expense), net	(2.0)	(10.0)	23.6
Equity earnings in joint ventures	36.6	35.0	34.3
Interest expense, net	(170.0)	(133.7)	(110.3)
Income from continuing operations before income taxes	474.4	344.6	203.0
Provision for income taxes	(185.5)	(154.7)	(83.1)
Income from continuing operations before change in accounting principle	288.9	189.9	119.9
Income (loss) from discontinued operations, net of tax	(12.9)	(16.9)	69.6
Change in accounting principle, net of tax	(148.6)	—	—
Net income	\$ 127.4	\$ 173.0	\$ 189.5
Basic earnings per share of common stock:			
Income from continuing operations before change in accounting principle	\$ 3.55	\$ 2.61	\$ 1.95
Income (loss) from discontinued operations	(0.16)	(0.23)	1.13
Change in accounting principle	(1.83)	—	—
Net income per share	\$ 1.56	\$ 2.38	\$ 3.08
Weighted average number of common shares outstanding	81.440	72.616	61.592
Diluted earnings per share of common stock:			
Income from continuing operations before change in accounting principle	\$ 3.48	\$ 2.56	\$ 1.89
Income (loss) from discontinued operations	(0.15)	(0.23)	1.09
Change in accounting principle	(1.79)	—	—
Net income per share	\$ 1.54	\$ 2.33	\$ 2.98
Weighted average number of common shares outstanding	82.959	74.120	63.502
Comprehensive income (loss):			
Foreign currency translation adjustment	142.6	(39.3)	(8.8)
Change in fair value of cash flow hedges, net of tax \$16.3 and \$17.0 respectively	(22.9)	(25.6)	—
Minimum pension liability adjustment, net of tax \$144.7, \$4.0, and \$1.1 respectively	(226.8)	(2.6)	(1.2)
Other comprehensive loss	(107.1)	(67.5)	(10.0)
Net income	127.4	173.0	189.5
Comprehensive income	\$ 20.3	\$ 105.5	\$ 179.5

The accompanying notes are an integral part of these statements.

SPX CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2002	2001
	(In millions)	
ASSETS		
Current assets:		
Cash and equivalents	\$ 541.3	\$ 443.0
Accounts receivable, net	991.8	905.3
Inventories, net	605.0	597.3
Prepaid expenses and other current assets	90.8	127.5
Deferred income taxes	229.9	232.0
Assets of discontinued operations	263.3	123.9
	2,722.1	2,429.0
Property, plant and equipment	1,260.8	1,217.7
Accumulated depreciation	(493.5)	(401.5)
	767.3	816.2
Goodwill, net	2,596.0	2,287.7
Intangible assets, net	530.4	679.5
Other assets	475.7	711.3
Assets of discontinued operations	—	156.4
	7,091.5	7,080.1
TOTAL ASSETS		
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 500.9	\$ 484.8
Accrued expenses	789.3	812.9
Short-term debt	251.4	—
Current maturities of long-term debt	28.9	161.6
Liabilities of discontinued operations	86.7	73.5
	1,657.2	1,532.8
Long-term debt	2,414.6	2,449.6
Deferred income taxes	595.1	722.5
Other long-term liabilities	720.5	603.6
Liabilities of discontinued operations	—	31.3
	3,730.2	3,807.0
Minority interest	11.7	25.0
Shareholders' equity:		
Common stock	868.0	833.0
Paid-in capital	863.3	722.5
Retained earnings	478.2	350.8
Unearned compensation	(46.1)	—
Accumulated other comprehensive loss	(197.6)	(90.5)
Common stock in treasury	(273.4)	(100.5)
	1,692.4	1,715.3
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		
	\$ 7,091.5	\$ 7,080.1

The accompanying notes are an integral part of these statements.

SPX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock	Paid-in Capital	Retained Earnings (Deficit)	Unearned Compensation	Accumulated Other Comprehensive Loss	Common Stock In Treasury
(In millions)						
Balance at December 31, 1999	\$ 709.8	\$ 134.8	\$ (11.7)	\$ (19.1)	\$ (13.0)	\$(248.5)
Net income	—	—	189.5	—	—	—
Exercise of stock options and other incentive plan activity, net of tax	5.6	—	—	9.6	—	—
Minimum pension liability adjustment, net of tax	—	—	—	—	(1.2)	—
Treasury stock repurchased	—	—	—	—	—	(138.8)
Translation adjustments	—	—	—	—	(8.8)	—
Balance at December 31, 2000	715.4	134.8	177.8	(9.5)	(23.0)	(387.3)
Net income	—	—	173.0	—	—	—
Exercise of stock options and other incentive plan activity, net of tax	6.4	38.0	—	9.5	—	—
Acquisitions	111.2	549.7	—	—	—	286.8
Transition adjustment related to change in accounting for derivative instruments and hedging activities, net of tax	—	—	—	—	5.9	—
Net unrealized loss on qualifying cash flow hedges, net of tax	—	—	—	—	(31.5)	—
Minimum pension liability adjustment, net of tax	—	—	—	—	(2.6)	—
Translation adjustments	—	—	—	—	(39.3)	—
Balance at December 31, 2001	833.0	722.5	350.8	—	(90.5)	(100.5)
Net income	—	—	127.4	—	—	—
Exercise of stock options and other incentive plan activity, net of tax	17.7	69.2	—	—	—	—
Exercise of warrants	5.1	19.1	—	—	—	—
Acquisitions	2.2	13.6	—	—	—	—
Net unrealized loss on qualifying cash flow hedges, net of tax	—	—	—	—	(22.9)	—
Minimum pension liability adjustment, net of tax	—	—	—	—	(226.8)	—
Restricted stock grant, net of \$2.8 amortization	10.0	38.9	—	(46.1)	—	—
Treasury stock repurchased	—	—	—	—	—	(172.9)
Translation adjustments	—	—	—	—	142.6	—
Balance at December 31, 2002	\$ 868.0	\$ 863.3	\$ 478.2	\$ (46.1)	\$ (197.6)	\$ (273.4)

The accompanying notes are an integral part of these statements.

SPX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2002	2001	2000
	(In millions)		
Cash flows from (used in) operating activities:			
Net income	\$ 127.4	\$ 173.0	\$ 189.5
Loss (income) from discontinued operations, net of tax	12.9	16.9	(12.0)
Gain on initial public offering of discontinued operations, net of tax	—	—	(57.6)
Change in accounting principle	148.6	—	—
	<u>288.9</u>	<u>189.9</u>	<u>119.9</u>
Income from continuing operations before change in accounting principle	288.9	189.9	119.9
Adjustments to reconcile income to net cash from operating activities:			
Special and other charges	94.4	69.1	93.7
Loss on sale of assets	10.3	11.8	—
Early extinguishment of debt	8.2	—	15.0
Fair value of swaps reclassified to interest expense	14.8	—	—
Deferred income taxes	135.8	116.6	65.8
Depreciation	108.7	84.7	58.3
Amortization of goodwill and intangibles	12.1	64.7	35.7
Employee benefits	1.1	(34.1)	(38.1)
Other, net	(2.7)	11.6	(12.0)
Changes in assets and liabilities, net of effects from acquisitions and divestitures:			
Accounts receivable and other	(23.0)	(58.8)	(1.4)
Inventories	1.1	45.9	(16.2)
Accounts payable, accrued expenses and other	(115.4)	32.4	(58.2)
Cash spending on restructuring actions	(85.8)	(50.8)	(27.9)
Taxes paid on the sale of Best Power	—	—	(69.0)
	<u>448.5</u>	<u>483.0</u>	<u>165.6</u>
Net cash from continuing operations	448.5	483.0	165.6
Net cash (used in) from discontinued operations	(9.4)	9.2	5.6
	<u>439.1</u>	<u>492.2</u>	<u>171.2</u>
Net cash from operating activities	439.1	492.2	171.2
Cash flows from (used in) investing activities:			
Proceeds from asset sales	100.9	182.9	—
Business acquisitions and investments, net of cash acquired	(237.6)	(508.7)	(165.4)
Capital expenditures	(88.5)	(136.9)	(118.1)
Other, net	(7.5)	(22.5)	(15.4)
	<u>(232.7)</u>	<u>(485.2)</u>	<u>(298.9)</u>
Net cash used in continuing operations	(232.7)	(485.2)	(298.9)
Net cash used in discontinued operations	(6.4)	(32.5)	(55.4)
	<u>(239.1)</u>	<u>(517.7)</u>	<u>(354.3)</u>
Net cash used in investing activities	(239.1)	(517.7)	(354.3)
Cash flows from (used in) financing activities:			
Net borrowings under revolving credit agreement	—	—	155.0
Borrowings under other debt agreements	1,894.3	1,700.1	502.4
Payments under other debt agreements	(1,869.4)	(1,328.3)	(479.9)
Purchases of common stock	(172.9)	—	(138.8)
Common stock issued under stock incentive programs	49.1	44.9	15.2
Common stock issued under exercise of stock warrants	24.2	—	—
Other, net	(15.5)	—	—
	<u>(90.2)</u>	<u>416.7</u>	<u>53.9</u>
Net cash (used in) from continuing operations	(90.2)	416.7	53.9
Net cash (used in) from discontinued operations	(13.9)	(4.9)	124.1
	<u>(104.1)</u>	<u>411.8</u>	<u>178.0</u>
Net cash (used in) from financing activities	(104.1)	411.8	178.0
Net change in cash and equivalents	95.9	386.3	(5.1)
Consolidated cash and equivalents at beginning of year	460.0	73.7	78.8
	<u>\$ 555.9</u>	<u>\$ 460.0</u>	<u>\$ 73.7</u>
Consolidated cash and equivalents at end of year	\$ 555.9	\$ 460.0	\$ 73.7
Cash and equivalents of discontinued operations	\$ 14.6	\$ 17.0	\$ 21.6
Cash and equivalents of continuing operations	\$ 541.3	\$ 443.0	\$ 52.1
Supplemental disclosure of cash flows information:			
Interest paid	\$ 151.9	\$ 122.0	\$ 96.4
Income taxes paid	\$ 21.5	\$ 35.2	\$ 95.5
Noncash investing and financing activities:			
Fair value of shares issued for acquisitions	\$ 15.8	\$ 947.7	\$ —

The accompanying notes are an integral part of these statements.

SPX CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002

(Dollar and share amounts in millions, except per share and per LYON data)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our significant accounting and financial policies are described below as well as in other Notes that follow.

Basis of Presentation — The consolidated financial statements include our accounts after the elimination of inter-company transactions. Investments in unconsolidated companies where we exercise significant influence are accounted for using the equity method. Certain prior year amounts have been reclassified to conform to current-year presentation, including the results of discontinued operations. These reclassifications had no impact on previously reported results of operations, in total, or total stockholders' equity. On May 5, 2003, we completed the sale of our Inrange Technologies Corporation subsidiary ("Inrange"). The results of Inrange are reported as discontinued operations in our consolidated financial statements. Therefore, unless otherwise indicated, amounts provided in these notes pertain to continuing operations only (see Note 4 for more information on the sale of Inrange). In connection with the October 24, 2002 two-for-one stock split, the capital accounts, all share data and earnings per share data in this report give effect to the stock split, applied retroactively, for all periods presented.

Foreign Currency Translation - The financial statements of our foreign subsidiaries are translated into U.S. dollars in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation". Balance sheet accounts are translated at the current rate at the end of each period and the income statement accounts are translated at the average rate. Gains and losses on foreign currency translations are reflected as a separate component of shareholders' equity and other comprehensive income. Transaction gains and losses are included in net income and were not material in any year presented.

Cash Equivalents — We consider our highly liquid money market investments with original maturities of three months or less at the date of purchase to be cash equivalents.

Revenue Recognition — We recognize revenues from product sales upon shipment to the customer, except for revenues from service contracts and long-term maintenance arrangements, which are deferred and recognized on a straight line basis over the agreement period, and revenues from certain construction/installation contracts, which are recognized using the percentage-of-completion method of accounting. Under the percentage-of-completion method, revenue is recognized based on effort or costs incurred to date as compared to total estimated effort or cost of the total contract. Certain sales to distributors made with return rights and/or price protection features are recognized upon shipment to the customer. Expected returns under these contracts are approximately 0.1% of total revenues, can be reasonably estimated and are accrued for at the time of sale, and either a restocking charge is assessed on a return (up to 25% of sales price), or the customer must issue a replace order before the return is authorized. Amounts billed for shipping and handling are included in revenue. In addition, costs incurred for shipping and handling are recorded in cost of products sold and not netted against amounts billed.

Research and Development Costs — Internal research and development costs are expensed as incurred. Costs incurred in the research and development of new software included in products are charged to expense as incurred until technological feasibility is established. After technological feasibility is established, additional costs are capitalized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed" until the product is available for general release. These costs are amortized over the lesser of three years or the economic life of the related products and the amortization is included in cost of products sold. We perform a periodic review of the recoverability of such capitalized software costs. At the time a determination is made that capitalized amounts are not recoverable based on the estimated cash flows to be generated from the applicable software, any remaining capitalized amounts are written off. We expensed approximately \$95.5 of research activities relating to the development and improvement of our products in 2002, \$81.3 in 2001 and \$51.9 in 2000.

Purchased in-process research and development represents the value assigned in a purchase business combination to research and development projects of the acquired business that were commenced but not yet completed at the date of acquisition, for which technological feasibility has not yet been established and which have no alternative future use in research and development activities or otherwise. Amounts assigned to purchased in-process research and development meeting the above criteria are written off and charged to expense at the date of consummation of the business combination in accordance with generally accepted accounting principles in the United States ("GAAP"). We wrote-off \$1.6 of in-process research and development in 2001. See Note 6 for more information.

Property, Plant and Equipment — Property, plant and equipment ("PP&E") is stated at cost, less accumulated depreciation and amortization. We use the straight-line method for computing depreciation expense over the useful lives of PP&E, which do not exceed 40 years for buildings and range from three to 15 years for machinery and equipment. Leasehold improvements are amortized over the life of the related asset or the life of the lease, whichever is shorter.

Stock Based Employee Compensation — We have a stock based compensation plan, including stock option and restricted stock awards. We account for our stock-based employee compensation under Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees,” and, accordingly, except for restricted stock awards, no stock option expense is recognized. We have adopted the disclosure provisions of SFAS No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123” and the following table illustrates the pro forma effect on net income and income per share in 2002, 2001 and 2000 had the fair value recognition provisions of SFAS No. 123 “Accounting for Stock-Based Compensation” been applied to stock-based employee compensation. We have revised the pro forma net income and pro forma earnings per share amounts in 2002, 2001, and 2000 to reflect the impact of the pro forma tax benefit for non-deductible equity instruments and of actual forfeitures.

	As Reported			Adjustment			Revised		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
Net Income—as reported	\$ 127.4	\$ 173.0	\$ 189.5	\$ —	\$ —	\$ —	\$ 127.4	\$ 173.0	\$ 189.5
Add: Stock-based employee compensation expense included in reported net income, net of related tax effect	2.8	—	—	—	—	—	2.8	—	—
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effect									
Awards granted at market value	(42.2)	(27.2)	(16.2)	3.3	5.7	(3.2)	(38.9)	(21.5)	(19.4)
Awards granted above market value	(15.6)	(11.5)	(4.4)	(29.5)	(30.3)	(14.6)	(45.1)	(41.8)	(19.0)
Net Income—pro forma	\$ 72.4	\$ 134.3	\$ 168.9	\$ (26.2)	\$ (24.6)	\$ (17.8)	\$ 46.2	\$ 109.7	\$ 151.1
Basic earnings per share of common stock:									
Income per share—as reported	\$ 1.56	\$ 2.38	\$ 3.08	\$ —	\$ —	\$ —	\$ 1.56	\$ 2.38	\$ 3.08
Income per share—pro forma	0.89	1.85	2.74	(0.32)	(0.34)	(0.29)	0.57	1.51	2.45
Diluted earnings per share of common stock:									
Income per share—as reported	\$ 1.54	\$ 2.33	\$ 2.98	\$ —	\$ —	\$ —	\$ 1.54	\$ 2.33	\$ 2.98
Income per share—pro forma	0.87	1.81	2.66	(0.31)	(0.33)	(0.28)	0.56	1.48	2.38
Basic earnings per share of common stock from continuing operations:									
Income per share—as reported *	\$ 3.39	\$ 2.38	\$ 3.08	\$ 0.16	\$ 0.23	\$ (1.13)	\$ 3.55	\$ 2.61	\$ 1.95
Income per share—pro forma	2.72	1.85	2.74	(0.17)	(0.11)	(1.42)	2.55	1.74	1.32
Diluted earnings per share of common stock from continuing operations:									
Income per share—as reported *	\$ 3.33	\$ 2.33	\$ 2.98	\$ 0.15	\$ 0.23	\$ (1.09)	\$ 3.48	\$ 2.56	\$ 1.89
Income per share—pro forma	2.66	1.81	2.66	(0.16)	(0.10)	(1.38)	2.50	1.71	1.28

* Adjustment reflects discontinued operations treatment for Inrange

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Financial Instrument Policy — We use interest rate swaps to manage our exposures to fluctuating interest rate risk on our variable rate debt portfolio. We use interest rate swaps as a cash flow hedge to reduce the risk of fluctuating interest rates by fixing a known cash flow that will be expended at future dates for the payment of interest. We do not enter into financial instruments for speculative or trading purposes.

On January 1, 2001, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and SFAS No.138. These rules require that derivative instruments be reported in the consolidated financial statements at fair value. Changes in the fair value of derivatives are to be recorded each period in earnings or other comprehensive income, depending on whether the derivative is designated and effective as part of a hedged transaction and on the type of hedge transaction. Gains or losses on derivative instruments reported in other comprehensive income must be reclassified as earnings in the period in which earnings are affected by the underlying hedged item, and the ineffective portion of all hedges must be recognized in earnings in the current period. These standards can result in additional volatility in reported earnings, other comprehensive income and accumulated other comprehensive income. See Note 14 for further discussion of the impact of these standards.

Initially, upon adoption of the derivative accounting requirements, and prospectively, on the date a derivative contract is entered into, SFAS No. 133 requires that a qualifying derivative be designated as either (1) a hedge of a recognized asset or liability or an unrecognized firm commitment (a fair value hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (a cash flow hedge), or (3) a hedge of a net investment in a foreign operation (a net investment hedge).

We formally document our hedge relationships, including identification of the hedging instruments and the hedged items, as well as our risk management objectives and strategies for undertaking the hedge transaction. Derivatives are recorded in the balance sheets at fair value in other assets or other liabilities. We also formally assess, both at inception and quarterly thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged item. The effective portion of the changes in the fair value of our interest rate swaps, which are designated as cash flow hedges, is recorded in accumulated other comprehensive loss, net of tax. Ineffectiveness is recorded as a component of interest expense. Changes in fair value are assessed quarterly based on dealer quotes.

(2) USE OF ESTIMATES

The preparation of our consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. We evaluate these estimates and judgments on an ongoing basis and base our estimates on experience, current and expected future conditions, third party evaluations and various other assumptions that we believe are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results may differ from the estimates and assumptions used in the financial statements and related notes.

Listed below are the significant estimates and assumptions used in the preparation of our financial statements. Certain other estimates and assumptions are further explained in the related Notes.

Allowance for Doubtful Accounts — We estimate losses for uncollectible accounts based on the aging of the accounts receivable and the evaluation of the likelihood of success in collecting the receivable. Summarized below is the activity for allowance for doubtful accounts.

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Allowance for doubtful accounts:			
Balance at beginning of year	\$ 26.3	\$ 14.2	\$15.6
Acquisitions	3.5	10.5	—
Provisions	17.3	17.4	6.9
Write offs, net of recoveries	(14.8)	(15.8)	(8.3)
	<u> </u>	<u> </u>	<u> </u>
Balance at end of year	\$ 32.3	\$ 26.3	\$14.2
	<u> </u>	<u> </u>	<u> </u>

Impairment of Long-Lived Assets and Intangibles Subject to Amortization — We continually review whether events and circumstances subsequent to the acquisition of any long-lived assets, or intangible assets subject to amortization, have occurred that indicate the remaining estimated useful lives of those assets may warrant revision or that the remaining balance of those assets may not

be recoverable. If events and circumstances indicate that the long-lived assets should be reviewed for possible impairment, we use projections to assess whether future cash flows on a non-discounted basis related to the tested assets are likely to exceed the recorded carrying amount of those assets, to determine if a write-down is appropriate. Should impairment be identified, a loss would be reported to the extent that the carrying value of the impaired assets exceeds their fair values as determined by valuation techniques appropriate in the circumstances that could include the use of similar projections on a discounted basis.

In determining the estimated useful lives of definite lived intangibles, we consider the nature, competitive position, life cycle position, and historical and expected future operating cash flows of each acquired asset, as well as our commitment to support these assets through continued investment and legal infringement protection.

Goodwill and Indefinite Lived Intangible Assets — Goodwill and indefinite lived intangible assets are tested for impairment at least annually to determine whether the carrying value of goodwill and indefinite lived intangible assets exceed their implied fair value. The fair value of reporting units is based on discounted projected cash flow but we also consider factors such as market capitalization and comparable industry price multiples. We employ cash flow projections that are believed to be reasonable under current and forecasted circumstances, the results of which form the basis for making judgments about the carrying values of the reported net assets of our reporting units. Many of our businesses closely follow changes in the industries and end-markets that they serve. Accordingly, estimates and judgments that effect the future cash flow projections including principal methods of competition including volume, price, service, product performance and technical innovations are considered. Actual results may differ from these estimates under different assumptions or conditions. See Note 10 for more information.

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Accrued Expenses — We make estimates and judgments in establishing accruals as required under GAAP. Summarized in the table below are current accrued expenses at December 31, 2002 and 2001.

	December 31,	
	2002	2001
Employee benefits	\$256.1	\$230.2
Legal	47.0	87.1
Warranty	73.4	70.0
Restructuring related accruals (1)	57.1	83.8
Other	355.7	341.8
	\$789.3	\$812.9

(1) Includes the UDI integration accruals described in Note 4.

Legal — It is our policy to accrue for estimated losses from legal actions or claims, including legal expenses, when events exist that make the realization of the loss or expenses probable and they can be reasonably estimated. In 2002, we settled approximately \$26.7 of legal claims and related fees previously accrued for in connection with product disputes, patent litigation, supplier disputes and other commercial claims.

Environmental Remediation Costs — Costs incurred to investigate and remediate environmental issues are expensed unless they extend the economic useful life of related assets. Liabilities are recorded and expenses are reported when it is probable that an obligation has been incurred and the amounts can be reasonably estimated. Our environmental accruals cover anticipated costs, including investigation, remediation, and operation and maintenance of clean-up sites. Our estimates are primarily based on investigations and remediation plans established by independent consultants, regulatory agencies and potentially responsible third-parties. Environmental obligations are not discounted and are not reduced by anticipated insurance recoveries. In 2002, we paid approximately \$4.5 associated with environmental remediation and received approval from the State of Connecticut for a favorable remedial action plan to address a soil contamination site, which reduced our remediation obligation by \$11.3.

Self-Insurance — We are primarily self-insured for workers' compensation, automobile, product, and general liability costs and we believe that we maintain adequate accruals to cover our retained liability. Our accrual for self-insurance liability is determined by management and is based on claims filed and an estimate of claims incurred but not yet reported. Management considers a number of factors, including third-party actuary valuations, when making these determinations. We maintain third party stop-loss insurance policies to cover all liability costs in excess of predetermined amounts.

Warranty — In the normal course of business we issue product warranties for specific product lines and provide for the estimated future warranty cost in the period in which the sale is recorded. We provide for the estimate of warranty cost based on contract terms and historical warranty loss experience that is periodically adjusted for recent actual experience. Because warranty estimates are forecasts that are based on the best available information, claims costs may differ from amounts provided. Adjustments to initial obligations for warranties are made as changes in the obligations become reasonably estimable. The following is an analysis of our product warranty accrual in 2002:

Balance at beginning of year	\$ 70.0
Acquisitions	6.5
Provisions	35.6
Usage	(38.7)
Balance at end of year	\$ 73.4

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(3) NEW ACCOUNTING PRONOUNCEMENTS

The following is a summary of new accounting pronouncements that apply or may apply to our business.

On July 20, 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." These pronouncements change the accounting for business combinations, goodwill and intangible assets. The requirements of SFAS No. 141 are effective for any business combination accounted for by the purchase method that is completed after June 30, 2001 and the amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, we adopted the provisions of SFAS No. 142, as required, on January 1, 2002. See Note 10 for further discussion on the impact of adopting SFAS No. 141 and SFAS No. 142.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." The provisions of SFAS No. 143 require that asset retirement obligations that are identifiable upon acquisition and construction, and during the operating life of a long-lived asset be recorded as a liability using the present value of the estimated cash flows. A corresponding amount would be capitalized as part of the asset's carrying amount and amortized to expense over the asset's useful life. We have adopted the provisions of SFAS No. 143 effective January 1, 2003. The adoption of this statement has not had and is not expected to have a material impact on our financial position, results of operations or cash flows.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and also supersedes the provisions of APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions." SFAS No. 144 retains the requirements of SFAS No. 121 to (a) recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flow and (b) measure an impairment loss as the difference between the carrying amount and the fair value of the asset. SFAS No. 144 establishes a single model for accounting for long-lived assets to be disposed of by sale. As required, we have adopted the provisions of SFAS No. 144 effective January 1, 2002, and the effect of adoption was not material to our financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This Statement also rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers." This Statement amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Effective July 1, 2002, we early adopted the provisions of SFAS No. 145. In accordance with the provisions regarding the gains and losses from the extinguishment of debt, we recorded a charge, to interest expense, as a result of our July and December 2002 refinancings. In addition, in 2000, we had previously recorded a \$8.8 (\$15.0 pre-tax) loss on early extinguishment of debt as an extraordinary item. In accordance with the adoption of SFAS No. 145, we have, in this presentation of 2000 results, reclassified the \$15.0 pre-tax loss to interest expense and the related tax benefit of \$6.2 to income tax expense. See Note 13 for further discussion of the loss on early extinguishment of debt recorded in 2002.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing or other exit or disposal activities. Previous accounting guidance was provided by EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 replaces EITF 94-3 and is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. We frequently engage in strategic restructuring and integration initiatives that include exit and disposal activities. Accordingly, SFAS No. 146 has impacted the timing of recognition of certain restructuring costs, but has not had a material impact on our financial position and results of operations.

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In November 2002, the FASB issued Financial Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that a guarantor must recognize, at the inception of a guarantee, a liability for the fair value of the obligation that it has undertaken in issuing a guarantee. FIN 45 also addresses the disclosure requirements that a guarantor must include in its financial statements for guarantees issued, including matters such as commercial product warranties. The disclosure requirements in this interpretation are effective for financial statements ending after December 15, 2002. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. We adopted the recognition provisions of FIN 45 effective January 1, 2003 for guarantees issued or modified after December 31, 2002. The adoption of FIN 45 did not have an impact on our financial position, results of operations or cash flows. Refer to Note 2 for the additional disclosure information as required by FIN 45.

In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123." This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. As of December 31, 2002, we have adopted the disclosure-only provisions of SFAS 148 and will continue to account for stock-based compensation under APB Opinion No. 25, "Accounting for Stock Issued to Employees." The adoption of SFAS No. 148 had no impact on our financial position or results of operations.

In January 2003, the FASB issued Financial Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities," an interpretation of Accounting Research Bulletin 51, "Consolidated Financial Statements". FIN 46 requires that unconsolidated variable interest entities be consolidated by their primary beneficiaries and applies immediately to variable interest entities created after January 31, 2003 and to existing entities in the periods beginning after June 15, 2003. Currently, we are still assessing the provisions of FIN 46; however, the adoption has not had an impact on our financial position or results of operations.

(4) ACQUISITIONS AND DIVESTITURES

We use acquisitions as a part of our strategy to acquire access to new technology, expand our geographical reach, penetrate new markets and leverage our existing product, market, manufacturing or technical expertise. We continually review each of our businesses pursuant to our "fix, sell or grow" strategy. Acquisitions and divestitures for the twelve months ended December 31, 2002 and 2001 are described below.

All business acquisitions have been accounted for using the purchase method of accounting and, accordingly, the statements of consolidated income include the results of each acquired business since the date of acquisition. The assets acquired and liabilities assumed are recorded at estimates of fair values as determined by management based on information available. Management considers a number of factors, including third-party valuations or appraisals, when making these determinations. We finalize the allocation of purchase price to the fair value of the assets acquired and liabilities assumed when we obtain information sufficient to complete the allocation, but in any case, within one year after acquisition.

Discontinued Operations—2003

In the first quarter of 2003, as part of our ongoing strategic review process, we evaluated several alternatives for our Inrange Technologies Corporation subsidiary, part of our Technical Products and Systems segment, and concluded that it was a better strategic fit with another company. Therefore, on April 7, 2003, we announced that we had signed a definitive agreement with Computer Network Technology Corporation ("CNT") to sell our ownership of the outstanding shares of Inrange. On May 5, 2003, the sale of Inrange to CNT closed and our portion of the cash proceeds was \$148.5, after a \$24.5 settlement of an inter-company note payable by us to Inrange. The loss on the sale of Inrange, net of tax, was \$18.9.

We have accounted for Inrange as a discontinued operation, in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment and Disposal of Long-lived Assets." The results of Inrange for all periods presented are included in the consolidated financial statements as discontinued operations. Included in the results of discontinued operations are the \$98.0 (\$57.6 after-tax) gain recorded for the September 2000 initial public offering of Inrange and the \$128.2 net cash proceeds that were received from the offering. See Note 7 for more information on the initial public offering.

For the years ended December 31, 2002, 2001 and 2000, total revenues from discontinued operations were \$223.5, \$260.9 and \$233.6, respectively. For the years ended December 31, 2002 and 2001, pre-tax loss from discontinued operations was \$21.2 and \$30.6, respectively. Pre-tax income for the year ended December 31, 2000 was \$117.6, which includes the \$98.0 gain on the initial public offering of Inrange in 2000.

The major classes of assets and liabilities of Inrange, included in the accompanying consolidated balance sheets as of December 31, 2002 and 2001, respectively, are shown below. The amounts below exclude inter-company balances and may differ from Inrange's publicly issued financial statements to conform to the presentation in our consolidated balance sheets as of December 31, 2002 and 2001.

	<u>2002</u>	<u>2001</u>
Assets:		
Cash and equivalents	\$ 14.6	\$ 17.0
Accounts receivable, net	61.5	70.9
Inventories, net	27.5	28.2
Other current assets	10.7	7.8
Net property, plant and equipment	16.7	23.3
Goodwill and intangibles, net	107.1	94.5
Other assets	25.2	38.6
	<u> </u>	<u> </u>
Assets of discontinued operations	\$263.3	\$280.3
	<u> </u>	<u> </u>
Liabilities:		
Accounts payable	\$ 14.4	\$ 29.5
Accrued expenses and other	35.2	44.0
Long-term debt	—	1.2
Deferred income taxes	37.1	30.1
	<u> </u>	<u> </u>
Liabilities of discontinued operations	\$ 86.7	\$104.8
	<u> </u>	<u> </u>

Acquisitions — 2002

In the Technical Products and Systems segment, we completed seven acquisitions with an aggregate purchase price of \$116.6, which included the issuance of common stock valued at \$2.9. In aggregate, the acquired companies had revenues of \$161.2 in the twelve months prior to the respective dates of acquisition. These acquisitions include Dukane Communications Systems and Vance International, Inc; both of which are being integrated into our security and integrated building life-safety systems unit.

In the Industrial Products and Services segment, we completed one acquisition for a purchase price of \$13.4, which included the issuance of common stock valued at \$11.5. The acquired company had revenues of \$9.6 in the twelve months prior to the date of acquisition. The acquisition was made by our power systems business.

In the Flow Technology segment, we completed four acquisitions with an aggregate purchase price of \$128.7. The acquired companies had revenues of \$315.5 in the twelve months prior to their respective dates of acquisition. These acquisitions include the acquisition of certain assets and liabilities of Daniel Valve Company and Balcke Cooling Products Group ("Balcke"). We acquired Daniel Valve for a cash purchase price of \$72.0. Daniel Valve had revenues of \$46.7 in the twelve months prior to the date of acquisition. This acquisition is being integrated into our process and fluid systems business.

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We acquired Balcke from Babcock Borsig AG for a net purchase price of approximately \$44.3, which includes debt assumed. Of the purchase price, \$14.0 is held in escrow as of December 31, 2002 to be paid in 2003. Based in Oberhausen, Germany, Balcke is a leader in the design, manufacture and marketing of dry and wet cooling system products in the global power, chemical, petro chemical and process industries. Balcke had revenues of approximately \$226.0 in the twelve months prior to the date of acquisition. This business is being integrated into our cooling technologies and services business. The integration actions planned for Balcke are more extensive than actions taken at most of our bolt-on acquisitions, and current plans call for the closure of eight Balcke facilities and a reduction in employee headcount of approximately 167. The costs associated with these actions are considered liabilities assumed and are accounted for as part of the purchase price allocation.

In the Service Solutions segment, we completed one acquisition for a purchase price of \$5.0. The acquired company had revenues of \$4.8 in the twelve months prior to the date of acquisition. This acquisition will become part of the technical information and services business.

These acquisitions are not material individually or in the aggregate.

Acquisitions — 2001

In the Technical Products and Systems segment we completed six acquisitions with an aggregate purchase price of \$402.4. In aggregate, the acquired companies had revenues of \$260.8 in the year prior to their respective dates of acquisition. These acquisitions include Kendro Laboratory Products, L.P. by Revco Technology, SPX's life-sciences business unit and TCI International and Central Tower by Dielectric Communications, SPX's broadcast antenna and radio frequency transmission systems business unit. The acquisition of Kendro was completed in July 2001 for \$320.0 in cash and accounted for using the purchase method of accounting under SFAS No. 141. Accordingly, the purchase price was allocated to the related assets acquired and liabilities assumed based on fair market values at the date of acquisition. Of the total assets acquired, \$239.1 has been allocated to goodwill, \$39.2 to trademarks and \$13.2 to other intangibles.

In the Industrial Products and Services segment, we completed three acquisitions with an aggregate purchase price of \$52.3. In aggregate, the acquired companies had revenues of \$70.1 in the year prior to their respective dates of acquisition. These acquisitions include Carfel by our specialty engineered products.

In the Flow Technology segment, we completed three acquisitions with an aggregate purchase price of \$29.3. In aggregate, the acquired companies had revenues of \$56.8 in the year prior to their respective dates of acquisition.

These acquisitions are not material individually or in the aggregate.

UDI Acquisition — May 24, 2001

On May 24, 2001, we completed the acquisition of United Dominion Industries Limited "UDI" in an all-stock transaction valued at \$1,066.9 including \$128.0 of cash costs related to transaction fees and corporate change in control matters. We issued a total of 18.770 shares (7.780 from treasury) to complete the transaction. We also assumed or refinanced \$884.1 of UDI debt bringing the total transaction value to \$1,951.0.

UDI, which had sales of \$2,366.2 for the twelve months ended December 31, 2000, manufactured products including: electrical test and measurement solutions; cable and pipe locating devices; laboratory testing chambers; industrial ovens; electrodynamic shakers; air filtration and dehydration equipment; material handling devices; electric resistance heaters; soil, asphalt and landfill compactors; specialty farm machinery; pumps; valves; cooling towers; boilers; leak detection equipment; and aerospace components.

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The acquisition was accounted for using the purchase method of accounting in accordance with APB No.16 and 17, and, accordingly, the consolidated statements of income include the results of UDI beginning May 25, 2001. The assets acquired and liabilities assumed were recorded at fair values with useful lives as determined by management. Management considered a number of factors, including third-party valuations and appraisals, when making these determinations. During the second quarter 2002, we completed our review and determination of the fair value of the assets acquired and liabilities assumed. A final summary of the assets acquired and liabilities assumed in the acquisition is as follows:

Estimated fair values	
Assets acquired	\$ 1,917.1
Liabilities assumed	(2,012.4)
Excess of cost over net assets acquired	1,162.2
<hr/>	
Purchase price	\$ 1,066.9
Less cash acquired	(78.4)
<hr/>	
Net purchase price	\$ 988.5
<hr/>	

As a result of the acquisition of UDI, we have incurred integration expenses for the incremental costs to exit and consolidate activities at UDI locations, involuntarily terminate UDI employees, and other costs to integrate operating locations and other activities of UDI with SPX. These integration actions included work force reduction initiatives that eliminated approximately 2,500 former UDI employees, excluding businesses sold. GAAP requires that these acquisition integration expenses, which are not associated with the generation of future revenues and which do not benefit activities that will be continued, be reflected as assumed liabilities in the allocation of the purchase price to the net assets acquired. On the other hand, these same principles require acquisition integration expenses, associated with integrating SPX operations into UDI locations, to be recorded as expense. These expenses are discussed in Note 6. The balances of the acquisition integration liabilities included in the purchase price allocation for UDI are as follows:

	<u>Work force Reductions</u>	<u>Non- cancelable Leases</u>	<u>Facility Consolidation/ Other</u>	<u>Total</u>
Original costs	\$ 46.4	\$ 9.1	\$ 20.6	\$ 76.1
Purchase price adjustments	8.0	0.4	6.4	14.8
Payments (1)	(25.3)	(1.4)	(11.4)	(38.1)
<hr/>				
Balance at December 31, 2001	\$ 29.1	\$ 8.1	\$ 15.6	\$ 52.8
Purchase price adjustments	(0.6)	—	7.7	7.1
Payments (1)	(26.9)	(2.9)	(21.7)	(51.5)
<hr/>				
Balance at December 31, 2002	\$ 1.6	\$ 5.2	\$ 1.6	\$ 8.4
<hr/>				

(1) During 2001 and 2002, \$9.1 and \$11.2, respectively, of pension assets were used to fund employee severance costs.

The acquisition of UDI significantly affects the comparability of the 2002, 2001 and 2000 results of operations. Unaudited pro forma results of operations for 2001 and 2000 are presented below as if the acquisition of UDI, which was acquired on May 24, 2001, took place on January 1, 2000. Effective January 1, 2002, we adopted the remaining provisions of SFAS No. 141 and SFAS No. 142. SFAS No. 142 requires that goodwill and indefinite lived intangible assets no longer be amortized. Accordingly, we discontinued amortization of these assets on the date of adoption. The following 2001 and 2000 pro forma results assume that the cessation of the amortization of goodwill and indefinite lived intangible assets occurred on January 1, 2000.

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The pro forma results include estimates and assumptions that management believes are reasonable. However, pro forma results do not include any anticipated cost savings or expenses of the planned integration of UDI and SPX, and are not necessarily indicative of the results that would have occurred if the business combination had been in effect on the dates indicated, or that may result in the future. The consolidated interest expense has been computed on assumptions that the refinancing of UDI debt occurred entirely under the credit agreement, in place as of the merger, and not through the issuance of publicly traded or privately placed notes. Interest income was not changed from historical amounts and debt issuance costs are amortized over five years. The pro forma results assume the fair values and lives of definite lived intangible assets as determined by management, who considered a number of factors, including third-party appraisals. The pro forma consolidated effective income tax rate for the combined companies includes the impact of special and other charges and unusual items as well as increases in foreign income tax rates due to the acquisition.

	Twelve months ended December 31,		
	2002	2001	2000
	Actual	Pro Forma	Pro Forma
Revenues	\$4,822.3	\$ 4,747.8	\$4,811.5
Income from continuing operations before change in accounting principle (1) (2)	288.9	248.2	197.6
Net income	127.4	233.9	267.7
Basic income per share:			
Income before change in accounting principle	\$ 3.55	\$ 2.95	\$ 2.46
(Loss) income from discontinued operations	(0.16)	(0.17)	0.87
Change in accounting principle	(1.83)	—	—
Net income per share	\$ 1.56	\$ 2.78	\$ 3.33
Diluted income per share:			
Income before change in accounting principle	\$ 3.48	\$ 2.90	\$ 2.40
(Loss) income from continued operations	(0.15)	(0.17)	0.85
Change in accounting principle	(1.79)	—	—
Net income per share	\$ 1.54	\$ 2.73	\$ 3.25

- (1) In 2002, we recorded a charge for a change in accounting principle of \$148.6 as a result of adopting the provisions of SFAS No. 142. See Note 10 for further discussion.
- (2) We accounted for the sale of Inrange as discontinued operations, in all years presented, in accordance with the provisions of SFAS No. 144. See discussion above for further information.

Acquisitions — 2000

In the Technical Products and Systems segment, we completed seven acquisitions with an aggregate purchase price of \$44.7. In aggregate, these acquisitions had revenues of \$31.9 in the year prior to the respective date of acquisition. These acquisitions included Ziton SA (Pty) Ltd. by our fire detection and building life-safety systems business.

In the Industrial Products and Services segment, we completed five acquisitions with an aggregate purchase price of \$81.2. In aggregate, these acquisitions had revenues of \$61.7 in the year prior to their respective date of acquisition. These acquisitions include the Fenner Fluid Power Division of Fenner plc by our hydraulic power units and controlled force tools business.

In the Flow Technology segment, we completed three acquisitions with an aggregate purchase price of \$37.7. In aggregate, these acquisitions had revenues of \$33.6 in the year prior to their respective date of acquisition. These acquisitions include Copes-Vulcan by our process and fluid handling equipment business.

In the Service Solutions segment, we completed three acquisitions with an aggregate purchase price of \$12.2. In aggregate, these acquisitions had revenues of \$9.0 in the year prior to their respective date of acquisition.

Divestitures — 2002

In 2002, we sold substantially all of the assets and liabilities of a non-strategic machinery equipment product line and a material handling product line. In total, we received \$64.5 in cash for these divestitures and recorded a loss of \$10.3.

Divestitures — 2001

On May 18, 2001, we sold substantially all of the assets and liabilities of our electric motor product line for \$27.0 in cash and a \$5.0 note, which was collected in full during the second quarter of 2002. In the second quarter of 2001, we recorded a loss of \$11.8 on the sale. In 2000, this product line had sales of \$75.3.

On August 27, 2001 we sold substantially all of the assets and liabilities of our petroleum pump product line, formerly of UDI, for a cash purchase price of \$40.0. This product line was classified as held-for-sale as of the acquisition date, and accordingly, no gain or loss was recorded on the sale. In 2000, this product line had sales of \$68.1.

During the fourth quarter of 2001 and in separate transactions, we sold five other product lines, all of which were formerly of UDI, for total consideration of \$89.4 in cash and a note of \$1.6 which was subsequently collected. These product lines were classified as held-for-sale as of the acquisition date, and accordingly, no gain or loss was recorded on the sale.

(5) BUSINESS SEGMENT INFORMATION

We are a global provider of technical products and systems, industrial products and services, flow technology and service solutions. We offer a diverse collection of products, which include fire detection and building life-safety products, TV and radio broadcast antennas and towers, life science products and services, transformers, compaction equipment, high-tech die castings, dock products and systems, cooling towers, air filtration products, valves, back-flow prevention and fluid handling equipment, and metering and mixing solutions. Our products and services also include specialty service tools, diagnostic systems, service equipment and technical information services. Our products are used by a broad array of customers in various industries, including chemical processing, pharmaceuticals, infrastructure, mineral processing, petrochemical, telecommunications, transportation and power generation.

We have aggregated certain operating segments in accordance with the criteria defined in SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The primary aggregation factors considered in determining the segments were the nature of products sold, production processes and types of customers for these products. In determining our segments, we apply the threshold criteria of SFAS No. 131 to operating income or loss of each segment before considering special and other charges, including those recorded in cost of products sold. This is consistent with the way our chief operating decision maker evaluates the results of each segment. Our results of operations are reported in four segments: Technical Products and Systems, Industrial Products and Services, Flow Technology and Service Solutions.

In 2001, our power systems business exceeded ten percent of total segment profits. As required in SFAS No. 131, the determination of the threshold criteria should be evaluated based on current and future prospects and not necessarily on the current indicators only. Including the impact of UDI on a pro forma basis, which was acquired on May 24, 2001, our power systems business did not exceed the ten percent threshold in 2001. In addition, this business did not exceed ten percent of total segment profit in 2002. Accordingly, the power systems business is included in the Industrial Products and Services segment as determined by the aggregation factors considered in determination of our segments.

Technical Products and Systems

The Technical Products and Systems segment is focused on solving customer problems with complete technology-based systems and services. The emphasis is on growth through investment in new technology, new product introductions, alliances and acquisitions.

This segment includes operating units that design, manufacture and offer laboratory and life science products and services; security and integrated building life-safety systems and services; broadcast and communication systems and services; and electrical test and measurement solutions.

Industrial Products and Services

The strategy of the Industrial Products and Services segment is to provide "Productivity Solutions for Industry". The Industrial Products and Services segment emphasizes introducing new related services and products, as well as focusing on the replacement parts and service elements of the segment.

This segment includes operating units that design, manufacture, and market power systems, compaction equipment and specialty engineered products, including engineered components and subsystems, material handling equipment and systems and heat and ventilation products.

Flow Technology

The Flow Technology segment designs, manufactures, and markets solutions and products that are used to process or transport fluids and in heat transfer applications.

This segment includes operating units that engineer, manufacture and market cooling technologies and services, and fluid systems.

Service Solutions

The Service Solutions segment consists of three primary units: diagnostic systems and service equipment, specialty tools and technical information and services. The strategy of this segment is to focus on the design, manufacture and marketing of a wide range of specialty service tools, hand-held diagnostic systems and service equipment, inspection gauging systems, and technical and training information, primarily for the franchised vehicle dealer industry in North America and Europe. Major customers are franchised dealers of motor vehicle manufacturers, aftermarket vehicle service facilities, and independent distributors.

Revenues by business segment represent sales to unaffiliated customers, and no one customer or group of customers under common control accounted for more than 10% of our consolidated sales. Intercompany sales among segments are not significant. Identifiable assets by business segment are those used in company operations in each segment. General corporate assets are principally cash, pension assets, deferred tax assets and certain prepaid expenses.

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Financial data for our business segments are as follows:

	2002	2001	2000
Revenues: (1)			
Technical Products and Systems	\$ 1,113.9	\$ 877.0	\$ 563.2
Industrial Products and Services	1,603.2	1,391.4	893.3
Flow Technology	1,385.7	912.5	286.8
Service Solutions	719.5	672.5	702.0
Total	\$ 4,822.3	\$ 3,853.4	\$ 2,445.3
Segment income: (1)			
Technical Products and Systems	\$ 222.9	\$ 179.3	\$ 125.0
Industrial Products and Services	233.0	186.5	156.6
Flow Technology	219.3	136.0	35.2
Service Solutions	86.5	68.5	69.1
Total Segment Income	761.7	570.3	385.9
General Corporate	(57.5)	(47.9)	(36.8)
Special and Other Charges (2)	(94.4)	(69.1)	(93.7)
Total Consolidated Operating Income	\$ 609.8	\$ 453.3	\$ 255.4
Capital expenditures: (1)			
Technical Products and Systems	\$ 27.6	\$ 10.7	\$ 15.1
Industrial Products and Services	21.4	75.5	46.9
Flow Technology	19.8	18.2	20.8
Service Solutions	6.4	10.3	13.0
General Corporate	13.3	22.2	22.3
Total	\$ 88.5	\$ 136.9	\$ 118.1
Depreciation and amortization: (1)			
Technical Products and Systems	\$ 25.4	\$ 24.5	\$ 10.4
Industrial Products and Services	43.1	59.4	43.5
Flow Technology	31.5	33.0	11.5
Service Solutions	12.5	27.8	26.8
General Corporate	3.5	1.8	1.2
Total	\$ 116.0	\$ 146.5	\$ 93.4
Identifiable assets:			
Technical Products and Systems	\$ 1,335.1	\$ 1,000.6	\$ 267.6
Industrial Products and Services	1,840.3	2,069.9	1,001.8
Flow Technology	1,938.6	1,567.0	289.9
Service Solutions	682.1	899.9	861.9
General Corporate	1,032.1	1,262.4	457.8
Discontinued operations	263.3	280.3	285.6
Total	\$ 7,091.5	\$ 7,080.1	\$ 3,164.6

(1) Includes the results of acquisitions from the dates of the respective acquisitions. See Note 4 for further discussion.

(2) 2002 includes special and other charges of \$94.4, \$12.6 of which is included in cost of products sold. 2001 includes \$69.1 of special and other charges, \$8.6 of which is included in cost of products sold. 2000 includes \$93.7 of special and other charges, \$12.3 of which is included in cost of products sold. See Note 6 for further discussion.

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Geographic Areas:	2002	2001	2000
Revenues — Unaffiliated Customers:			
United States (1)	\$3,570.2	\$3,030.1	\$2,154.4
Other	1,252.1	823.3	290.9
	<u>\$4,822.3</u>	<u>\$3,853.4</u>	<u>\$2,445.3</u>
Tangible Long Lived Assets:			
United States	\$1,008.2	\$1,295.4	\$ 802.0
Other	234.8	232.1	34.5
Tangible Long lived assets of continuing operations	\$1,243.0	\$1,527.5	\$ 836.5
Tangible Long lived assets of discontinued operations	41.9	61.9	53.4
Total tangible long lived assets	<u>\$1,284.9</u>	<u>\$1,589.4</u>	<u>\$ 889.9</u>
Long Lived Assets:			
United States	\$3,234.6	\$3,315.1	\$1,877.3
Other	1,134.8	1,179.6	80.9
	<u>\$4,369.4</u>	<u>\$4,494.7</u>	<u>\$1,958.2</u>
Long lived assets of discontinued operations	149.0	156.4	143.5
Total long lived assets	<u>\$4,518.4</u>	<u>\$4,651.1</u>	<u>\$2,101.7</u>
Total Assets:			
United States	\$5,453.9	\$5,767.6	\$2,894.5
Other	1,637.6	1,312.5	270.1
	<u>\$7,091.5</u>	<u>\$7,080.1</u>	<u>\$3,164.6</u>

(1) Includes export sales of \$305.2 in 2002, \$317.9 in 2001, and \$209.4 in 2000. No individual foreign country, based on destination of sale, accounted for more than 5% of consolidated revenues in 2002, 2001 or 2000.

(6) SPECIAL AND OTHER CHARGES

As part of our business strategy, we right-size and consolidate operations to drive results. Additionally, due to our acquisition strategy, from time to time we alter our business model to better serve customer demand, fix or discontinue lower-margin product lines and rationalize and consolidate manufacturing capacity. As a result of our strategic review process, we recorded special charges of \$81.8 in 2002, \$60.5 in 2001, and \$81.4 in 2000. These special charges are primarily for restructuring initiatives to consolidate manufacturing and sales facilities, reduce our work force, rationalize certain product lines and recognize asset and goodwill impairments. Additionally, we recorded other charges to cost of products sold of \$12.6 in 2002, \$8.6 in 2001 and \$12.3 in 2000, primarily for discontinued product lines and other product changes associated with restructuring initiatives.

The purpose of our restructuring initiatives is to improve profitability, streamline operations, reduce costs and improve efficiency. We estimate that we will achieve operating cost reductions in 2003 and beyond through reduced employee and manufacturing costs and other facility overhead.

The components of the charges have been computed based on actual cash payouts, our estimate of the realizable value of the affected tangible and intangible assets and estimated exit costs including severance and other employee benefits based on existing severance policies and local laws.

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EITF No. 94-3 “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)” provides specific requirements as to the appropriate recognition of costs associated with employee termination benefits and other exit costs. Employee termination costs are recognized when, management having the appropriate level of authority to involuntarily terminate employees, approves and commits us to the plan of termination, establishes the benefits that current employees will receive upon termination, and prior to the date of the financial statements, the benefit arrangement is communicated to employees. The communication of the benefit arrangement includes sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are terminated. Other exit costs are costs resulting from an exit plan that are not associated with or that do not benefit activities that will be continued. We record that cost if it is not associated with or is not incurred to generate revenues after the exit plan’s commitment date, and it meets either of the following criteria: (1) The cost is incremental to other costs that we incur in the conduct of our activities prior to the commitment date and will be incurred as a direct result of the exit plan, or (2) the cost represents amounts that we will incur under a contractual obligation that existed prior to the commitment date and will either continue after the exit plan is completed with no economic benefit to us or be a penalty incurred by us to cancel the contractual obligation.

Non-cash asset impairments are accounted for in accordance with SFAS No. 144, “Accounting for the Impairment and Disposal of Long-Lived Assets.” Typically, our non-cash asset impairments arise from business restructuring decisions that lead to the disposition of assets no longer required in the restructured business. For these situations, we recognize an impairment loss when the carrying amount of an asset exceeds the sum of the cash flows expected to result from the use and eventual disposition of the asset. Realization values for assets subject to impairment testing are primarily determined by management, taking into consideration various factors including third-party appraisals, quoted market prices and previous experience. If an impaired asset remains in service at the decision date, the remaining net book value is depreciated until the asset is no longer used in operating activities. When an impaired asset is removed from service, sale of the asset is probable, and the asset is made available for sale, depreciation of the asset is discontinued and the asset is determined to be an asset held for sale.

Special and other charges for the years ended December 31, 2002, 2001, and 2000 are described in more detail below and in the applicable sections that follow.

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Employee termination costs	\$43.2	\$18.1	\$13.9
Facility consolidation costs	10.4	13.9	17.1
Other cash costs	9.1	9.6	1.5
Non cash asset write-downs (1)	31.7	25.9	61.2
In-process technology	—	1.6	—
	<u> </u>	<u> </u>	<u> </u>
Total	\$94.4	\$69.1	\$93.7
	<u> </u>	<u> </u>	<u> </u>

(1) Of the total non-cash asset write-downs, \$12.6, \$8.6, and \$12.3 of non-cash inventory write-downs were recorded as a component of cost of products sold in 2002, 2001, and 2000, respectively.

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At December 31, 2002, a total of \$48.7 of restructuring liabilities remained on the consolidated balance sheet as shown below. With the exception of certain multi-year operating leases and other contractual obligations, we anticipate that the liabilities related to restructuring actions will be paid within one year from the period in which the action was initiated. The following table summarizes the restructuring accrual activity from December 31, 1999 through December 31, 2002:

	Employee Termination Costs	Facility Consolidation Costs	Other Cash Costs	Impairments & Write- Downs	Total
Balance at December 31, 1999	\$ 5.6	\$ 5.0	\$ 0.5	\$ —	\$ 11.1
Special and Other Charges (1)	13.9	17.1	1.5	61.2	93.7
Non-Cash Asset Write-Downs				(61.2)	(61.2)
Cash Payments	(9.5)	(16.4)	(2.0)	—	(27.9)
Balance at December 31, 2000	\$ 10.0	\$ 5.7	\$ —	\$ —	\$ 15.7
Special and Other Charges (2)	18.1	13.9	9.6	27.5	69.1
Non-Cash Asset Write-Downs				(27.5)	(27.5)
Cash Payments	(12.9)	(7.6)	(5.4)	—	(25.9)
Balance at December 31, 2001	15.2	12.0	4.2	—	31.4
Special and Other Charges (3)	43.4	10.6	9.8	31.7	95.5
Adjustments	(0.2)	(0.2)	(0.7)	—	(1.1)
Non-Cash Asset Write-Downs	—	—	—	(31.7)	(31.7)
Cash Payments	(28.2)	(6.6)	(10.6)	—	(45.4)
Balance at December 31, 2002	\$ 30.2	\$ 15.8	\$ 2.7	\$ —	\$ 48.7

(1) \$12.3 of inventory write-downs is recorded as a component of cost of products sold.

(2) \$8.6 of inventory write-downs is recorded as a component of cost of products sold. \$1.6 of the impairments & write-downs is related to the write-off of in-process research & development.

(3) \$12.6 of inventory write-downs is recorded as a component of cost of products sold.

2002 Special and Other Charges

In 2002, we continued to employ the business practices of our Value Improvement Process[®] by announcing and committing to the closure of 9 manufacturing, sales, and administrative facilities in the North America and Europe, by exiting or outsourcing unprofitable or low margin product lines, by consolidating and combining certain businesses, and by continuing to right-size our operations. As of December 31, 2002, we have committed to initiatives that, when fully completed, will reduce headcount by approximately 1,273 hourly and salaried employees located in the United States, Canada, and the United Kingdom. These restructuring actions were taken to strategically reorganize and realign our businesses to better position ourselves in the markets and industries in which we operate.

In total, we recorded net special and other charges of \$94.4 in 2002, of which \$12.6 was recorded as a component of cost of products sold. In the fourth quarter, we recognized a \$1.1 special charge credit due to better than expected results for the costs to complete certain previously announced work force reduction actions and a facility consolidation project. The inventory charges recorded in cost of products sold are associated with the realignment of certain inventory related primarily to certain market conditions, and our decision to outsource non-core components, mechanical tool assemblies, and portions of our air conditioning product lines. Of the \$94.4 cumulative charge, \$62.7 will require the use of cash and \$31.7 is a non-cash component. We expect to fund the cash costs for these actions from internal sources and proceeds generated from the sale of non-core assets.

In the Technical Products and Systems segment, \$7.6 of charges was recorded primarily related to employee benefit costs and facility consolidation costs, the announced closure of a manufacturing facility at our test instrumentation business in the United Kingdom and the consolidation and announced closure of one service center of our fire detection and building life-safety systems business. The affected service center is located in Indiana. When completed, these restructuring actions will result in the elimination of approximately 70 domestic and foreign salaried employees and 49 domestic and foreign hourly employees.

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In the Industrial Products and Services segment, \$35.9 of charges were recorded primarily related to employee benefit costs, facility consolidation costs, contract termination costs, and asset impairments for the closure of the Milpitas, California manufacturing facility at our power systems business, a restructuring action at our hydraulic systems business that will result in the exiting of certain machining operations, a decision to terminate a product licensing agreement as we exit a market strategy at our industrial filtration business, and a work force reduction at our dock products business. The majority of the impaired assets are no longer in use and are being held for sale, while some assets will remain in service until the first half of 2003 and are still being depreciated. When completed, these restructuring actions will result in the elimination of approximately 374 hourly and 201 salaried domestic employees.

In the Flow Technology segment, \$21.6 of charges, \$3.1 recorded in cost of products sold, were recorded primarily related to the following: the closure and consolidation of a manufacturing facility in the United Kingdom, the exit of a non-core product line, and integration costs for additional consolidation actions taken at SPX Valves and Controls. The initiatives taken at our valves and controls business are predominately for the integration of certain aspects of our existing valves and controls business with the recently acquired Daniel Valve operation. When completed, these restructuring and integration initiatives will result in the termination of approximately 178 hourly and 116 salaried domestic and foreign employees. Additionally, \$3.1 of this charge was recorded in cost of products sold for inventory disposed of as part of our decision to discontinue a product line at our process equipment business. In connection with the exit of this product line, we announced other restructuring actions, primarily headcount reductions that were communicated to employees in the fourth quarter.

In the Service Solutions segment, \$19.5 of charges, \$9.5 recorded in cost of products sold, were recorded in 2002 primarily related to the following: The announced closure of a manufacturing facility in Ohio, the closure of a sales and administrative facility in Canada and Arizona, and outsourcing and work force reduction actions. When completed, these actions will result in the elimination of approximately 263 hourly domestic employees and 22 domestic and foreign salaried employees. Of this charge, \$9.5 was recorded in cost of products sold, which is associated with the realignment of certain inventory related primarily to market conditions and our decision to outsource non-core components, mechanical tool assemblies and portions of our air conditioning product lines.

The Corporate special charges of \$9.8 related to the final costs of completing the relocation of our corporate headquarters to Charlotte, North Carolina, and the impairment of a corporate asset, recorded in the third quarter, that was subsequently sold in the fourth quarter.

2001 Special and Other Charges

In 2001, we committed to restructuring actions to strategically reorganize and realign our businesses to better position ourselves in the markets and industries in which we operate. As a result of these actions, we announced and completed the closure of thirteen manufacturing, sales, and administrative facilities in the United States, Europe, and Asia; we exited or outsourced unprofitable or low margin product lines; we consolidated and combined certain businesses; and we continued to right-size our operations. In 2001, we committed to initiatives that would reduce our headcount by approximately 826 hourly and salaried employees primarily located in the United States.

In total, we recorded \$69.1 of special charges in 2001 of which \$8.6 is recorded as a component of cost of products sold. \$44.2 was recorded as a result of restructuring actions, \$8.4 was recorded for goodwill and other asset impairments, \$14.9 was recorded in connection with the relocation of our corporate headquarters, and we recorded a \$1.6 write-off of in-process research and development.

In the Technical Products and Systems segment, \$6.1 of special charges has been recorded primarily related to reducing the workforce by approximately 143 employees and the consolidation of certain operations and product lines from our Lindberg unit into our Lunaire unit. We recorded a \$1.6 write-off of in-process research and development associated with the acquisition of Kendro Laboratories. In-process research and development represents the value assigned in a purchase business combination to research and development projects of the acquired business that had commenced but had not yet reached technological feasibility at the date of acquisition and that have no alternative future use.

In the Industrial Products and Services segment, \$16.0 of special charges, \$1.8 recorded in cost of products sold, has been recorded primarily related to the following: reducing the workforce by approximately 182 employees; facility consolidation costs including the closing of a manufacturing plant in Ohio and in the United Kingdom; and inventory and other asset impairments associated with the outsourcing of certain manufactured components and exiting a product line.

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In the Flow Technology segment, \$12.7 of special charges has been recorded primarily related to the following: the closure of sales and administrative offices at our industrial mixers business; and the combination of our DeZurik and Copes-Vulcan businesses with two businesses acquired with UDI, Mueller Steam Specialty and CMB, to form what is now called SPX Valves and Controls. The costs associated with this combination include amounts to reduce the workforce by approximately 186 employees, and to consolidate facilities including the closure of a manufacturing location in Minnesota and in Pennsylvania, and two in Asia.

In the Service Solutions segment, \$15.3 of special charges, \$6.8 recorded in cost of products sold, has been recorded primarily related to the following: reducing the workforce by approximately 315 employees; inventory and other asset impairments associated with exiting the dynamometer-based emissions business; and the closure of a sales office in France and in Michigan.

Corporate special charges include \$14.9 of costs associated with the relocation of our corporate headquarters to Charlotte, North Carolina. In addition to severance, these costs include non-cancelable lease obligations, facility-holding costs, and asset impairments associated with a lease facility in Muskegon, Michigan. Other special charges of \$4.1 include an asset impairment relating to the abandonment of an internet-based software system.

2000 Special and Other Charges

In 2000, we recorded \$93.7 of special charges associated with restructuring actions, asset impairments and product rationalizations. \$12.3 of this charge, which relates to inventory write-downs, is recorded in cost of products sold. In 2000, we committed to and announced the closing of ten manufacturing facilities or sales offices and the reorganization of various sales, engineering and marketing teams that reduced headcount within the Service Solutions and Industrial Products and Services segments by approximately 708 hourly and salaried employees.

In the Industrial Products and Services segment, we recorded special charges of \$51.2 associated with restructuring initiatives and goodwill impairments; \$1.1 of this charge related to inventory write-downs and was recorded in cost of products sold. The restructuring actions primarily consisted of headcount reductions, the consolidation of two facilities into one in our hydraulic power units and controlled force tools business, the closure of facilities in Pennsylvania, Virginia, and Minnesota, and asset write-downs associated with exiting the bicycle business.

In the Service Solutions segment we recorded special charges of \$32.6, of which \$11.2 is associated with discontinued product lines associated with restructuring and is recorded in cost of products sold. The remainder of the charges is primarily associated with restructuring actions that reduced headcount, closed two facilities in Michigan, one facility in Ohio, one facility in Brazil, and consolidated several European operations into a facility in Hainburg, Germany.

The 2000 Corporate special charges of \$9.9 primarily represent a write-down of an investment in certain software licenses.

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(7) GAIN ON ISSUANCE OF INRANGE STOCK

In September 2000, Inrange Technologies, one of our business units, issued 8,855 shares of its class B common stock for cash in an initial public offering. We own 75,633 shares of Inrange class A common stock. Holders of class B common stock generally have identical rights as class A common stock except for voting and conversion rights. The holders of class A common stock are entitled to five votes per share and the holders of class B common stock are entitled to one vote per share. Holders of class B common stock have no conversion rights. As of December 31, 2002, we owned approximately 92.1% of the total number of outstanding shares of Inrange common stock and approximately 98.3% of the combined voting power of all classes of Inrange voting stock. Proceeds from the offering, based on the offering price of \$16.00 per share, net of expenses, were \$128.2. We accounted for the proceeds of the offering in accordance with Staff Accounting Bulletin No. 51, "Accounting by the Parent in Consolidation for Sale of Stock in Subsidiary". In accordance with the selected accounting policy, we recorded a pretax gain of \$98.0 (\$57.6 after-tax) in the third quarter of 2000.

In the first quarter of 2003, as part of our ongoing strategic review process, we evaluated several alternatives for our Inrange Technologies Corporation subsidiary, part of our Technical Products and Systems segment, and concluded that it was a better strategic fit with another company. Therefore, on April 7, 2003, we announced that we had signed a definitive agreement with Computer Network Technology Corporation ("CNT") to sell our ownership of the outstanding shares of Inrange. See Note 4 for more discussion on the disposition of our Inrange ownership and the related accounting for Inrange as a discontinued operation.

(8) INVESTMENT IN JOINT VENTURES

For 2001 and 2000, we are required, based on certain threshold criteria, to present summary financial information for the joint ventures described below. Summary financial data is not presented for these joint ventures in 2002, because they no longer meet the threshold criteria.

EGS Electrical Group, LLC

The EGS Electrical Group is a joint venture with Emerson Electric Co., in which we hold a 44.5% interest. EGS operates primarily in the United States, Canada and Mexico and is engaged in the manufacture of electrical fittings, hazardous location lighting, and power conditioning products. We account for our investment under the equity method of accounting, on a three-month lag basis, and we typically receive the majority of our share of this joint venture's earnings in cash dividends. EGS's results of operations for its fiscal year ended September 30, 2001, and 2000 were as follows:

	2001	2000
Net sales	\$458.7	\$474.4
Gross margin	187.3	189.3
Net income	56.5	65.1

EGS's pretax income for the quarters ended December 31, 2002, 2001 and 2000 was not materially different than the pretax income earned the previous quarter. Our equity earnings in EGS were \$26.8, \$30.1, and \$34.3 for the years ended December 31, 2002, 2001 and 2000.

Condensed balance sheet information of EGS as of September 30, 2001 is as follows:

	2001
Current assets	\$145.7
Noncurrent assets	309.2
Current liabilities	67.8
Noncurrent liabilities	17.2

Assa Abloy Door Group, LLC

We own a 20% interest in a joint venture entered into with Assa Abloy AB for the manufacture, sale and distribution of door products. At the formation of the joint venture on May 31, 2001, we contributed our door products business, which was acquired in the UDI acquisition, and we received \$96.0 in cash. We account for our investment under the equity method of accounting and we typically receive the majority of our share of this joint venture's earnings in cash dividends. In connection with our allocation of the UDI purchase price, we recorded our investment in the joint venture at fair value and no gain or loss was recognized at the date the joint venture was formed. The joint venture agreement includes a put and call arrangement that allows for the sale of our 20% interest in the joint venture to Assa Abloy in June 2003 for a minimum price of \$74.0 in cash. If we put or Assa Abloy calls our 20% ownership interest, no loss will be recorded and as specified in the put and call agreement, the final settlement price for our 20% interest will be calculated based upon a pre-determined formula, which may result in a sales price greater than \$74.0. Any sales price in excess of \$74.0 would result in a corresponding gain. We intend to exercise our put right. Following is a summary of the joint venture's financial results and balance sheet information as of and for the seven month period ended December 31, 2001.

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	(Unaudited) 2001
Net sales	\$ 201.7
Gross margin	70.1
Net income	22.5
	(Unaudited) 2001
Current assets	\$ 84.7
Noncurrent assets	133.0
Current liabilities	27.8
Noncurrent liabilities	65.3

(9) INVENTORIES

	December 31,	
	2002	2001
Finished goods	\$ 311.9	\$ 251.6
Work in process	105.2	149.2
Raw materials and purchased parts	201.0	211.2
Total FIFO cost	618.1	612.0
Excess of FIFO cost over LIFO inventory value	(13.1)	(14.7)
	\$ 605.0	\$ 597.3

Inventories include material, labor and factory overhead costs and are reduced, when necessary, to estimated realizable values. Certain domestic inventories are valued using the last-in, first-out (“LIFO”) method. These inventories were \$211.4 at December 31, 2002, and \$209.5 at December 31, 2001. All other inventories are valued using the first-in, first-out (“FIFO”) method. Progress payments, netted against work in process at year-end, were \$18.6 in 2002, and \$12.0 in 2001.

(10) GOODWILL AND OTHER INTANGIBLE ASSETS

On July 20, 2001, the Financial Accounting Standards Board issued SFAS No. 141, “Business Combinations,” and SFAS No. 142, “Goodwill and Other Intangible Assets.” These pronouncements change the accounting for business combinations, goodwill and intangible assets. SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations and further clarifies the criteria to recognize intangible assets separately from goodwill. SFAS No. 142 states goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are reviewed for impairment annually (or more frequently if impairment indicators arise). Separable intangible assets that are not determined to have an indefinite life will continue to be amortized over their useful lives and assessed for impairment under the provisions of SFAS No. 144.

The requirements of SFAS No. 141 and amortization provisions of SFAS No. 142 were effective for any business combination initiated after July 1, 2001. We have not amortized goodwill and indefinite-lived intangibles for acquisitions completed after this date. With respect to goodwill and intangible assets acquired prior to July 1, 2001, companies are required to adopt SFAS No. 142 in their fiscal year beginning after December 15, 2001. We adopted the remaining provisions of SFAS No. 142 effective January 1, 2002. Upon adoption of this standard, we ceased amortization of all remaining goodwill and intangible assets deemed to have indefinite useful lives. The pro forma impact of this change is presented below.

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	Fiscal year ended December 31,		
	2002	2001	2000
Reported net income	\$ 127.4	\$ 173.0	\$ 189.5
Add back: goodwill amortization, net of tax	—	42.4	24.6
Add back: trademarks/tradenames amortization, net of tax	—	7.9	1.7
Adjusted net income	\$ 127.4	\$ 223.3	\$ 215.8
Basic earnings per share:			
Reported	\$ 1.56	\$ 2.38	\$ 3.08
Add back: goodwill amortization, net of tax	—	0.58	0.40
Add back: trademarks/tradenames amortization, net of tax	—	0.11	0.02
Adjusted earnings per share	\$ 1.56	\$ 3.07	\$ 3.50
Diluted earnings per share:			
Reported	\$ 1.54	\$ 2.33	\$ 2.98
Add back: goodwill amortization, net of tax	—	0.57	0.39
Add back: trademarks/tradenames amortization, net of tax	—	0.11	0.02
Adjusted earnings per share	\$ 1.54	\$ 3.01	\$ 3.39

In accordance with the transition rules of SFAS No. 142 effective January 1, 2002, we established our reporting units based on our current reporting structure. We then assigned all existing goodwill to the reporting units, as well as other assets and liabilities that relate to the reporting unit.

We performed our transition impairment testing as of January 1, 2002. Step 1 involved comparing the carrying values of the reported net assets of our reporting units to their fair values. Fair value was based on discounted cash flow projections determined by management, but we also considered factors such as comparable industry price multiples and third-party valuations. The net assets of our automotive filtration systems business and hydraulic systems business, both in our Industrial Products and Services segment, had carrying values in excess of their fair values. For these reporting units, we performed Step 2 of the impairment testing provisions.

Management completed Step 2 testing taking into consideration certain factors, including a third-party valuation. The assets and liabilities of our automotive filtration systems business and our hydraulic systems business were appraised at their current fair value to calculate implied goodwill for these reporting units. The recorded goodwill exceeded the implied goodwill by \$148.6, and, accordingly, this amount was required to be written-off as a transition impairment charge and recorded as a change in accounting principle. The impaired goodwill was not deductible for income tax purposes.

The following tables reflect the initial assignment of goodwill and intangible assets to the reporting units as of January 1, 2002. Thereafter, activity reflects (1) the initial allocation of purchase price for acquisitions completed during 2002, subsequent purchase price adjustments for acquisitions completed not more than one year prior to the date of adjustment and translation adjustments (2) disposals, (3) amortization and (4) impairment charges. This information is presented first on a consolidated basis and second on a segment basis.

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Consolidated:

	Unamortized		Amortized			Total
	Goodwill	Trademarks/ Tradenames	Patents	Licenses	Other	
Weighted average useful life in years	N/A	N/A	9	11	6	
January 1, 2002 gross balance	\$2,393.3	\$ 452.0	\$ 45.1	\$ 1.3	\$ 3.3	\$2,895.0
Acquisitions and related adjustments	377.5	30.6	5.3	0.4	7.5	421.3
Disposals	(26.2)	(2.8)	(2.0)	—	—	(31.0)
Impairment charge	(148.6)	—	—	—	—	(148.6)
December 31, 2002 gross balance	\$2,596.0	\$ 479.8	\$ 48.4	\$ 1.7	\$10.8	\$3,136.7
January 1, 2002 accumulated amortization			\$ (2.4)	\$ (0.5)	\$ (0.3)	\$ (3.2)
Amortization			(5.6)	(0.1)	(1.6)	(7.3)
Disposals			0.2	—	—	0.2
December 31, 2002 accumulated amortization			\$ (7.8)	\$ (0.6)	\$ (1.9)	\$ (10.3)

Estimated amortization expense:

For year ended 2003	\$8.5
For year ended 2004	\$7.8
For year ended 2005	\$9.1
For year ended 2006	\$6.6
For year ended 2007	\$5.0

Segments:

	Unamortized		Amortized			Total
	Goodwill	Trademarks/ Tradenames	Patents	Licenses	Other	
Technical Products and Systems						
January 1, 2002 gross balance	\$ 486.2	\$ 62.9	\$ 19.3	\$ 0.9	\$ 1.5	\$570.8
Acquisitions and related adjustments	134.4	22.4	(1.3)	0.7	4.4	160.6
December 31, 2002 gross balance	\$ 620.6	\$ 85.3	\$ 18.0	\$ 1.6	\$ 5.9	\$731.4
January 1, 2002 accumulated amortization			\$ (0.7)	\$ (0.5)	\$ (0.1)	\$ (1.3)
Amortization			(2.6)	(0.1)	(0.3)	(3.0)
December 31, 2002 accumulated amortization			\$ (3.3)	\$ (0.6)	\$ (0.4)	\$ (4.3)

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Industrial Products and Services

January 1, 2002 gross balance	\$ 921.5	\$ 158.3	\$ 15.4	\$ 0.4	\$ 1.7	\$ 1,097.3
Acquisitions and related adjustments	43.4	—	0.5	(0.3)	2.4	46.0
Disposals	(26.2)	(2.8)	(2.0)	—	—	(31.0)
Impairment charge	(148.6)	—	—	—	—	(148.6)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
December 31, 2002 gross balance	\$ 790.1	\$ 155.5	\$ 13.9	\$ 0.1	\$ 4.1	\$ 963.7
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
January 1, 2002 accumulated amortization			\$ (0.9)	\$ —	\$ (0.2)	\$ (1.1)
Amortization			(1.4)	—	(1.0)	(2.4)
Disposals			0.2	—	—	0.2
			<u> </u>	<u> </u>	<u> </u>	<u> </u>
December 31, 2002 accumulated amortization			\$ (2.1)	\$ —	\$ (1.2)	\$ (3.3)
			<u> </u>	<u> </u>	<u> </u>	<u> </u>

Flow Technology

January 1, 2002 gross balance	\$ 728.5	\$ 180.3	\$ 9.4	\$ —	\$ 0.1	\$ 918.3
Acquisitions and related adjustments	169.3	8.2	6.0	—	0.7	184.2
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
December 31, 2002 gross balance	\$ 897.8	\$ 188.5	\$ 15.4	\$ —	\$ 0.8	\$ 1,102.5
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
January 1, 2002 accumulated amortization			\$ (0.6)	\$ —	\$ —	\$ (0.6)
Amortization			(1.3)	—	(0.3)	(1.6)
			<u> </u>	<u> </u>	<u> </u>	<u> </u>
December 31, 2002 accumulated amortization			\$ (1.9)	\$ —	\$ (0.3)	\$ (2.2)
			<u> </u>	<u> </u>	<u> </u>	<u> </u>

Service Solutions

January 1, 2002 gross balance	\$ 257.1	\$ 50.5	\$ 1.0	\$ —	\$ —	\$ 308.6
Acquisitions and related adjustments	30.4	—	0.1	—	—	30.5
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
December 31, 2002 gross balance	\$ 287.5	\$ 50.5	\$ 1.1	\$ —	\$ —	\$ 339.1
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
January 1, 2002 accumulated amortization			\$ (0.2)	\$ —	\$ —	\$ (0.2)
Amortization			(0.3)	—	—	(0.3)
			<u> </u>	<u> </u>	<u> </u>	<u> </u>
December 31, 2002 accumulated amortization			\$ (0.5)	\$ —	\$ —	\$ (0.5)
			<u> </u>	<u> </u>	<u> </u>	<u> </u>

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In accordance with our policy, we conduct our annual impairment testing of goodwill and indefinite-lived intangibles in connection with our long-range forecasting process, which took place in the fourth quarter as of December 31, 2002. In addition, goodwill and indefinite-lived intangibles are reviewed for impairment more frequently if impairment indicators arise. Intangible assets that are subject to amortization are reviewed for impairment in accordance with the provisions of SFAS No. 144. Consistent with the requirements of SFAS No. 142, the fair values of our reporting units were based on discounted cash flow projections that are believed to be reasonable under current and forecasted circumstances, the results of which form the basis for making judgments about the carrying values of the reported net assets of our reporting units. Other considerations are also incorporated, including comparable industry price multiples. Many of our businesses closely follow changes in the industries and end-markets that they serve. Accordingly, estimates and judgments that affect the future cash flow projections including principal methods of competition such as volume, price, service, product performance and technical innovations are considered. Actual results may differ from these estimates under different assumptions or conditions. Based on the results of the impairment testing performed, no impairment of goodwill or indefinite-lived intangibles exists as of December 31, 2002. In addition, we continue to monitor impairment indicators in the industries and markets with cyclical demand and pricing behavior including telecommunications, power systems and industrial hydraulic power units and controlled force tools.

(11) EMPLOYEE BENEFIT PLANS

Defined Benefit Pension and Postretirement Benefit Plans

We have defined benefit pension plans that cover a significant portion of our salaried and hourly paid employees, including certain employees in foreign countries. Effective January 1, 2001 we amended our non-bargained domestic plans to discontinue providing pension benefits to employees hired after December 31, 2000. Effective January 1, 2002, we amended the historic UDI non-bargained plans to no longer provide service credits to active participants and we have discontinued providing pension benefits under these plans to employees hired after July 1, 2001. We fund U.S. pension plans in amounts equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974, plus additional amounts that may be approved from time to time. Many of our foreign plan obligations are underfunded in accordance with local laws. Substantially all plan assets are invested in listed stocks, bonds, real estate, other short-term investments and cash. As of December 31, 2002, plan assets include 1.514 shares of our common stock.

We have domestic postretirement plans that provide health and life insurance benefits for certain retirees and their dependents. Some of these plans require retiree contributions at varying rates. Not all retirees are eligible to receive these benefits, with eligibility governed by the plan(s) in effect at a particular location. Effective January 1, 2003, a uniform plan design was implemented for certain non-union employees retiring after January 1, 2003. Also effective January 1, 2003, a 10% minimum employee contribution was implemented for all current, non-union retirees. Certain of our non-North American subsidiaries have similar plans for retirees. Our obligations for such plans are not material and are not included in this disclosure.

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The following table shows the pension and postretirement plans' funded status and amounts recognized in our consolidated balance sheets:

	Pension Benefits		Postretirement Benefits	
	2002	2001	2002	2001
Change in benefit obligation:				
Benefit obligation — beginning of year	\$ 1,066.7	\$ 733.1	\$ 224.9	\$ 166.1
Service cost	16.0	14.7	0.3	0.2
Service cost of discontinued operations	1.4	1.2	—	—
Interest cost	75.8	65.8	15.7	13.7
Employee contributions	0.3	—	—	—
Actuarial loss	72.4	33.2	5.3	45.8
Curtailement gain	(5.4)	(9.2)	—	—
Termination benefits	(5.2)	29.3	—	—
Plan amendments	0.1	9.6	(9.5)	—
Benefits paid	(100.6)	(103.1)	(19.2)	(18.2)
Acquisitions	15.8	294.0	0.7	17.3
Foreign exchange	10.6	(1.9)	—	—
	<u>\$ 1,147.9</u>	<u>\$ 1,066.7</u>	<u>\$ 218.2</u>	<u>\$ 224.9</u>
Change in plan assets:				
Fair value of plan assets — beginning of year	\$ 1,152.8	\$ 1,037.6	\$ —	\$ —
Actual return on plan assets	(136.9)	(20.5)	—	—
Contributions	7.5	6.6	19.2	18.2
Benefits paid	(99.6)	(102.6)	(19.2)	(18.2)
Acquisitions	—	232.0	—	—
Foreign exchange	4.1	(0.3)	—	—
	<u>\$ 927.9</u>	<u>\$ 1,152.8</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status at year-end	\$ (220.0)	\$ 86.1	\$ (218.2)	\$ (224.9)
Unamortized prior service cost	(8.1)	(11.3)	(9.2)	(2.3)
Unrecognized net loss	443.1	119.7	65.9	65.2
	<u>\$ 215.0</u>	<u>\$ 194.5</u>	<u>\$ (161.5)</u>	<u>\$ (162.0)</u>
Amount recognized in the balance sheet consists of:				
Other assets	\$ 8.3	\$ 266.4	\$ —	\$ —
Accrued expenses and other liabilities	(177.6)	(84.7)	(161.5)	(162.0)
Accumulated other comprehensive income (pre-tax)	384.3	12.8	—	—
	<u>\$ 215.0</u>	<u>\$ 194.5</u>	<u>\$ (161.5)</u>	<u>\$ (162.0)</u>

The pension benefit obligation ("PBO"), the accumulated benefit obligation ("ABO"), and the fair value of plan assets for pension plans' with ABO's in excess of plan assets were \$162.4, \$82.6, and \$69.1, respectively, as of December 31, 2001. At December 31, 2002, all of our pension plans had ABO's in excess of plan assets.

The funded status of our pension plans is dependent upon many factors, including returns on invested assets and the level of market interest rates. The recent dramatic declines in the performance of the U.S. financial markets coupled with historic lows in long-term interest rates have resulted in a \$220.0 underfunded status for our pension plans. Our German pension plans account for \$46.6 of the underfunded status, as plans in Germany are typically not funded, in accordance with local regulations. The underfunded status of our primary domestic pension plans did not have any impact on required cash contributions in 2002.

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A minimum pension liability adjustment is required when the ABO exceeds plan assets and accrued pension liabilities. This adjustment also requires the elimination of any previously recorded pension asset. The minimum liability adjustment, less allowable intangible assets, net of tax benefit, is reported as a component of accumulated other comprehensive loss. The amounts recorded in other comprehensive income (loss), net of tax, as a result of minimum pension liability adjustments were \$226.8, \$2.6, and \$1.2, for the years ended 2002, 2001, and 2000. Each of these adjustments resulted in a reduction of shareholders' equity.

Net periodic pension benefit income for our pension plans included the following components:

	Year Ended December 31,		
	2002	2001	2000
Service cost	\$ 16.0	\$ 14.7	\$ 10.9
Interest cost	75.8	65.8	53.0
Expected gain on assets	(119.3)	(116.5)	(101.7)
Amortization of transition asset	—	(0.3)	(5.8)
Amortization of unrecognized (gains) losses	1.1	(0.7)	(0.8)
Amortization of unrecognized prior service cost	(0.5)	(1.2)	(1.2)
Net periodic pension benefit income	\$ (26.9)	\$ (38.2)	\$ (45.6)
Weighted average actuarial assumptions used were:			
Discount rate	6.67%	7.17%	7.75%
Rate of increase in compensation levels	4.42%	4.46%	5.00%
Expected long-term rate of return on assets	9.44%	9.84%	10.00%

The discount rate and rate of increase in compensation levels for 2002, were used to value our benefit obligation and funded status as of December 31, 2002. The expected long-term rate of return on assets was used to calculate the pension benefit income for 2002. The expected long-term rate of return assumption for the 2003 pension benefit income calculation is expected to be approximately 8.50%. It is our policy to review the pension assumptions annually. Pension benefit income is determined using assumptions as of the beginning of the year, while the funded status is determined using assumptions as of the end of the year. The assumptions are determined by management and established at the respective balance sheet date using the following principles: (1) The expected long-term rate of return on plan assets is established based upon historical actual asset returns and the expectations of asset returns over the expected period to fund participant benefits based on the current investment mix of our plans; (2) The discount rate is set based on the yield of high quality fixed income investments, commonly defined as fixed income investments with at least a Moody's AA credit rating; and (3) The rate of increase in compensation levels is established based on management's expectations of current and foreseeable future increases in compensation. In addition, management also considers advice from independent actuaries. A benchmark study completed by our independent actuaries has shown that our choice of assumptions is comparable to other organizations with a measurement date of December 31, 2002.

In accordance with SFAS No. 88 "Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," we recorded a net curtailment gain of \$2.7 in 2002, \$2.8 in 2001, and \$2.0 in 2000. The curtailment gains were primarily the result of reductions in workforce and other restructuring initiatives. In 2001, we recorded a \$25.5 termination benefit charge related to separation benefits for UDI employees terminated as part of the UDI acquisition and paid out of pension plan assets. This charge was allocated to the purchase price of the UDI acquisition as required by GAAP. During 2002, the remaining separation benefit obligations for these UDI terminations were completed at a cost less than originally estimated. Consequently, the pension plan recognized a \$5.2 termination benefit gain, which was not recorded in the income statement but as a reduction to the purchase price of the UDI acquisition as required by GAAP.

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The net periodic postretirement benefit cost included the following components:

	Year Ended December 31,		
	2002	2001	2000
Service cost	\$ 0.3	\$ 0.2	\$ 0.2
Interest cost	15.7	13.7	12.4
Amortization of unrecognized loss	4.5	1.3	—
Amortization of unrecognized prior service cost	(2.5)	(2.5)	(2.6)
Net periodic postretirement costs	\$18.0	\$12.7	\$10.0

The accumulated postretirement benefit obligation was determined using the terms and conditions of our various plans, together with relevant actuarial assumptions and health care cost trend rates. It is our policy to review the postretirement assumptions annually. The assumptions are determined by management and are established based on our prior experience and management's expectation that future rates will decline. In addition, management also considers advice from independent actuaries. For measurement purposes in 2002, the assumed health care cost trend rates were 10.0% for retirees over age 65 and 8.0% for retirees under age 65. At December 31, 2002, these rates are assumed to decrease to an ultimate rate of 5.0% by the year 2008 and remain at that level thereafter. The discount rates used to measure the benefit obligation at December 31, 2002 and 2001 were 6.75% and 7.25%, respectively.

Assumed health care cost trend rates can have a significant effect on the amounts reported for the other postretirement benefit plans. A percentage point change in assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease
Effect on total of service and interest costs	\$ 0.9	\$ (0.9)
Effect on postretirement benefit obligation	\$ 11.8	\$ (10.5)

Defined Contribution Retirement Plans

We maintain a defined contribution retirement plan (the "Plan") pursuant to Section 401(k) of the U.S. Internal Revenue Code. Under the Plan, eligible U.S. employees may voluntarily contribute up to 50% of their compensation into the Plan and we match a portion of participating employees' contributions. Our matching contributions are made in newly issued shares of company common stock and are issued at the prevailing market price. The matching contributions vest with the employee immediately upon the date of the match and there are no restrictions on the resale of common stock held by employees.

Under the Plan, we contributed 0.424, 0.297, and 0.274 shares of common stock to employee accounts in 2002, 2001, and 2000 respectively. Compensation expense is recorded based upon the market value of shares as the shares are contributed to employee accounts. We recorded \$23.3 in 2002, \$19.0 in 2001, and \$13.8 in 2000 as compensation expense related to the matching contribution.

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(12) INCOME TAXES

Income before income taxes and the provision for income taxes consisted of the following:

	Year Ended December 31,		
	2002	2001	2000
Income from continuing operations before income taxes:			
United States	\$354.5	\$253.0	\$ 313.6
Foreign	98.7	61.0	7.0
Discontinued operations	21.2	30.6	(117.6)
	<u>\$474.4</u>	<u>\$344.6</u>	<u>\$ 203.0</u>
Provision for income taxes:			
Current:			
Federal	\$ (9.7)	\$ 2.0	\$ 58.6
Foreign	53.7	10.0	7.2
State	12.2	5.8	12.7
Total current	<u>56.2</u>	<u>17.8</u>	<u>78.5</u>
Deferred:			
Federal	120.6	96.1	44.1
Foreign	(18.9)	7.2	1.0
State	19.3	19.9	7.5
Total deferred	<u>121.0</u>	<u>123.2</u>	<u>52.6</u>
Total provision	<u>\$177.2</u>	<u>\$141.0</u>	<u>\$ 131.1</u>
Provision (benefit) associated with discontinued operations	\$ (8.3)	\$ (13.7)	\$ 48.0
Provision associated with continued operations	<u>\$185.5</u>	<u>\$154.7</u>	<u>\$ 83.1</u>

The reconciliation of income tax computed at the U.S. federal statutory tax rate to our effective income tax rate is as follows:

	Year Ended December 31,		
	2002	2001	2000
Tax at U.S. federal statutory rate	35.0%	35.0%	35.0%
State and local taxes, net of U.S. federal benefit	3.7	2.9	3.9
Foreign sales corporation	(0.8)	(1.0)	(0.4)
Goodwill amortization	—	5.1	3.9
Foreign rates and foreign dividends	(2.8)	(1.7)	(2.0)
Change in valuation allowance	4.0	4.2	3.1
Disposition basis differences	0.5	1.4	(0.9)
Other	(0.5)	(1.0)	(1.7)
	<u>39.1%</u>	<u>44.9%</u>	<u>40.9%</u>

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Significant components of our deferred tax assets and liabilities are as follows:

	December 31,		
	2002	2001	2000
Deferred tax assets:			
Working capital accruals	\$ 56.8	\$ 35.7	\$ 7.4
Legal, environmental and self-insurance accruals	103.1	115.8	47.9
Restructuring	31.8	31.7	14.9
Pension, other postretirement and postemployment benefits	98.1	63.7	61.7
NOL and credit carryforwards	95.0	69.4	28.5
Payroll and compensation	26.7	23.4	12.6
Interest rate protection agreements	32.0	17.7	—
Other	68.0	59.2	26.0
Discontinued operations	13.1	18.7	9.6
	<u>524.6</u>	<u>435.3</u>	<u>208.6</u>
Valuation allowance	(91.5)	(69.2)	(28.3)
	<u>433.1</u>	<u>366.1</u>	<u>180.3</u>
Deferred tax liabilities:			
LYONS interest deductions	40.3	18.3	—
Accelerated depreciation	80.9	79.8	48.7
Pension credits	—	120.6	98.0
Unremitted earnings of certain foreign subsidiaries.	40.0	40.0	—
Basis difference in affiliates	381.1	318.4	205.7
Intangibles recorded in acquisitions	182.3	259.5	85.9
Other	60.9	1.5	17.8
Discontinued operations	43.8	44.0	43.4
	<u>829.3</u>	<u>882.1</u>	<u>499.5</u>
	<u>\$ 396.2</u>	<u>\$ 516.0</u>	<u>\$ 319.2</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We periodically assess the realizability of deferred tax assets and the adequacy of deferred tax liabilities including the results of local, state, federal or foreign statutory tax audits or estimates and judgments used. Realization of deferred tax assets associated with the net operating loss and credit carryforwards is dependent upon generating sufficient taxable income prior to their expiration. We believe that there is a risk that certain of these net operating loss and credit carryforwards may expire unused and, accordingly, have established a valuation allowance against them. Although realization is not assured for the remaining deferred tax assets, we believe it is more likely than not that the deferred tax assets will be realized through future taxable earnings or alternative tax strategies. However, deferred tax assets could be reduced in the near term if our estimates of taxable income during the carryforward period are significantly reduced or alternative tax strategies are no longer viable. The valuation allowance increased by \$22.3 in 2002, and \$24.7 in 2001.

The amount of income tax that we pay annually is dependent on various factors, including the timing of certain deductions. These deductions can vary from year to year and consequently, the amount of income taxes paid in future years may be greater than amounts paid in 2002 and 2001.

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Undistributed earnings of our foreign subsidiaries amounted to approximately \$460.9 at December 31, 2002. A deferred tax estimate of \$40.0 has been provided for the foreign earnings of certain subsidiaries. With the exception of these subsidiaries, the remaining foreign earnings are considered indefinitely reinvested. Accordingly, no provision for U.S. federal and state income taxes or foreign withholding taxes has been made. If these earnings were distributed, we would be subject to U.S. income taxes (subject to a reduction for foreign tax credits) and withholding taxes payable to the various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable; however, unrecognized foreign tax credit carryovers would be available to reduce some portion of the U.S. liability. Withholding taxes of approximately \$21.0 would be payable upon remittance of all previously unremitted earnings at December 31, 2002.

(13) NOTES PAYABLE AND DEBT

	December 31,	
	2002	2001
Revolving loan	\$ —	\$ —
Tranche A term loan	225.0	393.7
Tranche B term loan	410.3	490.0
Tranche C term loan	683.7	823.0
LYONS, net of unamortized discount of \$551.6 and \$574.1, respectively	858.2	835.7
7.5% senior notes	500.0	—
Industrial revenue bond	—	1.0
Other borrowings	17.7	67.8
	2,694.9	2,611.2
Less: short-term debt	(251.4)	—
Less: current maturities of long-term debt	(28.9)	(161.6)
	\$2,414.6	\$2,449.6

Under our Restated Credit Agreement, aggregate maturities of the term loans are \$34.5 in 2004, \$45.8 in 2005, \$57.0 in 2006, \$62.6 in 2007 and \$172.6 in 2008. Although no amounts are borrowed under our revolving credit loans at December 31, 2002, any future borrowings under these loans would mature in 2008, when the facility expires, but could be repaid at any time before 2008. Other borrowings are primarily revolving lines of credit at foreign locations that are refinanced as they come due and therefore are classified as long-term.

Restated Credit Agreement

On July 25, 2002, we refinanced our existing Tranche B and Tranche C term loans and amended and restated our Credit Agreement. The primary purpose of the July refinancing and amendment of our Credit Agreement was to modify certain covenant provisions to provide for enhanced overall flexibility, as well as increased flexibility for international growth and to extend the maturity of our Tranche B and Tranche C term loans. The refinancing did not impact the terms or applicable rates on our Tranche A term loans or our revolving loan. We received proceeds of \$450.0 from our new Tranche B term loans and \$750.0 from our new Tranche C term loans and we used \$96.4 of cash on hand to complete the transaction. This transaction resulted in a net \$96.4 reduction in our debt obligations under these loans.

On December 27, 2002, we refinanced our existing Tranche A term loan and revolving loans and amended and restated our Credit Agreement ("Restated Credit Agreement"). The purpose of this refinancing was to extend the maturity of our Tranche A term loan and revolving loans, reduce the available borrowing capacity of the revolving loans by \$100.0, and reduce the applicable rates on our Tranche A term loan. We received proceeds of \$225.0 from our new Tranche A term loan. These cash proceeds as well as proceeds from our \$500.0 senior note issuance were used to pay off our existing Tranche A term loan and reduce Tranche B and C term loans.

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As of December 31, 2002, we had outstanding under our Restated Credit Agreement:

- (a) \$225.0 of aggregate principal amount of Tranche A term loans,
- (b) \$410.3 of aggregate principal amount of Tranche B term loans, and
- (c) \$683.7 of aggregate principal amount of Tranche C term loans.

In addition, the Restated Credit Agreement provides for a commitment to provide revolving credit loans of up to \$500.0. As of December 31, 2002, the revolving credit loans were unused; however, the aggregate available borrowing capacity was reduced by \$83.2 of letters of credit outstanding as of December 31, 2002.

Under the Restated Credit Agreement, the term loans bear interest, at our option, at LIBOR plus the Applicable Rate or the ABR plus the Applicable Rate. During 2002, interest on the term loans was calculated using LIBOR and we intend to select LIBOR as the borrowing rate in the future. The Applicable Rate for the revolving loans and Tranche A term loan is based upon the Consolidated Leverage Ratio as defined in the Restated Credit Agreement. The Applicable Rate is as follows:

	LIBOR based borrowings	ABR based borrowings
Tranche A term loans and revolving loans	Between 1.75% and 2.25%	Between 0.75% and 1.25%
Tranche B term loans	2.25%	1.25%
Tranche C term loans	2.50%	1.50%

Our \$500.0 of revolving loans available under the Restated Credit Agreement are also subject to annual commitment fees between 0.25% and 0.5% on the unused portion of the loans. At December 31, 2002, no amounts were borrowed against the \$500.0 revolving loans.

The Restated Credit Agreement is secured by a pledge of 100% of the stock of substantially all of our domestic subsidiaries and 66% of the stock in our foreign subsidiaries and a security interest in substantially all of our assets and all of the assets of our wholly owned domestic subsidiaries (excluding, however our interest in EGS and Door joint ventures).

The Restated Credit Agreement contains covenants, the most restrictive of which are two financial condition covenants. The first financial condition covenant does not permit the Consolidated Leverage Ratio (as defined in the Restated Credit Agreement) on the last day of any period of four consecutive fiscal quarters to exceed 3.5 to 1.00 for the period ending June 30, 2002 and 3.25 to 1.00 thereafter. The second financial condition covenant does not permit the Consolidated Interest Coverage Ratio (as defined in the Restated Credit Agreement) for any period of four consecutive fiscal quarters to be less than 3.50 to 1.00. For the year ending December 31, 2002, our Consolidated Leverage Ratio was 2.43 to 1.00 and our Consolidated Interest Coverage Ratio was 7.39 to 1.00.

The Restated Credit Agreement also includes covenant provisions regarding, among other things, indebtedness, liens, investments, guarantees, acquisitions, dispositions, sales and leaseback transactions, restricted payment, and transactions with affiliates. We have not paid cash dividends in 2002 or 2001, and we currently have no plans to pay cash dividends on our common stock. Under the Restated Credit Agreement covenants, our ability to pay cash dividends in a fiscal year is limited to the lesser of \$20.0 or 25% of our consolidated net income in the immediate preceding fiscal year, if our consolidated leverage ratio, pro forma for a cash dividend, is greater than 2.5 to 1.0. If this ratio is less than 2.5 to 1.0, we have the ability to pay cash dividends in a fiscal year in an amount up to 25% of our consolidated net income in the immediate preceding fiscal year, which in 2001 was \$43.3. Based on available information, we do not expect these covenants to restrict our liquidity, financial condition or access to capital resources in the foreseeable future.

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We are permitted to prepay the Tranche A, Tranche B and the Tranche C term loans in whole or in part at any time without penalty or premium. We are not allowed to reborrow any amounts that we repay on the Tranche A, Tranche B or Tranche C term loans.

The final maturity for each loan is as follows:

	<u>Date of Final Maturity</u>
Revolving loans	March 31, 2008
Tranche A term loans	March 31, 2008
Tranche B term loans	September 30, 2009
Tranche C term loans	March 31, 2010

The Restated Credit Agreement also requires scheduled principal payments of the term loans and mandatory prepayments from net proceeds arising in connection with certain asset sales or dispositions and issuances of subordinated debt under certain circumstances.

The revolving loans may be borrowed, prepaid and reborrowed. Letters of credit and swing line loans are also available under the revolving credit facility. On the date of the closing of the Restated Credit Agreement, no revolving loans were outstanding. The facility provides for the issuance of letters of credit in U.S. Dollars, Euros, and Pounds Sterling at any time during the revolving availability period, in an aggregate amount not exceeding \$250.0. Letters of credit issued under this facility reduce the aggregate amount available under the revolving loan commitment.

Early Extinguishment of Debt

During 2002, we recorded an \$8.2 charge for the write-off of financing fees associated with the early extinguishment of debt as a result of the July and December refinancing described above. This charge was recorded as a component of interest expense.

In the first quarter of 2000, we paid down our existing Tranche B debt of \$412.5 and revolver of \$50.0, and replaced the existing credit facility with a new \$1,487.5 credit facility. We recorded a \$15.0 charge associated with the early extinguishment of debt as a result of this refinancing. This charge was recorded as a component of interest expense.

These charges were accounted for in accordance with EITF 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments" as well as SFAS No. 145.

7.5% Senior Notes

On December 27, 2002, we issued \$500.0 of 7.5% senior notes pursuant to our universal shelf registration statement, which allows for the issuance of an additional \$500.0 of securities after consideration of these notes. These notes mature on January 1, 2013. The net proceeds of \$486.0 were used to refinance the Tranche A term loan of our senior credit facility, reduce the Tranche B and Tranche C term loans of our senior credit facility and for general corporate purposes, including the possible repayment of debt. These notes are unsecured and rank equally with all of our existing and future unsecured senior indebtedness, but are effectively junior to our senior secured debt and obligations of our subsidiaries.

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The indenture governing the notes contains a number of covenants that limit our ability and the ability of our subsidiaries, other than any unrestricted subsidiary under the indenture, to incur additional debt, pay dividends and repurchase stock, make other restricted payments, including, without limitation, investments, create liens, enter into sale leaseback transactions, enter into agreements that restrict dividends from subsidiaries, sell or otherwise dispose of assets, including capital stock of subsidiaries, enter into transactions with our affiliates, and enter into mergers or consolidations. As of December 31, 2002, our capacity to make restricted payments, which include paying cash dividends, purchasing subordinated debt prior to maturity and making restricted investments was limited to \$238.4. The covenants contained in the indenture are subject to a number of qualifications and limitations. Under the indenture, none of our subsidiaries are restricted from paying dividends to us.

Liquid Yield Option Notes

On February 6, 2001, we issued Liquid Yield Option(TM) Notes ("February LYONs") at an original price of \$579.12 per \$1,000 principal amount at maturity, which represents an aggregate initial issue price of \$576.1 and an aggregate principal amount of \$994.8 due at maturity on February 6, 2021. On May 9, 2001, we issued Liquid Yield Option(TM) Notes ("May LYONs") at an original price of \$579.12 per \$1,000 principal amount at maturity, which represents an aggregate initial issue price including the over allotment exercised by the original purchaser of \$240.3 and an aggregate principal amount \$415.0 due at maturity on May 9, 2021.

The LYONs have a yield to maturity of 2.75% per year, computed on a semi-annual bond equivalent basis, calculated from the date of issuance. We will not pay cash interest on the LYONs prior to maturity unless contingent interest becomes payable. The LYONs are unsecured and unsubordinated obligations and are debt instruments subject to United States federal income tax contingent payment debt regulations. Even if we do not pay any cash interest on the LYONs, bondholders are required to include interest in their gross income for United States federal income tax purposes. This imputed interest, also referred to as tax original issue discount, accrues at a rate equal to 9.625% on the February LYONs and 8.75% on the May LYONs. The rate at which the tax original issue discount accrues for United States federal income tax purposes exceeds the stated yield of 2.75% for the accrued original issue discount. In the event that either the February or May LYONs are put to the company or redeemed by the company, the respective imputed interest deduction less the original issue discount of 2.75% would be recaptured at the time of the put or redemption. The amount of the recapture calculated on the first put date is approximately \$11.8 and \$48.3 on May 9, 2003 and February 6, 2004, respectively.

The LYONs are subject to conversion to SPX common shares only if certain contingencies are met. These contingencies include:

- (1) Our average stock price exceeding predetermined accretive values of SPX's stock price each quarter (see below);
- (2) During any period in which the credit rating assigned to the LYONs by either Moody's or Standard & Poor's is at or below a specified level;
- (3) Upon the occurrence of certain corporate transactions, including a change in control.

In addition, a holder may surrender for conversion, at the accreted value, a LYON for redemption even if it is not otherwise convertible at such time.

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The conversion rights based on predetermined accretive values of SPX's stock include, but are not limited to, the following provisions:

	February LYONs	May LYONs
Initial Conversion Rate (shares of common stock per LYON)	9.6232	8.8588
Initial Stock Price	\$ 50.15	\$ 55.40
Initial Accretion Percentage	135%	120%
Accretion Percentage Decline Per Quarter	0.3125%	0.125%
Conversion Trigger Prices—For the Next Twelve Months:		
2003 First Quarter	\$ 84.19	\$ 81.54
2003 Second Quarter	\$ 84.57	\$ 82.01
2003 Third Quarter	\$ 84.95	\$ 82.49
2003 Fourth Quarter	\$ 85.33	\$ 82.97

Holders may surrender LYONs for conversion into shares of common stock in any calendar quarter, if, as of the last day of the preceding calendar quarter, the closing sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of such preceding calendar quarter is more than the specified percentage beginning at 135% and declining 0.3125% per quarter thereafter for the February LYONs, beginning at 120% and declining 0.125% per quarter thereafter for the May LYONs of the accreted conversion price per share of common stock on the last trading day of such preceding calendar quarter. The accreted conversion price per share as of any day will equal the issue price of a LYON plus the accrued original issue discount to that day, divided by the number of shares of common stock issuable upon conversion of a LYON on that day.

We may redeem all or a portion of the February LYONs for cash at any time on or after February 6, 2006 at predetermined redemption prices. February LYONs holders may require us to purchase all or a portion of their LYONs on February 6, 2004 for \$628.57 per LYON, February 6, 2006 for \$663.86 per LYON, or February 6, 2011 for \$761.00 per LYON. We may redeem all or a portion of the May LYONs for cash at any time on or after May 9, 2005. May LYONs holders may require us to purchase all or a portion of their LYONs on May 9, 2003 for \$611.63 per LYON, May 9, 2005 for \$645.97 per LYON or May 9, 2009 for \$720.55 per LYON. For either the February LYONs or May LYONs, we may choose to pay the purchase price in cash, shares of common stock or a combination of cash and common stock.

There are various factors that a LYON holder would use in deciding to exercise their put option. These factors include the price and volatility of our common stock, the interest yield on the LYONs above the risk free interest rate and other quantitative and qualitative factors. Based upon these factors, at the time of the filing of this Form 10-K, we believe that it is probable, but cannot determine with certainty, that the holders of the May LYONs will exercise their put right and require us to repurchase the majority or all of their LYONs on May 9, 2003. If all the May LYONs were settled in cash on May 9, 2003, we would be required to pay the holders approximately \$253.8. Accordingly \$251.4, the accreted value of the May LYONs at December 31, 2002, has been classified as current in our Consolidated Balance Sheet at December 31, 2002.

Under GAAP, the LYONs are not included in the diluted income per share of common stock calculation unless a LYON is expected to be converted for stock or one of the three contingent conversion tests summarized above are met. If the LYONs were to be put, we expect to settle them for cash and none of the contingent conversion tests have been met, accordingly, they are not included in the diluted income per share of common stock calculation. If converted, the February LYONs and May LYONs would be exchanged for a total of 13.2 shares of our common stock. If the LYONs had been converted as of January 1, 2002, the diluted income per share of common stock from continuing operations would have been \$3.22 per share for the period ended December 31, 2002.

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Other Financing Agreements

Our compaction equipment business, part of the Industrial Products and Services segment, utilizes an accounts receivable securitization facility pursuant to which the unit has an agreement to sell, on a revolving basis without recourse, certain qualified receivables, of which \$31.3 had been sold under the agreement at December 31, 2002. The agreement allows for the sale of up to \$36.5 of certain qualified receivables to an unaffiliated third party entity and continues on an evergreen revolving basis unless we provide a three-month notice under the agreement to discontinue the facility. We expect to utilize the agreement in the foreseeable future. If we did not renew the contract, the impact on our financial condition or cash flows would not be material. Previously, our compaction equipment business also utilized a vendor financing program that was discontinued during the second quarter of 2002.

As of December 31, 2002, except for the following items, we do not have any other material guarantees, off-balance sheet arrangements or purchase commitments: (1) \$167.6 of certain standby letters of credit outstanding, of which \$83.2 reduce the available borrowing capacity on our revolving loans and (2) approximately \$135.9 of surety bonds. Of the total letters of credit and surety bonds outstanding at December 31, 2002, \$193.4 is commercial bid, performance or warranty arrangements related to sales contracts with customers of which the fees are reimbursed by the customer.

(14) FINANCIAL INSTRUMENTS

We have entered into interest rate protection agreements ("Swaps") to hedge the potential impact of increases in interest rates on our variable rate debt portfolio. Our swaps are accounted for as cash flow hedges and as of December 31, 2002, we had outstanding swaps with maturities to November 2009 that effectively convert \$1,300.0 of our variable rate debt to a fixed rate of approximately 6.9%. As a result of the Restated Credit Agreement, we extended the maturities of our variable rate Tranche A term loans to March 2008, Tranche B term loans to September 2009 and Tranche C terms loans to March 2010. Associated with these extended maturities, we entered into additional variable to fixed rate interest rate swap agreements beginning in 2004 and maturing in 2009. As of December 31, 2002, the pre-tax accumulated derivative loss recorded in accumulated other comprehensive loss was \$81.8 and a long-term liability of \$81.1 has been recorded to recognize the fair value of these swaps. Based on the unrealized losses of our swaps at December 31, 2002, we expect to reclassify \$43.2 of our current derivative loss from accumulated other comprehensive loss into interest expense during 2003 as the hedged transactions occur. Due to fluctuations in interest rates however, the derivative loss recorded in accumulated other comprehensive loss is subject to change prior to its reclassification into earnings. The ineffective portion of these swaps in 2002 and 2001 has been recognized in earnings as a component of interest expense and is not material. We do not enter into financial instruments for speculative or trading purposes.

In 2002, in connection with the Restated Credit Agreement, we terminated four interest rate swaps with an aggregate notional amount \$400.0 at a cash cost of \$15.5. These interest rate swaps were included in the portfolio of interest rate swaps designated as a cash flow hedge of our variable rate debt portfolio. Because a portion of the future interest payments hedged by these swaps was no longer probable of occurring, we recognized \$14.8 in interest expense to reclassify into earnings, from accumulated other comprehensive loss, the fair value of the portion of the swap portfolio hedging future cash flows that no longer are probable of occurring.

Other Fair Value Financial Assets and Liabilities

The carrying amount of cash and equivalents and receivables reported on the consolidated balance sheets approximates their fair value because of the short maturity of those instruments.

The fair value of our debt instruments, based on borrowing rates available to us at each year-end for similar debt, is not materially different than its carrying value.

Concentrations of Credit Risk

Financial instruments that potentially subject us to significant concentrations of credit risk consist of cash and temporary investments, trade accounts receivable and interest rate protection agreements.

Cash and temporary investments are placed with various high-quality financial institutions throughout the world, and exposure is limited at any one institution. We periodically evaluate the credit standing of these financial institutions.

Concentrations of credit risk arising from trade accounts receivable are due to selling to a large number of customers in a particular industry. We perform ongoing credit evaluations of our customers' financial conditions and obtain collateral or other security when appropriate. No one customer accounts for more than 10% of our revenues.

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We are exposed to credit losses in the event of nonperformance by counter parties to our interest rate protection agreements, but have no other off-balance-sheet credit risk of accounting loss. We anticipate, however, that counter parties will be able to fully satisfy their obligations under the contracts. We do not obtain collateral or other security to support financial instruments subject to credit risk, but we do monitor the credit standing of counter parties.

(15) COMMITMENTS AND CONTINGENT LIABILITIES

Leases

The future minimum rental payments under leases with remaining non-cancelable terms in excess of one year are:

<u>Year Ending December 31,</u>	
2003	\$ 42.4
2004	32.0
2005	26.7
2006	21.5
2007	19.4
Thereafter	51.5
	<hr/>
Total minimum payments	\$193.5
	<hr/>

Total lease expense was \$48.5 in 2002, \$37.9 in 2001, and \$17.5 in 2000.

General

Numerous claims, complaints and proceedings arising in the ordinary course of business, including but not limited to those relating to environmental matters, competitive issues, contract issues, intellectual property matters, personal injury and product liability claims, and workers' compensation have been filed or are pending against us and certain of our subsidiaries. Additionally we may become subject to significant claims of which we are currently unaware or the claims that we are unaware of may result in our incurring a significantly greater liability than we anticipate. This may also be true in connection with past or future acquisitions. While we maintain property, cargo, auto, product, general liability, and directors' and officers' liability insurance and have acquired rights under similar policies in connection with these acquisitions which we believe cover a portion of these claims, this insurance may be insufficient or unavailable to protect us against potential loss exposures. In addition, we have been increasing our self-insurance limits over the past several years. While we believe we are entitled to indemnification from third parties for some of these claims, these rights may be insufficient or unavailable to protect us against potential loss exposures.

In our opinion, these matters are either without merit or are of a kind that should not have a material adverse effect individually or in the aggregate on our financial position, results of operations, or cash flows. However, we cannot assure you that recoveries from insurance or indemnification claims will be available or that any of these claims or other matters will not have a material adverse effect on our financial position, results of operations or cash flows.

It is our policy to comply fully with applicable environmental requirements. We are currently involved in various investigatory and remedial actions at our facilities and at third party waste disposal sites. An estimate of loss, including expenses, from legal actions or claims is accrued when events exist that make the loss or expenses probable and we can reasonably estimate them. Our environmental accruals cover anticipated costs, including investigation, remediation, and operation and maintenance of clean-up sites. Our estimates are primarily based on investigations and remediation plans established by independent consultants, regulatory agencies and potential responsible third parties. Accordingly, our estimates may change based on future developments including new or changes in environmental laws or policies, differences in costs required to complete anticipated actions from estimates provided, future findings of investigation or remediation actions, or alteration to the expected remediation plans. It is our policy to realize a change in estimates once it becomes probable and can be reasonably estimated. In determining our accruals, we do not discount environmental or other legal accruals and do not reduce them by anticipated insurance recoveries. We do take into account third-party indemnification from financially viable parties in determining our accruals where there is no dispute regarding the right to indemnification. While we believe that our accruals related to environmental, litigation and claims are sufficient and that these items and our rights to available insurance and indemnity will be resolved without material adverse effect on our financial position, results of operations and liquidity, individually or in the aggregate, we cannot assure you that our accruals and right to indemnity and insurance will be sufficient or that these items will be resolved without a material adverse effect on our financial position, results of operations and liquidity, individually or in the aggregate.

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Litigation Matters

It is our policy to accrue for estimated losses from legal actions or claims, including legal expenses, when events exist that make the realization of the loss or expenses probable and they can be reasonably estimated.

On December 27, 2001 we received a favorable arbitration award associated with the patent infringement claim against Snap-on. The claim dates back to April 11, 1996, when we were named as a defendant in an action filed in Federal Court for the Northern District of Illinois. Snap-on Incorporated, Snap-on Tools Company and Snap-on Technology, Inc. v. Ronald J. Ortiz and SPX Corporation, No. 96C2138, U.S. District Court for the Northern District of Illinois. The complaint contained seventeen counts, fifteen of which were directed to us. Of the fifteen counts, seven were related to the hiring in 1992 of a former officer of Sun Electric Corporation, five contained allegations of patent infringement and three sought a declaration of invalidity of patents held by us. On June 28, 1996, we filed an eight count counterclaim, containing three counts of patent infringement and five counts for declaration of invalidity of patents held by the plaintiffs. These patents pertain to certain features related to performance test equipment manufactured by Sun, Snap-on and us. In 2001, the case was moved into binding arbitration and on December 27, 2001, the arbitrator ruled in our favor.

On or about October 29, 2001, we were served with a complaint by VSI Holdings, Inc., or VSI, in the 6th Judicial Circuit Court of the State of Michigan seeking enforcement of a merger agreement that we had terminated. In its complaint, VSI asked the court to require us to complete the \$197.0 acquisition of VSI, and/or award damages to VSI and its shareholders. We do not believe the suit has merit and are defending the claim vigorously. On December 26, 2001, we filed our answer denying VSI's allegations, raising affirmative defenses and asserting a counterclaim against VSI for breach of contract. On November 8, 2002, VSI filed a voluntary petition for bankruptcy protection under Chapter 11 of the US Bankruptcy Code. On January 8, 2003, the litigation was removed to the federal Bankruptcy Court, which thereafter transferred the matter to the US District Court in Detroit. There are currently no scheduling or case management orders in the case. Because no reasonable projections can be made as to the final timing and outcome of the litigation, no gain or loss has been recorded. While we believe that we should ultimately prevail on the pending litigation claim with VSI, there can be no assurance that we will be successful in the litigation, and if we are not successful, the outcome could have a material adverse effect on our financial condition and results of operations.

In the fourth quarter of 2001, we recorded the net gain related to the favorable Snap-on arbitration award as well as expenses associated with certain commercial legal matters, including the VSI contract litigation. Accordingly, in total we recognized a \$15.6 net gain that reduced selling, general, and administrative expenses.

General Signal Power Systems ("Best Power"), a subsidiary of General Signal Corporation, a subsidiary of SPX Corporation, filed suit against American Power Conversion Corporation ("APC") in the United States District Court for the Western District of Wisconsin alleging five counts of patent infringement and three counts of false advertising. Best Power was seeking to enjoin further manufacture, sale and distribution of certain models of APC's MATRIX, SMART-UPS and BACKUPS products and further publication of false advertising along with an award of damages (which may be trebled based on an allegation of willful infringement) and attorneys fees and costs for APC's patent infringements and false advertising. We sold our Best Power business to Invensys, plc., but retained ownership of the Best Power patents and control of the litigation. The litigation was resolved in the second quarter of 2000 with a settlement in our favor. We recorded a gain of \$23.2, net of legal costs and other related expenses.

Environmental Matters

Our operations and properties are subject to federal, state, local and foreign regulatory requirements relating to environmental protection. It is our policy to comply fully with all applicable requirements. As part of our effort to comply, we have a comprehensive environmental compliance program that includes environmental audits conducted by internal and external independent professionals and regular communications with our operating units regarding environmental compliance requirements and anticipated regulations. Based on current information, we believe that our operations are in substantial compliance with applicable environmental laws and regulations, and we are not aware of any violation that could have a material adverse effect on our business, financial condition, results of operations or cash flows. We have liabilities for site investigation and/or remediation at 88 sites that we own or control. While we believe that we maintain adequate reserves to cover the costs of site investigation and/or remediation, there can be no assurance, however, that currently unknown matters, new laws and regulations, or stricter interpretations of existing laws and regulations will not materially affect our business or operations in the future.

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In the case of contamination at offsite, non-owned facilities, we have been notified that we are potentially responsible and have received other notices of potential liability pursuant to various environmental laws at 44 sites of which only fifteen have been active in the past few years. These laws may impose liability on certain persons that are considered jointly and severally liable for the costs of investigation and remediation of hazardous substances present at these sites, regardless of fault or legality of the original disposal. The persons include the present or former owners or operators of the site and companies that generated, disposed of or arranged for the disposal of hazardous substances at the site. We are considered a "de minimis" potentially responsible party at most of the sites and we estimate the aggregate probable remaining liability at these sites is immaterial.

In connection with our acquisitions and divestitures, we may assume or retain significant environmental liabilities some of which we may not be aware. The potential costs related to these environmental matters and the possible impact on future operations are uncertain due in part to the complexity of government laws and regulations and their interpretations, the varying costs and effectiveness of various clean-up technology, the uncertain level of insurance or other types of recovery, and the questionable level of our responsibility. In our opinion, after considering reserves established for such purposes, remedial actions for compliance with the present laws and regulations governing the protection of the environment are not expected to have a material adverse impact on our business, financial condition, results of operations or cash flows.

Self-Insurance

We are primarily self-insured for workers' compensation, automobile, product, and general liability costs and we believe that we maintain adequate reserves to cover our retained liability. Our reserve for self-insurance liability is determined by management and is based on claims filed and an estimate of claims incurred but not yet reported. Management considers a number of factors, including third-party actuary valuations, when making these determinations. We maintain third party stop-loss insurance policies to cover all liability costs in excess of predetermined amounts.

Executive Severance Agreements

Our Board of Directors has adopted executive severance agreements, which create certain liabilities in the event of the termination of seven covered executives following a change of control. The total commitment under the executive severance agreements should all seven employees be terminated is approximately \$55.6, which includes the forgiveness of the headquarter relocation home loans. In connection with the relocation of our corporate headquarters to Charlotte, North Carolina, announced in 2001, we have made interest free relocation home loans to four of our executive officers, which total an aggregate principal amount of \$7.0 and mature in 20 years.

(16) SHAREHOLDERS' EQUITY

(All option and warrant amounts are in millions)

Stock Split

On August 28, 2002, the Board of Directors approved a two-for-one stock split of our common stock. The stock split was payable in the form of a stock dividend and entitled each stockholder of record at the close of business on October 1, 2002 to receive one share of common stock for every outstanding share of common stock held on that date. The 100% stock dividend was distributed on October 24, 2002. The capital stock accounts, all share data and earnings per share data in this report give effect to the stock split, applied retroactively, to all periods presented.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2002
(Dollar and share amounts in millions, except per share and per LYON data)

Earnings Per Share

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

	Year Ended December 31,		
	2002	2001	2000
Numerator:			
Net income from continuing operations available to common shareholders	\$ 288.9	\$ 189.9	\$ 119.9
Denominator:			
Weighted-average shares outstanding	81.440	72.616	61.592
Effect of dilutive securities:			
Employee stock options	1.519	1.504	1.910
Adjusted weighted-average shares and assumed conversions	82.959	74.120	63.502

At December 31, 2002, 12.2 was the total number of stock options that could be considered as potential common shares that were not included in the computation of diluted earnings per share because their impact would be anti-dilutive based on the current market prices.

Accumulated Other Comprehensive Loss

The components of the balance sheet caption accumulated other comprehensive loss are as follows:

	December 31, 2002	December 31, 2001
Foreign currency translation adjustment	\$ 83.9	\$ (58.7)
Unrealized losses on qualifying cash flow hedges, net of tax	(48.5)	(25.6)
Minimum pension liability adjustment, net of tax	(233.0)	(6.2)
Accumulated other comprehensive loss	\$ (197.6)	\$ (90.5)

Common Stock, Treasury Stock and Unallocated KSOP

At December 31, 2002, we had 200.0 authorized shares of common stock (par value \$10.00). Common shares issued, treasury shares, shares held in the KSOP trust, and shares outstanding are summarized in the table below.

	Common Stock Issued	Treasury Stock	Unallocated KSOP Trust	Shares Outstanding
Balance at December 31, 1999	70.980	(8.034)	(0.610)	62.336
Stock options exercised	0.580	—	—	0.580
Share repurchases	—	(2.602)	—	(2.602)
Other	—	—	0.330	0.330
Balance at December 31, 2000	71.560	(10.636)	(0.280)	60.644
Acquisition of UDI	10.992	7.778	—	18.770
Stock options exercised	1.194	—	—	1.194
Other	(0.438)	0.336	0.280	0.178
Balance at December 31, 2001	83.308	(2.522)	—	80.786
Acquisitions	0.219	—	—	0.219
Stock options exercised	1.330	—	—	1.330
Share repurchases	—	(3.621)	—	(3.621)
Restricted stock grant	1.000	—	—	1.000
Warrants	0.512	—	—	0.512
Other	0.400	—	—	0.400
Balance at December 31, 2002	86.769	(6.143)	—	80.626

Stock Based Compensation

Stock Option Plans

Under the 2002 Stock Compensation Plan, the successor plan to the 1992 Stock Compensation Plan, up to 20.0 shares of our common stock may be granted to key employees and 7.9 of these shares were available for grant at December 31, 2002.

Stock options may be granted to key employees in the form of incentive stock options or nonqualified stock options, vest ratably over three years, and expire no later than 10 years from the date of grant. The option price per share may be no less than the fair market value of our common stock on the date of grant. Upon exercise, the employee has the option to surrender mature shares at current value in payment of the exercise price and/or for withholding tax obligations, and, subject to certain restrictions, may receive a reload option having an exercise price equal to the current market value for the number of shares so surrendered. The reload option expires at the same time that the exercised option would have expired.

No SARs or performance units have been granted under this plan.

Special Option Awards

In 2002, no special options were awarded. At December 31, 2002, 11.7 of the total options outstanding were granted outside of the 2002 Stock Compensation Plan.

During 2000 and 2001, 5.0 and 0.200 stock options, respectively, were awarded to key members of our senior management team with exercise prices in excess of market value on the respective grant dates. The options vest after five years and expire no later than ten years from the date of grant. The 2000 options, which were awarded outside the 1992 Stock Compensation Plan, have exercise prices as follows: 1.250 options have an exercise price of \$105.00, 1.250 options have an exercise price of \$120.00, 1.250 options have an exercise price of \$135.00, 1.250 options have an exercise price of \$150.00. The 2001 options, which were awarded under the 1992 Stock Compensation Plan, have exercise prices as follows: 0.050 options have an exercise price of \$61.00, 0.050 options have an exercise price of \$72.50, 0.050 options have an exercise price of \$85.00, and 0.050 options have an exercise price of \$97.50.

The following table shows stock option activity from December 31, 1999 through December 31, 2002:

	Shares	Options Weighted Average Exercise Price
Options outstanding at December 31, 1999	9.636	\$ 47.53
Granted	6.862	85.70
Exercised	(0.580)	57.49
Terminated	(0.780)	—
Options outstanding at December 31, 2000	15.138	\$ 75.43
Assumed in acquisition of UDI	1.068	43.39
Granted	2.490	54.14
Exercised	(1.194)	36.92
Terminated	(0.078)	—
Options outstanding at December 31, 2001	17.424	\$ 73.26
Granted	3.284	69.15
Exercised	(1.330)	37.79
Terminated	(0.968)	—
Options outstanding at December 31, 2002	18.410	\$ 76.36
Exercisable at December 31, 2002	5.110	\$ 41.47
Exercisable at December 31, 2001	2.228	45.40
Exercisable at December 31, 2000	0.942	48.09

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2002
(Dollar and share amounts in millions, except per share and per LYON data)

Stock options outstanding and exercisable at December 31, 2002 and related weighted average price and life information follows:

Range of Exercise Prices	Options Outstanding			Exercisable Options	
	Shares	Remaining Life-Years (Wtd. Ave)	Exercise Price (Wtd. Ave)	Shares	Exercise Price (Wtd. Ave)
\$ 8.50 - \$ 11.81	0.018	1.7	\$ 8.04	0.018	\$ 8.04
\$ 15.11 - \$ 27.81	0.604	4.1	22.59	0.604	22.59
\$ 29.59 - \$ 44.34	3.187	5.4	36.14	2.351	35.62
\$ 44.84 - \$ 67.00	3.988	6.5	51.57	1.858	49.23
\$ 67.31 - \$ 97.50	5.613	7.7	77.27	0.279	82.26
\$105.00 - \$150.00	5.000	7.6	127.50	—	—

We have applied the intrinsic value based method of accounting prescribed by APB Opinion No. 25 and related interpretations in accounting for stock-based compensation plans. Accordingly, no compensation cost is reflected in net income for stock option awards as all options granted had an exercise price equal to or in excess of the market value of the underlying common stock on the date of grant. For our restricted stock award, we recorded compensation expense in determining net income as appropriate.

We have adopted the disclosure provisions of SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123" and the following table illustrates the pro forma effect on net income and income per share in 2002, 2001 and 2000 had the fair value recognition provisions of SFAS No. 123 "Accounting for Stock-Based Compensation" been applied to stock-based employee compensation. We have revised the pro forma net income and pro forma earnings per share amounts in 2002, 2001, and 2000 to reflect the impact of the pro forma tax benefit for non-deductible equity instruments and of actual forfeitures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2002
(Dollar and share amounts in millions, except per share and per LYON data)

	As Reported			Adjustment			Revised		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
Net Income—as reported	\$ 127.4	\$ 173.0	\$ 189.5	\$ —	\$ —	\$ —	\$ 127.4	\$ 173.0	\$ 189.5
Add: Stock-based employee compensation expense included in reported net income, net of related tax effect	2.8	—	—	—	—	—	2.8	—	—
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effect									
Awards granted at market value	(42.2)	(27.2)	(16.2)	3.3	5.7	(3.2)	(38.9)	(21.5)	(19.4)
Awards granted above market value	(15.6)	(11.5)	(4.4)	(29.5)	(30.3)	(14.6)	(45.1)	(41.8)	(19.0)
Net Income—pro forma	\$ 72.4	\$ 134.3	\$ 168.9	\$ (26.2)	\$ (24.6)	\$ (17.8)	\$ 46.2	\$ 109.7	\$ 151.1
Basic earnings per share of common stock:									
Income per share—as reported	\$ 1.56	\$ 2.38	\$ 3.08	\$ —	\$ —	\$ —	\$ 1.56	\$ 2.38	\$ 3.08
Income per share—pro forma	0.89	1.85	2.74	(0.32)	(0.34)	(0.29)	0.57	1.51	2.45
Diluted earnings per share of common stock:									
Income per share—as reported	\$ 1.54	\$ 2.33	\$ 2.98	\$ —	\$ —	\$ —	\$ 1.54	\$ 2.33	\$ 2.98
Income per share—pro forma	0.87	1.81	2.66	(0.31)	(0.33)	(0.28)	0.56	1.48	2.38
Basic earnings per share of common stock from continuing operations:									
Income per share—as reported *	\$ 3.39	\$ 2.38	\$ 3.08	\$ 0.16	\$ 0.23	\$ (1.13)	\$ 3.55	\$ 2.61	\$ 1.95
Income per share—pro forma	2.72	1.85	2.74	(0.17)	(0.11)	(1.42)	2.55	1.74	1.32
Diluted earnings per share of common stock from continuing operations:									
Income per share—as reported *	\$ 3.33	\$ 2.33	\$ 2.98	\$ 0.15	\$ 0.23	\$ (1.09)	\$ 3.48	\$ 2.56	\$ 1.89
Income per share—pro forma	2.66	1.81	2.66	(0.16)	(0.10)	(1.38)	2.50	1.71	1.28

* Adjustment reflects discontinued operations treatment for Inrange.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. Weighted-average fair value of options granted, weighted-average exercise price and assumptions used in determining fair value follow:

	2002	2001	2000
Weighted-average fair value of options:			
Granted at market value	\$ 34.17	\$ 25.17	\$ 23.61
Granted above market value	—	25.96	34.89
Weighted-average exercise price of options:			
Granted at market value	\$ 69.15	\$ 50.27	\$ 46.86
Granted above market value	—	79.00	127.50
Principal Assumptions			
Expected option life in years	6.0	6.0	6.0
Risk free interest rate	4.6%	4.7%	5.0%
Expected volatility	44.4%	44.4%	41.5%
Expected dividend yield	0.0%	0.0%	0.0%

Restricted stock may be granted to key individuals to recognize or foster extraordinary performance, promotion, recruitment or retention. At the time of the grant, restrictions are placed on ownership of the shares for a stated period of time during which a participant will not be able to dispose of the restricted shares. Upon lapse of the restriction period, complete ownership is vested in the participant and the shares become freely transferable.

On July 3, 2002, our Board of Directors amended the employment agreement of our Chairman, President, and Chief Executive Officer by granting him 1.0 restricted shares of our stock at the market price of \$48.85 per share pursuant to the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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shareholder approved plan. The shares vest in five annual installments of 0.2 shares commencing on July 3, 2007. The grant will be fully vested on July 3, 2011. The deferred compensation is being amortized on a straight-line basis over the nine-year vesting period. In 2002, \$2.8 of related compensation expense was recorded and the unamortized balance of \$46.1 is reported as unearned compensation in the shareholders' equity section of the Consolidated Balance Sheet at December 31, 2002.

Employee Stock Purchase Plan

All full-time, non-union employees are eligible to participate in the employee stock purchase plan (ESPP). The employees covered by a collective bargaining agreement participate only if their collective bargaining agreement specifically provides for their participation in the plan. Eligible employees authorize a payroll deduction to purchase shares, and we make a 15% matching cash contribution, which is also used to purchase shares. Shares purchased under the plan are made by third party brokers on the open market and we pay commission and brokerage fees for the purchase.

Warrants

At December 31, 2001, we had 0.732 outstanding warrants exercisable for 0.732 shares of our common stock. These warrants were originally issued in 1987 by GCA Corporation, a company acquired by General Signal Corporation in 1988. As a result of the acquisition of GCA by General Signal and the subsequent acquisition of General Signal by us, the warrants became rights to purchase shares of our common stock. The warrants represented the right to purchase an aggregate of 0.732 shares of our common stock at an exercise price of \$47.26 per share. In 2002, we issued 0.512 shares of common stock and received \$24.2 of cash proceeds related to the exercise of these warrants. The remaining 0.220 warrants were not exercised and expired in 2002. All cash proceeds received by us in connection with the warrant exercises were used for general corporate purposes. At December 31, 2002, we had no warrants outstanding.

Treasury Stock

In 2002, we repurchased 3.6 shares of our common stock on the open market, for a total cash consideration of \$172.9. Under our repurchase program, \$250.0 was available for additional repurchases as of December 31, 2002.

Preferred Stock

None of our 3.0 shares of authorized, no par value preferred stock was outstanding at December 31, 2002, 2001 and 2000.

Shareholder Rights Plan

Pursuant to our Shareholder Rights Agreement, each share of our common stock carries one preferred stock purchase right. Each right entitles the holder, upon the occurrence of certain events, to purchase one-half of one-thousandth of a share of a new series of junior participating preferred stock for \$200.00 per share. Furthermore, if we are involved in a merger or other business combination at any time after the rights become exercisable, the rights will entitle the holder to buy the number of shares of common stock of the acquiring company having a market value of twice the then current exercise price of each right. Alternatively, if a 20% or more shareholder acquires us by means of a reverse merger in which the company and its stock survive, or engages in self-dealing transactions with us, or if any person acquires 20% or more of our common stock, then each right not owned by a 20% or more shareholder will become exercisable for the number of shares of our common stock having a market value of twice the then current exercise price of each right. The rights, which do not have voting rights, expire on June 25, 2006, and we may redeem them at a price of \$.005 per right at any time prior to any person or affiliated group of persons acquiring 20% or more of our common stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2002
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(17) QUARTERLY RESULTS (UNAUDITED)

	First		Second		Third		Fourth	
	2002	2001	2002	2001	2002	2001	2002	2001
Operating revenues – as previously reported	\$ 1,130.5	\$ 680.4	\$ 1,257.5	\$ 910.1	\$ 1,286.2	\$ 1,216.7	\$ 1,371.6	\$ 1,307.1
Less revenues associated with discontinued operations	61.9	63.9	52.8	69.4	52.9	55.0	55.9	72.6
Operating revenues	1,068.6	616.5	1,204.7	840.7	1,233.3	1,161.7	1,315.7	1,234.5
Gross margin – as previously reported	372.8	217.1	424.7	286.7	404.9	399.8	447.2	449.1
Less gross margin associated with discontinued operations	25.5	30.0	19.8	25.8	20.1	20.1	19.0	28.9
Gross margin	347.3	187.1	404.9	260.9	384.8	379.7	428.2	420.2
Income from continuing operations before change in accounting principle – as previously reported	65.1	35.4	58.3	13.4	75.8	59.2	76.8	65.0
Less income (loss) associated with discontinued operations	0.4	1.0	(8.3)	(5.6)	(1.8)	(4.7)	(3.2)	(7.6)
Income from continuing operations before change in accounting principle	64.7(1)	34.4(2)	66.6(3)	19.0(4)	77.6(5)	63.9(6)	80.0(7)	72.6(8)
Income (loss) from discontinued operations, net of tax	0.4	1.0	(8.3)	(5.6)	(1.8)	(4.7)	(3.2)	(7.6)
Change in accounting principle, net of tax	(148.6)	—	—	—	—	—	—	—
Net income (loss)	\$ (83.5)	\$ 35.4	\$ 58.3	\$ 13.4	\$ 75.8	\$ 59.2	\$ 76.8	\$ 65.0
Basic earnings per share of common stock:								
Continuing operations	\$ 0.80	\$ 0.57	\$ 0.81	\$ 0.27	\$ 0.94	\$ 0.80	\$ 1.00	\$ 0.90
Discontinued operations, net of tax	—	0.01	(0.10)	(0.08)	(0.02)	(0.06)	(0.04)	(0.09)
Change in accounting principle, net of tax	(1.83)	—	—	—	—	—	—	—
Net income (loss)	\$ (1.03)	\$ 0.58	\$ 0.71	\$ 0.19	\$ 0.92	\$ 0.74	\$ 0.96	\$ 0.81
Diluted earnings per share of common stock:								
Continuing operations	\$ 0.78	\$ 0.56	\$ 0.79	\$ 0.26	\$ 0.93	\$ 0.78	\$ 0.99	\$ 0.88
Discontinued operations, net of tax	—	0.01	(0.10)	(0.07)	(0.02)	(0.06)	(0.04)	(0.09)
Change in accounting principle, net of tax	(1.78)	—	—	—	—	—	—	—
Net income (loss)	\$ (1.00)	\$ 0.57	\$ 0.69	\$ 0.19	\$ 0.91	\$ 0.72	\$ 0.95	\$ 0.79

Note: The sum of the quarters' earnings per share may not equal the full year per share amounts.

- (1) Included \$6.4 of special and other charges associated with restructuring initiatives. See Note 6 for further discussion.
- (2) Included \$3.4 of special charges associated with restructuring initiatives. See Note 6 for further discussion.
- (3) Included \$39.1 of special and other charges associated with restructuring initiatives. See Note 6 for further discussion.
- (4) Included \$32.5 of special charges associated with restructuring initiatives, asset write-downs, and costs associated with the relocation of our corporate office to Charlotte, North Carolina. We also recorded a \$8.6 charge to cost of products sold associated with discontinued product lines and other product changes. See Note 6 for further discussion.
- (5) Included \$17.0 of special and other charges, \$12.6 of which were recorded as a component of cost of products sold. See Note 6 for further discussion.
- (6) Included \$1.3 of special charges associated with restructuring initiatives announced in previous periods and an asset write-down. See Note 6 for further discussion.
- (7) Included a \$31.9 of special and other charges associated with restructuring initiatives. See Note 6 for further discussion.
- (8) Included a \$15.6 net gain primarily related to a favorable arbitration award associated with a patent infringement claim against Snap-on. See Note 15 for further discussion. Amount also includes \$23.3 of special charges associated with restructuring initiatives, an asset write-down, and a goodwill impairment. See Note 6 for further discussion.

(18) SUBSEQUENT EVENTS

On May 9, 2003, 0.387 of the May LYONs were put to us and settled in cash for \$236.9, their accreted value as of May 9, 2003. The 0.028 May LYONs that remain outstanding subsequent to the put have an accreted value of approximately \$17.0 and are classified as long-term debt.

In June 2003, we issued \$300.0 of 6.25% senior notes pursuant to our universal shelf registration statement. These notes mature on June 15, 2011. These notes are unsecured and rank equally with all of our existing and future unsecured senior indebtedness, but are effectively junior to our senior secured debt and obligations of our subsidiaries.

In July 2003, we sold our 20% interest in the Assa Abloy door joint venture for \$76.2 in cash, which resulted in a small gain.

From January 1, 2003 through September 4, 2003, we repurchased 4,550 shares of our common stock on the open market, for cash of \$171.4, of which 0.650 shares of common stock were repurchased for cash of \$28.0 subsequent to June 30, 2003. We are subject to various restrictions under our senior secured credit agreement and senior note indenture, which limit our ability to repurchase our stock for cash. The amount available under these restrictions increases by, among other things, 50% of periodic Consolidated Net Income, as defined in each debt instrument. Under the most restrictive covenant, which is presently in our senior note indenture, our available capacity is \$116.6 as of September 4, 2003, which includes periodic Consolidated Net Income through June 30, 2003 and all shares repurchased through September 4, 2003.

PART III

Item 14. Controls and Procedures

SPX management, including the Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures, pursuant to Exchange Act Rule 13a-15(b), as of December 31, 2002. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective and no changes are required at this time.

In connection with the evaluation by SPX management, including the Chief Executive Officer and Chief Financial Officer, of our internal control over financial reporting, pursuant to Exchange Act Rule 13a-15(d), no changes during the year ended December 31, 2002 were identified that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this Form 10-K/A:

1. All financial statements. See Index to Consolidated Financial Statements on page 44 of this Form 10-K/A.
2. Financial Statement Schedules. None required. See page 44 of this Form 10-K/A.
3. Exhibits. See Index to Exhibits.

(b) Reports on Form 8-K.

On October 7, 2002, we filed a Form 8-K announcing that shares remaining unsold as of October 1, 2002 under certain Registration Statements will be doubled pursuant to a previously announced stock split.

On October 23, 2002, we filed a Form 8-K containing our press release dated October 22, 2002. This press release contained our third quarter 2002 earnings information.

On December 9, 2002, we filed a Form 8-K containing our press releases dated December 6, 2002. These press releases announced the offering of Senior Unsecured Notes.

On December 19, 2002, we filed a Form 8-K announcing that we entered into an Underwriting Agreement, dated as of December 13, 2002, with J.P. Morgan Securities Inc. as representative of the several underwriters named therein.

INDEX TO EXHIBITS

Item No.	Description
2.1	— Agreement and Plan of Merger among SPX Corporation, SAC Corp. and General Signal Corporation, dated as of July 19, 1998, incorporated herein by reference from our Form S-4 Registration Statement (No. 333-60853) filed on July 20, 1998.
2.2	— Merger Agreement, dated March 10, 2001 between SPX Corporation and United Dominion Industries Limited, incorporated herein by reference from our Current Report on Form 8-K filed on March 15, 2001 (file no. 1-6948).
3.1	— Restated Certificate of Incorporation, as amended, incorporated herein by reference from our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (file no. 1-6948).
3.2	— Certificate of Ownership and Merger dated April 25, 1988, incorporated herein by reference from our Annual Report on Form 10-K for the year ended December 31, 1988 (file no. 1-6948).
3.3	— By-Laws as amended through October 25, 1995, incorporated herein by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 (file no. 1-6948).
4.1	— Indenture between SPX Corporation and The Chase Manhattan Bank, dated as of February 6, 2001, incorporated herein by reference from our Form S-3 Registration Statement (No. 333-56364) filed on February 28, 2001.
4.2	— Form of Liquid Yield Option™ Note due 2021 (Zero Coupon-Senior), incorporated herein by reference from our Form S-3 Registration Statement (No. 333-56364) filed on February 28, 2001.
4.3	— Registration Rights Agreement dated as of February 6, 2001, by and between SPX Corporation and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, incorporated herein by reference from our Form S-3 Registration Statement (No. 333-56364) filed on February 28, 2001.
4.4	— Rights Agreement, dated as of June 25, 1996 between SPX Corporation and The Bank of New York, as Rights Agent, relating to Rights to purchase preferred stock under certain circumstances, incorporated herein by reference from our Registration Statement on Form 8-A filed on June 26, 1996 (file no. 1-6948).
4.5	— Amendment No. 1 to Rights Agreement, effective October 22, 1997, between SPX Corporation and The Bank of New York, incorporated herein by reference from our Registration Statement on Form 8-A filed on January 9, 1998 (file no. 1-6948).
4.6	— Indenture between SPX Corporation and The Chase Manhattan Bank, dated as of May 9, 2001, incorporated herein by reference from our Form S-3 Registration Statement (No. 333-68648) filed on August 29, 2001.
4.7	— Form of Liquid Yield Option(TM) Note due 2021 (Zero Coupon-Senior), incorporated herein by reference from our Form S-3 Registration Statement (No. 333-68648) filed on August 29, 2001.
4.8	— Registration Rights Agreement dated as of May 9, 2001, by and between SPX Corporation and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, incorporated herein by reference from our Form S-3 Registration Statement (No. 333-68648) filed on August 29, 2001.
4.9	— Form of Senior Indenture, incorporated herein by reference from our Form S-3 Registration Statement (No. 333-68652) filed on August 29, 2001.
4.10	— Form of Subordinated Indenture, incorporated herein by reference from our Form S-3 Registration Statement (No. 333-68652) filed on August 29, 2001.
4.11	— Form of Debt Security, incorporated herein by reference from our Form S-3 Registration Statement (No. 333-68652) filed on August 29, 2001.

Item No.	Description
4.12	— Amendment No. 2 to Rights Agreement dated as of June 26, 2002, incorporated herein by reference from our Quarterly Report on Form 10-Q for the Quarter ended June 30, 2002 (file no. 1-6948).
4.13	— Indenture between SPX Corporation and JPMorgan Chase Bank, as Trustee, dated as of December 27, 2002, incorporated herein by reference from our Current Report on Form 8-K filed on January 3, 2003 (file no. 1-6948).
4.14	— First Supplemental Indenture between SPX Corporation and JPMorgan Chase Bank, as Trustee, dated as of December 27, 2002, incorporated herein by reference from our Current Report on Form 8-K filed on January 3, 2003 (file no. 1-6948).
4.15	— Copies of the instruments with respect to our other long-term debt are available to the Securities and Exchange Commission upon request.
*10.1	— SPX Corporation Retirement Plan for Directors, as amended and restated, incorporated herein by reference from our Amendment No. 1 on Form 8 to the Annual Report on Form 10-K for the year ended December 31, 1988 (file no. 1-6948).
*10.2	— SPX Corporation Excess Benefit Plan No. 3, as amended and restated, incorporated herein by reference from our Amendment No. 1 on Form 8 to the Annual Report on Form 10-K for the year ended December 31, 1988 (file no. 1-6948).
*10.3	— SPX Corporation Supplemental Employee Stock Ownership Plan, incorporated herein by reference from our Annual Report on Form 10-K for the year ended December 31, 1990 (file no. 1-6948).
*10.4	— Employment agreement, and related Nonqualified Stock Option Agreement and Restricted Shares Agreement, between SPX Corporation and John B. Blystone dated as November 24, 1995, incorporated herein by reference to our Annual Report on Form 10-K for the year ended December 31, 1995 (file no. 1-6948).
*10.5	— Employment agreement between SPX Corporation and John B. Blystone dated as January 1, 1997, incorporated herein by reference to our Annual Report on Form 10-K for the year ended December 31, 1996 (file no. 1-6948).
*10.6	— SPX Corporation 1997 Non-Employee Director's Compensation Plan, incorporated herein by reference from Exhibit A to the Proxy Statement contained in our Schedule 14A filed on March 25, 1997 (file no. 1-6948).
*10.7	— Form of Executive Change of Control Agreement for certain executive officers, incorporated herein by reference from our Quarterly Report on Form 10-Q for the quarter ended March 31, 1999 (file no. 1-6948).
*10.8	— Executive Change of Control Agreement for John B. Blystone dated February 15, 1999 incorporated herein by reference from our Quarterly Report on Form 10-Q for the quarter ended March 31, 1999 (file no. 1-6948).
*10.9	— Stock Option Award dated as of August 22, 2000 between SPX Corporation and Thomas J. Riordan, incorporated herein by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (file no. 1-6948).
*10.10	— Stock Option Award dated as of June 23, 1999 between SPX Corporation and John B. Blystone, incorporated herein by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (file no. 1-6948).
*10.11	— Stock Option Award dated as of August 22, 2000 between SPX Corporation and John B. Blystone, incorporated herein by reference from our Quarterly Report on Form 10-Q, for the quarter ended September 30, 2000 (file no. 1-6948).

Item No.	Description
*10.12	— Stock Option Award dated as of May 10, 1999 between SPX Corporation and Robert B. Foreman, incorporated herein by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (file no. 1-6948).
*10.13	— Stock Option Award dated as of August 22, 2000 between SPX Corporation and Robert B. Foreman, incorporated herein by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (file no. 1-6948).
*10.14	— Stock Option Award dated as of August 26, 1998 between SPX Corporation and Christopher J. Kearney, incorporated herein by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (file no. 1-6948).
*10.15	— Stock Option Award dated as of August 22, 2000 between SPX Corporation and Christopher J. Kearney, incorporated herein by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (file no. 1-6948).
*10.16	— Stock Option Award dated as of August 22, 2000 between SPX Corporation and Lewis M. Kling, incorporated herein by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (file no. 1-6948).
*10.17	— Stock Option Award dated as of April 23, 1997 between SPX Corporation and Patrick J. O’Leary, incorporated herein by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (file no. 1-6948).
*10.18	— Stock Option Award dated as of June 23, 1999 between SPX Corporation and Patrick J. O’Leary, incorporated herein by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (file no. 1-6948).
*10.19	— Stock Option Award dated as of August 22, 2000 between SPX Corporation and Patrick J. O’Leary, incorporated herein by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (file no. 1-6948).
*10.20	— Stock Option Award dated as of December 10, 1997 between SPX Corporation and Thomas J. Riordan, incorporated herein by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (file no. 1-6948).
*10.21	— Stock Option Award dated as of February 26, 1997 between SPX Corporation and John B. Blystone, incorporated herein by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (file no. 1-6948).
*10.22	— Nonqualified Stock Option Agreement dated as of October 14, 1996 between SPX Corporation and Patrick J. O’Leary, incorporated herein by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (file no. 1-6948).
*10.23	— SPX Corporation Supplemental Retirement Plan for Top Management, as amended and restated January 1, 2002, incorporated herein by reference from our Annual Report on Form 10-K for the year ended December 31, 2001 (file no. 1-6948).
*10.24	— Form of Loan Note (Primary Residence) for certain executive officers, incorporated herein by reference from our Annual Report on Form 10-K for the year ended December 31, 2001 (file no. 1-6948).
*10.25	— Amended and Restated Deferred Compensation Plan of United Dominion Industries, Inc., effective as of May 24, 2001, incorporated herein by reference from our Annual Report on Form 10-K for the year ended December 31, 2001 (file no. 1-6948).
*10.26	— SPX Corporation 2002 Stock Compensation Plan, as amended and restated, incorporated herein by reference from our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (file no. 1-6948).

Item No.	Description
*10.27	— Amendment to Employment Agreement between SPX Corporation and John B. Blystone dated August 28, 2002, incorporated herein by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 (file no. 1-6948).
10.28	— Underwriting Agreement between SPX Corporation and J.P. Morgan Securities Inc., as representative of several underwriters listed in Schedule I thereto, dated December 13, 2002, incorporated herein by reference from our Current Report on Form 8-K filed on December 19, 2002 (file no. 1-6948).
10.29	— Fifth Amended and Restated Credit Agreement dated as of December 27, 2002 (previously filed).
*10.30	— Stock Option Award dated as of August 26, 1998 between SPX Corporation and Charles A. Bowman (previously filed).
11.1	— Statement regarding computation of earnings per share. See Consolidated Statements of Income, page XX of this Form 10-K.
21.1	— Subsidiaries (previously filed).
23.1	— Consent of Deloitte & Touche LLP.
23.2	— Consent of KPMG LLP.
24.1	— Power of Attorney (previously filed).
31.1	— Rule 13a-14(a) Certifications.
32.1	— Section 1350 Certifications.

* Denotes management contract or compensatory plan or arrangement.

We consent to the incorporation by reference in the following registration statements of SPX Corporation: Form S-8 (File No.'s 333-24043, 333-29843, 333-29851, 333-29857, 333-29855, 333-38443, 333-70245, 333-82645, 333-82647, 333-61766, 333-69250, 333-69252, 333-106897 and 333-109112), Form S-4 (File No. 333-68650) and Form S-3 (File No.'s 333-56364, 333-68648, 333-68652, 333-76978, 333-86538 and 333-109334) of our report dated September 4, 2003 (which report expresses an unqualified opinion and includes explanatory paragraphs relating to the adoption of Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities on January 1, 2001, the adoption of SFAS No. 142, Goodwill and Other Intangible Assets on January 1, 2002, the adoption of SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections on July 1, 2002, the discontinued operations treatment of a subsidiary sold in June 2003, and the revisions of Notes 1 and 16) appearing in this Annual Report on Form 10-K/A-3 of SPX Corporation for the year ended December 31, 2002.

/s/ Deloitte & Touche LLP

December 29, 2003
Charlotte, North Carolina

Consent of KPMG LLP

The Board of Members
EGS Electrical Group, LLC:

We consent to the incorporation by reference in the registration statements on Form S-3 (Nos. 333-56364, 333-68648, 333-68652, 333-76978, and 333-86538), on Form S-4 (No. 333-68650) and on Form S-8 (Nos. 33-24043, 333-29843, 333-29851, 333-29857, 333-29855, 333-38443, 333-70245, 333-82645, 333-82647, 333-61766, 333-69250, 333-69252, 333-106897, and 333-109112) of SPX Corporation of our report dated December 18, 2000, with respect to the consolidated balance sheet of EGS Electrical Group, LLC and subsidiaries as of September 30, 2000, and the related consolidated statements of income, members' equity and comprehensive income, and cash flows for the year ended September 30, 2000, which report appears in the December 31, 2002 annual report on Form 10-K/A-3 of SPX Corporation.

/s/ KPMG LLP

Chicago, Illinois
December 30, 2003

Certification

I, John B. Blystone, certify that:

1. I have reviewed this Amendment No. 3 to the report on Form 10-K of SPX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 30, 2003

/s/ John B. Blystone

Chairman, President and
Chief Executive Officer

Certification

I, Patrick J. O'Leary, certify that:

1. I have reviewed this Amendment No. 3 to the report on Form 10-K of SPX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 30, 2003

/s/ Patrick J. O'Leary

Vice President, Finance, Treasurer
and Chief Financial Officer

Certification

The following statement is being made to the Securities and Exchange Commission solely for purposes of Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350), which carries with it certain criminal penalties in the event of a knowing or willful misrepresentation.

Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549

Re: SPX Corporation

Ladies and Gentlemen:

In accordance with the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350), each of the undersigned hereby certifies that:

(i) this Amendment No. 3 to the Annual Report on Form 10-K, for the period ended December 31, 2002, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(ii) the information contained in this amended report fairly presents, in all material respects, the financial condition and results of operations of SPX Corporation.

Dated as of this 30th day of December 2003.

/s/ John B. Blystone

/s/ Patrick J. O'Leary

John B. Blystone
Chairman, President and Chief Executive Officer

Patrick J. O'Leary
Vice President, Finance, Treasurer and Chief Financial Officer